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Economic Development and Regeneration Advisory Board

Tuesday, 23rd October 2018 at 2.00 pm

Meeting to be held: Committee Room, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

www.northeastca.gov.uk

AGENDA

		Page No
1.	**Apologies for Absence**	
2.	**Declarations of Interest**	
	Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3.	**Minutes of the Previous Meeting**	**1 - 6**
4.	**Economic Development and Regeneration Progress Update**	**7 - 20**
5.	**Business Growth Update**	**21 - 68**
6.	**Strategic Economic Plan and Local Industrial Strategy Update**	**69 - 74**
7.	**UK Shared Prosperity Fund**	**75 - 102**
8.	**Date and Time of the Next Meeting**	
	Tuesday, 29 January 2019 at 2pm (date and time to be confirmed).	

Contact Officer: Victoria Miller Tel: 0191 211 5118 E-mail: victoria.miller@northeastca.gov.uk

To All Members

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Economic Development and Regeneration Advisory Board

24 July 2018

Meeting held: Committee Room, Durham County Council, County Hall, Durham DH1 5UL

Draft Minutes for Approval as a Correct Record

Present:

Councillor:	I Malcolm (Chair)
Councillors:	J Adams, G Bell, C Marshall, M Mordey, B Pickard and R Wearmouth
Co-opted Members:	B Farhat, G Hall, T Salmon and J Walker

1 **ECONOMIC DEVELOPMENT AND REGENERATION ADVISORY BOARD, RESPONSIBILITY FOR FUNCTIONS (FOR INFORMATION AND REFERENCE)**

Noted.

2 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors G Miller and R Wearmouth and Ms S Glendinning.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

4 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 27 March 2018 were approved as a correct record and signed by the Chair.

Matters Arising

Economic Development and Regeneration Progress Update

Update on the North of Tyne Devolution

(Minute 29 refers)

The Chair provided a brief update on the progress of the North of Tyne Devolution. He also explained that the Leaders and Elected Mayor of the seven local authorities agreed on the importance of continuing with the regional Economic Development and Regeneration function and a single Invest North East England team for the region.

5 **APPOINTMENT OF VICE-CHAIRS**

RESOLVED – That Councillor C Marshall and Ms G Hall be re-appointed as Vice-Chairs of the Economic Development and Regeneration Advisory Board for the municipal year 2018/19.

6 **ECONOMIC DEVELOPMENT AND REGENERATION PROGRESS UPDATE**

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and attached to Official Minutes).

Members considered the report which provided an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority. The report was introduced by G Currey and S McMillan.

Amongst the matters discussed by the Advisory Board were the following:

- the activity of Invest North East England (INEE) and the North East Local Enterprise Partnership, including bidding for funding;

- the importance of continuing to work to ensure effective web search results for prospective investors, including offering links between the websites of the seven councils and the INEE website, achieving web-search optimisation for INEE and considering language options;

- the choice of events and exhibitions for the INEE attendance based on appropriateness, effectiveness and cost;

- the effectiveness of the work of OCO Global in delivering on the INEE requirements;

- the many advantages of promoting the North East jointly by the seven local authorities through a single presence at conferences and events, including for specific sectors; the successful examples of such approaches in other areas, for example The Midlands Engine; the need to explore this approach further; and the complexities involved in adopting this approach, including costs, local competition and variances in the strength of banding;

- the need for a discussion at a future meeting of the Advisory Board on the UK Shared Prosperity Fund, to inform a response to the government consultation;

- the need for a narrative to accompany information on export wins and other statistics, whilst respecting commercial sensitivity.

RESOLVED – That the report be noted.

7 **NORTH EAST FUND**

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and attached to Official Minutes).

Members considered the report which provided an overview of the North East Fund, an investment programme for small and medium enterprises (SMEs) in the NECA area.

A Mitchell, the Chief Executive of the North East Fund Company delivered a presentation (attached to Official Minutes) which provided information on the following:

- the background to the creation of the North East Fund;
- the Fund's components, ambitions, objectives and targets;
- the range of support provided by the Fund Managers;
- the commercial nature of the Fund;
- progress to date; and
- challenges in achieving objectives.

In discussion, it was noted that:

- Members noted the advantages of the fund over other lending options, including banks and private investment.

- As with any funding programme, there was a level of bureaucracy involved in accessing and administering the Fund, but this was less burdensome when compared to some of the private investment options.

- Fund Managers were the first point of contact for the SMEs who were seeking funding. As an advantage, Fund Managers were likely to make a decision on the funding offer for a SME at earlier stages and provide advice and guidance even where funding was declined, thereby providing a more comprehensive offer, improving the overall experience and enabling success.

- Social media was used to publicise the fund and showcase successful examples.

- Members would speak to their Economic Development Teams to suggest they should help to promote the Fund and offer links to the Fund website on the websites of the local authorities.

The Chair, on behalf of the Advisory Board, thanked A Mitchell for the presentation.

RESOLVED – That:

i. the report and presentation be noted;

ii. the Economic Development Teams in the seven local authorities be advised to assists in promoting the North East Fund; and

iii. an update be brought to the Advisory Board to a future meeting in approximately twelve months.

8 **LEAVING THE EUROPEAN UNION: NORTH EAST BREXIT REPORT**

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and attached to Official Minutes).

Members considered the report which provided an overview of the Leaving the European Union report that had been produced by the North East Brexit Group (NE Brexit Group). R Baker, Head of Strategy and Policy of the North East Local Enterprise Partnership delivered an associated presentation (attached to Official Minutes).

Amongst the matters discussed by the Advisory Board were the following:

- The importance of work to assess and mitigate the impact of Brexit on workforce.

- The Trade Union Congress (TUC) input on workforce protection, including workers' rights, including companies' transfers due to Brexit.

- The uncertainties associated with the government position on Brexit, including leadership and the fact that, at present time, there were more questions than answers on the impact of Brexit, and the difficulties and worries this represented for local elected representatives.

- In the light of the existing and emerging evidence, the importance of working to prepare for mitigation of emerging risks and identifying opportunities however limited these might be.

- Regarding the much harder impact of Brexit on the North East when compared to other regions, the importance that the government understood the North East perspective and the important role of elected representatives and parliamentarians in progressing this matter.

- The advantages of establishing the NE Brexit Group and the value of its work to date in bringing partners together, gathering evidence, sharing knowledge and developing an understanding of impact. And further work of NE Brexit Group, including deep diving, expanding the work programme and moving towards intervention and mitigation.

The Chair, on behalf of the Advisory Board, thanked R Baker and the North East Brexit Group for their work.

RESOLVED – That:

i. the report and presentation be noted; and

ii. an update be brought to a future meeting.

9 DATE AND TIME OF THE NEXT MEETING

Tuesday, 23 October 2018 at 2pm.

On invitation from S McMillan, Members considered and suggested items for the Advisory Board work programme. The following items would be added to the work programme:

- UK Shared Prosperity Fund
- Deep Dive (Sectors)
- Business Growth and Innovation
- Skills
- North East Fund Update
- Brexit Update
- Northern Powerhouse
- Tourism Economy of the North East, including programmes such as Tall Ships and Great North Exhibition
- Economic Development and Regeneration Progress Updates

The Chair suggested that, if Members identified a suitable venue to host a meeting outside of a venue of a local authority, they could submit suggestions to S McMillan, the Lead Officer, or V Miller, the Democratic Services Officer.

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Economic Development and Regeneration Advisory Board

Date: **23rd October 2018**

Subject: Economic Development and Regeneration Progress Update

Report of: Thematic Lead for Economic Development and Regeneration

Executive Summary

The purpose of this report is to provide an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

Recommendations

The Advisory Board is recommended to note this information for information.

1. Background Information

1.1 This report provides an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority, including:

- Invest North East England activities
- EEA migration in the UK: Final Report of the Migration Advisory Committee
- Strengthened Local Enterprise Partnerships
- All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas
- European Structural Investment Funds

Invest North East England Activities

1.2 In the first quarter (April-June) there have been 7 Inward Investment project successes resulting in 66 jobs:

- There were 5 FDI project successes resulting in 24 new jobs (and an additional 12 safeguarded)
- There were 2 UK project successes resulting in 42 new jobs
- 2 of the 5 FDI projects were identified and delivered via the Department for International Trade Key Account Management outlined below.

1.3 Current projects on the INEE pipeline include both UK and foreign owned enquiries in a number of sectors from life sciences, software, contact centres, automotive and other advanced manufacturing including offshore energy.

1.4 The Team has hosted a number of investor visits to the region, including visits from UK digital tech companies, a major US financial services company, Indian digital tech and life sciences companies and a German advanced manufacturing company.

1.5 In Quarter 2 there have already been number if inward investment successes. These will be reported once Quarter 2 figures have been finalised.

Marketing and Communications

1.6 The INEE team, with support from the North East LEP Communications Team continues to improve and refresh its website and its range of marketing materials, as well as plan / deliver campaigns and events. Over time, it is expected that this work will generate new investment enquiries in addition to raising the profile of the region nationally and internationally. Key elements in the first two quarters of 2018/19 include:

Invest North East England Activities

1.7 Website:

- The INEE website has been updated to reflect feedback from partners. Amendments made will help visitor navigation and improve overall visitor experience
- Part of the update is a dedicated ‘Resources Page’ which will feature all inserts and videos – INEE will look to upload new video case studies and sector promotional videos in the next two months
- A new micro-website was launched at the end of July – Energy Gateway North East England. This website, is focused on the offshore energy sector. It covers the three main ports of Blyth, Sunderland and Tyne and the rivers they sit on. The website showcases the ports, the sites, R+D assets, skills and training, market opportunities, supply chains etc.

1.8 Marketing Collateral:

- A general brochure has been produced showcasing the five key investment sectors that INEE concentrate on.
- Sector-specific inserts have been produced on Offshore Wind, Business Process Outsourcing, Fintech, Customer Contact Centres, IT and Digital, Immersive Tech, Video Games, Automotive and Rail. An insert covering Life Sciences is currently in production. These inserts are produced on small print runs for particular events as well as electronically so visitors to the website can download the information / INEE team can send electronically.
- A specific brochure highlighting key elements of the Energy Gateway North East England has been produced.

1.9 Promotional Videos:

- The Team is producing six short videos; one general video promoting the North East and five sector-specific videos covering Energy, Business Services, Life Sciences, Advanced Manufacturing and Digital Tech.
- The videos will be available on the web site and will be sent as part of bespoke propositions to potential investors, as well as used during face to face investor pitches and exhibitions etc. These should be completed by the end of October.

1.10 Social Media:

- Twitter, Facebook and LinkedIn social platforms continue to grow in followers and impressions.
- INEE will look to create a YouTube page as a platform for videos (this will also support easy integration into the INEE website)

1.11 Events:

The INEE team is planning to attend/ have attended a number of events in 2018/19 that align with some of the key priority sectors which are being targeted for investment. Some of these will be attended as an exhibitor and others as a delegate. These include:

- NOF Energy – A Balanced Future – Sedgefield (June 2018)
- Global Offshore Wind – Manchester (June 2018)
- Wind Europe – Hamburg (September 2018)
- MIPIM UK – London (October 2018)
- Web Summit – Lisbon (November 2018)
- Offshore Wind North East –various North East locations (November 2018)
- Shared Services Leaders' Summit – London (March 2019)
- Vrtgo Conference – Gateshead (April 2019)

For events occurring in the North East region, the team will be looking to organise investor visits structured around the event.

Lead Generation Contract

1.12 INEE are in the final phase of a lead generation contract with OCO Global. This has been focused in the main on digital and professional services companies in London and the South East. However, the contract has also identified various manufacturing projects as well as projects from India, Ireland, USA and Italy.

1.13 To date, the contract has led to projects totalling over 1,000 potential jobs being put on INEE's pipeline and has led to a number of visits to the region, including one small investment success.

1.14 INEE is currently discussing the next stage of lead generation with local authority partners.

Key Account Management Programme

1.15 After a successful first year aimed at broadening the delivery of Strategic Account Management of foreign owned firms in the North East, DIT Northern Powerhouse (NPH) have now entered into contract with the NECA to enable local authority partners to deliver additional account management resource, adding value to the existing arrangements delivered by DIT.

Department of International Trade High Potential Opportunities (HPO) bid

1.16 The NECA has been notified that it has been successful in its bid for the development of a HPO. A HPO is a mechanism to ensure that significant market opportunities which will be attractive to overseas investors are publicised widely to relevant markets overseas. The opportunities should currently be less well known or under the radar of the overseas network of DIT posts. Successful project bids will get the opportunity to work intensively with DIT officials to develop a detailed proposition of the opportunity which will then be widely publicised in relevant overseas markets.

1.17 INEE worked with local partners to prepare a bid based on the growing strength of the North East's immersive tech sector, and the links with the advanced manufacturing sector in the region, which could be developed into a compelling proposition for overseas companies.

1.18 INEE will now work with DIT and partners to develop the HPO. Initial scheduling will see the project developed in March 2019. INEE is pressing DIT to accelerate this timescale.

North East LEP study to review the Inward Investment Service in the North East

1.19 In March 2018, the North East LEP Board requested an evidence-based study to review the current Invest North East England inward investment model and to make recommendations for a regional inward investment model covering the North East LEP area, which would deliver the optimum inward investment service and achieve value for money and delivery of outputs, primarily jobs and investment.

1.20 Economic Development consultancy Mickledore was appointed to conduct the study and work has been undertaken over the summer. The final report is scheduled to be taken to the North East LEP Board on the 29th November.

EEA migration in the UK: Migration Advisory Committee Final report

1.21 The Migration Advisory Committee (MAC) published their final report on European Economic Area (EEA) migration in the UK in September, following a commission from the Home Secretary in July 2017. The report includes a comprehensive evidence base informing an assessment of the impact of EEA migration in the UK and sets out recommendations to inform the UK's post-Brexit work immigration system. The report explores a wide range of impacts of EEA immigration over recent years including wages and unemployment, productivity, innovation, training, consumer prices, house prices, public finances, allocation of public resources, public services, crime and subjective well-being.

1.22 The Committee found that the overall economic impact of EEA migration has been relatively small; it has not harmed the existing resident population, but nor has it had a significant benefit. A general theme emerging from the evidence is the benefit of high-skilled immigration compared to lower skilled immigration.

1.23 The report concludes that if the aim of a future migration policy is to increase the benefits and reduce the costs of migration the Committee make the following recommendations to Government:

1. The general principle behind migration policy changes should make it easier for higher skilled workers to migrate to the UK than lower skilled workers.
2. There should be no preference for EU citizens, on the assumption UK immigration policy is not included in agreement with EU.
3. Abolish the cap on the number of migrants under the Tier 2 (General) scheme.
4. Tier 2 (General) should be open to all jobs at the Regulated Qualification Framework (RFQ) 3 and above.
5. Maintain existing salary thresholds for all migrants in Tier 2 (£30,000).
6. Retain but review the Immigration Skills Charge.
7. Consider abolition of the Resident Labour Market Test, if the Test is not abolished, extend the numbers of migrants who are exempt through lowering the salary required for exemption.
8. Review how the current sponsor licensing system works for small and medium sized businesses.
9. Consult more systematically with users of the visa system to ensure it works as smoothly as possible.
10. For lower-skilled workers avoid Sector –Based Schemes (with the possible exception of a Seasonal Agriculture Workers (SAWS) scheme).
11. If a SAWS scheme is reintroduced, ensure upward pressure on wages via an agricultural minimum wage to encourage increased in productivity.
12. If a “backstop” is considered necessary to fill low-skilled roles, the Tier 5 Youth Mobility Scheme should be extended.
13. Monitor and evaluate the impact of migration policies.
14. Pay more attention to managing the consequences of migration at a local level.

1.24 In October 2017, the Economic Development and Regeneration Advisory Board endorsed the North East economic partners' submission to the MAC inquiry, prepared by the North East Brexit Group. The NE response reflected the distinctive demography of the North East, its current and future labour supply, the role of EEA migration and the potential impact of any changes in UK policy on the regional economy. It highlighted the importance of high level migrant skills to the North East economy in areas such as management and technical roles, education and other public services and also long term demographic trends with migration supporting the overall size of the labour force as the population ages. It highlighted a group of issues and risks from a tighter migration policy and called for regional effects to be considered.

1.25 A number of the regionally specific points raised in the North East response were also reflected in responses from the Devolved Administrations. Specifically risks around salary thresholds, with salaries generally being lower in the North East and the devolved administrations compared to London and the South East, and the fact that positive flows of migration have supported labour market growth at a time of population decline.

1.26 Based on the evidence the MAC did not believe there was sufficient economic evidence to propose any regional differentiation in migration policy. The MAC believe the recommendation to remove the Tier 2 cap would remove any risk to employers being squeezed out in areas with generally lower salaries. Subsequent comments by the Prime Minister on October 2 have, however, included reference to a significantly higher salary threshold (£50,000) than that recommended by the MAC (£30,000); this is something North East economic partners would need to resist as it could have serious implications on the region's workforce, particularly for those more higher-skilled roles. Initial evidence provided by the North East LEP suggests that this level would affect people in all but the top 10% of roles in the NE labour force, and would similarly potentially affect most other LEP areas except London and Berkshire.

1.27 The MAC does recognise however that there are persistent regional inequalities which need to be addressed, but that this was outside the remit of this particular commission. The Committee recommend an improvement in the data to allow a better assessment of the regional variation in the impact of migration.

1.28 Government plan to set out their immigration policy in a White Paper early next year and this will be subject to consultation. The NE Brexit Group met on October 1 and agreed to continue to monitor the developments and evaluate any potential impacts on the North East economy and workforce and will respond to any consultation at the appropriate point.

1.29 More generally the Group discussed the point raised at the July meeting of EDRAB about the importance of workers' rights and labour market regulations. It noted the strong statement set out in the regions agreed key messages in favour of a level playing field for employment rights across Europe in the context of the Brexit deal and will report further to EDRAB at the appropriate time.

Strengthened Local Enterprise Partnerships: July 2018

1.30 Published in July this year by Government the review sets out the role and responsibilities of Local Enterprise Partnerships (LEPs) in driving local growth. Since they were established LEPs have acquired considerable new levers over growth which has included substantial amounts of funding. They have increased private sector involvement in economic development, decision making, encouraged greater collaboration between public sector leaders across administrative boundaries and ensured more effective investments are made across areas in growth priority projects.

1.31 The Industrial Strategy confirmed that Government remains firmly committed to LEPs and that they want to strengthen LEPs to ensure that all parts of England continue to grow economically after the UK's exit from the European Union.

1.32 The Government has reviewed the current arrangements for LEPs to ensure that they are securely placed to drive growth through the development of Local Industrial Strategies to develop strengths to meet the Governments Grand Challenges around artificial intelligence and data, ageing society, clean growth and the future of mobility in the context of the UK Shared Prosperity Fund

1.33 This review sets out the Governments expectations of the roles and responsibilities of LEPs and how Government will work with LEPs to strengthen leadership, capability, accountability, managing risk and provide clarity on geography.

1.34 The document sets out the changes that the Government will implement and the support that LEPs will be given to take on additional responsibilities. Recommendations include:

- Government will publish a statement on the roles and responsibilities of LEPs which will focus on the LEPs role in enhancing productivity through the development of their Local Industrial Strategy.

- Government will agree Local Industrial Strategies with all areas of England by early 2020; they will also commission an annual economic outlook to independently measure economic performance across all LEPs and the areas they cover.

- Government will publish an annual delivery plan which include key performance indicators to assess the impact of their Local Industrial Strategy funding and interventions. The delivery plan will inform an objective assessment on LEP performance both nationally and locally.

1.35 Other recommendations include measures to ensure accountability and performance is managed effectively and transparently, and in areas where there are overlapping LEPs, that proposals are brought forward to reflect functioning economic areas. As well as recommendations to ensure the organisational capacity of LEPs is sufficient and that LEP leadership is representative of the businesses and communities they serve. The review also set out Government's intention for Mayoral Combined Authorities and LEPs to work collaboratively, requiring LEPs and MCAs to develop a local agreement which sets out roles, responsibilities and accountability.

1.36 Alongside the publication of the review Government confirmed that the North East LEP will be amongst the next tranche of LEPs to develop a Local Industrial Strategy. The NELEP is developing a plan for implementing the review recommendations, including a proposal for additional funding, for submission to Government by 31 October.

All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas

1.37 The All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas is a newly established group of Westminster MPs. The aim of the group is to help shape plans of the UK funding that is planned to replace EU funding for national, regional and local economic development that will disappear following Brexit.

1.38 The Group initiated an inquiry to assess views of stakeholders in the parts of the UK that currently benefit substantially from EU funding. The aim is to produce a report in the autumn that will be fed into government to try to influence the UK government's proposals which are expected to be set out in a consultation towards the end of this year.

1.39 A number of organisations have responded to the inquiry, including the North East Brexit Group and the English Intermediate Bodies Network (the latter of which have a specific function in relation to the implementation of the current EU Structural Fund programme). The responses include a number of common themes and are subject to a separate item on the agenda.

European Structural Investment Funds

1.40 The European Structural and Investment Fund (ESIF) continues to be delivered in the North East. The region is split into two areas; More Developed (Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland) and Transitional (County Durham). An update on European Regional Development Fund, European Social Fund and European Agricultural Fund for Rural Development is provided below.

European Regional Development Fund (ERDF)

1.41 As a result of exchange rate changes, the notional allocation for the More Developed (MD) area is now £176.9m, and in the Transitional (T) area is now £86.3m; a total for the NELEP region of £263.2m, an increase of £35.1m.

1.42 The final deadline for Expressions Of Interest for the first Sustainable Urban Development (SUD) call was 30 March 2018. Bids from this call are all still in appraisal. A new SUD call was announced at the beginning of September with a closing date of 31 January 2019. Funding available for this new call is £6m for Priority Axis 4: Supporting the Shift Towards a Low Carbon Economy in all sectors, and £2.1m for Priority Axis 5: Promoting climate change adaptation, risk prevention and management.

1.43 The North East Fund of Fund (JEREMIE2) is now open and launch events took place across the region during May and June 2018.

1.44 Further ERDF calls will be issued in October 2018 and March 2019. The North East LEP will be holding a launch event for the October Calls on 17 October.

European Social Fund (ESF)

1.45 Across the whole NECA area there is a notional allocation of £224.7m (More Developed £16.31m, Transition £63.4m), increased due to currency changes.

1.46 The six ESF calls closed during the last reporting period have been assessed and Full Applications have been submitted.

1.47 Most submitted Full Applications are now in the appraisal stages, and it is anticipated that applications from the Digital Call, North East Ambition call and North East Specialist Support projects will be presented to the Local ESIF Sub-committee on 9 October. We are awaiting information for new ESF calls to be announced.

European Agricultural Fund for Rural Development (EAFRD)

1.48 EAFRD funds form part of the National Growth Programme, from which the North East received an allocation of £10.5m. Although a number of scattered localities are potentially eligible for EAFRD funding in Tyne and Wear, the focus is on the designated rural areas of Northumberland, Durham and neighbouring parts of western Gateshead, including the Derwent Valley.

1.49 All calls are now closed. Full Applications for £3.9m were received and, to 28 June 2018, a total of £2.055m has been contracted.

2. Proposals

2.1 This report is intended for information only.

3. Reasons for the Proposals

3.1 This section does not apply as the report is for information only.

4. Alternative Options Available

4.1 This section does not apply as the report is for information only.

5. Next Steps and Timetable for Implementation

5.1 This section does not apply as the report is for information only.

6. Potential Impact on Objectives

6.1 This report sets out issues that will support the Authority in meeting its objectives, particularly in relation to those set out in the Strategic Economic Plan.

7. Financial and Other Resources Implications

7.1 There are no financial or other resource implications directly associated with this report as it is for information only.

8. Legal Implications

8.1 There are no legal implications directly associated with this report as it is for information only.

9. Key Risks

9.1 There are no key risks arising from this report as it is for information only.

10. Equality and Diversity

10.1 There are no specific equality and diversity implications arising from this report as it is for information only.

11. Crime and Disorder

11.1 There are no specific crime and disorder implications arising from this report as it is for information only.

12. Consultation/Engagement

12.1 There are no issues arising from this report for consultation.

13. Other Impact of the Proposals

13.1 There will be no other impacts arising from this report.

14. Appendices

14.1 None

15. Background Papers

15.1 EEA migration in the UK: Final Report

https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration

Strengthened Local Enterprise Partnerships

https://www.gov.uk/government/publications/strengthened-local-enterprise-partnerships

16. Contact Officers

16.1 Sarah McMillan, Corporate Lead – Economic Strategy and Skills

Email: sarah.mcmillan@southtyneside.gov.uk Tel: 0191 424 7948

17. Sign off

17.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

18. Glossary

18.1 FDI – Foreign Direct Investment

R+D – Research and Development

DIT – Department for International Trade

HPO – High Potential Opportunities

EEA – European Economic Area

MCA - Mayoral Combined Authority

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Economic Development and Regeneration Advisory Board

Date: **23 October 2018**

Subject: Business Growth Update

Report of: Business Growth Director – North East Local Enterprise Partnership

Executive Summary

The purpose of this report is to provide an update on the Business Growth and Access to Finance Programme, led by the North East Local Enterprise Partnership (North East LEP).

Recommendations

The Advisory Board is recommended to note this update and comment upon it where relevant.

1. Background Information

1.1 The refreshed Strategic Economic Plan (SEP), published in January 2017, introduced an ambitious plan of action designed to focus on both the businesses and activities that will deliver the largest impact to the economy and the creation of 'More and Better Jobs'. The plan of action is designed to deliver the Business Growth and Finance Programmes ultimate aim of:

> *''Increasing the number of High Growth Small Businesses (HGSB) in the North East LEP area by 50%, (by 2024) creating an 6,000 additional jobs and £260million additional Gross Value Added (GVA)'*

1.2 High Growth Small Businesses (HGSB) have a disproportionate impact on the economy. In 2014 the North East LEP area had 420 high growth small businesses (HGSBs) employing 15,500 people with a combined turnover of £1.8billion. They represented less than 1% of the North East business population yet generated approximately 33% of GVA growth during 2014.

1.3 The Business Growth Programme is structured around the enablers of high growth which include:

- Great leadership
- Internationalisation
- Innovation
- Digitisation

1.4 As well as tackling the barriers that prevents businesses fulfilling their growth potential:

- A lack of access to talent
- A lack of access to finance and growth capital
- Low levels of leadership capability
- A lack of connectivity to and access to new markets
- Poor infrastructure that does not effectively support their growth needs.

1.5 To achieve our aim however we cannot focus on HGSB's in isolation. Rather we need to work across businesses of all size to develop a pipeline of businesses with high potential. This means encouraging more people to start businesses that go onto employ people, for micro businesses to become small businesses and for small businesses to become medium sized businesses and for the regions medium sized businesses to become our big businesses of tomorrow.

Key Achievements

1.6 Since the launch of the refreshed SEP in January 2017, we have achieved the following:

- **North East Fund:** access to growth capital for businesses was significantly boosted through the introduction of the £120m North East Fund. We were integral to developing and securing the North East Fund that comprises of funds from the European Regional Development Fund (ERDF), the European Investment Bank (EIB) and legacy funding. It offers a range of equity, debt and mezzanine funding.
- **Scaleup North East:** launched January 2018, this £6m programme was launched and will support 675 businesses to turn scale up potential into scale up performance. *(Scale up performance as defined by the Organisation for Economic Co-operation and Development (OECD) - £20% turnover or employment growth per annum sustained over a period of at least three years).*
- **Supply Chain North East**: launched October 2018, Supply Chain North East is a collaboration between the North East LEP, RTC North, North East Automotive Alliance, NEPIC and Generator (Digital Union) and is designed to support businesses to:
  - Break into new markets and supply chains
  - Drive higher productivity performance and profitability
  - Future proof against changing supply chain demands.
- **North East Growth Hub:** The Growth Hub has gone from strength to strength. It generates over 10,000 referrals to business support providers each year. There is also now a small team of Growth Hub Connectors who provide vital one to one support to businesses helping them to pinpoint the support that will deliver the growth and improvement to which they aspire. Appendix 1, provides further information on the Growth Hub.
- **Growth through Mentoring:** we introduced this peer to peer mentoring programme as business people told us that they wanted to learn from one another. The programme now has over 40 volunteer mentors all of whom have run and scaled their own business.
- **Peer to peer leadership development:** We have actively identified the need for and encouraged the development of the Entrepreneurs Forum Scaleup Leaders Academy and Newcastle University Captured programme both of which deliver peer to peer leadership development and fill a vital gap in the business support ecosystem.
- **Business Support Provider Network:** to develop the business support ecosystem and capacity and capability of regional providers we have created the Business Support Providers Network. The network is governed by the providers, with the North East LEP team providing a secretariat function. The

network is focused on developing collective capability and has defined a series of best practice and development sessions for front line staff. The network is also working together to consider how best they can adapt and flex their existing offers to support businesses through periods of change, such as Brexit.

Changes since January 2017

1.7 There has been economic and policy changes in the last two years, particularly the increased focus on productivity and the decision to leave the European Union. We need to respond to the changing economic context both threats and opportunities.

Productivity:

1.8 The evidence base is developing to understand why the UK performs poorly in terms of productivity performance. HM Treasury through their Productivity Review have identified a long tail of underperforming businesses that are causing a delay on productivity performance.

1.9 We've been working with Government and Sir Charlie Mayfield's 'Be the Business' initiative to better understand the types of interventions that can impact on firm level productivity performance. This led to the creation of a pilot project, funded by Be the Business, called, Growth Hub High Potential, as described along with other initiatives below:

1.10

- **Growth Hub High Potential:** Structured around proven drivers of productivity performance (great leadership, strategic development, talent development and digital adoption) we developed a programme of support that involved peer driven workshops and a visit programme to exemplar businesses that demonstrated excellence in a specific area. The programme found that the approach was effective in diffusing best practice and provided a valuable evidence base to the Productivity Review and our findings are now reflected in policy.
- **Supply chain North East:** although initially developed to help businesses to cope with the potential effects of Brexit through diversifying their risk, we also adapted and increased the capacity of the programme to drive productivity improvement through the adoption of technology.
- **Be the Business Mentoring:** we have partnered with the national 'Be the Business Partnership' to pilot their productivity mentoring programme. Fully integrated with Growth through Mentoring the collaboration introduces mentors in the form of Senior Executives from some of the UK's largest businesses such as John Lewis, GSK, BAE Systems and KPMG to North East businesses.

1.11 It is important to recognise that the emerging focus of productivity improvement does not in any way change the direction of the programme and we will stay firmly fixed on increasing the density of HGSB by 50% by 2014.

1.12 The reason for this is that HGSB are strongly associated with the central drivers of productivity growth. HGSB tend to adopt better management and operational practices, they have a higher tendency to export and they adopt technology at a faster rate. In addition over the medium to long term levels of productivity accelerate as scalable business models create a situation in which revenue growth outstrips the growth of operating costs. The result is that output per worker increases overtime and as the business gets bigger.

Brexit:

1.13 The North East England Chamber of Commerce (NEECC) reported recently that 47.2% of businesses felt underprepared for Brexit, and most have taken no or little action to prepare. With the 31st of March 2019 and the risk of a no deal Brexit looming its essential that businesses begin to make preparations. To support North East businesses to prepare we are:

- **Introducing a Brexit Preparation Fund:** Working with Northumberland Business Services Ltd (NBSL) we are introducing a Brexit Preparation Fund that will provide businesses up to £2,800 towards the cost of Brexit preparation support. This will be delivered via the existing North East Business Support Fund which is ERDF funded, NBSL will run for 3 months to assess demand etc.
- **Brexit Toolkit**: through the North East Growth Hub we are launching a Brexit toolkit. The toolkit will draw together resources to support businesses to prepare for Brexit.
- **Supply Chain North East:** was developed with Brexit in mind. Many small businesses are highly reliant on one largest customer and supply chain. Supply Chain North East is therefore designed to help businesses to diversify into new markets and to spread their risk across multiple clients and industries.

Updating the SEP

1.14 Though we have come a long way in a short space of time we still have lots to do. We are currently in the process of analysing economic data and updating the SEP particularly delivering business growth over the next three years.

1.15 In the Business Growth Programme we will apply a sharper focus on the following challenges and opportunities:

What are our challenges?

- Business growth ambition is declining.
- Business birth rate and share of Scaleup remains below that of other areas.
- North East businesses are below average in terms of growth and productivity.
- To build economic resilience we need more businesses to expand into new

markets.

What are our opportunities?

- To support more businesses grow their ambition and to reach their next stage of growth.
- To increase the productivity and competitiveness of businesses
- For more businesses to expand into new geographies, markets and supply chains.
- The adoption of digital technology provides a significant opportunity to drive productivity growth.

How are we going to address these challenges and opportunities?

- We will focus on raising people's aspiration to start, grow and improve businesses and improve access to high quality business growth and finance support.
- We will work with our partners to focus attention on addressing the market failures that create a barrier for businesses to grow. In doing this, we will stimulate a private sector market for business support and finance, with a particular focus on services that drive productivity and better quality jobs.
- We will ensure that our trade and investment service successfully navigate the departure from the European Union and continue to grow our international business links.

Planned activities for delivery by 2021

1.16

Activity	Description	Key deliverable (metrics)
Increase business growth ambition	If we are to treat the symptoms effectively then we need to understand the underlying causes which are currently unknown. We will build an investigation into the reasons behind declining growth ambition into our research programme. Following the findings of our research we will work with partners to develop a strategy aimed at increasing growth ambition.	Start to see upward trend of businesses reporting the aspiration to grow vis BEIS Small Business Survey.
Increase the adoption of business support	Many market failures exist that suppress demand for business support such as a lack of awareness, a	Increasing the number of enquiries into

	confusing landscape, a lack of trust and being unsure of the benefits of engaging. We will continue to develop the North East Growth Hub, building its capacity to engage with and provide manages signposting to North East businesses.	and referrals from the North East Growth Hub. Support 450 per annum businesses through one to one needs analysis and brokerage.
Supporting Scaleup	We will continue to support Scaleup North East and to develop the ecosystem to support more businesses to overcome the key challenges to achieving Scaleup levels of performance: • Access to talent and the development of skills. • Building leadership capability • Access to markets • Access to finance and risk capital. • Supporting infrastructure.	Intensively support 250 businesses with Scale up potential per annum.
Raising productivity	We will support businesses to deliver productivity improvement through Supply Chain North East and work with partners such as Be the Business and Made Smarter. Working with partners we will develop approaches to tackle the underlying causes of poor productivity and to raise performance in the long tail of underperforming businesses.	Increase GVA per employee.
Increase business birth rate	As with the reduction in business growth aspiration, there is a need to better understand the underlying causes that prevent more people starting a business. Much investment and focus has been channelled on supporting business start-up in the North East over several decades yet there has been little variance on the regions business birth rate. We will therefore build an investigation into the	Delivery of business birth-rate review by March 2020.

	causes of low business birth rate into our research programme. Following findings and recommendations we will work with partners to develop a methodology designed to tackle the underlying causes of the regions low level of start-ups.	
Economic resilience	We will work with local authorities, the North East Growth Hub programmes to build the capacity and capability to support businesses through periods of economic change. In the immediate term we will ensure that services support business through the changes impacted by Brexit. At the firm level, Supply Chain North East will support businesses to spread their risk through expanding into new markets, supply chains and geographies.	Improvement in business confidence
Access to finance	We will continue to support the availability of business growth finance through working with partners such as the North East Fund, British Business Bank and Finance Camp. Scaleup North East will continue to identify opportunities for businesses to accelerate their growth through access to finance and risk capital. We are exploring options to increase the amount of funding for business access to finance.	Share and value of equity investments
Internationalisation	We will work with the Department of International Trade to increase the value of export; this will involve a close partnership with the North East Growth Hub.	Value of exports, referrals to DIT
Developing the ecosystem	We will continue to support the development of the North East Business Support provider network. This will involve developing capacity and capability through offering opportunities continuous professional development, best practice sharing and co-creation.	Number of CPD and best practice events delivered.

Rural, social enterprise and gender proofing	We will continue to work with partners to ensure that business support is accessible to all through formally reviewing penetration levels and delivery methodologies.	Engagement of different groups in business support.

2. Proposals

2.1 This report provides an update to the Advisory Board on the Business Growth and Access to Finance Programme.

3. Reasons for the Proposals

3.1 To update the Advisory Board on the progress of the Programme, highlighting the key achievements and the progress since the launch of the refreshed SEP in January 2017.

4. Alternative Options Available

4.1 This report is for information and update only.

5. Next Steps and Timetable for Implementation

5.1 The planned activities for delivery of the Programme have been noted in Section 1.16 of this report.

6. Potential Impact on Objectives

6.1 The activities within this report align with an update of the SEP that is currently being undertaken. A report has been prepared separately for the Advisory Board on the process and timeline of updating the SEP and providing information for the development of a Local Industrial Strategy.

7. Financial and Other Resources Implications

7.1 There are no financial or other resource implications directly associated with this report as it is for information and update only.

8. Legal Implications

8.1 There are no legal implications directly associated with this report as it is for information and update only.

9. Key Risks

9.1 There are no key risks arising from this report as it is for information and update only.

10. Equality and Diversity

10.1 There are no specific equality and diversity implications arising from this report as it is for information and update only.

11. Crime and Disorder

11.1 There are no specific crime and disorder implications arising from this report as it is for information and update only.

12. Consultation/Engagement

12.1 This report is for update and comment by members of the Advisory Board.

13. Other Impact of the Proposals

13.1 There will be no other impact arising from this report.

14. Appendices

14.1 Appendix 1 – Growth Hub Operating Model

Appendix 2 – Business Growth Programme Presentation

15. Background Papers

15.1 None

16. Contact Officers

16.1 Colin Bell, Business Growth Director. colin.bell@nelep.co.uk 0191 338 7424

17. Sign off

17.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

18. Glossary

18.1 EIB - European Investment Bank

ERDF - European Regional Development Fund

GVA - Gross Value Added

HGSB - High Growth Small Businesses

NEECC - North East England Chamber of Commerce

North East LEP – North East Local Enterprise Partnership

NBSL - Northumberland Business Services Ltd

SEP - Strategic Economic Plan

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The North East Growth Hub

Delivering transformational change.

The North East Growth Hub aims to increase the density of Scaleup businesses in the North East by 50% by 2024, that will result in an additional 5,500 high quality jobs and an additional £260million Gross Value Added. To do this, the Growth Hub focuses on:

- Stimulating demand for business support and
- Ensuring that adequate supply, of the required quality, exists to fulfil this demand.

The Growth Hub offers impartial, objective and business focused support that delivers transformational change to those businesses seeking to grow and improve.

Raising awareness, inspiring growth and driving demand:

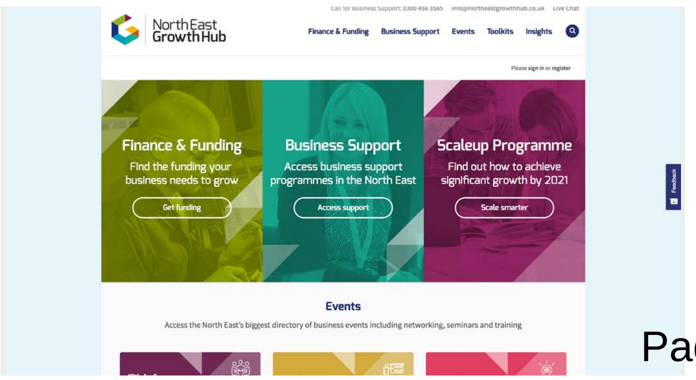
Businesses who engage with business support grow quicker and are more productive than those who do not. However only 22% of small businesses engage in business support and this lack of engagement can be linked to a range of established market failures:

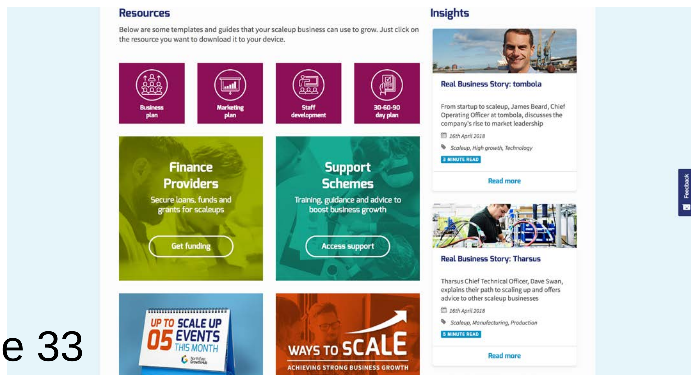
Market Failure #1:

The business support landscape is confusing
The business support landscape can be confusing and difficult to navigate for businesses; many people who start the search for support become frustrated, overwhelmed and simply give up.

Solution
The North East Growth Hub provides the antidote through simplifying the landscape for businesses. Our intuitive online platform (www.northeastgrowthhub.co.uk) aggregates over 220 business support and finance solutions making them easily accessible through our searchable platform. We measure our success on how many referrals we make to regional business support providers.

Impact
The Growth Hub generated over **9,841 referrals from 44,739 visits**, a conversation rate of **22%**





Market Failure #2:

Businesses do not believe suitable assistance exists
Most businesses face problems and have the opportunity to grow or improve. However, they are so focused on the day-to-day operation of their business that they fail to recognise such opportunities and remain unaware of the range of support available to them.

Solution
The North East Growth Hub raises awareness of the possibilities and reaches out to businesses through a series of targeted online campaigns, toolkits and events that introduce businesses to inspirational stories from high profile and inspirational business leaders. The toolkits are home to event listings, practical tools and techniques and introductions to solution providers' that leaders can use to drive change in their business. Traffic is driven to these pages by targeted digital marketing with demonstrable success.

Example and impact
An example of our recent apprenticeship campaign can be found here.

There were 214 total Apprenticeship scheme page views, an increase of +48% compared to the previous eight weeks where there was no campaign activity.

Throughout the campaign, there were 53 Apprenticeship scheme referrals, an increase of +71% compared to the previous eight weeks where there was no campaign activity.

This demonstrates a conversion rate of 24.7%, which means users are engaging with our content and reacting to the call to action – exactly what we want them to do.

Market Failure #3:

Businesses doubt the benefit that they will receive in return for the time and money they invest in business support
SME's are usually time poor and have limited working capital, so investing time and resource into business support requires careful consideration, especially when it's difficult to comprehend the level benefit they could receive in return for their time and money invested.

Solution
Our Growth Hub Connectors and Scaleup Partners work with businesses to identify opportunities for growth and improvement identify relevant solutions and quantify the benefits that the business is likely to receive.

Market Failure #4:

Businesses find it difficult to trust external information and advice:
On a daily basis businesses are bombarded by a plethora of messages promoting products and service that promise business growth and improvement. In most cases approaches take little regard of the business' situation, needs and barriers – it's easy therefore for businesses to become sceptical and mistrusting.

Solution
The North East Growth Hub provides established businesses and Scaleups' managed introductions to solution providers' followed-up an aftercare service. The Growth Hub's Quality Assurance framework measures the quality of provider delivery meaning that poor performance is identified and dealt with accordingly.

Impact
The programme launched on 1 January 2018 and as of 1 May 2018, the programme is performing as follows:

- 128 Expression of Interests submitted
- 69 companies enrolled on the programme
- Of the 69 participants, 17 action plans completed and 1 project closed with impact assessed, and 6 enterprises receiving grants

Our customer journey is optimised to deliver maximum economic impact!

We have designed tailored customer journeys that cater for business complexity and focus the Growth Hub's resource on those businesses who will deliver the biggest economic return.

Growth Hub Feature	Start Up	Established	Scaleup
Access to northeastgrowthhub.co.uk business support and finance directory	•	•	•
Web chat via National Business Support Helpline	•	•	
Up to 1 hr support via Business Support Helpline Adviser.	•	•	
One-to-one needs analysis and support recommendations via Growth Hub Connector		•	
Managed access to Growth Hub Provider Network through Growth Hub Connector		•	
In depth support to create bespoke Scaleup plan for Scaleup Partner			•
Managed access to Scaleup Solution Providers & Consultants			•
On-going Account Management with Scaleup Partner			•
Access to Growth Hub Mentors		•	•

The front line: roles and responsibilities

Growth Hub Connectors'
The North East Growth Hub has three fulltime Growth Hub Connectors. Adopting an independent, impartial and objective approach, Connectors' work with businesses to understand their opportunities and barriers to growth and pinpoint the solutions that will deliver the businesses objectives. Connectors' motivate businesses to engage with business support through helping them to understand the benefits they can expect to receive in exchange for their investment of time and money.

Scaleup Partners' – providing intensive Account Management
We don't believe that a one size fits all approach works for scaleup businesses, our team of six Scaleup Partners' are highly skilled and have a range of tools, techniques and areas of expertise that allow them to develop a bespoke approach for each business – it's all driven by the businesses unique needs. All of our Scaleup Partners' have a track record in scaling businesses and therefore hold credibility and are in a position to deliver value.




Growth Hub mentors – been there, done that, got the t - shirt!
All of the Growth Hub's mentors are business owners and leaders who have a track record in scaling businesses beyond £3million. They all set aside time voluntarily, alongside running their business, to support the development of others. Our approach is designed to deliver high quality mentoring experiences that will lead to transformational change.

What we are doing is working, our forecasts indicate that in one calendar year, our activities will have the following impact

£ 3,494
Average GVA per employee improvement per business supported

4.8
Average number of additional jobs per business supported

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North East Growth Hub

Business growth programme

Colin Bell, Business Growth Director

MORE AND BETTER JOBS

Grow number of scaleups by

50% by 2024

Why focus on scaleup?

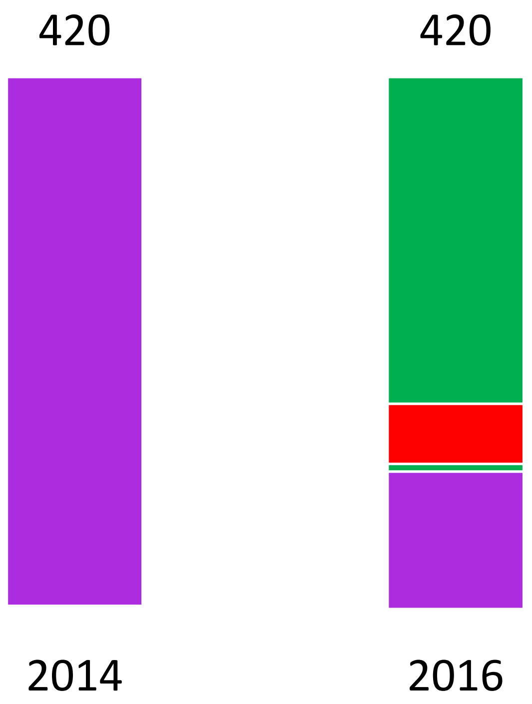
- 1% scale-up businesses create 1/3rd of new jobs.
- Scale-up's accounted for 33% of GVA growth during 2014.
- Scale-up's created 3x the number of new jobs created by the FTSE 100 companies.
- Increasing the number of scale-ups by 50%:
  - Would have resulted in 5,500 additional jobs in 2014, and
  - £260mil additional Gross Value Added in 2014

We need to create a growth ladder that sees more start-ups becoming micro businesses, more micro businesses becoming small businesses, more small businesses becoming medium sized businesses and more medium sized businesses becoming the big businesses of tomorrow.

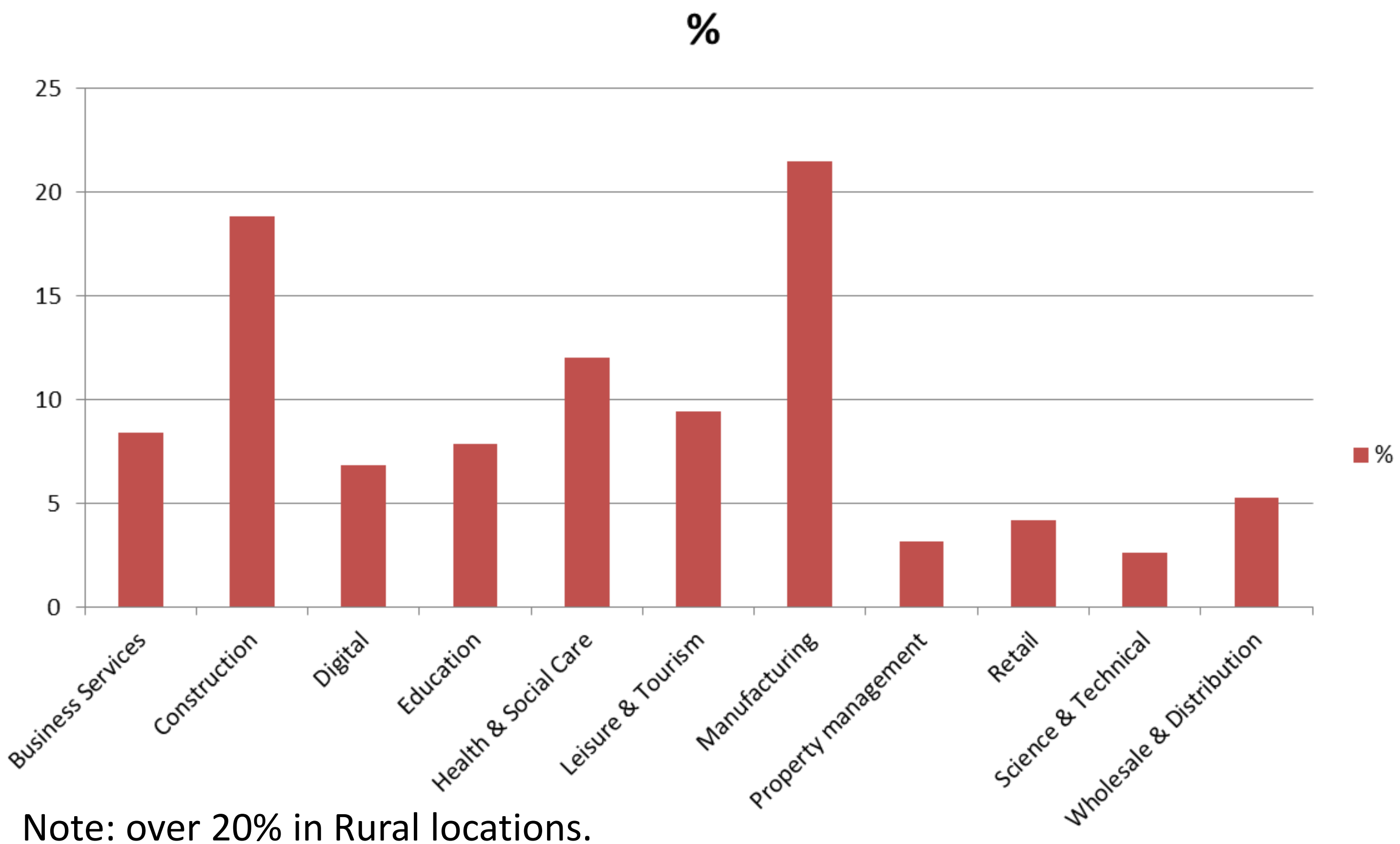
North East Local Enterprise Partnership

North East Growth Hub

What happened to 420 scaleups' between 2014 & 2016?



Scale-ups
Liquidated
Stopped scaling



Note: over 20% in Rural locations.

What research tells us
Key drivers of productivity:

Internationalisation

- Export = 3x growth
- Export = 3x new products/services.

Innovation (in its broadest sense)

- 51% of labour productivity growth
- Innovative SME's 7% more likely to export.

Adoption of digital technology

Digitally enabled businesses grow 26% faster.

Removing the barriers to growth

- Leadership & Entrepreneurial Skills
- People Talent & Skills
- Access to Capital
- **Internationalisation**
- **Innovation**

Key enablers

Key drivers of productivity

Progress

Business Growth Programme

Launched January 2019

Scaleup NorthEast





Business Growth Programme

Scaleup NorthEast

250 businesses supported per annum	500 additional jobs of which 350 are better jobs	£12.5m additional Gross Value Added

Business Growth Programme

Launched October 2019

Supply Chain North East

Business Growth Programme

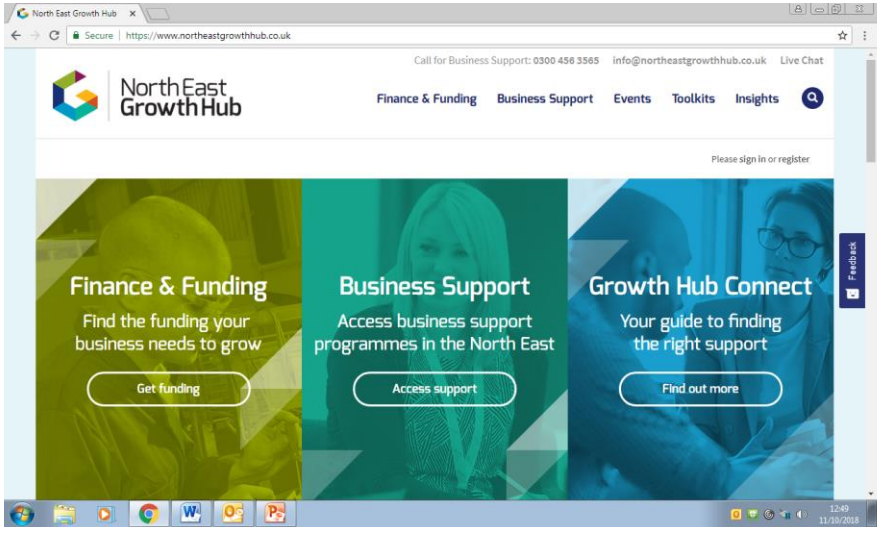
North East Fund

Supported by the European Regional Development Fund

North East Growth Hub

10,000+

referrals generated



Business Growth Programme

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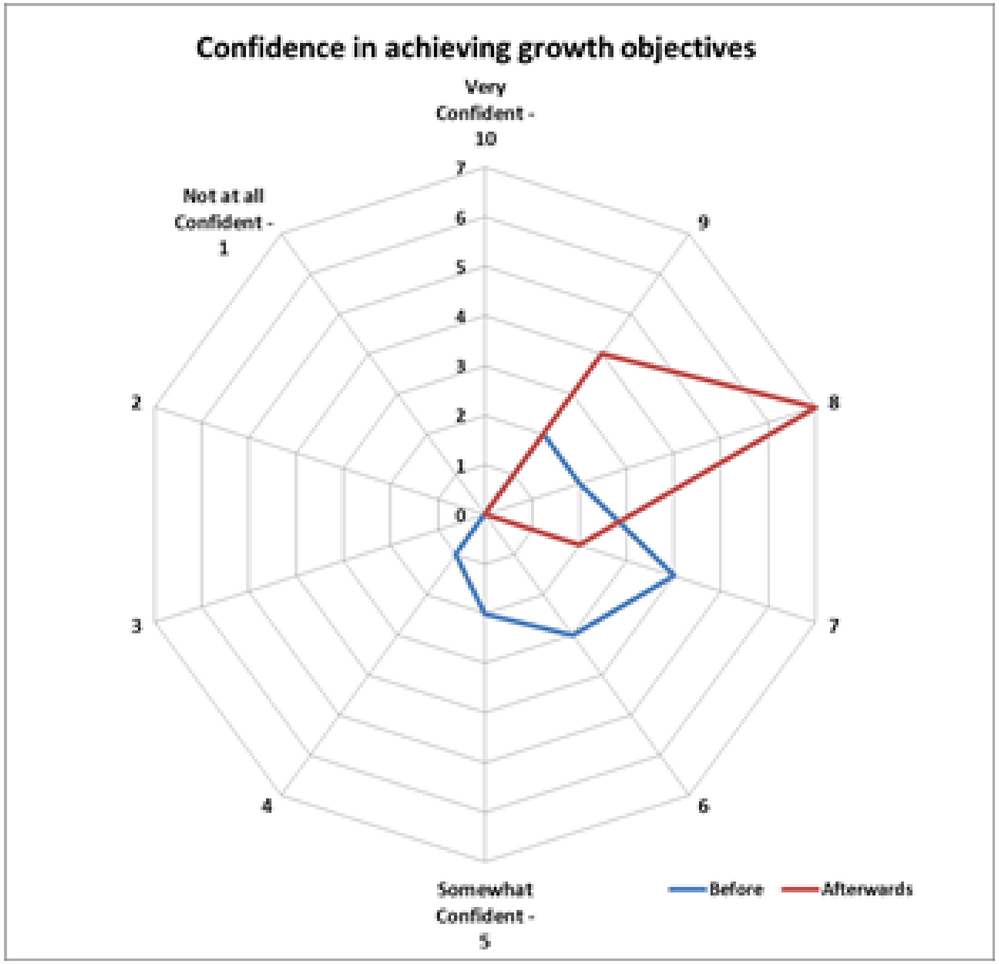
Businesses receiving managed brokerage from a
Growth Hub Connector

Peer to peer development

Peer to peer development



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@northeastlep #moreandbetterjob @GrowthHubNE

North East Local Enterprise Partnership

North East Growth Hub

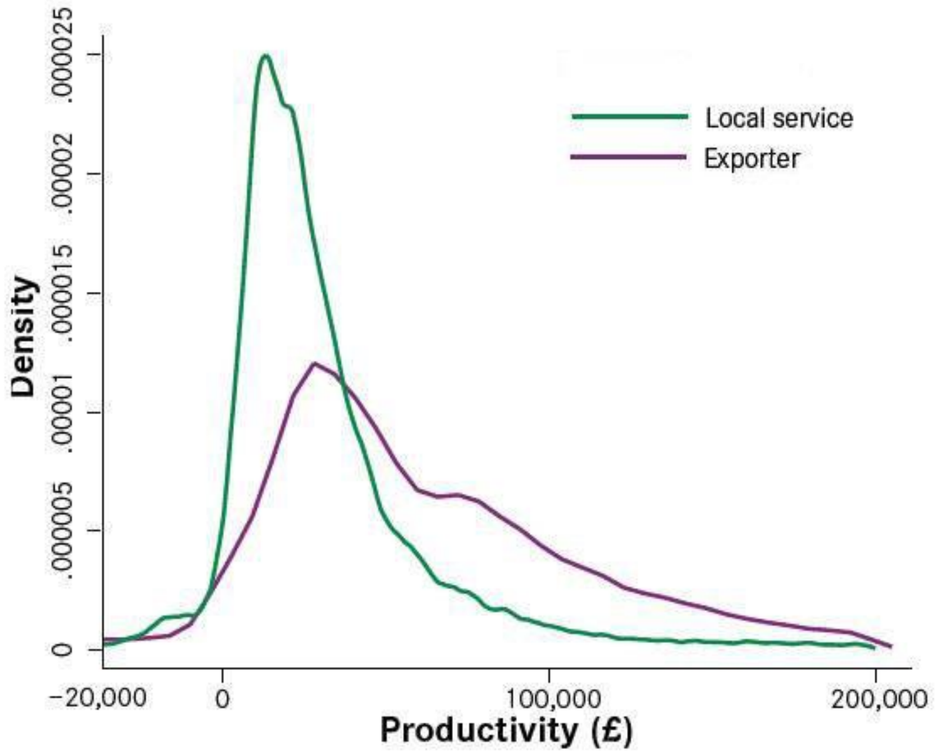
the long tail

North East Local Enterprise Partnership

North East Growth Hub

Productivity challenge

Figure 2: Distribution of firm level productivity by exporting and local service businesses for Great Britain, 2015



Source: ONS, Annual Business Survey

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Growth Hub High Performance

orangebus. Virgin money Ryder THARSUS

Growth Hub High Performance

before	after
ave £122k	ave £132k
T/O per employee	T/O per employee

"I had not considered the digital opportunities for our business until that session"
Erika Leadbetter, TSG Marine

Productivity challenge

be the business

Scaleup NorthEast

Supply Chain North East

BREXIT

Brexit

7%

completely unprepared

40%

underprepared

5%

fully prepared

Prep Level:	0	1	2	3	4	5	6	7	8	9	10
Responses:	27	31	29	38	31	91	41	35	37	12	20

Source: NECC

BREXIT

Brexit Toolkit

Brexit Preparation Fund

Supply Chain North East

Where are we going?

Challenges

Growth ambition and demand for support and finance is declining

Rate of business birth rate and share of scaleup remains low

Businesses are below average in terms of growth and productivity

Resilience requires more businesses to expand into new markets

SEP refresh: areas of focus

Increase business growth ambition	Increase the regions share of growth capital
Increase the adoption of business support	Increase the number and value of exports
Support more businesses to scale up	Build economic resilience
Increase business birth rate and conversion of start up to micro	Rural, social enterprise and gender proofing

Develop the ecosystem to deliver the above areas of activity

?

www.northeastgrowthhub.co.uk

@GrowthHubNE North East Growth Hub

www.nelep.co.uk

@northeastlep North East Local Enterprise Partnership

North East Local Enterprise Partnership

North East Growth Hub

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north east combined authority

Economic Development and Regeneration Advisory Board

Date: **23 October 2018**

Subject: Strategic Economic Plan and Local Industrial Strategy Update

Report of: Head of Strategy and Policy, North East Local Enterprise Partnership.

Executive Summary

The Board of the North East Local Enterprise Partnership (North East LEP) agreed that the Strategic Economic Plan (SEP) should be updated to reflect changing economic and policy circumstances and to bring forward updated programmes for the period 2019-2021. An active process of engagement is underway with partners in business, education and local government to produce an updated SEP for the North East area, which will be launched in early 2019.

Also, in July 2018 the Government announced that the North East LEP area would be in the next wave of LEP areas to develop a Local Industrial Strategy. This was followed by Government publishing a policy prospectus on 2 October.

At the meeting, the Advisory Board will be briefed on the updating of the SEP, as well as the process for developing the Local Industrial Strategy.

Recommendations

The Advisory Board is recommended to note this update and comment upon it where relevant.

north east combined authority

Economic Development and Regeneration Advisory Board

1. Background Information

1.1 The North East Strategic Economic Plan (SEP) was published by the North East Local Enterprise Partnership in April 2014 and refreshed during 2016. It sets out a ten year plan to drive 100,000 'More and Better Jobs' in the LEP area which covers the seven local authorities of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. It has also provided the policy framework to guide the investment of Local Growth Fund and the European Strategic Investment Fund resources.

1.2 The refreshed version of the SEP published in January 2017 identifies a number of key areas of opportunity or key growth sectors. These are:

- Advanced manufacturing with a focus on automotive and medicines
- Digital with specific focus areas, for example, software development, gaming, Building Information Modelling (BIM), data analytics, cyber security
- Energy with a focus on subsea, offshore and energy technologies
- Health and life sciences with a focus on ageing and personalised medicines

1.3 The SEP also identifies three enabling sectors. These are education, transport/logistics and finance, professional and business services. The SEP promotes delivery through six programmes or themes, which are:

- Innovation
- Business growth
- Skills
- Employability and Inclusion
- Economic assets and infrastructure
- Connectivity including digital.

1.4 The Board of the North East Local Enterprise Partnership oversees development and delivery of the SEP and agreed that the SEP should be further updated to reflect the current changing economic and policy circumstances and to bring forward updated delivery programmes for the period 2019-2021. An active process of engagement is underway through the LEP Advisory Boards and with external partners in business, education and local government.

Updating the Strategic Economic Plan

1.5 A process of evidence review and partners' engagement has taken place over the summer including with the LEP Board, its Advisory Boards and a range of other working groups and key regional meetings. A large engagement event was also held on 19 September 2018 involving over 90 businesses and other economic partners including local authorities.

1.6 The evidence review and evaluation to date does not question the direction of travel and focus of the current SEP but reinforces the key sectors and programmes of activities. There will be a discussion at the Advisory Board around the key delivery elements required in the six programmes for the next three years.

North East Local Industrial Strategy

1.7 The North East has been identified by Government as one of six areas in an early wave to develop a Local Industrial Strategy by summer 2019. This will be led and produced by the North East LEP working with Government and key partners in the region.

1.8 The North East LEP welcomed the publication by Greg Clark, Secretary of State for Business, Energy and Industrial Strategy last week of the Governments Local Industrial Strategy policy prospectus, which sets out their purpose and process out in more detail.

1.9 The Local Industrial Strategies were proposed by the Government in November 2017 as part of the UK Industrial Strategy. The Government's vision is that they will set out clearly how areas will maximise their contribution to UK productivity and improve local and regional living standards by making the most of distinctive strengths, co-ordination of economic policy activity at local level and ensure greater cross-boundary co-operation. As a joint report between Government, LEPs and local leaders, they will aim to strengthen partnerships between national and local partners guiding the use of national and regional strategic investment to boost productivity.

1.10 Since 2014, the North East Strategic Economic Plan (SEP) has set out our priorities to deliver More and Better Jobs in the North East. This will not change and the SEP will remain the key economic policy document in the North East with a broader scope than the Local Industrial Strategy. The Local Industrial Strategy will pull out key themes, assets and projects from the SEP which will focus on boosting productivity. The SEP will continue to highlight key areas of opportunity or growth sectors in the North East's economy, along with the six programmes of action to support growth, skills and economic inclusion in the North East. However, one of the key challenges set out in the SEP is the need to strengthen productivity in the region through business growth, innovation, skills, connectivity and a stronger infrastructure. The North East's Local Industrial Strategy will therefore allow us to work with Government and key partners to pull out those priorities from within the SEP, that directly contribute to improving productivity in the North East. It will also provide the opportunity to highlight our local strengths into UK wide programmes, develop approaches to improve our regional productivity through our own programmes and guide national and regional investment.

1.11 The North East LEP will be working closely with local authorities, businesses, education and other key partners over the next few months to develop the Local Industrial Strategy. We are also in the process of commissioning a piece of work to undertake a Productivity Review of the North East, which will inform the Local Industrial Strategy development.

2. Proposals

2.1 This report briefs the Advisory Board on the updating of the SEP, as well as the process for developing the Local Industrial Strategy.

3. Reasons for this proposal

3.1 To update the Advisory Board of the process and timeline around updating the SEP, and to provide information on the purpose and time line for the development of the Local Industrial Strategy.

4. Alternative Options Available

4.1 This report is provided for information only and for the Advisory Board to comment where relevant.

5. Next Steps and Timetable for Implementation

5.1 The North East LEP Board will consider the content of the updated SEP at a future meeting in advance of the updated SEP's launch in February 2019.

6. Potential Impact on Objectives

6.1 This report provides an update on the process for updating the SEP and developing the Local Industrial Strategy.

7. Financial and Other Resources Implications

7.1 There are no financial or other resource implications directly associated with this report as it is for information only.

8. Legal Implications

8.1 There are no legal implications directly associated with this report as it is for information only.

9. Key Risks

9.1 There are no key risks arising from this report as it is for information only.

10. Equality and Diversity

10.1 There are no specific equality and diversity implications arising from this report as it is for information only.

11. Crime and Disorder

11.1 There are no specific crime and disorder implications arising from this report as it is for information only.

12. Consultation/Engagement

12.1 Consultation to date has taken place at a large engagement event on the 19 September 2018 with economic partners and local authorities. Further consultation is ongoing with Chief Executives and Leaders across the constituent authorities of the North East Combined Authority.

13. Other Impact of the Proposals

13.1 There will be no other impact arising from this report.

14. Appendices

14.1 None.

15. Background Papers

15.1 North East Strategic Economic Plan

https://www.nelep.co.uk/the-plan/

Industrial Strategy: Building a Britain Fit for the Future

https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

16. Contact Officers

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18. Glossary

18.1 BIM – Building Information Modelling

LEP – Local Enterprise Partnership

LIS – Local Industrial Strategy

SEP – Strategic Economic Plan

north east combined authority

Economic Development and Regeneration Advisory Board

Date: **23rd October 2018**

Subject: UK Shared Prosperity Fund

Report of: Thematic Lead for Economic Development and Regeneration

Executive Summary

The purpose of this report is to provide an update on the UK Shared Prosperity Fund development and to seek agreement from the Advisory Board on a renewed set of messages to inform a regional response to the expected Government consultation.

Recommendations

The Advisory Board is recommended to note the contents of this report and agree the key messages to inform a regional response to Government's consultation on the UK Shared Prosperity Fund, set out at paragraph 1.16.

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Economic Development and Regeneration Advisory Board

1. Background Information

1.1 The UK Shared Prosperity Fund has been presented as the replacement to European Union Structural Investment Funds, which will come to an end following the current programme and Britain's exit from the European Union and the UK's Local Growth Funding. Both funding streams will end in 2021.

1.2 The NECA Economic Development and Regeneration Advisory Board (EDRAB) discussed the developing UK Shared Prosperity Fund (UKSPF) at their October 2017 meeting and agreed a set of principles to inform a consultation response.

1.3 Since the EDRAB discussion in October 2017 Government has informally consulted with regional and local partners and the EDRAB agreed principles have been used to inform these interactions.

1.4 It is expected that Government will publish a formal consultation on the UK Shared Prosperity Fund later in the Autumn.

Current Policy

1.5 In May 2017 the Conservative Manifesto set out:

- "We will use the structural fund money that comes back to the UK following Brexit to create a UK Shared Prosperity Fund"
- "designed to reduce inequalities between communities across our four nations"
- "…deliver sustainable, inclusive growth, based on our modern industrial strategy."
- "We will consult widely on the design of the fund, including …local authorities."
- "…will be cheap to administer, low in bureaucracy and targeted where it is needed most."

1.6 Government's Industrial Strategy, published in November 2017, later confirmed these ambitions and set out:

- A commitment to tackle the challenges of low productivity and inequality in the UK; and
- The importance of places in meeting these challenges.

1.7 Government have also been clear on their commitment to ensuring 'institutions can develop long term strategies for growth to help guide the UKSPF investments in places'. This was reinforced with the publication of the Local Enterprise Partnership (LEP) Review, published in July 2018, which made recommendations to strengthen LEPs in the context of their responsibility for economic growth funds, such as UKSPF. The North East LEP Board has discussed both the LEP Review and

UKSPF, and this paper is consistent with the outcomes of those discussions. It was announced as the LEP Review was published that the North East LEP would be in the first wave of LEP areas to develop a Local Industrial Strategy (LIS).

Preparations for the UKSPF Consultation

1.8 The North East Brexit Group has been preparing for the UKSPF consultation, including sharing intelligence from informal consultations and considering opportunities and issues on how the emerging funding programme could be developed.

1.9 As part of this preparation, research, supported by the North East LEP, Northumbria University and the North East England Chamber of Commerce, was carried out, which looked into rounds of European Funding over the past 20 years, how this fitted with other sources of growth funding, the types of activities supported, levels of funding, and the impact of the interventions. A summary of this research is included at Appendix A.

All Party Parliamentary Group on post-Brexit Funding

1.10 Earlier this year an All Party Parliamentary Group (APPG) on Post-Brexit Funding for Nations, Regions and Local Areas was established by a group of Westminster MPs. The aim of the group is to help shape plans for the UK funding that is planned to replace the EU funding for national, regional and local economic development that will not exist following Brexit.

1.11 The APPG Group launched an inquiry in the summer to assess the views of stakeholders in the parts of the UK that currently benefit substantially from EU funding. The APPG aims to produce a report in the autumn to influence the UK Government's proposals. Local Partners have responded to the inquiry and regionally the NE Brexit Group submitted a joint response (Appendix B). The response draws on the Northumbria University-led research and was informed by previous regional discussions, including by EDRAB.

Key Issues emerging

1.12 Given the importance of these funds to the North East a number of issues have arisen which will be important to reflect in the region's response:

- Scale: It is possible that the UKSPF will not only replace EU funds but also wider domestic local growth funds, such as Local Growth Fund. It is unclear what the overall available envelope is for the future fund but regional partners would argue that the scale must reflect at least the level of funding it is replacing, recognising the economic ambition the region has committed to in the SEP. The North East LEP are exploring methods of better substantiating the value of the outcomes and impacts and the levels of resource needed to deliver the region's plans through the LIS development work and Productivity Review.

- Competitive vs Allocation: The scale of the fund is an important issue, as is the 'share' of the fund which would be available for the North East to pursue its ambitions. EU funds have recently been one of the few funds allocated on a basis of economic need, being a key tool to reduce economic disparities across EU regions. National policy direction in recent years has driven much of the domestic local growth funding allocations through competitive processes. Whilst the North East has been successful in securing funds through these processes it is proposed that UKSPF be an allocated fund, calculated through a needs based analysis reflecting economic performance, which would have the primary aim of addressing disparities and rebalancing the economy.

- Scope: Beyond the high level objectives the precise scope of the fund is still to be clarified. There has been debate around whether the fund should prioritise growth and productivity or whether it should retain the social and environmental objectives of EU funds. In areas such as the north east the issue of skills and unemployment has a significant impact on productivity and therefore focusing on improving these issues will contribute to growth, and so should be seen as part of the same objective. This is clearly set out in the SEP. It is therefore proposed that the UKSPF be aligned to delivering the SEP.

1.13 Given the importance of these issues in how the fund will be allocated, focused and delivered they have been reflected in the proposed key messages below.

Key Message to inform UKSPF Consultation Response

1.14 In the expectation of a formal Government consultation later in the Autumn the Advisory Board is asked to consider the below key messages which will be used to inform a regional response to the Consultation.

1.15 The key messages are based on those agreed by the Advisory Board in October 2017, and amended to reflect the issues emerging from Government's 'soft' consultation, discussions and intelligence from regional partners, our collective experience of effectively managing local growth funding programmes and the findings from the Northumbria University Research.

1.16 The UKSPF should be developed:

1. To reduce inequalities between communities and promote sustainable and inclusive growth, including long term economic growth, improved employment and economic rebalancing.
2. To be a long-term, fully devolved funding programme, aligned to the regional strategic economic framework, currently the Strategic Economic Plan (SEP).
3. To be at least at a scale of the current EU structural fund programme and £490m notional allocation for the North East LEP area of wider domestic local economic development funds, such as Local Growth Fund (LGF), are to be 'rolled' into the fund, then the scale should at least reflect this level of resource,

considering the economic disparities that exist in the North East and the ambitious growth plans in place. The North East Growth Funding was £400m.

4. To be an allocated fund, based on economic need, and not distributed on a competitive basis, which could risk to further deepen economic disparities across the UK.
5. As a long-term, multi-year funding programme (minimum 7 years) which allows strategic management and long term, multi-phase programming.
6. To be introduced in 2020/2021 to ensure continuity in activity.
7. As a flexible fund which is less bureaucratic than current arrangements and facilitates investment across themes by; enabling mixed capital/revenue allocations; investment into innovative funding vehicles; flexibility to deliver high levels of leverage from private or other public funds.
8. As a flexible fund to enable it to be allocated in support of, and across the key programmes such as innovation, skills, business growth, regeneration, and employment support, to fit the needs of the area and objectives of the SEP.
9. As a flexible fund to support large scale, multi-year, infrastructure projects as well as smaller scale projects. The latter often being those activities to support the most vulnerable in society and those furthest from the labour market. Both types of project are important, particularly in an area like the North East, and the UKSPF must be able to respond to this.
10. Local Industrial Strategies should provide an agreed framework for national investment into regions and for co-investment with other national funds into regionally based projects in support of the UK Industrial Strategy programmes.

2. Proposals

2.1 The report is intended for information only.

3. Reasons for the Proposals

3.1 This section does not apply as the report is for information only.

4. Alternative Options Available

4.1 This section does not apply as the report is for information only.

5. Next Steps and Timetable for Implementation

5.1 This section does not apply as the report is for information only.

6. Potential Impact on Objectives

6.1 The UK Shared Prosperity Fund has the potential to be a valuable source of funding for economic growth and development activities in support of the Authority's objectives, particularly in delivering the SEP.

7. Financial and Other Resources Implications

7.1 While the subject of the report has significant financial implications for the region, there are no specific financial or other resource implications for the NECA budget arising directly from the recommendations of this report.

8. Legal Implications

8.1 There are no specific legal implications arising from this report.

9. Key Risks

9.1 If the UK Shared Prosperity Fund does not have the characteristics which would result in it being a valuable resource for the North East there would be a risk in less funding available to support of economic regeneration and development and a greater widening of the gap between regions in economic prosperity

10. Equality and Diversity

10.1 There are no specific equalities and diversity implications arising from this report. Although the UK Shared Prosperity Fund is proposed to support actions to close economic disparities which affect many of the North East's communities.

11. Crime and Disorder

11. There are no specific crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 There are no specific consultation / engagement implications arising from this report.

13. Other Impact of the Proposals

13.1 There will be no other impacts arising from this report.

14. Appendices

14.1 Appendix A – Background to the UKSPF and Key Issues: Summary of the Northumbria University led research.

14.2 Appendix B – NE Brexit Group's response to the APPG on Post-Brexit Funding

15. Background Papers

15.1 The background papers to this report are included as appendices.

16. Contact Officers

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17. Sign off

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- Monitoring Officer: ✓
- Chief Finance Officer: ✓

18. Glossary

18.1 UKSPF – UK Shared Prosperity Fund

LIS – Local Industrial Strategy

SEP – Strategic Economic Plan

Economic Development and Regeneration Advisory Board

Appendix A

Background to the UKSPF and key issues

In the Industrial Strategy White Paper the Government outlines its intention to create a new UK Shared Prosperity Fund.

The White paper comments on the intention of the fund as being "*to reduce inequalities between communities"….* delivering…. *"sustainable, inclusive growth"*, with the starting point being the purpose and process of the ESIF programme. It envisages deployment being set within the context of the national Industrial Strategy

This followed on from the commitment in the 2016 Conservative Party manifesto to:

> "*use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most."*

Informal consultation has indicated a series of key issues which are likely to be in scope:

Scope of the fund: As yet there is not clarity about the value of the fund or the totality of the funding which it is designed to replace. Were it to be a straight replacement for ESIF as a whole it would equate to €17.2 billion to the UK (including €5.8 billion of ERDF, €4.9 billion of ESF and €5.2 billion of EAFRD[1]) over the 7 year programme. Of this the North East LEP area was allocated €537.4 million with allocations across these three funds. This allocation was derived through a needs based formula.

Priority themes and policy alignment: The current programme is aligned to 10 EU wide objectives with the broad themes of 'smart and sustainable growth'. In its approach to designing this

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[1] There are a number of funds within the ESIF programme.

- European Regional Development Fund (ERDF), which promotes economic and social cohesion within the EU through the reduction of imbalances between regions or social groups;
- European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- Cohesion Fund, which supports member states with GDP that is less than 90% of the EU average (the UK does not qualify for this fund);
- European Maritime and Fisheries Fund (EMFF), the specific fund for the structural reforms of the fisheries sector; and
- European Agricultural Fund for Rural Development (EAFRD), which contributes to the structural reform of the agricultural sector and to the development of rural areas

programme, the UK Government defined priorities within these objective areas and local European Strategies were developed through LEP's to interpret these priorities locally. In the case of the North East LEP, the EU strategy was strongly aligned with the Strategic Economic Plan prepared and approved in 2014.

The expectation is that the Industrial Strategy will provide the high level framework for the UKSPF, although aims are also being articulated around inclusive and sustainable growth which reduces inequalities, drawing from the Conservative manifesto. There has been significant debate about whether, in the context of Brexit, the Fund should be prioritised towards growth and productivity or whether it should continue to retain social and environmental objectives.

Project length and evaluation: Historically, ESIF programme timetables have been set over successive 7 year programming periods aligned to the EU budget timelines. Within these programmes, different project timetables have been adopted. Previous programmes have offered projects which have worked over up to 7 years, whereas current project timetables tend to be offered over 3 years.

National vs regional allocations: ESIF funding has traditionally been focused through sub-national bodies operating at or within NUTS 2 and 3 geographies (region and sub-region) with alignment to regional priority programmes. For the 2014-2020 programme the UK Government defined a national approach with regional allocations. Leadership and administration moved from RDA's to the MHCLG and DWP for ERDF and ESF respectively, with DEFRA leading EAFRD.

Administration: Administrative arrangements have varied over the programme periods. Current informal discussion focuses on a number of issues related to these arrangements:

- lead bodies – these have moved from national to regional and back again with the current programme a national one, with regional policy alignment. A part of the context for the LEP Review process has been about ensuring that LEP's are fit for purpose as potential recipients, or intermediate bodies for UK SPF delivery. Conversely, the Select Committee for DWP has recently recommended that the UKSPF should include a 'people' programme and that this should be separated out from the wider programme and delivered directly through DWP mechanisms
- policy alignment – this has tended to be defined regionally aligned with national and EU priority objectives
- capacity – the facility for resources to be allocated locally for programme administration and support, and for technical support to bidders
- non-regional programmes – there is discussion about top-slicing the regional level allocations for a number of reasons; to support national priority projects, as a performance incentive and to support co-ordination at different scales – eg Northern Powerhouse
- performance – an approach to outputs and outcomes needs to be defined to different objectives
- Investment and co-investment - approaches to co-investment (match-funding), the scope to use funds to develop tools such as financial instruments (such as Jeremie) and debate about

rules for procurement with issues ranging from simplicity through to tolerance of risk to support innovation.

In terms of timing, current intention appears to envisage this round of informal consultation, to be followed by a formal consultation in the Autumn leading to an announcement of a White Paper making specific proposals to co-incide with the Spring Statement.

Past regional investment programmes in the North East

The North East has benefitted from regional policy and support for economic development since the 1930s. Initially a response to the decline of shipbuilding and other industries, this intensified through the restructuring of the 1970's and 1980's which saw a focus on encouraging job creation through new foreign direct investment such as Nissan and other Asian manufacturing plants, as well as a start on the regeneration of sites left derelict after plant closures. Grants for new investments were combined with Enterprise Zones.

Support from the EU regional and structural funds was received since their introduction in the 1970s, initially via transfers of funding for major infrastructure spending by the public sector, since 1989 a series of multiannual regionally focused programmes have provided funding to a variety of public, private and non-profit organisations on a matched funding basis. Programming has been on 7 years cycles and can be broadly summarised as follows:

Period	Programmes	Approach and priorities
1989-93	Two integrated development operational programmes (IDOPs) for Tyne and Wear/SE Northumberland and Durham/Cleveland. Both expressed a similar three-part strategy focused on enterprise/underlying competitiveness, sectoral development and spatial development.	Whilst a significant proportion of the funding was directed towards local authorities and central government agencies, these programmes saw the emergence of funding for other non-profit agencies, universities and colleges. The main focus remained infrastructure, but they also saw the beginnings of sectoral policy with both programmes funding tourism development. In addition to the two IDOPs, the region received funding from community initiatives which experimented with new kinds of intervention
1994-99	A single Objective 2 programme for the North East region was	The programme had a strong focus on growth opportunities with priorities being

	introduced with two tranches, 1994-96 and 1997-99, with broadly similar structures. There was a shift towards business support measures and away from infrastructure	linked to particular sectors or clusters (supply chains, knowledge-based industries, tourism and culture). A second key feature of these programmes was the introduction of a priority for community economic development which was targeted on the poorest wards within the region. The growing emphasis on sectors, innovation and enterprise as well as the community saw a wide range of new participating organisations.
2000-06	The overwhelming emphasis was job creation. The programme was developed just before the new Regional Economic Strategy of the Regional Development Agency, One North East, and the two strategies were intimately linked. Over time, the programmes became integrated into a single regional programme and also incorporated the rural areas formerly assisted through the separate Objective 5b programme.	Almost all of the region was eligible with the logic of the intervention for this period largely follows that of the previous period, except for a reduced emphasis on inward investment and a greater focus on SMEs and innovation
2007-13	This programme was articulated as a Regional Competitiveness and Employment (RCE) programme, covering the whole region but with reduced funding coming to the region as a consequence of rebalancing across the EU post enlargement in 2004 which brought less well-developed regions into the EU for the first time.	The programme was strongly embedded in the RDA's regional strategy and was articulated at a time of growth and closing regional performance gaps. With the anticipation of ongoing funding for the RDA, the structural funds were focused entirely on innovation and enterprise, with also a drive for fewer larger projects. It was seen as a point of continuity from previous programmes moving from basic infrastructure towards the building of entrepreneurship and clustering in the region.
2014-20.	In a post-RDA environment a very different approach was taken in the UK, with single operational	A notional allocation of funds to individual LEP areas was made in accordance with their assisted area status (transition/more

	programmes for England, Scotland, Wales and Northern Ireland. So, the North East became part of an England programme. The range of priority axes increased again with 9 axes in England for ERDF including technical assistance and three for the ESF, with ERDF and ESF being disentangled after more integrated programmes in previous rounds	developed) less the allocation of ESF to national initiatives. The fund is managed nationally by the ESIF National Programme Board, which comprises the Managing Authorities (Government Departments) and wider socio-economic partners. At LEP area level local investment decisions are informed by the ESIF Local Sub-Committee.

Throughout these cycles, alignment of programmes to national and local priorities was achieved through the deployment of the principle of co-investment or 'match-funding', with resources expected to be leveraged from other public or private resources. For example, during the 1990's EU funding was aligned with the restructuring and regeneration efforts of the Development Corporations established in 1987. By the early 1990s a number of major developments in Tyne & Wear were underway on both river working alongside and leveraged against urban regeneration resources such as the Urban Programme, Estate Action, City Grant, and City Challenge

This has proven challenging as a result of reductions in public funding at local and regional level and low levels of available private finance. Some of the more recent programmes have therefore been constructed to secure national co-investment, for example through 'opt-ins'.

Resource levels

ESIF is the EU's key instrument for reducing disparities in the level of development of its various regions and for helping less developed regions to catch up. Delivery priorities and allocation levels are derived from analysis produced in 'Cohesion' reports looking across EU member states as a whole, with the aim to foster sustainable growth and even out disparities in competitiveness and outcomes across the EU territory as a whole.

Different regions have therefore been allocated different levels of resources depending on their identified development levels and needs based on this EU analysis targeted at the regional level, with larger allocations directed to 'less developed' regions, and lesser allocations to 'transition' and 'more' developed' regions. Priorities have been identified through regional programmes developed to respond flexibly to EU level objectives agreed by the Commission and Member States through the European Council of Ministers.

In the three most recent programmes, the North East has received the following allocations (see annex 1 for more detail)

Period	Allocation details[2]
2000-2006	Initially allocated €717 million consisting of €581 million ERDF and €135.6 million ESF, with an additional €29.6 million of ERDF added from the Performance Reserve in 2004
2007-2013	A significantly smaller programme as the UK saw a reduced share of the programmes with a total allocation of €361m.
2014-2020	North East LEP area was given the national allocation of €537.4 million in total. Relative to other city based LEPs this was a high level of funding at €277.8 per head of population, attributable to Durham being a part of a transitional area. This compares with €131.07 million for Greater Birmingham, €131.9 million for Leeds and €154.3 million for Greater Manchester.

Viewed in terms of a proportion of regional GDP, the expenditure on the regional programmes (including matched funding) peaked at levels of just under 1% of regional GDP, falling in the late 2000s to a typical annual level of 0.2% of regional GDP. Precise annual figures vary as a result of the structure of investment programmes from year to year, and there is usually a bulk of spend in the later period of a programme.

Impact and leverage

In terms of impact and leverage, t**he late 1990s** saw growth nationally but slower performance in the North East in terms of employment. Foreign direct investment continued to be a regional strength and new industries had started to emerge and the Structural Funds programmes for the period were comprehensive both in scale and in coverage of policy areas. They ran alongside the final phase of the development corporations and City Challenge, the new Single Regeneration Budget and the start of New Deal for Communities. The period ended with the creation of the RDAs, in the case of the North East taking on the roles of the previous Northern Development Company.

The early 2000s were dominated by the work of the RDA which invested into the priorities set out in the first Regional Economic Strategy just after the completion of the single programming document for the 2000-06 Structural Funds programme. The RES and the Structural Funds were tightly connected with considerable leverage between the two.
National funding for the region was increasingly focused through the Single Programme of ONE, with additional funding from the New Deal for Communities and Neighbourhood Renewal Fund.

Overall the region performed well in this period, starting to benefit from previous investment in regeneration and seeing some improvement in GDP and GVA with some convergence with UK

[2] For the first two periods this table reports an allocation to the North East region. For 2014-2020 the allocation mentioned is for the LEP area excluding Tees Valley

averages, growth in employment and in R&D expenditure. The latter was significant given the priority placed by the RDA on support for innovation and enterprise, seeking to reduce the region's dependence on inward investment.

The 2007-13 period was impacted by the global financial crisis leading to recession and the RDA being abolished followed by the establishment of the LEPs. At the beginning of the period the ERDF programme was designed to complement the Single Programme in ONE with a focus on innovation and enterprise to sit alongside regeneration projects funded directly by the RDA. Separate national funding was coming to an end, so the RDA and European funds were the main sources of funds for the region. Some selective assistance continued in the form of Grants for Business Investment (GBI).

Economically, the region had been optimistic at the beginning of the period as the direction of travel was positive, enterprise was improving, and employment was increasing. The recession hit hard in some areas although some of the core areas remained resilient, including in comparison with UK averages and bounced back quickly. Whilst public employment was adversely affected by the subsequent austerity measures, private sector employment started to grow again towards the end of the period. In 2011 the core budgets for regeneration disappeared with the demise of the RDA, gradually and partially replaced by the Regional Growth Fund and the Growing Places Fund.

Since 2014, the LEPs have been central both to national funding for economic development through the Local Growth Fund and Growth Deals as well as the creating the policy framework for the implementation of the European Structural and Investment Funds. The ESIF programme was essentially designed as an all-England programme with notional allocations of funds to each LEP area and some local management, but marked a step away from overall programme design being driven by local needs.

Economically the region has seen employment growth since 2014 and with some evidence of convergence with the rest of the country on other indicators. In enterprise and innovation the region continues to lag behind the rest of the country, albeit with some signs of improvement in the main urban centres.

Analysis of overall benefits in terms of GDP or GVA derived from the specific funds is difficult because of the scale of programmes and the diversity of projects and the impact of wider economic performance. However, highlights can be drawn out to illustrate the kind of outputs and outcomes achieved in the North East:

- A key priority across the programmes has been job creation with 2000-06 having the best out-turn at 48,000 new jobs and 56,000 jobs safeguarded attributed to the projects delivered in the programme

- Across each of the programmes, there are estimates of 20-30,000 businesses assisted, although the nature of the assistance may vary and some of these interventions may be repeats directed more than once at an individual business

- Some of the most valued regional interventions delivered through the RDA and LEP have been underpinned by ERDF or ESF. Examples would include the Jeremie 1 access to finance scheme developed in 2007-13 programme which was a highly innovate access to finance project and leveraged EIB resources. This has been replaced with the North East fund in the current programme. Jeremie reported clear impact on business starts and expansions.

- Business accommodation and infrastructure is visible in terms of outputs, although measurement mechanisms may not have captured the full value of investments as projects were not completed until after programmes ended. Figures for jobs created subsequently were not audited.

- Some regionally significant projects such as cultural facilities benefited from modest inputs of ERDF and have been important for regional image, quality of life, tourism and retention of talent.

- Support for innovation through a range of technology centres has been important and crucial for the development of the region's two catapult centres.

In its report to the Brexit Group[3], Northumbria University highlights the following conclusions about the benefits, challenges, lessons and added value of EU funding in the North East.

Impact area	Comments
Economic outcomes and leverage	It would be an enormous, and probably now impossible task to sum all of the effects across the programmes, subtract overlaps and deadweight, and assign a figure to the cumulative effect on regional GDP. Even then the effect might only be 1 or 2 per cent over what would have happened anyway, although the effect is probably considerably more than the cost of investment due to the leverage over other funds as well. Leverage has been important with all EU funding being matched by UK sources of funds, and in some case the EU contribution being relatively small, especially for infrastructure, cultural facilities etc. The case of projects such as the Sage Music Centre shows the degree of leverage as ERDF was used alongside local authority funds, Lottery Funding, Arts Council and private contributions. For many of the business support

[3] Charles D and Liddle J, (2018) Summary report on funding for regional development in the North East, Northumbria University, (Unpublished)

	activities though matched funding has been difficult to find and only just reaches the 50% required.
Co-investment	The requirement for matched funding has ensured that projects had some degree of local commitment and were able to leverage funding from other sources, thereby discouraging projects that could not obtain funding from other sources. This is become challenging as sources of local investment have declined.
Programming	The nature of programming, and the identification of needs and allocation of funding between priority areas, has enabled the region to identify a strategy for development and ensure that resources were allocated to meet both pressing and long-term structural problems. One of the advantages of the Structural Funds has been the certainty of a guaranteed level of funding for the region over a 7-year period, with the level of funding reflecting the degree of need in terms of overall regional performance. Regional development requires a long-term perspective with many projects either being large infrastructure developments that evolve over time, or revenue projects that need to run for several years. The current Structural Funds have facilitated this, although even with 7 year programmes some infrastructure projects develop over a longer period than a single programme. The combination of a regional plan based on evidence of need and a long-term funding envelope are among the most important lessons of the funds and would be highly desirable to maintain.
Beneficiaries	The European Funds have in principle been open to a wide range of beneficiaries to apply for support, although currently the limitations on size of project have squeezed out some the non-profit sector, as has some of the bureaucratic restrictions and perceptions of risk. Ideally the ability of a diverse set of partners to bid for funding would be desirable as this enables all elements of an entrepreneurial or innovative ecosystem to participate, and encourages a systemic approach to regional development rather than the development of one-size fits all programmes
Project Scale	In the latest period the requirement for a minimum size of project has limited the kind of projects that could be funded and led to a more restricted set of lead beneficiaries. Scale of project Different programmes over time have permitted a variety of sizes of project, with programmes in the late 90s and early 2000s giving opportunities for community organisations to bid for relatively small

	projects. More recently the emphasis has been on fewer larger projects to be more strategic, but community projects have lost out, and are only possible now within umbrella projects led by local authorities. A lesson from this might be to reserve a proportion of the Shared Prosperity Fund for community projects and smaller scale projects.
Funding flexibility	The ERDF has operated with a mix of capital and revenue funding which has been beneficial in permitting a diversity of projects, including complementary projects. Some continued flexibility of this funding in future funding schemes would be beneficial. Some concern has been expressed about the current England programme as the balance of funding is determined nationally instead of regionally which may not be appropriate for every region. Flexibility at a regional level would be needed so that regions can determine their specific needs and the balance between forms of funding and priorities. A particular feature of the European funds has been the combination of ERDF and ESF, which have at times been closely integrated and at other times been treated quite separately. At certain points in the 1990s for example both ERDF and ESF were linked to sectoral strategies for example so ESF training programmes ran in buildings constructed using ERDF or alongside business support activities with ERDF funding, This sense of potential integration has become reduced over time and in the current programme there is no real connection between the two funds which is a lost opportunity.
Bureaucracy	A negative aspect of the current programme is a perception of increased complexity of application process, due to the combination of EU and national regulations. There are increased levels of scrutiny and additional time needed for the application process. One comment was over the two-stage process and that previously at the second stage there was a less adversarial process with greater advice and support from the secretariat, whereas now the second stage remained highly competitive. Another comment was made about approvers from other regions, particularly from the South East who had no real understanding of local needs or local realities in projects. It is important that the approval process takes account of local expertise in terms of what is possible in local projects.
Evaluation	There has been a strong requirement for evaluation throughout the European programmes including ex ante, interim and final evaluations,

	and these have had some effect on the management and design of programmes. The recent introduction of results-based logic models in the design and evaluation of programmes ensured a greater focus on the effects of policy rather than just on meeting deliverables.

They also highlight the role that the Regional Policy Directorate of the European Commission has played in sharing practice amongst participants in ESIF programmes which has helped with the development and sharing of ideas, concepts and approaches.

Annex 1: North East ERDF programme allocations 1989-2013 (meuro or mecu unadjusted values)

Programme	Period	€ ERDF	€ ESF	€ Total
1989-1993				
Durham/Cleveland IDOP I	1989-91	49.7	19.3	69
Durham/Cleveland IDOP II	1992-93	c60	c25	c85
TAWSEN IDOP	1989-93	151.5	43.4	193.9
Tyne & Wear RENAVAL	1990-93	c34	0	c34
Middlesbrough & Langbaurgh RENAVAL	1990-93	6	0	6
TAWSEN RECHAR	1992-93	c16	c3	c19
Durham RECHAR	1992-93	c16	c3	c19
1994-99				
NE England Objective 2 94-96	1994-96	231	77	310
NE England Objective 2 97-99	1997-99	282	96	378
Northern Uplands Objective 5B (overlaps with 2 other regions)	1994-99	67	16.2	110.59[4]
NE England RECHAR II	1994-99	20	4	24
UK RESIDER II (NE share)	1994-99	6	1	15
2000-2006				
NE England Objective 2000-06	2000-06	611	136	747
URBAN II	2000-06	12	0	12
2007-2013				
NE England ERDF Competitiveness Programme	2007-13	361	0	361

[4] Includes 27.39mecu of EAGGF

2014-2020				
NE England LEP area	2013-20			537

Notes:
TAWSEN = Tyne and Wear / South East Northumberland
IDOP = Integrated Development Operations Programmes
RENAVAL = CI to combat decline of shipbuilding areas
RECHAR = CI to combat decline of coalmining areas
In addition to the programmes shown in the table, the North East received support from several Community Initiatives that were managed at national (England) level including STRIDE (science and technology for regional development), KONVER (decline of defence industries), RETEX (textile industries), PESCA (fishing industry), RESIDER (steel industry) and SME (support for diversification of SMEs). It is estimated, conservatively, that this brought a further **€**20m of ERDF to the region.

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APPG on Post-Brexit Funding for Nations, Regions and Local Areas

North East Brexit Group Response

September 2018

Introduction

The North East Brexit group brings together key networks representing businesses, education, trade unions, local authorities and voluntary organisations. Its purpose is to monitor economic evidence and the views, experiences and response of business, education and other organisations in the North East Local Partnership area as the UK moves through the Brexit process. In this work our shared aims are to:

- understand potential opportunities and impact areas in the context of the delivery of the North East Strategic Plan
- identify and address relevant support needs of businesses and employees, and interventions to support the regional economy
- ensure that national policy reflects an understanding of the economic structure, ambitions and conditions of the North East.

We welcome the opportunity to submit a joint response to the APPG on Post Brexit Funding Call for Evidence. This paper reflects an agreed position from the North East organisations or the North East teams from national bodies[1]. Individual signatories to this paper may also submit evidence through their own sectoral networks or as membership organisations.

This response has been informed by both the policies within the NE Strategic Economic Plan (SEP) and our delivery experience. The SEP is the regionally agreed economic plan, which provides the current policy framework for European Structural Investment Funds, Local Growth Funding and other investments, and leverages public and private funds. The SEP draws from a comprehensive evidence base about:

- The industrial strengths and opportunities, innovation and wider business growth opportunities within the region
- Infrastructure needs and priorities
- The position with reference to human capital, in particular the size, scope and trends within our population and labour force and the current and future skills position required to fulfil our economic aims.

Overall budget

What would be an appropriate annual budget for the new UK Shared Prosperity Fund?

The budget for the UK SPF should be set in context of the total quantum of funding for regional development. As noted by the APPG, the EU “is currently the biggest single financial contributor to regional and local economic development across the UK”. Nevertheless, we question the premise that a domestic UK SPF ‘does not require new money,’ irrespective of the funding that will revert to the UK following EU exit. We would welcome the opportunity to explore expanding funding for regional and local economic development following the UK’s departure from the EU. Moreover, the North East LEP has currently been awarded a £270m Growth Deal and consideration needs to be given if other domestic funding such as Local Growth Fund, Regional Growth and skills funding is rolled into the new UK SPF.

The structural causes of unequal growth and prosperity across the UK are significant, while the level of public investment to address it – even with ESIF – has been inadequate. Expenditure on regional programmes, including matched funding, peaked at levels of just under 1% GDP, but has fallen latterly to a typical level of 0.2% GDP[2]. Invariably, these funding constraints have limited scope to dramatically reduce spatial and socio-economic disparities. Indeed, recently we are witnessing a period of divergence, rather than convergence, in productivity growth between more and less prosperous areas across the country.

Britain has one of the highest levels of regional inequality of any major European nation. GDP per head in London is £46,000, almost 2.5 times higher than the North East figure of £19,000[3]. The Chief Economist at the Bank of England has said that “regional inequality is right up there as among the most important issues that we face today as a country.” We consider this a missed opportunity and that UK SPF is an opportunity to ‘rebalance the economy’ as set in the Industrial Strategy[4].

Current national expenditure on regional and local economic development reinforces these disparities. Rather than stimulate growth by targeting investment where it is needed, national spending tends to be concentrated in areas that already have a strong economic advantage. IPPR estimate that the North has missed out on £63 billion investment due to chronic underfunding of its infrastructure needs. Over the last decade, an annual average of £708 was spent on transport per person in the capital, while £289 was spent for each person in the north of England. The analysis

[1] The Brexit Group is an informal group including participants from the following; CBI North East, North East Chamber of Commerce, North East Federation of Small Businesses, Entrepreneurs Forum, North East EEF, Northern TUC, Association of Colleges, North East Local Enterprise Partnership, North East Combined Authority.
[2] Northumbria University (2018) Evidence Report on the role of EU funding in the North East. Not available in the public domain
[3] Ahmed, K, Britain’s inequality map – stark and growing, BBC, 2 December 2016 http://www.bbc.co.uk/news/business-38186047 Accessed: 03.01.18
[4] A. Haldane, ‘One car, two car, red car, blue car’, Speech given at Materials Processing Institute Redcar, 2 December 2016, Bank of England, London 2016

demonstrates how levels of public investment support growth in prosperous areas; this opportunity should be afforded to all regions of the UK rather than concentrated disproportionately in London and the South East[5].

In addition, funding for economic development has been disproportionately cut in recent years as Government reduced resources in several key areas vital to generating growth, exemplified by the removal of financial support for business growth activity and diminished capacity to proactively seek inward investment. This has not been replaced at regional or local level. Between 2010/11 and 2014/15 local resources for economic development were reduced by almost 49% nationally, whilst in the North East this amounted to 62%[6].

If the UK SPF is to enhance the prosperity of all places and communities in the UK, it needs to be substantial and complement a funding package that acknowledges regional development as a spending priority, irrespective of the multitudinous calls on money set to be repatriated from the EU.

The amount of ESIF funding passed to regions amounts to £1 billion per year for the whole of the UK. The North East has long been a beneficiary of these funds and the current ESIF programme brings over €560 million to the region for investment in R&D and innovation, infrastructure, economic assets, business support, employment and skills over seven years. Throughout the 2014-20 programme, these resources will support over 13,500 businesses and 160,000 people, considerably enhancing the scale of public intervention and pioneering new approaches to existing Government programmes. A replacement for EU funds is therefore of critical importance to us meeting our aspirations for our region, its communities and businesses. The UK SPF will be essential if the North East is to achieve its ambitious economic aims to create 100,000 more and better jobs by 2024, as set out in the SEP.

Should there be a multi-annual financial allocation, and if so why and for how long?

Multi-annual financial allocations (over at least a 7-year period) aid strategic decision making, breed confidence and stability, encourage private sector investment, promote job creation and opportunities for growth. Long-term, sustained funding supports sub-national economic development by explicitly tackling inter-regional and intra-regional disparities that take time to diminish. Regional development requires a long-term perspective; many projects are major infrastructure schemes and revenue programmes that need to be built or run over several years. Even under the current system, most interventions are delivered over at least a three-year time frame. It is therefore important that UKSPF is a strategic devolved multi-annual programme that enables projects of strategic and regional significance to be funded. Annual funding allocations would limit strategic planning and longer-term investments that enable us to determine their effectiveness, allowing time for virement so that successful programmes can be scaled up, opportunities identified, and gaps addressed.

Synchronising funding cycles across government is challenging and priorities are subject to change given national and sub-national spending reviews. Yet, HMT has established precedents for allocating guaranteed funding beyond fixed-term Parliaments, notably on defence and transport. The consistent, availability of Structural Funds over a longer-time horizon has partially helped to counteract cyclical and fiscal fluctuations in central government spending. Regional and local actors have a great deal of experience aligning different national, regional and local funds to develop and deliver the SEP, as the current agreed regional framework for economic development. The LEP Review demonstrated that LEPs are well positioned to administer and manage the Fund, building on the successful management of Local Growth Funding.

While we fully appreciate the imperative to design fit for purpose successor arrangements, we are significantly concerned about the implications of not having a fund designed and fully in place by March 2019 that can be utilised in 2020/21. The economic stimulus provided by continuous EU, regional and local investments could be lost and the impact of this cliff edge effect on the economy and labour market should not be underestimated.

Would it be appropriate to roll in other budget lines (e.g. the Local Growth Fund in England) into the UK Shared Prosperity Fund?

The value of the individual funding streams integrated in a Single Pot must be transparent and reflected in the overall quantum of the UK SPF. Furthermore, the aim and function of the fund should be clearly specified. There are benefits to establishing a fund that brings together resources for economic growth; creating a flexible fund which avoids a restrictive siloed approach. In the North East, therefore UK SPF would fund activities across innovation, skills, business support, economic and social infrastructure, transport and employment support to meet the distinctive needs, assets and opportunities to the region.

Restrictions on eligibility is a recurrent frustration with Structural Funds leading to lots of different funding streams and 'initiative-itis'. It makes sense to adopt holistic approaches - widening eligibility criteria, eradicating artificial constraints such as age cohorts and project types - and enabling places to make decisions across different types of intervention.

[5] https://www.theguardian.com/politics/2018/aug/01/transport-spending-gap-london-north-of-england-ippr Accessed: 23.08.18
[6] Association of North East Councils response to the Fairer Funding Review for Local Government

Allocation across the country

How should the UK Shared Prosperity Fund be divided up between the four nations of the UK?

UK SPF must be targeted to reflect local economic conditions, recognising the latent potential and opportunities for growth in many areas and not allocated on a competitive basis or according to some other mechanism e.g. the Barnett Formula. Individual areas should then be free to allocate funding from within their allocations to projects at a pan-regional or multi-country basis.

Would rolling forward the existing shares going to England, Scotland, Wales and Northern Ireland be a sensible way forward?

Given the limited time available to implement a UK SPF, it would be helpful if Government were to guarantee funding continuity and retain existing spending shares across both countries and regions. This would minimise disruption and maintain investment in local economies during a transitional period. In parallel, an analysis should be undertaken to ensure that future UK SPF allocations reflect local economic conditions, opportunities for economic growth and rebalance the economy.

Should the allocations within the devolved nations be an entirely devolved matter?

Allocations to devolved nations should be a matter for the UK Government, but how money is distributed within devolved nations is not an issue for the North East. But our view is that policy and project selection decisions relating to funding allocated to NE England should be fully devolved.

In England, should the funding to local areas be allocated by an appropriate formula, and if so what are the best statistical measures?

An allocation of needs-based funding like the NUTs system adopted by the EU has worked effectively. Allocations must be calculated using a fair and transparent formula with consideration given to deprivation, unemployment levels, productivity differentials, sectoral imbalances and the challenges likely to arise from Brexit.

Is there any role for competitive bidding between areas for funding?

We do not believe that the UK SPF should include significant levels of competitive bidding. In the North East, we have been a longstanding beneficiary of ESIF funding alongside being successful in competitions such as the Local Growth Fund, which has delivered major strategic projects across the region. Although the NE has successfully delivered EU funding, and delivered amongst the strongest outcomes in the country, we have a concern that moving to an alternative model of competitive bidding would exacerbate existing regional disparities, resulting in perverse outcomes from competitive bidding processes – which may not allocate resources where they can have biggest overall impact on rebalancing objectives. .

We are particularly concerned by recent guidance from Government to use Land Value Uplift to make investment decisions and allocate funding. Given the varying nature of Land Values across the country, this approach disadvantages those areas with lower land values, or with larger ratio between different land uses, which would affect parts of the North East and North compared to Greater South East. If competing nationally for funds, the Land Value Uplift metric creates an unfair playing field – contradicting Government key policies around re-balancing the economy. The industrial strategy demonstrates Government's commitment to ensuring that "every part of our country realises its full potential" through the introduction of new policies to improve skills, connectivity and infrastructure, innovation for example. There is growing evidence that the UK is now producing diseconomies in certain areas, manifested by acute housing shortages, congestion and air pollution in the capital contrasted with slower rates of growth and a higher prevalence of deprivation elsewhere. More affluent areas may be building on a stronger existing economic base, and interventions may appear to generate stronger VFM, although it is less clear if this is the case if diseconomies and deadweight are properly taken into account.

It is much better to award long-term resource settlements and encourage areas to deliver the best outcomes from their respective allocations. One exception is that if there is a drive to stimulate certain types of economic development based on competitive strengths in innovation or smart specialisation, it may be appropriate to introduce a bidding process. However, this should be distinct from the needs-based exercise used to allocate most of the fund. The UK SPF should also be sufficiently flexible to join up these areas of activity across sectors and within places.

In England, should sub-regions (e.g. LEP areas, combined authorities) be the basis for financial allocations, as with EU funding at present?

Yes. The North East SEP as a regionally agreed economic plan should provide the framework for national investment in the regions and devolve responsibility to sub-national structures, such as LEPs, which have already developed significant delivery expertise and an ability to deliver much more quickly than national bodies. Furthermore, the LEP Review positioned LEP areas to be the geography to which UK SPF is allocated and therefore, the framework for managing and delivering domestic funds as LGF could be replicated for UK SPF. Devolution implies an element of regional differentiation to ensure investment can be tailored to the socio-economic geography, diverse needs and areas of opportunities for business and communities throughout the UK. We have considerable experience of establishing systems and procedures to manage and account for funds through the framework outlined in the SEP. Our approach is informed by a multi-sectoral partnership that has guided us through past EU funding programmes and continues to evolve to track changes in national government policy.

Activities to be supported

As with present-day EU funding, should economic development and convergence remain the primary objectives of the new Fund?

The UK SPF should deliver the principles set out in the industrial strategy to reduce inequalities between communities and places by promoting sustainable and inclusive growth. However, we consider there to be weaknesses in solely prioritising productivity measures. Tackling spatial disparities in economic performance, and targeting investment on economic opportunities and potential which promotes economic rebalancing should be retained as an explicit objective in UK policy making.

Investing in services that support disadvantaged and hard-to-reach communities neglected by mainstream state provision is also vitally important. In doing so, it will help tackle the UK's current skills gaps and productivity challenges and deliver a thriving labour market in line with the government's Industrial Strategy. To deliver these objectives, a new initiative should be led through partnerships that develop community-driven solutions which build social cohesion and opportunities for people on the margins of society. This vision should be part of a long-term investment strategy, which can deliver significant long-term savings by helping to tackle some of the UK's most entrenched inequalities.

Are there activities beyond the scope of present-day EU funding that should be supported?

Partners should determine the priorities they wish to fund in line with their SEP and Local Industrial Strategy that identifies regional and local needs and opportunities for economic growth.

A key opportunity with a domestic fund is the freedom to finance activities ineligible for EU funding, such as certain business investments and infrastructure improvements. There may be a need for different investment priorities resulting from changes in the UK's international relationships i.e. FDI and business support.

The UK SPF should integrate investment in infrastructure, business support, employment and skills, through a mix of capital and revenue funded interventions and empower partners to join up these activities within a place. Without this focus, regional disparities will continue to widen and further alienate communities disillusioned with the status quo.

Government should review EU plans for the next round of structural funding to explore objectives or activities that are also relevant to the UK. There is value in sharing experience and learning across the EU, and therefore it is important that Government facilitates strong learning and collaboration with EU regions and networks post Brexit.

Current limitations on size of project, bureaucratic restrictions and perceptions of risk have squeezed out some of the non-profit sector and smaller, community projects. Places must have the flexibility to fund large scale, multi-year projects as well as smaller scale initiatives, which often support the most vulnerable in society and those furthest from the labour market. Both types of project are important and the UKSPF should be responsive to this.

Should there be guarantees that specific activities supported at present by EU funding (e.g. ESF support for training) will continue to receive funding?

It is important to have an evidence based approach to regional policy, ensuring that regions focus on the right interventions based on clarity about what works for businesses and the community and are able to deliver to high level of quality. Regions should be able to select their priorities to address their needs and ambitions based on what is set out in the SEP.

Regardless, a stable funding environment is vital to preserve the infrastructure, networks and capacity needed to continue delivering regeneration. A significant proportion of European funding has financed support for businesses and people alongside physical regeneration and this mix should continue.

Bringing about inclusive growth and raising productivity will require increased investment in skills development as the rapid pace of technological change and globalisation intensifies competition. The new funds must:

- ensure places can support people who are displaced or excluded from the labour market into employment
- facilitate labour market retention and progression by upskilling
- provide the skills base to take advantage of emerging economic opportunities from investment in innovation, infrastructure and development

Achieving an appropriate balance across all these funding priorities is critical, recognising that labour market conditions vary across the country. Delivering improved labour market outcomes in relation to employment rates, skills levels and wages relies on local knowledge of key sectors that are sustainable, offer good quality employment, and the support people need to access jobs in these industries. Building sustainable infrastructure is an emerging requirement for places to remain competitive while decarbonising their economy. Opportunities to advance this agenda remain largely untapped due to complexities and operational constraints of existing programmes.

There should be a smooth transition to the UK SPF to ensure that activities currently funded through EU or domestic funds continue to support strategic economic plans.

Management

As a UK fund, should the UK government set the broad guidelines for the priorities to be supported by the Shared Prosperity Fund?

The UK SPF should facilitate local and regional priority setting within an overarching strategic framework, enabling areas to realise national objectives in a way that is sensitive to the opportunities and challenges of shaping growth and prosperity in different places. Successive programmes have drawn significantly on local understanding of the priorities, assets and needs of communities within a common strategic economic framework to inform investment decisions, for example the North East LGF funds major projects for the region. Therefore local partners with a sound grasp of economic conditions, such as LEPs should be trusted to use the funds to deliver these ambitions with minimal guidance from Government.

Partnerships between the public, private and social partners such as trade unions and the voluntary sector must be retained in future governance arrangements and stakeholders should be involved in all aspects of the design, management and evaluation of programmes. Local stakeholder knowledge has allowed sound decision making but also steered changes and adjusted programmes to take account of emerging local challenges as they arise. Collaboration has beneficial impacts beyond the initial funding period and building institutional capacity should be recognised as an outcome, alongside quantifiable outputs and results.

Joint working encourages sectors to coalesce around a shared vision for an area, which in turn levers the necessary buy-in to agree priorities, align resources and scale up activity focused on inclusive growth and improved productivity. In addition to shaping the programme at a strategic level, an inclusive and participative decision-making process ensures partners focus institutional capacity on working towards common objectives and take collective ownership for delivering better outcomes to maximise the impact of intervention.

A long-term fully devolved funding programme, aligned to the Strategic Economic Plan and emerging local industrial strategies, will allow effective strategic management and long-term investment decisions to be made. The LEP Review positioned LEPs as the mechanism for the allocation, administration and management of the Fund, which will enable significant capital projects and revenue programmes with medium-term outcomes to be developed. Reserves or underspends should be managed in a way that incentivises expansion of effective programmes and the development of tools that address specific needs e.g. JEREMIE. The ability to combine and manage funds at local programme level is essential to deliver more cohesive, integrated and impactful interventions. Despite attempts to combine EU funding streams, the different accounting systems and sets of rules constrained the development of joint programmes. The UK SPF should include people, business and place driven funding and avoid a silo approach controlled by different government departments.

Government should set broad guidelines; regardless of Brexit, the UK will still be bound by a form of State Aid rules (whether convergent with EU or WTO rules) and this is a matter for the centre to resolve. The criteria for the UK SPF will therefore need to comply with this legal framework.

How should the impact and desired outcomes of the Fund be defined and measured?

Inevitably, policy makers will want to understand the impact of Shared Prosperity Fund on metrics like unemployment, jobs, GVA and wages. But, while these indicators are tangible, they do not capture full added value in relation to partnership working, resource pooling, sustainable growth, sectoral development, job quality or improved living standards. It is also important to take into account the ability to lever other investment, whilst ; iconic culture-led regeneration in the NE has enhanced the region's image, quality of life, tourism and talent retention and support for a network of innovation assets critical to the development of regional catapults.

The rigidity of a national assessment framework highlights a missed opportunity to capture the benefits and durable legacy of investing resources in overcoming discrete regional and local challenges. In future, there should be wider thematic objectives, priorities for intervention and targets determined sub-nationally at the appropriate geography linked to the industrial strategy. Instead of apportioning outputs and results based on funding allocations, places should define which indicators are most relevant according to the challenges and opportunities to be addressed by each area. Regional and local actors should also agree the balance between productivity and inclusivity outcomes to deliver a sustainable return on investment.

How can the promise that the Fund will be "cheap to administer, low in bureaucracy" best be delivered?

Simplification should be a key objective in designing the UK SPF. Aligning programmes nationally, regionally and locally by prescribing the amount of resources to be contributed by other public or private funders through a match funding regime is no longer appropriate. The intervention rate (requirement for partners to provide a specified percentage of match funding) has proven difficult in an era of declining public funding and reduced levels of private finance. Its removal would enable places to capture leverage instead by devising a holistic funding package derived from various sources and denominations. The fund should have the flexibility to lever in private funds and public funds, or offer a wholly financed approach, together with the ability to fund revenue and capital interventions, as determined collaboratively by regional and local partners. Improved flexibility would accelerate coordinated physical regeneration, business growth and labour market interventions to maximise opportunities to bring about sustainable, inclusive growth. Regionally, we can align and integrate sectoral and place-based investment in science, research and innovation, skills and infrastructure, underpinned by effective partnership working to target resources effectively.

Retaining capacity to identify, develop and deliver projects is crucial, particularly by those who best understand the needs and priorities of an area and therefore how to target funding efficiently and effectively. The programme/fund should be sufficiently well resourced and embedded throughout the project cycle from development to closure. Large and complex programmes require oversight to reassure funders that place making institutions have the capacity to operate on the principle of subsidiarity; making effective decisions at the most appropriate spatial tier to deliver national objectives, better meet the needs and build opportunities for regions and local communities. Managing the cost of delivery must be balanced against designing a programme that meets national priorities as well as fulfilling regional and local needs. LEPs are therefore well positioned to manage the Fund effectively, cheaper than other mechanisms as LEPs can replicate the management and delivery of LGF using the assurance framework and LEP governance structures.

During the transitional period, there should be minimal system changes pending consideration of the longer-term reforms that will be required to administer the UK SPF.

Where should local authorities fit into the management of the new Fund?

Traditionally local government has performed a strong role in local economies, overcoming market failures by investing in commercial property, housing, transport and skills development alongside managing the regeneration of cities and localities. Under the current ESIF programme, local authorities play an invaluable role guiding local expenditure and overseeing programmes, which must be maintained. The LEP Review positions LEPs as an appropriate mechanism for managing funding, and therefore local authority engagement will continue through LEP board membership and executive and office groups.

It is important that the UK SPF is open to all sectors of the economy. UK SPF funding therefore should improve upon, rather than replace, those reductions in spending on public infrastructure projects because of austerity, which has acutely and disproportionately affected local government.

How should programmes and projects be monitored and evaluated?

Monitoring and evaluation should be devolved to the sub-regions. The replacement of regional governance arrangements (Programme Executive Group and Local Management Committee) with a national management committee has resulted in disjointed programme, monitoring and evaluation activity, which is onerous to resource and has led to a slow and cumbersome system. Using national evaluation criteria to assess programmes designed to meet regional needs makes it difficult to capture the beneficial impact of this funding on sub-national economic development. Moreover, a centralised, national approach has made it difficult to ensure relevant considerations inform future policy and programme design. Devolved and local authorities are subject to strict scrutiny and auditing rules and have a strong track record managing funding programmes. Proportionate reporting and record keeping requirements, relative to project size, would simplify the process, generate savings and produce a leaner, more effective system.

Funding should be made available to ensure that the monitoring and evaluation at project level as well as programme level is meaningful. Enough resources should be put in place to undertake evaluation throughout the programme, including ex ante, ongoing and ex post evaluation.

Greater emphasis should be given to learning what works, what may be done differently and how challenges can be overcome, coupled with assessing value for money, measuring results and appraising outcomes. Most importantly, evaluation must be better used to shape future projects and programmes, with learning shared across regions.

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