



# More and Better Jobs

A Strategic Economic Plan for the North East

March 2014



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# Creating more and better jobs

The businesses and people in our area have delivered startling economic performance in recent years, outperforming national growth rates for output, productivity and employment. In just twelve months, nearly 20,000 additional jobs have been created – equivalent to 28% of the employment growth seen over the ten year period of the previous growth cycle. This is an astonishing achievement which demonstrates the area's economic potential. However, with employment levels still lower than the national average, we cannot let this be the last such year. Now is the time to invest to catalyse these transformational shifts in jobs and growth for the benefit of our local and national economies.

Our scale, sector strengths and international reach make us a powerful place to do business. Recent performance demonstrates that our commercial strengths in manufacturing, engineering, life sciences and low carbon technologies are world class. Coupled with a quality of life which is second-to-none and real incomes that are some of the highest in the country, the area offers a compelling story for investment and increasing prosperity. That is why we are setting ourselves an ambitious vision: our economy will provide over one million jobs by 2024; an increase of 11% over the period.

Our strategic economic plan is the culmination of extensive engagement with many local stakeholders and partners and invaluable advice and support from national and international experts. Our plan has strong business and political endorsement and builds upon the extensive conference, seminar and workshop programme undertaken for the North East Independent Economic Review. We have made some bold decisions in prioritising projects and investments to reflect the growth needs of our economy. For example, six major innovation projects - but no housing projects - feature in our plan.

As a result, we have a clear sense of direction for the future which is set out in our plan. The plan builds upon our proposals for allocating the European Structural and Investment Funds between 2014 and 2020. It also sets out our bid to the Local Growth Fund, following a rigorous process to identify a prioritised list of capital projects that will deliver clear outcomes of economic growth, and more and better jobs. Specific detail on investments, outputs and outcomes are detailed in six implementation plans that accompany this plan.

Money alone will not achieve the transformational change that the area is intent on delivering. We need to change the way we work with government and this plan therefore sets out proposals for how we can add value through greater devolution of both funds and decision making to partners in the North East. Education is at the heart of economic success and social progress and we are setting out a compelling case, with programmes for investment to ensure that every

young person is equipped with the education they need and deserve. Against a backdrop of costs and future demand for land that requires a sharing of value between sites, we propose a co-operative and co-ordinated approach to land and property with central government that will maximise both economic and financial returns.

We are committed to building maturity and confidence in our governance structures and the establishment of a combined authority is an important milestone in strengthening local decision making. The Local Enterprise Partnership's strategic leadership will remain central to maintaining our focus on jobs and growth. We set out more detail on the evolution of our governance and leadership arrangements in our plan.

Faced with an ambitious and long term set of proposals, some of which are deliberately beyond the scale of the Local Growth Fund, now is the time for government to be brave – with a growing national and local economy and a local partnership which has rallied to the challenge set by the independent economic review, there has never been a better time for government to fully endorse our proposals and invest in success.

We are immensely grateful for the input, support and constructive approach taken by the stakeholders on whom we've relied to draw up our strategic economic plan, especially all those on the External Advisory Group, Innovation Group, North East Strategic Skills Group, Social Inclusion and Employability Groups, and the Senior Transport Officers Advisory Group. They have dedicated a great deal of time and this plan could not have been produced without their contributions. We would also like to thank the many organisations and individuals who took the time to engage on the draft plan at meetings held across the north east in recent months and through online consultations.

The bulk of the responsibility for our plan has fallen on the Local Enterprise Partnership executive team, our fellow Board member Michael Bellamy who chaired the Sub-Group leading the process of finalising this plan, the local authority secondees and lead contributors, and John McCreadie of ekosgen. They have been diligent, thorough, extremely hard working and we offer them our thanks on behalf of the Board and all those who are set to benefit from this plan and the investments that follow.

**Paul Woolston**  
**North East Local Enterprise Partnership**  
**Chair**

**Councillor Simon Henig**  
**North East Leadership Board**  
**Chair**

# Contents

Executive summary	Page 5
A: Vision and objectives	Page 17
B: Our plan in context	Page 20
C: A strategic approach	Page 30
D: Innovation	Page 33
E: Business support and access to finance	Page 42
F: Skills	Page 51
G: Employability and inclusion	Page 58
H: Economic assets and infrastructure	Page 64
I: Transport and digital connectivity	Page 70
J: Financial programme	Page 85
K: Investing and working together to achieve our vision	Page 89

# Executive summary



Today the North East Local Enterprise Partnership area is a globally competitive economy, with more and better jobs being created through making, trading and innovating across a range of sectors by a broad diversity of businesses. With a concerted effort to invest in what is best for businesses and communities we can go even further. So we are setting ourselves a vision:

## By 2024 our economy will provide over one million jobs.

Representing 100,000 new jobs and equivalent to an 11% increase in employment from today, the vision for our strategic economic plan builds on the North East Independent Economic Review chaired by Lord Andrew Adonis. It reflects the determination of local partners to provide opportunities for businesses and residents in a modern and diverse economy, developing a strong entrepreneurial and innovative spirit.

Supporting our vision is a set of objectives that ensure our employment growth is inclusive, sustainable and entrepreneurial. As a minimum, we will halve the gap between the North East and the national average (excluding London) on three quantifiable measures:

1. Gross value added (GVA) per full time equivalent (FTE), with wages and profits rewarding workers and investors and sustaining high levels of employment.
2. Private sector employment density, with more companies and jobs driving a high growth economy.
3. Activity rate, with no one left behind, and those distant from or disadvantaged in the labour market helped to take advantage of the opportunities created by a successful growing economy.

We will fully close the gap on one quantifiable measure:

4. Employment rate, with the scale and quality of employment matching an increasingly better qualified and higher skilled workforce.

We will drive sustainable growth by increasing the uptake of low carbon technology across the economy - including housing, transport and by business. This is one of a number of measures adopted in our European strategy, reflecting the financial and policy commitment to sustainability through efficient use of energy and the promotion of technologies that reduce carbon emissions.

## Context

In March 2013, Lord Andrew Adonis completed our North East Independent Economic Review. The review panel reviewed over 50 formal evidence submissions from the public and private sector, including the Confederation of British Industry (CBI), Federation of Small Businesses, North East Chamber of Commerce, Institute of Directors, local authorities, the voluntary and community sectors, universities and colleges.

The review panel was supported by international experts bringing significant expertise and knowledge to provide a wider perspective and challenge. In their role as critical friend, the experts produced a series of think pieces, which reflect their understanding of the key issues facing the North East Local Enterprise Partnership area's economy and respond to the emerging findings from the initial engagement process.

The economic review concluded that the North East had too few private sector jobs, and needed better quality jobs to increase productivity and provide a broader range of opportunities for the workforce. It set a series of challenges around innovation, exporting and set two major challenges with regard to young people – doubling the number of youth apprenticeships and developing a Schools Challenge.

In June 2013, government informed the North East Local Enterprise Partnership that the area would receive circa £460m of European Regional Development Fund (ERDF) and European Social Fund (ESF) support for the period 2014-2020. This allocation was made in recognition of the economic opportunities and social needs of the area. Subsequently a further £11m from the European Agricultural Fund for Rural Development (EAFRD) was allocated to the area to support rural development.

The new European strategy allows local partners to take up the challenge of **More and Better Jobs**. With ERDF available to support innovation (a major theme in the economic review) and ESF available to support some of the skills and young people challenges and EAFRD adding to the Rural Growth Network, LEADER and other support for rural growth, the economic review helped set the framework for developing the new programme.

We have undertaken a substantial research and consultation exercise to develop new proposals under various European policy themes, notably small and medium enterprise (SME) growth, the low carbon economy, innovation, and employability, inclusion and skills. New research was commissioned to better understand challenges, issues and new solutions in areas including sustainable development, social inclusion and smart specialisation.

The substantial analysis and research undertaken for the economic review and European strategy are the foundations for our strategic economic plan.

## Economic context

The North East Local Enterprise Partnership area has recently achieved the highest employment rate since 2008. In the quarter to January 2014 employment rose by nearly 20,000 on the previous year, leading to an increase in the local employment rate that outperformed the UK average and was second highest in England. We know that many local companies are now poised to embark on a new growth phase.

While these employment growth figures are enormously positive and 79% of jobs in the area are now provided by the private sector (up from 72% in 2009), the area still suffers from a shortage of private sector jobs to provide a balanced and sustainable economy. Independent forecasts expect employment in the area to increase by 40,000 between 2014 and 2024. Implementation of our strategic economic plan will deliver 60,000 private sector jobs over and above that forecast, to take the number of people in employment in 2024 to one million.

The challenge is not just the number of jobs but the quality of these jobs. The need for more and better jobs is therefore fundamental to our plan. Our ambition is that at least 60% of the jobs created over the next ten years will be high skilled and higher paid private sector jobs.

While recent trends are extremely encouraging, there remains a significant gap between the area's skills base, GVA per capita and that of other areas. It is therefore critical that we build on the momentum of recent years and continue to close this gap.

Since 1999 the area has seen a fall in the proportion of its working age population with no qualifications and an increase in the proportion of its working age population with qualifications at level 4. Educational achievement has been on a steady rise since 2000.

In spite of these improvements, the area needs to increase the volume of skills at a higher level to address a changing demographic, in particular higher skills required by employers of younger people and those moving into and between work as a result of replacement demand and an anticipated demand for jobs requiring level 4 and above rising by 120,000 by 2020.

Many young people are excelling in their education, and in some measures, pupils and schools are doing well. The North East is the best performing area in the country in terms of the percentage of students achieving five or more 'good' GCSEs (grades A\* to C). From a starting position of being third from the bottom of the national league table in 2005, the North East has been top of this table every year since 2008.

However, huge disparities exist in educational achievement. The proportion of secondary schools judged as good or outstanding for teaching in our least deprived areas is 85% - almost equal to the national average of 86%. In our most deprived areas however, this drops to 29% compared with a

national average of 65%. This means that there is a massive 56 percentage point difference between the proportions in our most and least deprived areas.

There are a number of challenges facing the North East economy, although all of the latest data suggests that progress is being made with regard to more and better jobs. To continue this momentum there are a number of demographic and skills challenges which have to be addressed, along with strengthening the SME base to help diversify the economy and continue to improve productivity.

## Opportunities for growth

Opportunities for growth are derived from national and international changes in business and consumer demand, changes in technologies, and trends in national and global markets. They include:

- The continued growth in the global economy, with a recovering US and Eurozone adding to the continued growth in China and Asia.
- A revitalised UK economy, with domestic demand increasing the range of opportunities open to North East businesses.
- The resurgence of some parts of the manufacturing base and a growing number of companies returning production to the UK; increasing exports for high value added products in sub-sectors such as advanced and marine engineering and oil and gas.
- The development of new materials, manufacturing processes and innovation, led by agile medium sized companies.
- Changes in business organisation and services, including outsourcing, creating new demand for business service activities.
- A rapidly expanding creative and digital economy, with new technologies, expanding platforms, games and content production driven by international markets.
- Increasing demand from international inward investors - UK Trade and Investment (UKTI) has reported an increasing number of investors from China, India and other parts of Asia choosing the UK, adding to continued demand from Europe and the United States.
- Increasing international demand for higher education and training in the UK.

We expect the economy to increase by 100,000 jobs by 2024 (including self employment) and this will come from a combination of opportunities and strengths. The major growth sectors are expected to be:

- Business services, predicted to grow strongly in the UK over the next ten years, and Newcastle and Durham are very competitive locations, while out of town locations such as Cobalt Park already accommodate a broad range of medium and large business service companies.
- New economy – the area has a very strong cultural and creative base and technology, media and telecoms companies are well represented. This includes a strong software base around Sunderland and a growing creative industries sector in Newcastle and Durham. Increasingly



networks are being built with businesses in rural areas featuring prominently.

- Low carbon, including renewable technologies, have the potential to deliver significant new investment and jobs. The area aspires to become Europe's premier location for low carbon, sustainable, private sector-led jobs and growth. There is potential to secure greater competitive and commercial advantage from the transition to a low carbon economy - through new investments in offshore wind, electric vehicles, micro-generation and drawing upon renowned scientific research and innovation strength in a range of low carbon technologies.
- Tourism: the coast and rural areas underpin a strong local tourism offer, with a number of heritage assets of national and international significance. These opportunities are complemented by a growing city tourism market and increasing business tourism.
- Logistics: the move to internet shopping, increasing international trade are changing the nature of distribution and logistics. Many new logistics opportunities need to be close to local population, offering further opportunities for local companies.

We have set a target of at least 60% of the employment growth to be in higher paid and higher skilled jobs, increasing average productivity in the economy and providing employment for an increasingly better qualified young workforce.

These growth opportunities will be supported by a comprehensive business support service, an increasingly well qualified and skilled workforce and competitive locations both for new investment and housing choices. Successor investments by major and foreign owned companies, along with new FDI successes, will complement growth in the area's SME base.

### A strategic approach

The area's economy has come a long way over the last two decades, and the economic performance in the last growth period was strong. Whilst there remain longstanding challenges in some communities, there is a basis for optimism which we are determined to harness to create more and better jobs as we move forward to realising our vision.

We are operating in the face of national and global economic change, both of which present drivers for significant structural transformation in the local economy. We have to anticipate many of these changes in how we design and take forward new initiatives which, in the aggregate, strengthen business, people and place. Our plan is therefore to enhance these three key elements of any successful economy. We will consider projects and programmes for investing public money through these filters:

- Business: private sector led growth, with more businesses exporting and selling to the rest of the UK, a larger, more diverse and modern business base, with important new inward investors complemented by high growth small and

medium sized North East companies, where managers invest for the future, prioritising innovation, international development and higher level skills to support their growth ambitions.

- People: building on the popularity of the North East workforce with large employers, increasing skills level as the route to sustaining employment, where long term skills challenges are resolved by a system responsive to the needs of employers; where well qualified and highly motivated young people can access quality jobs, and where targeted and tailored support helps those distant from the labour market to access training and employment.
- Place: capitalising on the success of many employment locations which accommodate new investment in the last growth period, maximising the potential of the area's outstanding rural towns and communities and the popularity of our urban centres, to retain and attract the talent which will drive a more competitive and better connected economy.

### Strategic Economic Plan

There are six strategic themes which will allow local partners to address the challenges and take up the many opportunities facing businesses, people and places in the North East today. These cover a range of challenges and include both short and medium term priorities, with a view to enabling an inclusive, entrepreneurial and sustainable economy. These are:

1. Innovation, central to our ambition of better jobs and a more competitive business base, delivering medium term benefits as managers invest in new products, processes, markets and technologies supported by an ambitious open innovation system.
2. Business support and access to finance: the key driver for more jobs and a strong private sector, addressing market failures to support a stronger indigenous businesses, with better access to finance, and able to progress expansion plans in national and international markets.
3. Skills: providing a demand led system, reflecting the need of employers, including for high level skills in support of better jobs, with access to high quality training facilities for both general and specialist training.
4. Inclusion: central to ensuring no one is left behind, providing targeted and tailored support to neighbourhoods and groups facing major challenges in accessing training and employment opportunities which lets everyone fully share in the benefits of a growing economy.
5. Economic assets and infrastructure: developing the places for business to invest and people to live, developing new opportunities with towns and cities, coast and country, and heritage assets.
6. Transport and digital connectivity: which serves and connects people and businesses, letting people move around for both work and leisure, and connecting the North East to the national and international economy.

As we take our plans forward we will take advantage of the assets in the area which can give competitive advantage in fostering a successful economy, and which will ensure it is connected to key national, European and international markets.

## Innovation

We have developed one of the most comprehensive and imaginative innovation programmes in the UK, building on and extending smart specialisation principles. It is based on an Open Innovation approach which can be funded by ERDF, although investments by the Technology Strategy Board (TSB), the Local Growth Fund (LGF) and other partners are required to support key elements of the Programme.

### Key investments include:

- Catalytic Innovation Competitions to build innovation delivery in areas of strategic importance for the area. Smart specialisation focussed.
- A Grand Challenge innovation programme, focussed on delivery of a broad community-observable benefit. This will require significant cross-sectoral and cross-regional collaboration.
- Innovation project support for collaborative wealth-creating or social improvement innovation programmes in areas which are aligned to our strategic economic plan, but outside smart specialisation sectors.
- Ph.D. Commercialisation initiative. Rigorously peer-review all university research output for potential commercial application.
- Creation of a North East innovation leadership with a board and, most importantly, an executive providing a capacity for co-ordination. Engagement of an expert International Innovation Advisory Group.

In addition to these projects, the innovation programme will seek to continually strengthen the facilities available to support innovation. After a rigorous review process of a range of potential innovation related investments which could further enhance our facilities, local partners identified six priority investments to propose for the first round of LGF investment, commencing in 2015/16. In selecting these we tested a range of issues, in particular strategic fit and deliverability.

We are proposing £35.95m of support from the LGF in 2015/16 and following years from the 2015/16 round to support capital investment which complements and will support the increased demand which will arise from the substantial revenue projects supported by ERDF.

The capital programme has been agreed after a thorough appraisal process, with six projects prioritised below after careful consideration of their contribution to our innovation ambitions. Key innovation hubs and projects:

- Investment to expand the capacity of the North East Technology Park to host commercial science and technology businesses and to enable key Centre for Process Innovation (CPI) projects
- A new National Centre for Healthcare Photonics, which will be a world-class facility to commercialise photonic therapies and diagnostics.
- A new Centre for Innovation in Formulation, focusing on radical formulated products and processes.
- The Low Carbon Energy Centre, Newcastle Science Central, delivering low carbon energy to the key Science Central innovation site.

### Acceleration of key innovation sectors:

- Sunderland University Enterprise and Innovation Hub, incorporating Fab Lab.
- Newcastle Life Sciences Incubation Hub, creating incubator facilities close to university research.

These new facilities strike a balance between highly focused research/innovation facilities, with specialist equipment, and facilities which provide incubation support for small businesses with considerable economic potential in fast growing markets and products.

With local partners we are putting in place new arrangements to ensure the North East Innovation Strategy is overseen by a range of experienced partners from the private and public sector, with involvement from national agencies and local universities. The Innovation Board will be responsible for overseeing the implementation of the Innovation Strategy, supported by an executive team and an International Advisory Group.

### Business support and access to finance

We are determined to increase profitability, wages and employment in all sectors and types of business including the social enterprise sector, ensure the sustainability of employment growth by investing in and growing the business base and to secure new sources of investment and flows of finance. This will be underpinned by the strengthening of the entrepreneurial culture of our businesses, communities and education system.

Increasing the number and quality of private sector jobs in the economy is a key proposition in our European strategy and strategic economic plan. These are reflected in the three strategic priorities for investing in growing our businesses:

1. Increasing GVA and employment in North East businesses through the provision of a high quality, demand led business development support programme.
2. Ensuring North East businesses have the access to finance to support growth and expansion plans.
3. Increasing the economic benefits from external markets - inward investment, exports and tourism.



These strategic priorities translate into three intervention areas, although there are overlaps and synergies across all three. These three areas will direct the investment plans of local partners in the North East, working in collaboration with national agencies. The three intervention areas are:

1. Access to finance.
2. Business support.
3. Inward investment, trade and tourism.

**Access to finance:** A proposal to commit £160m across the North East of England to a new JEREMIE scheme demonstrates the commitment of the two local enterprise partnerships to meet the ongoing demand for this type of finance. With burgeoning tech and life science sectors, and companies seeking equity-type finance from many other quarters, JEREMIE funds will play a significant role for companies that lack the security or track record to attract bank finance.

**Business support:** Government has challenged local enterprise partnerships to co-ordinate business support at the local level through growth hubs – a single place where businesses can go to get help. The vision is that growth hubs will improve the coordination of support provided by local public and private sector partners, creating a more streamlined and coherent offer for businesses, based around local needs. The rationale for growth hubs is that can fill a void in business service and skills provision following the cessation of regional development agencies (RDAs) and Business Link by providing a regional point of delivery for a service offer that businesses' perceive as valued and useful.

**Business support services:** Funded with ERDF support, these will be supported by Opt In agreements with the Department for Business, Innovation and Skills sponsored Growth Accelerator, the Manufacturing Advisory Service, and UKTI support for exporting.

**Inward investment, trade and tourism:** The internationalisation of the economy was a key theme in the economic review. It emphasised the importance of both exports and foreign direct investment (FDI) to the success of the North East economy. It also highlighted the importance of tourism, and the potential to attract more international visitors, notably business tourists.

Our plans include producing and promoting a set of key sector propositions that outline a set of detailed offers to investors, developing and operating a single point of contact for inward investment enquiries, developing a package of business support that meets the specific needs of businesses exporting and utilise the devolved trade support (through UKTI), developing a business and academic tourism strategy.

## Skills

A skilled workforce is central to private sector-led growth and the North East Local Enterprise Partnership area's workforce has a strong reputation for responding to the opportunities

presented by a growing and changing economy. By being able to invest public resources and stimulate employer investment in skills, a better functioning labour market can be created that delivers the human capital for our growing economy.

The area is facing a significant demographic challenge with an ageing workforce. It is clear that there will be a large number of employment opportunities across the area over the next ten years, created through retirements, in addition to our objective to create more and better jobs.

The area has a deficit of high level skills, when compared to the England average. To address this deficit, provision purchased by employers, whether or not subsidised by the public sector, needs to span intermediate, technical and higher levels and be responsive to economic demand.

There are three strategic objectives which will direct our work over the next five years. These are to:

1. Address the current and future skills needs, strategically investing ESF and Skills Funding Agency (SFA) resources and expertise to provide a reformed skills approach which meets the needs of employers and learners and complements or stimulates private and individual investment.
2. Ensure young people are equipped and qualified to access the opportunities which will be available in a successful modern economy.
3. Ensure high quality training facilities which help engage employers and learners, are available to support a higher skilled workforce.

The area has the opportunity to build on the recent jobs growth, the Skills Pilot with the SFA, our proposal to improve school performance in concert with business, and the availability of capital investment to update important parts of the further education estate.

Our skills implementation plan aims to incentivise strong provision that meets business and economic demands, be it existing employer needs, projected shortages or new skills sets for emerging opportunities. We aim to create a landscape where companies, (and individuals), realise the benefits of training and see the returns on their investment.

The Strategic Skills Group will take forward a major investment programme, primarily funded through ESF and the Opt Ins, including the SFA and DWP. Investment for ESF will be supported by a new locally determined approach to mainstream skills funding through the Skills Incentives Pilot. These two initiatives will stimulate and align other resources to our skills priorities. Investment by the Local Growth Fund is required to support key elements of the programme – The Schools Challenge and skills capital.

Our skills implementation plan has also been influenced by the challenges set out in the economic review. The economic review examined a large evidence base on both skills and the labour market and produced a series of important recommendations with regards to young people. There are two major commitments which partners in the area wish to pursue, the first of which is a specific ask of government through the LGF process:

**North East Schools Challenge:** The North East Local Enterprise Partnership will fund the design of a North East Schools Challenge for all schools in the North East involving a partnership between business, headteachers, local education authorities (LEAs) and – we hope – the Department for Education to be co-ordinated by the Local Enterprise Partnership's Strategic Skills Group. We will dedicate £4.7m per year from our European funds to grow business-education exchange, and our alliance of professionals and statutory bodies will be single-minded in their drive to improve educational performance. We will adopt the economic review's goal of more than 35% of our schools in the top quartile and fewer than 15% in the bottom quartile.

The second commitment is already being taken forward by local partners using existing resources: **Youth Apprenticeships:** Apprenticeships are fundamental to the sustainability of many local businesses and it is therefore crucial that the system works effectively for individuals, employers and providers. Through our strategic economic plan, we will enable employers to support our objective to double the number of youth apprenticeships by 2018.

We recognise the need for educational facilities for young people and adults which are fit for the 21st Century. Within this context we regard the ten further education colleges located in the area as a valuable economic and community asset. However we are also aware that relative to other parts of England the overall condition of the college estate is poor. This can hamper much needed efforts to increase levels of participation and achievement in education and represents an inefficient use of resources by diverting investment into costly and wasteful maintenance and repair.

Full project details are attached for each individual proposal in the annexes. The seven priority schemes for 2015/16 are:

- Northumberland College Advanced Manufacturing Centre.
- Newcastle College Group - Gateway Centre.
- Newcastle College Group Low Carbon Technologies Centre.
- East Durham College Land Based Industries.
- The Tynemet STEM and Innovation Centre.
- Port of Blyth – BEACH.
- South Tyneside College: Marine and Offshore Engineering.

The improvements in these facilities will benefit many thousands of learners each year. This includes those living in both rural and urban areas. A number of the new facilities are closely aligned with strategic priority economic sectors.

## Employability and inclusion

Our employability and inclusion programme aims to build on our recent progress in productivity and employment growth to support the achievement of key indicators to increase employment and activity by ensuring that no one is left behind. We will achieve this by addressing high levels of youth unemployment, reducing inequalities, improving economic wellbeing and by ensuring that growth is inclusive and assists those most distant or disadvantaged in the labour market and areas of persistent and entrenched deprivation.

Our plan recognises that employment is the key route to combating poverty and exclusion. Unemployment in the area remains relatively high and employment low in comparison to other areas. This holds back both economic growth and reduces social inclusion. Activity rates and employment levels remain low and activities to improve employment, employability skills and opportunities for self-employment are therefore essential.

There are three strategic objectives which will direct our work:

1. Increase the economic participation rate, assisting people to take up education, training and employment opportunities to increase life chances and economic wellbeing.
2. Provide support to those most distant from the labour market, where necessary assisting people to overcome disadvantage and poverty.
3. Tailoring support to meet the specific needs and circumstances of individuals through targeted intensive support and mentoring.

We will deliver this programme through two key priorities:

- North East Labour Market Agreement.
- Inclusive North East.

A North East Labour Market Agreement will provide strategic leadership and accountability for employability and welfare to work support through the Combined Authority and provide a platform for a negotiation with government to find new ways of working in key areas including:

- Developing a framework for the local management and delivery of services which responds to the distinctive needs of the area; including a new locally-led and commissioned framework for delivery of employability and welfare to work support
- Building on our existing delivery of public sector reform and strong partnership arrangements to explore devolution of funding to address underperformance, flexibilities in performance measures to ensure they meet our priorities and improved data sharing and tracking of progression across programmes.

The proposals for skills, employability and welfare to work support and social inclusion are focused on a group of public sector activities where leadership and resources are currently dispersed between a number of national and local organisations. In these areas, evidence suggests that different, locally-led models can enable more effective and efficient delivery, wrapping services around individuals, families and businesses within the local context in which they operate and enabling alignment with other services, for example health and housing.

Inclusive North East is an ambitious programme of activities, which brings together over £190m of investment by the Local Enterprise Partnership and government over the next six years to support the move to a high skills equilibrium by providing progression routes into our key sectors, opening up opportunities for unemployed people and eliminating all gender, race, age and cultural gaps in employment and entrepreneurship between North East and national averages by 2025. The main mechanism for delivery of this programme will be the ESF element of the European strategy, which will:

- Provide additional and more intensive support to help people to develop the skills needed to move towards work, enter work (including self-employment), and to progress in work.
- Help older workers, workless people and those facing redundancy to upgrade their skills, learn new skills or re-train to enter, re-enter or stay engaged with the labour market and adapt to new market conditions including through targeted apprenticeships linked to economic opportunities.
- Support activities to reduce the number of young people not in employment, education or training and those at risk of disengaging and embed opportunities.
- Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions.
- Targeted activities to support bottom-up social inclusion through community focused actions in particular geographic locations with high levels of deprivation, poverty and exclusion.
- Targeted activities for those with protected characteristics and from specific communities who face multiple barriers and facing high levels of exclusion from opportunities and/or poverty.

The Combined Authority Employment and Skills Group will be accountable for the delivery of the programme supported by the seven local authorities that make up the Combined Authority. The group will report progress to the Combined Authority economic directors and Combined Authority Leadership Board.

### **Economic assets and infrastructure**

The North East Local Enterprise Partnership area's current and future economic infrastructure is the framework that makes, and will make, economic activity possible. A co-ordinated and integrated approach to enhancing all forms

of economic infrastructure (from employment sites and premises, housing, and green infrastructure to quality of place, culture, heritage and tourism assets), and associated transport and digital connectivity will deliver growth in the short term, satisfy the increasing demand for reliable high capacity and quality infrastructure, and avoid barriers to longer term economic growth ambitions.

There are four strategic priorities which will direct local partner investment in transport and economic infrastructure. These are:

1. To invest transport resources in a way which supports economic and employment growth, connects businesses with markets and suppliers, and increases the accessibility of local people to employment locations.
2. To unlock the potential of employment sites and regeneration priorities which directly contribute to economic growth and provide sustainable solutions to economic challenges through better management of our green infrastructure and environmental assets.
3. To provide new solutions to maximising investment in tourism, heritage and culture and their economic contribution to the North East's economy.
4. To support a housing market which provides the range of housing, including affordable housing and housing for rent.

### **Employment sites and premises**

Establishing a varied portfolio of potential development sites with the right infrastructure will leverage private sector investment in key existing and new employment sites and ensure the area can compete for investment, support the growth of existing businesses and accommodate 100,000 more jobs.

Our economic growth corridors will continue to benefit from investment and remain important employment locations for key sectors and attract new investment such as Hitachi Rail Europe. We are providing for growth in our current employment locations and planning for the future, bringing opportunities to meet market demand.

In order to maximise growth in the North East's economy, strategies, plans and programmes will focus appropriate enabling investment towards the key employment locations along the A1, the A19, the river Wear, the river Tyne and the coast. These are:

- The urban cores of Newcastle, Gateshead, Sunderland and Durham.
- The North East Enterprise Zone.
- The International Advanced Manufacturing Park in Sunderland and South Tyneside.
- The two largest industrial estates in the area (Team Valley Trading Estate and Aycliffe Business Park), the business and industrial estates near the northern entrance to the Tyne Tunnel, and key employment locations along our main transport corridors.
- Newcastle International Airport Business Park.

## Investing in places

We have already successfully delivered some transformational physical regeneration programmes and new strategic, long term approaches to regeneration are taking shape across the area. In addition, significant elements of the two City Deals focus on regeneration and the local solutions for a place based approach to local development which integrates investment across hard and soft economic infrastructure. The contribution and importance of the varied economic roles that different places play are a significant strength.

The focus moving forward for investing in places, is about creating a distinctive area that supports sustainable growth, environmental sustainability and resilience. Building on the investment and regeneration successes of the last two decades, we recognise that more is needed to strengthen the cultural and visitor offer for businesses, residents and visitors. Further investment in major projects, such as the North East International Convention Centre, the transformation of Beamish Museum, investment in coastal towns such as Whitley Bay and rural assets enhanced with projects such as the country's first landscape discovery centre, The Sill, are vital if our ambition to achieve a world class offer is to be fulfilled. There is real potential through projects like these to increase the number of visitors to the area, specifically international and businesses visitors, and to increase significantly the levels of visitor spend.

## A commitment to housing growth

The North East is a very competitive location when the costs of land, labour and housing are taken into account. Good quality and connected housing in the right places is essential for creating sustainable communities which will attract and retain economic investment and skilled workers. The scale of employment increase outlined in this plan will require a more highly skilled workforce, with more opportunities for well qualified young people, and is likely to increase demand for higher quality housing in the area.

We have a clear role in ensuring alignment between housing investment such as the Affordable Housing Programme and the wider investment programme to deliver the aims of our strategic economic plan. In regards to both the Affordable Housing Programme and wider housing related investment the local authorities and the Combined Authority, where appropriate, will lead the way in working with other stakeholders to increase new housing and establishing an approach of local determination and local design of interventions, bending of resources and local use of assets. To do this, we are committing to an incremental proposal for the area to enable strategic housing investment which accelerates growth whilst aligning local assets and resources.

## North East Development and Investment Fund

We are proposing an integrated North East Development and Investment Fund which will align current local public

and private sector resources. The fund will seek to leverage further investment to deal with current barriers to growth and build in enough capacity to meet future demand. Employment sites and premises, North East Enterprise Zone infrastructure, infrastructure for housing sites, investment in green infrastructure, quality of place improvements and culture, heritage and tourism capital will all be within scope. The fund will, wherever possible, implement a repayable loan or shared equity model, although in some cases gap funding or grant support may be required.

The inclusion of assets, cash and projects into this fund will be agreed through a process of negotiation but we are demonstrating our commitment to this fund by proposing the inclusion of £60m of ERDF resources and £55m of our already successful North East Investment Fund which incorporates Growing Places Fund (GPF) and Regional Growth Fund (RGF), £100m of enterprise zone receipts and local match.

With the specific intention of maximising returns to all partners, we are seeking to work in partnership with the Homes and Communities Agency (HCA) to develop its portfolio. In partnership, we will work to accelerate development in local and HCA sites including investment in an agreed list of strategic but less financially attractive sites, as part of a managed programme of regeneration and housing activity for the North East. This will provide a simpler model for developers, reduce competition for and between public funds, and provide clarity for related infrastructure priorities.

Against the significant contribution from the Local Enterprise Partnership we are proposing a six year contribution from government's Local Growth Fund from 2015/16 to 2020/21 of up to £60m.

## Economic Assets and Infrastructure 2015/16 LGF proposals

The North East Development and Investment Fund will be the preferred option to bring forward developments and investment in regards to economic assets and infrastructure. In line with the guidance however and following a rigorous appraisal process, priorities for 2015/16 LGF investment have been agreed.

For employment sites and premises the four projects selected require some £34.8m of LGF of which £19.84m will be spent in 2015/16. These are:

- Merchant Park 2.
- Swans Wet Berth Infill.
- Sunderland Central Business District.
- River Tyne Economic Development.

For investing in places the five projects selected require some £47.8m of LGF of which £21.75m will be spent in 2015/16.



These are:

- North East International Convention Centre.
- North East Rural Growth Network Infrastructure
- Ashington North East Quarter.
- Whitley Bay Regeneration.
- Re-Making Beamish.

## Housing

The North East is a very competitive location when the costs of land, labour and housing are taken into account. Good quality and connected housing in the right places is essential for creating sustainable communities which will attract and retain economic investment and skilled workers. The scale of employment increase outlined in this plan will require a more highly skilled workforce, with more opportunities for well qualified young people, and is likely to increase demand for higher quality housing in the area.

We have a clear role in ensuring alignment between housing investment such as the Affordable Housing Programme and the wider investment programme to deliver the aims of our strategic economic plan. In regards to both the Affordable Housing Programme and wider housing related investment, it is vital that partners in the North East clearly and objectively articulate why a national programme based on national priorities will not meet the needs and aspirations of the area.

Local authorities and the Combined Authority, where appropriate, will lead the way in working with other stakeholders to increase new housing and establishing an approach of local determination and local design of interventions, bending of resources and local use of assets. To do this, we are committing to an incremental proposal for the area. To start, we will commence with an assurance role in regards to the 2015/18 Affordable Housing Programme (AHP). This would allow for a more collaborative approach with the HCA to determine which bids meet regional and local priorities and would also allow for the possibility of aggregating bids to create packages for the area.

Following this, by April 2015, we will be able to start changing the conversation from housing supply to strategic housing investment to accelerate growth whilst aligning local assets and resources. We will have our North East Development and Investment Fund in operation which could be aligned with national housing programmes. Specifically, we will be able to direct the investment of the HCA's AHP reserve plus any underspend or speculative proposals.

## Transport and digital connectivity

In order to achieve the economic aspirations set out in our strategic economic plan, it will be necessary for people to travel and for goods to be transported within, into and out of the area. Without this, the economy cannot function effectively. The presence and effectiveness of road, rail, air and sea connections can place a limitation on how aspirational we can be. Growth cannot be achieved, and

the area will not be attractive to investment, if the transport networks do not function efficiently.

There is compelling evidence that transport investment will make the maximum impact on productivity, job creation and GVA where it:

- Improves the area's strategic connectivity – an area targeting smart specialisation, trading and exporting needs fast, reliable and resilient connectivity to external markets by road, rail, air and sea. It is equally about facilitating visitors to come to the area.
- Improves access from all parts of the area to the priority locations for economic growth, getting people to jobs. Transport plays a key role in ensuring that urban centres with the greatest economic potential can thrive.

We have set out clear priorities with regard to road, rail, ports, rivers and airports, and public transport. Whilst aiming to improve transport connectivity, we are also committed at the same time to reducing carbon emitted by transport. A key way of achieving both goals is through the use of shared and sustainable modes of transport alongside reducing carbon emissions from all vehicles and networks. By making sustainable travel easier and more attractive, many short trips can be taken off our local road network, with economic benefits for the area arising out of a reduction in congestion, in addition to wider social and environmental benefits. These considerations are at the centre of our proposals to allocate European funding resources to sustainable transport.

The North East Local Transport Board has prioritised transport interventions for the devolved local major transport schemes and agreed to support six schemes totalling £31.5m. The schemes approved are the South Shields Transport Hub, the Sunderland Low Carbon Zone, the A1058 Coast Road, the Northern Access Corridor, the A167 Park and Ride Corridor, and the new Horden Railway Station. In addition, the Metro Phase 2 re-invigoration programme supported by £350m of government funding and £39m of local contributions represents substantial investment in our public transport infrastructure. The indicative programme incorporates these commitments as well as significant contributions by local partners.

The area received funding from the Local Transport Majors Round 2 for six projects, with a further four deferred due to a 30% budget reduction. As a first priority, we would like these four schemes funded. In addition we are also proposing two funds with a total LGF commitment of £37.52m to commence in 2015/16. These are an Investment Fund for Small Scale Transport Schemes (£30m) and a Local Sustainable Transport Fund (LSTF) capital investment package (£7.42m). Given the scale of infrastructure deficit in this area and the availability of additional transport funding in the LGF have have also put forward a number of other high priority schemes for LGF funding in 2015/16, with an LGF requirement of £20.2m.

They are:

- Direct link from Newcastle Central station to the Stephenson Quarter regeneration site.
- A1056-A189 roundabout and A1-A19 link.
- A19 employment corridor access improvements (A191/Silverlink North junction).
- A1 Scotswood Bridgehead.
- A19/A191 junctions.

We have also set out a long term transport investment programme costing £215m with a LGF requirement of £135m which will support the economic growth ambitions of local partners.

Economic growth is becoming increasingly synonymous with digital connectivity and superfast broadband is fast becoming a minimum requirement for business and homeowners. In effect, it is an essential service for both business and households and its rapid adoption is important to both business competitiveness and quality of life.

Raising awareness of the benefits of superfast broadband and driving demand are essential elements of the programme.

Overcoming the barriers to digital adoption is key to unlocking a wealth of opportunity. It has been estimated that more effective use of technology could add £1.2bn to the North East's GVA by 2017.

### Financial programme

The financial programme sets out an ambitious plan to combine central and local investment to accelerate economic growth in the North East. While LGF support is significant, it makes up only a relatively small proportion of the overall total expenditure. It will, however, play a crucial role in increasing the overall scale of investment in growth, by leveraging other funding, particularly from private sector investors and developers. LGF funds will be particularly important in relation to transport connectivity and economic infrastructure investment.

### Total investment by theme 2015-2021

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total Cost
Innovation	£34.76m	£55.56m	£40.16m	£24.65m	£9.93m	£5.37m	<b>£170.43m</b>
Business support	£18.4m	£50.6m	£55.3m	£55.3m	£57.7m	£50.8m	<b>£288.1m</b>
Skills	£83.4m	£114.2m	£39.3m	£38.5m	£37.8m	£32.6m	<b>£345.8m</b>
Inclusion	£46.2m	£37.6m	£32m	£27.8m	£28.7m	£23.9m	<b>£196.2m</b>
Transport	£68.53m	£73.23m	£57.21m	£67.36m	£48.12m	£34.46m	<b>£348.91m</b>
Option A Economic Assets and Infrastructure with North East Development and Investment Fund1	£30m	£35m	£36m	£39m	£39m	£39m	<b>£218m</b>
Option B - Economic Assets and Infrastructure with individual projects	£75.24m	£69.74m	£32.08m	£12.8m	£4.8m	£0m	<b>£194.66m</b>
<b>Total with Option A</b>	<b>£281.29m</b>	<b>£366.19m</b>	<b>£259.97m</b>	<b>£252.61m</b>	<b>£221.25m</b>	<b>£186.13m</b>	<b>£1,567.44m</b>
<b>Total with Option B</b>	<b>£326.53m</b>	<b>£400.93m</b>	<b>£256.05m</b>	<b>£226.41m</b>	<b>£187.05m</b>	<b>£147.13m</b>	<b>£1,544.1m</b>

The investment programme strikes a balance between supply and demand side measures, and investments for immediate returns, such as business support, and medium term investments through the innovation programme. There is also

a balance between investment in business, people and place, with significant funds available for employability and helping those seeking work to take up training and employment opportunities.



### Total Local Growth Fund investment by theme

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total LGF	Total Cost
Innovation	£9.85m	£13.61m	£7.5m	£4m	£1m		£35.95m	<b>£66.52m</b>
Skills	£25.4m	£23.3m					£48.7m	<b>£126.5m</b>
Transport	£45.15m	£48.24m	£37.69m	£44.38m	£31.7m	£22.7m	£229.85m	<b>£348.92m</b>
Option A Economic Assets and Infrastructure with North East Development and Investment Fund	£10m	£10m	£10m	£10m	£10m	£10m	£60m	<b>£218m</b>
Option B - Economic Assets and Infrastructure with individual projects	£41.59m	£33.29m	£5.28m	£1.20m	£1.2m	-	£82.56m	<b>£194.66m</b>
<b>Total with Option A</b>	<b>£90.39m</b>	<b>£95.15m</b>	<b>£55.19m</b>	<b>£58.38m</b>	<b>£42.7m</b>	<b>£32.7m</b>	<b>£374.5m</b>	<b>£759.94m</b>
<b>Total with Option B</b>	<b>£121.98m</b>	<b>£118.44m</b>	<b>£50.47m</b>	<b>£49.58m</b>	<b>£33.90m</b>	<b>£22.70m</b>	<b>£397.06m</b>	<b>£736.6m</b>

The balance of the investment programme reflects some of the focus of LGF, and the scale of resources available nationally. The principal factor in determining the financial programmes and the thematic allocations have been strategic – the balance needed to secure more and better jobs, in an inclusive and sustainable manner.

- Innovation and business support accounts for 28.3% of total investment, predominantly funded by ERDF. The LGF commitment is fundamental to strengthening research and development facilities available to SMEs in the North East.
- Skills and inclusion are funded by ESF, with major commitments from the SFA and DWP. The poor quality of the further education estate in the area makes it difficult to provide the learner with a first class experience in every instance, and LGF support to address this issue is important.
- Economic assets and infrastructure and transport and digital connectivity represents over 36.6% of total expenditure, although this is dependent on the LGF and local partners commitment to the North East Development and Investment Fund.

### Local Growth Fund

Resources from the Local Growth Fund (LGF) will allow local partners to accelerate its plans to support economic growth. We are proposing to use the funds to support activity that is broadly in line with that supported by each Department providing funding during 2015/16 (e.g. funds from Department for Transport (DfT) will be used to finance economic infrastructure investment, while funds from the Skills Funding Agency (SFA) will support our employability and skills activity). Discussions about the allocation of funding in future years will be held as part of the process of finalising a local growth deal during the early part of 2014.

The LGF investment profile reflects the guidance provided by government and the strategic themes set out earlier. The largest allocation has been requested for transport, recognising the importance of connectivity in the North East economy. The skills capital request reflects the very poor quality of the further education estate, which has a high proportion of its estate in the poorest category.

Innovation is a major priority and is central to delivering better jobs in the economy. LGF support is needed to the £100m commitment by local partners to one of the most imaginative innovation programmes in the country.

The North East Development and Investment Fund is one of our most important LGF asks, offering better value and coordination of inputs and strategy for all involved in it. Local partners are offering a major commitment to accelerate a range of important projects which will generate significant economic benefits. We would hope that government recognises this commitment and responds with a substantial allocation from LGF.

### **Indicative outcomes resulting from LGF expenditure**

We are strongly committed to the delivery of key outcomes from public sector investment for growth and we will monitor and report publicly on progress. Our over-arching target is the creation of new jobs, and we will also track the number of businesses assisted, and GVA, which incorporates both GVA created through new / additional jobs and GVA generated through efficiency and productivity improvements. Based on our current programmes and interventions, we believe we can achieve the following outcomes through our investment of LGF.

### **Governance and delivery**

Institutional arrangements for driving forward the area's economy have been a key point of focus for partners and are instrumental in delivering against our plan.

The North East Local Enterprise Partnership brings together business leaders, universities and elected members of the North East Leadership Board. The Local Enterprise Partnership is the body responsible for developing both our strategic economic plan and our European Structural and Investment Funds strategy.

The Combined Authority provides a robust and accountable structure for the area, supporting the work of the Local Enterprise Partnership and enabling co-ordination across the range of priorities set out in our plan. Each of the Leaders/ Elected Mayor of the seven constituent authorities are members of the North East Local Enterprise Partnership Board, and the Chair of the Local Enterprise Partnership is a member of the Combined Authority. Formally, the Combined Authority will provide the accountable body arrangements for the Local Enterprise Partnership.

The Combined Authority has a leading role to play in creating the conditions for economic growth and new investment. The Combined Authority's role in transport, employability and skills is critical in supporting a growing economy and workforce whilst the co-ordination of investment in economic infrastructure will help to ensure that the North East can attract and embed investment – both capital and people.

Public sector reform is a strong complement to our economic priorities and plans. In the search for more efficient and effective solutions to delivering public services, local authorities have delivered continuous improvement in response to dynamic economic, social and financial conditions. The area can point to successful change management beyond local government, in areas including health service reform and policing. Improvements continue to be made to outcomes for people and communities, such as increases to life expectancy, educational attainment and community safety.

### **Delivery**

The Local Enterprise Partnership executive team and secondees from partners including the local authorities have collaborated through a joint task group to develop this plan and to support the production of the European strategy.

The interface between the Combined Authority and the Local Enterprise Partnership Board will be achieved by aligned executive support and joint working arrangements to ensure delivery against priorities, supporting the Local Enterprise Partnership and the Combined Authority across the programmes set out in our strategic economic plan.

The Local Enterprise Partnership and local partners are putting in place arrangements to ensure our innovation, skills and business support implementation plans are overseen by a range of experienced partners from the private and public sector, with involvement from national agencies and local universities. The arrangements include:

- Innovation Board.
- North East Strategic Skills Group.
- Business Support Board.

These groups report directly to the North East Local Enterprise Partnership Board, providing direction and leadership in their particular thematic areas and ensuring delivery of our implementation plans. In addition, the Local Transport Body, reports to the Combined Authority.

# **A: Vision and objectives**

**“By 2024 our economy will provide  
over one million jobs”**



## Our vision

Today the North East Local Enterprise Partnership area is a globally competitive economy, with more and better jobs being created through making, trading and innovating across a range of sectors by a broad diversity of businesses. With a concerted effort to invest in what is best for businesses and communities we can go even further. So we are setting ourselves a vision:

### **By 2024 our economy will provide over one million jobs.**

Representing 100,000 new jobs and equivalent to an 11% increase in employment from today, the vision for our strategic economic plan builds on the North East Independent Economic Review chaired by Lord Andrew Adonis. It reflects the determination of local partners to provide opportunities for businesses and residents in a modern and diverse economy, developing a strong entrepreneurial and innovative spirit.

In addition to the increase in job numbers, we intend that as a minimum, 60% of our employment growth will be in better paid and higher skilled jobs, helping to close the productivity gap that remains between our local economy and the best performing areas of the UK.

The following sections describe why we have every reason to believe that we can achieve this vision.

## Quantifiable objectives

Our vision is to have over 1 million people in employment in the area economy by 2024. This represents an increase of circa 100,000 jobs from current employment levels, and delivers an employment rate of around 73%, closing the current gap with England excluding London.

Independent forecasts expect employment to increase by 40,000 jobs in that period without additional policy interventions. Our strategic economic plan sets out the interventions that will create the additional 60,000 jobs needed to reach our one million vision. We expect that 60% of all those extra jobs will be better paid and higher skilled jobs, which will deliver a productivity boost to our gross value added (GVA). Therefore, the expected increase in employment, combined with an increase in productivity, deliver another key component of our ambition: an increase in GVA that closes half the gap in GVA per full time equivalent (FTE) with the rest of the country.

We have made some cautious assumptions which drive the supporting employment and output growth in our economy:

- We expect that the productivity of existing workers will increase at 75% of recent trend rates of productivity growth in the area. For the rest of the country, we assumed an increase of GVA/FTE of around 2.25% per annum, aligned with the long-run trend.
- The productivity of 40% of the additional 100,000 jobs will grow at the same rate as these existing jobs (= 'more jobs').
- We expect that the productivity of 60% of the additional 100,000 jobs will grow to a higher (18% higher) level than the productivity of the stock and the other 40% of additional jobs (= 'better jobs').

Our European funding submission accounts for approximately 16,000 of the additional 60,000 jobs needed, leaving 44,000 jobs still to be created by 2024. The project pipeline accompanying this submission suggests that our bid for 2015/16 will create approximately 50% of those extra jobs needed, so even under very conservative estimates, we have reason to believe that between this deal and deals for subsequent years to 2024, our economy will fill the remaining gap in more and better jobs.

If government joins us in our proposed North East Development and Investment Fund, we can assure the long term capital investments to complement our European Regional Development Fund revenue programmes. The fund will deliver a further 16,000 of the higher value jobs that are central for this vision for the North East.

Half of our vision can be achieved through these two interventions, with the remaining jobs and GVA created by transport, innovation and further education capital investments starting in 2015/16 and continuing through the rest of the decade and beyond.

Alongside a commitment to raising education attainment, funding high level skills programmes and a determination to raise activity rates and boost inclusion, this plan is designed to produce balanced growth. We are therefore committed, as a minimum, that we will halve the gap between the North East and the national average (excluding London) on three quantifiable measures:

1. Gross value added (GVA) per full time equivalent (FTE), with wages and profits rewarding workers and investors and sustaining high levels of employment.
2. Private sector employment density, with more companies and jobs driving a high growth economy.
3. Activity rate, with no one left behind, and those distant from or disadvantaged in the labour market helped to take advantage of the opportunities created by a successful growing economy.

We will fully close the gap on one quantifiable measure:

4. Employment rate, with the scale and quality of employment matching an increasingly better qualified and higher skilled workforce.

We will drive sustainable growth by increasing the uptake of low carbon technology across the economy - including housing, transport and by business. This is one of a number of measures adopted in our European strategy, reflecting the financial and policy commitment to sustainability through efficient use of energy and the promotion of technologies that reduce carbon emissions.

**‘More and Better Jobs’** has been the title of all our strategic documents for a very good reason. Our strategic economic plan is for all our communities, and creating 100,000 new jobs whilst also meeting these wider objectives is a mark of our inclusive ambition. Achieving this all-encompassing growth is fundamental to the prosperous North East that everyone wants to see.

# **B: Our plan in context**





## Developing our strategic economic plan

In developing our strategic economic plan we have built on existing research and reviews, including the North East Independent Economic Review, the European Structural and Investment Funds Strategy and the North East Governance Review.

### North East Independent Economic Review

In March 2013, Lord Andrew Adonis published our North East Independent Economic Review.

Lord Adonis worked with five other panel members to complete the findings: Heidi Mottram, Northumbrian Water, Chief Executive and CBI, Regional Chair; Bridget Rosewell, economist and Volterra Partners, Chair; Will Hutton, Big Innovation Centre, Chair and Hertford College, Oxford, Principal; Jonathan Ruffer, Ruffer LLP, Chair; and Lord Donald Curry, Better Regulation Executive, Chair and Royal Veterinary College, Chair. They are all great supporters of the North East Local Enterprise Partnership area.

The economic review panel reviewed over 50 formal evidence submissions from the public and private sector, including the CBI, Institute of Directors, local authorities, the voluntary and community sectors, universities and colleges. The review panel was supported by international experts bringing significant expertise and knowledge to provide a wider perspective and challenge.

In their role as critical friends, the experts produced a series of think pieces, which reflect their understanding of the key issues facing the local economy and respond to the emerging findings from the initial engagement process. These experts, whose impact has been central to our progress since the economic review, are:

Innovation in North East England: Building Momentum through Specialisation - Chris Pywell.

Skills and Labour Market Change - Professor Linda McDowell, Professor of Economic Geography, University of Oxford.

The North East Local Enterprise Partnership Area in the Context of the Global Economy - Professor Philip McCann, University of Groningen, The Netherlands.

Transport and Infrastructure - Professor Iain Docherty, Adam Smith Business School, University of Glasgow.

North East Independent Economic Review: Land Markets in the North East of England - Professor Henry G. Overman, London School of Economics and Spatial Economics Research Centre.

The Regional Advantage: What the Manufacturing Location Calculus Implies for the Economy of the North East - Professor Susan Christopherson, Cornell University.

The opportunities and barriers to growth in key manufacturing sectors in North East region - Professor John MacIntyre, Tim Pain and Dr Robert Trimble, University of Sunderland.

Analysis of the North East's Service Industries: Opportunities and Barriers to Growth - Lucy Winskell, Pro-Vice Chancellor, Andrew Sugden, Northumbria University.

Independent Economic Review of the North East Rural Economy Report - Professor Mark Shucksmith, Newcastle Institute for Social Renewal, Centre for Rural Economy, Newcastle University.

Social Enterprise in the North East - Charles Seaford, New Economics Foundation.

Financing Business in Slow Growing Regions: Is there a Case for Local Capital Markets? - Professor Ron Martin, Professor of Economic Geography, University of Cambridge.

Access to Finance: A thought piece for the North East LEP Independent Economic Review - Professor Colin Mason, Professor of Entrepreneurship, Adam Smith Business School, University of Glasgow.

The economic review was launched in April 2013 at a conference held in Gateshead, attended by over 400 people from the public and private sectors. It received extensive publicity, locally and nationally, and has served as a framework for addressing opportunities and challenges across a number of key areas.

The economic review reached a number of major conclusions:

- The North East has an absolute shortage of jobs, and this is a result of too few companies and jobs in the private service sectors which have driven jobs growth elsewhere in the UK.
- Productivity levels are a problem, even in sectors where the North East is well represented.
- Skill levels are not good enough to support the modern, diverse economy which will provide future jobs and opportunities. In particular, both improving school results and increasing vocational opportunities through the apprenticeship system are important to increasing the choices open to young people.
- Connectivity, locally, nationally and internationally needs to be improved to help open and strengthen the area's economy.

The conclusions of the economic review were succinctly presented in its title: **More and Better Jobs**, which we continue to use in our strategic economic plan.

Since the economic review was published, many local partners have developed new ideas in response to some of the challenges which it raised. Some of these were highlighted at a conference held in September 2013, which was attended by over 300 business and organisation representatives.

The economic review panel strongly supported the intention of the seven local authorities to establish a Combined Authority for the area to play a leading role in creating the conditions for economic growth and new investment. Following the relevant legislative process, the local authorities have now come together to establish a Combined Authority for the area. Building on the successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth.

The economic review was particularly well received by the private sector and a number of business leaders are engaged in taking forward its recommendations. This includes work with regard to access to finance, business support, innovation, internationalisation, including exporting, education and training for young people

### North East European Structural and Investment Funds Strategy

In June 2013, government informed the North East Local Enterprise Partnership that the area would receive circa £460m of European Regional Development Fund (ERDF) and European Social Fund (ESF) support for the period 2014-2020. This allocation was made in recognition of the economic opportunities and social needs of the area. Subsequently a further £11m from the European Agricultural Fund for Rural Development (EAFRD) was allocated to the area to support rural development.

The new European strategy allows local partners to take up the challenge of **More and Better Jobs**. With ERDF available to support innovation (a major theme in the economic review) and ESF available to support some of the skills and young people challenges, the economic review helped set the framework developing the new programme. EAFRD adds substantially to the Rural Growth Network, LEADER and other support for rural growth.

To develop the proposals we undertook a research and consultation exercise to look at various European policy themes, notably small and medium enterprise (SME) growth, the low carbon economy, innovation, and employability, inclusion and skills. We commissioned new research to better understand challenges, issues and new solutions in areas including sustainable development, social inclusion and smart specialisation. The development process included the commissioning of a number of specific studies and a series of workshops and seminars.

The proposed new European programme was set out in the draft European Structural and Investment Funds Strategy and submitted in early October 2013. This was developed further with stakeholders and government and, in line with all other local enterprise partnerships, submitted as a final draft at the end of January 2014. It includes a comprehensive socio economic analysis, including a detailed labour market and skills analysis. Calls for projects are likely to begin in autumn 2014, offering a timely opportunity to take forward many of the opportunities for growth set out in the economic review.

The European strategy sets out ambitious plans for innovation, business support and skills in support of economic growth, and makes the case for targeted intervention to reduce economic exclusion amongst disadvantaged groups in the labour market. This last theme is designed to ensure more people share in the benefits and opportunities from a more successful economy, as set out in our strategic economic plan.

Our development process has aimed to integrate the investment strategy to ensure spend priorities are informed by identified opportunity and need. The programme is fully aligned with the priorities set out in our strategic economic plan.

## The economic opportunity

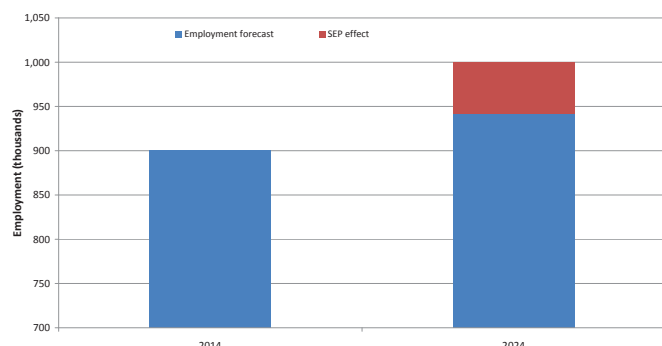
### Employment growth exceeds the UK average

The North East Local Enterprise Partnership area has recently achieved the highest employment rate since 2008. In the quarter to January 2014 employment rose by nearly 20,000 on the previous year, leading to an increase in the local employment rate that outperformed the UK average and was second highest in England. To put this into context, our flagship car manufacturer Nissan employs circa 6,500 people, so our employment growth in the year to January 2014 equates to three Nissans. This suggests that many local companies are poised to embark on a new growth phase. Equally important for our strategic economic plan and the views of investors and government of the area, this is not an economy that needs propping up. The local economy is moving in the right direction and investment now will cement this growth and catalyse a transformational shift, enabling the area to achieve its true potential.

While these employment growth figures are enormously positive, the area suffers from a shortage of private sector jobs to provide a balanced and sustainable economy. Independent forecasts by Cambridge Econometrics undertaken for the North East Local Enterprise Partnership expect employment in the area to increase by 40,000 between 2014 and 2024. Analysis of the impact of the additional measures in this document concludes that implementation of our strategic economic plan will deliver 60,000 private sector jobs over and above that forecast, to take the number of people in employment in 2024 to one

million. Figure 1 illustrates the scale of our ambition.

Figure 1: Employment in the North East Local Enterprise



Partnership area and the effect of our plan

The challenge is not just the number of jobs but the quality of these jobs. The need for More and Better Jobs is therefore fundamental to our plan. Our objective is that at least 60% of the jobs created over the next ten years will be high skilled and higher paid private sector jobs.

The shift towards private sector jobs has already started. Although the area is still more reliant on public sector jobs than the national average, change is happening: employment in the North East of England moved from 72% private sector in 2009, to 79% at the end of 2013.

### Output and productivity are growing faster than in any other area

The area has seen sustained growth in GVA per capita over the period 2009-2012 which surpasses that achieved by any other English area, as shown in figure 2. The area is producing more output and wealth per resident, and more wages and profits are being generated at a faster rate of growth than in any other area.

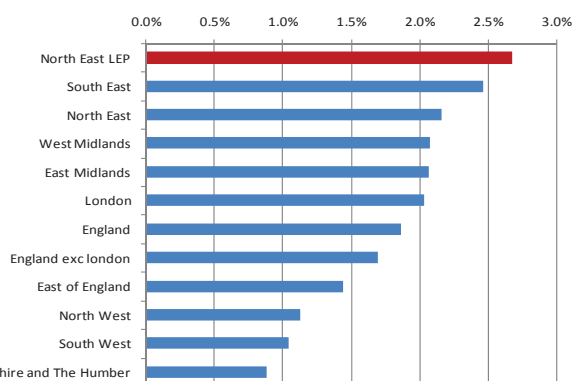


Figure 2: Growth of GVA per capita 2009-2012 (average of 3 year rates)

<sup>1</sup>Gross Value Added (GVA), usually referred to as 'economic output', is a measure of how much our economy produces in a given period of time. It is usually expressed on a per capita basis, to express the productive achievement of the residents of a particular area.

While this trend is extremely encouraging, there remains a significant gap between the area's GVA per capita and that of other areas, as shown in figure 3. It is therefore critical that we build on the momentum of recent years and continue to close this gap.

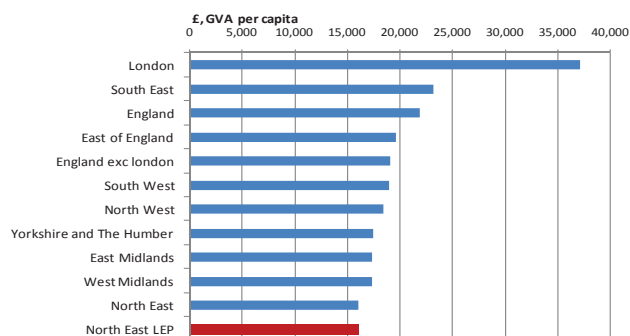


Figure 3: GVA per capita, 2012

A key driver behind our exceptional economic growth is our strong productivity performance, as shown in figure 4. In the period 2009-12, productivity grew by 14% - by far the highest rate in the country.

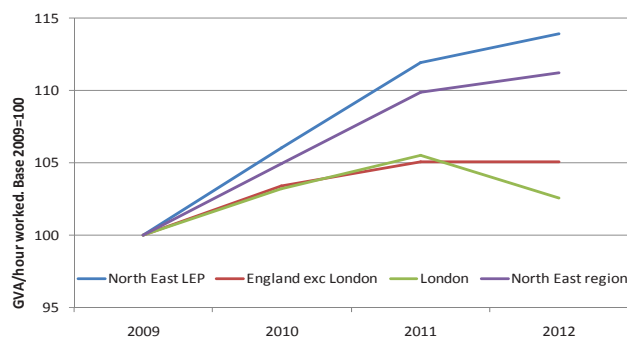


Figure 4: Productivity growth of selected geographies (GVA per hour worked)

This shows that the area is not only producing more, but is becoming more efficient in its production. While productivity growth is unparalleled, productivity levels remain low in comparison with the national average, as evidenced in figure 5:

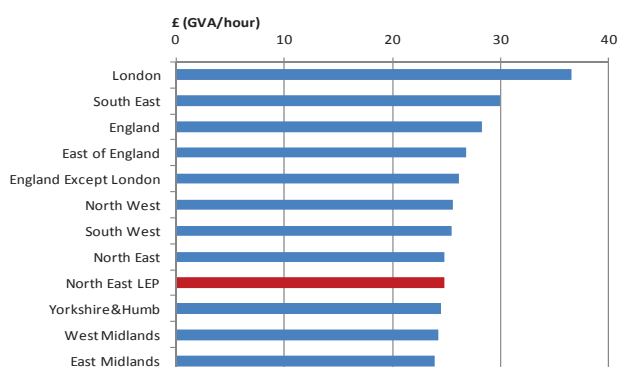


Figure 5: 2012 Productivity (GVA per hour worked)

Low productivity affects not just headline GVA numbers, but is also associated with lower wages and profits. Lower levels of economic activity and low productivity means that the area needs not just more jobs (to increase the employment rate) but also better jobs. In the case of better jobs, the key requirement is a skilled workforce, able to work in sectors and occupations characterised by high levels of productivity. The North East has many outstanding companies in key growth sectors, but many more indigenous companies are needed to raise productivity levels to match the UK average.

While the productivity challenge is considerable, recent performance demonstrates that the area is well on its way to closing the gap with the national average, and suggests that further high quality investment in the area will reap greater return than other areas of the country where the gap between output and capacity shows less sign of shifting.

### The skills base needs to improve to drive economic growth

Since 1999 the area has seen a fall in the proportion of its working age population with no qualifications and an increase in the proportion of its working age population with qualifications at Level 4. Educational achievement has been on a steady rise since 2000.

In spite of these improvements, the area needs to increase the volume of skills at higher level to address the changing demographic, in particular higher skills required by employers as a result of replacement demand and an anticipated demand for jobs requiring level 4 and above rising by 120,000 by 2020.

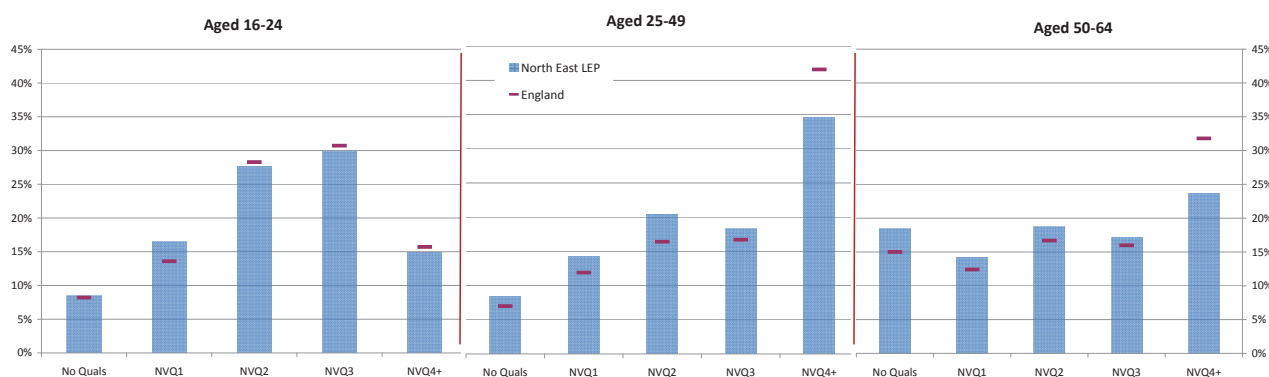


Figure 6: Qualification profile of North East Local Enterprise Partnership area and England

Many young people are excelling in their education, and in some measures, pupils and schools are doing well. The North East is the best performing region in the country in terms of the percentage of students achieving five or more 'good' GCSEs (grades A\*-C). From a starting position of being third from the bottom of the national league table in 2005, the North East has been top of this table every year since 2008, as figure 7 shows.

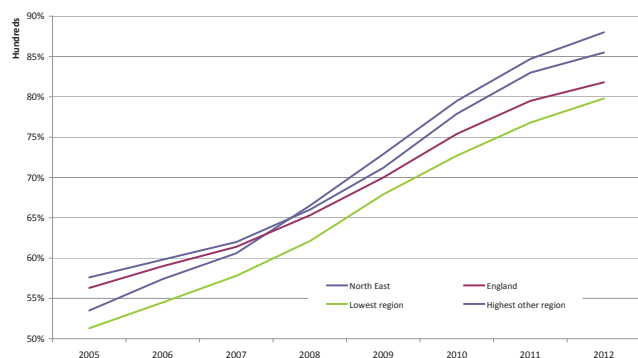


Figure 7: % of pupils gaining 5+ A\*-C GCSEs

However, huge disparities exist in educational achievement within the area. The proportion of secondary schools judged as good or outstanding for teaching in the least deprived areas is 85% - almost equal to the national average of 86%. In the most deprived areas however, this drops to 29% compared with a national average of 65%. This means that there is a massive 56 percentage point difference between the proportions in our most and least deprived areas.

There are evidently some considerable challenges in the education system, with poor attainment and weak schools too often concentrated in the most deprived areas. This is a barrier to social mobility and to the realisation of personal and economic opportunities, and must be faced. Our strategic economic plan demonstrates how we will continue to build the quality of our schools through a schools challenge. The Schools Challenge aims to eliminate the inconsistency across the area in schools' performance through a step change in the quality of learning available in our worst performing schools.

Performance against other skills indicators underlines the need for a focussed, local response. There are insufficient numbers of people achieving qualifications in science, technology, engineering and maths (STEM) subjects, exacerbated by even lower number of females taking STEM subjects. The area performs well relative to national figures in apprenticeship starts but further growth is needed in the number of apprenticeships available in key sectors.

The area needs to retain the international competitiveness of its manufacturing jobs, which still account for a large proportion of better paid private sector jobs and grow the higher value service sector jobs linked to business services and the new economy.

## Demography

There are some particular demographic challenges due to the relative under-representation of young people in the population compared with the national average.

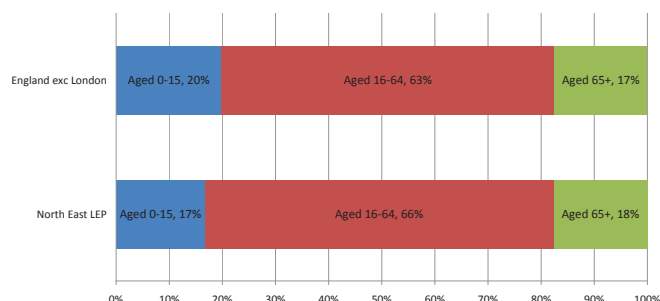


Figure 8: Composition of population by broad age group

At a time when the UK population has been growing rapidly, the North East is distinctive, having only recently (2013) returned to the levels that population were present in the region in the 1980's following significant losses during past economic restructuring. Population growth is slow and some forecasts suggest a falling population in the future with the over 60 cohort increasing in both absolute and proportionate terms as a result of enhanced longevity and declining fertility. The older population will therefore be important in both a range of consumer markets and as the focus for an increasing proportion of public spending on health, social care and pensions.

Inward migration has been a key contributor to retaining population balance both in the labour market and in higher education, with the North East's minority populations having doubled in size to 5% of the population during this period (15% in Newcastle). Continuing to attract and retain talent will be crucial to the future economic health of the North East and will create wider opportunities for international profile and connections.

Faced with this demographic challenge, our strategic economic plan proposes interventions that generate more and better jobs and recognises the importance of promoting the area as a great place to live and work. This will help to retain indigenous talent as well as attract new talent to the area. Culture, heritage and amenity also play an important role in the attraction and retention of talent, and our skills and education proposals will help to reinforce the reputation of the area as a great place to bring up children.

### A great place to employ and be employed

The North East is a good place to locate and do business. This is attributable in part to the exceptional productivity growth, but also the competitiveness of local labour costs. The area has the lowest median wages in the country, making this an attractive location for employers, as figure 9 shows.

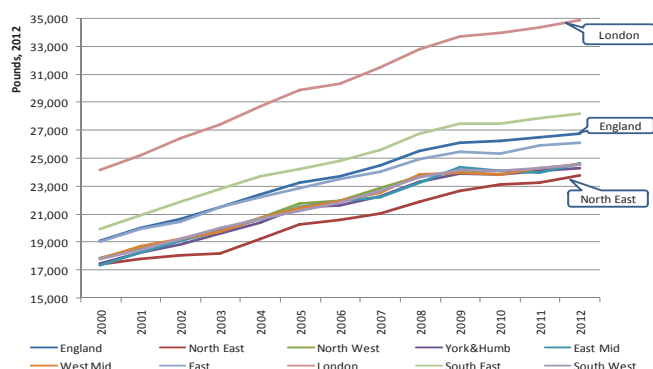


Figure 9: Median gross annual earnings of full time employees, 2012

However, the area also benefits from a low cost of living, meaning that wages go further.

While higher salaries in London tend to attract skilled workers, and particularly graduates, their quality of life may be significantly impaired in relative terms by the high cost of living. People living outside of London benefit from a higher purchasing power – around 20% higher in the case of the North East, as shown in figure 10.

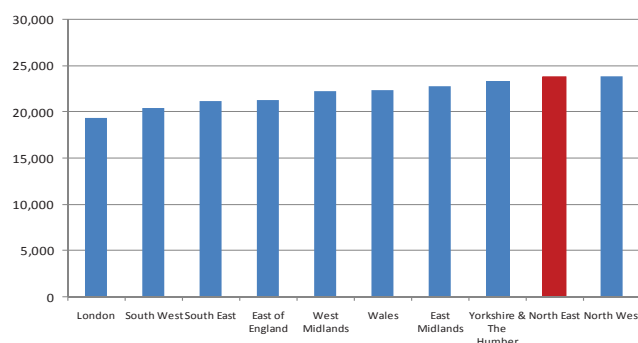


Figure 10: Median gross annual earnings of full time employees expressed in North East prices, 2012

This is a strong message to communicate to employees, as well as employers.

Retaining more of our talented young people and attracting new talent to the area will help to redress the balance in our demography. With more and better jobs, we have the right conditions to support a balanced and productive economy: wages go further, quality of life is higher and in many areas, our educational offer is unrivalled, making this a great place to raise a family.



## Building on our strengths

### Who and what we are

The North East Local Enterprise Partnership area has a population of two million people and an economy generating £30bn each year. In the last growth cycle, the economy showed its potential to close the gap with other local enterprise partnership areas and make a strong contribution to the national and global economy.

The area encompasses city locations and a network of towns and smaller settlements including post-industrial, coastal and remote rural communities. The city and urban areas, clustered in and around the Rivers Tyne and Wear, are key business and employment locations, and are complemented by a strong network of settlements along strategic transport corridors and in rural and coastal locations.

The cities, NewcastleGateshead, Sunderland and Durham, are powerful locations, combining higher education, cultural and tourism assets, retail and evening economy, with financial, professional and business services employment. The large and international graduate and post graduate populations in the main cities add to the evening and weekend economies, and more leisure visitors are taking city breaks in the North East.

The area's unique profile is underpinned by natural, cultural, sporting and heritage assets, each of which have a role to play in its economic future. The quality and diversity of the nationally protected coastal and countryside landscapes set the area apart. They are also home to a substantial proportion of the area's business base with the rural economy supporting a number of sectors and diverse businesses, essential to the wider economy. The diverse and complementary offers of the city, urban, coastal and rural locations marks the area as distinctive and this is reflected in the people and communities who live here.

The primary international gateways are through the Port of Tyne and Newcastle International Airport which offer passenger and freight connections to global markets. The ports of Berwick, Blyth, Sunderland and Seaham also provide freight maritime links. International connectivity is by easy access to Teesport and Durham Tees Valley Airport. These international gateways are particularly important for local export-led sectors.

Every year the area is promoted to a wider audience through the two Premier League football teams, a premier league rugby union team, an international test status cricket ground, an international athletics stadium and world class cultural venues. This is combined with a proven capacity to attract and host large scale national and international events. In recent years we have hosted the Lindisfarne Gospels Exhibition, the British Science Festival, the Turner Prize and international sporting events such as the Great North Run, Olympic Football and the Ashes.

Analysis of the last growth cycle clearly highlights the success of the area when compared to other core city local enterprise partnership areas. Over 67,000 jobs were created between 1998-2008, increasing employment by 10%.

Employment grew strongly across the North East, helped by the development of a number of new business parks close to the strategic road network.

The area outperformed its peer group in terms of employment growth in a number of key sectors. In financial, professional and business services employment growth exceeded the seven other core city local enterprise partnerships, including Manchester and Leeds, during the last cycle. It also recorded a very strong employment growth compared to other areas in terms of creative and digital industries and tourism.

The area hosts FTSE 100 software company Sage plc's global HQ, Leighton, one of the UK's foremost digital consultancies, Ubisoft, the largest independent game publisher in Europe, games developer Eutechnyx and CCP Games, the Icelandic games studio, among thousands of flourishing software technology, electronic gaming and creative businesses.

The Department for Work and Pensions (DWP), Virgin Money, Tesco Bank, Insure the Box, British Airways and the AA all have 'back office' technical functions based here, which bring significant economic benefit to the area. Many call centres also have technology e.g. Tesco Bank, Newcastle Building Society and Insure the Box.

The supply chain includes HP, Accenture and 45 independent software vendors employing in total 25,000 staff. Evidence suggests that despite the current economic climate, these smaller businesses are growing and developing niche markets. They have the potential to offer great employment opportunities, investment and wider economic development benefits to the area as other businesses look to new software solutions to generate savings and access wider markets.

In recent years, there have been more new technology company start-ups here than any area of the UK outside London. The North East has emerged as one of the leading centres for digital games development and start-ups, with a dynamic cluster of firms and university courses acting as a magnet for entrepreneurs and students.

A distinctive feature of the North East is the number of foreign owned companies. Over 42,000 jobs have been created in the North East through foreign direct investment between 2005 and 2012. While the number of jobs has fluctuated year on year, the area has averaged over 5,000 foreign direct investment (FDI) jobs each year. The North East has an exceptional record in attracting and retaining Japanese owned companies to the UK, of which Nissan is the highest profile example. In total, over forty Japanese companies have operations here.

## Manufacturing renaissance

The assessment of evidence carried out to support the economic review identified a number of distinctive assets and strengths, with the potential to generate a real competitive advantage in the future and to realise the government's ambitions for sustainable economic growth and rebalancing the UK's economy, notably:

"Advanced manufacturing, pharmaceuticals, energy/low carbon and environmental industries are particularly important sectors for the North East Local Enterprise Partnership area: they offer innovative, highly productive and world-class activities. Many of the area's successful businesses hold a prominent position in international market places, with exports for goods such as machinery and passenger vehicles holding up relatively well. These are strong foundations on which the economy can build."

Manufacturing is located largely in out of town business and industrial parks, creating key employment locations along economic growth corridors which support the growth of the manufacturing sector. There are particular clusters and corridors emerging, specifically around passenger vehicle manufacture, renewable energy, oil and gas and process industries.

Key locations on the A19, the banks of the rivers Tyne and Wear and the coast are providing current and future opportunities, especially through the North East Enterprise Zone to provide the necessary physical economic infrastructure to support the growth of these related sectors.

## Rural economy

The rural areas of the North East are extensive and include the greater part of Durham and Northumberland, with a rural hinterland in parts of Tyne and Wear. The rural areas and their natural and physical assets are central to the area's economic prosperity and quality of life.

The rural economy makes a significant contribution to the local economy on a number of indicators: proportion of enterprises, proportion of employment and proportion of GVA. The rural economy has, by definition, relatively dispersed communities for whom strong and competitively priced transport and digital networks are essential, and within amongst rural settlements there are marked variations in the role that different places play in terms of housing markets and industry. There is no stereotypical rural business, and the rural economy supports a number of sectors and diverse businesses that are essential components of the wider economy. It is the location of choice for larger companies, such as EGGER (UK) and GlaxoSmithKline, and a number of high-growth manufacturing service and design businesses, graduate start-ups and other new firms.

The rural economy drives a diversity of skills provision, with colleges specialising in agriculture, renewable energy

technologies and rural business. The local rural area is also home to internationally renowned heritage and cultural sites, including Hadrian's Wall World Heritage Site, the Bowes Museum, the World Dark Skies Park, the country's biggest open air museum at Beamish, and the religious and environmental focal point of Lindisfarne.

The rural economy has great potential to enhance the area's wider economic success. Building on its diversity, sector strengths, and its physical, natural and business assets, there is potential for a greater representation from across sectors to grow and support a step-change in productivity.

## Opportunities for growth

Opportunities for growth are derived from national and international changes in business and consumer demand, changes in technologies, and trends in national and global markets. They include:

- The continued growth in the global economy, with a recovering US and Eurozone adding to the opportunities in the US and continued growth in China and Asia, South America and other global markets.
- A revitalised UK economy, with domestic demand that increases the range of opportunities open to North East businesses.
- The resurgence of some parts of the manufacturing base and a growing number of companies returning production to the UK; increasing exports for high value added products in sub-sectors such as advanced and marine engineering and oil and gas.
- The development of new materials, manufacturing processes and innovation, led by agile medium sized companies.
- Changes in business organisation and services, including outsourcing, creating new demand for business service activities.
- A rapidly expanding creative and digital economy, with new technologies, expanding platforms, games and content production driven by international markets.
- Increasing demand from international inward investors - UK Trade and Investment (UKTI) has reported an increasing number of investors from China, India and other parts of Asia choosing the UK, adding to continued demand from Europe and the United States.
- Increasing international demand for higher education and training in the UK.
- Increasing house prices and commercial rents in London, making other secondary locations attractive for many companies for some/all of their business functions. The area can provide sufficient employment land and a range of housing options, and its connectivity to London, as well as attractive quality of life makes it well placed for companies keen to locate in a lower cost, high quality environment.
- Increasing demand for quality leisure opportunities, as the international and European economies recover. There are already significant numbers of visitors, with a growing leisure and business conference offer based on quality.

The global factors and consumer trends provide real opportunities for the area's economy to expand and for local businesses to capture increasing shares of national and international markets. In terms of areas where we feel we can make significant progress through additional investment, much work is already underway among local partners.

### **100,000 jobs in the North East: Where will they come from?**

To meet our vision of one million people in employment the North East must see its economy grow by some 100,000 jobs over the next ten years, including part time jobs and self employment. These jobs will be predominantly in private sector services. To achieve 60% of this employment growth from higher paid jobs, attention and support must focus on sectors with the potential to provide higher paid and higher skilled jobs.

The North East will benefit from a combination of growing markets, a strong company base, and competitive locations for investment and developments. This requires an accelerated growth period, similar to 1998-2008, when many parts of the North East out-performed the national economy in terms of employment growth.

The major growth sectors and opportunities are:

- **Business services:** Predicted to grow strongly in the UK over the next ten years, and Newcastle and Durham are very competitive locations, while out of town locations such as Cobalt Park already accommodate a broad range of medium and large business service companies.
- **Professional services:** Newcastle is a strong centre for professional service companies, and there is scope to extend the base in a number of other centres such as Durham and Sunderland.
- **New economy:** The North East has a very strong cultural and creative base and technology, media and telecomms companies are well represented. This includes a strong software base around Sunderland and a growing creative industries sector in Newcastle and Durham. Increasingly networks are being built with businesses in rural areas featuring prominently.

- **Universities:** The North East has a large undergraduate and post graduate population, and is a popular destination for international students. The four universities have ambitious plans to develop their research and teaching capabilities.
- **Low carbon, including renewable technologies:** This sector has the potential to deliver significant new investment and jobs. We aspire to make the area Europe's premier location for low carbon, sustainable, private sector-led jobs and growth. There is potential to secure greater competitive and commercial advantage from the transition to a low carbon economy - through new investments in offshore wind, electric vehicles, micro-generation and drawing upon renowned scientific research and innovation strength in a range of low carbon technologies.
- **Healthcare and healthcare technologies:** With an ageing population and strong research centres, the North East has the company base to lead new innovations in a fast growing and global market.
- **Tourism:** The coast and rural areas underpin a strong local tourism offer, with a number of heritage assets of national and international significance. These opportunities are complemented by a growing city tourism market and increasing business tourism.
- **Logistics:** The move to internet shopping and increasing international trade are changing the nature of distribution and logistics. Many new logistics opportunities need to be close to the local population, offering further opportunities for North East companies.

These growth opportunities will be supported by a comprehensive business support service, an increasingly well qualified and skilled workforce, and competitive locations both for new investment and housing choices. Successor investments by major and foreign owned companies, along with new FDI successes, will complement growth in the North East's SME base.

# **C: A strategic approach**



The previous section detailed how the area's economy has come a long way over the last two decades, and the economic performance in the last growth period was strong. Whilst there remain longstanding challenges in some communities, there is a basis for optimism which we are determined to harness to create more and better jobs as we move forward to realising our vision.

The latest economic figures suggest that productivity is improving in the North East and employment is rising, providing a sound platform for the proposed investments set out in our plan.

We are operating in the face of national and global economic change, both of which present drivers for significant structural transformation in the local economy. We have to anticipate many of these changes in how we design and take forward new initiatives which, in the aggregate, strengthen business, people and place. Our strategy is therefore to enhance these three key elements of any successful economy. We will consider projects and programmes for investing public money through these filters:

- **The impact on business:** Private sector led growth, with more businesses exporting and selling to the rest of the UK, a larger, more diverse and modern business base, with important new inward investors complemented by high growth small and medium sized North East companies, where managers invest for the future, prioritising innovation, international development and higher level skills to support their growth ambitions.
- **The benefits for people:** Building on the popularity of the North East workforce with large employers, increasing skills level as the route to sustaining employment, where long term skills challenges are resolved by a system responsive to the needs of employers; with well qualified and highly motivated young people can access quality jobs, and where targeted and tailored support helps those distant from the labour market to access training and employment opportunities.
- **The diversity and strength of place:** Capitalising on the success of many employment locations which accommodate new investment in the last growth period, maximising the potential of the area's outstanding rural towns and communities and the popularity of our urban centres, to retain and attract the talent which will drive a more competitive and better connected economy.

There are six strategic themes which will allow local partners to address the challenges and take up the many opportunities facing businesses, people and places in the North East today. These cover a range of challenges and include both short and medium term priorities, with a view to enabling an inclusive, entrepreneurial and sustainable economy.

These are:

1. **Innovation:** Central to our ambition of better jobs and a more competitive business base, delivering medium term benefits as managers invest in new products, processes, markets and technologies supported by an ambitious open innovation system.
2. **Business support and access to finance:** The key driver for more jobs and a strong private sector, addressing market failures to support a stronger indigenous businesses, with better access to finance, and able to progress expansion plans in national and international markets.
3. **Skills:** Providing a demand led system, reflecting the need of employers, including for high level skills in support of better jobs, with access to high quality training facilities for both general and specialist training.
4. **Employability and inclusion:** Central to ensuring no one is left behind, providing targeted and tailored support to neighbourhoods and groups facing major challenges in accessing training and employment opportunities which lets everyone fully share in the benefits of a growing economy.
5. **Economic assets and infrastructure:** Developing the places for business to invest and people to live, developing new opportunities with towns and cities, coast and country, and heritage assets.
6. **Transport and digital connectivity:** Which serves and connects people and businesses, letting people move around for both work and leisure, and connecting the North East to the national and international economy.

Figure 11 overleaf demonstrates the relationship between inputs (integrated funding), the six thematic programmes described above, and outlined in more detail in the rest of this document, and the objectives of inclusive, entrepreneurial and sustainable growth. Alongside productivity and employment these are measured using the quantified metrics described in section A. The success of the overall programme is measured by the rather inanimate idea of gross value added to describe the output of the economy. There is nonetheless grandeur in this model of investing resources, which is designed simply to create as many more and better jobs as possible.

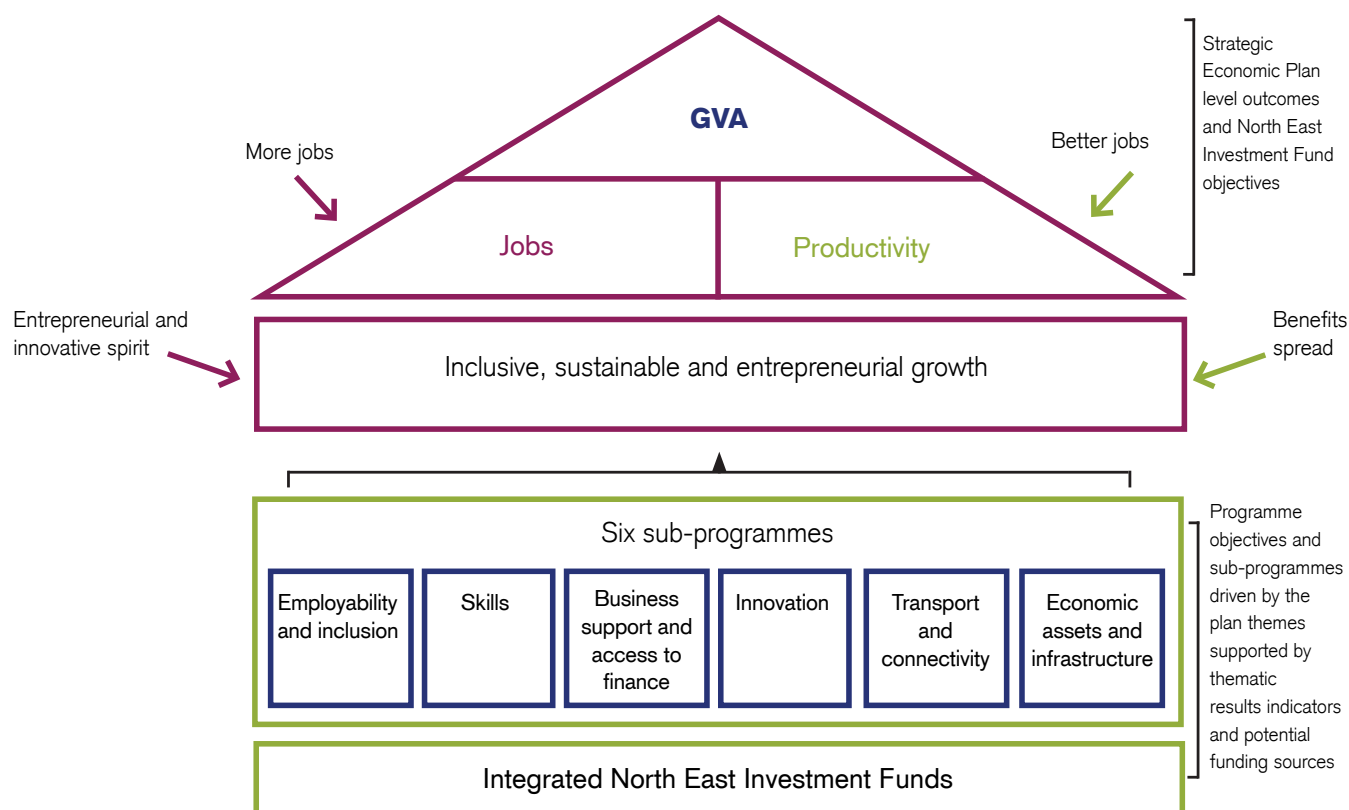


Figure 11: Strategic investment framework adopted by the North East Local Enterprise Partnership.

The investments we have made to date through the North East Investment Fund reflect the commitment to these thematic programmes, ranging from £10m of finance to Durham University for its Centre for Innovation and Growth, circa £2m for the infrastructure work required to get a major development started in central Newcastle, nearly £15m in the North East Enterprise Zone sites and a series of new build industrial units in areas of proven demand.

With a number of innovation, demonstration and test sites also approved for funding and major investment in digital and cultural venues under consideration, the commitment to support strong economic developments across all parts of the local economy is clear. The remainder of our plan goes further and describes the future investments we propose and the exciting package of development and devolution that goes alongside it.

Six full implementation plans based around our bid to government for Local Growth Fund resources and devolution of freedoms and flexibilities, have been produced and submitted to government alongside our plan. The financial data in these plans is commercially confidential, so we are not able to publish the implementation plans at this stage.



# D: Innovation



In the face of global competition for consumers, resources and capital and changing social trends in areas like health and communications, innovation has never been more important.

For individual businesses, successful innovation is a key source of competitive advantage with new products and processes driving opportunities for new markets or efficient delivery. For areas such as the North East, dynamic innovation systems and cultures can be the source of both economic and social development – the growth and creativity of individual businesses drives new investment and employment, and socially focused innovation responds to the changing demands of communities.

At face value the North East Local Enterprise Partnership area has a long way to go to meet these aspirations. In absolute terms today, the North East's performance in turning ideas into economic value through research and development (R&D) is not competitive. In their 2008 review, the Organisation for Economic Co-operation and Development (OECD) found that the North East was 'below average' against most key metrics compared nationally and internationally.

Across six key measures, even in the strongest performing measure of higher education R&D investment, the area was about average. But the North East was characterised by low levels of government and business R&D where the area ranked towards the bottom. Subsequent Office for National Statistics (ONS), European Union (EU) and Higher Education Funding Council for Education (HEFCE) data has confirmed this pattern. In 2010, R&D expenditure here was £536m (1.31% of GVA). R&D spend per business is higher in the North East than Yorkshire and Humber and London, but these four lag any other part of the England by a significant margin. In 2011, 380 patent applications were sought, with 70 granted (14%). These figures are amongst the lowest in the UK.

But this data can be misleading about our potential. The area has a host of innovation assets. It has leading-edge research, effective commercialisation hubs, highly creative small and medium enterprises (SME) and high quality networks. The global corporate innovation centres present in the area are embedded and active. The industrial and social environment also possesses potential for great innovation, as evidenced by the history of technological, engineering and medical breakthroughs stemming from the North East.

In the face of this combination of opportunities and challenges, and the attendant risks for indigenous corporate success, the North East Independent Economic Review chaired by Lord Andrew Adonis challenged the area to become an "international exemplar in Smart Specialisation, open innovation systems and culture", adopting a best of class strategy in this area. To achieve this, we are setting out to deliver a step-change in our approach to innovation and commercialisation, using:

- Smart Specialisation, ensuring focus on innovation areas where we have existing pedigree and/or research strengths that can form the basis for future competitive advantage.
- Ongoing strategic intelligence to understand and build on existing innovation assets, our expertise and capability, and market insights. We will focus on opportunities for problem solving within and outside the area.
- Systematised application of best practice "open" innovation approaches.

### Development process

The North East Local Enterprise Partnership Board appointed Professor Roy Sandbach into the role of Innovation Champion in July 2013 to lead our response to this challenge. In this role he has been supported by a task and finish group and a group of globally relevant external advisors drawn from leading international corporate and academic environments. With the active support of partners across the area he has led a significant piece of analysis and reported on a future strategy for the North East. Plans were agreed at the Local Enterprise Partnership's Board meeting in March 2014 which authorised the creation of an innovation board.

This developmental work has focused on:

- Understanding, to a high level of detail, our assets and opportunities in order to move forward our vision. This has been informed by existing evidence from local, national and international sources, the contributions of partners and our 'Smart Specialisation' research.
- Determining strategic imperatives for local innovation. These relate to the development of capable operational structures, building better internal area co-operation and, critically, external-facing engagement in the innovation space. Examination of global best practice for regional innovation-driven growth and commercialisation has been pivotal.
- Defining a practical plan to drive the innovation strategy ahead.

### Fundamentals

Through this work we have identified the fundamentals in successful regional innovation systems:

- **Purpose:** The focus on matching "what's needed" with "what's possible" to create economic or social value.
- **Delivery and dialogue:** Translating ideas, invention or research to execution requires the creation of opportunities for dialogue between those with problems and those with potential solutions. This is central to effective innovation.
- **Open, as opposed to, closed innovation:** Open innovation is about facilitated engagement with those who can solve problems. World leading innovation regions reach outside for growth, encouraging inward innovation investment.
- **Systems and culture:** Great innovation requires an explicitly risk-taking culture and structured support practices, fostered by collaborative innovation leadership. Clarity of vision and detailed intelligence about the area,

market opportunities and evaluation, systematic focus on strengths and competitiveness, training and mentoring, de-risking finance, innovation-specific networks and communications, including clear projection of the area, and attention to the culture of the area to stimulate business and social creativity are required.

### Strengths and opportunities

Our analysis has identified a range of important assets and opportunities in the North East. A number are recognised as national assets, closely linked to other research and innovation centres elsewhere in the UK and beyond.

Key assets: private and public sector companies and institutions:

- Relationships with global corporates who have significant investments in the North East, including Siemens, Accenture, Nissan, P&G, Akzo-Nobel, GlaxoSmithKline and Tata Steel. Whilst these are great strengths for the local economy, many of these are currently key manufacturing or service sites for these organisations, with limited innovation activity present.
- Significant high calibre innovation-driven businesses born and headquartered in the area, providing high value employment. These should provide the core for growth of significant clusters of start-ups/SMEs providing innovative business solutions.
- Several sources of novel ideas, insights and research which can be turned into economic value. Most obviously, the universities have world-leading departments in several sectors that are crucially important to UK wealth creation. The Witty Review places North East universities in the top 20 nationally in a number of areas.

### Innovation hubs

Head-quartered or with significant presence here, positioned to take ideas and research from conception through to commercialisation:

- The Centre for Process Innovation (CPI), based in Redcar and Sedgefield is the process industry focus for the network of national catapult centres, helping businesses to scale up and test manufacturing processes.
- The National Renewable Energy Centre (Narec), based in Blyth, provides a unique integrated portfolio of open-access testing and research facilities for renewable energy industries.
- The North East Business Innovation Centre in Sunderland offers support and incubator services for businesses of all shapes, sizes and sectors.
- The North East Technology Park in Sedgefield offers a physical and virtual technology resource to the whole of the North East.
- The Centre for Ageing and Vitality at Newcastle University, brings together cross-sectoral innovation for health and well-being.

- The Automotive and Manufacturing Advanced Practice Institute at the University of Sunderland, provides facility based solutions for companies looking for innovation as a route to growth.
- Software City in Sunderland and Digital City in Teesside are engines for growth in software, digital technology and media.

**Emerging assets:** a diverse portfolio of existing plans and new possibilities, benefitting from committed leadership and support from a range of organisations within the area:

- Durham University/Procter & Gamble led Innovation & Growth Centre.
- The Neptune Centre for Subsea Technology (based in Newcastle and North Tyneside), with work underway between industrial and university leaders.
- Revitalisation and extension of the Northern Design Centre, led by Northumbria University and Gateshead Council. Entrepreneurial undergraduates have already moved into the building.
- The possibility of creating a life/medical sciences hub in conjunction with the new CPI-led National Biologics Centre in Darlington.
- Newcastle Science Central - a major opportunity to bring open innovation culture and practice to Newcastle City Centre.
- Electric vehicle innovation through Zero Carbon Futures and Gateshead College.

Our **'Smart Specialisation'** study has generated a significant evidence base about opportunities for high value jobs and growth through a number of the area's industrial concentrations including:

- Passenger vehicle manufacture – driving local supply chain growth and inward investment through the presence of global players of national importance including Nissan and Hitachi.
- Subsea, marine and related advanced manufacturing – building on existing businesses to foster nationally and internationally recognised clusters of high value businesses strongly embedded into our local economy.
- Life sciences and health – building on international quality assets in our universities and health sector, combined with our regional 'living laboratory' and the potential for significant social innovation.
- Creative, digital, software and technology-based services – capitalising on dynamic SMEs and start ups, key enabling sector and technologies with large employment potential.

There are also other industrial areas with significant innovation potential including surface science, ageing and energy systems where industrial investment and university relationships are already strong and many are being reinforced with investment through the Catapult network.

**University Enterprise Zones (UEZ):** Faced with the opportunity to put an application forward for a UEZ the Local Enterprise Partnership's Investment Panel decided to support the proposal from the Angel Alliance, a long-standing collaborative agreement between Newcastle and Durham universities. This will lead to development of an innovation corridor down the spine of the area, including new incubator sites in three locations and opportunities to grow the many existing commercial relationships and ties of these two universities.

The UEZ proposal is built on our commitment to commercialise more research, support more innovation training and postgraduate skills, and develop an even larger venture capital fund to support new and growing businesses seeking equity during their early stages. These programmes are detailed below. The prominent role of innovation in investments to date and our European Strategy fits closely with the UEZ capital spend. This is not the limit of our ambition and associated capital projects at Newcastle Science City and at NetPark in County Durham with the Centre for Process Industries are also included in our strategic economic plan as part of our bid to the Local Growth Fund (LGF).

A proposal from Sunderland University to establish the North East's first digital fabrication laboratory (FabLab), embedded within a city centre innovation hub, is close to delivery and has significant commitments from the university and other partners. As a major contributor to the growing role that technical design and software are playing in engineering and advanced manufacturing, and the clear link to our culture of open innovation, our economic plan includes a bid for LGF funding for this project.

Each of these will see the development of new facilities and supporting services close to universities, to encourage stronger collaboration between university departments and new high-tech businesses, in response to local evidence of unmet demand and untapped potential to promote business innovation and inward investment. Alongside the University of Northumbria's commitment to the Northern Design Centre we will have an excellent set of assets and programmes lead by local higher education institutions to support business innovation in the North East and further afield.

### Future strategic imperatives and approach

In determining strategic imperatives to set the direction for the North East, consideration was given to how best to avoid short-termism and spreading resources too thinly. An approach founded on a thorough assessment of strengths was regarded as crucial to setting the focus of policy and activity. Three key imperatives have been identified for our forward strategy:

- Being very clear about our specialisms. Recognising that generalised industrial themes don't provide the precision required for strong innovation dialogue, we have set out to develop laser focus on specific R&D leadership areas or

where there are gaps in global R&D clustering which the North East can fill.

- Building strong collaboration across the area, optimising our systems and networks and developing and maintaining our partnerships.
- Creating a North East innovation voice for national and international engagement with key leaders. This is not about trade relationships, it is innovation dialogue.

Our work will focus researchers, companies and technical expertise on areas where the North East has genuine strengths and real potential to make an impact and this is being factored in to the rigorous assessment processes now used to determine priorities for investment in new research and innovation facilities.

In delivering our approach, we will introduce arrangements which facilitate effective innovation activity:

- Building innovation capacity and capability.
- Developing areas of sectoral strength, globally leading-edge, with innovation potential.
- Innovation opportunities outside these strengths including:
  - Consumer goods.
  - Horizontal innovation between or at the boundaries of sectors eg product or service design, product or process engineering.
- Social innovation.
- Supporting resources – skills and finance.

Other strategic priorities include the need to rigorously create dialogue on open innovation opportunities across the globe and showcase the North East's competitive strengths.

The approach of an open innovation system will allow the area to pursue opportunities relating to goods and markets, as well as sectoral opportunities using the North East business base and smart specialisation assets to pursue innovation led opportunities. A key feature will be to link researchers, innovators and company managers across disciplines, sectors and hubs.

## Investment programme and proposals

We will take forward one of the largest and most imaginative local innovation programmes in the UK. Subject to application, this will be funded by ERDF, although investments by the Technology Strategy Board (TSB), the LGF and other partners are required to support key elements of the programme.

Key investments include:

- Creation of a North East Innovation leadership with a Board and, most importantly, an Executive providing a capacity

for co-ordination. Engagement of an expert International Innovation Advisory Group.

- Catalytic innovation competitions to build innovation delivery in areas of strategic importance for the region. Smart Specialisation focussed.
- A grand challenge innovation programme, focussed on delivery of a broad community-observable benefit. This will require significant cross-sectoral and cross-area collaboration.
- Innovation project support for collaborative wealth-creating or social improvement innovation programmes in areas which are aligned to our strategic economic plan, but outside smart specialisation sectors.
- Procurement of a cross-network initiative that enhances dialogue to ensure that opportunities for innovation engagement are not missed.
- Ph.D. commercialisation initiative. Rigorously peer-review all university research output for potential commercial application.
- Build a clear outward-facing North East Innovation brand/offer. Engage with global innovation demands.

In addition to these projects, the innovation programme will seek to continually strengthen the facilities available to support innovation. After a rigorous review process of a range of potential innovation related investments which could further enhance the area's facilities, local partners identified six priority investments to propose for the first round of LGF investment, commencing in 2015/16. In selecting these we tested a range of issues, in particular strategic fit and deliverability.

## Programme leadership and governance

### North East Innovation Board

We are putting in place new arrangements to ensure the North East Innovation Strategy is overseen by a range of experienced partners from the private and public sector, with involvement from national agencies and local universities. This responds to our review of successful innovation regions which highlighted the importance of strong and expert leadership.

The Innovation Board will be responsible for:

- Overseeing the implementation of the Innovation Strategy.
- Steering, advising, recommendations to the North East Local Enterprise Partnership Board.
- Supporting the Chair and innovation executive team.

The Innovation Board will be appointed and accountable to the North East Local Enterprise Partnership Board, which has agreed the terms of reference. We are currently working on the detail of Board membership.

### North East Innovation Board Membership

- Innovation Champion in the chair
- North East Local Enterprise Board, North East innovators, universities
- Technology Strategy Boards and Research Councils
- 'Non-Executives' with international or academic expertise

An innovation executive is to be appointed to oversee the day to day delivery of the Innovation Programme. Given the scale of activity planned, and the innovative nature of some of the key proposals, this will be a small but highly experienced team.

Total expenditure of over £100m will be closely supervised by the executive team, while the commissioning and management of the various competitions and challenges will take up considerable staff time.

Building on advice received to date, partners in the North East are keen to ensure that they are able to benefit from the experience of innovation leaders both nationally and internationally. A high level International Advisory Group from business and key organisations will be established to be a source of advice, support and challenge as the Innovation Strategy moves into implementation.

The International Advisory Group will initially be engaged over two year period, with review and re-positioning after that.

### Project funding/resources

We intend to direct investment of over £100m in innovation over the next few years, including a considerable proportion of ERDF resources which will leverage significant match funding. In order to deliver its full programme, additional support is required from the Local Growth Fund and the Technology Strategy Board. This will support a number of high profile innovation competitions, as well as a number of new innovation facilities which will benefit a considerable number of local companies.

Major Programmes				
Programme area	Timings	Area allocation	Partner contributions	Overall budget
Catalytic competition	2 year programme - 2015/17	£12.5m (ESIF)	£10.938m (TSB)	£23.438m
Catalytic competition	2 year programme - 2017/19	£12.5m (ESIF)	£10.938m (TSB)	£23.438m
Super-network and network support activity	Commissioned in Autumn 2014 for minimum of 5 years	£1.5m (ESIF)	£1.313m	£2.813m
Grand Challenge	2 year programme - 2016/18	£10m (ESIF)	£8.75m	£18.75m
PhD commercialisation initiative	Commissioned in Spring 2015 for 3 year pilot (100 projects at £500K per annum)	£1.5m (ESIF)	£1.313m Research Councils/ Universities	£2.813m
Project support	Series of calls, plus ongoing funding availability through North East Investment Fund	£15.2m (ESIF)	£13.3m Additional	£28.5m
Programme delivery, intelligence and evaluation	2014-2020	£2.466m (TA)	Secondments and support in kind	£4.146m



The use of competitions will engage companies, researchers and individuals with ideas that could be developed into commercial products. These will attract national publicity and help stimulate innovation in other parts of the UK. The Innovation Board and executive team will look to share the good practice from these new, large scale initiatives with other local enterprise partnerships.

### **Propositions for Growth Deal**

There are two innovation related propositions linked to our strategic economic plan and the LGF.

#### **Innovation programme co-financing by the Technology Strategy Board**

- Investment from TSB into the two catalytic competitions (£25m).

The Innovation Board proposes to work in partnership with the TSB on two catalytic competitions, benefitting from the TSB's expertise in this area. The executive team will establish a research project to assess and then disseminate all aspect of competition development, marketing, commissioning, delivery and outcomes to allow the TSB to disseminate results to other partnerships and networks.

#### **Capital investments by the Local Growth Fund**

We are proposing £35.96m of support from the LGF in 2015/16, and the following years from the 2015/16 round. This will support capital investment which complements and will support the increased demand which will arise from the substantial revenue projects supported by ERDF.

The capital programme has been agreed after a thorough appraisal process, with the six projects prioritised below after careful consideration of their contribution to the innovation ambitions of the Local Enterprise Partnership. A number of projects were deemed not suitable for support at this time. All of the investment propositions have been tested and are able to commence works in 2015/16.

### **Key innovation hubs and projects**

- Investment to expand the capacity of the North East Technology Park to host commercial science and technology businesses and to enable key CPI projects.
- A new National Centre for Healthcare Photonics, which will be a world-class facility to commercialise photonic therapies and diagnostics.
- A new Centre for Innovation in Formulation, focusing on radical formulated products and processes.
- The Low Carbon Energy Centre, Newcastle Science Central, delivering low carbon energy to the key Science Central innovation site.

### **Acceleration of key innovation sectors**

- Sunderland University Enterprise and Innovation Hub, incorporating FabLab.
- Newcastle Life Sciences Incubation Hub, creating incubator facilities close to university research.

These new facilities strike a balance between highly focused research/innovation facilities, with specialist equipment, and facilities which provide incubation support for small businesses with considerable economic potential in fast growing markets and products.

There is a need to look beyond the 2015/16 propositions and the immediate “deal” being offered by our strategic economic plan process. Innovation partners have proposed a number of important new investments in later years, and securing funding for these is an important priority. As described below in section H, a five year settlement to create an Development and Investment Fund with a contribution from the Local Growth Fund would allow a medium term investment programme to be established, using the appraisal process used to identify the initial set of capital investment priorities.

### Measuring success

What we will achieve

Innovation support will involve a mixture of more immediate results and work with a medium-term potential. Key measures will include:

- A year-on-year increase in the scale of engagement with Fortune 500 corporations.
- The number of SMEs involved in innovation networks.
- The delivery of successful proof-of-concept programmes for higher education derived projects.
- An increase in net-present-value from innovation influenced development.

Our innovation programme will deliver over 5,000 jobs and over £450m of GVA, including:

LGF 2015/16 capital investment:

- 3,377 jobs created.
- £392.3m in GVA.

There is an intimate link between this innovation programme, the design of our next access to finance/JEREMIE programme and our skills programme. For example, the design of a JEREMIE fund which provides early stage venture capital can be instrumental in bringing developing businesses that lack bank finance. The realignment of the business members of the Local Enterprise Partnership Board to concentrate on the relationships between innovation, business support and access to finance, and skills (see section K) will help ensure that all such connections are made in a manner that suits businesses rather than administrators or providers.

We have identified key indicators for our strategic economic plan and will put in place a comprehensive monitoring and evaluation system to evaluate performance and success and to strengthen the innovation culture.

Quantified targets for outputs and outcomes, as well as qualitative indicators, will be agreed by the Innovation Board over the coming months to ensure alignment with our strategy and value for money.

For each investment supported by the Innovation Board, a full business plan will be required, with clear targets (outputs and outcomes) and milestones which can be used to monitor progress. The executive team will monitor progress on a project by project basis and commission independent reviews to evaluate results in a thorough manner. The monitoring and evaluation of the strategy will be shared with the TSB and HEFCE, as well as informing the North East Local Enterprise Partnership Board on a regular basis.

# **E: Business support and access to finance**



The North East Local Enterprise Partnership area benefits from a committed workforce, a good business environment and a competitive cost base. However, the area continues to have a significant deficit of private sector employment compared to most other parts of the UK. Whilst business births and deaths are in line with the rest of the country when measured against the existing stock of businesses, too few private enterprises are created to build our low base of private firms towards levels found in competitor regions, and too few of these grow to become significant providers of employment.

We are determined to increase profitability, wages and employment in all sectors and types of business including the social enterprise sector, ensure the sustainability of employment growth by investing in and growing the business base and to secure new sources of investment and flows of finance. This will be underpinned by strengthening the entrepreneurial culture of local businesses, communities and education system, the relationship between business success, skills and education is fundamental.

Addressing this combination of issues will require the delivery and promotion of a pro-active, streamlined and coordinated support to businesses that:

- Supports existing business to grow, and inspires entrepreneurs to start and build new business ventures.
- Breaks down the barriers preventing access to the widest possible range of business investment, breaking down the barriers to finance.
- Effectively promotes the North East as a place to invest, trade and visit.

Our aim is to support the operation of an effective market for business support services and finance. By doing so we expect to see improvements in the quality of the services and, in some areas, better quality information and perhaps a rationalisation of provision. In a competitive market place for business support, businesses themselves must have confidence in the decisions they make and the support they receive. We will achieve this by focussing on improving awareness of the support services available to businesses and enabling individual business owners and managers to make informed decisions about services that are most relevant to their individual needs.

### **The challenge: balancing business formation and productivity**

There are almost 57,000 businesses in the area of which 89% have fewer than 20 employees. In addition, the area has a low number of businesses per head (633 per 10,000 working age population) compared to England as a whole (984 per 10,000). Ensuring that the area's economy is diverse in its composition is essential for long term sustainability and future growth. As some sectors decline new ones need to emerge to fill the gaps and it is therefore important that we have the support in place to

promote growth in the existing business base and enable new business ventures to emerge.

Despite the business density statistics rates of productivity, employment and output growth are currently very strong, but the gap between current and potential in all these measures remains wider than many other parts of the UK. It is a critical choice for an area such as the North East to decide whether we target business formation or productivity. Our objective is clearly to prioritise GVA - not at the expense of inclusion - and to create new businesses to replace the inevitable process of business decline and failure.

However, fixating on a target of new start ups is unlikely to stimulate the level of employment or GVA growth needed to fulfil our potential. Therefore, in our business support and access to finance interventions, we will put greater emphasis on closing the productivity and growth gap rather than the gap in business formation and density rates. Start up support will not be over-looked and self-employment and new businesses in new sectors are both key characteristics of a vibrant and inclusive economy, but with scarce resources available it is important that we concentrate on those interventions most likely to create more and better jobs.

### **Accelerating growth**

Achieving a step change in employment and production by intensively supporting the relatively small proportion of businesses that contribute a disproportionate amount of growth is the objective of the various accelerator programmes that are run nationally and locally. Some programmes receive significant public funding, others are operated without public support by investors seeking to find and develop high growth businesses.

The rapid growth in productivity amongst North East businesses in recent years suggests that a focus on growing existing businesses is likely to yield good, and perhaps better, results than a single-minded desire to close the gap in business density. Achieving good value for money from these programmes for public spending and the businesses that commit to them is a key consideration, but with the prize for employment and growth being so high they will remain a key part of our forward support. There are of course other means of supporting high growth businesses, including through the JEREMIE fund.

### **Boosting productivity**

Low productivity is still an issue in too many sectors and firms in the North East, and productivity gains are essential for competitiveness and if the more and better jobs are to be realised. Enabling businesses to keep pace with the improving production techniques and practices is crucial to continuing growth. Increasing the skill levels of workers and managers is also vital to improving productivity and it is important that the business support measures are effectively linked with the skills development offer in the area.

## Trading and investing

A key strategy for generating growth is through existing businesses expanding into new markets at home and abroad. The area is one of only two in England to have shown a positive balance of trade in goods in both 2011 and 2012, with the value of exports having increased by £4bn between 2009 and 2012. Whilst recent data suggest a cooling of both imports (an important indicator of how deeply we are making use of the world's resources) and exports, the most important concern is the concentration of trading activity amongst a few firms. The performance is based on a small proportion (approximately 1500) of the 57,000 businesses in the area dominating exporting activity. Sustained efforts to expand market activity at home and abroad will boost the numbers and quality of jobs.

Over and above successful trading, inward investment is a key opportunity for the North East of England. 42,000 jobs were created in the North East of England through foreign direct investment (FDI) between 2005 and 2012. While the number of jobs has fluctuated year on year, the area has averaged over 5,000 FDI jobs each year. The North East of England has an exceptional record in attracting and retaining Japanese owned companies to the UK, of which Nissan is the highest profile example. In total, over 40 Japanese companies have operations here.

Maintaining good levels of FDI is a key to future growth. The Combined Authority has already taken steps to co-ordinate inward investment activity across local authority areas. We know that trade and inward investment are mutually re-enforcing activities supported by a strong external understanding of the role and assets of an area. So looking ahead we will extend this co-ordination across an inward investment, trade and business tourism proposition, actively engaging with businesses, academic institutions and our destination management organisations, and linking to our innovation strategy to improve the profile of the area in the global economy.

## Encouraging enterprise as a means of self-determination

Self-employment is low in the North East – 4% of the population are self-employed compared to 6% across England excluding London. This route to work offers a means of self-fulfilment and access to opportunity for many people. It can also be central to reducing poverty (including in-work poverty) and increasing inclusion for those who do not seek or cannot find other forms of employment. Our response will be to engage in targeted activities for those in specific communities who face multiple barriers and facing high levels of exclusion from opportunities.

## Future approach

There is a perception amongst businesses that the business support landscape across national, regional and local services from all sectors is too complex and that the signposting is ineffective. As a consequence businesses report that it is difficult to find the right type of support and there is a lack of confidence in the quality of the services on offer. A lack of effective coordination is cited as a key reason for duplication in some areas of provision and gaps in others. The creation of a Business Support Board is seen as essential enabler for the required improvements in accessibility, effectiveness and quality that we would like to inculcate.

Introducing a board to design and commission business support would provide an opportunity to provide the desired business lead and a client focus for the services. Networks also have a key role to play in the development of a coordinated offer that is targeted effectively at the needs of key sectors. A number of networks are operating effectively in the area and it is important that these and others are supported to engage in the development and delivery of services that meet the specific needs of key emerging sectors.

Some of our existing business networks offer a reasonable platform for the development of a refreshed business support offer. From past experiences, we have learned useful lessons about those interventions that work and those that are no longer effective. Public sector reform agenda and the new European funding programmes 2014 – 2020 offer opportunities to re-cast provision using the lessons learnt and the outcome of consultation exercises.

Moving forward we will focus on facilitating a cohesive and coordinated business support system that is:

- Driven by clear leadership in the form of a private sector led board with representation from membership bodies, universities (in particular the Business Schools), local authorities, government bodies and others.
- Integrates the business support provision and services providing access to finance.
- Clearly informed by an understanding of what works.
- Underpinned by a demand led business support offer that is client focused.
- Facilitated by a single access point that provides a bespoke offer to business users.
- Pro-active to support businesses to understand growth opportunities.
- Supported by an integrated financial support offer that covers all possible sources of support.
- Enhanced by a network of peer to peer channels.
- Features devolved government resources.

The Board will be supported by the development of a single Local Enterprise Partnership / Combined Authority executive body that will be responsible for administering the delivery of the programme.

The institutional arrangements being developed will provide a strong framework for the overall governance of the programme ensuring transparency and accountability for the use of public resources. They will also provide the basis for clarity of leadership, strengthened coordination and the better alignment of resources.

## Strategic objectives and key propositions

Increasing the number and quality of private sector jobs in the economy is a key proposition in our European strategy and strategic economic plan. These are reflected in the three strategic priorities for investing in growing our businesses:

1. Ensuring North East businesses have the access to finance to support growth and expansion plans.
2. Increasing GVA and employment in North East businesses through the provision of a high quality, demand led business development support programme.
3. Increasing the economic benefits from external markets - inward investment, exports and tourism.

These strategic priorities translate into three intervention areas, although there are overlaps and synergies across all three. These three areas will direct the investment plans of local partners in the North East, working in collaboration with national agencies where appropriate. The three intervention areas are:

- Access to finance.
- Business support.
- Inward investment, trade and tourism.

Initial resources will involve the European Funding, ERDF support and a number of Opt Ins, although additional resources are likely to become available in coming years.

## Access to finance

Figures show that businesses here have been able to access a proportionate level of debt financing. The credit crunch and the subsequent changes in the risk appetite of banks means that many SMEs have either struggled for finance or looked to other sources. We have hosted events and have continued to press for an approach that encourages new entrants to the banking market, bringing with them the necessary levels of competition.

Prior to the North East JEREMIE being established, the North East's market share of venture capital was low at about 1% of national investment. This is lower than the North East of England's share of businesses (2.3%) and interventions are still needed to increase the amount of venture capital accessed by local businesses in order to support growth and raise the profile of the business community in potentially influential financial institutions.

Public intervention through the highly successful JEREMIE programme has had a significant impact on market failure with the current scheme responsible for almost all venture capital investment in the North East of England since 2011. However, intervention via a renewed JEREMIE resource is still needed to increase the amount of venture capital accessed by local businesses in order to support growth and to attract further external investors locally.

A proposal to commit £160m across the North East of England to a new JEREMIE scheme demonstrates the commitment of the two local enterprise partnerships to meet the ongoing demand for this type of finance. With burgeoning technology and life science sectors, and companies seeking equity-type finance from many other quarters, JEREMIE funds will play a significant role for companies that lack the security or track record to attract bank finance. For perspective, the current JEREMIE has leveraged £1 of additional private sector investment for every £1 invested to date and should return over £1 for every £1 invested. If it does this then each job created by the JEREMIE will have come at no cost to the public purse, making this form of investment one of the best value for money programmes that are available.

### Objectives

Aim – to ensure the right blend of financial products are available to support business formation and growth, generating additional employment and GVA in the North East economy.

### We will:

- Develop an integrated business investment fund.
- Improve the availability of local and national venture capital funds and create the best venture capital industry outside London.
- Be the best place for micro venture capital (sub £2.5m) by creating an expanded £160m JEREMIE fund.
- Improved access to Angel and mentor networks.
- Support competition and new entrants to the banking market, including through a regional business bank.

These initial actions will be monitored and reviewed on a regular basis.

### Access to finance: Financial programme

Support for access to finance will be provided by ERDF, building on previous successful investments. A total of £58.5m of ERDF has been allocated, subject to the finalisation of the National Operational Programme and appropriate appraisal arrangements.



## Investment Plans

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ERDF	£2.5m	£10.4m	£11.7m	£11.7m	£12.1m	£10.1m	<b>£58.5m</b>
EIB (proposed)	£2.6m	£10.7m	£12m	£12m	£12.4m	£10.3m	<b>£60m</b>
Private Sector Leverage	£4.5m	£17.9m	£20m	£20m	£20.2m	17.4m	<b>£100m</b>
<b>Total</b>	<b>£9.6m</b>	<b>£39m</b>	<b>£43.7m</b>	<b>£43.7m</b>	<b>£44.7m</b>	<b>£37.8m</b>	<b>£218.5m</b>

(The table may not sum due to rounding and the profile of annual contributions has been estimated)

### Access to finance: Outputs and outcomes

A key theme of our strategic economic plan is ensuring better value for money from public sector investment. This will be incorporated into the project appraisal. Access to finance support will:

- Increase the level of venture capital invested.
- Raise the level of capital investment per capita by indigenous businesses.

- Improve business survival and growth rates.
- Increase growth in local supply chain investment.

While companies assisted will be the principal output, the impact of the support will be measured by additional jobs and GVA. The latter indicator will help capture improvements in productivity. The initial targets are set out below.

## Outputs and Outcomes

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Companies assisted	38	160	180	180	187	155	900
<b>Outcomes</b>							
Jobs created	192	803	900	900	931	774	4,500

## Business support

Finance is not the only barrier to achievement of our ambitions. A package of broader business support is needed to complement measures to improve access to finance and to support the creation of more businesses, and to support more of them to grow. The challenges which need to be addressed include ensuring that entrepreneurs have the necessary skills to improve the productivity of their firms, by improving what they make or provide, and ensuring that they can enter new markets or innovate in existing markets. Accelerator, productivity and trade programmes that mix training and skills with capital investment and professional advice are likely to remain critical to achieving the maximum possible output and employment from what is still the smallest stock of businesses per head of population in the UK.

### Making

The area's manufacturing base is continuing to grow a reputation for excellence but the numbers of people employed in the sector are declining. At the same time there has been an employment growth in the service, technology, financial and business services industries. The changing landscape has implications for the type of business support services provided and it is important that existing services are refreshed to reflect these changing needs.

Small, agile businesses in the technology sectors are growing and developing within niche markets. In recent years there has been more new technology company start ups here than any area of the UK outside London with a dynamic cluster of firms and university courses acting as a magnet for entrepreneurs. These businesses offer great employment and investment opportunities and we will build on the existing framework of specialist support networks to maximise the benefit to the local economy.

Low productivity is still an issue in some sectors and productivity gains are essential if more and better jobs are to be realised. Enabling business to keep pace with the improving production techniques and practices is crucial to continuing growth. Increasing the skill levels of workers and managers is also vital to improving productivity and it is important that the business support measures are effectively linked with the local skills development offer.

### Boosting social enterprise

The North East already has a vibrant third sector with 15,000 organisations involving 37,000 individuals. Public sector reform and new approaches to community enterprise is providing development opportunities for businesses in the social enterprise sector. The potential to take advantage of these opportunities has been significantly improved by the

Northern Rock Foundation's collaboration with Big Society Capital to create a social investment fund of around £7.5m that will be used to support the development and expansion of voluntary and community organisations and social enterprises. The initiative will do much to overcome some of the challenges facing the sector with the work to develop the market for social investment across the North East of England providing solutions to the deficiency in sector specific support services and the availability of affordable finance.

### A growth hub for the North East

Government has challenged local enterprise partnerships to co-ordinate business support at the local level through growth hubs – a single place where businesses can go to get help. The vision is that growth hubs will improve the coordination of support provided by local public and private sector partners, creating a more streamlined and coherent offer for businesses, based around local needs.

The rationale for growth hubs is that they can fill a void in business service and skills provision following the cessation of regional development agencies and Business Link by providing a regional point of delivery for a service offer that businesses' perceive as valued and useful.

Locally the aim is to build on the lessons of several early interventions to develop provision that:

- Simplifies the support landscape through improved coordination between local and national support programmes.
- Targets services at a cohort of businesses that have the demonstrable potential to grow.
- Helps drive demand for appropriate and effective sources of help available through public and private sector providers.
- Improves existing 'portal based' interventions so that content can be refined for different segments and virtual market places for support services can be developed.

### Objectives

**Aim** – to support business growth, increase entrepreneurial activity by providing regionally based services that enable local businesses to improve productivity and increase employment and trade.

### We will

- Develop a locally commissioned programme that build on existing programmes and support local businesses to drive trade, productivity and growth.
- Develop a Growth Hub that provides easy access to a coordinated and focussed business support offer targeted at the fastest growing businesses in the area.
- Introduce an Entrepreneurs First programme to support the best young business people emerging from the higher education sector in the area.
- Diversify the availability of 'Accelerator' programmes in the area so that growth businesses of all types and sizes can access the appropriate type of support.
- In partnership with membership organisations we will look to introduce mentoring schemes that are aimed at smaller, fast growing businesses and tailored to specific sectors.
- Explore the introduction of a voucher system as the basis for accessing business support services.
- Work with public sector bodies to further improve access to public sector contracts.
- Support business networks and the development of sector specific support services.
- Through membership organisations and other providers we will look to ensure the availability of accessible high level skills programmes.
- Strengthen the support offer available to social enterprises.

Support for business support will be provided by ERDF, building on previous successful investments, with significant contributions from the Growth Accelerator, Manufacturing Advisory Service and UKTI Export Programmes (subject to negotiation).

<b>Investment</b>							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	<b>Total</b>
ERDF	£3m	£4.2m	£4.2m	£4.2m	£4.9m	£5.5m	<b>£26m</b>
ERDF match: Productivity and accelerator programmes	£1.8m	£2.1m	£2.1m	£2.1m	£2.1m	£1.3m	<b>£11.4m</b>
ERDF match: Locally funded business support	£0.8m	£1.5m	£1.5m	£1.5m	£2.1m	£3.3m	<b>£10.6m</b>
<b>Total</b>	<b>£5.5m</b>	<b>£7.7m</b>	<b>£7.7m</b>	<b>£7.7m</b>	<b>£9.1m</b>	<b>£10.2m</b>	<b>£47.9m</b>

A key theme of our strategic economic plan is ensuring better value for money from public sector investment. This will be incorporated into the project appraisal. Access to support will mean:

- More businesses accessing business support services that are considered effective with the outcomes of improved productivity, increased turnover, more and better jobs created.
- More people considering self employment or business formation as an option.

- Increased membership of business networks.
- Increased levels of trade in new markets, improved productivity and business growth.
- Increase the numbers of local businesses engaged in key local supply chains.

While companies assisted will be the principal output, the impact of the support will be measured by additional jobs and GVA. The latter indicator will help capture improvements in productivity. The initial targets are set out below.

## Outputs and Outcomes

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Businesses assisted	301	423	423	423	499	560	<b>2,629</b>
Number of new enterprises supported	178	246	246	246	291	326	<b>1,533</b>
<b>Outcomes</b>							
Additional jobs	504	704	704	704	832	933	<b>4,381</b>

## Inward investment, trade and tourism

### Trading and investing

A key strategy for generating growth is through existing businesses expanding into new markets at home and abroad. The North East is one of only two English regions to have shown a positive balance of trade in goods in both 2011 and 2012, with the value of exports having increased by £4bn between 2009 and 2012. The performance is based on a small proportion (approximately 1500) of the 57,000 businesses in the North East dominating exporting activity. There was a worrying trend in the most recent statistics which showed a reduction in both import and export values into and from the North East. Understanding what is driving these numbers is critical to designing future trade service programmes to boost the quantity, quality and diversity of trade from (and to) the area. What is clear is that expanded market activity at home and abroad will boost the numbers and quality of jobs in the area.

Over and above successful trading, inward investment is a key opportunity for the North East. 42,000 jobs were created in the North East through foreign direct investment between 2005 and 2012. While the number of jobs has fluctuated year on year, the region has averaged over 5,000 foreign direct investment (FDI) jobs each year. The North East has an exceptional record in attracting and retaining Japanese owned companies to the UK, of which Nissan is the highest profile example. In total, over 40 Japanese companies have operations in the North East.

Maintaining good levels of FDI is a key to future growth and we have already taken steps through our emerging Combined Authority to co-ordinate inward investment activity across our local authority areas. We know that trade and inward investment are mutually re-enforcing activities supported by a strong external understanding of the role and assets of an area.

The internationalisation of the economy was a key theme in the North East Independent Economic Review. It emphasised the importance of both exports and Foreign Direct Investment to the success of the North East economy. It also highlighted the importance of tourism, and the potential to attract more international visitors, notably business tourists.

### Objective

**Aim** – increase inward investment, the number of businesses exporting and our presence in key international markets

### We will

- Attract direct investment by promoting our local assets.
- Produce and promote a set of key sector propositions that outline a set of detailed offers to investors.
- Develop and operate a single point of contact for inward investment enquiries.
- Develop a package of business support that meets the specific needs of businesses exporting and involving UKTI Opt Ins where appropriate).
- Make investments in key strategic gateways, transport corridors and the associated infrastructure.
- Work with strategic partners to attract investment in key growth sectors.
- Invest in tourism, heritage and cultural assets that add value to the areas offer.
- Develop a business and academic tourism strategy.

## Inward investment, trade and tourism: Financial programme

### Investment

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ERDF	£1.5m	£1.8m	£1.8m	£1.8m	£1.8m	£1.2m	<b>£10m</b>
ERDF trade programmes	£1.3m	£1.6m	£1.6m	£1.6m	£1.6m	£1.1m	<b>£9m</b>
North East International	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m	<b>£3m</b>
<b>Total</b>	<b>£3.3m</b>	<b>£3.9m</b>	<b>£3.9m</b>	<b>£3.9m</b>	<b>£3.9m</b>	<b>£2.8m</b>	<b>£22m</b>

### Outcomes will include

- The levels of FDI will be increased and these will lead to more high quality jobs.
- Exporting will grow with more business trading abroad.
- More businesses and visitors will be attracted to the area.
- The value and volume of goods exported.

### Outputs and outcomes

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Businesses assisted	164	219	219	219	246	246	<b>1,313</b>
	<b>Outcomes</b>						
Additional jobs	270	365	365	365	412	412	<b>2,190</b>

## Growing our businesses: Financial programme

Support for business support provided by ERDF, building on previous successful investments, with significant contributions from the Growth Accelerator, Manufacturing Advisory Service and UKTI export programmes (subject to negotiation).

A total of £91.5m of ERDF has been allocated, subject to the finalisation of the National Operational Programme and appropriate appraisal arrangements.

<b>Investments</b>							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ERDF	£7m	£16.4m	£17.7m	£17.7m	£18.8m	£16.8m	<b>£94.4m</b>
EIB (proposed)	£2.6m	£10.7m	£12m	£12m	£12.4m	£10.3m	<b>£60m</b>
ERDF Opt In	£3.1m	£3.7m	£3.7m	£3.7m	£3.7m	£2.4m	<b>£20.3m</b>
Other	£5.8m	£19.9m	£22m	£22m	£22.8m	£21.2m	<b>£113.7m</b>
<b>Total</b>	<b>£18.4m</b>	<b>£50.6m</b>	<b>£55.3m</b>	<b>£55.3m</b>	<b>£57.7m</b>	<b>£50.8m</b>	<b>£288.1m</b>

## Growing out businesses: Outcomes

<b>Outputs and outcomes</b>							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	<b>Total</b>
Businesses assisted	503	802	822	822	932	961	<b>4,842</b>
New enterprises supported	178	246	246	246	291	326	<b>1,533</b>
<b>Outcomes</b>							
Additional jobs	9,66	1,872	1,969	1,969	2,175	2,119	<b>11,070</b>

## Appraisal process

A robust appraisal process will be finalised to comply with European Regional Development Fund (ERDF) requirements and our ambition to develop a rigorous approach to the assessment of economic impact and value for money.

ERDF requires an independent assessment of proposal i.e. independent from project sponsors, and this will be put in place as the National Operational Programme is approved, with decision making by the relevant European Structural and Investment Funds strategy management group.

The appraisal process will consider aspects such as strategic fit, contribution, deliverability and value for money. The process will be transparent to comply with European regulations.

## Value for money

Value for money is a key consideration for local partners when investing public monies. A full ex ante review of the demand for and likely return to a future JEREMIE scheme will be undertaken. The ERDF appraisal system for all business support activities also incorporates a rigorous value for money analysis. Where relevant further value for money determinations will be required by local partners before undertaking the proposed Opt-ins from providers contracted by the Manufacturing Advisory Service, Growth Accelerator and UKTI trade services.

# F: Skills





A skilled workforce is central to private sector led growth. The North East Local Enterprise Partnership area's workforce has a strong reputation for responding to the opportunities presented by a growing and changing economy.

As with other labour markets and skills systems there is always a lag between market signals and reaction in the provision of training and consequently the supply of labour. By investing public resources and stimulating employer investment in skills, a better functioning labour market can be created that delivers the human capital for the growing economy.

The area is facing a significant demographic challenge with an ageing workforce. This will create a large number of employment opportunities across the area over the next ten years, through retirements, in addition to 100,000 new jobs at the heart of this plan and our vision.

UK Commission for Employment and Skills (UKCES) Working Futures modelling estimates that 462,000 replacement jobs will be needed across the North East of England between 2010 and 2020. Whilst we acknowledge that further modelling work is required to provide robust data on the precise extent of replacement jobs required in the local economy, it is likely that replacement demand could be as high as 346,500 jobs over the same period.

However compared to the England average the area has a shortfall of high level skills, in particular amongst the middle and older groups of our working population. To address this deficit, provision purchased by employers, whether or not subsidised by the public sector, needs to span intermediate, technical and higher levels and be responsive to economic demand.

Skills shortages are particularly prevalent in some occupations: over one in five vacancies for managers, professionals, and associate professionals in the area are skill-shortage vacancies. Machine operatives and skilled trade occupations command similar proportions of skill-shortages. In consequence, the share of these occupations in the total number of skills-shortage vacancies is greater than their share in the total number of vacancies.

### Why we need to act – defining the key challenges

In April 2013, a Skills Evidence Review prepared by Glasgow University for the North East Local Enterprise Partnership made clear the progress we have made here in raising the skills and qualifications of our residents. It also set out a series of challenges:

- The relatively low uptake (particularly among females) of science, technology, engineering and maths (STEM) subjects continues to be of concern and impacts the labour market's potential to respond to the needs of North East employers in our core industries.
- A lack of cohesion, consistency or coordination for careers

education and information, advice and guidance (IAG) on career options to help individuals make informed decisions based on labour market opportunities.

- Structural economic and demographic issues: There are too few private sector jobs; higher than average unemployment level; an ageing skilled workforce in some key areas of economic activity including advanced manufacturing; gender imbalances within some sectors.
- Only half of the area's working age population has level 3 or above qualifications. This is lower than many comparator regions and reduces our relative competitiveness.
- Relatively low levels of graduate utilisation compared with other areas.
- Employers' understanding and perceived complexity of skills funding systems.

A North East Strategic Skills Group has been set up to implement programmes that tackle these key challenges. It is accountable to the North East Local Enterprise Partnership Board, working closely with the seven local authorities and with a range of businesses, voluntary partners and skills providers.

### Assets and opportunities

Educational attainment and provision in the North East Local Enterprise Partnership area is heading in the right direction.

In 2012, 20% of primary schools in the area achieved an outstanding rating, compared to 18% nationally, and attainment in secondary schools has improved significantly so that the gap with national averages is now closed. However the variation in performance and quality between pupil outcomes and schools across the area is too high, impacting particularly on pupils from the most deprived wards.

The proportion of secondary schools judged as good or outstanding for teaching in our least deprived areas is 85% - almost equal to the national average of 86%. In our most deprived areas however, this drops to 29% compared with a national average of 65%. This means that there is a massive 56 percentage point difference between the proportions in our most and least deprived areas. The leadership and performance issues at the heart of this are the subject of a proposal for a schools challenge.

The area also has excellent further and higher education institutions which provide a broad range of high quality courses that are integrated with the needs of local employers. At the same time the North East has a higher than average proportion of its further education estate in poor condition. There is a need to provide new investment where the quality of facilities does not meet the expectations of learners and employers.

The new North East European Structural and Investment Fund Strategy programme for the North East provides significant new European Social Fund support for the 2014-2020 period. The Skills Funding Agency (SFA) and

the Department for Work and Pensions have committed to providing match funding for key elements of the programme, including a more partnership approach to designing initiatives. These new arrangements provide a major opportunity to strengthen the provision of skills support.

## Strategic priorities

There are three strategic objectives which will direct our work over the next six years. These are to:

1. Address the current and future skills needs, strategically investing ESF and SFA resources and expertise to provide a reformed skills approach which meets the needs of employers and learners and complements or stimulates private and individual investment.
2. Ensure young people are equipped and qualified to access the opportunities which will be available in a successful modern economy through a Schools Challenge.
3. Ensure high quality training facilities which help engage employers and learners, and are available to support a higher skilled workforce.

By focussing on these three priorities the North East has the opportunity to build on the recent jobs growth.

Our skills implementation plan aims to incentivise strong provision that meets business and economic demands, be it existing employer needs, projected shortages or new skills sets for emerging opportunities. We aim to create a landscape where companies, (and individuals), realise the benefits of training and see the returns on their investment. Alongside this, there is a parallel and wholly complementary priority to increase social mobility and entrepreneurship moving towards employment and self-employment and building innovative capacity in graduates and the workforce.

## Strengthening the skills system

Partners have identified significant weaknesses in the infrastructure for delivering skills funding and the activities set out below are designed to enable this infrastructure to work more effectively for employers and potential employees.

There is an opportunity to use ESF and a closer partnership with the SFA to fundamentally strengthen the skills system here, benefiting employers and learning and increasing the economic impact of skills investment.

The actions for strengthening the skills system are:

- A series of demand-side activities, including greater employer engagement, will be put in place to ensure vocational education and skills provision is more responsive to employers' current and future needs.
- Complementary supply-side activities relating to tackling barriers to employment, increasing the number of working age population with level 3 and above skills, and challenging sectoral stereotypes, for example around gender balance.

- Developed a locally designed and delivered information, advice and guidance system for young people and the working age population that will increase participation in vocational learning and progression.

The Strategic Skills Group will take forward a major investment programme, primarily funded through ESF and the Opt Ins, including the SFA and DWP. Investment for ESF will be supported by a new locally determined approach to mainstream skills funding through the Skills Incentives Pilot. These two initiatives will stimulate and align other resources to our skills priorities. Investment is required to support key elements of the programme – The Schools Challenge and skills capital.

### Investment programme for skills

Our European strategy provides the investment framework for local skills interventions. The ESF will clearly work alongside considerably larger mainstream budgets but through the SFA opt-in and the Skills Incentive Pilot there will be a stronger influence over the mainstream. These interventions will add traction to the skills funding statement which specifies that "providers have freedoms and flexibilities available to them to respond to business skills priorities and ensure that people have the skills they need to take advantage of local opportunities".

In addition to the SFA Opt In, we have earmarked ESF for higher level skills that are demonstrably linked to business growth, making better use of the funding available through higher education institutions and funding bodies, and we will exploit private sector match, using ESF as a stimulus to business investment in skills for growth. A fundamental part of our skills programme is to ensure that our graduates and employees have the requisite higher level skills which enable them to work efficiently and effectively in a competitive and growing business environment. To maximise both individuals and our businesses' outcomes these skills must relate to key growth areas. New growth sectors place an increased premium on higher-level skills particularly linked to innovation and entrepreneurial skills broadly and our areas of smart specialisation, low carbon industries.

Our strategic economic plan will integrate the different sub-programmes presented in our implementation plans so that they are mutually supportive and developmental. The investment in people and skills is the key to linking activity and securing best value out of the economic infrastructure that we create. Consequently, business support and innovation rely on complementary investments in skills to achieve the objectives set out in our plan.

### North East Skills Pilot

In 2013, government selected the North East Local Enterprise Partnership as one of three local enterprise partnerships to implement a skills funding model which positively incentivises colleges and training providers in receipt of the Adult Skills Budget to align their provision to local skills priorities.

Through the pilot's financial incentives, the colleges and training organisations will be formally recognised for the added value which they generate. It will also mean that any colleges and training organisations which need to do more to align their training offer to the current and future skills needs of employers in the area are identified. The measures in the pilot will focus on those outcomes on desired economic needs. In particular it will look at subjects and training that support unemployed people back into work, increase the

number of people in the area which have science, technology, engineering and maths (STEM) skills and qualifications and encourage people to gain skills at a higher level.

### Funding, resources and impact

Our European funding will fund the core of the skills and employability work with important support from the SFA and DWP.

### Investment plans

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ESF	£16.4m	£20.1m	£20.1m	£19.7m	£19.7m	£17.6m	<b>£113.6m</b>
ESF Match: SFA	£7.5m	£10m	£10m	£10m	£10m	£7.5m	<b>£55m</b>
Local match: public including universities, and private sector	£7.9m	£9.2m	£9.2m	£8.8m	£8.1m	£7.5m	<b>£50.7m</b>
<b>Total</b>	<b>£31.8m</b>	<b>£39.3m</b>	<b>£39.3m</b>	<b>£38.5m</b>	<b>£37.8m</b>	<b>£32.6m</b>	<b>£219.3m</b>

Figures may not sum due to rounding.

Values for opt-in match are presented with flat spend profiles here for indicative purposes only, but may be adjusted to meet local spend priorities. Opt-in spend profiles are set with an assumed spend period from quarter 2 2015/6 to quarter 3 2020/2021. All opt-in arrangements and the European strategy are subject to final negotiations.

### Strengthening the skills system: outputs and outcomes

A key theme of our strategic economic plan is ensuring better value for money from public sector services. This will be

incorporated into the project appraisal system. Strengthening the skills system will support:

- Increased numbers of apprenticeships.
- Increased number of employees being provided with training support.
- Improvements in attainment levels.

While people trained are the principal output, the impact of the support will be measured by qualifications attainment and for those not in employment, jobs. The initial targets are set out below.

### Outputs and impacts 2015-2021

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	<b>Outputs</b>						
Number of unemployed participants	649	803	803	785	771	666	<b>4,477</b>
Number of inactive participants	2,201	2,722	2,722	2,663	2,616	2,257	<b>15,181</b>
Number of employed participants	1,429	1,767	1,767	1,729	1,698	1,465	<b>9,855</b>
(Number of 15-24 participants)	1,101	1,363	1,362	1,333	1,309	1,130	<b>7,598</b>
Total number of participants (unemployed+inactive+employed)	4,279	5,292	5,292	5,177	5,085	4,388	<b>29,513</b>

## Young people

Our skills implementation plan has also been influenced by the challenges set out in the North East Independent Economic Review chaired by Lord Andrew Adonis. The economic review examined a large evidence base on both skills and the labour market and produced a series of important recommendations with regards to young people.

In order to further strengthen the skills base of the North East a number of areas for further improvement have been identified. These include:

- School attainment.
- The uptake of STEM qualifications.
- Higher quality apprenticeships.

There are two major commitments which partners in the area wish to pursue to develop the skills of our young people.

Firstly a North East Schools Challenge, led by an alliance involving business, head teachers and statutory bodies to be co-ordinated by the Strategic Skills Group. The North East Local Enterprise Partnership will fund the design of the Challenge and asks government to join as a full and active partner in the design and subsequent implementation of a programme of investment in raising educational attainment in the area.

The second commitment on youth apprenticeships is already being taken forward by local partners using existing resources. Apprenticeships are fundamental to the sustainability of many local businesses and it is therefore crucial that the system works effectively for individuals, employers and providers. Through our strategic economic plan, we will enable employers to support our objective to double the number of youth apprenticeships by 2018.

In addition to these two specific proposals, local partners are committed to building on existing school-business relationships to ensure all young people are exposed to business and enterprise opportunities – this will be critical to the development of an innovative and entrepreneurial culture in the North East.

Other activities which will improve the opportunities for young people include access work by universities to increase levels of higher education participation among young people in the North East. This will address the relatively low take-up levels compared with the national average and new proposals to link undergraduates and graduates to North East industries in order to improve levels of graduate retention and employers' ability to access skilled employees.

### Investment proposals

#### The North East Schools Challenge

We are committed to driving up the quality of education in the area and our proposition for the North East Schools

Challenge lies at the heart of achieving this ambition. A strong alliance of core partners, including head teachers, education experts, statutory bodies and businesses are driving forward this initiative with wider partners in response to a key issue highlighted in the economic review. The design costs of the Schools Challenge will be met by the Local Enterprise Partnership. We ask government to become an active partner and invite adjoining areas and any others with similar issues and as strong a determination to join.

By allocating £4.7m every year for six years to improving business-education links the Local Enterprise Partnership is demonstrating its absolute commitment to this challenge.

## Supporting national and local strategic priorities: Further education capital projects

We recognise the need for educational facilities for young people and adults which are fit for the 21st Century. Within this context we regard the ten further education colleges located in the area as a valuable economic and community asset. However we are also aware that relative to other parts of England the overall condition of the college estate is poor. This can hamper much needed efforts to increase levels of participation and achievement in education and represents an inefficient use of resources by diverting investment into costly and wasteful maintenance and repair.

Based on data supplied by the SFA the area will have approximately one third (33%) of its college estate in the worst condition categories (C or D) – placing it in the top quartile of all local enterprise partnerships on this measure of need.

### Strategic approach

The suite of skills capital proposals presented for 2015/16 are fully integrated within, and integral to, the delivery of the our vision for the North East as set out in our wider strategic economic plan:

- Creating facilities for vocational education which will increase levels of participation and achievement among young people and adults with a particular emphasis on the delivery of higher level skills, skills provision to enable unemployed people back into employment and to enable those who are already in work to retrain or upskill.
- Focussing capital investment on those areas of economic advantage in which the North East requires a skilled labour force in order to improve levels of productivity and create more and better jobs. There is a specific focus on the creation of new facilities in order to increase the volume and level of provision of STEM skills and also to address the current gender imbalance and encourage more female participation.

- Supporting the strategic priority on young people, recognising the role colleges now play in delivering education to 14-19 year olds.
- In addition, a number of the schemes have a strong spatial fit with wider plans for the economic and social regeneration of specific locations – for example, Ashington/ South East Northumberland (Northumberland College).

### **A collaborative approach**

We have worked closely with the SFA in identifying and appraising the high priority list for 2015/16 against a backdrop of robust data regarding:

- Existing college estate condition.
- Details of previous capital funding approvals.
- Financial health of colleges.
- SFA's own approach to skills capital funding and wider intelligence about the further education and skills landscape.

We have paid due regard to the national strategy for investment in further education capital (published December 2012) and have a shared focus on:

- Delivering strong impact on economic growth.
- Tackling poor building conditions and inefficient capital estates.
- Demonstrating high levels of value for money.

Once the allocation of funds to the Local Enterprise Partnership for further education capital is confirmed for those schemes which have been prioritised in 2015/2016 we intend to continue accessing the support service offered by the SFA.

The SFA's established operational systems and experience will be utilised to undertake a detailed appraisal of the technical, financial and estates/property aspects of each scheme as well as their educational and wider economic impacts resulting in transparent and consistent investment recommendations being made to the North East Local Enterprise Partnership Board along with a robust approach to the identification and management of risk.

Our future programme will have two key themes with all schemes brought forward expected to have a strong strategic fit with at least one of them:

- Excellence in vocational facilities – additional investment in new build, updating, refurbishment and remodelling of existing college estates.
- Enabling economic growth – focussed on addressing robustly-evidenced employer skills needs.

We will work closely with the SFA and key strategic partners including the Association of Colleges and ten general further education colleges in the North East to develop proposals addressing both themes and to assure ourselves of their

merits via a transparent, rigorous and effective appraisal and evaluation process which draws upon established sources of robust information and intelligence.

The seven priority schemes for 2015/2016 are:

- Northumberland College Advanced Manufacturing Centre - a complete training solution for advanced manufacturing and next-generation wind turbine energy and aims to become a regional, national and international centre of excellence.
- Newcastle College Group - Gateway Centre intended to replace the outmoded and inadequate Newcastle College Library and Learning Centre.
- Newcastle College Group Low Carbon Technologies Centre - a fully-equipped, purpose-built Low Carbon Technologies Centre, including industry standard vocational facilities that will be focused on embedding skills in low carbon developments.
- East Durham College Land Based Industries– 95% of the site is in Category D - in need of urgent repair/replacement. Buildings to be refurbished are single-glazed, poorly insulated and have an antiquated, inefficient heating system which dates from the 1937 build.
- The Tynemet STEM and Innovation Centre - a base for STEM Assured vocational training to support engineering and manufacturing industries operating from, and linked to, the River Tyne.
- Port of Blyth – BEACH - a new shared training centre that creates currently unavailable provision and includes offices, changing facilities, classrooms, specialist workshops, all weather plant training areas and an offshore training platform.
- South Tyneside College: Marine and Offshore Engineering - development of facilities for technology and manufacturing in the offshore, renewable energies and advanced production areas.

The improvements in these facilities will benefit many thousands of learners each year. This includes those living in both rural and urban areas. A number of the new facilities are closely aligned with strategic priority economic sectors.

With 35% of the further education estate in the North East in need of improvement there is a need for a longer term investment programme. Propositions for 2016/2017 total circa £25m and are in development, but a rolling capital programme will be required throughout the lifetime of our strategic economic plan.

#### Skills programme: Outputs and outcomes

The North East is currently finalising a European strategy which sets out European Social Fund spend in the context of the National Operational Programme. This will include appropriate appraisal arrangements and approach to meet local requirements.

Investment plans	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ESF	£16.4m	£20.1m	£20.1m	£19.7m	£19.7m	£17.6m	<b>£113.6m</b>
SFA Opt Ins	£7.5m	£10m	£10m	£10m	£10m	£7.5m	<b>£55m</b>
Other match	£7.9m	£9.2m	£9.2m	£8.8m	£8.1m	£7.5m	<b>£50.7m</b>
<b>Local Growth Fund</b>							
LGF Skills Capital	£25.4m	£3.3m					<b>£28.7m</b>
Skills Capital Match	£26.2m	£6.6m					<b>£32.8m</b>
Forward Programme – LGF skills capital, (proposed)		£20m					<b>£20m</b>
Forward Programme –skills capital, match (proposed)		£45m					<b>£45m</b>

#### Outputs

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Number of unemployed participants	649	803	803	785	771	666	<b>4,477</b>
Number of inactive participants	2,201	2,722	2,722	2,663	2,616	2,257	<b>15,181</b>
Number of employed participants	1,429	1,767	1,767	1,729	1,698	1,465	<b>9,855</b>
Number of 15-24 participants	1,101	1,363	1,362	1,333	1,309	1,130	<b>7,598</b>
Total number of participants (unemployed+inactive+employed)	<b>4,279</b>	<b>5,292</b>	<b>5,292</b>	<b>5,177</b>	<b>5,085</b>	<b>4,388</b>	<b>29,513</b>



# **G: Employability and inclusion**



Our employability and inclusion programme aims to build on our recent progress in productivity and employment growth to support the achievement of key indicators to increase employment and activity by ensuring that no one is left behind. We will achieve this by addressing high levels of youth unemployment, reducing inequalities, improving economic wellbeing and by ensuring that growth is inclusive and assists those most distant or disadvantaged in the labour market and living in areas of persistent and entrenched deprivation.

Our plan recognises that employment is the key route to combating poverty and exclusion. Despite a recent upswing unemployment in the North East Local Enterprise Partnership area remains relatively high and employment low in comparison to other areas of the country. This holds back both economic growth and reduces social inclusion.

However, the North East has strong headline income equality, with the most equal distribution of full-time wages in England. Figure 12 shows that we have the lowest proportion of the workforce in both the lowest and highest earnings deciles, meaning that incomes are more bunched around the median. This is not reflected across all segments of society, in particular away from white working aged men, and is an important reason for concentrating on inclusion and equality in all its many forms.



Figure 12: Proportion of wages in lowest and highest deciles.

Despite significant improvements in the decade prior to the economic downturn, employment remains lower than similar areas (at 66.5% in contrast to 71.4% for England), there were fewer jobs per 10,000 adults (4,701 to 5,230) and earnings remained lower at £446 compared to £476 per week. Recent employment statistics demonstrate that employment has now risen beyond 2008 levels, and that there are more people in employment in the North East than ever before. Nevertheless activity rates and employment levels remain low and activities to improve employment, employability skills and opportunities for self-employment are therefore essential.

Demographic pressures also mean that a more tailored and locally structured approach to employability is key. With relatively few young people and higher than average levels of inactivity amongst the working age population, a focus on retraining and the needs of those above 45 years old is a key consideration. In addition to lower outcomes generally, there are a number of sectors where performance is low for specific groups in the labour market, including in key growth sectors. In manufacturing only 17% of the workforce is female (23% in comparable local enterprise partnership areas); construction at 5% is at half the rate of similar areas. Nationally 28% of employment in the chemical, pharmaceutical and life sciences sectors is female, but in this area the equivalent figure is just 21%. Together these statistics demonstrate a need for further efforts to achieve more gender-balanced growth with a similar picture clear in relation to apprenticeships in areas such as software/ICT and manufacturing.

Our research has also highlighted disparities in relation to race around high growth sectors such as low carbon jobs and those related to research and development and technology sectors and concerns around outcomes across the range of characteristics addressed including refugees, migrants, lesbian gay bisexual and transgender people, disabled people and those with mental health issues.

Age is a key concern with higher levels of youth unemployment across large parts of the area and a particular challenge in County Durham. This is despite younger people on average having higher levels of qualifications than older people. 73% of 16-24 year olds have a level 2 or above which is similar to those aged 25-49 but significantly higher than those aged 50-64.

Individuals face a range barriers to employment which are highly context specific ranging from physical connectivity, cost, training and skills, access to finance and confidence. The impact of each of these is complex. The need for digital inclusion is also clear with a requirement to improve skills to enable people to access opportunities online and fulfil job criteria for ICT skills.

Our proposals focus on two overarching challenges:

- **Worklessness** - Pockets of deprivation and multi-generational worklessness which exist across the area, in both urban and rural locations, are key challenges to address if we are to maximise the contribution of our potential workforce.
- **Access** – Addressing the wide range of barriers to employment that exist for individuals and communities, including issues around connecting those in need of work with areas of employment growth (especially via public transport) and addressing underlying challenges of improving health and skills.

The following significant investments will be central to achieving the overarching objective.

- A North East Schools Challenge that focuses on both enterprise and attainment with investment aimed at driving up education performance and tackling disparities that have an economic impact.
- A £160m investment by the North East Local Enterprise Partnership and government in high level skills over the next six years to move the North East economy to a high skill equilibrium (i.e. increase the levels of demand and supply of higher skills), including European funding to be matched by centrally funded agencies to promote high level skills.
- 'Inclusive North East' - an ambitious programme of activities, which brings together over £190m of investment by the enterprise partnership and government over the next six years to support the move to a high skills equilibrium by providing progression routes into our key sectors, opening up opportunities for unemployed people and eliminating all gender, race, age and cultural gaps in employment and entrepreneurship between the North East and national averages by 2025.
- Our public transport initiatives, outlined in section J below and in attached business cases, which will connect more people to employment opportunities and more communities to each other.

## Opportunities

We have excellent partnership arrangements in place to implement our plans, including the creation of a Combined Authority which views access to employment for local people as a key priority. There is a long history of developing and delivering services that improve employability and support people into work. Opportunities exist to rebuild provision using a combination of government and European resources and these will lead to the delivery of services that are better coordinated and more effective.

The area's allocation of European Structural and Investment Funds for 2014-2020 also brings an enormous opportunity. European thematic objectives align neatly with ours on low carbon, small and medium-sized enterprises (SMEs), innovation, skills, employment and social inclusion.

Objective 4 of our European strategy has an aim to improve employability and skills to overcome barriers preventing access to the labour market and address the multiple factors that contribute to social exclusion. In particular, we aim to enable more people to move towards employment or self-employment.

## Our approach

There are three strategic objectives which will direct our work:

1. Increase the economic participation rate, assisting people

to take up education, training and employment opportunities to increase life chances and economic wellbeing.

2. Provide support to those most distant from the labour market, where necessary assisting people to overcome disadvantage and poverty.
3. Tailoring support to meet the specific needs and circumstances of individuals through targeted intensive support and mentoring.

We will deliver this programme through two key priorities:

- North East Labour Market Agreement.
- Inclusive North East.

## North East Labour Market Agreement

A North East Labour Market Agreement, which will provide strategic leadership and accountability for employability and welfare to work support through the Combined Authority and provide a platform for a negotiation with government to find new ways of working in key areas including:

- Developing a framework for the local management and delivery of services which responds to the distinctive needs of the area; including a new locally-led and commissioned framework for delivery of employability and welfare to work support.
- Building on our existing delivery of public sector reform and strong partnership arrangements to explore devolution of funding to address underperformance, flexibilities in performance measures to ensure they meet our priorities and improved data sharing and tracking of progression across programmes.

The Combined Authority will provide strategic leadership and accountability for employability and inclusion in the North East through a Combined Authority portfolio lead. This will enable us to:

- Provide leadership and technical support to develop our approach working directly with the relevant government departments.
- Develop a solution(s) to provide a real-time understanding of the totality, distribution and impact of funding for employability and welfare to work support.
- Identify and address gaps in service delivery.
- Identify where stronger co-ordination and new commissioning arrangements are needed to deliver better outcomes.
- Develop a solution(s) to increase the understanding and tracking of individuals' progression across projects and programmes.
- Develop a solution to provide a function and capacity to collate, analyse and disseminate effective and robust labour market intelligence.

We require government to work with the Combined Authority, the Local Enterprise Partnership and key partners to explore new ways of working in the following areas:

- To assist the development of a new locally-led and commissioned framework for delivery of employability and welfare to work support by providing cross-departmental commitment to work more flexibly to refine our approaches to localised support.
- Devolution of the commissioning and performance management of agreed Department for Work and Pensions contracts from 2016 to ensure accountability and the progression of individuals taking part in these programmes, including for example, initiatives supporting people with long term health problems and those targeted at addressing issues and barriers for families with multiple problems.
- Flexibility in performance measures for specific contracts to ensure that they meet the key priorities of partners including more integration, innovation and use of social investment to improve social and economic outcomes.
- Effective data sharing – including the availability of more and better management information and the exploration of common data tracking systems.

Our proposals for greater freedoms and devolution are targeted at measures where we believe there is strong evidence that a local approach can deliver better outcomes than current arrangements in terms of efficiently supporting economic growth and employment and evidence that our institutions have the skills and capability to lead change.

We believe that there is significantly more that can be done to maximise the contribution of all of the local population and to build the area's business base. The area is facing a number of unique challenges which we also need to find solutions to. In relation to employability and social inclusion these include:

- There is a relatively static and ageing population and need to ensure that we retain the skills of our young people, mobilise people in later life and attract more people to our area.
- We have a higher rate of disconnection from the labour market than any other part of the mainland UK due to ill health. There needs to be enhanced collaboration between health, social care services, and employment support if we are to link more people to the labour market.
- These areas include a number of communities exhibiting high levels of deprivation, including poverty and child poverty, which require integrated solutions to help the people who live there to improve their life chances.
- Whilst this combination of factors represents a significant challenge, it also presents significant opportunities for innovation in models of preventative and rehabilitative health and care services – and we have significant innovation assets in this field.

These reform proposals, and those described in the governance section below, sit alongside our strategic economic plan as part of an integrated approach to secure our advantages and address challenges. To deliver we need

more scope to act including direct influence over resources to move forward more joined up solutions to this group of issues. We believe that more alignment of programmes and spending would enable delivery of locally-led solutions to these issues using integrated budgets to support more innovative and efficient solutions.

The proposals for skills, employability and welfare to work support and social inclusion are focused on a group of public sector activities where leadership and resources are currently dispersed between a number of national and local organisations. In these areas, evidence suggests that different, locally-led models can enable more effective and efficient delivery, wrapping services around individuals, families and businesses within the local context in which they operate and enabling alignment with other services, for example health and housing.

We are confident in our capacity to deliver these solutions, building on both our general performance for efficient public sector delivery and our performance in these specific areas of service.

## Inclusive North East

An ambitious programme of activities, which brings together over £190m of investment by the Local Enterprise Partnership and government over the next six years to support the move to a high skills equilibrium by providing progression routes into our key sectors, opening up opportunities for unemployed people and eliminating all gender, race, age and cultural gaps in employment and entrepreneurship between North East and national averages by 2025.

The main mechanism for delivery of this programme will be the European Social Fund element of the European Strategy, which will:

- Provide additional and more intensive support to help people to develop the skills needed to move towards work, enter work (including self-employment), and to progress in work.
- Help older workers, workless people and those facing redundancy to upgrade their skills, learn new skills or re-train to enter, re-enter or stay engaged with the labour market and adapt to new market conditions including through targeted apprenticeships linked to economic opportunities.
- Support activities to reduce the number of young people not in employment, education or training and those at risk of disengaging and embed opportunities.
- Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions.
- Targeted activities to support bottom-up social inclusion through community focused actions in particular geographic locations with high levels of deprivation, poverty and exclusion.
- Targeted activities for those with protected characteristics and from specific communities who face multiple barriers and facing high levels of exclusion from opportunities and/or poverty.

The European strategy requires the creation of robust arrangements to secure and oversee an active European delivery programme and to engage with managing authorities in government on approvals of projects and programmes. An European Investment Group is proposed for this purpose in the European Strategy. There are other panels, such as the North East Investment Panel, which currently have key roles in allocating resources. The key activities currently being taken forward:

- Developing a commissioning framework for North East European Structural and Investment Funds Strategy 2014-2020.
- Establishing appropriate Combined Authority – North East Local Enterprise Partnership governance and decision-making processes including Intermediary body status, memorandums of understanding for Opt Ins etc.
- Developing Technical Assistance proposals.
- Programme implementation – calls for projects, direct bidding, assessment, awards of funding, performance management.

### Leadership and governance

The Combined Authority Employment and Skills Group will be accountable for the delivery of the programme supported by the seven local authorities that make up the Combined Authority. The group will report progress to the Combined Authority economic directors and Combined Authority leadership board.

### What we will achieve

Skills support will assist those distant from the labour market, employability support for those seeking employment, and workforce skills development. North East partners will closely monitor outcomes. Key indicators will include the number of those supported successfully securing employment.

The scale of activity will be monitored each year and include:

- Over 1,500 apprentices placed per annum.
- Moving more than 35% of our schools into the top performance quartile.
- Reduce the claimant count by a further 1% per annum, moving individuals into education, skills, training and employment/self-employment.

### Inclusion and employability financial programme

The employability and inclusion programme will be primarily funded by the European strategy, using European Structural Funds. The Skills Funding Agency (SFA) and Department for Work and Pensions (DWP) Opt Ins, along with the Big Lottery will make an important contribution.

### Expenditure by strategic priority

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ESF: Employability cohesion Fund:	£13.8m	£11.1m	£8.6m	£7.1m	£7.3m	£6m	<b>£53.9m</b>
Youth Employment Initiative*	£4.7m	£2.2m	£0.8m				<b>£7.7m</b>
ESF: Social Inclusion	£8.3m	£7.3m	£7.6m	£7.2m	£7.6m	£6.5m	<b>£44.5m</b>
ESF Match: Big Lottery	£2.5m	£3.3m	£3.3m	£3.3m	£3.3m	£2.5m	<b>£18.3m</b>
ESF Match: SFA	£3.8m	£5m	£5m	£5m	£5m	3.8m	<b>£27.7m</b>
ESF Match: DWP	£0.6m	£0.8m	£0.8m	£0.8m	£0.8m	£0.6m	<b>£4.5m</b>
ESF Match: Local	£12.6m	£7.7m	£5.8m	£4.3m	£4.6m	£4.5m	<b>£39.7m</b>
<b>Total</b>	<b>£46.2m</b>	<b>£37.6m</b>	<b>£32m</b>	<b>£27.8m</b>	<b>£28.7m</b>	<b>£23.9m</b>	<b>£196.3m</b>

\*Applicable in County Durham only. Youth Employment Initiative funding will draw £7.7m from the Cohesion Fund, £7.7m of ESF, and £5.1m of local match, and must be committed in 2014 and 2015.

Figures may not sum due to rounding.

Values for Opt in match are presented with flat spend profiles here for indicative purposes only, but may be adjusted to meet local spend priorities. Opt in spend profiles are set with an assumed spend period from Quarter 2 2015/16 to Quarter 3 2020/2021. All Opt In arrangements and the European strategy are subject to final negotiations.

## Outcomes and indicators

The area has a strong record of collaboration and integration of employability services and support to address multiple disadvantage in our communities. This includes close partnership working between the public, private and our strong voluntary, community and social enterprise sectors.

Our aim will be to build and strengthen these partnerships to address the particular challenges we are faced with and ensure we achieve strong and inclusive economic growth for all.

We are investing significant European Structural and Investment Funds to achieve our aims and objectives. We will measure success and evaluate programme investments through the following indicators and measures.

### Strategic economic plan outcome indicators

1. Gross Value Added (GVA) per Full Time Equivalent (FTE), with wages and profits rewarding workers and investors, sustaining high levels of employment.
2. Private sector employment density, with more companies and jobs driving a high growth economy.
3. Employment rate, with the scale and quality of employment, matching an increasingly better qualified and higher skilled workforce.

4. Activity rate, with no one left behind, and those distant from or disadvantaged in the labour market, helped to take advantage of the opportunities in a successful, growing economy.

### Programme level indicators

- Increased employment.
- Lower levels of benefit dependency.
- Reduced levels of poverty (including child poverty).
- Improved progression of individuals towards employment and self employment.

### Programme outputs – Existing European funding indicators

- Number of enterprises supported.
- Number of participants in support.
  - unemployed participants
  - inactive participants.
  - employed participants.
- Number of participants aged 15-24.

### Other output indicators – non-European funding

- Number of participants achieving progression measures.

### Outputs 2015-2020

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total (2015-2020)
	<b>Outputs</b>						
Number of unemployed participants	1,572	1,472	1,386	1,294	1,333	1,113	<b>8,170</b>
Number of Inactive participants	3,149	2,951	2,778	2,594	2,672	2,231	<b>16,375</b>
Number of employed participants	251	236	222	207	213	178	<b>1,307</b>
Number of 15-24 participants	6,821	3,269	1,210				<b>11,300</b>
Total number of participants (unemployed+inactive+employed)	11,793	7,928	5,596	4,095	4,218	3,533	<b>37,152</b>

Outputs for £18m of ESF spend and associated match are not included here, as Community-led Local Development proposals will be designed once further guidance on delivery is received from government.



# **H: Economic assets and infrastructure**



The North East Local Enterprise Partnership area's current and future economic infrastructure is the framework that makes, and will make, economic activity possible. A co-ordinated and integrated approach to enhancing all forms of economic infrastructure (from employment sites and premises, housing, and green infrastructure to quality of place, culture, heritage and tourism assets), and associated transport and digital connectivity will deliver growth in the short term, satisfy the increasing demand for reliable high capacity and quality infrastructure, and avoid barriers to longer term economic growth ambitions.

A review of the evidence detailing the economic structure of the North East shows high levels of economic integration in terms of the labour market (and travel to work areas), housing markets and a number of the area's key sectors. Further it shows a direction of travel towards more integration in the future. An independent study of economic geography undertaken for the former Tyne and Wear City Region in 2010 concluded that the urban cores of Newcastle, Gateshead, Sunderland and Durham, are powerful locations, combining higher education, cultural and tourism assets, retail and an evening economy with significant employment in the public administration and financial, professional and business services sector.

In contrast to the urban cores, the stunning and nationally protected coastal and countryside landscapes set us apart because of their quality and diversity and is home to a substantial proportion of the area's business base, with the rural economy supporting a number of sectors and diverse businesses that make important contributions to the wider economy.

Out-of-town sites play an important role as locations for significant concentrations of sector specific employment. Such locations are spread across the area and include: Cobalt Park, Quorum Park, Team Valley Trading Estate, Washington New Town, Aycliffe Business Park, Follingsby Park Doxford International Business Park, Newcastle Business Park, Newcastle Great Park, the trading and industrial estates at the northern entrance to the Tyne Tunnel, Cramlington's industrial estates and Northumberland Business Park. In addition to these key sites, there is a network of other employment locations which play a valuable role, particularly in their local economy.

It is a truth universally acknowledged that realigning the use of previously developed land to current needs is a critical part of maintaining economic momentum. This is simple where land is used for buildings; less so where land is used for processing and manufacturing let alone for resource exploitation. Valuable sites alongside scarce and strategic assets such as the area's tidal rivers should not be left uncompetitive because previous generations left a legacy of pollution. Our strategic economic plan therefore recommends a dedicated focus on the high value sites and economic infrastructure which is restricted in its future use.

## Future plans

In the short term safeguarding the local energy supply, and boosting business and residential development in the right places, will create jobs and improve supply chains. More importantly infrastructure sits right at the heart of many of the long term challenges for the area and is critical in delivering our vision and plan. Longer term, investment in a portfolio of development sites and locations, both existing and new, will ensure the area can compete effectively for investment and enable the growth of our existing businesses.

While transport and connectivity are necessary for growth, it is the relationship between connectivity and skills that is crucial: labour connections are the strongest indicator of complementary links between places, and these links depend not only on good transport and broadband but also on high concentrations of businesses, high skills and good housing stock.

Improving the economic infrastructure in the area is therefore a shared priority for North East partners. Our integrated investment programme includes the alignment of current local public and private sector resources and the national resources that have already been secured. It seeks to leverage further investment to deal with current barriers to growth and build in enough capacity to meet future demand.

## Strategic priorities

There are four strategic priorities which will direct local partner investment in economic assets and infrastructure and the closely related transport schemes. These are:

1. To unlock the potential of employment sites and regeneration priorities which directly contribute to economic growth and provide sustainable solutions to economic challenges through better management of our green infrastructure and environmental assets.
2. To provide new solutions to maximising investment in tourism, heritage and culture assets and their economic contribution to the area's economy.
3. To support a housing market which provides the range of housing, including affordable housing and housing for rent.
4. To invest transport resources in a way which supports economic and employment growth, connects businesses with markets and suppliers, and increases the accessibility of local people to employment locations.

These priorities are supported by a set of principles with regards to delivery, these are:

- Investment in potential opportunities to accelerate demand and leverage private sector demand.
- Alignment of current local public and private sector resources, assets and national resources (already secured and future) to leverage private sector investment.
- Working in partnership to unlock sites, overcome local barriers and add value to bring forward key developments.

- Satisfying the increasing demand for reliable high capacity and quality infrastructure and avoiding barriers to longer term economic growth ambitions.
- Maximising choice, flexibility and resilience of networks and premises for businesses and individuals in the face of uncertain future risks.
- More power and flexibility for local determination of priorities and investment, building on success such as the City Deals.
- Co-ordination of intelligence, forecasting and planning.

## New solutions: The North East Development and Investment Fund (Option A)

Recognising that government has challenged local enterprise partnerships to bring forward innovative approaches to maximising growth and also value to the public purse, we are willing to lean forward on the often difficult issue of realising real economic returns from sites in an area of relatively low land values. While the 2015/16 LGF support will be invaluable in progressing a number of high priority projects, the lasting solution to some of the challenges facing the North East is the establishment of a Development and Investment Fund.

Local authorities and business partners in the area have a strong record of working together to deliver significant infrastructure developments. Implementation of the agreements within the context of the Newcastle City Deal, the successful establishment of our existing North East Investment Fund and very strong performance of the North East Enterprise Zone have demonstrated our capacity to operate more flexible approaches to capital, to attract investment and recycle the returns through tax increment financing arrangements and business rate retention. The North East has one of the fastest growing economies of the UK at the moment.

As detailed above, recent growth in productivity, employment and output per capita are all amongst the best in class. Investment in the area's infrastructure and economic assets is therefore an opportunity to boost growth even further. We do not seek props; through our strategic economic plan we seek the right tools to bolster and catalyse growth. To address the infrastructure challenges in the area we are seeking a share of the nation's investment in infrastructure, and more power and flexibility to shape our economic destiny through the prioritisation of investments and increased financial flexibilities.

The creation of the North East Combined Authority will enable the devolution of further flexibilities and resources to the area and with the support of the business community, in particular those on the North East Local Enterprise Partnership Board, ensure collaborative leadership on strategic infrastructure issues. It will provide a unified voice to government and will seek to ensure that the area gets a fairer allocation of public investment. It will also provide the institutional decision

making arrangements to identify a prioritised long term investment programme which can ensure the most efficient use of the combined resources across the area.

We are proposing an integrated North East Development and Investment Fund which will align current local public and private sector resources. The fund will include assets, capital and revenue and look to leverage further investment to deal with current barriers to growth and build in enough capacity to meet future demand. Employment sites and premises, enterprise zone infrastructure, infrastructure for housing sites, investment in green infrastructure, quality of place improvements and culture, heritage and tourism capital will all be within scope. The fund will, wherever possible, implement a repayable loan or shared equity model, although in some cases gap funding or grant support may be required. The inclusion of assets, cash and projects into this fund will be agreed through a process of negotiation.

All of the schemes highlighted in our economic assets and infrastructure implementation plan for 2015/16 start are candidates for inclusion, as are the many existing investments from the current North East Investment Fund and the schemes included in City Deals and other priorities. We are proposing six year contribution from LGF from 2015/16 to 2020/21 of up to £60m, to match £60m of ERDF resources and £55m of our already successful North East Investment Fund which incorporates Growing Places Fund and Regional Growth Fund, £100m of North East Enterprise Zone receipts and local match. To support the fund we are seeking to include negotiated land assets held locally and nationally.

Allocations will be made on the basis of the adoption of a systematic approach to infrastructure prioritisation, using the model outlined in section C. This will ensure that our programme of infrastructure investment targets government objectives for growth, is robust and enhances outcomes for all. To date we have committed over £30m to 12 projects from the North East Investment Fund to unlock economic activity and private sector growth. This will leverage over £95m and create/safeguard over 2600 jobs. Now is the time to take this approach further.

With the specific intention of maximising returns to all partners, we are proposing to work in partnership with the Homes and Communities Agency (HCA) to develop its portfolio. In partnership, we will work to accelerate development in local and HCA sites including investment in an agreed list of strategic but less financially attractive sites, as part of a managed programme of regeneration and housing activity for the North East. This will provide a simpler model for developers, reduce competition for and between public funds, and provide clarity for related infrastructure priorities.

## A weaker alternative – project by project and a less strategic approach to land (Option B)

The following sections provide examples of some projects which would be candidates for the Investment and Development Fund. There is a strong case for them to be considered, along with sites owned by government, as part of a wider process that aims to maximise value and economic returns to the public sector for its land holdings and to the private sector where it is taking a risk. This is the premise behind our strong preference for the fund described above.

However the government has asked to consider each project against its peers and therefore in case our argument for a fund is not accepted we have sub-divided the land and property investments into key employment sites and premises on the one hand and investments in place to drive economic gain - including tourism earnings and rejuvenated urban and rural areas - on the other.

### Employment sites and premises

In order to increase the supply of land for commercial development, there is a need to unlock the potential and de-risk locations where there is the opportunity for considerable new development. The Local Enterprise Partnership has had considerable success with the North East Investment Fund, but new initiatives to help developers bring forward new sites will undoubtedly be helpful.

There are a significant number of important employment and mixed use sites where new development is constrained by transport and other site specific development issues. Some of these can be unlocked by relatively small scale investment which will lead quickly to new investment by companies and developers. Others may require more substantive intervention, particularly where land remediation is necessary.

Establishing a varied portfolio of potential development sites with the right infrastructure will leverage private sector investment in key existing and new employment sites and ensure the area can compete for investment, support the growth of existing businesses and accommodate 100,000 more jobs.

In order to maximise growth in the North East's economy, strategies, plans and programmes should focus appropriate investment towards the key employment locations along the A1, the A19, the river Wear, the river Tyne and the coast. These are:

- The urban cores of Newcastle, Gateshead, Sunderland and Durham.
- The North East Enterprise Zone.
- The International Advanced Manufacturing Park in Sunderland and South Tyneside.
- The two largest industrial estates in the area (Team Valley Trading Estate and Aycliffe Business Park), the business and industrial estates near the northern entrance to the

Tyne Tunnel, and key employment locations along our main transport corridors.

- Newcastle International Airport Business Park.

The economic growth corridors will continue to benefit from investment and remain important employment locations for key sectors and attract new investment such as Hitachi Rail Europe. We are providing for growth in the current employment locations and planning for the future, bringing opportunities to meet market demand.

### Local Growth Fund priorities: 2015/16

The above section highlights our priorities for investment to support economic growth in the area, specifically in relation to employment sites and premises. The North East Development and Investment Fund will be the preferred option to bring forward these types of developments and investment. In line with the guidance and following a rigorous appraisal process, priorities for 2015/16 LGF investment have been agreed. The four projects selected require some £34.8m of LGF of which £19.84m will be spent in 2015/16. They are:

1. Merchant Park 2.
2. Swans Wet Berth Infil.
3. Sunderland Central.
4. Business District.
5. River Tyne Economic Development.

## Investing in places

The North East offers both the best of urban and rural living and the quality of life is an important part of retaining and attracting talented people and new investment. While there are fewer resources available to support place making, there is a need to improve both the housing offer and the attractiveness of employment locations across the area.

Compared to the South East and London, the North East offers very good value for money, and the quality of life is second to none. This is an important selling point, particularly to new inward investors and for companies recruiting highly skilled personnel. Where people live is as important as where they work and maintaining the attractiveness of residential neighbourhoods and towns, both urban and rural, will help to support economic growth.

The North East has already successfully delivered some transformational physical regeneration programmes and new strategic, long term approaches to regeneration are taking shape across the area. In addition, significant elements of the two City Deals focus on regeneration and the local solutions for a place based approach to local development which integrates investment across hard and soft economic infrastructure. The contribution and importance of the varied economic roles that different places play are a significant strength in the North East. For a diverse and growing economy, we need to support the development of prosperous urban cores as well as vibrant towns and a strong rural economy.

One of the main challenges which is now having a serious impact on tourism, heritage and culture is the fact that there are fewer sources of capital support available to develop new heritage and cultural attractions which in turn means that many growth opportunities are lost.

The focus moving forward is about creating a distinctive area that supports sustainable growth, environmental sustainability and resilience. Building on the investment and regeneration successes of the last two decades, we recognise that more is needed to strengthen the cultural and visitor offer for businesses, residents and visitors. Further investment in major projects, such as the North East International Convention Centre, the transformation of Beamish Museum, investment in coastal towns such as Whitley Bay and in rural assets enhanced with projects such as the country's first landscape discovery centre - the Sill, are vital if our objective to achieve a world class offer is to be fulfilled. There is real potential through projects like these to increase the number of visitors to the area, specifically international and businesses visitors, and to increase significantly the levels of visitor spend.

### Local Growth Fund priorities: 2015/16

The above section outlines our longer term priorities for investing in places through town centre regeneration and investment in our culture, heritage and tourism assets for which the North East Development and Investment Fund could be used. However, in order to fulfil requirements with respect to government guidance on the Local Growth Fund (LGF), we have undertaken a rigorous appraisal process to determine priorities for LGF investment in 2015/16. The five projects selected require some £47.8m of LGF of which £21.75m will be spent in 2015/16. They are North East International Convention Centre, North East Rural Growth Network infrastructure, Ashington North East Quarter, Whitley Bay Regeneration and Re-making Beamish.

## A commitment to housing growth

The North East is a very competitive location when the costs of land, labour and housing are taken into account. Good quality and connected housing in the right places is essential for creating sustainable communities which will attract and retain economic investment and skilled workers. The scale of employment increase outlined in this plan will require a more highly skilled workforce, with more opportunities for well qualified young people, and is likely to increase demand for higher quality housing in the North East area.

The HCA recognises the role played by local enterprise partnerships in providing strategic economic leadership for their areas and understanding the drivers and barriers to growth. There will therefore be a clear role for the North East Local Enterprise Partnership and the North East Combined Authority in ensuring alignment between housing investment such as the Affordable Housing Programme (AHP) and the wider investment programme to deliver the aims of our strategic economic plan. In regards to both the AHP and wider housing related investment, it is vital that partners in the North East clearly and objectively articulate why a national programme based on national priorities will not meet the needs and aspirations of the area.

A series of actions are required to drive housing growth and provide an appropriate mix of supply over time. Local authorities and the Combined Authority, where appropriate, will lead the way in working with other stakeholders to increase new housing and establishing an approach of local determination and local design of interventions, bending of resources and local use of assets. To do this, we are committing to an incremental proposal for the area.

To start, we will commence with an assurance role in regards to the 2015/18 AHP. This would allow for a more collaborative approach with the HCA to determine which bids meet regional and local priorities and would also allow for the possibility of aggregating bids to create packages for the North East.

Following this, by April 2015, we will be able to start changing the conversation from housing supply to strategic housing investment to accelerate growth whilst aligning local assets and resources. We will have our North East Development and Investment Fund in operation which could be aligned with national housing programmes. Specifically, we will be able to direct the investment of the HCA's AHP reserve plus any underspend or speculative proposals. This will require more structured governance in place which will be incorporated under the existing Combined Authority framework and under current partnership arrangements.

Finally, by April 2018, we will be aiming to directly influence the post-2018 national housing investment programme with a strong element of local determination and direct investment instead of employing a reactive approach. We will have refined our strategic framework for investment and will start to bend resources and pilot new innovative initiatives.

## Low carbon, sustainable and resilient growth

The North East Local Enterprise Partnership area is uniquely placed to achieve a significant competitive advantage if it protects existing economic sectors, and exploits and sustains all of the economic opportunities that will result from likely climate change and resulting mitigation and adaptation action. In fact, our economic and natural assets, collective ambition, economic structure and innovative strategic business sectors provide the foundations for a rapid transition to a climate resilient economy.

In achieving this, the area will be an exemplar of environmental sustainability, resource efficiency and sustainable transport systems which drive economic growth. It is important to ensure that environmental and social impacts are positive and trade-offs must be actively managed and mitigated. Investment will promote the achievement of sustainable development, resilient growth and assist transition to lower carbon intensity.



## Investment options

### Option A – North East Development and Investment Fund

Recognising the challenge and the need to bring forward innovative approaches to maximising growth our preferred approach is a fund which will align current local public and private sector resources and leverages further investment to deal with current barriers to growth and builds in enough capacity to meet future demand.

The fund is expected to invest the majority of its monies where there is some kind of repayment arrangement. In some cases, a gap funding or non-repayable support may be provided, although these projects will be subject to a rigorous assessment of the economic benefits (as distinct from the commercial return).

As sites are unlocked and development-ready land is taken up, the economic benefit will be considerable. Although difficult to forecast, information on previous successful investment allow for broad estimates of impact to be determined. The appraisal process will include a full assessment of economic benefit from each investment.

The economic benefits of the fund will continue to be realised in later years, as premises become fully occupied and later phases of larger site investments are taken up for development.

#### North East Development and Investment Fund - proposed forecast inputs

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
ERDF (Capital)	Nil	£3m	£10m	£11m	£12m	£12m	£12m	<b>£60m</b>
LGF Fund	Nil	£10m	£10m	£10m	£10m	£10m	£10m	<b>£60m</b>
Existing NE Investment Fund (Capital / Revenue)	£20m	£10m	£5m	£5m	£5m	£5m	£5m	<b>£55m</b>
EZ Receipts (Capital/Revenue)	£2m	£2m	£4m	£4m	£6m	£6m	£6m	<b>£30m</b>
Local contributions (Capital/Revenue)	£5m	£5m	£6m	£6m	£6m	£6m	£6m	<b>£40m</b>
<b>Total</b>	<b>£27m</b>	<b>£30m</b>	<b>£35m</b>	<b>£36m</b>	<b>£39m</b>	<b>£39m</b>	<b>£39m</b>	<b>£245m</b>

HCA assets by negotiation

ERDF component subject to ex-ante evaluation

#### North East Development and Investment Fund: Proposed forecast outputs and outcomes

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
<b>Investment</b>								
Repayable/Property	£13m	£15m	£17m	£18m	£20m	£19m	£20m	£122m
<b>Total Outputs (when developed)</b>								
Floorspace m2	2,407	2,777	3,145	3,333	3,700	3,515	3,700	22,577
Land (hectares)	10.8	12.5	14.1	15	16.6	15.8	16.6	101.4
<b>Gross Benefits (when developed)</b>								
Employment (FTE)	1,470	1,701	1,919	2,042	2,250	2,151	2,250	13,783
GVA £m	£73.50	£85.00	£95.90	£102.10	£112.50	£107.50	£112.50	£689.00

1 Circa half the Fund is invested in land and premises on a repayable land basis

2 Two third goes on land development and other third on premises

3 £800,000 per hectare and £1,800 m2 for premises



### Option B - 2015/16 project by project LGF investment

A North East Development and Investment Fund is our preferred option. However, in line with the guidance and following a rigorous appraisal process a short list has been agreed for 2015/16 LGF investment. The following tables illustrate the LGF ask for these priorities in addition to the local investment leveraged and the impact of the schemes. All of the schemes highlighted in this section for 15/16 start are candidates for inclusion, as are many more projects

from our capital investment pipeline. It is important to note that the prioritised list included in this section has already been prioritised from a pipeline of nearly 200 schemes. This pipeline will continue to be developed in line with our priorities.

### Economic assets and infrastructure expenditure profile

	2015/16	2016/17	2017/18	2018/19	2020/21	Total LGF	Total cost
Employment Sites and Premises	£21.74m	£22.74m	£5.28m			£34.76	£49.76m
Regenerating Places	£53.5m	£47m	£26.8m	£12.8m	£4.8m	£47.8m	£144.9m
Total	£75.24m	£69.74m	£32.08m	£12.8m	£4.8m	£82.56m	£194.66m

### Impact of LGF 2015/16 investment proposals

floor space m2	ha of land	FTEs Created	Construction FTEs	Jobs safeguarded	GVA £m	Private investment leveraged £m
194,167	64.12	9,326	1,775	3,445	£438.59	£355.45m

# **I: Transport and digital connectivity**



In order to achieve the vision set out in our strategic economic plan, it will be necessary for people to travel and for goods to be transported within, into and out of the area. Without this, the economy cannot function effectively and commercial competitiveness and social inclusion both suffer. The presence and effectiveness of road, rail, air and sea connections can place a limitation on how aspirational the North East Local Enterprise Partnership area can be.

Economic growth is becoming increasingly synonymous with digital connectivity and superfast broadband is fast becoming a minimum requirement for business and homeowners. In effect, it is an essential service for both business and households and its rapid adoption is important to both business competitiveness and quality of life.

Raising awareness of the benefits of superfast broadband and driving demand are essential elements of the programme. Overcoming the barriers to digital adoption is key to unlocking a wealth of opportunity. It has been estimated that more effective use of technology could add £1.2bn to the North East's gross value added (GVA) by 2017.

## Transport

There is compelling evidence that transport investment will make the maximum impact on productivity, job creation and GVA where it:

- Improves the area's strategic connectivity – an area targeting smart specialisation, trading and exporting needs fast, reliable and resilient connectivity to external markets by road, rail, air and sea. It is equally about facilitating visitors to come to the area.
- Improves access from all parts of the area to the priority locations for economic growth, getting people to jobs. Transport plays an important part in ensuring that urban centres with the greatest economic potential can thrive, and everyone can participate in the area's job market.

Whilst aiming to improve transport connectivity, we are also committed at the same time to reducing carbon emitted by transport. A key way of achieving both goals is through the use of shared and sustainable modes of transport alongside reducing carbon emissions from all vehicles and networks. Two thirds of all journeys in the UK are less than five miles. The majority of these trips could be made by sustainable modes, including walking, cycling and public transport. By making sustainable travel easier and more attractive, many short trips can be taken off our local road network, with economic benefits for the area arising out of a reduction in congestion. There are also wider social and environmental benefits from reduced carbon emissions and improvements in health. These considerations are at the centre of our proposals to allocate European Structural and Investment Funds resources to sustainable transport.

The area has poor levels of public health, obesity and life expectancy. Quite apart from the personal costs, these health issues are a serious concern for the local economy, reducing the available labour pool, adding to employer costs and increasing the burden on local NHS resources.

The inactivity rate in the North East of England is, at 26.4%, the highest in England.

Included in this bid are proposals for further Local Sustainable Transport Fund (LSTF) measures that can complement the highway and public transport improvements we are seeking to deliver in our strategic economic plan and which, by promoting active travel and reducing short car trips, can assist economic growth, reduce health inequalities and enhance the quality of life for many of the area's residents.

### Roads

Congestion on the area's road network occurs mainly on the A1 and A19, river crossing points and their approaches, and radial routes into the main urban centres on the local network (particularly Newcastle, Sunderland and Durham). Existing congestion on the strategic road network is expected to increase and currently the severe congestion on some links is spreading the congestion on to other strategic and local links. Without intervention, congestion and delays will worsen, with many significant bottlenecks already acknowledged in the National Infrastructure Plan.

Some work is already underway and other interventions are planned which will help relieve key constraints. For example, outside this area but with direct benefits to the North East, the upgrade of the A1 through North Yorkshire promises at last to complete the motorway link from Washington to the south. Such investments will have significant economic benefits for the whole area, and enable key developments in growth corridors to be progressed. For example, congestion on the A1 corridor is already delaying development of certain sites.

A number of locations would require significant investment before development plans can progress across the area. As such restrictions could reduce the location choices for investment and development. Government's announcement of the approval for the Lobley Hill link road scheme at the A1/A692/A189 junction in Gateshead is welcome and will address one of the worst single congestion points on the A1 Western by-pass, itself one of the most congested pieces of dual carriageway in the country.

In addition, the new river Wear crossing at Sunderland will reduce traffic congestion, improve connectivity between the Nissan plant, the Ultra Low Carbon Vehicle Enterprise Zone site and the city centre, and will unlock development sites on the banks of the river Wear.

Our priorities to improve the reliability and efficiency of the network and reduce demand on the network include investment in key bottlenecks and additional capacity alongside traffic management and measures that encourage greater use of sustainable transport options. Our transport and digital connectivity implementation plan explains in more detail how the road improvement interventions we are proposing are linked to the promotion of growth at specific economic development locations.

## Road: Priorities for action with government

Ongoing investment in a reliable strategic road network with reduced congestion. Key priorities are known bottlenecks on the A1 and A19, river crossing points and their approaches and radial routes into the main urban centres on the local network (particularly Newcastle, Sunderland and Durham).

Deliver a programme of improvements on the A1 including the Lobley Hill scheme, the renewal of Allerdene Bridge and the A1/A19 Seaton Burn interchange. Act on the recommendations of the review of the A1 north of Newcastle, recognising the constrained capacity of road links between the North East and Scotland.

Secure a rolling programme for additional capacity along the whole length of the A1 Western Bypass, with the objective of dual three lanes along all of its length, excluding bridges over the river Tyne and East Coast mainline, by the end of 2023.

Government has recognised the important role of the A1 north of Newcastle in facilitating the movements of freight and providing connectivity between the UK's capital cities and we will therefore work with government to make progress on dualling of the route, which forms an important strategic link between England and Scotland.

Ensure commitments to invest in improvements to key bottlenecks such as the Silverlink junction and Testos roundabout are raised through the process for the Highways Agency post-2015 delivery programme; other A19 bottleneck junctions should follow by the end of 2023.

Continue investment in improving sustainable transport options for commuters including cycling and walking infrastructure and supporting measures which assist in the reduction of congestion.

## Public transport

The bus and Metro networks are vital for connecting people to jobs, and delivering accessibility to the area's town and city centres, and other major employment sites. It also facilitates sustainable growth by promoting the use of more efficient mass transit modes.

The area benefits from a comprehensive network of local bus services operating both within and across local authority boundaries. Public transport services in parts of the area are very strong, although there is evidence of a disconnect between some population centres (including rural centres). There are also some notable gaps in provision including difficulties accessing some of the 'out of centre' business parks and manufacturing centres by public transport, with most journeys requiring an interchange through the central urban area, making journey times unattractive. In addition, there are some issues with the cost of travel by bus and other modes of public transport, with the cost of a multi modal ticket considered preventative for those seeking work.

Public transport accessibility whilst generally good, needs to be improved in a number of key areas, particularly relating to fares and ticketing, and also to improve access to key employment destinations from communities where deprivation and worklessness persist.

## Public transport – priorities for local partners

Continue to develop a public transport system that meets the needs of new and existing customers through investment in infrastructure and a step change in information and ticketing provision.

Greater co-operation through the Combined Authority will allow improvements to the area's public transport network, building on substantial programmes of investment such as the Tyne and Wear Metro £389m, 11 year programme for modernising trains, stations and infrastructure.

Investment in public transport infrastructure also extends to new facilities such the new Horden Rail Station, funded by the devolved local major transport schemes, and investment in key transport interchanges such as Central Station in Newcastle, and the South Shields Transport Hub.

Single network, multi-operator ticketing will be established with discounted ticket products for job seekers and those accessing training, to assist in helping to get people into work.

## Rail

The area has a relatively well-connected rail network, with connections to most midlands and southern rail hubs. However, the uneven timing of some services and short onward connection times at certain hubs can make the rail services unattractive to users.

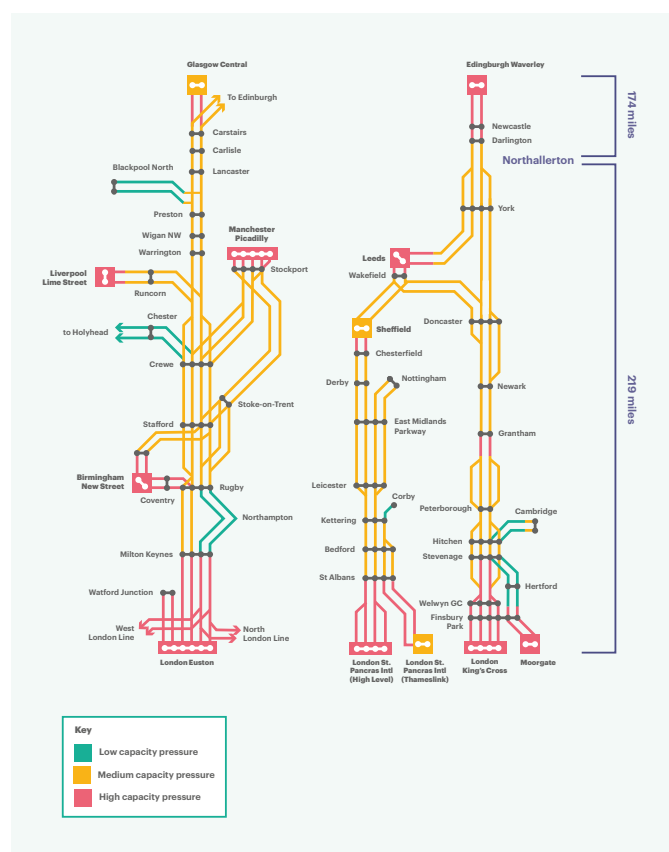
On much of the network, freight and passenger services share the same infrastructure. Projected growth in both passenger numbers and in freight tonnage means that investment in capacity is required to support growth of the economy of the area and the wider North.

There is a need for faster journey times of 2 hours 30 minutes from Newcastle to London and Birmingham and 2 hours 15 minutes to Glasgow and Manchester, to be delivered by the next East Coast, Cross Country and TransPennine franchises. In the longer term, getting the most out of HS2 requires a steady but ambitious programme of line speed improvements to the East Coast Main Line north of the connection point on to the high speed line near Leeds. This aims to achieve HS2 journey times of around 2 hours 10 minutes to London and under 2 hours to Birmingham.

In addition, better local rail services are also highlighted, including the need for a continuous 75mph route for rail freight between Newcastle and Northallerton, allowing the growth of freight traffic without impeding faster and more punctual passenger services on the East Coast Main Line.

HS2 Ltd classify the 174 miles of East Coast Main Line from Northallerton to Edinburgh (nearly half the total distance from London to Edinburgh) at the same level of capacity constraint as the West Coast Main Line between Milton Keynes and Euston by 2019. Their map of capacity constraint is reproduced below, although the different scales used in the north vs the south and the east vs the west of the UK make the 30 miles from Carstairs to Glasgow look like the same constraint on connectivity and resilience as exists through the North East.

Expert judgement on post-2019 capacity pressures on north-south main lines



This level of capacity constraint makes additional services very hard to accommodate, and passenger franchises compete against important freight movements for access to the track. With the threat of reducing some services to make room for others a real prospect (especially impacting on stations in Northumberland and Durham City and for connections to and from Scotland) there are strong arguments for reinstating the Leamside Line from both a business and passenger perspective.

The lines offer opportunities to increase significantly the capacity and reliability of the network for freight which is central to maintaining and growing the region's status as a net exporter of goods, whilst also enabling improved north-south and trans Pennine/crosscountry passenger services along the East Coast Main Line and the Durham Coast line. With recently announced plans to extend the Metro network further down the Durham Coast route to Seaham this route must be considered a priority for passenger rather than additional freight traffic.

## Rail

Better local rail services into Newcastle from Northumberland, County Durham and Teesside are also highlighted as a key priority for the wider area. A plan for specific improvements to regional rail services in the next Northern and TransPennine rail franchise will be developed, and funding for it sought as part of the Rail North partnership agreement.

Investment in local rail services including improvements to the Durham Coast Line and the reinstatement of the Ashington, Blyth and Tyne line for passenger services. Re-opening of this route will significantly improve connectivity and enable development in South East Northumberland, a key labour market, and the Tyne & Wear conurbation with 250,000 passenger journeys expected annually by 2025. Investment in such routes will provide a step change in the mobility of the labour market thus strengthening economic linkages within the area.

Providing a high-quality fast diversionary route for freight traffic between Northallerton and Newcastle (possibly involving reinstatement of the Leamside line) will assist in meeting increasing demand on this section of route and allow the benefits of HS2 to be fully realised by enabling faster and more punctual passenger services on the East Coast Main Line north of York.

Ensure faster rail journey times to other British cities are delivered by the next East Coast, Cross Country and TransPennine franchises and further into the future, by HS2, with more influence over timetabling for these services.

The Combined Authority should have formal consultee status in relation to any client body implementing regional timetable changes for rail services (possible collaborative action with Tees Valley).

## Ports, rivers and airports

The ports and airports in the area are part of the competitive infrastructure offer. Newcastle International Airport provides the primary air link for the area, providing both direct services and linking hub connections for longer haul destinations. This is important for businesses with relationships and a presence in other countries. Ever stronger links from Newcastle International Airport to the major global air hubs are required, plus continuing direct flights to the more distant British cities. The maximum number of global destinations needs to be available from Newcastle with one change of plane. The recent new link to the fast developing hub at Dubai has been a great success; the top priority now is a commercial agreement relating to a new direct flight to a major North American air hub.

A number of new markets have developed over recent years for the ports, including the import and export of cars, large and heavy equipment, raw materials used in modern low carbon industries such as bio-mass, and supply chain goods for the renewable energy industry, especially wind power.

Land availability dockside makes future growth possible and ideally placed for logistics. The sea ports serving the area provide a valuable asset in terms of import and export which can relieve pressure on south eastern UK sea ports, and relieve congested road and rail networks in the South and Midlands, bringing goods closer to their destination in the North.

### **Ports, rivers and airports: Gateways and foci for development**

Support for stronger links from Newcastle International Airport to the major global air hubs, plus continuation of direct flights to the more distant British cities. Support for infrastructure investment to link the new Newcastle International Airport Business Park to the strategic transport network.

Investment in port infrastructure which establishes the area's ports as Britain's route of choice to Scandinavia and the Baltic, and as Scotland's main route to the heart of Europe, via the Netherlands and which takes advantage of opportunities such as port-centred logistics and renewable energy.

Creation of a more integrated approach to the development, promotion and environmental management of the River Tyne; including investigating whether new partnership approaches could enhance the wider economic role and impact of the Port of Tyne and the riparian local authorities. Invest in the future of the river through the project proposal in the economic assets and infrastructure implementation plan.

## **Digital connectivity**

In the UK, highly productive digital businesses are growing in number and in recent years, the region has seen more new technology company start-ups than any area of the UK outside London. The North East of England has emerged as one of the leading centres for digital games development and start-ups, with a dynamic cluster of firms and university courses acting as a magnet for entrepreneurs and students.

For both rural and urban areas, the focus will remain on supporting the development of digital skills and facilitating take-up by both businesses and individuals, and delivering hard infrastructure where this is still required. Delivery of superfast broadband and the wider digital infrastructure will be essential to boost growth and remain competitive in an evolving and increasingly technology driven economy, to support business needs and improve digital inclusion.

### **Digital priorities**

- A joint investment plan between the private sector, government, local government and the Local Enterprise Partnership to secure 99% access to superfast broadband by 2016.

- Work with government to resolve state aid complications arising from the use of public subsidy in a generally commercialised market place, especially in the context of the Super Connected Cities Programme.
- Collaboration with private sector providers to review ways of delivering a commercial public Wi-Fi provision in the area.
- Raise digital skills in the region by building on the Go ON UK Pathfinder, launched in the North East of England on 1 October 2013, in collaboration with universities and working with businesses to retain talent.
- Pursue innovative approaches enabled by continuously improving digital infrastructure such as engagement in real-time data analysis and decision making: good infrastructure is not only a matter of policy implementation and building, it is also a matter of real-time optimisation of usage. One example relates to Smart Grids and another to our urban traffic management and control centre.

## **Prioritised schemes**

The North East Local Transport Body has prioritised transport interventions for the devolved local major transport schemes and agreed to support six schemes totalling £31.1m. The schemes approved are the South Shields Transport Hub, the Sunderland Low Carbon Zone, the A1058 Coast Road, the Northern Access Corridor, the A167 Park and Ride Corridor, and the new Horden Railway Station. In addition, the Metro Phase 2 re-invigoration programme supported by £350m of government funding and £39m of local contributions, represents substantial investment in our public transport infrastructure. The indicative programme outlined below incorporates these commitments as well as significant contributions by local partners.

The area received funding from the Local Transport Majors process for six projects, with a further four deferred due to a 30% budget reduction. As a first priority, we would like these four schemes funded.

Schemes included in our strategic economic plan have been sifted for deliverability and value for money and chosen on the basis that they align with the plan's headline goals;

- Improve the North East's strategic connectivity.
- Improve access from all parts of the North East to the priority locations for economic growth and getting people to jobs.
- Contribute to the area's attractiveness offer.



The following tables provide a short description of each project. Financial details are in subsequent sections.

Current Scheme Proposals 2015/16 start	Promoter	Description of Scheme
Horden Station	Durham County Council	The scheme proposes the construction of a new two platform station at Horden Sea View on the Durham Coast Line between Hartlepool and Sunderland that will be served by the existing hourly Northern Franchise service. It will create an economically and environmentally sustainable solution to some of the access constraints of East Durham.
A1058 Strategic Corridor Improvement	North Tyneside Council	The scheme will contribute to economic growth by delivering specific benefits for public transport on the A1058 Coast Road; improving general traffic flows on this strategic corridor linking North Tyneside and Newcastle; support growth in the corridor including facilitating the development of West Chirton Industrial Estate adjacent to the Coast Road.
Sunderland Low Carbon Zone	Sunderland City Council	Improvements in transport infrastructure to the Low Carbon Zone, including the Enterprise Zone site – includes A19 / A1231 and A19 / A1290 junctions, internal road links, pedestrian, cycling and public transport facilities. The scheme aims to enhance the capacity of the network to accommodate projected employment growth of the entire zone bounded by the A1231, A19, A1290 and Leamside Line, including Nissan, North East Enterprise Zone and other proposed developments.
South Shields Transport Hub	South Tyneside Council/Nexus	The scheme will consolidate Metro and bus terminals in the heart of South Shields. This will provide a focal point for the transport network to create a step-change in quality. There are two main elements of the scheme: expanded South Shields Metro Station, New South Shields Bus Station. This integrated transport interchange is a pivotal element of South Tyneside Council's broader vision for the regeneration of South Shields town centre – South Shields 365.

Current Scheme Proposals 2015/16 start	Promoter	Description of Scheme
Newcastle Northern Access Corridor	Newcastle City Council	The scheme provides improvements at two junctions that are linked in traffic flow. The junctions: Bluehouse and Cowgate roundabouts, form part of a corridor package of works that link traffic movements from east - west and north - south in the north of Newcastle. The scheme will signalise the roundabouts and upgrade the junctions to reduce levels of congestion for all road users and address issues of severance for non-motorised modes.
Haddricks Mill Strategic Junction Improvement	Newcastle City Council	This scheme builds upon the 'Northern Access Corridor' improvement scheme. The Haddricks Mill junction is located approximately 2km to the north of Newcastle City Centre close to the Newcastle/North Tyneside district boundary. The junction is a major pinch point on the boundary of several major employment sites, including the large employment site at Benton Park View (home of HMRC and DWP) the Freeman Hospital and Quorum Business Park. It is proposed to remove the existing mini roundabout junctions and provide a roundabout with a larger circulatory. This will be signalised and will incorporate the full signalisation of secondary junctions.

Current Scheme Proposals 2015/16 start	Promoter	Description of Scheme
A1 Park and Ride and Local junctions Improvement package	Gateshead Council	450 space park and ride site at Eighton Lodge, with potential for eventual expansion to 900 spaces, and enhanced bus priority on Durham Road between the site and the urban core of Gateshead/Newcastle. The key objective is to reduce traffic on routes to/from central urban area, thereby reducing congestion, supporting economic growth and reducing carbon emissions and other pollutants.
	Newcastle City Council	Improvements will ensure access over this crucial river crossing bridge for all modes to the employment, education and retail opportunities on both sides of the river Tyne. This scheme will support the development of Metro Green in Gateshead (850 new homes and 15000sqm of office accommodation) and the Scotswood Masterplan site (1300 new homes). It will also benefit from being upgraded to support traffic from housing developments in the west of Newcastle. including:- Callerton (approx 3000 homes); Dinnington (approx 250 homes); Newcastle Great Park (up to 1200 homes); and Newcastle International Airport (50ha development site).
	North Tyneside Council	Improvements to flows in the A188/A189 corridor and linkages to future employment development at Weetslade and existing employment sites in Killingworth. Facilitates Indigo Park an 82 acre strategic employment site with the potential for 1000 new jobs.

Current Scheme Proposals 2015/16 start	Promoter	Description of Scheme
Central Gateway Regeneration Initiative	Newcastle City Council	Direct link from Newcastle Central station to the Stephenson Quarter regeneration site (£200m) This proposal addresses a major physical barrier that currently reduces accessibility from the main rail station in the North East Local Enterprise Partnership area to a major regeneration site. The scheme is designed to accelerate development in Newcastle's historic Stephenson Quarter. The Stephenson Quarter is a development that will create 2,431 gross additional jobs in the local economy, resulting in a net GVA contribution per annum of £97.3m
	Nexus	Central Metro station is based in the centre of Newcastle and is a key transport interchange between Metro and heavy rail as well as providing connections to local bus services for the region. This scheme proposes the complete refurbishment of the station concourse and platforms in a style in keeping with the recently refurbished Haymarket Metro station.
A19 Local Junctions Improvement Package	South Tyneside Council	This gyratory improvement scheme will improve traffic movements along A185/A194/A19 thus providing improved connectivity (economic growth opportunities) to the Strategic Highway Network, Port of Tyne and Bede Industrial estate, as well as key access into South Shields Town Centre.

Current Scheme Proposals 2015/16 start	Promoter	Description of Scheme
A19 Local Junctions Improvement Package	South Tyneside Council	South Tyneside Council are intending to undertake a carriageway improvement scheme that will improve traffic movements at Lindisfarne Roundabout thus providing improved connectivity (economic growth opportunities) to the Port of Tyne and South Shields town centre. South Tyneside Council will also deliver localised improvements to the A1300/A194 roundabout, as well as improving access to the Strategic Highway Network.
	North Tyneside Council	Improved access to the Tyne View Park employment site and improved flows in the A191 corridor. The Tyne View Park junction currently operates at 124% of capacity in the AM peak and 121% in the PM peak. The planned improvements to flows will have benefits for the wider A19 corridor.
	North Tyneside Council	Facilitates economic development in the A19 corridor including the occupation of the remaining units at Cobalt Business Park (former Enterprise Zone site), a regionally significant location for skilled employment. It will address capacity issues in the area (the roundabout of A191 and The Silverlink North currently operates at 94% of capacity in the AM peak): significant additional traffic is expected from committed development as remaining units on the business park are occupied.
Local Sustainable Transport Fund Capital Interventions	LA7 LSTF 2015/16 Capital Package	Comprehensive upgrade to Durham and Tyne and Wear Urban Traffic Management and Control systems, with linked functionality in order to provide improved journey time reliability for public transport and to reduce instances of congestion. 'Gateway Improvements' to 4 major heavy rail stations and improved linkages between Newcastle International Airport and the Tyne and Wear Metro. Strategic Cycle package linking to key public transport gateways.
Strategic Investment in small scale transport schemes	LA7	Investment fund for small scale transport schemes. Focused on match funding for smaller transport interventions that meet the strategic objectives of our strategic economic plan and that demonstrate high value for money.

The investment priorities are summarised below, in priority order.

The North East Local Transport Body committed funding for six projects £31.1m of Local Major Scheme funding is committed for these projects.

They are:

1. South Shields Transport Hub.
2. Sunderland Low Carbon Zone.
3. A1058 Coast Road.
4. Northern Access Corridor
5. A167 Park and Ride Corridor.
6. Horden (Peterlee) Rail Station.

#### LGF 2015/16 Schemes committed by North East Local Transport Body

	2015/16	2016/17	2017/18	2018/19	2019/20	LGF	Total
<b>Totals</b>	<b>£20.26</b>	<b>£10.85</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£31.11m</b>	<b>£58.36m</b>

As noted earlier, the North East Local Transport Body recommended that four projects that were not allocated Local Major Scheme funding would also be included in the Local Growth Fund bid as local priorities and have advised the Department for Transport of this.

They are:

1. Traffic movements along A185/194/19.
2. Northern Access Corridor.
3. A19/A194/A1300 Lindisfarne Roundabout.
4. Central Metro Refurbishment.

#### LGF 2015/16 Investment proposals, recommended North East Local Transport Body

	2015/16	2016/17	2017/18	2018/19	2019/20	LGF	Total
<b>Totals</b>	<b>£6.49m</b>	<b>£5.93m</b>	<b>£3.83m</b>	<b>£0m</b>	<b>£0m</b>	<b>£16.25m</b>	<b>£23.52m</b>

The following projects have also been prioritised for the 2015/16 year owing to their strong contribution to the objectives of our strategic economic plan.

They are:

1. Newcastle Station Southern Access
2. A1056-A189 roundabout and A1-A19 link
3. A19 employment corridor access improvements (A191/Silverlink North junction)
4. A1 Scotswood Bridgehead
5. A191 junctions including coach lane and Tyne View Park

#### LGF 2015/16 investment proposals – priority schemes

	2015/16	2016/17	2017/18	2018/19	2019/20	LGF	Total
<b>Totals</b>	<b>£5.88m</b>	<b>£9.16m</b>	<b>£2.66m</b>	<b>£2.53m</b>	<b>£0m</b>	<b>£20.22m</b>	<b>£25.2m</b>

As part of the overall economic plan, we are proposing a package approach to certain types of intervention. These offer the opportunity to bring a more strategic focus to local funding streams, ensuring that a range of locally-based interventions, whilst each valuable in their own right, deliver added value through forming part of a wider strategic

programme. The packages are:

- Investment Fund for Small Scale Transport Scheme
- Local Sustainable Transport Fund Capital Investment package

#### LGF 2015/16 Investment Proposals

	LGF	
Investment Fund for Small Scale Transport Schemes	£30m	£5m per annum for 6 years
Local Sustainable Transport Fund Capital Investment package	£7.52m	2015/16 expenditure only
<b>Total</b>	<b>£37.52m</b>	



A programme of schemes for delivery post 2015/16 is available. The aspiration of our strategic economic plan process remains that new projects should be able to seek funding throughout the lifetime of the plan. The following schemes have been identified by the partners as potentially transformational with the ability to greatly contribute to the objectives of our strategic economic plan.

However, this list is not exhaustive and partners wish to engage further with government when determining a programme of schemes for commencement in the period from 2016/17 up to 2020/21. Further details are included in the transport and digital connectivity implementation plan.

#### Future year priorities 2016/17 2017/18

	2015/16	2016/17	2017/18	2018/19	2019/20	LGF	Total
<b>Totals</b>	<b>£0m</b>	<b>£17.3m</b>	<b>£26.2m</b>	<b>£36.85m</b>	<b>£26.7m</b>	<b>£17.7m</b>	<b>£124.75m</b>

Future year priorities 2016/17 2017/18	Promoter	Description of Scheme
Sunderland Strategic Transport Corridor (Low Carbon Zone to City Centre to Port) phase 3 (New Wear Bridge to City Centre)	Sunderland City Council	This provision of a major new transport link supports the development of a number of key sites in the river Wear corridor, the regeneration of Sunderland Urban Core – City Centre and the regeneration of the Port of Sunderland. The scheme supports the introduction of the new Wear crossing announced as part of the Sunderland and South Tyneside city deal.
Ashington, Blyth and Tyne Rail Scheme	Northumberland County Council	This project provides passenger rail services on the current freight-only line between Newcastle and Ashington. The scheme will provide improved connectivity between south east Northumberland and Tyne & Wear, allowing greater access to employment and other opportunities. There are an insufficient number of jobs in South East Northumberland to support the working age population which live there and therefore access to education, training and employment in Tyne and Wear is essential for the economic growth of the area.
Western Relief Road, Durham City. The construction of a relief road in the west of the city to improve traffic flows to the A167 and A690 corridor.	Durham County Council	The County Durham Plan (CDP) recognises that the relief road is required for the delivery of new housing (the CDP proposes land for 5,000 new homes up to 2030) and employment in the city (a new business park at Aykley Heads alone could attract 6,000 new jobs over the plan period). Traffic in the city centre will be relieved at peak times, making existing and new employment hubs more attractive to businesses. Motorists, public transport users and cyclists will benefit from reduced journey times. The scheme will make the city a more attractive place for businesses to invest and for people to live and shop at, reducing the traffic impact on the historic core

Future Year Priorities 2016/17 2017/18	Promoter	Description of Scheme
Metro Enhancements	Nexus	<p>The overriding objectives of the Metro Strategy 2030 are to replace the fleet of Metrocars and extend the reach of Metro beyond its current sphere of operation and the boundaries of Tyne and Wear. Work needs to commence in the medium term to plan for the design and procurement of the replacement fleet and Heaton traction shed has been identified as having strategic importance not just for this ambitious plan but to also provide land options at the existing South Gosforth sites, as well as providing access to Network Rail infrastructure. This is hugely attractive given the potential for both rail devolution and the potential to deploy heavy rail plant and machinery onto the Metro infrastructure for renewals/maintenance activities. There is also scope for the establishment of a rail training facility at this location in order to supplement existing arrangements for Metro as well as offering the possibility to work in partnership with other training providers within the rail industry.</p>
Newcastle International Airport Business Park Link Road	Newcastle	<p>This scheme supports access to development sites and centres and gateways from the A1 corridor. The Newcastle International Airport Business Park incorporates the development of 4 sites with the potential to deliver 7,000 jobs and contribute over £300m to regional GVA. In order to ensure accessibility to these sites, improvements are required to the road network to allow for access for businesses to and from the rest of the strategic network. Delivering this important access improvement will speed up the wider development of the airport site (which would then in total support 10,000 jobs and contribute £1.2bn to regional GVA).</p>

Future Year Priorities 2016/17 2017/18	Promoter	Description of Scheme
Gateshead town centre regeneration OakWell Gate Junction	Gateshead Council	Oakwell Gate is situated immediately to the north-east of Gateshead town centre, at the south end of the Tyne Bridge. It lies at the heart of the Urban Core. Two of the main traffic routes into the Urban Core, the A167 (carrying traffic from east and south Gateshead) and A184 (linking to the west and the A1) meet at this point. The junction is an essential point of access across the Tyne Bridge and also the major regeneration area of Gateshead Quays. Routes approaching the junction are heavily congested, with extensive peak (and in some instances off-peak) queuing. The junction lies on major pedestrian desire lines between Gateshead town centre and Interchange and into Newcastle and Gateshead Quays, including primary and secondary walking routes. It also lies on the Great North Cycle Route (NCN725). Heavy traffic flows along the main corridors leading to and through the junction, coupled with the current layout, mean that there is a barrier to effective and attractive pedestrian and cycle movement and to the effective regeneration of Gateshead centre.
A1/A19 Local Junctions Improvement Package	Combined Authority	Programme of A1/A19 junction improvements on the local authority road network (Improvements to the southern portal of the Tyne Tunnel, A19/A189 Seaham/Murton Interchange, A1/A690 Junction improvements, Boldon Business Park corridor access, Improvements to access from the A19 to the North bank of the Tyne (Swans site and Port of Tyne land) Both the A1 and A19 corridors have been identified within our strategic economic plan as important arteries for the growth of the area. There are currently a number of investigations underway via the Highways Agency in to improvements on the Trunk Road network. Most notably for the Silverlink and Testos junctions and the A1 Western Bypass. This programme demonstrates a continued commitment to local authority investment in the local connections to the Trunk Road network, building upon the investment planned for the 15/16 period.

<b>Transport investment plans</b>							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	<b>Total</b>
LGF committed	£20.26m	£10.85m	£0m	£0m			<b>£31.11m</b>
LGF competitive	£24.89m	£37.39m	£37.69m	£44.38m	£31.7m	£22.7m	<b>£198.74m</b>
<b>TOTAL LGF</b>	<b>£45.15m</b>	<b>£48.24m</b>	<b>£37.69m</b>	<b>£44.38m</b>	<b>£31.7m</b>	<b>£22.7m</b>	<b>£229.85m</b>
Other funding	£23.39m	£24.99m	£19.52m	£22.99m	£16.42m	£11.76m	<b>£119.06m</b>
<b>GRAND TOTAL</b>	<b>£68.53m</b>	<b>£73.23m</b>	<b>£57.21m</b>	<b>£67.36m</b>	<b>£48.12m</b>	<b>£34.46m</b>	<b>£348.91m</b>

# **J: Financial Programme**



This section brings together our financial proposals and the sources of investment that will be used to deliver our strategic economic plan priorities. It also identifies the level of funding we are seeking through the Local Growth Fund (LGF), and how LGF will be used alongside other investment being made by our private and public sector partners to address market failures and accelerate economic growth.

The financial programme sets out the plans by local partners and does not fully capture the private sector leverage generated by many of the proposed investments. In particular, economic infrastructure and transport schemes will lead to significant development in commercial and industrial premises but it has not been possible to determine the full extent of this leverage for all schemes, especially those with a post 2016/17 start.

### Investment in economic growth

The table below shows the key sources of finance that will support economic growth during the 2015/16 to 2020/21 period. There is considerable uncertainty about the availability of public sector finance in the medium term with the majority of partners unclear about their budgets beyond 2015/16. The figures in the table represent our best current estimate of the funding that will be available.

While Local Growth Fund support is significant, it makes up only a relatively small proportion of the overall total expenditure. It will, however, play a crucial role in increasing the overall scale of investment in growth, by leveraging other funding, particularly from private sector investors and developers. LGF funds will be particularly important in relation to transport connectivity and economic infrastructure investment.

### Investment in our strategic themes

The table overleaf shows estimated total investment in each of our six strategic themes. The investment programme strikes a balance between supply and demand side measures, and investments for immediate returns, such as business support, and medium term investments through the innovation programme.

There is also a balance between investment in business, people and place, with significant funds available for employability and helping those seeking work to take up training and employment opportunities.

The balance of the investment programme reflects some of the focus of LGF, and the scale of resources available

nationally. The principal factor in determining the financial programmes and the thematic allocations have been strategic – the balance needed to secure more and better jobs, in an inclusive and sustainable manner.

The key points to note are:

- Innovation and business support accounts for 28% of total investment, predominantly funded by ERDF. The LGF commitment is fundamental to strengthening research and development facilities available to SMEs in the North East.
- Skills and employability and inclusion are funded by ESF, with major commitments from the SFA and DWP. The poor quality of the further education estate in the North East makes it difficult to provide the learner with a first class experience in every instance, and LGF support to address this issue is important to the North East.
- Economic assets and infrastructure and transport and digital connectivity represents over 36% of total expenditure, although this is dependent on the LGF and local partners commitment to the North East Development and Infrastructure Fund.

Economic infrastructure will account for a large proportion of the forecast economic impact of our plans and reflects the need to accommodate up to 100,000 additional jobs over the next ten years. Fully funding this element of our strategic economic plan, and anticipating the need for further investment in later years, is fundamental to economic success.

### Local Growth Fund

Resources from the Local Growth Fund (LGF) will allow local partners to accelerate its plans to support economic growth. We are proposing to use the funds to support activity that is broadly in line with that supported by each Department providing funding during 2015/16 (e.g. funds from Department for Transport will be used to finance economic infrastructure investment, while funds from the Skills Funding Agency (SFA) will support our employability and skills activity). Discussions about the allocation of funding in future years will be held as part of the process of finalising our strategic economic plan during the early part of 2014.

The LGF investment profile reflects the guidance provided by government and the strategic themes set out earlier. The largest allocation has been requested for transport, recognising the importance of connectivity in the North East economy.



### Total Investment by theme 2015-2021

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total Cost
Innovation	£34.76m	£55.56m	£40.16m	£24.65m	£9.93m	£5.37m	<b>£170.43m</b>
Business support	£18.4m	£50.6m	£55.3m	£55.3m	£57.7m	£50.8m	<b>£288.1m</b>
Skills	£83.4m	£114.2m	£39.3m	£38.5m	£37.8m	£32.6m	<b>£345.8m</b>
Inclusion	£46.2m	£37.6m	£32m	£27.8m	£28.7m	£23.9m	<b>£196.2m</b>
Transport	£68.53m	£73.23m	£57.21m	£67.36m	£48.12m	£34.46m	<b>£348.91m</b>
Option A Economic Assets and Infrastructure with North East Development and Investment Fund1	£30m	£35m	£36m	£39m	£39m	£39m	<b>£218m</b>
Option B - Economic Assets and Infrastructure with individual projects	£75.24m	£69.74m	£32.08m	£12.8m	£4.8m	£0m	<b>£194.66m</b>
<b>Total with Option A</b>	<b>£281.29m</b>	<b>£366.19m</b>	<b>£259.97m</b>	<b>£252.61m</b>	<b>£221.25m</b>	<b>£186.13m</b>	<b>£1,567.44m</b>
<b>Total with Option B</b>	<b>£326.53m</b>	<b>£400.93m</b>	<b>£256.05m</b>	<b>£226.41m</b>	<b>£187.05m</b>	<b>£147.13m</b>	<b>£1,544.1m</b>

The Skills Capital request reflects the very poor quality of the further education estate, which has a high proportion of its estate in the poorest category.

Innovation is a major priority and is central to delivering better jobs in the economy. LGF support is needed to the £100m commitment by local partners to one of the most imaginative innovation programmes in the country.

The North East Development and Infrastructure Fund is one of our most important LGF asks. Local partners are offering a major commitment to accelerate a range of important projects which will generate significant economic benefits. We would hope that government recognises this commitment and responds with a substantial allocation from LGF.

The North East transport request for LGF support is based around the need to support four projects which were part of

the recent Local Majors Programme, and two funds for small scale transport improvements projects. These investments are supported by a further set of transport investments which have been prioritised by local partners, as well as a full five year investment programme.

### Indicative outcomes resulting from LGF expenditure

We are strongly committed to the delivery of key outcomes from public sector investment for growth and we will monitor and report publicly on progress. Our over-arching target is the creation of new jobs, and we will also track the number of businesses assisted, and GVA, which incorporates both GVA created through new / additional jobs and GVA generated through efficiency and productivity improvements. Based on our current programmes and interventions, we believe that the proposed outcomes can be achieved through the LGF investment.

**Total LGF Investment by theme 2015-2021**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total LGF	<b>Total</b>
Innovation	£9.85m	£13.61m	£7.5m	£4m	£1m		£35.95m	<b>£66.52m</b>
Business support								
Skills	£25.4m	£23.3m					£48.7m	<b>£126.5m</b>
Inclusion								
Transport	£45.15m	£48.24m	£37.69m	£44.38m	£31.7m	£22.7m	£229.85m	<b>£348.92m</b>
Option A Economic Assets and Infrastructure with North East Development and Investment Fund1	£10m	£10m	£10m	£10m	£10m	£10m	£60m	<b>£218m</b>
Option B - Economic Assets and Infrastructure with individual projects	£41.59m	£33.29m	£5.28m	£1.20m	£1.20m		£82.56m	<b>£194.66m</b>
<b>Total with Option A</b>	<b>£90.39m</b>	<b>£95.15m</b>	<b>£55.19m</b>	<b>£58.38m</b>	<b>£42.7m</b>	<b>£32.7m</b>	<b>£374.5m</b>	<b>£759.94m</b>
<b>Total with Option B</b>	<b>£121.98m</b>	<b>£118.44m</b>	<b>£50.47m</b>	<b>£49.58m</b>	<b>£33.9m</b>	<b>£22.7m</b>	<b>£397.06m</b>	<b>£736.6m</b>

**K: Investing and  
working together to  
achieve our vision**



Our strategic economic plan sets out our ambitious vision to strengthen the North East Local Enterprise Partnership area's economy and provide more opportunities for businesses and communities. This will involve a wide range of actions from investment in infrastructure to actions which inspire people across the area.

There are a number of proposals that can only be achieved if government is prepared to take bold action in support of our strategic economic plan, commit its resources and devolve or align its activities with our efforts. We will seek to secure these proposals through the Growth Deal process.

To transform the area's economic performance, money alone is not enough. We need to change the way we work with government and with each other, and the way we deliver investments and services. Our plan identifies opportunities for new ways of working, through changes to governance, co-ordination and alignment of resources. New approaches to public service delivery will achieve stronger economic, employment and efficiency outcomes.

There are six programmes set out in our plan – some short term, some long term - which will have a major impact on the economy and citizens of the area. Within these programmes are a range of new initiatives to inspire entrepreneurs, and others, such as a Schools Challenge targeted at reducing disparities of opportunity and performance in North East education. Our transport proposals will help to connect people in the North East with economic opportunities, reduce levels of exclusion, and build greater links nationally and internationally.

As part of our investment of circa £1.6bn, recognising the challenge and need to bring forward innovative approaches to maximising growth and also value to the public purse, we are proposing to create a North East Development and Investment Fund which will align current local public and private sector resources and leverages further investment to deal with current barriers to growth and build in enough capacity to meet future demand.

While the 2015/16 Local Growth Fund support will be invaluable in progressing a number of high priority projects, the lasting solution to some of the challenges facing the North East is the establishment of this fund to integrate spend and activity. Employment sites and premises, enterprise zone infrastructure, infrastructure for housing sites, investment in green infrastructure, quality of place improvements and culture, heritage and tourism capital will all be within scope. The fund will, wherever possible, implement a repayable loan or shared equity model, although in some cases gap funding or grant support may be required.

With the specific intention of maximising returns to all partners, we are seeking to work in partnership with the Homes and Communities Agency (HCA) to develop a local portfolio that will accelerate development in an agreed list of strategic but less financially attractive sites, as part of a

managed programme of regeneration and housing activity for the North East. This will provide a simpler model for developers, reduce competition for and between public funds, and provide clarity for related infrastructure priorities.

### Partnership delivery model

Institutional arrangements for driving forward the area's economy have been a key point of focus for partners and are instrumental in delivering against our plan.

The North East Local Enterprise Partnership brings together business leaders, universities and elected members of the North East Leadership Board. The North East Local Enterprise Partnership is the body responsible for developing both our strategic economic plan and our European Strategic and Investment Funds Programme. The Combined Authority provides a robust and accountable structure for the area, supporting the work of the Local Enterprise Partnership and enabling co-ordination across the range of priorities set out in our plan. Each of the Leaders/Elected Mayor of the seven constituent authorities are members of the Local Enterprise Partnership, and the Chair of the Local Enterprise Partnership is a member of the Combined Authority. Formally, the Combined Authority will provide the accountable body arrangements for the Local Enterprise Partnership.

The Combined Authority has a leading role to play in creating the conditions for economic growth and new investment. The Combined Authority's role in transport, employability and skills is critical in supporting a growing economy and workforce whilst the co-ordination of investment in economic infrastructure will help to ensure that the North East can attract and embed investment – both capital and people.

For the first time there will be one body with responsibility for strategic transport alongside our wider economic goals – taking advantage of all available opportunities to maximise growth. The partnership delivery model will provide the ability to pool and better align resources, assets and funding in a strategic and prioritised approach to facilitate inclusive and sustainable economic growth. In regards to skills and employability, the Combined Authority is putting in place a long term and stable solution for local management and delivery of employability services which responds to the distinctive needs of the area.

In addition to the Combined Authority providing a truly localist approach in regards to transport, skills, inward investment and economic growth, it also provides the framework, for the long term, to enable the wider public sector to design and deliver innovative solutions for services provided to residents and businesses.

Public sector reform is a strong complement to our economic priorities and plans. In the search for more efficient and effective solutions to delivering public services, local authorities have delivered continuous improvement in response to dynamic economic, social and financial

conditions. The area can point to successful change management beyond local government, in areas including health service reform and policing. Improvements continue to be made to outcomes for people and communities, such as increases to life expectancy, educational attainment and community safety.

Our strategic economic plan sets out a number of proposals for public sector reform which link public service delivery directly to economic growth. These revolve around:

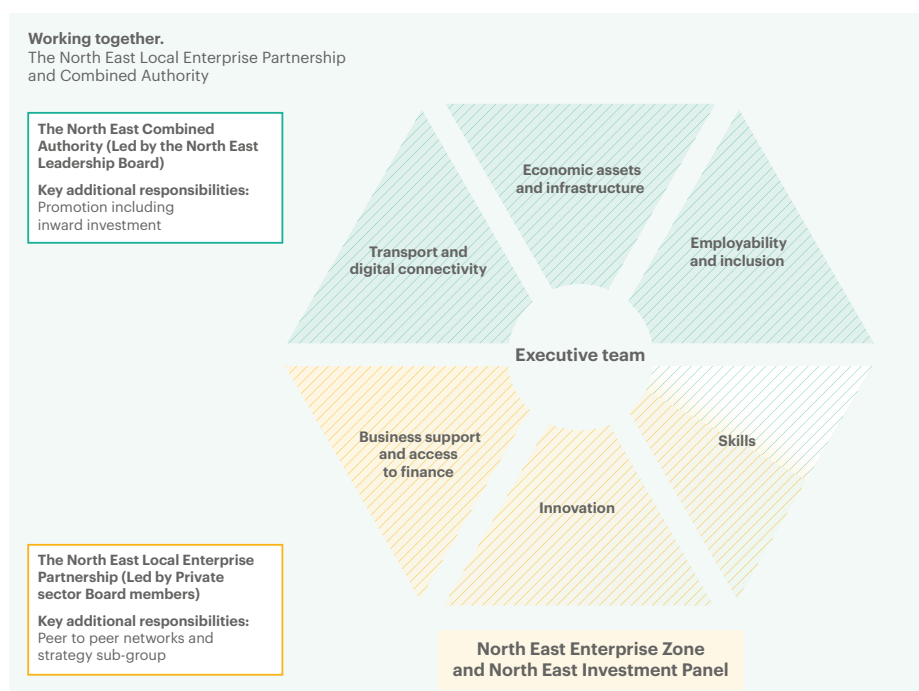
- Helping more people into work or other economic activity and supporting financial independence.
- Providing the best possible future for our young people by improving educational performance and skills.
- Opening up business growth and self-employment opportunities by improving business support and access to finance.
- Improving effectiveness in health and care through the stimulation of health related innovation.

In terms of practical working arrangements for delivery of our plan, responsibility for leading individual programmes has been agreed by the Combined Authority and the Local Enterprise Partnership. The Combined Authority has identified thematic lead responsibilities that align to the plan and will ensure full engagement of public and private sector Board members across the six themes, as set out below, being clear where leadership is through a business or political lead. The relationship will be seamless and ensure that all

partners play to their strengths in pursuing a shared vision for growth.

The Local Enterprise Partnership executive team and secondees from partners including the local authorities have collaborated through a joint task group to develop this plan and to support the production of the European strategy. The interface between the Combined Authority and the North East Enterprise Partnership Board will be achieved by aligned executive support and joint working arrangements to ensure delivery against priorities, supporting the Local Enterprise Partnership and the Combined Authority across the programmes set out in this document.

We are putting in place arrangements to ensure the innovation, skills and business support implementation plans are overseen by a range of experienced partners from the private and public sector, with involvement from national agencies and local universities. The Innovation Board, the North East Strategic Skills Group and the Business Support Board report directly to the Local Enterprise Partnership Board, providing direction and leadership in their particular thematic areas and ensuring delivery of our implementation plans.



We are clear about the range and scale of investment needed to catalyse the growth that is returning to our economy. Acting now will benefit both the local and the national economies. Our plan therefore sets out six ambitious, interdependent programmes which will build on recent momentum to create more and better jobs.

Accompanying our strategic economic plan is a set of comprehensive implementation plans for the period 2015/16 to 2020/21 covering the following programme areas:

- Innovation.
- Business support and access to finance.
- Skills.
- Employability and inclusion.
- Economic assets and infrastructure.
- Transport and digital connectivity.

These implementation plans are part of our bid to government for Local Growth Fund resources and devolution of freedoms and flexibilities. They have been submitted to government alongside this plan. The financial data included is commercially sensitive so we are not able to publish the implementation plans at this stage.

We are committed to building maturity in our governance and leadership structures in order to effectively deliver this plan and the establishment of the North East Combined Authority is an important milestone in strengthening local decision making.

We invite government to fully endorse our proposals and invest in our continued economic success.

**For more information about our plan please contact:**

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North East  
Local Enterprise  
Partnership

