

North East Independent Economic Review Report April 2013

Commissioned by the
North East Local Enterprise Partnership





FOREWORD

Last autumn the North East Local Enterprise Partnership asked me, Heidi Mottram, Don Curry, Will Hutton, Bridget Rosewell and Jonathan Ruffer (succeeding Justin Welby) to undertake a review of the area's economy. We were to prioritise growth and productivity in a short list of priority actions.

This report is intended as a manifesto for business, public service and political leaders across the LEP region. I sense a real appetite for change to promote more and better jobs and a better quality of life in the North East. Although commissioned by the North East LEP, it is pitched to a far wider audience, just as the LEP itself is a real partnership, indeed a federation of support drawn widely and often from those who are not directly represented on its Board.

Big change is already in the making. The decision last month by the seven local authorities in the North East LEP region to establish a Combined Authority to take on responsibility for transport, skills and economic development is a breakthrough in vision, capacity and dynamism to tackle future challenges in partnership. I warmly welcome this bold initiative. This report offers an agenda for the Combined Authority and for the LEP and its partners. It highlights five priorities in particular:

1. Champion "North East International", promoting the region at home and abroad as a magnet for trade, talent, tourism and inward investment.
2. A doubling in the number of youth apprenticeships to tackle the evil of low skills and high youth unemployment, alongside higher school standards and an increase in the proportion going on to higher education.
3. The development of strong "innovation and growth clusters", stimulating universities and their graduates, and existing companies and public institutions, to create and finance new high growth enterprises and jobs.

4. Big improvements in transport infrastructure and services to overcome the relative national and international isolation of the North East and to improve connections within the North East so that people can get to and from work more easily and cheaply.

5. The creation of stronger public institutions, including the location of key national institutions – such as the new British Business Bank – in the North East.

By these means, the North East can create more and better jobs, and a better economy and society.

All this is within our grasp. The task now is to agree on a plan and implement it. There is no time to lose.

On a personal note, although I was often in the North East in previous ministerial roles, and know many of its schools and transport networks from that period, getting to know the area's companies, institutions and communities more intimately in recent months has been immensely stimulating. It has left me full of optimism for the region and its future. The North East has great strengths – in its people, its enterprises, its public institutions, and its natural, cultural, and so many other assets. There is huge capacity for success in the future, with will and leadership.

Andrew Adonis
5 April 2013

NELEP INDEPENDENT ECONOMIC REVIEW

The importance of a strong and growing private, public and community sector in the North East has never been greater. The North East Local Enterprise Partnership (NELEP) established a commission to carry out an Independent Economic Review of the economy and identify a set of strategic interventions to be implemented over the next five years to stimulate both productivity and employment growth.



Cobalt Business Park, North Tyneside

The Review team was led by Lord Andrew Adonis, formerly Secretary of State for Transport and Minister for Schools, joined by expert leaders from finance, industry, public and civil society:

Heidi Mottram, Deputy Chair of the Review team, CEO of Northumbrian Water and Regional Chair of the CBI.

Lord Donald Curry, businessman, Chair of the Better Regulation Executive, based at the Department for Business, Innovation and Skills and Chair of Royal Veterinary College.

Will Hutton, Chair of the Big Innovation Centre and Principal of Hertford College, Oxford.

Bridget Rosewell, Economist and Chair of Volterra Partners.

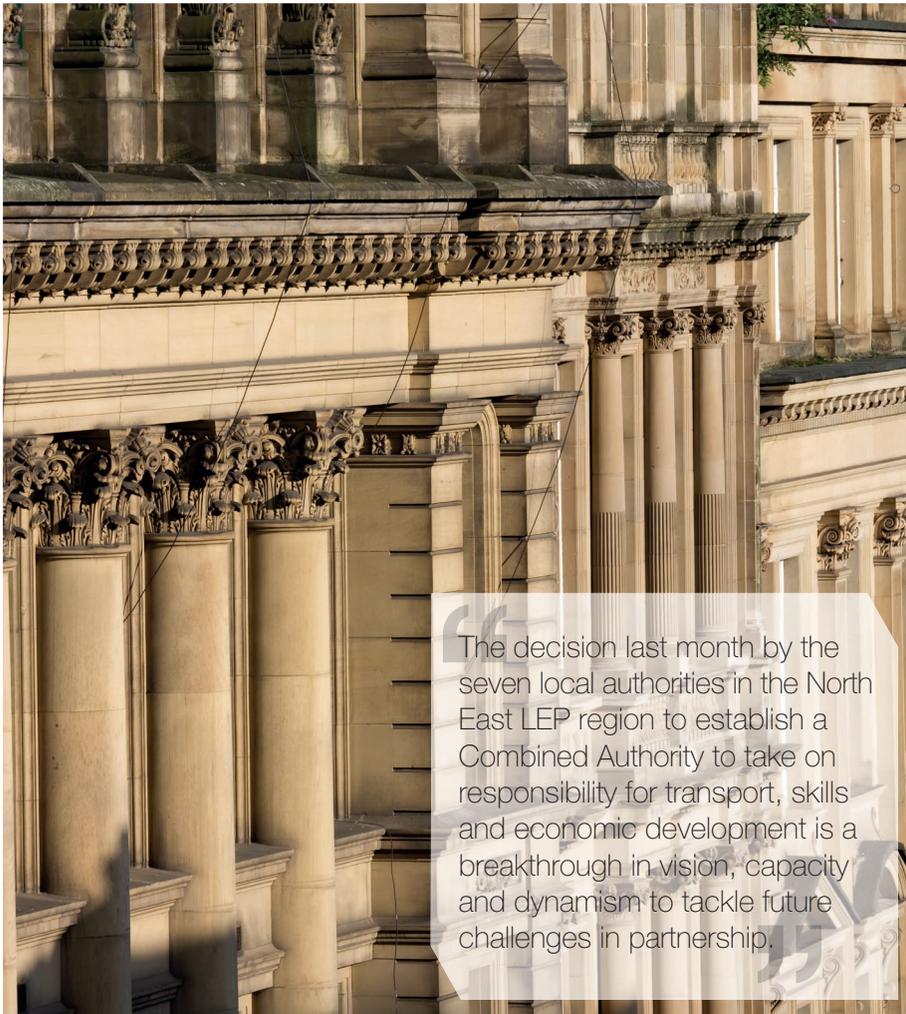
Jonathan Ruffer, Chairman of Ruffer LLP.

The team 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 NELEP economy and respond to the emerging findings from the initial engagement process.



HM Plant, South Tyneside

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 (NELEP) 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
NEIER: 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 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 decision last month by the seven local authorities in the North East LEP region to establish a Combined Authority to take on responsibility for transport, skills and economic development is a breakthrough in vision, capacity and dynamism to tackle future challenges in partnership.”

Grey Street, Newcastle upon Tyne

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The Most Revd Justin Welby, Archbishop of Canterbury who was a member of the Review team while Bishop of Durham, and made a significant contribution to our early deliberations

The whole NELEP Board and Executive Team, especially Paul Woolston (NELEP Chair) and Edward Twiddy (NELEP Director)

- Adrian Coates, BIS Local
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- Lucy Winskell and Andrew Sugden, Northumbria University
- Sarah McMillan, South Tyneside Council
- Professor John MacIntyre, Tim Pain and Dr Robert Trimble, Sunderland University
- Jo Curry and Jon Goodwin, VONNE/Pentagon Partnership
- John McCreadie and Carolyn Bell, ekosgen

NELEP INDEPENDENT ECONOMIC REVIEW

A STRONG PERFORMANCE IN THE LAST GROWTH CYCLE

Analysis of the last growth cycle highlights the success of the NELEP economy with an increase of 67,000 jobs (more than many other LEP areas) while GVA increased £10bn (57%), reaching £29bn by 2006.

In both 2011 and 2012, the North East was the only area in England to record a trade surplus of goods (of +£2.5bn and +£4.8bn respectively). The profile of the North East as a net exporter makes it unique in the UK and export performance is one of the defining features of the area. The area has successfully captured inward investment over recent decades, and over 42,000 jobs have been created in the North East through foreign direct investment (FDI) between 2005/06 and 2012.

The economy does, however, have a number of structural weaknesses which will hold back economic growth unless addressed. These can be summarised as: too few private sector jobs and enterprises, and too few jobs in key parts of the service sector economy, notably business and financial services; and lower levels of productivity, impacting on earning levels for a number of groups in the labour force.

MORE AND BETTER JOBS

The key weakness in the economy is the shortage of private sector employment. In simple terms, the North East needs, as a minimum, an additional 60,000 private sector jobs to provide a balanced and sustainable economy. It needs to protect its manufacturing jobs, which still account for a large proportion of better paid, private sector jobs, and increase the number of higher value service sector jobs linked to business services and the new economy.

More jobs alone will not re-balance the economy. The North East needs highly skilled and higher paid jobs to produce an economy which matches others and provide the quality of opportunities its residents and young people need to prosper.

▼ The NELEP: Reaching its Potential – Closing the gap with the national* average



* minus London, Source: Annual Population Survey, Regional Accounts

Creating more and better jobs within the NELEP economy is at the heart of the agenda for the North East Independent Economic Review. Each of the recommendations will support this outcome, by either creating high quality jobs or ensuring that a talented local workforce and supporting infrastructure is available to support economic growth.

The North East can build up its industrial strengths and set its plan within a changing global economy. It needs to apply the latest thinking to policy areas, moving from traditional approaches, such as sector based initiatives, to support and interventions which take account of trends, new technologies, changing relationships, and new ways of doing business.

While inevitably innovation and exporting focus on manufacturing, the North East needs to take advantage of the growth in services, particularly those sub-sectors and enterprises which can

operate in national and international markets. This includes financial and business services, the key driver of employment growth nationally, and emerging sectors and niches around digital, media, telecommunications and software.

THE NORTH EAST VISION: MAKING, TRADING, EXPORTING

Partners need to establish a clear and consistent image for the area, based on a new industrial and service base which has its roots in the North East's distinctive heritage of making, trading and exporting. New global trends in production, as well as the opportunity for advanced economies to specialise in technologies, products and services and markets not dependent on the price of labour, provides a market led rationale which underpins the central recommendations of the Independent Economic Review, and in particular those around global connections. These initial suggestions recognise the strengths of the local economy and established links with other parts of the UK and international markets.

The focus of the themes of making, trading and exporting are:

- Increasing the productivity of the LEP area's economy through a focus on higher value added sectors where the North East has a competitive advantage.
- Taking advantage of new technologies and markets.
- Increasing the size and contribution of the private sector to employment and economic growth.

The North East needs to increase private sector jobs and also jobs which bring income into the LEP area. This focus on manufacturing and those parts of the service industry serving national and international markets is the key to sustainable economic growth.

This Independent Economic Review has concluded that the North East can become a unique, respected and admired European region based on a number of key features:

- An International Leader in Trade in a Global Economy: built on key sectors and niches, taking account of new trends in global value chains with world class companies benefiting from collaboration with research centres and local networks.
- An International Exemplar in Smart Specialisation, Open Innovation Systems and Culture: built on smart specialisation, centres of excellence, outstanding university research and an eco-system which leads on taking ideas to market.
- A Place to Invest in Business Growth: with investment funds for business growth and development and risk capital available for companies of all sizes with ambitious growth plans.
- A Leading Location for Trade, (Re-) Investment and Stickiness: building on a track record of accommodating new inward investors and businesses which bring international expenditure into the LEP area, with a focus on supporting new phases of development and embedding companies.
- A High Skilled Economy which Invests in its Young People: with schools which bring out the best in our young people, an information and guidance system which helps students make career choices which reflect the new economy, and a long term commitment to an apprenticeship system which strengthens the workforce of key sectors.
- A Special Place to Live and Work: with strong international connectivity through its ports, direct air connections to key locations and international hub airports, and a first class strategic road network and public transport system which lets people access employment, and employment and residential locations that support new investment and the attraction and retention of talented people.

A number of specific recommendations have been developed under each of these themes, with proposed actions for the LEP, its partners and central government.

These changes will underpin another strong growth phase of the economy, with new institutional capacity taking forward other important areas of economic development, including entrepreneurship, finance for business, and land supply.

The recent agreement to establish a Combined Authority is a major step towards strengthening local capacity to drive economic growth and the establishment of the North East LEP introduced private sector leadership to the development of new investment proposals.

NORTH EAST LOCAL AUTHORITIES, LEP AND CENTRAL GOVERNMENT

The area's seven local authorities, the LEP and central government should work together to ensure that a Combined Authority is established on 1 April 2014, with the necessary powers and resources to promote better transport, skills and economic development across the LEP area. Within the North East, there should be three management entities: North East International, to promote trade, inward investment, talent and tourism; Transport North East, to improve transport investment and services; and Skills North East to transform the quality and quantity of youth apprenticeships. The Combined Authority and NELEP can develop a unique partnership to deliver these.

It is a major and urgent undertaking to establish a Combined Authority which helps to organise these three entities in a manner which mobilises the resources and expertise of the LEP to develop an integrated organisation able to give powerful political and economic leadership to the NELEP area. Including this major advance, the Review recommends the following actions to the LEP, its partners and central government if the potential for economic growth that is evident in the area is to be realised.

ACTIONS FOR THE NELEP

1. Establish a North East Finance and Investment Board, ensure a successor to JEREMIE and introduce new loan and venture funds to further support company growth in the North East.
2. Establish a North East Innovation Board and promote (initially) three Open Innovation and Growth Centres (Bonow, Neptune and AMAP) bringing together companies and angel investor networks.
3. Respond to Lord Heseltine's Review and the Government's resulting commitments by establishing the North East Single Local Growth Fund.
4. Produce an ERDF and ESF European Investment Plan which focuses on exports, innovation, business growth and skills to help re-balance the North East economy.

ACTIONS FOR THE NELEP AND PARTNERS

1. NELEP and the Combined Authority will establish Skills North East to raise school standards, with more schools in the top quartile (35% plus) and fewer schools in the bottom quartile (15% or less) of performance nationally, increase the number of students progressing to higher education and doubling the number of youth apprenticeships.
2. The NELEP and Combined Authority will integrate City Deal, European Investment Plans and new flexibilities into a single approach to investment supporting economic growth.
3. Universities should lead on establishing four University Technical Colleges; help to increase participation by some 300 undergraduate places per annum (1%) until the North East matches the national average in higher education participation; boost internship programmes to assist graduates and post graduates; and develop a network of substantive post-doctoral innovation scholarships.
4. In anticipation of the establishment of Transport North East local partners will develop an investment plan for addressing bottlenecks in the A1/A19 (Combined Authority) develop an inter-operator smartcard for public transport (Nexus); embed faster rail connections into new rail franchises (LA 7 Leadership Board) and establish a direct scheduled flight to the US (Newcastle Airport).
5. NELEP and the Combined Authority will work with business representation bodies and UKTI to create North East International as a single body to promote the area nationally and internationally.

ACTIONS FOR CENTRAL GOVERNMENT

1. Promote a North East Schools Challenge, based on the successful London Challenge, to support local partners to achieve a step change in both primary and secondary school results.
2. Devolve skills funding, based on the Sheffield Model, to Skills North East, in return for a big increase in the quantity and quality of youth apprenticeships.
3. Facilitate the establishment of Transport North East within the new Combined Authority structure, taking over from Nexus and the existing Integrated Transport Authority expanded to include County Durham and Northumberland.
4. Locate key national institutions in the North East. The new British Business Bank and the National Audit Office – which has a minority of its staff in the North East but is headquartered in London – should become North East headquartered institutions.
5. Set the technology mix for renewable generation as soon as possible and prioritise Dogger Bank and the Humber mouth to the south as the first locations for new investment in the next generation of offshore wind power infrastructure.

The diagram on the following page summarises the key themes, recommendations and actions put forward by the Review Team. It also sets out the proposed institutional capacity to support this.

INSTITUTIONAL CAPACITY DESIGNED TO SUPPORT ECONOMIC GROWTH

To support the vision for the area, formal structures and arrangements are required to manage and direct the available resources to deliver economic growth. Following the abolition of ONE North East and the Government Office for the North East, the introduction of new geographies which reflect LEP boundaries has led to consideration of appropriate structures. A number of Expert Papers produced to support the Independent Economic Review highlighted the importance of institutional capacity and the ability of local partners to make choices and decide on priorities.

The strengthening of capacity will reduce the number of committees and meetings, streamline decision making and strengthen public and private sector partnership. Where appropriate, partnerships and networks will be de-commissioned to reflect the new capacity.

NORTH EAST COMBINED AUTHORITY

The seven local authorities within the NELEP area have now established the LA7 Leadership Board which is responsible for shaping the strategic direction of Newcastle International Airport and agreeing local major transport schemes. The seven local authorities have expressed a commitment to working together and collectively with wider stakeholders for the benefit of the North East, alongside a desire to explore opportunities to access greater powers and funding delegated from central government. Although the current arrangements are relatively new, the formation of the Tyne and Wear City Region established a solid foundation for continued collaborative working.

A Combined Authority has the leading role to play in creating the conditions for economic growth and new investment. Its role in transport and skills will be important in supporting a growing economy and workforce while areas such as planning and housing will help to ensure that the North East can attract new investment – both capital and people.

The Independent Economic Review Team strongly supports the establishment of a Combined Authority, with responsibility for transport, and economic development and in connection with the NELEP, skills and exporting and internationalisation. The Combined Authority will create a stronger institutional structure and a single voice to promote the NELEP area and, over time, secure a greater share of national resources. The devolution of funding would enable locally devised interventions that are planned and delivered in a coherent manner maximising the benefit for the local area.

With regards to economic development the Combined Authority has a leading role to play in a number of areas including housing and place making, tourism and the new economy.

NORTH EAST LEP

The North East LEP provides a new opportunity to introduce the experience and influence of the private sector to key areas of economic development. This can add to the expertise of many of the public sector organisations, including the Combined Authority, taking forward new initiatives to support the re-balancing of the economy and economic growth.

The LEP will be given more responsibility by Government in a number of key areas, and it will be important that it continues to focus policy and funding on areas which support private sector investment and employment growth. The LEP will play a leading role in innovation and access to finance, two key areas supporting local companies to undertake expansion plans, and will work collaboratively with the Combined Authority on skills and exporting and internationalisation.

The NELEP further strengthens the business voice in the North East, complementing the work of CBI North East, the Chamber of Commerce and other business representative organisations. These partners are now able to take forward initiatives designed to reduce the regulatory burden of small and medium sized enterprises.

TEAM FOR ACCELERATING GROWTH

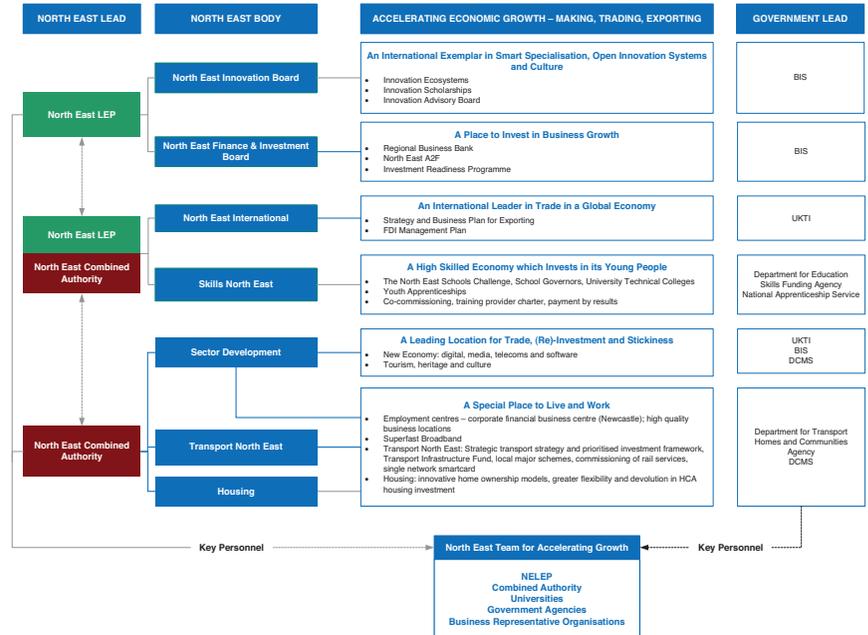
In order to accelerate economic growth and advance plans quickly, there should be a joint team of officers from the Combined Authority and the LEP, with one senior lead from each major Government Department and Agency to accelerate the devolution of decision making and funding. This could take the form of a limited life group, convened on a virtual basis, with a review after 12 months to assess progress.

The purpose of the Team for Accelerating Growth is to increase engagement and accelerate decision making.

A LEADING ROLE FOR THE FOUR UNIVERSITIES

Universities have an important role to play in the provision of graduates and post graduates; as major employers in their own right; in research and innovation; and in promoting entrepreneurship. It is important that Universities work within the LEP area, contributing to local priorities and plans, as well as operating in a national and international context. The Independent Economic Review Team recommends that the NELEP Universities produce a North East Economic and Civic Engagement Plan which sets out how the institutions will engage with other NELEP partners, residents and businesses. It is equally important that the role which the Universities will play in smart specialisation and innovation is recognised at an early stage in the development of action and investment plans.

ORGANISING FOR ECONOMIC GROWTH: HARNESSING THE PRIVATE AND PUBLIC SECTOR



The NELEP and the Combined Authority will work in close partnership. Given the important role played by the local authorities in both inward investment and skills provision, the Combined Authority will be closely involved in the organisation and management of North East International and Skills North East.

The private sector has an important role to play in tourism, heritage and culture and new economy sectors such as digital. It is expected that the Combined Authority will involve employer groups and local networks in developing plans in these areas.

When working with regional and national partners a key relationship will be with Tees Valley which is the neighbouring LEP and also regarded by many as part of the wider North East. Tees Valley has developed its own economic strategy built around its strengths and the NELEP and Combined Authority should work with Tees Valley to maximise benefits for the wider region.

RECOMMENDATIONS SUMMARY

AN INTERNATIONAL LEADER IN TRADE AND INVESTMENT IN A GLOBAL ECONOMY

TRADE IN A GLOBAL ECONOMY: EXPORTING AND SUPPLY CHAINS

By October 2013, the Combined Authority and LEP will establish North East International and develop a Strategy and Business Plan for Exporting, drawing on the principles set out in Professor Phil McCann's Expert Paper on the importance of the global economy. The new strategy should set the framework for actions on trade development and global supply chains.

The Plan will seek to increase the take up of support available to exporters and the services provided by consulting services abroad. It will include support to mentor those at the early-stage of the exporting process (focused initially on European markets and then increasing global engagement in all overseas markets). Enhancing both exporting and foreign investment activities depends on simultaneously exploiting both the European context and also opportunities from further afield such as the USA and BRIC nations.

North East International will work with regional and national agencies to oversee the Business Plan. It will deliver: an increase of 20% (at current prices) in non-automotive exports; and increase the number of companies exporting from 1,500 to 1,700.

TRADE, (RE-) INVESTMENT AND STICKINESS

The Combined Authority, working with the LEP and UKTI, through North East International will put in place a FDI/New Investment Plan which includes:

- A front of house system, operating on a concierge basis and working closely with Universities, which presents a single access point for FDI enquiries, supported by the experienced teams based in each local authority.
- A client relationship management, linking inward investors and fast growing companies into exporting, innovation, business development and supply chain networks, particularly the LEP areas' Universities.
- A case for public sector re-location, based on the quality of the workforce and lifestyle, and targeting a major re-location relevant to the North East economy.

New arrangements to strengthen FDI will take place under the auspices of North East International to co-ordinate investment, exporting and global supply chain activities. North East International will deliver a 20% increase in the long term FDI employment impact.



Blyth, Northumberland



Northern Design Centre, Gateshead

AN INTERNATIONAL EXEMPLAR IN SMART SPECIALISATION, OPEN INNOVATION SYSTEMS AND CULTURE

By October 2013, the NELEP will publish a Regional Innovation Strategy and Business Plan, based on the principles of open innovation and smart specialisation and including Centres of Excellence, priority technologies, markets, supply chains, leading edge research and idea-to-market support. There are three Open Innovation and Growth Centres which of the North East should focus on:

- Bionow
- The Institute of Automotive and Manufacturing Advanced Practice (AMAP)
- The Neptune National Centre for Sub-Sea and Offshore Engineering

The Regional Innovation Strategy and Business Plan should be the foundation of an innovation eco-system, based on the principles of open innovation, strengthening elements such as the contribution of applied research, specialist testing, prototyping and scale-up facilities, specialist accommodation and venture finance, as well as identifying gaps in the wider areas of business support, skills and infrastructure. This will be based upon bottom up strategies led by business. Where appropriate, North East companies will collaborate with Catapults, other centres of excellence and international innovation networks.

It will be important to build on current strengths including the Regional Technology Centre (RTC) North, which operates from the Design Centre in Gateshead with plans that take account of research strengths and networks.

The LEP area has four Universities and almost 19,000 post graduate students. There is the potential to further develop a network of substantive Innovation Scholarships, available to post doctoral researchers with commercial ideas for a new product or service or collaboration with local companies which would benefit from technical expertise.

The NELEP will establish a North East Innovation Board to work with regional and national agencies to oversee the Business Plan.

A PLACE TO INVEST IN BUSINESS GROWTH: ACCESS TO CAPITAL

Given the range of business demand for access to finance, the North East needs to develop three particular areas to support economic growth in the LEP area:

- a) Regional Business Bank, to explore the potential for the establishment of a regional business bank to meet the needs of companies and/or for the proposed British Business Bank to be located in the North East.
- b) North East Access to Finance, to provide a range of new funds building on the experience to date and understanding of demand, including finance for social enterprises (with a proposed submission to Big Society Capital).
- c) Investor Readiness Programme, to work with smaller, fast growing businesses which will require significant investment finance in future years.

The NELEP will establish a North East Finance and Investment Board to work with regional and national agencies to oversee access to capital.

A HIGH SKILLED ECONOMY WHICH INVESTS IN ITS YOUNG PEOPLE

Within the context of the Regional Skills Plan, local partners need to prioritise young people before they enter the workforce by:

- a) Raising the standards of schools and improving information, advice and guidance provided to young people

Establish a North East Schools Challenge to accelerate the improvement of North East primary and secondary schools.

Every school, using appropriate benchmarks, to develop a **strategy and plan**, leading to more schools in the top quartile (35% plus) and fewer schools in the bottom quartile (15% or less) of performance nationally.

To increase the proportion of **Teach First** teachers to match the leading regions.

To have a minimum of two **School Governors** per school who are active in the business community and can provide links to local businesses.

Introduce four **University Technical Colleges** to increase the provision of vocational and industry oriented education for 14-19 year olds.

- b) Double the number of Youth Apprenticeships over the next four years, from 6,500 to 13,000 with an initial emphasis on doubling youth Advanced Level Apprenticeships from 2,000 to 4,000 in engineering and other skills linked to key growth sectors
- c) Introducing a co-commissioning model, a new quality benchmark for providers and a payment by results component to incentivise training providers

Chartered Status: Chartered status earned by providers meeting objective, nationally agreed but locally managed, tests including Ofsted 'good' or better and willingness to meet Richard's recommendations on a test for high level apprenticeships.

Co-commissioning: Training commissioned through the SFA in collaborations with the NELEP and the Combined Authority, to provide local focus and input from the private sector.

Payment by results: Contract training through the SFA at 100% of price but with two discretionary 5% tranches, one dependent upon the provider securing Chartered status and the second on performance i.e. putting 10% of contract value at risk.

- d) Increasing employer take up of apprenticeships – with a target of an additional 500 employers providing apprenticeship places within three years
- e) Increasing the number of young people going on to higher education – with a target of increasing the HE participation rate by one percentage point each year until the North East meets the national average.

A SPECIAL PLACE TO LIVE AND WORK

ECONOMIC DEVELOPMENT

There are two economic areas where the Combined Authority is well placed to take the leading role – one focussed on a long standing sector, the other on a new/emerging sector which will be important to future economic growth. In both of these sectors, employment is important to both the rural and urban economies. The two opportunities are:

- Tourism, heritage and culture which is an important part of the area's economy and involves both a large and diverse business base and important public sector assets in terms of cultural and heritage attractions and facilities.
- New economy; digital, media, telecoms and software which represents a fast expanding, diverse group of businesses linked to new communication technologies with exceptional growth potential.

EMPLOYMENT CENTRES

The North East has a very successful inward investment track record, reflecting the range of locations available to suit the needs of large industrial and services companies. Over the next ten years it will be important to secure new investment and local partners will need to:

- Develop an internationally competitive investment location for corporate, financial and professional services in Newcastle.
- Ensure a range of high quality business locations are available to attract inward investors and support the growth of high value added service sector companies.
- Fully develop and expand the Enterprise Zone and National Advanced Manufacturing Park to ensure industrial and production businesses can locate and expand in the North East.
- Present a compelling case to Government to consider the North East as a priority for major (re)locations, where new inward investment can have a catalytic effect on a preferred location.

It is particularly important that the new residential, commercial and industrial development takes account of transport considerations, particularly the availability of public transport links.

SUPERFAST BROADBAND

There remains an issue with how rural households and businesses will be able to access superfast broadband. Areas such as Cornwall have led the way in ensuring comprehensive coverage, recognising both the social and economic impact of up-grading broadband provision. Lancashire is using ERDF funding to increase coverage in rural areas. Local partners need to continue to work with BDUK, other funders and service providers to ensure full coverage of rural areas by 2016.

TRANSPORT

The North East would benefit from a slimline, but strong and expert single transport delivery agency for the North East - Transport North East - to produce a Strategic Plan for Transport which covers all forms of transport, including ports and airports, with a focus on supporting economic growth and improving connectivity. The Combined Authority and LEP should follow the lead of Greater Manchester in pooling its own revenue streams with capital funding from different Government sources, and prudential borrowing, to create a single unified North East Infrastructure Fund, with a value of at least **£500m to fund a 10 year programme**.

A key priority, which needs to be agreed by mid-2013, is the joint commitment of the bus operators association and Nexus/the LA7 to introduce competitively-priced all-operator smartcard ticketing for the North East, as good as or better than London's Oyster, to be available by autumn 2014.



Nissan, Sunderland

UNIVERSITIES

Universities make a major contribution to the economy of the North East. The number of students from outside the LEP area is substantial and students from outside of the EU are a key part of the student community. It is important that Government policies support the UK as a destination for international students. The Independent Economic Review Team recommends that the NELEP Universities produce a North East Economic and Civic Engagement Plan which sets out how the institutions will engage with regard to skills, inward investment, innovation, HE participation and the provision of four University Technical Colleges.

HOUSING

Local authorities are aware of the need to provide development opportunities in attractive locations, and work is continuing to bring forward new development on sites in public ownership. This work has involved both developers and the Homes and Communities Agency (HCA).

In attempting to address the slowdown in the market the HCA has introduced a number of initiatives. One consequence of this has been to increase the number of pots of money available, and there is a case to allow more flexibility in how funding is provided to support particular developments.

There are two areas where action could help stimulate the market:

- Innovative home ownership models: working with established developers and bringing forward new housing and new market products for working households to access home ownership.
- Greater flexibility and local devolution in HCA housing investment: with the HCA, local authorities and developers working in partnership to maximise the use of HCA and other funds to stimulate new development.

The Combined Authority has a major role to play in addressing housing related issues in the North East, moving to a market led approach and maximising the impact of housing related incentives, including New Homes Bonus. While an increase in mortgage availability will increase demand, it is likely that new and innovative products to help people into home ownership will be required for some time. As important, the restoration of the home buy market will not address issues with regard to homes for rent, both market and affordable.



University of Sunderland

THE ECONOMY

A STRONG PERFORMANCE IN THE LAST GROWTH CYCLE

The NELEP economy has over 750,000 employees. Analysis of the last growth cycle clearly highlights that employment growth in the NELEP area was higher than in other core city LEP areas. Over 67,000 jobs were created between 1998 and 2008, increasing employment by 10%.

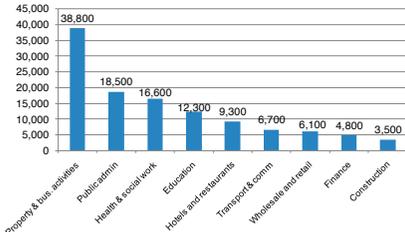
EMPLOYMENT CHANGE IN LEP AREAS

	Employment		Change	
	1998	2008	Net	%
West of England	451,797	522,342	70,545	16%
North East LEP	702,108	769,514	67,406	10%
Leeds City Region	1,176,266	1,283,769	107,503	9%
Sheffield City Region	620,633	676,521	55,888	9%
Greater Manchester	1,072,086	1,161,801	89,715	8%
Liverpool City Region	551,131	584,357	33,226	6%
Gtr Birmingham and Solihull	815,042	842,726	27,684	3%

Source: Annual Business Inquiry

The LEP area has benefited from strong growth in a number of sectors and particularly property and other business activities. There was also strong growth in the public sector (which is unlikely to be repeated).

NELEP sectors with net employment growth 1998-2008



Source: Annual Business Inquiry

There are a number of financial and professional services sub-sectors which have been important to growth, including computer and related activities and financial intermediation and services. The business services related growth was from a low starting point and did not allow the North East to close the gap with other regions.

NELEP SUB SECTORS WITH AN INCREASE OF OVER 1,500 EMPLOYEES, 1998-2008

	Employment		Change	
	1998	2008	Net	%
Other business activities	53,020	79,025	26,005	49%
Computer and related activities	5,975	12,346	6,371	107%
Real estate activities	7,753	13,667	5,914	76%
Financial intermediation	10,148	14,586	4,438	44%
Post and telecommunications	9,458	12,784	3,326	35%

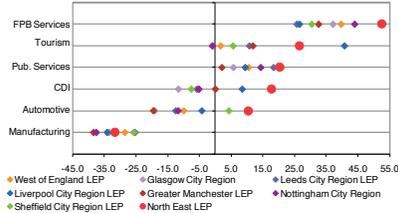
Source: Annual Business Inquiry

OUTPERFORMING ITS PEER GROUP

The NELEP 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 LEPs, including Manchester and Leeds. It also recorded a very strong employment performance compared to other LEP areas in both creative and digital industries and tourism.

While manufacturing employment continued to decline, the level of decline was lower than a number of other areas and the NELEP area was one of only two areas to experience growth in the automotive sector.

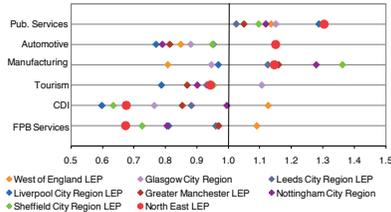
NELEP sectors with net employment growth 1998-2008



Source: Annual Business Inquiry based on NEM sector definitions

Although the NELEP recorded very strong employment growth in a number of key sectors, in many cases it was starting from a much lower base than other areas. Even after very strong growth, NELEP has a much lower level of employment in sectors such as financial, professional and business services and creative and digital industries. There is considerable scope for further growth in these sectors.

Local Enterprise Partnership location quotient 2008 (GB=1.0)



Source: Annual Business Inquiry based on NEM sector definitions

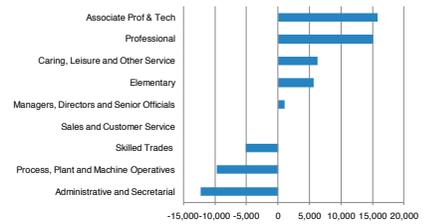
The continued importance of manufacturing in the NELEP area is clearly highlighted. Despite significant job losses, employment levels continue to be above the national average and ahead of a number of the core city LEP areas. This is particularly true in the case of the automotive sector.

THE NORTH EAST LEP OCCUPATIONAL PROFILE

The strong employment growth during the last growth cycle has substantially increased the number and range of employment opportunities available to local residents, with a clear shift in the number of office based and customer facing service sector roles.

Two out of the three highest skilled occupational groups (i.e. professional, associate professional and technical occupations) experienced the greatest levels of growth, and there has also been a slight growth in the number of managers, directors and senior officials.

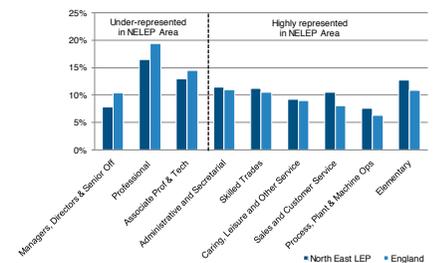
Change in the occupational profile of the NELEP area 2005-2012



Source: Annual Population Survey

Despite high levels of growths in these groups, the higher skilled occupations and job opportunities continue to be underrepresented in the employment base when compared to the national average. In contrast there are high levels of employment in elementary, process, plant and machine operatives; and sales and customer service occupations reflecting the area's employment strengths and in many cases impacting upon average annual earnings.

Occupational profile of the NELEP area, 2011



Source: Annual Population Survey

Although skilled trades continue to make up an important part of the workforce, manufacturing employers continue to report recruitment difficulties, particularly for experienced personnel for engineering related jobs.

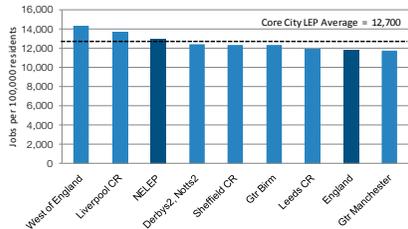
PUBLIC/PRIVATE EMPLOYMENT BALANCE

In terms of the volume of jobs available, the NELEP area has a lower number of jobs for every 100,000 residents, when compared to both the national and core city LEP average. Again, this highlights the much smaller employment base from which growth occurred between 2000 and 2008.

Analysis by sector clearly highlights that the shortfall relates to the private service sector. This is especially the case when activities predominantly dependent upon local demand are excluded (e.g. retail), while the number of manufacturing and public sector jobs are in line with the core city LEP average.

In spite of perceptions, the LEP area has only a slightly higher than average number of public sector jobs relative to its size and is close to other areas such as Sheffield and Birmingham.

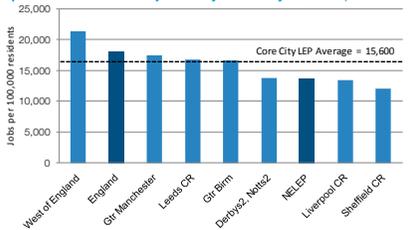
▼ Public sector job density of core city LEP areas, 2011



Source: Business Register and Employment Survey and Annual Population Survey

The NELEP area does, however, have a very small private sector economy relative to its peer group, even when allowing for its size. The difference between the LEP area and the national average is considerable, equivalent to 70,000-80,000 jobs.

▼ Private service sector* job density of core city LEP areas, 2011



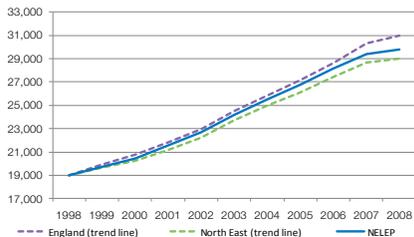
*Excludes sectors dependent upon local demand. Source: Business Register and Employment Survey and Annual Population Survey

To close the gap with the core city LEP average requires an additional 40,000 private sector service jobs in the NELEP area. This increases to between 58,000 and 72,000 to match the likes of Greater Manchester, Greater Birmingham and Leeds City Region LEPs.

PRODUCTIVITY IMPROVING, BUT STILL LAGGING BEHIND

Over the 1998-2000 growth period, GVA increased by £10bn (57%), reaching £29bn by 2008. While employment growth was slightly higher than the national average, GVA growth lagged behind, reflecting a combination of growth in lower value sectors and also the lower productivity of many sectors in the NELEP compared to the national average.

▼ GVA growth 1998-2008



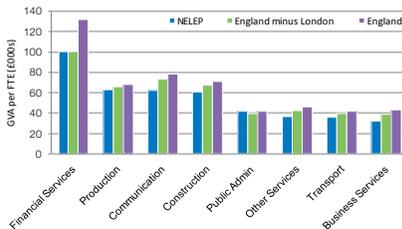
Source: Regional Accounts

The issue of lower levels of productivity persists in the NELEP area. The Review of Evidence carried out for the Independent Economic Review identified a number of challenges linked to the location, economic history and scale of the LEP area. These include:

- Under-performance in GVA per head and productivity, linked to low skills, under-employment, the nature and type of work mainly on offer (lower value added, service functions), low enterprise rates and a low innovation intensity.
- A high dependency on the public sector for employment (a consequence of the low private sector job density) and investment capital; and an associated need to stimulate more private sector growth.

The issue of lower levels of productivity applies to the majority of sectors, which lag behind the national average. While higher value services, including financial services, production and communication activities generate the highest levels of GVA per FTE, only manufacturing is close to the national average.

▼ GVA per FTE, 2010

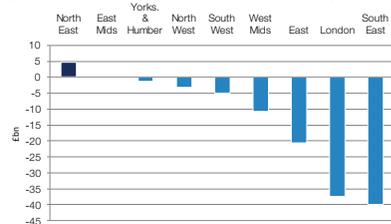


Source: Regional Accounts and Business Register and Employment Survey

A POSITIVE BALANCE OF TRADE

The North East is already one of the leading exporting areas of the UK, with over 1,500 companies exporting goods. In both 2011 and 2012, it was the only region in England to achieve a positive balance of trade in goods (which account for 80% of global exports) of £2.5bn and £4.8bn respectively. The export of goods accounts for a larger proportion of GVA in the North East than any other UK region, some 29% of total GVA in 2010.

▼ Balance of trade (2012), international goods trade surplus by region



Source: HMRC 2012 (figures are provisional)

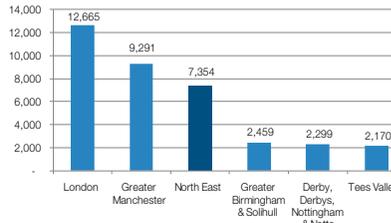
The North East was also one of only three regions which experienced an increase in annual export value between 2011 and 2012, while all others decreased. This follows strong levels of growth over a number of years. Between 2009 and 2012, the total export value increased by £4bn, or 42% (compared to the national average of 27%), reflecting strong growth in the value of EU and particularly non EU bound exports.

A SUCCESSFUL HISTORY OF ACCOMMODATING NEW INVESTMENT

The NELEP area has successfully captured inward investment over the past decade, due to a number of factors including a strong property offer for a variety of investors, excellent after-care, sectoral strengths and the availability of a skilled workforce.

Over 42,000 jobs have been created in the North East through foreign direct investment between 2005 and 2012. In 2011/12, the NELEP area was one of top performing LEPs, with only Manchester and Greater London delivering a higher number of jobs.

▼ Number of jobs created through FDI projects, 2011/12



Source: UKFI

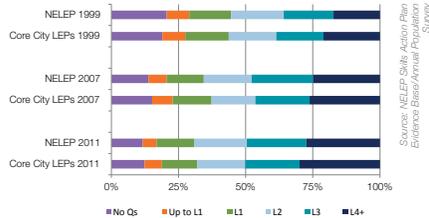
The success in inward investment is reflected in the number of global companies with a presence in the North East, and the area has a very high concentration of Japanese companies with national and European production centers.

THE NELEP LABOUR MARKET: SKILLS PROFILE

The evidence base for the NELEP Skills Action Plan prepared by the University of Glasgow's Training and Employment Research Unit provides a snapshot of qualification trends over time. Relative to the core city LEP average the NELEP area has:

- Reduced the proportion of its working age population with no qualifications at a rate above the core city LEP average.
- Increased the proportion of its working age population with qualifications at Level 4 and above, although this continues to lag behind the core city LEP average and the gap has increased since 2007.

Qualification profile of working age population (%) 1999-2011



Since 1999, the number of people with no qualifications has reduced considerably and is now below the core city LEP average. In spite of this one in six of the workforce have a Level 1 or no qualification, making it difficult for this group to access employment opportunities.

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.

The uptake of STEM qualifications is of particular importance given the need to provide a highly skilled workforce in advanced manufacturing sectors. It is notable that employers regularly report difficulties in recruiting personnel with technical skills in engineering.

An important aspect in addressing the skills imbalance relates to graduate recruitment and providing more opportunities for graduates at the beginning of their careers. Local universities are addressing this issue through a variety of actions, including intern programmes.

A GROWING BUSINESS BASE

There are over 47,400 active businesses in the NELEP economy. While total numbers have fallen slightly from the peak of 48,000 in 2009, there are now an additional 4,000 businesses when compared to levels in 2004. This growth has kept pace with, and in some years exceeded, the national average, with fluctuations in business births and deaths largely mirroring national trends.

At the LEP level the start up rate has been largely in line with the national rate for the past eight years, although this varies by local authority area.

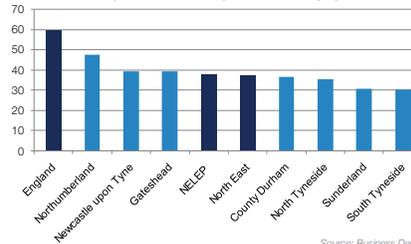
	2004	2005	2006	2007	2008	2009	2010	2011
NELEP	14%	13%	12%	14%	12%	10%	9%	11%
England	13%	13%	12%	12%	12%	10%	10%	11%

Source: Business Demography

The NELEP area also continues to have a relatively small business base for the size of its working age population, reflecting the low base from which it has grown. Analysis of trends in the 90s boom years suggests that (as with other areas) growth in the North East's business stock was linked to a fall in the business death rate, rather than an increase in the start up rate.

In 2011, the NELEP had just 38 businesses per 1,000 working age residents compared to the national average of 60. Again this varies significantly by local authority, with the greatest numbers in Northumberland.

Business density 2011, businesses per 1,000 working age residents



An additional 27,000 businesses are now required to reach the national business density level. Even allowing for relatively small employment numbers in new starts, such an increase would make a major contribution to increasing private sector employment to levels which are closer to other areas such as Manchester and Leeds.

ECONOMIC SUMMARY

In summary, the NELEP economy has shown its potential to close the gap with other LEP areas and make a greater contribution to the national economy in a period of economic growth, with:

- Strong employment growth in the last economic growth cycle and a marked increase in business services generating considerable new private sector employment.
- Very strong records in exporting and FDI - the North East is one of the top performing LEPs in both of these areas.

The FDI record is amongst the best in the country, and new jobs are secured every year, with numbers increasing as subsequent investment phases take place. The North East has a good record of working with investors to serve second, third and fourth phases of investment.

The growth in the last economic cycle would have been higher if manufacturing employment had stabilised, and new research and policy developments indicate that prospects for key manufacturing sectors are now much more positive.

The economy has, however, a number of structural weaknesses and these will hold back economic growth unless addressed. These can be summarised as:

- Too few private sector jobs and enterprises, and too few jobs in key parts of the service sector economy, notably business and financial services.
- Lower levels of productivity, impacting on earning levels for a number of groups in the labour force.

The critical weakness is the size of the private sector economy, with between 58,000 and 72,000 fewer jobs than could be supported, taking account of the population base and the size of the economy. Many of these "missing" jobs are in higher paid occupations and in higher value added sub-sectors.

For the LEP area to realise its economic potential and increase its contribution to the national economy, the primary focus needs to be on increasing private sector employment and on creating the conditions which support private sector investment and growth.

In focusing on private sector growth, the LEP area needs to prioritise those sectors and companies which earn income from outside of the area, nationally and internationally. Other service sector growth dependent on local expenditure and service provision will follow naturally.

This suggests a focus on manufacturing, business and financial services, new economy sectors (digital, media, telecoms and software) and tourism.

The focus on these sectors is likely to involve new inward investment and the development of smaller local companies, many involved in developing new and innovative products in fast changing markets.

MORE AND BETTER JOBS AND THE NORTH EAST VISION

MORE AND BETTER JOBS

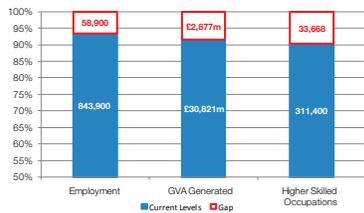
The North East is commonly portrayed as having too many public sector jobs. In fact it has fewer public sector jobs relative to its population than, for example, Bristol and Liverpool LEP areas, and broadly similar levels to Leeds and Manchester.

The key weakness in the economy is the shortage of private sector employment, even when compared to other northern areas. In simple terms, the North East needs, as a minimum, an additional 60,000 private sector jobs to provide a balanced and sustainable economy. It needs to protect its manufacturing jobs, which still account for a large proportion of better paid private sector jobs, and increase the number of higher value service sector jobs linked to business services and the new economy.

More jobs alone will not re-balance the economy. The North East needs higher skilled and higher paid jobs to produce an economy which matches others and provide the quality of opportunities its residents and young people need to prosper.

The diagram below summarises the initial targets which the North East needs to meet, in terms of additional jobs, higher skilled jobs and GVA. This quantum of impact has informed the priorities set out under the Vision.

▼ The NELEP: reaching its potential – closing the gap with the national average



* minus London. Source: Annual Population Survey, Regional Accounts

Creating more and better jobs within the NELEP economy is at the heart of the agenda for the North East Independent Economic Review. Each of the recommendations will support this outcome, by either creating high quality jobs or ensuring that a talented local workforce and supporting infrastructure is available to support economic growth.

Growth in lower skilled and lower paid jobs is inevitable in most economies, often responding to local services and demand. Increasing the proportion of knowledge based, higher skilled and higher paid jobs in the economy requires a clear strategy, based on real strengths and comparative advantage with a policy framework and supporting plans to increase the competitiveness of the area as an investment location.

The North East has a very strong track record in attracting inward investment and supporting companies through various phases of expansion. New successes will be required to create more job opportunities. The LEP area can build on this record and its industrial strengths and set new plans within a changing global economy. It needs to apply the latest thinking to policy areas where necessary moving from traditional approaches, such as wholly sector based initiatives, to support and interventions which take account of trends, new technologies, changing relationships, and new ways of doing business.

While inevitably innovation and exporting focus on manufacturing, the North East needs to take advantage of the growth in services, particularly those sub-sectors and enterprises which operate in national and international markets. This includes financial and business services, the key driver of employment growth nationally, and emerging sectors and niches around digital, media, telecoms and software.

FUNDAMENTALS

There are a number of important principles which need to direct how local partners take forward plans to support economic growth. These are:

- Growth readiness needs action today: to be successful, the North East needs a growing national and international economy, particularly in Europe. When the next growth cycle is fully established the LEP area and its businesses need to be ready to take advantage.
- Continual innovation is crucial: this will support a successful economy and needs to be embedded in all aspects of public, private and third sector activity. While plans for open innovation will lead the way in a number of important sectors and technologies, innovation needs to be a feature in every aspect of economic life.
- GVA is king: business in the LEP area need to increase total GVA and GVA per employee if it is to match and exceed its peer group. In employment terms, the primary focus needs to be on sectors and jobs which are higher skilled and higher paid.
- Lower paid jobs won't change the economy: while the growth of lower paid jobs is inevitable and benefit some of those entering or returning to the labour market, they will not provide the range and quality of opportunity which young people and graduates need to develop their careers in the North East.
- Manufacturing jobs are precious: manufacturing jobs are typically higher paid and skilled, contribute to local supply chains, and are crucial to the North East's exporting base. Although the long term employment trend is a challenge, maintaining high employment levels in manufacturing through a combination of innovation and exporting is central to the prosperity of the LEP area.
- Local economies count: the LEP area has a large geography, from Berwick on Tweed on the Scottish border to Barnard Castle on the edge of the Durham Dales. The rural economy makes an important contribution and sectors such as tourism, culture and heritage are major employers. Local economies help to underpin the market towns and villages which play an important part in attracting investors and talented people to the North East.
- Scale and distance are not the deciding factors: the North East is smaller in economic terms than the larger LEPs, and more distant from London and other major conurbations. The success of Nissan, the arrival of Tesco Bank and Hfachi, highlight the credibility of the North East as a place to do business. Where the LEP area can't be bigger, it can be better, and it offers a very competitive location when the costs of land, labour and housing are taken into account.

THE BEGINNING, NOT THE END

Successful areas have both a clear vision or sense of identity and a long term commitment to the core elements of agreed strategies. It will be important that the central parts of the Independent Economic Review – exporting, innovation, foreign direct investment, investment finance, new economy, and young people – are treated as long term commitments by all local partners.

In accelerating economic growth local partners need to:

- Look outside the LEP area: the North East needs to continue looking out and learning from others, particularly in Scotland, Wales and Europe. A number of people have commented on how the Devolved Administrations have introduced new approaches in a number of policy areas, while some European regions have been very successful in reinventing themselves.
- Explore new solutions: the level of public support for economic growth has reduced considerably and there are fewer grants available in a whole number of areas. New solutions are required for industries such as tourism.
- Make tough choices: the North East needs to invest limited funds in a manner which generates the greatest impacts. This inevitably means that some very worthy programmes and project will not receive funds.

THE NORTH EAST VISION

MAKING, TRADING, EXPORTING: NORTH EAST INTERNATIONAL

Partners need to establish a clear and consistent image for the NELEP area, based on a new industrial and service base which has its roots in the North East's distinctive heritage of making, trading and exporting. New global trends in production as well as the opportunity for advanced economies to specialise in technologies, products and services and markets not dependent on the price of labour, provides a market led rationale which underpins the central recommendations of the Independent Economic Review, and in particular those around global connections. These initial suggestions recognise the strengths of the local economy and established links with other parts of the UK and international markets.

The focus of the themes of making, trading and exporting is:

- Increasing the productivity of the LEP area's economy through a focus on higher value added sectors where the North East has a competitive advantage
- Taking advantage of new technologies and markets, strengthening national and international linkages.
- Increasing the size and contribution of the private sector to employment and economic growth.

The North East needs to increase private sector jobs and also jobs which bring income into the LEP area. This focus on manufacturing and those parts of the service industry serving national and international markets is the key to sustainable economic growth.

This Economic Review has concluded that the North East can become a unique, respected and admired area based on a number of key features:

- An International Leader in Trade in a Global Economy: built on key sectors and niches, taking account of new trends in global value chains with world class companies benefiting from collaboration with research centres and local networks.
- An International Exemplar in Smart Specialisation, Open Innovation Systems and Culture: built on smart specialisation, centres of excellence, outstanding university research and an eco-system which leads on taking ideas to market.
- A Place to Invest in Business Growth: with investment funds for business growth and development and risk capital available for companies of all sizes with ambitious growth plans.
- A Leading Location for Trade, (Re-) Investment and Stickiness: building on a track record of accommodating inward investors and businesses which bring international expenditure into the area, with a focus on supporting new phases of development and embedding companies in the area.
- A High Skilled Economy Which Invests in its Young People: with schools which bring out the best in our young people, an information and guidance system which helps students make career choices that reflect the new economy, and a long term commitment to an apprenticeship system which strengthens the workforce of key sectors.
- A Special Place to Live and Work: with strong international connectivity through its ports, direct air connections to key locations and international hub airports and a first class strategic road network and public transport system which lets people access employment, and employment and residential locations that support new investment and the attraction and retention of talented people.

These changes will underpin another strong growth phase of the economy, with new institutional capacity taking forward other important areas of economic development, including entrepreneurship, finance for business and land supply.

The recent agreement to establish a Combined Authority is a major step towards strengthening local capacity to drive economic growth and the establishment of the NELEP introduced private sector leadership to the development of new proposals.

INSTITUTIONAL CAPACITY

INSTITUTIONAL CAPACITY DESIGNED TO SUPPORT ECONOMIC GROWTH

To support the vision for the NELEP area, formal structures and arrangements are required to manage and direct the available resources to deliver economic growth. Following the abolition of ONE North East and the Government Office for the North East, the introduction of new geographies which reflect LEP boundaries has led to consideration of appropriate structures. A number of Expert Papers highlighted the importance of institutional capacity and the ability of local partners to make choices and decide on priorities.

Wherever possible, co-location will be the norm. Ideally there should be a North East House, where the LEP and Combined Authority have their core staff and which acts as the central meeting point with national and international visitors. It should be based at an accessible location, and be available to the private sector to host visiting business delegates, effectively acting as an economic and commercial embassy for the North East.

Both the LEP and the Combined Authority should be staffed with high calibre personnel, providing a strong research, intelligence and advocacy function. While avoiding an additional bureaucracy, both the Combined Authority and the NELEP need to be able to progress plans and investment proposals quickly.

The proposals with regard to institutional capacity are based on strong public, private sector partnerships, designed to support investors and companies in the North East.

NORTH EAST COMBINED AUTHORITY

The seven local authorities within the NELEP area have now established the LA7 Leadership Board which is responsible for shaping the strategic direction of Newcastle International Airport and agreeing local major transport schemes. The seven local authorities have expressed a commitment to working together and collectively with wider stakeholders for the benefit of the LEP area, alongside a desire to explore opportunities to access greater powers and funding delegated from central government. Although the current arrangements are relatively new, the formation of the Tyne and Wear City Region established a solid foundation for continued collaborative working.

A Combined Authority has the leading role to play in creating the conditions for economic growth and new investment. Its role in transport and skills will be important in supporting a growing economy and workforce while areas such as planning and housing will help to ensure that the North East can attract new investment – both capital and people.

The Independent Economic Review Team strongly supports the establishment of a Combined Authority, with responsibility for transport and economic development and working with the NELEP in connection to skills and exporting and internationalisation. The Combined Authority will create a stronger institutional structure and a single voice to promote the NELEP area and, over time, secure a greater share of national resources.

The devolution of funding would enable locally devised interventions that are planned and delivered in a coherent manner, maximising the benefit for the local area.

There are four areas where the Combined Authority will need formal structures to develop and manage key policy areas linked to economic development. These are:

- Transport North East
- New Economy: Digital, Media, Telecoms and Software
- Tourism, Heritage and Culture
- Housing Investment Plans

While Transport North East will be a formal, statutory body within the Combined Authority (akin to the position of TfL within the Greater London Authority), the other functions will be exercised by collaboration and involve other agencies and private sector groups. These arrangements will develop over time to take account of existing networks and assets.

NORTH EAST LEP

The NELEP provides a new opportunity to introduce the experience and influence of the private sector to key areas of economic development. It has already recruited senior figures from the private sector, many of whom are making substantial time available for LEP related work. The LEP is adding the expertise of many of the public sector organisations, including the Combined

Authority, taking forward new initiatives to support the re-balancing of the economy and economic growth. The presence of the local authority Leaders on the LEP Board is helping to ensure strong working relationships between the public and the private sector.

The NELEP will be given more responsibility by Government in a number of key areas, and it will be important that it continues to focus policy and funding on areas which support private sector investment and employment growth. The LEP will take a leading role in innovation and access to finance and will work collaboratively with the Combined Authority on skills and exporting and internationalisation.

In taking forward these responsibilities the LEP needs to develop robust investment appraisal processes to ensure that funds are invested to deliver the maximum economic impact. The NELEP needs to drive forward a number of key areas and put in place appropriate management arrangements. These arrangements will also have to take into account the LEPs leading role with regard to European Structural Funds, covering both ERDF and ESF.

There are four areas which the LEP need to oversee, in conjunction with other partners. The policy areas and management areas are:

- North East Innovation Board (open innovation eco system)
- North East Finance and Investment Board (including a successor to the successful JEREMIE programme)
- North East International (exporting and coordinated FDI), in conjunction with the Combined Authority
- Skills North East (including a schools challenge and youth apprenticeships), in conjunction with the Combined Authority

In establishing arrangements the NELEP will take account of the future workload and resources needed to manage the various policy areas and the role of LEP Board members in any new arrangements.

The Government is taking forward an approach to decentralisation that will give LEPs the power to make the choices that are right for their local economies. The Government is creating a Single Local Growth Fund, allocated through a process of negotiation and using competitive tension to strengthen incentives on LEPs and their partners to generate growth. While the Government will review all funding streams identified by Lord Heseltine, three areas are seen as critical to the success of the Fund: transport, housing and skills. The Fund will be operational by April 2015.

The LEP has made good use of the funding opportunities available to create an investment fund and is now developing capacity so that the management and modeling that guide the fund will be best in class. However the fund needs a substantial further endowment for it to have the scale needed to meet the investment challenges ahead.

Based on similar funds elsewhere in the UK, the LEP needs to aim for a fund of £500m and receive the same degree of autonomy in the management of funds that has been sought and agreed in other areas. The fund can quickly reach this level of resources if the local agencies of Government – in particular the HCA – bring their resources within the scope of the fund and if the capital within the Government's proposed single pot for LEPs is brought forward and channelled toward it.

The North East LEP will develop a new strategic multi-year plan for local growth, as the basis for Government to negotiate levers, resources and flexibilities. The North East Single Local Growth Fund will complement the proposed North East Infrastructure Fund, skills and housing plans.

TEAM FOR ACCELERATING GROWTH

In order to accelerate economic growth, there should be a joint team of officers from the Combined Authority and the NELEP, with one senior lead from each of the major Government Departments and Agencies to accelerate the devolution of decision making and funding. This could take the form of a limited life group, convened on a virtual basis, with a review after 12 months to assess progress. The purpose of the Team for Accelerating Growth is to increase engagement and accelerate decision making.

A LEADING ROLE FOR THE FOUR UNIVERSITIES

Universities have an important role to play in the provision of graduates and post graduates; as major employers in their own right; in research and innovation; and promoting entrepreneurship. It is important that universities work within the LEP area, contributing to local priorities and plans, as well as operating in a national and international context.

The Independent Economic Review Team recommends that the NELEP Universities produce a North East Economic and Civic Engagement Plan which sets out how each institution will engage with other NELEP partners, residents and businesses. It is equally important that the role which the Universities will play in specialisation and innovation is recognised at an early stage in the development of action and investment plans.

These plans should set out how the Universities will work with:

- Skills North East: establishing four University Technical Colleges, helping to increase participation rates by some 300 places per annum (1%) until the North East matches the national average, and expanding intern programmes for graduates and post graduates.
- North East International: an increased role in inward investment and exporting.
- North East Innovation Board: through centres of excellence, research activity and business support, establishing a network of post-doctoral, industry funded innovation scholarships.

The plan should include projects with local employers to provide four University Technical Colleges, including the proposed Hitachi-Sunderland University UTC.

Further expansion will add to the universities' economic contribution. Expansion is, however, dependant upon overseas students. The paper on the North East Universities submitted as part of the evidence base noted that "Government changes to migration rules, and the inconsistency of their implementation by the UK Border Agency, are posing major challenges to North East universities. Institutions in the region have invested heavily in establishing physical and virtual overseas presences to market themselves to overseas students in recent years. These have both enhanced existing relationships and built new ones in high growth economies such as India, China and Singapore and have brought large numbers of talented students into the North East."

The paper asks for coordinated activity across the LEP area to understand and quantify the potential harm current migration restrictions and the attitude of the UK Border Agency would have on North East economy, with all sectors helping to make the case to Government for relaxing these rules. This matter should be taken up by North East International.

HOW GOVERNMENT CAN HELP

A systematic approach, across all Government Departments to the devolution of decision making and funding would allow local partners to take responsibility for accelerating economic growth, with the private and public sector working in partnership.

In addition, there are five specific requests which Government needs to consider. These are:

GOVERNMENT

1. Promote a North East Schools Challenge, based on the model of the successful London Challenge, to support local partners to achieve a step change in both primary and secondary schools.
2. Devolve skills funding, based on the Sheffield Model, to Skills North East, in return for a big increase in the quantity and quality of youth apprenticeships.
3. Facilitate the establishment of Transport North East within the new Combined Authority structure, taking over from Nexus and the existing Integrated Transport Authority, expanded to include County Durham and Northumberland.
4. Locate key national institutions in the North East. The new British Business Bank and the National Audit Office – which has a minority of its staff in the North East but is headquartered in London – should become North East headquartered institutions.
5. Set the technology mix for renewable generation as soon as possible and prioritise Dogger Bank and the Humber mouth to the south as the first locations for new investment in the next generation of offshore wind power infrastructure.

AN INTERNATIONAL LEADER IN TRADE IN A GLOBAL ECONOMY

The Expert Paper produced by Professor Philip McCann of the University of Groningen set out that almost all forms of economic internationalisation and multi-nationalism generate greater economic rewards than purely domestic activities. The benefits to UK regions of promoting greater international and global connectedness are, and will continue to be, very significant.

The paper also highlights the importance of the NELEP economy making gains in international engagement in the current climate to support the regional economy over the longer term:

"The need to foster greater international economic engagement is urgent. Economic downturns are periods when market competition is greater than ever, and the need for innovation is absolutely paramount in order to compete successfully. At the same time, achieving competitiveness in difficult periods also ensures that firms are best placed to reap significant benefits when the economy again expands. In the current climate, driving further international engagement for NELEP area firms is therefore critical to build a solid grounding for the long-term future of the regional economy."

It is also widely accepted that exporting companies:

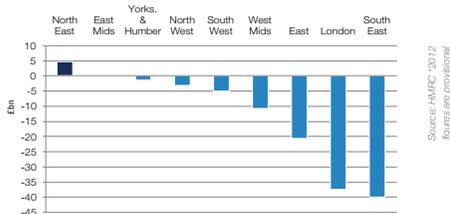
- Are more productive than non-exporters
- Achieve stronger financial performance
- Are more resilient and likely to stay in business
- Achieve economies of scale not possible with domestic only sales
- Increase the commercial lifespan of their products and services

Increasing exports and company involvement in global supply chains will further strengthen the competitiveness of the economy, and this needs to include encouraging new exporters.

A POSITIVE BALANCE OF TRADE

The North East is already one of the leading exporting regions of the UK, with over 1,500 companies exporting goods¹. In both 2011 and 2012, it was the only region in England to achieve a positive balance of trade in goods (of £2.5bn and £4.8bn respectively).

▼ Balance of trade (2012²), international goods trade surplus by region



The North East was also one of only three regions which experienced an increase in annual export value between 2011 and 2012, while all others decreased. This follows strong levels of growth over a number of years. Between 2009 and 2012, the total export value increased by £4bn, or 42% (compared to the national average of 27%), reflecting strong growth in the value of EU and particularly non EU bound exports.

¹Based on HMRC data, which captures the flows of imports and exports between regions of the UK and other countries. HMRC does not receive information in respect of goods that move wholly within the UK, nor in intangibles and services such as banking or tourism.

The North East's positive performance is based on a number of important sub-sectors, although new emerging technologies and ways of working across sectors offer considerable potential to further increase exports, as does the arrival of recent inward investment. In 2012, machinery and transport and chemicals collectively accounted for 85% of the Region's exports.

NORTH EAST EXPORT VALUE BY SECTOR, 2012*		
Sector	£m	%
Machinery/Transport	7,781	57%
Chemicals	3,871	28%
Manufactured Goods	1,301	10%
Miscellan. Manufactures	432	3%
Mineral Fuels	137	1%
Other commodities	58	0%
Crude Materials	58	0%
Other	53	0%
Total Exports	13,691	100%

Source: HMRC *2012 figures are provisional

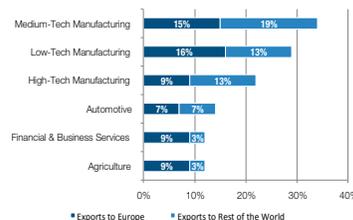
The profile of the North East as export-intense makes it unique in the UK. Strong export performance is a major regional strength, and this perception is growing with the total value of exports. To increase activity in the LEP area, it will be vital to maintain and develop the strong linkages that businesses currently have with international suppliers.

NORTH EAST EXPORT DESTINATION, 2012*		
Destination	£m	%
European Union	6,564	48%
North America	2,108	15%
Asia & Oceania	1,814	13%
Eastern Europe (excl EU)	1,367	10%
Western Europe (excl. EU)	736	5%
Middle East & N. Africa	488	4%
Latin America/Caribbean	327	2%
Sub-Saharan Africa	288	2%
Total Exports	13,691	100%

Source: HMRC *2012 figures are provisional

When the trade of services is included, manufacturing sectors, and particularly medium-tech manufacturing, have the highest proportion of sales outside the UK.

▼ Distribution of sales of the Tyne & Wear economy outside the UK, 2010



Source: Netherlands Environmental Assessment Agency

The Review of Evidence carried out to support the Independent 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 economy, notably:

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

The McCann paper also emphasised the importance of global supply chains with many North East producers supplying specialist parts and components as part of an extended supply chain.

RECOMMENDATIONS

There are currently 1,500 companies involved in exporting and there is the potential to increase this number considerably over the next 3 years. The North East's major markets are in Europe (particularly Germany and Ireland) and the United States, with much lesser sales to China, Singapore and Japan. The focus on Europe does however make it easier for new entrants to the exporting market, with more potential to build relationships using the UKTI commercial support in embassies.

By October 2013, the Combined Authority and NELEP will establish **North East International** and develop a **Strategy and Business Plan for Exporting**, drawing on the principles set out in Professor Phil McCann's paper on the importance of the global economy. The new strategy should set the framework for actions on trade development and global supply chains.

The Plan will include increasing the take up of support available to exporters and the services provided by consular services abroad. It will include support to mentor those at the early-stage of the exporting process (focused initially on European markets and then increasing global engagement in all overseas markets). Enhancing both regional exporting and foreign investment activities depends on simultaneously exploiting both the European context and also opportunities from further afield such as the USA and BRIC nations.

North East International will work with regional and national agencies to oversee the Business Plan. It will deliver:

- An increase of 20% (at current prices) in non-automotive exports
- An increase of 200 in the number of companies exporting (from 1,500 to 1,700)

NISSAN

The North East is home to Nissan Motor Manufacturing Plant in Sunderland, which is the sole producer of Nissan cars in the UK. It has been the largest car plant in the UK for 14 years and the largest exporter for 12 years. In 2011, the plant produced 480,455 vehicles, a 14% increase on the previous year, a UK record for a single facility.

Nissan began construction of the plant in 1984, taking the decision to locate in the LEP area to take advantage of:

- **Access to markets:** the plant is situated at the junction of the A10 and A1231 trunk roads and only five miles from the Port of Tyne, allowing efficient domestic and global supply of materials and distribution of products.
- **A trained and available workforce:** the North East has long had a well-established skilled manufacturing workforce.

Following Nissan's decision to produce their zero-emission Leaf in the area, the former One North East worked with them to install 700 charging parts throughout the area and establish a £10m skills academy on the site run by Gateshead College. In recent years, an increasing number of Nissan's suppliers have located not only in the North East, but on the factory site, while remaining independent businesses.

AN INTERNATIONAL EXEMPLAR IN SMART SPECIALISATION, OPEN INNOVATION SYSTEMS AND CULTURE

STATE OF THE UNION SPEECH, 12TH FEBRUARY 2013, PRESIDENT BARACK OBAMA

"Our first priority is making America a magnet for new jobs and manufacturing. After shedding jobs for more than 10 years, our manufacturers have added about 500,000 jobs over the past three. Caterpillar is bringing jobs back from Japan. Ford is bringing jobs back from Mexico. And this year, Apple will start making Macs in America again.

"There are things we can do, right now, to accelerate this trend. Last year, we created our first manufacturing innovation institute in Youngstown, Ohio. A once-shuttered warehouse is now a state-of-the-art lab where new workers are mastering the 3D printing that has the potential to revolutionize the way we make almost everything. There's no reason this can't happen in other towns."

"So tonight, I'm announcing the launch of three more of these manufacturing hubs, where businesses will partner with the Department of Defense and Energy to turn regions left behind by globalization into global centers of high-tech jobs. And I ask this Congress to help create a network of 15 of these hubs and guarantee that the next revolution in manufacturing is made right here in America."

"If we want to make the best products, we also have to invest in the best ideas. Every dollar we invested to map the human genome returned \$140 to our economy -- every dollar. Today, our scientists are mapping the human brain to unlock the answers to Alzheimer's. They're developing drugs to regenerate damaged organs, devising new material to make batteries 10 times more powerful. Now is not the time to gut these job-creating investments in science and innovation. Now is the time to reach a level of research and development not seen since the height of the Space Race. We need to make those investments."

THE NORTH EAST CONTEXT

Chris Pywell produced an expert paper on innovation in the North East which focused on building momentum through specialisation. Pywell commented that:

"The North East of England is relatively well placed to benefit from future global developments and growth. The region is the location for a number of strong activities and assets in the areas of innovation that are being most targeted as the sources of future international growth. These include innovations in energy, transportation, robotics, ageing and environmental regeneration."

The importance of innovation was also highlighted in the globalisation paper by Professor Phil McCann from the University of Groningen. This paper highlighted the strong trading of manufacturing goods between advanced economies, notably the EU, and the increasing importance of global supply chains. The importance of working collaboratively in extended supply chains was a feature of the analysis.

Innovation will support the creation of additional and higher skilled jobs in the area. The NLEP has a number of assets in its universities, specialist development facilities, people and companies.

RESEARCH AND DEVELOPMENT

The Review of Evidence carried out for the Independent Economic Review concluded that the North East has a low intensity of research and development, and absolute values are low, a function of the size of the area's economy when compared to others. ONE North East, the former Regional Development Agency, has however invested substantial sums in a number of centers of excellence, supported by ERDF funding.

RESEARCH CAPABILITIES

The LEP area has four Universities and a number of research centres, with a post graduate population of almost 19,000 students. The universities in the NLEP area are producing world leading and internationally excellent research in a number of key subject areas.

% OF RESEARCH THAT IS WORLD LEADING (3*) & INTERNATIONALLY EXCELLENT (4*), 2008			
Subject	University	4*	3*
Physics	Durham	20	40
Earth Systems and Environmental Sciences	Durham	15	55
	Newcastle-upon-Tyne	15	50
Mechanical, Aeronautical & Manufacturing Engineering	Newcastle-upon-Tyne	15	50
Electrical & Electronic Engineering	Newcastle-upon-Tyne	15	45
General Engineering & Mineral & Mining Engineering	Durham	10	50
	Northumbria	5	45

Source: RAE Ratings

RESEARCH CENTRES/CENTRES OF EXCELLENCE

BIONOW

Bionow is a specialist business development and services company focused on the biomedical industry in the North of England. Established in July 2011, Bionow has over 160 subscribing members and provides innovative products and services that deliver tangible value, aiming to support members to be the most productive and competitive in the world. The company's offer spans procurement, insurance, recruitment training and consultancy plus specialist events and access to a large network of businesses, universities and NHS organisations.

The organisation's response to the Independent Economic Review highlights the importance of the life science sector to the North East, which covers pharmaceuticals, medical biotechnology and medical devices. In the North East, the sector encompasses approximately 150 companies employing 6,300 people directly with a combined turnover of £1.7bn. The overall GVA is significantly greater when the extended supply chain and the life science activity in academe and the NHS are included. The life sciences sector (combined) addresses a global market with an estimated size of \$1+1.5 trillion and annual growth rates of 5-10%. The North East is already one of the strongest exporters in the UK life sciences sector. The sector's companies are highly innovative with an R&D-to-sales ratio of 10-25% and employ a highly skilled workforce, with approximately 60% of the pharmaceutical industry qualified to at least NVQ Level 4.

Based on the composition of companies in the area, the sector has the potential to add £0.8-1bn to its GVA organically over the next 10 years. This economic growth could be significantly increased by inward investment and growth in academe and the NHS. The North East has a medium sized cluster of companies in the sector with specific strengths in drug manufacture, diagnostics and assistive technology, all segments with strong growth prospects. When combined with other sectors, such as digital, and the research and translational expertise of the North East universities and NHS, the area has a strong platform from which to accelerate growth.

THE NEPTUNE NATIONAL CENTRE FOR SUB-SEA AND OFFSHORE ENGINEERING

In March 2013, the Neptune National Centre for Sub-Sea and Offshore Engineering was unveiled as part of the Government's Oil and Gas Strategy. The Centre will bring together industry and academia to create a world-class engineering research facility that will support future growth. It will develop new materials and technologies that will be at the forefront of harnessing the ocean's potential as a source of food, energy and medicine.

The unique facility will be located on the north bank of the River Tyne on Neptune Energy Park and includes plans for a hyperbaric chamber capable of testing technology and materials at temperatures and pressures equivalent to those found at the deepest ocean depths.

It will aim to make the North East the recognised centre for subsea technologies on an international scale, enhancing research capacity in this specialist field of engineering and having

a significant long term impact on skills and the economy. In particular, it will develop highly skilled graduates to help address key skills shortages.

The £7million Investment package for the Centre comprises funding and contributions from HEFCE, Newcastle University and the private sector. The project is also supported by Newcastle City Council and has the backing of leading UK companies through the Subsea North-East Consortium including Shepherd Offshore, BEL Valves and SMD.

THE INSTITUTE OF AUTOMOTIVE & MANUFACTURING ADVANCED PRACTICE (AMAP)

AMAP is part of the Faculty of Applied Sciences within the University of Sunderland and evolved from two previous University groups with complementary skills and knowledge across the automotive and manufacturing sectors. AMAP's expertise covers a broad range of industrial applications and digital engineering technologies and provides a range of valuable services to manufacturers.

Together with the University of Sunderland, AMAP has established a centre of excellence in Low Carbon Vehicle (LCV) technology. Its staff are active in a wide range of R&D projects, involving electric vehicles, hybrid electric vehicle technology, fuel cells, advanced manufacturing in the LCV industry, lightweight materials, vehicle safety and crashworthiness.

All of AMAP's R&D projects are collaborative ventures with industrial partners. Although many are linked with leading companies, such as Smith Electronic Vehicles, they are also working with industrial and academic partners within the national and international Low Carbon Vehicle community.

AMAP has introduced the UK's first MSc programme in Low Carbon Vehicle Technology. The course involves a combination of advanced lecture material and work-based learning projects centred on topical industrial problems. It provides engineers working in the LCV industry the opportunity to study part-time and gain an advanced qualification in this fast moving area.

SCIENCE CITY

Newcastle was designated as one of six UK Science Cities in 2005 in recognition of the world-class research being undertaken by its universities and the potential of its science industry base. Its vision is articulated around three themes: Ageing and Health, Sustainability, and Regenerative Medicine; and manifested in two places in Newcastle: Science Central and the Campus for Ageing and Vitality.

Newcastle's Institute for Ageing & Health (IAH) is recognised as Europe's leading centre for research into ageing. The last two decades have seen major investment in both buildings and research, enabling the city to capitalise on its strengths and continue to make major contributions that are impacting upon people's lives across the world. Recognising the benefits of better understanding the ageing process, the UK Government has identified it as a major priority and Newcastle, as a Science City, is recognised throughout Europe as a key centre in the sector.

Newcastle University has established the Newcastle Institute for Research on Sustainability (NIReS) on the main university campus, and it is envisaged that the Institute will be expanded on the new Science Central development – creating an exciting new hub for sustainability. Drawing on world-leading expertise in fields such as transport, energy and clean industrial production, the University is committed to helping improve people's lives, by helping the population to become more energy efficient.

The Institute for Genetic Medicine, located at the Centre for Life next to Newcastle's Central Station, is one of Newcastle University's research institutes with an international reputation in genetics, stem cell therapies and aspects of regenerative medicine.

SMART SPECIALISATION

Smart specialisation is a concept developed by the European Commission closely linked to bringing manufacturing jobs back to Europe from low cost countries. It is based on a sub-national assessment of strengths and specialisms and the pursuit of development plans linking business and researchers.

Smart Specialisation will play a large part in the prioritisation of ERFDF support between 2014 and 2020, a fund which the North East has a strong track record of investment. Given this, and the experience within the NELEP area, the North East should seek to develop a reputation amongst the leading thinkers with regard to smart specialisation and innovation, and these themes should underpin how the area is promoted internationally.

OPEN INNOVATION

The NELEP area provides an ideal environment for creating a test bed for open innovation in practice and Regional Technology Centre (RTC) North, an independent technology transfer company, has set out some ideas on how it could work.

Open innovation is based on the principle of sharing information in a deliberate way to accelerate innovation. It contrasts with the traditional model of closed or 'institutional' innovation that values secrecy and protection of ideas in the interest of competition. As a strategy, it offers much greater potential for engagement of small companies and individuals and at a relatively low cost.

In proposing an ecosystem for open innovation five categories of prospective activity have been identified. In all of them there exists a common theme of self help embracing ideas above employer led or employee led collaboration. Differences occur in terms of the nature and extent of intermediary action required to stimulate the process. The categories are outlined below with examples provided mainly by RTC North and its partners in the Design, Health and Higher Education sectors.

- 1. Big Company NPD Sourcing:** The original concept of open innovation was developed by Henry Chesbrough and championed by P&G. The strategy was to source at least 50% of new product ideas from 'outside company walls'. Provided it is well managed, small companies as well as large can profit from this process. This was demonstrated by the 'Connect 2 Ideas' project (2007-2009) involving 16 multinationals, led from the North East with active support from P&G.
- 2. Company 2 Company:** This involves collaboration between members of the same cluster or peer group. It may mean joint working on a particular business project or learning exercise. Alternatively a large company might help an SME to improve its processes. Design Network North which has over 500 members fosters this approach through its unique 'Boomerang' service that proactively circulates and follows up business opportunities among members.
- 3. Employee led Innovation:** In this case a large organisation, public or private, will try to improve performance by harvesting ideas from its employees who know, first hand, about how the job can best be done. The Japanese Kanban system is based on this principle of continuous improvement and rewards employees for their ideas. In the North East the NHS 'Bright Ideas in Health' competition is a superb example of how this works in the public sector.

- 4. University Industry liaison:** The age old problem of getting academics and industrialists to work together exchanging knowledge and moving R&D from laboratory to market place. For many years the North East led the way on university-industry collaboration through Knowledge House which was acknowledged by the Dearing Report as a national exemplar.
- 5. Shared Campus Innovation:** Many gurus quote the advantage of shared physical space – on a science park or university campus – as a stimulus for open innovation. Stanford University has designed buildings to maximise the interaction of tenants which are potential business partners. The 'creative zone' stretching from Cuseburn to NDC and the Baltic Business Park is a great environment for stimulating innovation among individuals working in close proximity, meeting and mentoring, matchmaking and exhibiting.

OPEN INNOVATION: WILL HUTTON

In the Anglo American world perhaps the most famous early adopter of an open innovation strategy was Procter and Gamble between 1999 and the early 2000s. In the late 1990s, despite a R&D budget that was 7 per cent of total sales, only ten per cent of P&G research was incorporated in new products. The share prices had halved. The company deliberately set out to use partners to undertake research and develop new innovation, breaking out of the corporate silo. It openly acknowledged that it could not be clever enough to solve the complexity of modern innovation by itself.

The results have been devastatingly successful: the product success rate has jumped to 50 per cent along with a similar percentage for the incorporation of patents. Crucially more than a third of the company's successful new products come from outside the firm. The core principles are that firms declare a readiness to work with others rather than adopt a silo R&D strategy.

They share ideas; they do not instantly set out to protect (e.g. patents and copyright); they pool knowledge and data. They look to joint venture, to license or partner. They invest collectively in skill development and pure research. They share the costs of development. They self-consciously position themselves as part of a network to which they open themselves up. They create an open innovation ecosystem with a range of protection methods (from minimal patenting to open source or pure publications) and to which they open themselves up by developing their own absorptive capacity to outside influences. In the digital economy data, sharing and data mining have become a new way to unlock unrecognised synergies via open innovation.

RECOMMENDATIONS

Given the continuing importance of the manufacturing base to the area's economy, the opportunities available through global supply chains, the presence of strong applied research centres and business networks, innovation should be a priority for local partners.

The concept of open innovation, with more collaborative work and the sharing of ideas will be suited to the NELEP area and should be planned into new arrangements.

By October 2013, the NELEP will publish a **Regional Innovation Strategy and Business Plan**, based on the principles of smart specialisation and including:

- Strengthening the North East's world class centres of excellence in open innovation
- NELEP priorities (technologies, markets, supply chains)
- Leading edge academic research
- Idea-to-market support

The prioritisation of sectors and supply chains should take account of research and business strengths, new and emerging technologies, and the scale of commercial and market opportunities for business in the area. There are three initial **Open Innovation and Growth Centres** which the North East should focus on:

- **Bionow**
- **The Institute of Automotive and Manufacturing Advanced Practice (AMAP)**
- **The Neptune National Centre for Sub Sea and Offshore Engineering**

These will bring companies and angel investor networks together and will be based on the principles of catapults but more locally focused.

New arrangements should be used to de-risk investments and work closely with local investment funds, particularly North East Access to Finance.

The Regional Innovation Strategy and Business Plan should be the foundation of an innovation eco-system, based on the principles of open innovation. It should focus on strengthening elements such as the contribution of applied research, specialist testing, prototyping and scale-up facilities, specialist accommodation and venture finance, as well as identifying gaps in the wider areas of business support, skills and infrastructure.

It will be important to build on current strengths including RTC North which operates from the Design Centre in Gateshead with plans that take account of research strengths and investment and business groups and networks.

It will also be important to ensure that innovation play a central role in the **EU Investment Plan** which the NELEP will be asked to produce to direct ERDF and ESF in the 2014-2020 programme period.

The LEF area has four universities and almost 19,000 post graduates students. There is the potential to develop a network of well funded (£15,000) Innovation Scholarships, available to post doctoral researchers with commercial ideas for a new product or service and a collaboration with local companies which would benefit from technical expertise.

The NELEP will establish a **North East Innovation Board** to work with regional and national agencies to oversee the Business Plan.

PROCTER & GAMBLE AND THE UNIVERSITY OF DURHAM

Procter and Gamble (P&G) and the University of Durham now have a long standing relationship for collaborative research and innovation.

In October 2011, Durham University won the Global Business Development University Partner of the Year Award from P&G. By this point, the partnership between the university and the company had secured more than £5.7million in external funding for a series of projects and studentships.

Over 80 Durham academics were linked with P&G researchers in locations from Newcastle to Frankfurt, Brussels and Beijing in areas including surface sciences, biophysical sciences, electronic goods, manufacturing and consumer psychology.

In 2011, P&G, Durham University, the Centre for Process Industries (CPI), and Peelflow collaboratively initiated the £14m project CO-INNT – to establish a Centre for Excellence in Methods and New Technologies for Surface Modification and Cleaning. The project which is running over three years, includes a £5.3m grant fund from the Regional Growth Fund, and will create and safeguard more than 50 skilled jobs in the consortium.

The cutting edge research and innovation focuses on surface science, providing technical and scientific expertise to develop more effective home cleaning products. The new centre also forms a strategic hub for building new research projects and technology transfer initiatives in the North East and UK. The consortium will establish additional collaborative partnerships with companies looking to invest, research, develop and commercialise new surface modification and cleaning solutions for industrial application in the oil and gas, renewable, chemical, aerospace, automotive, pharmaceutical, and electronic sectors.

NaREC

The National Renewable Energy Centre is a world recognised centre of excellence for research, development, demonstration and testing of next generation wind and marine renewable energy technologies.

The open-access and independent research facilities anchor internationally mobile investment in the UK and are playing an important role in supporting the delivery of Government policy. NaREC has been selected in a consortium to lead the Technology Strategy Board's Offshore Renewable Energy Catapult Programme.

Working with project developers, major manufacturers, universities and research organisations, the Centre offers extensive support to the renewable sector and its supply chain at all stages of the technology development process, from idea generation and R&D to prototype development, testing, installation and operation.

The Centre's innovative activities are helping to shape the future and reduce the cost of offshore renewable energy, supporting the market entry of new products and reducing the development and deployment timescales of technologies.

Collaborating with industry and academia is a key part of the Centre's work with the supply chain, which includes projects funded through ERDF and national programmes. This provides opportunities for SMEs to gain technical knowledge, training and expertise as well as an understanding of how to meet industry requirements.

INNOVATION SCHOLARSHIP

The Newcastle University Business School Enterprise and Innovation Scholarship are intended to foster an interest and build skills in innovation, enterprise and entrepreneurship.

The scholarship is available to one postgraduate UK/EU student each year that has been offered a place on the MSc in Innovation, Creativity and Entrepreneurship or the MA in Arts, Business and Creativity at Newcastle University Business School.

A PLACE TO INVEST IN BUSINESS GROWTH

Access to capital has been a challenge for many businesses in the North East for some time, and the economic downturn and new regulation has made many banks more reluctant to lend to smaller and medium sized businesses.

Access to finance is likely to become more important as companies seek to expand, particularly those involved in exporting and developing new products. There is a danger that company growth plans will continue to be curtailed unless businesses have access to finance which reflects their needs, rather than invoicing or guaranteed by personal assets.

The North East has benefited from a series of funds operating under the 'Finance for Business North East' banner, including the £5m North East Micro Loan fund; the £15m North East Proof of Concept Fund; the £20m North East Accelerator Fund; the £25m North East Technology Fund; a £7.5m North East Angel Fund; and the £20m North East Growth Plus Fund. Given the continuing shortage of investment finance for business, there is a strong case for increasing the support available.

Since 2010, North East Finance has invested more than £50m of its £125m portfolio in over 400 companies. This has in turn stimulated the market, leading to a further £90m in private investments. North East Finance has invested in a wide range of SMEs in the North East, with its six funds targeting different types of firms at various stages in their development in order to help them achieve their growth potential and drive the economy.

NORTH EAST FINANCE COMPANY CASE STUDIES

ADMEC

Admec operates the largest fleet of road sweeping vehicles in the North East and is the only such company in the UK licensed to operate its own road sweepings treatment plant. The company operates from the Scottish Borders to north Lincolnshire from its base in Etniley County Durham. In 2011, it applied to North East Finance for Business for funding to help expand and refine this facility. Admec received £200,000 from the North East Growth Fund, which will help them to recycle their sweepings (of which 95% can be sold and put to another use) with greater speed and efficiency. Admec has continued to grow through the recent recession and is now forecasting double-digit growth in the coming years as a result of this investment.

WHATUSERSDO

WhatUsersDo is a Newcastle-based internet start-up that interprets analytics for SMEs across Europe to help them improve their profitability, by reducing bounce-rates and increasing lead generation, which both boost sales. Their clients include BT, lastminute.com and TUI. In 2009, they received a £50,000 investment from Northstar Venture's Proof of Concept Fund during the early stages of their development, and as they have grown their client base and expanded, they were able to attract a further £150,000 investment from the Finance for Business North East Accelerator Fund. WhatUsersDo will use this capital to affirm its position as a market leader and achieve even greater commercial success.

SCRATCHBIKES

ScratchBikes is a self-service city bike hire scheme founded by two Newcastle University graduates. They initially imported a container of custom built bikes and set up a text based rental system in Newcastle. After nine months, they received backing from the Finance for Business North East Angel Fund in order to roll-out their business model to other cities both nationally and internationally.

SUPPLY AND DEMAND

The issue of demand for finance outsourcing supply is highlighted in the response submitted to the Review Team by FW Capital and NEL Fund Managers:

"Demand outstrips supply for finance in the region in general. Banks are less willing to offer term loans and overdrafts to companies, particularly in the SME market, and now favour asset based lending. The banks typically offer facilities on a fully secured basis that are supported by company assets, often in addition to personal guarantees from directors. Whilst the VC Funds in the region and business angels have gone some way to support companies where banks may not be able to, this does not fully satisfy demand."

The introduction of more investment in the North East through business angels and high net worth individuals has been suggested in the Expert Papers supporting the Review. There are already a number of business angel activities and it will be important that these continue to expand.

The Expert Paper by Professor Colin Mason of the Adam Smith Business School at the University of Glasgow makes the case for investor readiness and seed funds:

"This narrowing of the supply pyramid is a national rather than simply a regional problem. However, it presents in its most extreme form in Northern regions such as the North East. To the extent that the investment process is constrained by distance, this is more significant in the case of small scale early stage investments than larger follow on investments. Indeed, 70% of UK business angels invest locally (Harrison et al, 2010). This reflects importance of local presence to identifying new businesses that are seeking finance and also the active hands on involvement of early stage investors, which is also facilitated by proximity. Hence regions need to have their own indigenous sources of start-up and early stage finance which will typically be supported by business angels and seed funds."

"There should also be support for capacity building in the form of investor training and investment readiness schemes, the latter also having proven to be effective, despite lacking the rigour of US approaches. Here again this requires the reinventing of the wheel because previous schemes received only short term funding from government and are not sustainable without such funding."

The Paper does raise a more fundamental challenge on the scale and quality of the investment provision in the North East and the need to stimulate demand as well as address the supply side weaknesses:

"The key theme of this thought piece, which is primarily focused on risk capital, is to argue that across the board supply-side policies involving an increase in publicly supported venture capital funds will be ineffective, at least without a significant complementary to promote entrepreneurial activity. The North East, like other regions, simply lacks the absorptive capacity to productively invest significant additional finance. There are not sufficient entrepreneurial businesses with the potential to grow."

The Expert Paper also points out a shortage of medium sized investment support i.e. £1m plus, and this tends to be outside of the range of public sector supported investment funds.

A final point from the Expert Paper is the extent to which other countries have used international networks to provide support to growing companies:

"Another approach that has been developed by various countries is to use their diasporas. So, for example, Scotland has created a Global Scot network to give Scottish companies access to richly connected individuals in countries that they might wish to enter. Canada has a 'Canada 100' of successful Canadians in Silicon Valley who can support and mentor Canadian entrepreneurs seeking support."

Scottish Enterprise has carried out a number of reviews of the Global Scot Network and it may be worth considering the potential for a similar network for the North East.

SOCIAL ENTERPRISE

Charles Seaford of the New Economics Foundation prepared a thinkpiece for the Independent Economic Review on the opportunities for social enterprise in the North East. This has since been discussed with the sector. The added value provided by social enterprises is recognised. Viable and successful social enterprises create growth, in addition to social - and often environmental - benefits. As such, they contribute to a successful economy, where people living and working in the North East enjoy a good quality of life and have the opportunity to contribute to and benefit from economic activity.

There are many opportunities emerging for social enterprises, particularly in the light of public service outsourcing and contracting. However, the concern within the North East is that only a small number of social enterprises have the capacity or ability to access these contracts. This could lead to a 'branch plant' social enterprise economy, where contracts are all or mostly delivered by national enterprises. In order to enhance these opportunities for the sector, it is recommended that the North East builds on the work being taken forward by the Northern Rock Foundation and NELEP, with other key organisations including financial intermediaries, to submit a large scale bid to Big Society Capital for a North East social enterprise investment fund. This should be complemented by some investor readiness work, to ensure that social enterprises have the opportunity to take advantage of these opportunities.

Furthermore, the opportunities presented by local/regional banking could be taken forward by cooperatives within the North East, using the social enterprise ethos, and building on the existing credit union infrastructure in the area. This approach could widen access to banking and help to alleviate financial exclusion.

RECOMMENDATIONS

While investment funds have become the norm, there remains a need for some grant support for investor readiness training, business planning and market assessment studies to improve the applications submitted to existing and new funds. Many micro and small businesses are unable to pay for this type of support, as are many social enterprises. In terms of new demand, third sector organisations may be able take advantage of the opportunities arising from the substantial changes in delivery of service by the public sector, unlocking new demand for finance.

It will be important that the Government continues its effort to ensure that finance is available from banks for the normal day to day running of businesses, although many banks are now unwilling to lend on the basis of orders books (as distinct from on the basis of invoices, which is when work is completed rather than planned).

Given the range of business demand that access to finance and banks reluctance to lend there is a need to significantly improve access to finance. The North East LEP needs to develop three particular areas to support economic growth, and play an oversight role in the investment of public sector funds in business investment and investor readiness activities.

- Regional Business Bank**, to explore the potential for the establishment of a regional business bank to meet the needs of companies and/or for the proposed British Business Bank to be located in the North East.
- North East Access to Finance**, to provide a range of new funds building on the experience to date and understanding of demand, including finance for social enterprises and the de-risking of innovation developments. Finance for social enterprises should include a large scale bid to Big Society Capital for a North East social enterprise investment fund.
- Investor Readiness Programme**, to work with smaller, fast growing businesses which will require significant investment finance in future years.

The investor readiness focus will increase the quality of investment propositions and allow businesses in the North East to access support which increases their ability to develop new investment plans in support of company expansion.

The NELEP will establish a **North East Finance and Investment Board** to work with regional and national agencies to oversee access to finance.

A LEADING LOCATION FOR TRADE, (RE)-INVESTMENT AND STICKINESS

The NELEP area has successfully captured inward investment over the past decade, due to a number of factors including a strong property offer for a variety of investors, excellent after-care, sectoral strengths and the availability of a skilled workforce (particularly with regards to manufacturing and engineering).

Stickiness is the process, arrangements and relationships by which (often) large investors become embedded in the NELEP area. It's a function of client relationship management and the business and innovation networks which make the area a good place to do business. It covers both the formal and the informal, and business and other factors such as quality of life, schools and culture.

FOREIGN DIRECT INVESTMENT IN THE UK

The UK continued to perform strongly in terms of inward investment in 2011/12. As set out in UKTI's Annual Report, FDI created or safeguarded over 112,600 jobs from 1,406 projects, underlining its position as a critical engine of growth for the UK economy.

While the number of projects remained stable when compared to the previous year, the number of jobs increased (by 19%) as did the number of countries from which companies invested in the UK (58 countries compared to 54 in the previous year). Over half of the FDI was made up of new investment projects with investors citing the country's business environment, skills base and R&D infrastructure as key attractions. There were also more than 500 expansions of existing investment projects. Approximately 20% of the FDI projects were linked to headquarter operations, with the UK continuing to be the top destination for investors looking to establish their European headquarters operations.

The UKTI report also draws upon figures from the 2012 Financial Times FDI Intelligence Report and the World Investment Report. The former ranks the UK as the primary FDI location in Europe while the latter reported 7% growth in the UK's FDI inflows to reach US\$53.9 billion in 2011. It also confirmed the UK as the largest recipient of FDI stock in Europe, and second in the world behind the US.

SECTORS AND SOURCE OF INVESTMENT

Software and advanced engineering continued to be the top-performing sectors in terms of FDI project numbers in 2011/12. Advanced Engineering was also the largest sector for jobs, accounting for 16% of all created and safeguarded jobs – an increase of 25% on the previous year. Creative and media, environmental technologies and life sciences performed strongly.

UK INWARD INVESTMENT 2011/12

Sector	No. Projects		Source	No. Jobs		%
	No.	%		Projects	Jobs	
Software	233	17%	USA	336	37,525	33%
Adv. Engineering	145	10%	France	65	12,038	11%
Life Sciences	137	10%	Japan	88	7,818	7%
Finance	123	9%	Netherlands	36	5,829	5%
Environ.Technology	113	8%	India	81	5,454	5%
ICT	103	7%	Germany	66	4,994	4%
Creative/Media	87	6%	Switzerland	54	2,970	3%
Bus. Services	74	5%	Spain	48	2,476	2%
Other ¹	391	28%	China	92	2,116	2%
Total	1,406	100%	Italy	98	1,673	1%
			Australia	51	1,500	1%
			Canada	59	1,342	1%
			Rest of World	174	14,966	13%
			Rest of EU	158	11,958	11%
			Total	1,406	112,659	100%

Source: UKTI Annual Report

¹ Other includes the food and drink, power and chemical sectors

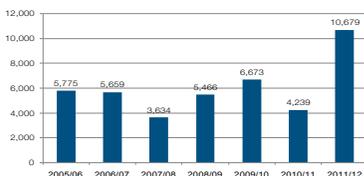
The USA continued to be the biggest source of investment projects and jobs. One of the most significant changes from previous years was the increase in the number of projects from China, linked to the country's government-led policy of encouraging its major companies to expand globally. Overall, developed countries dominated the top 12 source countries, with notable project increases from Italy, Switzerland and Denmark in 2011/12.

The NELEP area has an exceptional record in attracting Japanese companies, and is strong in a number of the sectors which have high levels of inward investment.

A STRONG TRACK RECORD IN FOREIGN DIRECT INVESTMENT

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 North East has typically delivered over 5,000 FDI jobs each year.

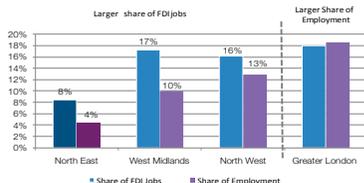
Number of jobs created in the North East through FDI projects



Source: UKTI

The North East's share of FDI jobs is double its share of national employment and it is one of only three regions to be in this position.

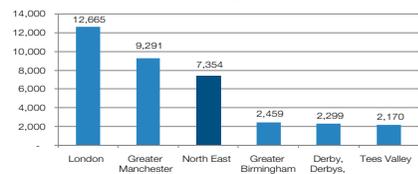
Share of FDI jobs relative to share of total employment



Source: UKTI

In 2011/12, the NELEP area was one of the top performing LEPs, with only Manchester and Greater London delivering a higher number of jobs. Further, the number of jobs delivered in the NELEP area was at least three times as high as the next performing LEP.

Number of jobs created through FDI projects, 2011/12



Source: UKTI

RECOMMENDATIONS

The North East is one of the leading centres in the country for foreign direct investment and also for investment by major UK companies. Figures from UKTI indicate that the North East benefits from some 5,000 jobs per annum as a result of inward investment, and this number increases in later years with subsequent investment.

The NELEP area has a number of very strong inward investment locations, including a number of excellent business parks. It also has a multi site Enterprise Zone which can accommodate significant new investment and employment. It does however lack a nationally significant premier business/corporate district when compared to Glasgow and Manchester, both of which have put in place new business quarters in the last 5-7 years.

Over the next ten years it will be important to secure new investment and local partners will need to:

- Develop an internationally competitive investment location for corporate, financial and professional services in Newcastle.
- Ensure a range of high quality business locations are available to attract inward investors and support the growth of high value added service sector companies.
- Fully develop and expand the Enterprise Zone and National Advanced Manufacturing Park to ensure industrial and production businesses can locate and expand in the North East.

The success of NELEP in inward investment is due to a number of factors, including a strong property offer for a variety of investors and excellent after-care. The extent to which companies stay and expand in a location – stickiness – is linked to how they become embedded locally, developing relationships with local suppliers, research centres, and other agents involved in services such as training and recruitment and business advice. These factors also apply to small and medium sized companies and fast growing new starts.

One area which will lead to new investment and the expansion of the supply chain is renewable energy and it would be helpful if Government could set the technology mix for renewable generation as soon as possible and prioritise Dogger Bank and the Humber mouth to the south as the first locations for new investment in the next generation of offshore wind power infrastructure.

Over the next five and ten years FDI and investment from UK companies is likely to be one of the most important sources of job creation in the LEP area. It is also likely to be a source of knowledge intensive and higher skilled jobs.

While new inward investors often attract the headlines, companies involved in the supply chain are just as important, as are fast growing new starts in some of the high value added services sectors, many of which are very mobile. Providing the conditions, facilities and services which persuade companies to commit to the NLEP area is an important strand of the strategy for economic growth. The Combined Authority and the LEP have a major role to play in making the North East a good place to do business.

The Combined Authority working with the LEP and UKTI through **North East International** will put in place a **FDI/New Investment Plan** which includes:

- **A front of house system**, operating on a concierge basis, and working closely with the universities which presents a single access point for FDI enquiries, supported by the experienced teams based in each local authority.
- **A client relationship management**, linking inward investors and fast growing companies into exporting, innovation, business development and supply chain networks, particularly the LEP area's Universities.
- **A case for public sector re-location**, based on the quality of the workforce and lifestyles, and targeting a major re-location relevant to the North East economy.

The NLEP also needs to ensure that the LEP area has a best in class business support system able to support companies in the supply chain which are keen to expand.

While business services as a sector will be a key target for inward investment and subsequent expansion, there are a number of other actions which will support business growth, particularly in the service sector.

Given the overlap between the development of company exports and global supply chains, and inward investment, the FDI/New Investment Plan should be set within the work of **North East International**, and efforts to secure new business abroad for local businesses should be linked to efforts to attract new inward investment. North East International will deliver a 20% increase in the long term FDI employment impact.

Over the next five and ten years FDI and investment from UK companies is likely to be one of the most important sources of job creation in the LEP area. It is also likely to be a source of knowledge intensive and higher skilled jobs.

TESCO BANK

Tesco Bank opened a state-of-the-art contact centre at Quorum Business Park in North Tyneside as part of a major investment in its general insurances division.

The North Tyneside centre is now one of four sites for Tesco Bank in the UK, employing 1,000 of the company's 3,000 employees. The bank holds approximately 6.5 million customer accounts across a wide range of financial products and services. While the majority of the Bank's activities are focused on the UK, a selection of services and products are offered internationally including in Ireland, Hungary, Slovakia, Poland, Malaysia, South Korea, Thailand and China.

Tesco Bank's arrival was a major boost to the area's vibrant contact centre industry, creating 1,000 jobs, and represented a major success for the investment team which worked with Tesco Bank and its advisors for several months.

A successful partnership approach was used to secure the investment, involving North Tyneside Council, and the former Tyne and Wear Development Company and Ora North East. The investment team also worked with Jobcentre Plus and the then Learning and Skills Council to provide a single point of contact for recruitment and training tailored to the specific needs of Tesco Bank.

Feedback from Tesco Bank acknowledged the area's experience in customer services and the financial sector as well as the quality of the workforce.

HITACHI

Newton Aycliffe in County Durham has been chosen as the location for Hitachi Rail's new factory following the signing of a £4.5 billion contract to deliver the Intercity Express Programme, replacing Intercity 125 trains with higher capacity modern trains. The company will also locate its European rail research and development capabilities on the site which will further enhance the factory's ability to win rail contracts across Europe.

This will be the second Hitachi company in the LEP area, joining the HM Plant Head Office - a wholly owned subsidiary of Hitachi Construction Machinery Europe - in South Tyneside.

The 40,000m² train world class rolling stock manufacturing and assembly facility will deliver a total of 696 railway carriages over a 25 year period with production commencing in mid 2015. The carriages will assemble an Intercity fleet of 92 completed trains. The new factory will create 500 jobs by 2015 and thousands more in the supply chain.

The new, state of the art fleet of Hitachi Super Express trains are environmentally sustainable and the lighter vehicles will use less energy to deliver improved journey times. It will incorporate the world's first high speed traction power source, delivering a reduction in fuel consumption. The project presents major opportunities for suppliers and contractors to engage in the development of the site and the assembly facility.

THE RENOWN GROUP

The Renown Group has grown through strategic acquisition and now comprises five distinct and complementary businesses supplying products and services to the marine, offshore, energy and defence markets. The company is headquartered in Cramlington, Northumberland, and has manufacturing facilities in three locations in the North East.

A case study produced by Northumbria University explains that the company planned to expand and transform itself from a traditional manufacturing company into a high tech, high value-added company with its own products and brands.

The company worked with Northumbria University's Newcastle Business School through two Knowledge Transfer Partnerships - one to implement a business and marketing strategy and the other to introduce a new product development capability. Both projects have been graded as 'outstanding' by the Technology Strategy Board.



Hitachi, County Durham

OTHER EXTERNAL TRADE OPPORTUNITIES

There are a number of service sectors which have the potential to generate new employment and investment. Some of these would benefit from increased co-ordination and promotion, while others require dedicated business support to accelerate growth. The three sectors are set out below.

New Economy: Digital, media, telecoms and software: fast expanding sub sectors in the service sector with a growing business community in the NLEP area with the potential to significantly increase sales and employment over the next ten years.

Tourism, heritage and culture: a growing sector, very important for the rural economy. There is a need to develop a sustainable funding model which allows the NLEP area to invest in new facilities and promote the industry.

Universities: there is scope for the four Universities to increase their contribution to the LEP area's economy by increasing the number of under-graduates and post-graduates, particularly foreign students keen to study in the UK.

As new funds (inevitably) become available, including ERDF and ESF, the NLEP will take the lead in organising diverse best investment plans to support sector and supply chain positions which support economic growth.

The North East has a centre of expertise in smart grids (led by Siemens), and its universities have world class researchers in the fields of shale gas, coal gasification and high temperature geothermal energy who are involved in both local and international efforts to bring new sources of energy to the market.

For many years the area has led the technical and engineering drive to exploit offshore energy sources, both in the North Sea basin and across the world. The next generation of offshore energy will come with the scaling up of offshore wind turbines so that the next wind farms are each providing many Giga Watts of sustainable energy to the UK grid. With the wealth of research, testing and practical offshore expertise located in the North East (including the National Renewable Energy Centre at Blyth), the logic of any industrial strategy for offshore wind would surely bring the next generation of offshore wind to sites in the North Sea.

From the supply chain for manufacturers of turbines through to the support and maintenance operations that will be required for many decades to come, the north east is uniquely well placed to ensure that the jobs and technologies the country creates through investment in offshore wind are indeed located in the UK. There is an immediate opportunity for central government to bring this about. It is a key priority in the Sunderland NLEP city deal and would mark a shift towards a truly strategic approach to offshore wind. Under the banner of **North Sea First** we therefore ask to set the technology mix for renewable generation as soon as possible and prioritise Dogger Bank and the Humber mouth to the south as the first locations for new investment in the next generation of offshore wind power infrastructure.

NEW ECONOMY: DIGITAL, MEDIA, TELECOMS & SOFTWARE

As outlined in a response by the North East Technology Sector² to the Economic Review, the UK is one of the strongest markets in the world for cloud computing and data centre companies. The UK is Europe's leading market for software and IT services with a market value of £58 billion per annum. Independent research by Microsoft has indicated that the market could drive the creation of 3,000 new businesses and 78,200 new jobs by 2013.

The UK's success is built on several key strengths:

- The UK is a powerhouse for software development attracting £930 million per annum software R&D investment from international businesses.
- The UK is home to over 100,000 specialist software companies and all the major global software companies such as Microsoft, IBM and HP have sizeable operations here.
- Cloud Services - The UK cloud computing annual market value is the largest in Europe and is predicted to grow from £2.4bn to £6.1bn by 2014. Currently 18% of UK SME businesses use cloud solutions but a further 30% plan implementation within the next year. By 2015, half of all new IT spending by the public sector is predicted to be on public cloud services. The opportunities that this public sector investment presents are significant.
- Data Centres - The UK data centre market, is the largest in Western Europe and the growth in the amount of data and new services such as cloud computing is creating new sources of demand.
- The UK government has committed to further improving the UK's IT infrastructure. The 2012 budget pledged to develop a number of super-connected cities including Newcastle, which will have 100Mbps citywide networks in their urban areas.

National research suggests that this sector is still in its infancy and is key to supporting the economy out of recession.

There are strong opportunities for growth in the UK and North East economy through to the 2020s if businesses can harness scientific and industrial capabilities to take advantage of technology-enabled transformations in manufacturing, infrastructure, and the internet. There is also a strong connect to place with many niches and sub-sectors linked to urban life/universities and others linked to home based/market towns and rural life.

DIGITAL BY DEFAULT

The new economy, which covers digital, media, telecommunications and software, represents a growing proportion of the UK economy. The Government is embracing this and has set out plans to become "digital by default" across its departments and operations. Across the wider economy, the Government's actions are being driven by the Digital Strategy, which commits to:

- Investing £530m to help provide superfast broadband to over 90% of households by 2015.
- Redesigning transactional services to meet a new digital by default service standard.
- Increasing the number of people who use digital services.
- Broadening the range of those tendering to supply digital services including more small and medium sized enterprises.
- Removing unnecessary legislative barriers.
- Improving the way that government makes policy and communicates with people.

These policies will affect all areas of the UK, including the North East, creating demand for services provided by the new economy.

THE NEW ECONOMY IN THE NORTH EAST

The North East hosts FTSE 100 software company Sage plc's global HQ; Leighton, one of the UK's foremost digital consultancies; Indian company 5th Generation Technologies' European base; Ubisoft, the largest independent game publisher in Europe; games developer Eutechx; and CCP Games, the Icelandic games studio, among thousands of developing software technology, electronic gaming and creative businesses.

The Ministry of Pensions, Virgin Money, Tesco Bank, Insure the Box, British Airways and the AA all have back office tech functions that bring significant economic benefit to the LEP area. Many call centres have IT teams, e.g. Tesco Bank, Newcastle Building Society and Insure the Box. The supply chain includes HP, Accenture and 45 independent software vendors employing 25,000 staff. There is real potential to attract technology back from India.

Evidence suggests that despite the current economic climate, these businesses are growing, developing niche markets with some employing over 100 staff. These businesses have the potential to offer great employment opportunities, investment and wider economic development benefits to the area as other businesses are looking to new software solutions to generate savings and access wider markets.

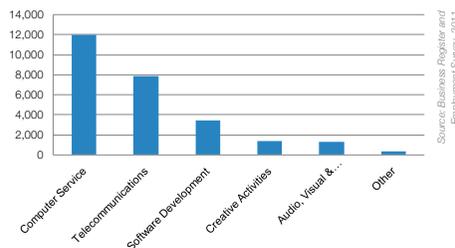
In recent years, the region has seen more new technology company start-ups than any area of the UK outside London. The North East has emerged as one of the leading centres for digital games development and start-ups, with a dynamic cluster of firms and university courses acting as a magnet for entrepreneurs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

The NELEP area's universities have good computer science courses. Newcastle University is a centre of research excellence in Computing Science, operates CultureLab and is developing a course in cloud computing. From Northumbria University, approximately 100 students graduate each year in Animation and Special Effects and leading research takes place at all of the area's Universities. Specialisms include eScience and the Grid, Informatics, Digital Technology and Media, Software Evolution, eBusiness and Virtual Reality. Sunderland University has the UK's largest ICT training facility and supplies more computer graduates to Microsoft UK than any other British university. These computing specialisms are supported by University Business Schools at Newcastle, Northumbria, Sunderland and Durham.

THE NEW ECONOMY AS AN EMPLOYMENT SECTOR

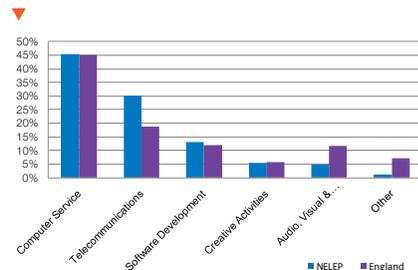
In 2011 over 26,300 people were directly employed in new economy sectors in the NELEP area. Computer services and telecommunications are the two largest sub-sectors accounting for just over three quarters of the sector's total employment.

▼ New economy employment by sub-sector (total employees) 2011



When the associated supply chains are included, the employment numbers increase considerably. This is particularly the case with creative and digital industries where there

are strong linkages to media and content production companies.



Source: Business Register and Employment Survey, 2011

² The technology sector consists of businesses creating, researching and/or distributing technologically based products to businesses and/or consumers.

DIGITAL UNION

Built on the foundations created by Codeworks Connect and The Hub Gateshead when they joined forces, Digital Union is the largest digital and commercial creative networks in the North East of England. Digital Union supports North East digital and commercial creative companies, including software developers, social media gurus and video games developers, providing benefits and services specifically designed to encourage business growth and nurture emerging talent. They deliver iconic gatherings and powerful, high quality networking that facilitate connection and collaboration between digital and commercial creative innovators. Digital Union use their strength in numbers and key partners to ensure the sector is represented effectively on a local, national and international basis.

EUTECHNYX

Originally founded in 1997 as Zappelin Games Ltd in Gateshead, Eutechnyx's first game – Zyber for the ZX Spectrum – won Budget Game of the Year in 1998. Since then its story has been one of steady growth and success over a quarter of a century. The company now has offices and studios in Chengdu, Hong Kong and Pittsburgh, while still being based in the North East. It was the first business to receive investment from the Finance for Business North East Fund in April 2010, when it gained backing of £650,000 to help its expansion into the free-to-play games market. This investment helped the firm to develop a publishing operation for its new game and employ 20 new staff. Eighteen months later, Eutechnyx received a further £1.4m from the Regional Growth Fund to help set up another publishing operation for its successful Auto Club Revolution racing game, which led to a further 190 new employees being taken on. It has produced games for Sega Genesis; Super Nintendo; PS1, 2, 3 and PSP; Nintendo Gamecube and Wii; and Microsoft Xbox 360. Three Next Generation titles have been created so far, with another two in development. Its best-selling nomination, Big Mutha Truckers, has sold over 1.3m units to date and earned a BAFTA nomination.

TH_NK

Based in the centre of Newcastle and with an additional office in London, TH_NK is a fast-growing digital agency. The company provides a range of strategy support and services, including online marketing and website design as well as developing its own technological products. TH_NK was established in 2002 and its growing success was highlighted in October 2008 when it secured a top-ten placing in the 'Deloitte Technology Fast 50' for the second year running. Over the same period, the company has expanded from an original team of three to more than 60 today. Notable North East clients for whom TH_NK has carried out work include Sage, the Newcastle NHS Hospital Trust, Northumbrian Water and BALTIC; Centre for Contemporary Art, while the firm's growing roster of clients

RECOMMENDATIONS

The development of new technologies and products, along with a number of new platforms for content is opening up opportunities for both established companies and new starts, particularly amongst young people. There is a growing overlap between those with technical skills and those with creative skills.

The digital, media, telecoms & software sectors are closely linked yet diverse and the North East should take a flexible approach to definitions and collaborative networks. While medium and large companies are well organised, many new starts involve younger and less experienced people setting up in business for the first time.

Local authorities have a leading role to play, and in many cases have a close interest in the new products and services being developed, notably those which improve the delivery of public services.



NETPark, County Durham

While some companies will benefit from being located in the urban centres and close to the Universities, there are other opportunities for home based businesses which are relevant to the rural economy.

The new economy banner covers a very diverse range of companies and opportunities and there is a need to ensure that the area has clear investment, business development and skills plans in place to accelerate new commercial opportunities. Given the importance of this sector it is recommended that the Combined Authority takes responsibility for developing a **New Economy Development Plan** to identify the opportunities for investment and employment growth, the skills needed to support company growth and barriers facing small and medium sized companies, particularly with regard to access to finance.



Jarrow School, South Tyneside

The digital, media, telecoms & software sectors are closely linked yet diverse and the North East should take a flexible approach to definitions and collaborative networks. While medium and large companies are well organised, many new starts involve younger and less experienced people setting up in business for the first time.

TOURISM, HERITAGE AND CULTURE

Tourism is acknowledged by the European Union as a key sector of the European economy, representing more than 5% of GDP³. Its importance to the UK is also clearly highlighted in the Department for Culture, Media and Sport's (DCMS) 2011 Tourism Policy which states:

"Tourism is an often underestimated but tremendously important sector of the UK's economy. It's already one of our six biggest industries and our third largest export earner. It accounts for almost £90bn direct spend each year, contains over 200,000 businesses and provides 4.4% of our nation's jobs. Equally important it creates wealth and employment in all parts of the country, not just the south east, and it's a cost effective way to regenerate run-down communities..... A thriving tourism industry creates beautiful places to visit all round the country, which also improves the quality of life for everyone who lives near them as well."

The policy highlights that there are opportunities to grow the sector and make it more productive, competitive and profitable than it is today. It also sets out aims to attract additional visitors, increase domestic tourism, and in some cases improve value for money.

TOURISM IN THE NELEP AREA

The benefits outlined in the national policy, including the jobs created and direct expenditure captured, are evident across the NELEP area, and particularly in the rural areas of County Durham and Northumberland. As noted by Northumberland Tourism, many tourism businesses are also at the forefront of developments in sustainability, promoting areas as green tourism destinations and preserving natural resources.

The tourism industry is the backbone of many parts of the rural economy and in addition to accommodation and restaurants, supports a strong local food market.

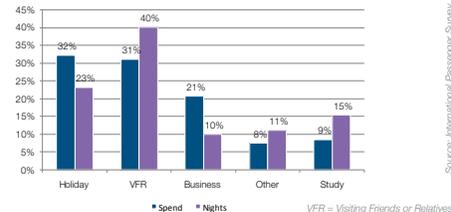
The NELEP area is a popular destination for both domestic and international visitors, with 77 million tourist days spent in the area in 2011⁴ - a slight increase from the volume in 2010. Typically day visitors account for approximately three quarters of the total visitors to the area, although in Northumberland almost half of visitors stay for at least one night. Overnight visitors are important in all areas, especially given their higher levels of spend when compared with day visitors. For example, overnight visitors to Durham City spend an average of £79.88 per day (for an average of 2.8 days) compared to £22.96 spent by day visitors.

Although tourism visitor numbers are substantial, areas such as Cornwall and Devon – classic holiday destinations – have much higher numbers of visitors. Therefore, there is considerable potential for growth in the North East if the tourism product can be strengthened.

INTERNATIONAL VISITORS

Data from the 2011 International Passenger Survey shows that 422,000 international visits were made to the NELEP area resulting in 2.9 million visitor nights and £190m of expenditure. Almost two thirds of the visitor nights are accounted for by those on holiday or visiting friends and family. International business tourists are also important to the LEP economy, particularly in expenditure terms, accounting for a fifth of all expenditure by international visitors compared to a tenth of nights. It is this combination of leisure and business tourism which boosts the value of the sector and maximises occupancy rates.

▼ International visitor nights and expenditure by purpose of trip, 2011



Source: International Passenger Survey

There is an increasing number of international tourists to the NELEP area, particularly from countries where there is a direct air or sea link, highlighting the importance of Newcastle International Airport and the passenger port services.

VISITOR ATTRACTIONS

The NELEP area is home to a number of iconic attractions, such as Durham Cathedral and Lindisfarne. This includes paid and free attractions, spread across the LEP districts. Historic properties and museums and art galleries feature highly in the most visited attractions, the large majority of which receive at least 100,000 visitors per annum. A number of these attractions, including Bamburgh Castle and Hadrian's Wall, have been designated 'attract brands' by Visit England, are world renowned and contribute significantly to the reputation of the North East as a place to visit, live and do business.

NELEP AREA: TOP PAID VISITOR ATTRACTIONS		
Beamish Museum	Museums & Art Galleries	416,500
The Alnwick Garden	Gardens	280,000
Centre for Life	Museums & Art Galleries	227,765
Wallington House, Gardens & Estate	Historic Properties	199,024
Cragside House, Gardens & Estate	Historic Properties	191,700

Source: Visit England

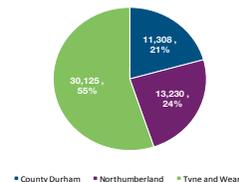
NELEP AREA: TOP FREE VISITOR ATTRACTIONS		
Durham Cathedral	Cathedrals and Churches	600,000
Great North Museum: Hancock	Museums & Art Galleries	475,441
BALTIC Centre for Contemporary Art	Museums & Art Galleries	465,674
Hardwick Park	Country Parks	447,171
Discovery Museum	Museums & Art Galleries	417,229
Derwent Walk	Other	350,000
Sunderland Museum and Winter Gardens	Museums & Art Galleries	329,737

Source: Visit England

A LARGE EMPLOYMENT SECTOR

In 2011 almost 43,800 full time equivalent jobs were in tourism in the NELEP area, with a further 10,900 employed indirectly in the supply chain⁵ - an increase of 3% on levels in 2010 in both cases. When employment is broken down to full and part time jobs the number of jobs increases by about 30%. While some part time employment is by choice, increased sales and a longer visitor season is needed to turn some part time jobs into full time employees.

▼ Direct and indirect tourism employment (FTEs) 2011



Source: STEAM, 2012 Northumbria University Service Industries Report

Tourism accounted for over £2.2bn of direct expenditure, and this increases to £3.5bn when indirect expenditure and VAT is included. The expenditure is diverse, supporting a number of sectors across the economy. Over a quarter of tourism expenditure in the NELEP area is on food and drink, with around a tenth being committed to both recreation and shopping activities. Just 6.4% of all tourism expenditure is on accommodation.

THE PROMOTION OF THE SECTOR

Tourism policy and management has changed, with Destination Management Organisations (DMOs) now at the forefront of marketing the NELEP area as a tourism destination. There is however much less discretionary expenditure available to increase marketing activity.

CHALLENGES

The North East tourism product is stronger than ever, with new cultural assets and city based tourism now complementing the coastal, countryside and heritage attractions which make the area such a unique place to visit. There are three challenges which are now having a serious impact on tourism, heritage and culture:

- There are fewer sources of capital support available to develop new heritage and cultural attractions;
- Limited support is available to support marketing of the area, with an impact on the number of international visitors the area can attract; and
- Cultural and tourist events have similarly been affected by a lack of funding, even though the economic impact of events is well documented.

While a number of national organisations have some investment funds, there is a need for both greater co-ordination and a re-consideration of investment funds and revenue support for tourism and culture, with a view to putting in place a sustainable investment and funding plan for the wider tourism industry.

³ Analysis of the North East's Service Industries: Opportunities and Barriers to Growth, Northumbria University, 2013.
⁴ STEAM 2011 cited in Analysis of the North East's Service Industries: Opportunities and Barriers to Growth, Northumbria University, 2013.
⁵ STEAM model - a widely accepted methodology for assessing the value of tourism economies



Angel of the North, Gateshead

GROWTH OPPORTUNITIES

There is potential to increase the number of visitors to the NELEP area and also to increase visitor spend. This will involve attracting higher spending tourists and working with the industry to encourage greater spend from each visitor. Tourist attractions which can sustain a two day visit or attractions which can link with a second tourist attraction will support this to happen. In some areas, growth can also be achieved by encouraging visits, including business and conference visits, outside the traditional holiday season.

This requires continual promotional activity, as well as activities to increase levels of customer service and productivity. The promotion of the sector can also support inward investment activities and contribute to quality of life measures.

There are existing tourism plans and strategies for Northumberland, County Durham and NewcastleGateshead which can be built upon. This includes continuing the work of the three DMOs to promote the North East's reputation internationally and to achieve economies of scale in common activities, such as research and market intelligence.

Tourism and the visitor economy offer considerable opportunities for local and regional food producers to increase sales, extending their work in local markets. In many regions, distinctive local food is an integral part of the tourism offer, with regular local markets allowing producers to showcase their products.

RECOMMENDATIONS

Local authorities have an important role to play in the development of tourism, heritage and culture in the North East, given the importance of public assets in the provision of attractions and services. Other bodies, such as the National Trust and Heritage Lottery, also have a role to play, particularly in developing attractions which can attract visitors from outside the LEP area, contributing to longer stays.

Tourism is a major income earning industry and it provides considerable employment in rural areas, and increasingly in towns and cities. Increasing the number of visitors will both sustain local employment and directly contribute to the impact of the North East as a place to work and invest, as well as visit. A number of areas have prioritised business tourism and conferences as part of a wider investment strategy using international events and academic conferences to attract business groups from abroad.

The development of new heritage and visitor attractions, as well as improving established attractions, needs to be part of a programme to strengthen the North East's tourism product.

Given the importance of this sector it is recommended that the Combined Authority takes responsibility for developing an Investment and Funding Plan for Tourism, Heritage and Culture. This should take account of current restrictions in public finance and bring together both local and national funds, including any funding available through the DCMS, Visit England and the Heritage Lottery Fund.

It is likely that the development of a plan will involve negotiations with a number of national organisations as well as exploring how private sector companies can contribute to aspects of the plan.



Northumberland, Northumberland

Tourism and the visitor economy offer considerable opportunities for local and regional food producers to increase sales, extending their work in local markets. In many regions, distinctive local food is an integral part of the tourism offer, with regular local markets allowing producers to showcase their products.

A HIGH SKILLED ECONOMY WHICH INVESTS IN ITS YOUNG PEOPLE

Higher level skills are a key feature of higher productivity economies and make an important contribution to an area's competitiveness. The NELEP area has made substantial progress on this front in recent years, and there is evidence that the skills of the workforce have been one of the factors which have attracted inward investors.

The area does, however, continue to underperform the national economy on a number of important indicators, including the proportion of the workforce qualified to NVQ Level 4 and above.

While there is a need to balance current and future skills requirements, taking account of the skills levels of the current and future workforce, investing in and improving the skills levels of young people is central to achieving the required step change. Communicating and equipping young people with the skills that employers value and that they will require in the medium to long term is an important part of this. This includes all parts of the education system, from schools to further and higher education.

North East schools have improved results over a number of years and are in a good position to further improve, provided the right support is in place to help teachers deliver even better results.

SCHOOLS: KEY FACTS

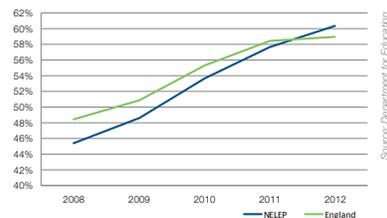
There are over 700 primary and secondary schools across the NELEP area. In 2012, there were stark differences with regards to the performance of the North East's schools in Ofsted inspections, specifically:

- 20% of primary schools achieved an 'outstanding' rating, compared to 18% nationally;
- 19% of secondary schools achieved an 'outstanding' rating, compared to 26% nationally with a higher proportion being rated as 'satisfactory'.

While this suggests that improvement measures should be targeted at secondary schools, if the NELEP area is to achieve its economic potential, progress will need to be made in both groups to close the gaps with top performing areas.

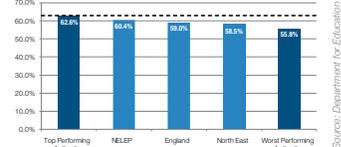
Attainment in secondary schools, and specifically GCSE attainment, has improved significantly over the past four years and the gap with the national average has now closed. In the 2011/12 academic year, 60.4% of pupils in the NELEP area achieved at least five A*-C grade GCSE's including English and maths, compared to 45.4% in 2008.

▼ % pupils achieving 5+ A*-C GCSE grades (inc. English and Maths)



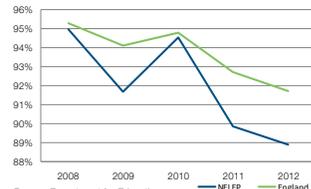
There is however data which suggests that while high performing students are continuing to improve, the performance of low attainers has deteriorated. There are also large variations between schools, partly highlighted by the local authority level statistics.

▼ % pupils achieving 5+ A*-C GCSE grades (inc. English and Maths) 2011/12



With regards to A Level attainment, the percentage of students in the NELEP area achieving two of more pass grades has followed the national pattern, decreasing from 95% in 2007/08 to 88.8% in 2011/12. The decrease has however been greater in the LEP area for the past two academic years. There are also variances by local authority with the top performing authority achieving 97.9% compared to 84.4% in the worst performing authority.

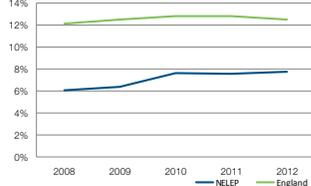
▼ % students achieving 2 or more A Level passes



Source: Department for Education, 2012 figures are provisional

Over the same period, the attainment of high grades has increased, with the proportion of students achieving three of more A or A* grades rising from 6% in 2007/08 to 7.7% in 2011/12. The national average has remained relatively constant, but stands at a much higher level of 12.5%.

▼ % students achieving three of more A or A* grades



Source: Department for Education, 2012 figures are provisional

The NELEP area also underperforms the national average, with regards to the proportion of students achieving grades AAB and better at A Level, although there has been improvement in the last full academic year. In 2011/12 the NELEP area stood at 13.4% compared to 12.8% in 2010/11 and the national average of 20.5%.

HIGHER EDUCATION AND WIDENING PARTICIPATION

There is evidence that participation in Higher Education is lower in the NELEP area. Research published by both HEFCE and BIS shows 29-30% of young people in the NELEP area who reached 18 between 2005 and 2009 participated in Higher Education, compared to 34% nationally.

All four Universities in the North East are committed to widening participation and have produced Access Statements. Universities are now required to improve access to higher education for those from a disadvantaged background, although candidates do not have to be local residents.

The Access and Student Recruitment Team at the University of Durham is part of the Student Recruitment and Admissions Office. The team is specifically concerned with:

- Working nationally to encourage gifted applicants onto our programmes, particularly those from under-represented groups.
- Forming partnerships both regionally and nationally with schools, colleges, Local Education Authorities and other relevant institutions and organisations.
- Working with young people with little or no aspiration or experience of higher education, to encourage them to fulfill their potential.

The Team actively supports the implementation of the University's Access Agreement, as well as disseminating information about the new fee arrangements.

The Widening Access to University team at Newcastle works in partnership with schools and colleges to promote the benefits of a university education and actively engage with students to inform and inspire them to seriously consider a course at Newcastle University. The University works closely with partner schools and colleges throughout the northern region to provide opportunities and support for students who may be thinking of applying. Newcastle University is the lead institution for Realising Opportunities - a unique collaboration of 12 research intensive universities working together to promote fair access and social mobility of students from under-represented groups.

The University of Sunderland has programmes working with Years 12-13 (1st and 2nd Year at College) to introduce the skills needed to research higher education courses, complete strong applications and gain an understanding of the process and support available. The university also allows longer experience with masterclasses providing students with in-depth hands on experience while a new Progression Scheme 1st Choice provides students with the opportunity to gain academic credit whilst discovering about university. The University is the host of Children's University, a National Trust that provides exciting and innovative learning activities and experiences outside the classroom for 5 to 13 year olds.

Northumbria University is committed to raising educational aspirations and recruiting high quality students, regardless of background, through a fair and transparent admissions process. The Student Recruitment Team is dedicated to providing a menu of relevant activities and support to local schools and students to help nurture and retain local talent.

The University has launched the NU Entry Scheme, a structured scheme for Year 12 and 13 students who meet specific academic and background criteria. By participating in the NU Entry Scheme, students are provided with the opportunity to develop skills necessary for successful undergraduate study, increase their confidence and be guided step by step as they consider and apply for university. Students are able to access a range of support mechanisms including continual contact with dedicated staff and undergraduate students (Advocates), tailored activity on campus and in schools.

THE LONDON AND CITY CHALLENGE

The London Challenge, which was designed to improve educational outcomes for young people and break the cycle of disadvantage and underachievement, began in 2003. Between 2008 and 2011, it became the City Challenge and was also adopted in Manchester and the Black Country. Specifically its objectives were:

- To reduce the number of under-performing schools, especially in relation to English and maths;
- To increase the number of Good and Outstanding schools;
- To improve educational outcomes for disadvantaged children.

It was underpinned by a belief that the educational problems facing urban areas should be addressed at area level, and that local authorities and schools need to work together to do this. It focused on all aspects of the education system working with community organisations, parents and pupils and developing a range of specific school interventions.

All of the interventions involved local solutions with key stakeholders involved in the decisions. The various activities and interventions were underpinned by the view that school-to-school collaboration has a central role to play in school improvement; recognition of school leadership; and a data rich approach to tackling issues and sharing learning.

The evaluation commissioned by the Department for Education¹ concluded that between 2008 and 2011, improvement in Challenge areas was greater than in other areas. This included increases in: the percentage of primary and secondary pupils reaching the expected level, attainment of pupils eligible for free school meals and narrowing the attainment gap for these pupils; and the proportion of good and outstanding schools.

City Challenge built upon lessons from the London Challenge. Focusing on the latter Ofsted reported:

"Using a shared and accurate audit of need, excellent system leadership and pan-London networks of schools allow effective partnerships to be established between schools, enabling needs to be tackled quickly and progress to be accelerated"

"The London-wide awareness of school performance, coupled with good local intelligence, allows an active, evidence-based intervention, irrespective of a school's location, status or circumstances."

"The Challenge worked because it was being 'done with schools, not to them' and was not an externally imposed programme with pre-defined models or rigid guidance." Ofsted review of London Challenge 2010.

¹Source: Evaluation of the City Challenge Programme, Institute for Policy Studies in Education at London Metropolitan University and Evaluation and Research Practice, Coffey International Development.

The North East needs to both increase the number of top performing schools and significantly reduce the number of poorly performing schools.

UNIVERSITY TECHNICAL COLLEGES

University Technical Colleges (UTCs) are technical academies for 14-19 years olds, which have university and employer sponsors and combine practical and academic studies. The first UTC opened in 2010 – The Job Academy in Staffordshire – with a further four – in Walsal, Birmingham, Central Birmingham and Hackney - opening during 2011 and 2012. A total of 34 UTCs have now been approved.

They specialise in subjects that need modern, technical, industry-standard expertise or skills – such as engineering and construction – which are taught alongside business skills and the use of ICT. Pupils also study key GCSE's in English, maths and science as well as a foreign language, humanities and business.

The chosen specialism reflects the university's areas of excellence and the needs of local employers. Specialisms of the UTCs approved to date include:

Digital Media	Life Sciences
Enterprise	Creative and Digital
Healthcare	Energy
Advanced Engineering and Science	High Performance Engineering
Engineering	Marine Engineering
Logistics	Computer Science
Bio-Medical	IT in the built environment

The UTC website describes the introduction of the colleges as 'a radical solution to the totally inadequate numbers of technicians and engineers in the country'¹.

The UTC ethos and curriculum is heavily influenced by local and national employers who also provide support and work experience for students. It focuses upon equipping young people with a wide range of employability skills and a core of academic qualifications offering clear progression routes into higher education or further learning in work.

Each college typically has a sub-regional intake of between 600 and 800 students, with a working day of 8.30am to 5.30pm. Students spend two days a week on practical study and three days on academic studies.

¹Source: <http://www.utcolleges.org/about/about>

RECOMMENDATIONS

Within the context of the **Regional Skills Plan**, local partners need to **prioritise young people** before they enter the workforce by:

Raising the standards of schools and improving information, advice and guidance provided to young people.

The objective is for every school, using appropriate benchmarks, to develop a strategy and plan, leading to more schools in the top quartile (35% plus) and fewer schools in the bottom quartile (15% or less) of performance nationally. In order to reach this objective, structures to support head teachers and their staff need to be further strengthened. A series of recommendations are set out below:

(a) Establish a North East Schools Challenge to accelerate the improvement of North East primary and secondary schools.

A North East Schools Challenge can build on the successful London Challenge and subsequent City Challenge, working with schools to provide a detailed analysis of changes and issues and a subsequent action plan to further improve school performance.

The purpose of the Challenge will be to create a driving momentum to address underperformance and raise standards, create many more good and great schools and close attainment gaps by building capacity and accelerating the development of a sustainable, self-improving schools-led system.

(b) Every school, using appropriate benchmarks, to develop a strategy and plan leading to more schools in the top quartile (35% plus) and fewer schools in the bottom quartile (15% or less) of performance nationally.

The North East needs to both increase the number of top performing schools and significantly reduce the number of poorly performing schools. The table below sets out a clear set of targets to be achieved within four years.

AMBITIOUS TARGETS FOR THE NORTH EAST SCHOOLS CHALLENGE		
More top performing schools ¹		
	Top Quartile (Currently)	Target
Secondary	25%	35%
Primary	30%	40%
Fewer poorly performing schools		
	Bottom Quartile (Currently)	Target
Secondary	28%	15%
Primary	25%	10%

¹Secondary: current target to be in top quartile: 69% or more of KS4 pupils achieving 5 A*-C grade GCSEs including English and Maths

Primary: current target to be in top quartile: 89% or more of KS2 pupils achieving level 4 or above in English and Maths

The body governing the North East Schools Challenge should include at least two outstanding headteachers.

(c) Increase the proportion of Teach First teachers to match the leading regions.

Since 2002, Teach First, a national charity, has been preparing and placing trainee teachers with leadership potential in schools in low income communities across the UK. Each year, a new group of trainees joins the charity and its university partners for intensive training before teaching in a partner school.

In September 2012, there were 46 new Teach First participants in the North East, equivalent to 0.6 per 1,000 pupils who are eligible for free schools. This compares to 1.7 in London, where there were over 460 new participants. To close the gap, 126 new participants will be required in one cohort, almost tripling the annual intake.

It is thought that this is achievable by 2016 and would involve significant expansion, both in working with more partner schools across the area and with more participants placed in each school. While ambitious, this is in line with Teach First's regional strategy and the proposed national increase in overall participant numbers over the next five years.

(d) To have a minimum of two School Governors per school who are active in the business community and can provide links to local businesses.

Schools, especially those in deprived areas, benefit from energetic and highly skilled governing bodies. Effective governing bodies support the school executive and provide oversight and strategic direction. There is a continuing critical need for North East schools to recruit capable governors from a business background, including younger business leaders with an interest in education. There is an opportunity to build on the GovernPlus scheme being developed by local partners.

(e) Introduce four University Technical Colleges to increase the provision of vocational and industry oriented education for 14-19 year olds.

There are a number of University Technical Colleges already established, and the focus on vocational education for young people has been well received. UTCs established to date include The Job Academy in Staffordshire (Engineering and Enterprise) and Aston University's Engineering Academy (Engineering and Science), while others have been approved including Sheffield UTC (Engineering and Creative and Digital Media).

There is likely to be a strong local demand for UTCs and it is recommended that each of the four Universities works with local employers to establish a series of UTCs as soon as possible.

APPRENTICESHIPS: KEY FACTS

Apprenticeships are a key feature of educational and skills policy, recognising the benefits they can lead to for individuals, businesses and ultimately the economy. There has been strong growth in both the range of apprenticeships and the numbers taking up opportunities, a result of people aged over 25 being offered places.

In 2011/12, the number of apprenticeship starts and achievements in the NELEP area reached a record high of over 28,400 and 13,390 respectively, with the latter figure a function of previous years' starts.

There was been strong growth in both starts and achievements between 2005/06 and 2011/12, which have almost tripled, reflecting the work of the National Apprenticeship Service. The growth in achievements has outpaced the national average.

▼ NELEP apprenticeships – starts and achievements 2005/06-2011/12

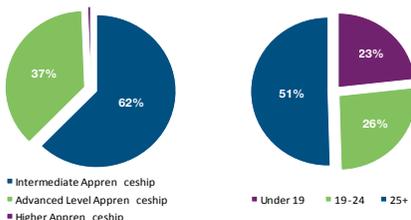


Source: SFA Data Service

The growth in starts has been driven by a significant increase in adults aged over 19, and in particular aged over 25, becoming apprentices. Over 19's accounted for over three quarters of starts in 2011/12.

The number of new apprentices aged under 19 has remained relatively static year on year, with starts growing by just 9% (compared to 188% when all age groups are included) over the six year period to 2011/12. Overall, under 19's accounted for just 23% of starts in the last academic year compared to 61% in 2005/6. The proportion of those aged under 19 which start an apprenticeship (9% in 2011/12) is much lower than the proportion that enter HE (29-30%) or that are not in education, employment or training (18% of 16-24 year olds).

▼ NELEP apprenticeships – starts and achievements by level and age 2011/12



Source: SFA Data Service

The number of starts on both Intermediate and Advanced Level Apprenticeships has increased significantly, with higher levels of growth in Advanced Apprenticeships relative to the starting point in 2005/6. Higher Apprenticeships were introduced in 2009/10, although the number of starts continues to be small.

Intermediate apprenticeships are often of a short duration and include a Level 2 competence qualification, while Advanced and Higher Level Apprenticeships include a Level 3 and Level 4 qualification.

Demand is strongly influenced by learner demand and the willingness of employers to take up apprenticeship opportunities. This is reflected in the latest intelligence which indicates the high proportion of apprenticeship places in customer/client facing roles, often in lower paid industries.

Business, Administration & Governance and Adult Social Care/Healthcare are the most popular sectors for apprenticeships in the LEP area, followed by Customer Service & Contact Centre and Retail. Each of the top ten sectors had at least 1,000 starts in 2010/11.

TOP TEN APPRENTICESHIP SECTORS IN THE NELEP AREA 2010/11		
Sector	Lead Body	Number of starts
1	Business, Administration & Governance	4,450
2	Adult Social Care/Healthcare	3,120
3	Customer Service & Contact Centre	2,490
4	Retail	2,000
5	Freight Logistics & Wholesale	1,540
6	Science, Engineering & Manufacturing Technologies	1,490
7	Hospitality, Leisure, Travel & Tourism	1,320
8	Management & Leadership (including HR & Recruitment)	1,290
9	Construction	1,140
10	Adult Social Care	1,000

Source: SFA Data Service

While the increase in apprenticeship places is welcome there are a number of issues which are undermining the approach. These include:

- The ability or willingness of employers to offer places, and smaller companies have a much lower take up rate of apprentices.
- The quality of the facilities and services provided by some of the training providers.
- A lack of co-ordination between supply and demand, with learner demand not always reflecting employment changes in the wider economy.
- A payment system based on outputs rather than outcomes, with little incentive to meet key outcomes targets.

At the same time, current provision is weighted towards Intermediate Apprenticeships (at Level 2), while employer demand is often for Level 3 (i.e. Advanced Level Apprenticeships). Although Advanced Apprenticeships involve greater employer involvement – they are of a longer duration and more expensive – they offer young people a much better career platform. Given the importance of manufacturing to the economy of the NELEP area there is a strong rationale to focus efforts on Advanced and Higher Level Apprenticeships.

RECOMMENDATIONS

Given the importance of providing young people with a strong vocational route into employment it is recommended that the NELEP area should seek to:

- Double the number of Youth Apprenticeships over the next four years, from 6,500 to 13,000 with an initial emphasis on doubling youth Advanced Level Apprenticeships from 2,000 to 4,000 and engineering and other skills linked to key growth sectors.

This target will require the close co-operation of the National Apprenticeship Service and at a local level, those involved in City Deal commitments for apprenticeships.

- Introduce Chartered Status for FE Providers

In order to improve the quality of training, chartered status should be introduced, earned by providers meeting nationally agreed but locally managed, objective tests including Ofsted 'good' or better and willingness to meet Richard's recommendations on a test for high level apprenticeships.

- Co-commissioning

In order to focus investment and increase the alignment of funding, training commissioned through the SFA should be undertaken in collaboration with the NELEP and the Combined Authority, to provide local focus and input from the private sector.

- Payment by results

Payment by results, with a focus on outcomes, is now being used in a variety of policy areas to improve value for money and the effectiveness of interventions. This is a mechanism which can usefully be used with regard to apprenticeship support.

It is recommended that the SFA contract training at 100% of price but with two discretionary 5% tranches, one dependent upon the provider securing chartered status and the second on performance i.e. putting 10% of contract value at risk.

- Increasing employer take up of apprenticeships

These recommendations would make a considerable impact on both the supply of and demand for younger workers, and provide a clear demonstration to employers and new investors of the NELEP's commitment to improving the quality of the workforce.

It is likely that employer engagement mechanisms such as General Training Agencies and/or an Apprenticeship Training Agency will be required to help increase take up. Any new arrangements should complement the work of other partners and any City Deal arrangements.

A provisional target of an additional 500 employers providing apprenticeship places over three years is suggested.

- Increasing the number of young people going on to higher education

The North East has too few young people going onto university in spite of having four Universities offering a full range of opportunities. There is a need for local Universities to increase their work with schools to increase the participation rate and for the Schools Challenge to increase the number of candidates with strong A level results.

Between 29% and 30% of young people go on to higher education compared to the national figure of 34%. These percentages are expected to increase and it will be important to make sure that the North East closes the gap with the national average.

The LEP area benefits from the presence of four Universities, all of which have strong access policies. The presence of local universities allows students to study locally, reducing the costs involved in taking up higher education opportunities.

An initial target of increasing the participation rate by one percentage point each year until the North East meets the national average is recommended.

TRANSPORT

The NELEP area transport review and recommendations focus upon supporting the central objective of the Economic Review – to create more and better jobs.

The evidence shows that the North East's chief competitor areas for making, trading and exporting include Upper Bavaria, Lombardy, Catalonia and Rhone-Alpes. They are also the North East's leading trading partners. The quality and accessibility delivered by the transport systems in these areas sets a benchmark for the North East to aspire to match.

INVESTMENT PRINCIPLES

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

- Improves the North East'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. This is equally about facilitating visitors to come to the area.
- Improves access from all parts of the North East to the priority locations for economic growth, getting people to jobs – transport's part in ensuring that the agglomerations with the greatest economic potential can thrive, and everyone can participate in the region's jobs market.
- Plays its part in the region's place attractiveness offer – helping to make the North East a special place to live and work.

In relation to improving access from all parts of the North East (B), transport's key role in lifting GVA is to deliver the maximum available agglomeration effects in the regional labour market – in other words, to maximise the pool of talent that can access the priority locations for economic growth, allowing the best possible matching of people's skills to jobs. Meanwhile, overcoming the lack of affordable transport options as a barrier to getting people who are out of work into work has large GVA and social benefits.

The area must continue to develop as a special place to live and work if it is to attract, develop and retain the skills needed to deliver the economic strategy. This requires continuous improvement to the quality of the built environment, community life and public health. For transport, this means ensuring consistent investment in walking & cycling facilities and the public realm. Good design and attention to detail in small projects is as important to the delivery of the economic strategy as the eye-catching major projects.

RECOMMENDATIONS

There are two main strands to the transport recommendations, focusing on (i) coordinated, strategic action at the LEP level to get the most from transport investment, and (ii) an agreed pipeline of deliverable transport schemes.

- Set up **"Transport North East"**, a capable new transport agency to serve the Combined Authority, tasked with delivering its transport strategy, using pooled funding in a new **North East Infrastructure Fund**.
- In parallel with this, the LA7, LEP and partners to adopt the recommended **immediate transport priorities for roads, public transport, air and sea**, and speak with a single regional voice to promote them to stakeholders and Government.

TRANSPORT NORTH EAST

A new Combined Authority for the NELEP area should take on responsibility for the strategic planning of transport. It is recommended that a new transport delivery agency be set up to serve the Combined Authority, which has been given the working title "Transport North East".

This would take over the functions of Nexus, the existing Tyne & Wear Local Transport Plan partnership, some of the transport planning functions of Northumberland and Durham, the LA7's interests in rail franchising and secretariat support to the proposed North East local transport body. The Combined Authority would replace the existing Tyne and Wear Integrated Transport Authority.

The agency should be tasked with developing and implementing a transport strategy to serve the overall economic and spatial development strategy of the Combined Authority, and a prioritised transport investment programme, geared to delivering accessibility to the Combined Authority's priority locations for economic growth.

SETTING UP TRANSPORT NORTH EAST

The prioritised transport investment programme for the Combined Authority should include a blueprint for a slimline, but strong and expert single transport delivery agency for the North East – "Transport North East". More detailed recommendations for the Combined Authority, LEP and Transport North East include:

- Produce a transport strategy and prioritised investment programme** in consultation with the constituent local authorities. This should identify the priorities for both Government national networks funding and the area's own North East Infrastructure Fund in a range of funding scenarios.
- Programme manage the local major schemes programme**, following the development of this DfT budget in 2015 (absorbing the new North East local transport body), and driving its implementation by the local authorities in their roles as local highway and traffic authorities.
- Work with the Tees Valley authorities to drive the commissioning of local rail services**, engaging powerfully with other franchising bodies, DfT and the rail industry to obtain the area's rail connectivity requirements.

Between them, the Combined Authority and Transport North East would inherit all of the statutory duties and powers of the Tyne & Wear Integrated Transport Authority (ITA), and Northumberland and Durham in their role as the local transport authority. They would also inherit their **expertise and delivery capability**. In law, the transport strategy would be the Local Transport Plan.

THE NORTH EAST INFRASTRUCTURE FUND

The Combined Authority and LEP should follow the lead of Greater Manchester in pooling its own revenue streams with capital funding from different Government sources, and prudential borrowing, to create a single unified North East Infrastructure Fund, with a value of at least **£500m to fund a 10 year programme**.

The area should also have a clear view of its priorities for the DfT's national networks funding under a range of funding scenarios, both for the strategic roads programme and for the national rail investment strategy. This includes being ready to respond should transport infrastructure be the target for a large fiscal stimulus.

The immediate priority for the LEP should be to set up 'a schemes pipeline development fund' in order to prepare spade-ready schemes for both the agreed programme with committed funding, and ensure they are able to take advantage of new funding opportunities at short notice should they arise. The scope of the development fund should extend to funding, or part-funding, rail and strategic road schemes which are a priority.

IMMEDIATE TRANSPORT PRIORITIES

The LEP area must not wait to get started on delivering more and better jobs. The Review Team has analysed the most pressing issues affecting the area's economic potential, and recommends the LA7 and LEP adopt the following immediate transport priorities covering strategic roads, rail, buses/metro, airports and ports:

STRATEGIC ROADS

Good accessibility by road across the whole LEP area, including a fast and reliable journey time to the area's airport and ports is required to support economic growth. The priority locations for the growth of advanced manufacturing are the Ultra Low Carbon Vehicles Enterprise Zone in Sunderland and the Offshore Renewable Energy Enterprise Zones at North Tyneside and Blyth.

Work is in hand through the Highways Agency (HA) to provide the area with a continuous motorway link south to the M1 and the rest of the motorway network in England, which is welcome. The next immediate priorities should be:

- A rolling programme to provide greater capacity and reliability on the **A1 Newcastle-Gateshead Western By-pass**, which links the whole area to its airport, but is one of the most congested roads in England.
- Freeing up of bottleneck **junctions on the A19** serving the Port of Tyne (north and south).
- Completion of the network of **electric vehicle charging points** across the area, developing the market for electric vehicles manufactured in the North East.

A1 Western By-pass: The Government's announcement of the go-ahead 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. It is recommended that this should be just the start of a rolling programme for additional capacity along the whole length of the by-pass, with the objective of Dual 3 lanes along as much of the route as possible, as soon as possible.

The LEP should partner the HA to work up the business case as soon as possible, with the aim of developing a construction programme to follow on directly from that for Lobley Hill. Delivery of the programme should be co-ordinated with:

- Improvements to the real-time traffic management and control of the connecting local road network, and
- A ramping up of the existing Go Smarter To Work programme to reduce single occupant car commuting to major employment sites such as Team Valley.

This is necessary to ensure that the by-pass can function effectively during the period of construction, and to reap the full benefit of the scheme after completion – the outcome needs to be both improved journey time reliability to the airport and the potential to accommodate new development. A funding package for the total cost of the By-pass improvements and the complementary Go Smarter programme, which should be below £60m for the section between the A184 and A19, should be agreed with Developers and the Government.

A19: The DfT has already authorised funding for development of the A19/A1058 Coast Road (Silverlink) junction improvement, and unblocking the bottleneck at this junction should remain in the HAs post-2015 delivery programme. The other A19 bottleneck junctions should follow.

Over the longer term, the work to develop the transport strategy should consider the case for developing the A1, A19 and A194 routes into a unified Tyneside Ring Road, after the A1 and A19 improvements have been completed. The business case for improvements to the A1 between Morpeth and Alnwick/Berwick/Scotland should also be updated, and the most appropriate improvements funded nationally as befits a strategic route of national importance.

RAIL

High value added services are essential to smart specialisation, and more and better jobs in the LEP area. For rail, the challenge is to:

- **Make rail the natural choice for business travel**, not just for business trips to London and Edinburgh, but also to Leeds, Manchester, Birmingham and Glasgow. Rail offers the best solution for maximising the amount of face to face time on a typical business day trip to/from the LEP area, whilst allowing productive work to be done during travel time. Together they offer a major boost to productivity.
- Help deliver the **area-wide commuter catchment** needed for the success of the priority locations for the growth of high value-added services in the four **Newcastle-Gateshead Accelerated Development Zone** sites at Stephenson Quarter, Baltic Quarter, Science City and East Pilgrim Street.
- Develop the **full potential of rail freight**, including for traffic to and from the area's ports, without constraining the requirement for improved inter-city and regional rail passenger services.

The immediate priority for the LEP partners should be to agree a comprehensive **Rail Strategy for the North East**, setting the agenda for the next round of passenger rail franchises and the national rail investment strategy. A study is being commissioned and all parties must sign up to its conclusions. It is recommended that the study should carefully examine the economic growth case for, and the best prioritisation between:

- **Target faster journey times** of 2h30 from Newcastle to London and Birmingham and 2h15 to Glasgow and Manchester, to be delivered by the next East Coast, Cross Country and Transpennine franchises. The feasibility of a 2h30 journey time for Newcastle to London should be explored urgently.
- **Comfortable trains of adequate seating capacity, providing reliable broadband access and a good working environment**. Transpennine electrification must include trains of a quality to make this a reality.
- **Better regional rail services into Newcastle from Northumberland, County Durham and Teesside**. A plan for specific improvements to the regional rail service in the next Northern and TransPennine rail franchise should be developed, and funding for it sought as part of the rail devolution settlement.
- **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 main East Coast fast lines.

It is also recommended that the LEP partners should support Tees Valley's bid to ensure that the Middlesbrough to Darlington and Northallerton lines are electrified and Middlesbrough is directly on the electric TransPennine service network.

Looking forward, HS2 presents both an opportunity and a threat for the LEP area. Two direct trains per hour from Newcastle to London Euston and one to Sheffield, Nottingham and Birmingham are envisaged, offering faster journeys and thousands of additional seats to these destinations.

However, in relative terms, the LEP area will benefit less from HS2 than its competitors. Addressing this, and getting the most out of HS2, requires a long term steady but ambitious programme of line speed improvements to the East Coast Main Line north of the connection point onto the high speed line near Leeds. It is recommended that the LEP area should target HS2 journey times of around 2h10 to London and under 2 hours to Birmingham.

STEADILY IMPROVING RAIL CONNECTIVITY FOR THE LEP AREA

Rail has a special role for business travel to and from the LEP area, given that car journey times to and from the area are always going to be long. To develop further as the mode of choice for business travel, journeys need to be faster, comfortably leaving the car, and trains need to provide an environment (for example, with tables and reliable Wi-Fi) allowing business travel time to be productive.

RAIL AND ROAD JOURNEY TIMES FROM NEWCASTLE					
From Newcastle to:	Rail dist (mi)	Rail freqcy (tph)*	Fastest rail jry time in typical hour	Road journey time	Rail ft as % of road ft
York	80	5	56m	1h43	54%
Leeds	106	2	1h24	1h53	74%
London	269	2	2h52	4h46	60%
Manchester	148	1	2h34	2h36	99%
Edinburgh	125	3	1h30	2h23	63%
Peterborough	192	1/2	2h20	3h48	61%
Birmingham	209	2	2h52	3h28	83%

* not necessarily evenly spaced within the hour.

Although the 2011 East Coast Main Line timetable did speed up the standard Newcastle-London journey time to below 3 hours, which was welcome, journey times to London are still slower than they were in 1991. In 1991, Newcastle-London journey times were around 2h45 on average, with the fastest train taking 2h36. This was around the same as Manchester-London. But now Manchester-London is 2h03, three times an hour, whilst Newcastle has two departures an hour, one taking around 2h52 and one taking around 2h15.

Currently, planned investment for 2014-19 will see electrification of the TransPennine route, expected to reduce the rail journey time to Manchester by 15 minutes and to Liverpool by 40 minutes. Improvements in the East Midlands will cut travel times to Birmingham by around 5 minutes. The impact of the £240m pot for improvement of the East Coast Main Line is up for grabs in the East Coast franchise competition: the area should make the case for a standard journey time to London of 2h30. On other routes target journey times of 2h15 to Manchester and Glasgow and 2h40 to Birmingham for the next TransPennine and Cross Country franchises are recommended.

For the longer term, it is recommended that the LEP partners, with Network Rail, work up the case for a steady programme of improvements to the East Coast Main Line north of the planned connection point to the High Speed 2 line near Leeds. This will allow HS2 services to achieve a journey time Newcastle-London of around 2h10 and Newcastle-Birmingham of around 2 hours.



Toftree Factory, Newcastle upon Tyne

BUSES AND METRO

The bus and metro network is vital for **connecting people to jobs**, and delivering accessibility to the area's town and city centres, and other major employment sites. The network must be **stable, and marketed as a single network with straightforward fares and clear information**.

SINGLE NETWORK SMARTCARD

It is recommended that the immediate priority, which needs to be agreed by mid-2013, is the joint commitment of the bus operators association, Nexus and the LA7 to **promote a Single Network Smartcard (with multi-operator ticketing) as the core ticket brand** for season tickets in the North East. All parties in the LEP area should enthusiastically participate in the DfT's new nationwide drive to get wider roll-out of multi-operator smartcard ticketing. This should be accompanied by **discounted ticket products for job seekers and those accessing training**, to assist in helping to get people into work.

The area's bus users would also benefit from a **smartcard-based "pay-as-you-go with daily maximum fare" facility** for both bus plus metro and bus only, valid across all operators.

This should be as convenient as or better than London's Oyster. It must have a **competitively-priced maximum daily fare** – with a recommended fare of around £4, which is comparable to other all-operator daily maximum fares available elsewhere in England. All parties need to recognise the urgency of making the area's bus and metro network work better at connecting people to jobs, and therefore a **stretching target of Autumn 2014 for multi-operator pay-as-you-go** to be introduced is recommended.

The possibilities of **next generation payment technology** are attractive, and it is recommended that partners look into the options for making this ticket available on standard bank debit or credit card, and possibly smartphone, as well as on smartcard, in the future. The opportunities for using a single network smartcard for other transport services, such as car parking charges, electric vehicle charging, car clubs or cycle hire could also be investigated.

If a voluntary agreement between Nexus, the LA7 and the bus operators for the roll out of a competitively-priced pay as you go smartcard within 18 months cannot be reached by mid-2013, it is recommended this should then be a primary driver towards taking steps to introduce a **bus quality contract scheme**.

A SINGLE NETWORK SMARTCARD FOR NORTH EAST BUSES

Following its investigation of the local bus market in Britain outside London, the Competition Commission found that the lack of competitively-priced tickets valid on all bus operators' services was an important factor in the lack of competition in the local bus market. This detriment passengers and taxpayers, costing in the range of £115m to £305m per year. The Competition Commission wishes to see more multi-operator ticketing schemes, and in March 2013 the DTI launched guidance to get more such schemes up and running.

The need for a more integrated network and better solutions for fully integrated ticketing was also a key finding from informal consultation on delivery of the Tyne & Wear Bus Strategy. "Network One" is the range of rail-operator season tickets already available in Tyne & Wear. The day rover ticket is only available for all fare zones in Tyne & Wear, covering both bus & metro. This means that it is priced at a substantial premium over single operator one day rover bus tickets.

TYNE AND WEAR	
Stagecoach Dayrider (any Stagecoach bus in Tyne & Wear)	£3.70
GO-NE Buzzfare one zone (any Go North East bus in one fare zone)	£4.50
Arriva Tyne & Wear Triple (any Arriva bus in Tyne & Wear)	£4.10
Network One Day Rover (T&W metro + any bus in Tyne & Wear)	£6.80

As the fare zone geography between operators differs, the price comparison is not exact. There is a strong contrast with Sheffield and Oxford, where as a result of recent partnership agreements, all operator daily tickets are available at a low premium.

SHEFFIELD	
FirstDay Sheffield (any First bus in Sheffield)	£3.40
Stagecoach Bus Dayrider (any Stagecoach bus in Sheffield)	£3.40
Stagecoach Bus & Tram Dayrider (Stagecoach buses & trams in Sheffield)	£3.90
Sheffield Citywide Day (any bus or tram in Sheffield)	£4.30
OXFORD	
Stagecoach Oxford Dayrider (any Stagecoach bus in Oxford)	£3.90
Oxford Smartzone Local Day pass (any bus in Oxford)	£4.00

In London, where buses are regulated by Transport for London, and a similar system to quality contracts is in force, there are no single operator tickets. Instead, a very simple fare structure is in place using the Oyster smartcard. Any bus trip is £1.40, with a daily maximum fare of £4.30. This is available on a pay as you go basis.

REGION-WIDE BUS & METRO STRATEGY

The transport strategy for Transport North East should include a **bus and metro strategy**, building on the existing Tyne & Wear bus strategy and the Northumberland and Durham Local Transport Plans.

A **region-wide commuter catchment** is needed to maximise the pool of talent that can access the priority locations for the growth of high value-added services. The longer term strategy should be to **extend the metro system** to the largest towns not currently on the metro network, including **Washington** (pop. 53,000), **Blyth** (pop. 36,000) and **Ashington** (pop. 27,000). All three places are located on or near active or disused freight lines. Metro offers speed, frequency and several existing city centre stations in both Newcastle-Gateshead and Sunderland.

In the interim, the strategy should set out a plan for **better express buses** – or bus rapid transit – to all places providing access to jobs from the places that are off the metro and regional rail network and which it will not be possible to serve by rail in the short/medium term. The **chemes pipeline development fund** should be used to prepare scheme designs.

AIR

Making, trading and exporting requires connectivity to global markets by air. Ever stronger links from Newcastle 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 to pump-prime a new direct flight to a major North American air hub**.

A NEW DIRECT FLIGHT TO A MAJOR NORTH AMERICAN AIR HUB

The CBI's Trading Places report highlights the importance of better air links to new markets in unlocking exporting opportunities:

"In a changing and challenging global environment, it is imperative that the UK remains both open for business and new opportunities. With global growth continuing to be driven by expansion in high-growth markets, we see more than ever the importance of re-orientating our trade. Businesses need ambition and confidence to venture beyond domestic markets, and government must do all it can to facilitate this expansion. We need the right infrastructure to forge these new links, and our aviation networks are a key part of the puzzle."

Direct flights open doors to new trade and the report states that a new daily flight to the eighth largest high-growth economies could generate as much as £1bn of additional trade a year. Failure to match ambitions of growing international trade with a drive to deliver more flights to growing overseas markets risks undermining these efforts.

The underpinning analysis demonstrates the importance of establishing the right air links with the right markets, with global patterns illustrating the symbiotic relationships between air links and trade links – where the UK's connectivity has grown, new trading links have been forged and vice versa.

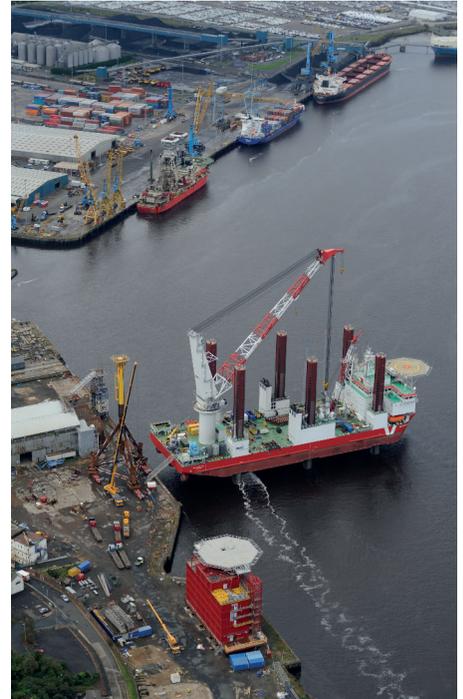
The success of the daily Emirates flight from Newcastle to Dubai demonstrates the impact of a single flight. In this case, opportunities for businesses in the North East to do trade in the Gulf region, Asia and Australasia have been transformed. A recent CBI press release highlights that trade between the North East and Australasia has risen from less than £150m a year to more than £275m a year in the period that the Emirates service has been operating. Moreover, of the £173m worth of exports that are transported through Newcastle Airport each year, as much as £150m of that is accounted for by the Emirates services

PORTS

The North East's location means that its ports have the opportunity to become **Britain's route of choice to Scandinavia and the Baltic**, and Scotland's main route to the heart of Europe, via the Netherlands.

The immediate priority for the LEP is to seize the current opportunity to restore the **direct ferry link from Norway** to North Shields, in partnership with Norwegian investors.

Meanwhile, the development of **port-centred logistics** also offers scope for the development of **motorways of the sea**, linking the LEP area to the major North Sea global container ports (including Felixstowe and London Gateway) and reducing lorry miles on the national strategic road network. The transport strategy should consider both matters.



Port of Tyne



Newcastle International Airport

“ In a changing and challenging global environment, it is imperative that the UK remains both open for business and new opportunities. With global growth continuing to be driven by expansion in high-growth markets, we see more than ever the importance of re-orientating our trade. Businesses need ambition and confidence to venture beyond domestic markets, and government must do all it can to facilitate this expansion. We need the right infrastructure to forge these new links, and our aviation networks are a key part of the puzzle.”

PLACE MAKING AND QUALITY OF LIFE

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 geography. Compared to the south east and London, the north east offers very good value for money, and the market towns and smaller villages are very attractive for new arrivals.

The North East needs a considerable increase in new housing to meet household forecasts and economic growth. It will be important that housing is developed in sustainable locations, close to employment centres and with easy access to public transport networks. Increasing the scale and quality of development requires new approaches to investment in both infrastructure and housing.

The quality of life in the North East 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.

HOUSING

The North East, along with the rest of the UK, has built too few homes over the past 20 years, and this situation has worsened considerably since 2008. The opportunity for residential development to provide a boost to the construction sector has been lost, as has the role of residential development in supporting infrastructure costs.

New financial regulations require lenders to hold higher levels of capital where they provide a borrower with a 95% mortgage. Lenders are prioritising those with higher deposits to reduce this requirement, and this is having an impact on those unable to provide a high deposit. In the context of the North East, where the risk of a price bubble is less, a 5% deposit is a reasonable requirement which does not encourage irresponsible lending or high risk investment. Government should continue its efforts to make 95% mortgages more widely available, subject to credit checks. This would have a major impact on stimulating demand.

While the lack of mortgage finance has depressed the home ownership market, difficulties also remain in the provision of housing for rent, both market and affordable housing. Developers in the region and property professionals are of the strong view that both land supply and the planning process is hindering new development. In particular, developers believe there are too few easy to develop sites in attractive locations to meet demand. Market conditions are very challenging and many brownfield sites are not developed until a healthy market is well established.

Local authorities are aware of the need to provide development opportunities in attractive locations, and work is continuing to bring forward new development on sites in public ownership. This work has involved both developers and the Homes and Communities Agency (HCA).

In attempting to address the slowdown in the market the HCA has introduced a number of initiatives. One consequence of this has been to increase the number of pots of money available, and there is a case to allow more flexibility in how funding is provided to support particular developments.

There are two areas where action could help stimulate the market:

- (a) Innovative home ownership models:** working with established developers and bringing forward new housing and new market products for working households to access home ownership.
- (b) Greater flexibility and local devolution in HCA housing investment:** with the HCA, local authorities and developers working in partnership to maximise the use of HCA and other funds to stimulate new development.

The Combined Authority has a major role to play in addressing housing related issues in the North East, moving to a market led approach and maximising the impact of housing related incentives, including New Homes Bonus. While an increase in mortgage availability will increase demand, it is likely that new and innovative products to help people into home ownership will be required for some time. As important, the restoration of the home buy market will not address issues with regard to homes for rent, both market and affordable, and the Combined Authority will need to explore new solutions for this key part of housing provision.

“It will be important that housing is developed in sustainable locations, close to employment centres and with easy access to public transport networks.”

GENIE

Genie is a new innovative Financial Services Authority (FSA) regulated home ownership product developed by Genioo Group a North East Registered Provider. Genie provides a viable alternative to rent or mortgage purchase by giving people access to home ownership without the need for any mortgage debt or a deposit.

Genie is a long term structured payment plan that allows the home owner to acquire increasing shares in their property by paying a monthly residency fee. This financial arrangement allows the customer to acquire their home over the term without a deposit or mortgage debt with the same rights and responsibilities as a mortgage homeowner.

The target audience for the Genie is first time buyers and long term renters, although no one is excluded. Genie is a highly scalable product that - with support - could attract considerable institutional investment that would make a major impact on housing demand and supply.

The ultimate goal and vision for the Genie product is to give every person who dreams of owning a home the opportunity to do so without compromising their lifestyle. Genie will create an entirely new approach to home ownership in the market providing a valid alternative to renting or buying with a mortgage debt. The market opportunity is significant and the intention is therefore to be a major provider of home ownership funding in the UK.

The Genie Home Purchase Plan offers institutions an alternative to market rent and enables currently excluded consumers to access home ownership. The Genie Home Purchase plan is a new concept and the sponsors are currently targeting a minimum return of 7% nominal, 4.5% real to attract institutional funding within 2/3 years. To achieve this return a 30 year product has been modelled with a customer APR of 6.8% and requiring a discount on the Open Market Value of homes purchased of circa 16% from the developer.

Genie is a new vehicle for investment in well managed residential housing, with the provision of stable and low risk, broadly inflation linked cash flows. Returns are likely to be higher and more stable than traditional market rented portfolios as the Genie-occupier commits for a longer period, builds an equity share over time reducing the risk of bad debt and poor property maintenance, and has a financial interest in the open market value of the property. The return is not primarily structured around growth in property values.

SUPERFAST BROADBAND

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.

The Government's Blueprint for Technology identifies technology enabled innovation as the key to securing private sector led economic growth for the UK, with investment in superfast broadband infrastructure described as a 'key business growth enabler' in their Plan for Growth:

"Superfast broadband will provide the foundations from which the UK economy will grow and recover from the recession. It will reduce costs for consumers and enhance the capability of businesses to communicate and exchange information with their customers and suppliers. This is fundamental to our future prosperity."

This is supported by a growing body of evidence, including a review of Superfast Pilots, which highlights the economic benefits of ICT/broadband investment and adoption. Links identified between the use of ICT and productivity gains provide a strong rationale for investment in SFBB – research by LSE concludes that half of Europe's productivity gains in recent years can be attributed to IT investments. Further, while gains have been made in the UK, US multinational firms are on average 8.5% more productive than UK domestic owned firms, with a wide range of studies attributing almost all of the difference to the higher productivity impact of their use of ICT.

Increasing productivity is just one way in which economic benefits can arise from ICT and broadband. There are also benefits linked with increasing levels of enterprise and innovation, and developing new products, services and markets. Services that enable on-line trading also offer many companies significant opportunities to stimulate growth and enhance competitiveness. This will translate into the creation and safeguarding of jobs and a GVA uplift. Key benefits include:

- Improving access to markets: removing barriers to entering new markets and increasing the speed at which they can be accessed. This can strengthen rural businesses and economies, by opening up new opportunities
- Improved productivity: enabling businesses to develop and adopt more productive and efficient ways of working making it quicker, cheaper and easier to communicate and exchange information with suppliers and customers.
- Encouraging greater innovation activity: helping to spread new ideas and knowledge more quickly and widely; bringing about transformation of business models and organisation structure; stimulating greater collaboration between firms and academia through virtual networks and new ways of working; and developing new applications, new business products, on-line services and entertainment applications.
- Facilitating new business starts: including opening up opportunities for new businesses to set up at home, and buying/selling goods and services online.
- Driving inward investment: superfast capabilities will support the attraction and retention of investment. Areas with limited or no access by 2020 will be at a disadvantage.
- Facilitating growth of key sectors: particularly in the case of knowledge intensive sectors/businesses, which will be able to save time or engage in more time critical services (with access to faster and more effective data delivery) as well as using high bandwidth services, such as videoconferencing, to support businesses expansion.
- Helping SMEs to grow: small businesses account for a high proportion of the overall business base and are often best placed to respond quickly to the opportunities that better broadband will enable.

These benefits are evident amongst those who are self employed, individual businesses, and a range of sectors and across the wider economy. Investment in infrastructure across all geographical areas also has the potential to ensure that rural businesses have access to the same opportunities as urban businesses, which is particularly important in the NELEP area.

Households, public sector organisations and service users will also benefit from the improved services. This includes the provision of flexible working opportunities and the promotion of social inclusion by facilitating remote learning and enabling easier access to healthcare and other services.

Broadband Delivery UK (BDUK) have been given £530m of government funding with the target of stimulating commercial investment in broadband to provide superfast broadband to 90% of households and universal standard broadband to all households by 2015. Within the North East, four BDUK allocations have been made: Durham, Gateshead, Tees Valley and Sunderland; Newcastle and Northumberland.

There remains an issue with how rural households will be able to access superfast broadband and regions such as Cornwall have led the way in ensuring comprehensive coverage, recognising both the social and economic impact of up-grading broadband provision. Lancashire has also used ERDF funding to maximise coverage in rural areas.

Local partners need to continue to work with BDUK, other funders and service providers to ensure full coverage of rural areas by 2016.

“It will reduce costs for consumers and enhance the capability of businesses to communicate and exchange information with their customers and suppliers. This is fundamental to our future prosperity.”

RE-BALANCING THE ECONOMY

Over the next ten years there will be considerable dynamism within the economy, irrespective of the scale of employment growth. Retail is already changing, with jobs moving out of the high street to out of town centres, and internet shopping increasing employment in distribution centres at the expense of bricks and mortar shops.

Public sector employment is also changing, with job losses in local and national government being offset by increases in health related employment, much of which will be in lower paid care jobs, a large proportion of which will be self funded or covered by direct payment receipts by those requiring care. The opportunity to secure public sector relocations will be needed to help offset job losses locally.

Local Government is facing the challenge of reduced budgets and the implications of welfare reform. Many services have to find new and more creative ways to provide high quality support and services to communities and vulnerable groups.

As the economy grows there will be more opportunities to address issues of social exclusion and for partners involved in equal opportunities to link disadvantaged groups and communities to training and employment opportunities.

In order to close the economic gap with other areas and provide the number and quality of employment opportunities needed, the LEP area has to increase private sector employment by between 58,000 and 72,000 over the next ten years.

While this is in line with the scale of employment change in the last growth cycle, a large proportion of previous growth came from the public sector. The next ten years, with growth delivered by the private sector and in higher skilled jobs, is a new and different challenge.

A TEN YEAR JOURNEY

The table below sets out the sources of employment by which the NELEP area can add 65,000 additional private sector jobs over the next ten years. It includes a balance between manufacturing and services, with the largest proportion coming from the service sector, and also between inward/larger investments, and opportunities created by small and medium sized local companies. It also includes growth relevant to both the urban and rural economies of the North East.

Exporting	8,000
Innovation	5,000
Financial and professional services	10,000
Business services	15,000
New Economy	15,000
Tourism	8,000
Universities	4,000
Total	65,000

While the employment growth in business, financial and professional services is well established, the potential in the new economy is considerable. New technologies and applications is driving demand for both content and creative ideas, and the company and skills base in the North East should not be under-estimated.

A BALANCED PORTFOLIO OF INTERVENTIONS

Reviews of other successful areas cite the importance of both local institutions and a clear vision. Key success factors identified in previous research include:

- The importance placed on maximising the regions' research institutions and networks and collaborative activities amongst the regions' public, higher education and business sectors.
- The delivery of practical projects and interventions based around a bigger idea or sector priority.
- The importance of developing international connections, co-operation and joint activities to learn lessons and attract investment.
- The ambition shown, the role of an image or identity and the importance that promoting a high quality of life, cultural and leisure opportunities and major infrastructure projects have in attracting high quality individuals and investment to cities.
- The importance of adopting business friendly policies to enable companies to grow and expand.

The establishment of the Combined Authority and the priorities set out in this Report will contribute to the LEP area becoming a leading, successful European region. The recommendations set out in this report provide a balanced portfolio of interventions which take account of the strengths of the North East. Increasing private sector employment will come from:

- **Exporting and Innovation**, contributing a minimum of 13,000 additional jobs and many more when supply chain impacts are taken into account.
- **FDI and New Investment**, delivering a large part of the financial, professional and business services employment growth, and dependent upon strong marketing and promotion, a range of high quality sites/locations and excellent after-care.
- **Access to Finance**, assisting higher growth companies, with a major impact on new economy and manufacturing companies taking forward new, innovative ideas.
- **New Economy**, with some of the fastest growing sub-sectors and companies, a large proportion of which will be home grown.
- **Tourism, Heritage and Culture**, continuing to grow existing and new facilities and more effective marketing will increase visitor numbers, with small businesses making more use of superbast broadband to market their services. In particular, attractions that can sustain a two day visit, or attractions which can link with a second tourist attraction will support further growth.

The scale of employment increase will, however, require a more highly skilled workforce, with more opportunities for well qualified young people, and also increase demand for higher quality housing in the North East.

There will be inevitable positive spill over effects into other areas of economic activity, with a marked increase in demand for cultural and leisure related activities. This will increase the potential to increase employment in local economies throughout the North East.

The work of the Combined Authority is crucially important in helping to deliver this scale of new private sector investment and employment. This will include land supply and housing, as well as key services such as education.

The North East will benefit from a close working relationship between the Combined Authority and the NELEP and it will be important that economic growth is taken into account in all aspects of public sector service delivery.

ONE YEAR ON

The North East LEP should consider re-convening the Independent Economic Review Team and hosting a partnership conference in autumn 2015 to review progress. This would both help to channel efforts and review initial arrangements around the key themes identified in this report.

There is considerable early work which needs to be undertaken to put in place new investment and initiatives to accelerate economic growth, involving both the public and private sector.

By the autumn of 2014, significant new capacity will be in place and it is essential that the **Combined Authority** is formally established on 1st April 2014, after a further 12 months of development work.

In addition to the establishment of the Combined Authority, by autumn 2014:

- **Transport North East** will have been established, with physical works underway on the A1 Western Bypass and A19 improvements. In addition, the East Coast Franchise specification will include more and faster services to the North East.

Two other transport successes will have been achieved. Newcastle Airport will be offering a scheduled transatlantic services to the US and the North East will have its own version of the oyster card - a new all operator pass.

Also by the autumn, the Combined Authority and the NELEP will have:

- Established **North East International**, and put in place more effective FDI arrangements and agreed an Export Plan to work with companies in European and global marketplaces.
- Set up **Skills North East**, overseeing the North East Schools Challenge and the drive to increase youth apprenticeships, coordinating employer activities with the City Deals.

The NELEP has a major set of tasks to complete over the next 12 months, and has been given a leading role with regard to key economic development funds. Over the next 12 months, the North East LEP will:

- Establish **North East Innovation Board** and agree a Regional Innovation Plan with details of how the initial three Open Innovation and Growth Centres will work and be funded.
- Establish **North East Finance and Investment Board** and agree the successor programme for North East Access to Finance
- Develop both the **European Investment Strategy** (for ERDF and ESF) and the plan for the **North East Single Local Growth Fund**.

Many local partners will be involved in taking forward new developments, including organisations such as the CBI North East, the North East Chamber of Commerce, Further Education Colleges and the Third Sector.

Universities will be playing a major role in a number of areas, notably in the Open Innovation and Growth Centres, managing Innovation Scholarships and extended intern programmes, and working with local schools to increase participation.

At the end of this initial period, the LEP area will have more effective delivery mechanisms combined with agreed investment plans for skills, innovation, business development and investment and transport. New construction works will be underway and companies and individuals will already be benefiting from many of the new services and support.

