

# Building our Industrial Strategy

*A response to the Green Paper  
from the North East Local  
Enterprise Partnership and the  
North East Combined Authority.*

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## Background

The North East Local Enterprise Partnership (LEP) brings together leaders from private, public and education sectors from Tyne and Wear, Northumberland and County Durham to lead and promote economic and employment growth in the area. The North East Combined Authority (NECA) is the statutory body responsible for economic development, regeneration and transport delivery in the area.

We welcome the opportunity to submit comments in response to the Green Paper. Our response has been informed by discussion with economic partners from across the area, and follows significant engagement across the region during

2016 about the refresh of the North East Strategic Economic Plan (SEP)<sup>1</sup>.

The SEP is the key framework for our response, the refreshed version of which was published on 10 March 2017<sup>2</sup>. A key objective in refreshing the SEP included anticipation of the development of a national industrial strategy. As the primary economic document for the North East LEP area, it draws from a comprehensive evidence base about the industrial strengths, innovation and wider business growth opportunities within the region and identifies interventions which can support growth by strengthening the regional economic environment. Its full implementation would make a strong contribution to the priorities set out within the Green Paper.

**“North East England is one of the fastest growing regional economies in the UK.**

**This is a huge achievement for our region, something we should be proud of and that we need to keep building on. The Strategic Economic Plan (SEP) provides us with the economic evidence and focus we need to do that”**

Andrew Hodgson,  
Chair, North East LEP

## Key issues and recommendations

**1. The North East Strategic Economic Plan:** The Industrial Strategy should recognise the North East Strategic Economic Plan as a key source of evidence and strategic direction about the North East’s economic opportunities and challenges. By ensuring that the interaction between the Industrial Strategy and the SEP is clear across its programmes, Government should play its full role to ensure that opportunities and challenges in the North East are addressed, delivering maximum benefits for both the regional and national economy.

**2. Measuring success of the Industrial Strategy:** Adoption of a framework of key performance indicators for the Industrial Strategy over the medium to long term is essential to help drive and align interventions and investments. Such a framework should ensure that the three core Industrial Strategy objectives of building on opportunity areas, rebalancing the economy and fostering enterprise are promoted in concert and held in balance.

**3. Leaving the European Union:** Government should engage closely with North East economic partners to clearly assess the particular opportunities and challenges derived from leaving the European Union. The North East has distinctive features and local partners in the region have identified specific priorities which include:

- Access to the European Single Market
- Access to European research networks
- Access to flows of key workers, in particular those with higher skills
- Development of a clear and timely strategy for replacing European funding.

The approach to the negotiations, and the propositions in the Industrial Strategy and other policy processes should aim to create the conditions for economic success and delivery of the North East SEP.

**4. Sector Deals:** Government should actively engage with LEPs as it designs Sector Deals to extract the most value added

for the economy as possible. Deals should be able to focus on the opportunities and issues for industries over different time scales including both the specific current needs of businesses, and longer term opportunities to foster cross-cutting economic development through, for example, applications of innovation and science, digitisation and investment into key skills. Place based sector deals should be considered to examine opportunities for clustering or stimulating growth through the interaction of sectors and place.

**5. Resourcing innovation in the Strategic Economic Plan:** The North East LEP is recognised for its strong innovation programme with key activities in the North East SEP aiming to foster collaborative working in the region and with national agencies, to invest in facilities and networks and to accelerate delivery of knowledge, research or applications. Many require more flexible resources to be available compared with those currently on offer. A number

<sup>1</sup> The following were engaged during the development of this paper; The Board of the North East LEP and the three sub-Boards - the Skills Board, the Innovation Board and the Business Growth Board, each of which include key partners and leaders working on these issues. Leaders, Chief Executives and Economic Directors of the 7 North East Local Authorities. Representatives of North East business organisations including the CBI, North East Chamber of Commerce, Engineering Employers Federation and Federation of Small Business.

<sup>2</sup> The refreshed SEP is available at <http://www.nelep.co.uk/wp-content/uploads/2017/03/North-East-SEP-FINAL-March-2017-1.pdf>

of them have the potential to be national demonstrators including:

- Driving higher levels of University supported spin-outs from across academic and support student knowledge
- Demonstrating the potential of catalytic local competitions similar to Innovate UK programmes and the Small Business Research Initiative (SBRI) which aim to accelerate innovation
- Delivering a regional collaborative Catapult hub to maximise the impact of the Catapult network in regions.

An allocation from the Industrial Strategy Challenge Fund should be made available to the North East LEP, working with Innovate UK, to support further development of our leading innovation programme and the projects we are aiming to deliver.

#### 6. Supporting our business growth

**eco-system:** Our Business Growth Hub, business support services promoting innovation, trade and inward investment and business leadership, and the North East Access to Finance programmes are essential components of our business growth eco-system which has a particular focus on scale ups. Each have been developed using short-term Government allocations or European funding and whilst they are driving impact and added value they remain unstable because of the resource environment.

The development of the Industrial Strategy provides the opportunity to recognise the importance of these local projects, to develop firmer longer term arrangements and to ensure that there are resources to continue to shape services and respond to identified needs.

#### 7. Improving skills to drive growth:

Ensuring that those entering the labour market have the right skills to thrive and that local skills supply underpins business growth will have a positive on the economy and the retention of skills in the region. Government should work closely with LEP's and other local partners to strengthen the local economic focus of the education system across all levels and to improve the flow of world class academic, technical and professional skills with a particular focus on the growing areas of the regional economy. Local areas have distinctive opportunities and challenges and these need to be reflected at all levels in the education system, in the capacity of the careers, advice and guidance system and in the provision of local support to people to remain active in the labour market.

In the North East, our demographic trends create a strong incentive to retain and retrain older workers alongside programmes to ensure that younger people develop the skills to compete in the local economy and that we can secure skills from national and international sources to maintain the strength of our labour force.

#### 8. A long term framework

**for public investment:** The objectives set down in the Green Paper provide an opportunity to establish a robust framework for long term public investment which promotes progress across each of the three objectives. This is an essential area for focus beyond the Industrial Strategy Challenge Fund given the need to replace European Funding and the decline in the levels of resource available from other sources. A number of principles should impact on allocation and evaluation methods to focus resources on the three priorities in the Green Paper and to ensure sustainability and effectiveness, including:

- The priority to rebalance the economy

- A move to longer term strategic programming periods
- An approach which strikes the balance between capital and revenue resources
- The enabling of holistic regional investment rather than departmentally driven funds
- The need for a strengthened framework of evaluation to enhance learning.

#### 9. Improved infrastructure for enhanced productivity and investment:

As Government develops the Industrial Strategy, it should ensure that the key infrastructure investments set out in the SEP are progressed and that key resource streams and assets are devolved to North East institutions to enable more flexible approaches to capital investment, including securing private investment, can be developed. As a diverse environment, the North East's offering of opportunities for testing of a range of place based innovations which can help drive national priority programmes, such as digital and 5G delivery, energy and passenger vehicle innovation, should be taken.

#### 10. Robust, collaborative and accountable multi-level governance:

Given the priorities and objectives set down in the Green Paper, there is an opportunity and a need to establish a robust and stable framework for longer term governance. Government should recognise the benefits of strategic local leadership involving business, education and political leaders which can leverage local knowledge, skills and resources and invest in the wider eco-system developing new facilities and supporting networks and cluster bodies. National action should actively promote progress across each of the three objectives in the Green Paper and empower local leadership to underpin long term and sustainable intervention.

## The North East Strategic Economic Plan

**The North East SEP sets out 6 key targets which are strongly aligned to the Government's aims set out in the Green Paper.**

It aims to strengthen the economic performance of the area to deliver an additional 100,000 jobs between 2014 and 2024, of which 70% are higher skilled, higher productivity jobs. Aligned with the Government's aims of sectoral and spatial re-balancing it also aims to deliver a measureable closing of the gap between the North East and UK averages in economic performance on 4 areas; productivity, employment rate, private sector job density and economic activity, which can be seen on page 06.

In the refreshed document we report progress since April 2014, with good performance in 5 of the 6 target areas, but with an ongoing challenge on improving productivity. The SEP economic evidence base<sup>3</sup> highlights the importance of our continuing focus on this metric through attention to key drivers of productivity including innovation, skills and investment. It highlights the crucial importance of strengthening our labour market given a combination of demographic and skills challenges.

The SEP identifies a group of key areas of opportunity for growth in

the North East which reflect areas of industrial strength, innovation capability, research excellence or business growth potential. The cluster of assets in these areas should be recognised as the Government develops Sector Deals and Industrial Strategy programmes and the identified key actions set out in the SEP should be supported.

The SEP is ambitious for the North East. There is significant headroom for growth and employment with the right support to the economy and continuing levels of investment. Indeed, in the context of the delivery of the Northern Powerhouse vision, it is encouraging that recent evidence developed by Transport for North to support the Northern Independent Economic Review has suggested that the North East LEP area has the strongest potential for GVA and productivity growth of any of the functional economic areas of the North of England<sup>4</sup>.

As Government develops its Industrial Strategy, we recommend that it fully recognises the importance of the North East SEP and ensures that national departments and agencies play their full role in ensuring the priorities set out are delivered to ensure that the North East can make its full contribution to economic growth in the UK.



## The Green Paper: Rationale, key aims and content

The Green Paper proposes that a UK wide industrial strategy is required to increase long term productivity and competitiveness of the UK economy, and to drive growth across the whole country in the framework of the UK's departure from the European Union. It aims to identify where proactive Government intervention can:

- Build on UK economic strengths and extend excellence into the future in order to secure investment and develop markets for UK goods and services
- Close identified performance gaps between sectors, companies and areas
- Ensure that the UK is the most competitive place to start and build a business

We support these aims and agree that targeted Government action at key levels can play an important role in creating the conditions for competitiveness and for improving opportunities for businesses, people and communities.

Commentators have suggested that one of the lessons of the debate which preceded the decision to leave the European Union is the need to ensure that the current opportunities and future potential of every part of the UK are identified to ensure that sustainable growth is maximised, to improve the quality of economic opportunities for people and business and to address inequalities in performance and outcome.

Our SEP identifies a place based strategy for the North East which includes identification of a number of areas of opportunity and a range of assets, interventions and investments which can foster a growth-focused economic environment outlined on page 04.

As the Government develops the detail of the Industrial Strategy, it is essential that 'place' is fully integrated across its programmes, and not simply bolted on in a final chapter. Ensuring that processes such as Sector Deals and business growth programmes lock on to, and support, the mobilisation of place based assets through SEPs should be a key priority providing a key opportunity for aligning national and regional growth strategies.

<sup>3</sup> Available at <http://www.nelep.co.uk/wp-content/uploads/2016/05/NELEP-Economic-Analysis.pdf>

<sup>4</sup> See economic modelling for Transport for the North by Cambridge Econometrics (September 2016)

## Delivery of the North East Strategic Economic Plan

We have identified four areas of opportunity that can improve the performance of our economy.



### Tech North East Driving a digital surge

**29,000**

IT & digital  
Employees

**15,250**

Creative  
Industries  
Employees



We have a technology industry valued at **£2 billion** part of a northern ICT Economy worth **£12 billion**.

GVA contribution is currently double the national average.

#### Our digital specialisms include:

- Software development
- Cloud computing shared services
- Systems design & communications
- Building information modelling
- Games design and delivery.

#### Emerging specialisms include:

- Data analytics
- Virtual reality
- Smart data
- Cybersecurity.



### Making the North East's Future Automotive and medicines advanced manufacturing



We have strengths in globally focused advanced manufacturing with strong clusters in automotive and medicines.

There is growth potential in these sectors from inward investment, local supply chain development and exports.

#### Automotive:

- Employees **30,000** people
- Produced **510,000** vehicles (2015)
- Produced **325,000** engines (2015)
- **26%** of all European electric vehicles are made here.

#### Medicines:

- **95%** North East pharmaceuticals produced here, are exported, totaling a value of **£1.3 billion** (2014)
- Strong reputation for quality, safety and regulatory compliance
- Successful innovative SME base.



### Health Quest North East Innovation in health and life sciences



#### We have four national centres of excellence:

- Ageing and age related diseases
- Personalised medicine
- Formulation
- Emerging national centres in healthcare photonics and dementia.



The North East has the highest ranked NHS trust in clinical research studies in UK.



The International Centre for Life Employs 600 people from 35 countries and are world leaders in stem cell technology.



**50,000 STEM students** Coming through our universities every year.



### Energy North East Excellence in sub-sea, offshore and energy technologies



We are world leading in offshore and subsea technology.

We have over **50 companies** with a combined turnover of £1.5 billion who employ more than **15,000 people**.

North East businesses are working in different sectors including oil and gas and renewables.

The North East is one of six nationally designated Centres for Offshore Renewables Engineering and the location of the Offshore Renewable Catapult Test Centre.

Pioneers in district heating and a leading science base in a range of energy and low carbon technologies.

## Delivery of the North East Strategic Economic Plan

We have identified strengths in service industries that will enable growth and provide opportunities for high productivity employment.



### Financial, professional and business services

We are home to key segments of the UK's £180 billion financial technology, banking, insurance, securities dealing, fund management, management consultancy, legal services, and accounting services sectors.

There are 17,645 FPBS companies in the region.



### Education

We have four universities providing a significant research base and educating 80,000 students each year.

The education sector is estimated to account for nearly 7% of total North East LEP area Gross Value Added and has seen growth over the last 10 years of around £700 million.

The further education system includes ten colleges and a range of other providers including sixth forms and private bodies. There are 900 schools in the North East LEP area.



### Transport and logistics

Around 4,000 additional jobs have been created in transport and logistics sector since 2014, across air, rail, road and sea.

This comprises about 4% of the business base plus a range of public providers.



### A place that works

We have over two million people with a skilled and resilient workforce.

An economy worth £37 billion in 2016.

We have three great cities, a wider urban economy and rural and coastal locations which together offer a diverse range of investment opportunities, an excellent innovation environment and an outstanding quality of life.

Our local road, rail, air and digital infrastructure provides access to local jobs, supports business growth, and offers connectivity to national and international trade and investment markets.



## Measuring success of the Industrial Strategy

Delivering the transformation in economic performance envisaged by the Secretary of State will require a consistent and coherent approach driven by clear goals over the medium and longer terms. To support this we believe that the Government should adopt a framework of key performance indicators (KPIs) to drive and measure the success of the Industrial Strategy, aiming to monitor development and delivery against each of its three key aims.

By way of example, in setting out the direction for the North East SEP in 2013, North East leaders established

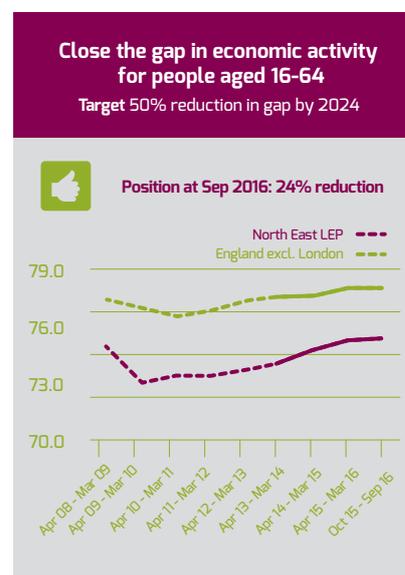
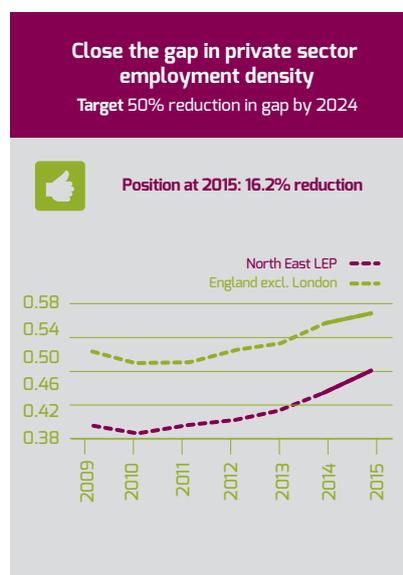
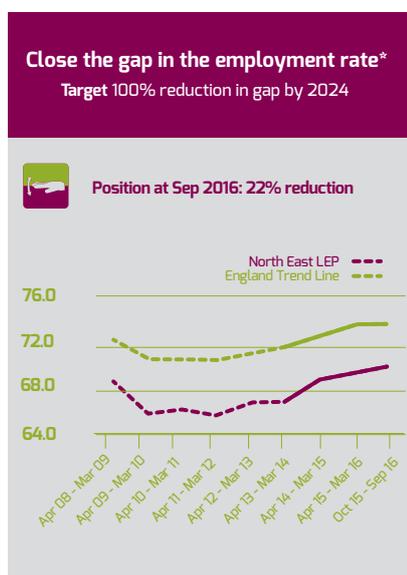
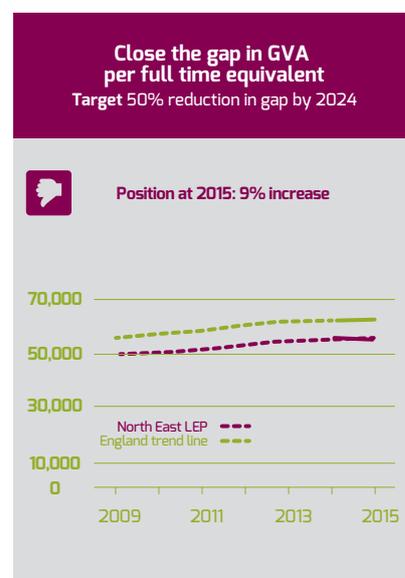
a vision of a more productive, entrepreneurial and inclusive regional economy. Drawing from this vision, the North East SEP sets out a framework of 6 targets which underpin the key goals which we are seeking to deliver over the 10 year period of the plan (2014-2024).

These include two absolute targets - linked to higher and improved quality of employment - and 4 relative targets measuring our regions comparative performance to the UK average in the areas of productivity, the employment rate, economic activity and business density - closely aligned to the aims of the Industrial Strategy.

These objectives are translated into our investment and prioritisation frameworks and therefore influence the decisions we make in the key areas of focus for our work.

Alongside the adoption of such a framework of metrics, the Government should appoint an independent expert panel, including individuals with knowledge of regional growth, which can support the identification of these targets, and monitor and make recommendations about performance of the Industrial Strategy.

## Performance against Strategic Economic Plan targets since 2014



## Leaving the European Union

**Whilst the development of a coherent, long term, place-based Industrial Strategy is desirable policy goal in its own right, we agree with the Secretary of State that the decision to leave the European Union creates a significant point of reference and significantly strengthens the rationale for it. Ensuring that the UK, and its diverse constituent areas, are prepared to deal with the significant changes and potential opportunities and challenges that Brexit will bring provides a strong basis for strengthening and focusing our economic approach.**

It is important that the decisions emerging from the Brexit negotiation process take into account the potential implications across all parts of the UK, and that the negotiations and the post-Brexit framework of engagement with the European Union enhances the conditions for economic prosperity in the UK.

North East economic partners are working together to monitor the views and experiences of business, education and other organisations as the UK moves through the Brexit process to understand potential opportunities and impact areas. We are committed to ensuring that national policy fully reflects the economic structure and conditions of the North East. A number of issues distinctive to the North East have been identified, derived from the particular characteristics of our economy.

These include:

- Strong trade and investment links between the North East and a number of European regions.

Data from HMRC<sup>5</sup> indicates that in 2016 62% of North East exports in goods were with EU member states – with an estimated value of £6.6bn per annum. Import levels are of a similar proportion at 64%. In addition, key personnel in a number of sectors are recruited internationally. Businesses across all key sectors are concerned that on-going access to the Single Market, and priority recognition within a new visa/immigration system, is of widespread importance and vital for the following key industries: automotive and passenger vehicle manufacturing; pharmaceuticals, energy and oil and gas, and digital services, financial and professional services, higher education and health care.

- High levels of employment in foreign owned firms across North East businesses, including 19.7% in Newcastle and 31.4% in Sunderland (compared with UK 18.4%)<sup>6</sup> with significant concentrations in key industries. There is a need, therefore, to engage with these owners to understand the rationale for these investments and develop an approach which can protect these jobs and continue to build further investment.
- The importance to our four universities of the flows of both academic staff and students with 2.7% of all students derived from EU member states.<sup>7</sup> Government needs to provide further assurances about continuing access and participation in European research collaborations and funding programmes

which have delivered significant investment into our research base and provided the platform for significant new discoveries of commercial and social value<sup>8</sup>. There is also a need to confirm the continuing openness of the UK to international students.

- The importance of European funding which has, and continues to play, a central role in supporting the recent transformation of the North East economy with its investment into local business growth, skills, inclusion and our economic infrastructure<sup>9 10</sup>. For example, a number of the key projects referred to in this submission have been developed using European resources. Successor arrangements to current EU funding programmes need to be made clear urgently to ensure the delivery of our Strategic Economic Plan and to ensure ongoing investment into regional rebalancing. There is a potential opportunity to ensure that Investment programmes are more flexible and integrated, for example by exploring how approaches to replace State Aid rules can enable more dynamic public procurement environments.

Ensuring that these outcomes are delivered through the negotiations will be key in creating the conditions for success. Government should take the opportunity of engaging directly with North East economic partners as it pursues the negotiations.

<sup>5</sup> HMRC (2017) UK Regional Trade in Goods Statistics data, Quarter 4 2016

<sup>6</sup> Business structure database (2015)

<sup>7</sup> HESA (2017) Students in Higher Education

<sup>8</sup> Horizon 2020; 1) 24 organisations from the North East LEP area are involved in projects funded by the Horizon 2020 programme. These organisations will directly receive EU funding of more than €50m through this involvement. 2) North East LEP area Universities are coordinating 44 Horizon 2020 projects, with a total value of more than €58m, of which €48m is coming from European Commission. For example Newcastle University is co-ordinating the clinical development of a drug for use in the therapy of Duchenne muscular dystrophy (DMD) – this is a €16m project which will receive €6m from the European Commission 3) North East LEP area Universities are also contributing to a further 47 projects (total value of these projects is more than €304m, with more than €293m coming from the European Commission).

FP7: During the preceding seventh framework programme for research and technological development (FP7) from 2007 to 2013; 1) 59 organisations from the North East LEP area were involved in project funded by the programme. These organisations directly received EU funding of more than €224m through this involvement. 2) The Universities in the LEP area coordinated 168 research projects, with a value of more than €356m (with more than €268m funded by the European Commission). An example project is that coordinated by Durham University looking to develop a methodology for the manufacture of nanoparticles and nanocapsules for drug delivery to the eye – this €5.4m project received €3.9m from the European Commission, 3) NE LEP area Universities contributed to a further 190 research projects (which had a total value of more than €1bn, with more than €728m funding coming from European Commission).

(see <https://data.europa.eu/euodp/en/data/dataset/cordisH2020projects>)

<sup>9</sup> In the current 2014-2020 financial programme the North East has allocations of: 1) €289.5 million into business growth and infrastructure from the European Regional Development Fund, 2) €256.9 million into skills and economic inclusion from the European Social Fund, 3) €13.1 million into rural business development programmes from the European Agricultural Fund for Rural Development

<sup>10</sup> Between 2007 and 2013, the North East region received €800 million through the Common Agricultural Policy and Environmental stewardship schemes

## Sector Deals

**Partners in the North East have engaged actively with Government in the development and implementation of a number of 'Deals' to date, including local Growth Deals and City Deals.**

These have provided a framework for developing multi-partner and multi-level collaboration in pursuit of shared objectives and, by virtue of their negotiated approach, have the potential to reflect unique or differentiated conditions and capabilities. The proposal to develop Sector Deals offers, therefore, a potentially strong basis for delivering economic progress nuanced to the needs of particular parts of the economy.

Concerns have been raised during our local consultations that the Sector Deals could be constructed around the needs of a small number of larger businesses working in established sectors and that this would be a missed opportunity. In the context of the changing nature of the economy, the identification of opportunities for growth in supply chains or the wider linked SME base, the application of innovation from amongst the science base, and making the connection with place based assets which have the potential to support or draw from the development of these deals presents opportunities to foster longer term growth opportunities.

In addition to identifying the needs of existing sectors, the Industrial Strategy should also recognise clearly how assets come together in particular places to support economic development, and how the interaction between multiple sectors operating within a given place creates the

clusters of economic activity which drive the local and national economy. We believe there is an opportunity to construct both sector deals and cluster focused 'sector and place deals' in different circumstances.

For example, in our existing business base, the North East SEP highlights assets which have a strong contribution to make to Sector Deals in automotive manufacturing, life sciences and pharmaceutical manufacturing, technology based services, professional services and energy. We also believe that there are opportunities for assets such as our digital and satellite capabilities or our strengths in process innovation to impact across our economy offering opportunities for innovation delivery or supply chain growth which could contribute significantly to wider industrial development. These capabilities are set out in our SEP and its supporting evidence base and we continue to develop our understanding of these opportunities through smart specialisation strategy projects and active participation in a number of Sciences and Innovation Audits<sup>11</sup>. Indeed, the North East LEP has proposed a cross-cutting Science and Innovation Audit on Applied Digital Technologies with the specific aim of identifying growth opportunities across our whole economy through the creation of new digital applications which can support productivity in our manufacturing economy and reform of public services. In turn these will foster continuing acceleration of our rapidly growing digital sector.

Alongside key industrial strengths, the North East SEP identifies a group of opportunities in our science and knowledge base in both business and research which offer the potential for commercialisation of innovative processes, products and services which can lead to enhanced productivity in existing industries and new innovative growth opportunities. Opportunity areas include digital technologies, in sub-sea and offshore technologies which have application into a number of energy and other industries, low carbon technologies such as battery development and energy storage, design assets which have European wide recognition, a range of health and life sciences, in land based sciences and in materials integration and surface sciences.

Aligning Sector Deals and SEPs would offer the opportunity to extract significant additional value to the UK economy and to foster the growth of new economic opportunities.

We therefore recommend that the Government should actively engage with LEPs as processes to construct Sector Deals are developed to extract the most value added possible in both the short and longer term through the strengths identified in SEPs and their evidence base. The Deals should include looking both at the specific current needs of sectors, as well as longer term opportunities to foster cross-cutting developments through applications into sectors. Place-based Sector Deals should be considered to examine opportunities for clustering or stimulating growth through the interaction of sectors and place.



<sup>11</sup> The North East LEP and its partners are engaged in the Round 2 SIAs on Offshore and Sub-sea technologies led by Newcastle University, Bio-economy led by York University and the Oxfordshire local SIA, linked to our capability in Satellite Applications. In Round 3, the North East LEP and partners have proposed to lead an SIA focused on Applied Digital Technologies and are partners to the proposal on Chemicals and Process Industries.

## Investing in science and research, and fostering innovation

Whilst traditional data sources like patents data and statistics on sectoral research spending would position the North East towards the bottom of the UK Innovation scorecard, other recent data provides a different, more encouraging story. Available data from the Enterprise Research Centre's UK Innovation Survey 2013 reported that:

- Nearly one in five firms in the North East LEP area report being involved in product or service innovation, with 16% saying they are involved in R&D, equivalent to 9,700 businesses. This places the North East about midway in the LEP league table
- Amongst these firms, the most common type of innovation activity was new to market innovation with 58% delivering new to market products and services, positioning the North East as the 8th LEP area out of 39.

Looking at other evidence, the CBI's report, *Unblocking Regional Growth*<sup>12</sup>, found that 14.7% of turnover in the North East was attributable to new, improved and novel products, the third highest rate of the 12 UK regions and nations. The *Tech North 2017* report<sup>13</sup> demonstrates how the digital sector is growing rapidly. Digital jobs in Sunderland have grown by 49% over the last 4 years, 4th highest rate of UK

growth, and that salaries in Newcastle are 4th highest behind London, only marginally behind Edinburgh and Bristol.

The Witty Review highlighted the strong science base in the North East with the four universities delivering a combination of science and research outputs, many of which were strongly aligned to the needs of the regions key industries.

Indeed, comparative studies have identified the North East as one of the top 60 most innovative regions in the EU<sup>14</sup>. The LEP's own analysis identifies that with targeted support, local business trends, a research base and the wide asset base in the North East provides the basis for a strong innovation performance in the region.

Given this opportunity, and its importance in the delivery of productivity and competitiveness, innovation is positioned as a lead programme within the North East SEP, and our programme has been widely recognised for its ambition and creativity.

Our aim is to build the region's reputation as an Innovation Hotspot, known as 'an exemplar in smart specialisation and open innovation systems and culture'. The programme is already delivering an impact and we would welcome further Government support through the Industrial Strategy.



### Witty Review (2014): North East university assets with top 20 rankings

Advanced materials and nano-technology (Durham, 16th)

Agri-science (Newcastle, 18th)

Agri-technology (Durham 17th, Newcastle 18th)

Automotive (Newcastle, 18th position)

Big data (Newcastle, 7th)

Energy storage (Newcastle, 7th and Durham, 9th)

Life sciences (Newcastle, 14th)

Oil and gas (Durham 11th, Newcastle, 7th)

Offshore wind (Durham 3rd, Northumbria 19th)

Regenerative medicine (Newcastle, 18th)

Satellites (Durham 2nd)

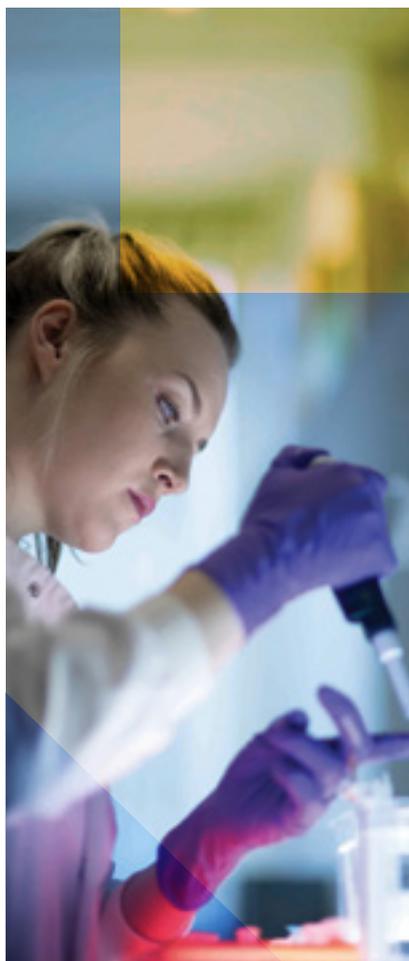
<sup>12</sup> CBI (2016), *Unblocking Regional Growth: Understanding the Drivers of Productivity Across the UK's Regions and Nations*

<sup>13</sup> Tech City (2017), *Tech Nation 2017: At the forefront of Global Digital Innovation*

<sup>14</sup> A review of this data is available in the North East LEP Economic Analysis 2016 available at <http://www.nelep.co.uk/wp-content/uploads/2016/05/NELEP-Economic-Analysis.pdf>

In the North East Strategic Economic Plan, the LEP and its partners have developed a coordinated, multi-layered approach to innovation focused on continued strengthening of the asset base in the region and developing a regional environment in which innovation delivery is strengthened. Key actions and progress set out within the Plan include:

Action	Deliverables
Regional Leadership	<ul style="list-style-type: none"> <li>• Creation of regional innovation leadership in 2014 through a 'triple-helix' Board bringing together innovation leaders from business, education and regional and national public sector bodies</li> <li>• Recruitment of Innovation Executive Team providing a capacity for co-ordination and the development and use of intelligence, including the first and only Innovation Director in the LEP network</li> <li>• Strengthened regional and outward facing communications to explain North East innovation capability and secure inward engagement</li> </ul>
Eco-system development	<ul style="list-style-type: none"> <li>• The strengthening of key sectoral networks in the region and the creation of a new Innovation Supernetwork aiming to promote cross network collaboration</li> <li>• Collaboration with Innovate UK and its agencies on a number of events and activities including the Venturefest brand</li> <li>• Investment in a number of new National Centres providing enhanced innovation delivery from business or research strengths including in Smart Data, Energy Systems, Ageing, Formulated Products, Emerging Electronics and Health Care Photonics.</li> <li>• Strong relationship development with the national Catapult Network, five of which now have a regional base. The North East LEP is actively working on the development of a Catapult Network hub to facilitate engagement across all of the Catapults</li> <li>• Leadership of the creation of a Northern Powerhouse Innovation network, aiming to identify how pan-northern co-operation could add mutual value</li> <li>• Development of relationships with National Centres around the UK where there are opportunities for collaboration, including the 5G Innovation Centre at Surrey and the Medicines Manufacturing Innovation Centre (MMIC) at Strathclyde</li> </ul>
Key projects & programmes	<ul style="list-style-type: none"> <li>• Support for a range of partner-led projects in new areas of opportunity through European funds, for example the forthcoming Water Innovation Hub with Northumbria Water, Durham University and the Coal Authority</li> <li>• Launching of an active research commercialisation programme collaboratively by Newcastle and Durham University, peer-reviewing research output for commercial potential with the aim of significantly boosting spin-outs.</li> <li>• Commissioning of new Innovation business support services</li> <li>• Creation of North East Finance which provides support for innovative businesses</li> <li>• Support for smart specialisation strategy development projects, aiming to identify specific needs for business growth in our most innovative areas of the economy</li> </ul>



It is early days in the programme, but recent data suggests that there are new sources of innovation-led business growth emerging in the region. However, the current support environment has presented a number of challenges to which we would welcome a response in the Industrial Strategy:

1. European funds have proven insufficiently flexible to enable the LEP to make progress with planned innovation competitions and grand challenges which were set out in our 2014 plan. Two projects which have been framed to date have been unable to be funded:
  - Data for Growth - which aims to deploy resources to support acceleration of data applications into key industrial sectors
  - Health Quest North East – a grand challenge which aims to stimulate innovative responses through technology and social innovation to long term limiting health conditions in the region. A small pilot of this project has been commissioned in Durham funded through local authority resources, but we would like to scale this work

In the context of the review of the Small Business Research Initiative (SBRI) scheme identified in the Green Paper, we would welcome the opportunity to provide a pilot regional demonstrator for new forms of pre-commercial and

catalytic competitions working with Innovate UK, the Catapult network and other national and regional partners.

2. The capital based Local Growth Fund has not proven appropriate to support some integrated innovation projects delivering supported environments to support local business innovation. The LEP would like to be able to resource an incubator programme to strengthen the intensity of support available to innovators, and to attract inward engagement seeking to take advantage of our science base.

Scaling up these programmes needs to be addressed with a more flexible and innovation focused source of local investment. We therefore propose that an allocation from the Industrial Strategy Challenge Fund be made available to the North East LEP, working with Innovate UK, to support further development and scale up of the programme of innovation projects set out in the table above and to enable those projects currently blocked to be taken forward.

In addition, our SEP has identified opportunities for the assets of the North East to play a stronger role in supporting delivery of national innovation priorities and we would seek specific resources from the Challenge Fund to support these, which are detailed in the box below.

### North East SEP priorities for Innovation Challenge Fund

Support for a group of Catalytic Innovation competitions and challenges focused on industrial and social innovation opportunities

Resources for our Innovation Incubator programme

Delivery of key projects supporting National priorities, including:

- A North East 5G Test Bed, working with the 5G Innovation Centre and Digital Catapult
- Support for Innovation Hub and Programme for Sustainable Advanced Manufacturing including use of robotics and low carbon energy working with the North East automotive sector
- Creation of a National Centre for Smart Packaging and the Delivery of Medicines working with the MMIC.

## Supporting local business growth

In the North East LEP area 420 high growth small businesses (HGSBs) employing 15,500 people with a combined turnover of £1.8 billion, have generated approximately 33% of GVA growth during 2014.

The North East has seen significant business growth in indigenous businesses, including increased exporting from the region to national and international markets. It is estimated that if the North East had 25% more high growth small businesses in 2014, we would have created 2,786 additional jobs and £130 million in additional GVA in the two years since.

The UK is one of the strongest traders among advanced economies. Companies that export and trade internationally grow three times faster than those that do not and exporting companies create more new products and services than non-exporters.

The most innovative SMEs are 7% more likely to export. Around one third of SMEs (31% of the regional business base) are currently selling goods or services abroad, generating 39% of their sales turnover.<sup>15</sup>

Between 2014 and 2016, 204 inward investments led to the delivery of 9,432 new jobs. 131 of these were Foreign Direct Investments (FDI) and 73 UK-owned outside region<sup>16</sup>.

The North East is on track with our aim of closing the gap in private sector employment density with the UK position over the last two years, however we need to keep up the momentum to achieve our aim of a 50% reduction by 2024.

Since 2014, our Business Growth strategy has consisted of three key priorities:

- Developing the North East Growth Hub as an on line platform supporting access to the range of business support services available in the region and working with the provider networks to ensure that gaps in support are filled

- The agreement of new resources for the £120 million North East Fund, drawing together resources from European Investment Bank, European Regional Development Fund and receipts from the previous Jeremie 1 programme.

This will ensure that there is a strong flow of local business finance to complement the investment from other sources. In addition, we have developed Finance Camp, strengthening the opportunities for local businesses to present investment opportunities to investors from outside the North East

- Working through Invest North East England to create a single gateway for Inward Investors from national and international markets, working with business, local authorities and the Department for International Trade

As national services have been withdrawn the Growth Hub has become an increasingly important source of support and a number of targeted new services have been developed to address information gaps and support needs of business.

In the refreshed Strategic Economic Plan additional approaches have been identified, in particular the opportunity to deliver Scale Up North East to support growth in the number of high growth small businesses with the target of growing the current cohort by 50% by 2024.

Our vision will see the development a group of highly targeted programmes by 2018 detailed in the box opposite.

### Scale up North East

- **Inspiring leaders:** Responding to requests for support and advice from their peers, we will encourage and facilitate peer mentoring
- **Access to the finance required to grow and scale up:** Development of partnerships that provide impartial and objective access to debt finance and mobilise these funds. We will work to attract more investment funds from outside of the region
- **Encouraging the adoption of digital technology:** A programme of support aimed at encouraging the adoption of digital technology in businesses, drawing expertise from the North East's vibrant digital community
- **Support business growth within our areas of opportunity:** Work with organisations and businesses in our key areas of opportunity to identify and target business growth support at areas of need and opportunity.

<sup>15</sup> High Growth Small Business Report 2015

<sup>16</sup> Invest North East England data



These programmes will be additional to our original Growth Hub proposition and will require additional resources and the ongoing strengthening of relationships with national, regional and local business support services.

In the short term, European resources will be directed to support these programmes, but further resources will be required to maintain both the Growth Hub and these longer term business support programmes.

Overall there are three key resourcing issues which need to be considered to support our Business Growth programmes:

- **Inward Investment:**

The availability and scale of inward investment incentives varies hugely between LEP areas and devolved administrations. Commissioned by NECA in 2016, New Skills Consulting<sup>17</sup> found that since the demise of national Regional Growth Funding, the North East is now at a significant disadvantage when attempting to attract new inward investment as it does not have access to capital grant incentives whilst other areas do. This issue is exacerbated due to the North East's proximity to Scotland which offers significant incentives to attract investment. The Industrial Strategy should recognise the importance of Inward Investment incentives in facilitating investment, and the particular issues facing the North East.

- **Growth Finance:**

The North East performs relatively well in terms of businesses scaling-up to £1 to £2 million turnover, however too few of these businesses reach the next stage of growth and grow beyond £3 million turnover. This will be the focus of Scale Up North East. Accessing investment to enable growth beyond £2 million is one of the barriers that prevent businesses scaling-up to this next level and the Industrial Strategy should recognise the need to increase the North East's capacity to create more investment ready businesses and to attract increased levels of angel and venture funding into the region.

- **Post Brexit early stage growth finance:**

The North East Fund described above which provides loan, equity and mezzanine funding up to £2 million and is central to supporting the early stage growth of the North East's SME's (which is reflected in the North East's performance in businesses scaling to £1 to £2 million turnover). The North East Fund is supported by European Regional Development Funding and the European Investment Bank and it is, as yet, unclear what mechanisms will exist following the UK leaving the European Union to secure the continuation of such funding. It is important that Government designs a funding mechanism to provide regional investment finance to SME's post Brexit and provides sufficient time to manage any transition.

We recommend that Government recognise the importance of local Growth Hubs and business growth services and funds in supporting local business growth and securing inward investment, and that flows of resources into LEPs continue to be made available to support them.

A number of sources of replacement revenue are required to be identified, in particular to replace access to European funding programmes, but also to recognise the impact of the instability of other national programmes.

## An integrated, growth focused local skills system

**Improving skills in the North East workforce is fundamental to our economic future, underpinning our aim of driving an uplift of 100,000 jobs by 2024, and ensuring that the majority are 'better' jobs<sup>18</sup>.**

We believe that the changing structure of the North East economy requires an effective and integrated response across the whole education system from early years to Higher Education and extending to life-long learning.

The challenges we face are both in the immediate term responding to skills gaps and mismatches, to longer term responses to demographic and economic changes.

They include:

- Ensuring that we can leverage upwards the overall skill level in the North East economy
- Responding to demographic changes which are having a distinctive effect on the regional economy including a relatively static and ageing labour force
- The importance of national and international migration to deliver a strong flow of higher level skills and refresh the labour force
- A declining, but important, cohort of economically excluded communities and individuals whose economic engagement is essential to improve our employment rate and overall economic performance.

We welcome the agenda to foster a stronger sense of equality between academic and technical qualifications with the aim of encouraging more people to opt for technical routes. The North East already performs well in delivering apprenticeships<sup>19</sup> accounting for 5.1% of all apprenticeships in England, compared to 3.3% of English employment. There are strong concentrations in key sectors including 10% of national apprenticeship participation in the financial services sector, 7.8% in transportation and 6.6% in manufacturing. In contrast, only 1% of England's apprenticeships

in public administration are in the NELEP area. We look forward to working with Government to drive this agenda forward through T-levels and other actions.

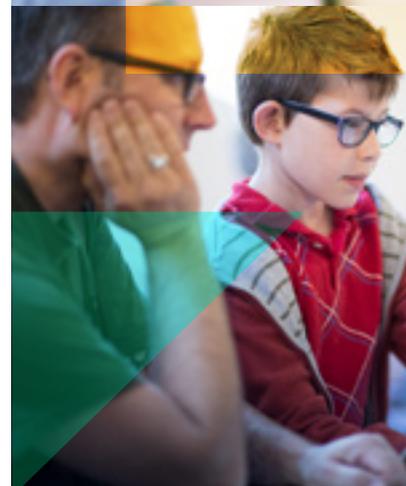
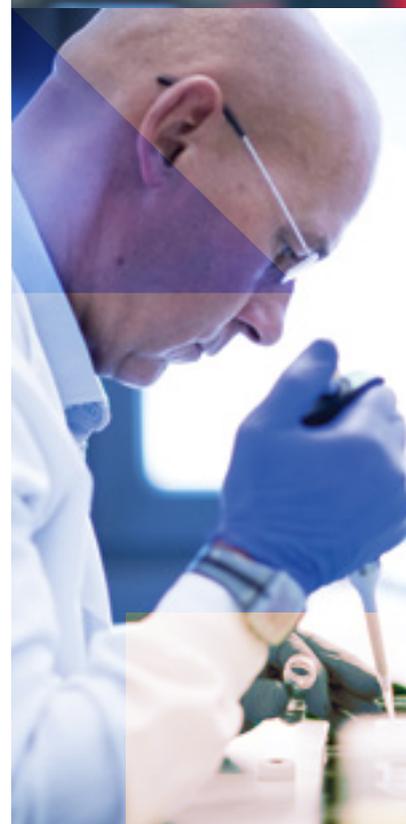
It is also important that we continue to drive higher levels of graduate-level STEM skills in the region. Whilst the region is less diverse overall than other parts of the UK, it is notable that EU and other foreign workers based here are more likely to have degree level qualifications than North East residents and more likely to have degree level qualifications than foreign workers in other parts of the UK.<sup>20</sup>

The North East already delivers significant numbers of graduates into the economy with 82 000 students in the four North East universities each year, however the strong outflow of graduates from the four universities to national labour markets creates challenges including significant skills gaps in key areas including computing and engineering.

The UK Commission for Employment and Skills projects that, unique amongst English regions, the North East will face an undersupply of around 20,000 STEM graduates by 2020<sup>21</sup>.

Given that the North East labour market features a relatively high proportion of graduate level migrants and an ageing population with many people with professional and technical skills moving through towards retirement, this is a multi-faceted challenge requiring:

- A continuing strengthening of the relationship between our education institutions at all levels and business to ensure we continue to train, and also retain these skills
- Continuing openness to international recruitment of these high levels skills which, otherwise, could have a particular impact on the higher skill parts of our economy, both in private and public sectors
- A continuing programme to increase our employment rate through an integrated locally oriented, approach to employability.



<sup>18</sup> The SEP defines Better Jobs as 'a job in the top three Standard Occupational Classification (SOC) categories which are: Managers and Directors; Senior Officials; Professionals, Associate Professional and Technical Occupations

<sup>19</sup> P.Patrigiani et al., The Incidence of Apprenticeships in England by Industry Sector, 2010/11 to 2014/15, DfE, March 2017

<sup>20</sup> Census 2011

<sup>21</sup> See UKCES (2013), The Supply of and Demand for High-Level STEM Skills, D.Bosworth, C.Lyonette, R.Wilson, University of Warwick Institute for Employment Research

The SEP therefore proposes an integrated approach to skills development which aim to strengthen the response to current demand for skills in key areas of the labour market, including engineering, computing, transport and health and which ensures that there is an adequate supply of higher and technical skills as the labour market and the structure of the North East population changes. The approach includes focus on:

- Addressing mismatches between supply of skills and demand in the immediate term
- Planning ahead to meet the future challenge of replacement demand across the economy
- Maximising the available labour force by supporting the disproportionate number of younger and older people who are out of work to secure skills they need
- To focus on improving labour market information by ensuring that students at school, college and in higher education are able to understand and take roles within the North East economy
- Strengthening 'careers escalators' in key areas of opportunity in the local economy so that the region can attract and retain skills and promote social mobility
- Continuing to secure skills from in-migration, in particular into the higher skill roles across the economy
- Physical infrastructure including housing growth and transport connectivity.

Achieving these aims will require continuing dialogue across the economy between businesses and education providers and innovation in these areas.

The North East LEP has already successfully developed and delivered the national demonstrator of the Gatsby Foundation Careers Benchmarks initiative in schools, a programme which is close to being adopted as national best practice, more information can be found in the box opposite.

## The Gatsby Careers Benchmarks: Transforming local labour market opportunity through a national demonstrator projects on careers advice and enterprise advice

The National Careers Education Pilot is testing the 8 benchmarks of Good Career Guidance identified by Professor Sir John Holman for the Gatsby Foundation.

The impact of this provision in schools and colleges in the region has been recognised by the Department for Education as "transformative" and is significantly influencing the new national careers strategy. Robert Halfon MP, Minister for Apprenticeships and Skills has observed the work at first hand and described the benchmarks as 'the eight commandments'.

Piloted in 16 schools and colleges, the aim is that as the project is rolled out nationally and both the public and private sectors have recognised the value and importance of the work. In leading the National Pilot the LEP has established communities of

practice, supported schools and colleges and built strong links to industry. As a direct impact of the pilot, new delivery structures have emerged in schools and colleges, maximising the impact of this work at a very local level. New, strategic, relationships now exist between education and employers with the development of effective and meaningful education business links. This is now also being supported through the National Enterprise Adviser Network initiative which seeks to connect senior business leaders with schools and colleges leadership teams to influence careers guidance at a strategic level.

This network in the North East LEP region has been in operation since 2016, and now has over 70 business leaders in place to directly support the senior leadership teams in schools and colleges.

The Skills Board have identified a potential to deliver a parallel project for further and higher education helping to ensure that students in these parts of the education system understand opportunities to start and build their careers in the region. The North East LEP would be keen to offer to develop a further demonstrator at these levels.

More broadly, we recommend that the Government should work closely with LEPs, local authorities, business networks and education institutions to develop a co-ordinated, more devolved approach which can deliver the strengthening of the local focus of the education system across all levels to deliver a mix of world class academic, technical and professional education, apprenticeships to the economy.



## Key physical, transport and energy infrastructure

**A modern and effective economic infrastructure is fundamental to underpinning local industrial and economic growth and to enabling access to national and international markets.**

Key local priorities set out in the SEP include availability of key sites to facilitate sector growth and clustering, housing growth to support the changing labour market, efficient and modern transport and digital connectivity, and critical infrastructure development including from energy, water and waste. In a competitive global environment, particularly for skills, ensuring that economic growth, improvement of local attractiveness and regional cultural distinctiveness develop sustainably is an important factor to address. Further the potential to innovate in local economic environments – to reduce carbon emissions, to develop more efficient energy services, to improve the performance of digital infrastructure for example – is an opportunity for growth and investment.

Externally, as the UK moves towards Brexit, connecting the region to its key markets through air, sea, rail and road is increasingly important to expand trade and investment opportunities both within and beyond the European Union. We welcome the recognition with the Green Paper that places are different in their assets and needs and that priorities need to be developed in response to these factors. For example, the North East economic geography differs significantly from other city-regions in the North of England with its polycentric urban system and extended rural hinterland creating some of the longest commutes outside of London.

The North East Strategic Economic Plan identifies a number of key investments which aim to address blockages and needs including:

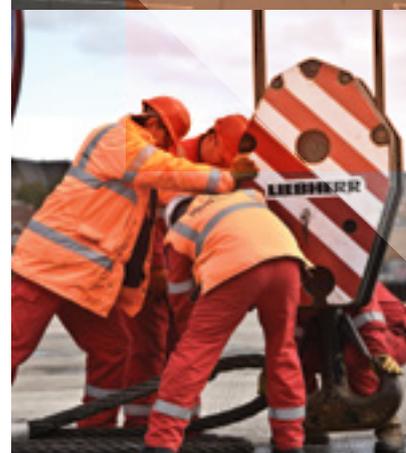
- Specific local transport projects which can connect key residential locations to employment centres, including modernisation of the Metro and new road and rail connections

- Annual targets to grow housing supply by 6,000 units per annum including particular gaps in key parts of the labour market
- Opportunities to strengthen the supply of employment land and economic sites, including two Enterprise Zone programmes targeting key industrial opportunities, opportunities to develop land around key transport hubs and the key site development programmes in the two City Deals.

The SEP also identifies how the North East has particular opportunities to foster innovation and business growth in key utilities sectors, including water, digital connectivity and energy and that the regional environment creates opportunities for experimentation and investment in each of these to improve economic performance through water cleaning and flood management, local heat projects and delivery of strengthened ultra-fast broadband and a 5G test bed environment.

Priorities for connecting to national and international markets are also highlighted including preparing Newcastle Central Station for HS2, and ensuring that the North East has increasing number of air connections to global hubs and sea connections to access points for key markets. Yet evidence suggests that the North of England, and the North East in particular, receives lower levels of infrastructure investment than other parts of the UK and that this is impacting on our productivity<sup>22</sup>.

We recommend that as it develops the Industrial Strategy the key infrastructure investments set out in the SEP are progressed and that key resource streams and assets are devolved to North East institutions to enable more flexible approaches in capital investment, including private investment, can be developed. The North East should also be recognised as a diverse environment offering opportunities for testing of a range of place based innovation which can help drive national priority programmes, such as 5G, energy and passenger vehicle innovation.



<sup>22</sup> IPPR North, Letter to the Secretary of State for Transport, August 2016

## Funding the Industrial Strategy

The North East economy has made significant progress in recent years, and the role of public regeneration and economic development funding has played a crucial role in regenerating our towns and cities, supporting businesses and facilitating people to enter and develop in the labour market. Over recent years sources of finance have included:

- Government spending, including through the work of Government agencies and departments and a range of grants and funds
- Local government spending
- European Regional Development and Social funding
- Private sector investment, including that which is incentivised and de-risked by public sector approaches

Partners in the North East have innovated in many different ways in their approaches to allocating funding in ways which can stimulate the economy and secure sustainable private investment. Examples include:

- The Jeremie scheme which used public funds from the UK, Europe and the European Investment Bank together into a suite of rolling investment funds. These have supported 937 businesses and created or secured 6960 jobs in the first programme and delivered £60 million back into the fund<sup>23</sup>, enabling the creation of the 'Jeremie 2'. North East Fund this year. Further projected returns from the first programme include a further 620 jobs from almost 60 further businesses supported.
- The delivery of risk-sharing schemes across the region including Enterprise Zones, tax-increment financing and development partnerships
- The use of other statutory assets, powers and responsibilities to enable private investment such as land assembly and compulsory purchase

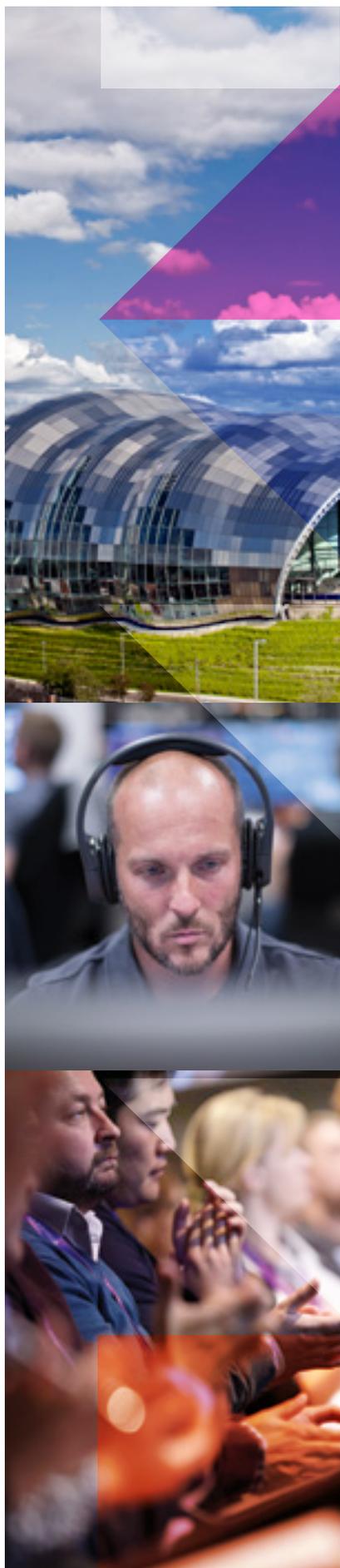
The Industrial Strategy Green Paper recognises that public spending from

both national and local government is a key lever for driving economic outcomes across the UK. However, it is a concern that a many of the sources of public funding have been reduced.

- The replacement of European funding will be a particular priority given its prominence. European Structural Funds have provided an estimated £66 billion for regional development programmes and projects in the North East since 1975. In the current programme which features an allocation of €559.5 million, ERDF resources will support over 13,500 businesses through business support, finance and employment schemes, Social Fund investments will support 160,000 people to engage with the labour market, of whom 55,000 people will be unemployed and 33,000 will have disabilities with these matching and adding scale to existing Government programmes. Rural development funds working in very dispersed communities will support 350 jobs and support 149 businesses and equip 300 premises with super-fast broadband.
- Local Growth Funding has been a welcome initiative but the design and scale has limited the number and type of projects and programmes that could be progressed. Nationally, only about a third of the £6 billion bids for Local Growth Fund in round 3 were funded, and these projects were extracted from much longer pipelines. In the North East alone, over 70 projects and programmes with funding requirements of over £650 million were considered as potential candidates for Local Growth Funding. This was reduced to a bid of £166 million for 11 very high priority projects and programmes. The £49.7 million of LGF grant recently allocated to the NECA area will fund 1 large project and a merged small programme of activity, leaving many projects in the region still in need of funding.
- Core local council budgets in England were cut by 40 per cent in real terms over the last



<sup>23</sup> By end of 2016



parliament. By 2019/20 local government is expected to face a funding gap of at least £5.8 billion, of which statutory adult social care alone will amount to £1.3 billion per year. This means that discretionary support from local government to the economy is constrained. The latest figures for spending on Economic Development; Research and Business Support by the local authorities in the NECA area show a 38% reduction in spending from £78 million in 2009/10 to £48 million in 2015/16. This compares with a national average cut of 37% and an increase of 24% in spending in the South East region, which has seen the smallest change in its spending power in that time.

- There is a particular issue about the nature of the funding being made available which is largely capital, with a current shortage of revenue funding for economic development and skills. Ensuring that resources are available to support innovation, research and development projects that can secure private sector capital investment would follow practice in other leading economies.

It is also a concern that public infrastructure spending has been skewed towards London and the South East, not least because some of the valuation methodologies which have been used to assess projects have taken absolute returns (which inevitably support projects in areas with scale), rather than looking at rebalancing or potential in investment decision making<sup>24</sup>.

Given the priorities and objectives set down in the Green Paper, there is an opportunity through the Government's Industrial Strategy to establish a robust framework for long term investment which promotes progress across each of the three Industrial Strategy objectives. A number of principles should be considered:

- Programmes need to be delivered over a longer term period enabling more strategic developments to take place– one of the key benefits of European Structural Investment Fund Programmes is that they were delivered over a longer period (7+ years) than traditional

domestic programmes

- A focus on both capital and revenue funding for any future programmes - whilst capital funding is key for enabling infrastructure, revenue resources enable the opportunity to support innovation, business support and skills projects. Government should examine how public support for revenue activities could lead to stronger flows of private capital
- The ability to offer integrated and holistic packages of funding - currently funding streams are often managed separately by different departments with different rules, timings and processes. Packaged funds aiming to meet local growth needs are more likely to deliver the holistic support required by businesses
- Decision making at a local level should be enabled - Government correctly identifies the role of local partners in understanding the needs of local economies, and resources should follow this principle. Government should ensure that the processes which allocate these resources are robust and fully include private sector and education leaders through LEPs to ensure that they are effectively targeted at the local drivers for growth set down in SEPs
- All models of funding should have a high standard of evaluation to ensure that learning is identified and spread. A national process of delivering this evaluation information should be developed, built on the What Works Centre idea.

<sup>24</sup> Paying for our Progress: How will the Northern Powerhouse be financed and funded: IPPR North (2017)

## Governance and institutions

**The North East SEP focuses on mobilising all of the anchor institutions of the region, as well as national Government and its agencies, behind the priorities established in the document, supporting economic development through a partnership approach. The recent refresh process, coordinated by the North East LEP and the North East Combined Authority, reached out to universities, local authorities, key businesses and local business networks and also national and regional partners from outside the area.**

Our approach learns from the international evidence base of the importance of 'triple-helix' collaborative models of economic development. This recognises the importance of

- Strong partnerships between leaders from public, private and education sectors in driving local economic development
- Building capacity which can work together at various levels linking national, regional and local interventions and
- Collaborative local leadership in shaping a shared understanding between people, institutions and businesses of emerging opportunities which enable people and organisations to be included in and able to shape local economic development.

This inclusive approach in turn strengthens the embeddedness of institutions and people within places; allowing them to build, maintain and grow the assets and create the local leverage.

A number of the interventions which have been taken forward through the SEP have aimed to strengthen the local economic eco-system with investments into cluster networks and cross-network platforms including the Growth Hub and the Innovation Supernetwork, targeted investments into key facilities like college facilities and innovation hubs, and the development of regional events and information sources. These have also reached outside the North East for knowledge, partnerships and investment.

Underpinning this environment should be a framework of economic governance offering long term and

stable institutional support for the economy through properly empowered local institutions; in terms of the functions they lead and deliver, their understanding of local economic issues and their resources and relationships. At equilibrium, the role of local government leaders as civic leaders and representatives accountable to local communities, responsible for local planning and infrastructure, combined with the knowledge, influence and investment potential of local businesses and business networks, and the research and skills development roles of education institutions should provide the coordinated support to the economy and be able to draw in and develop wider networks and capacity.

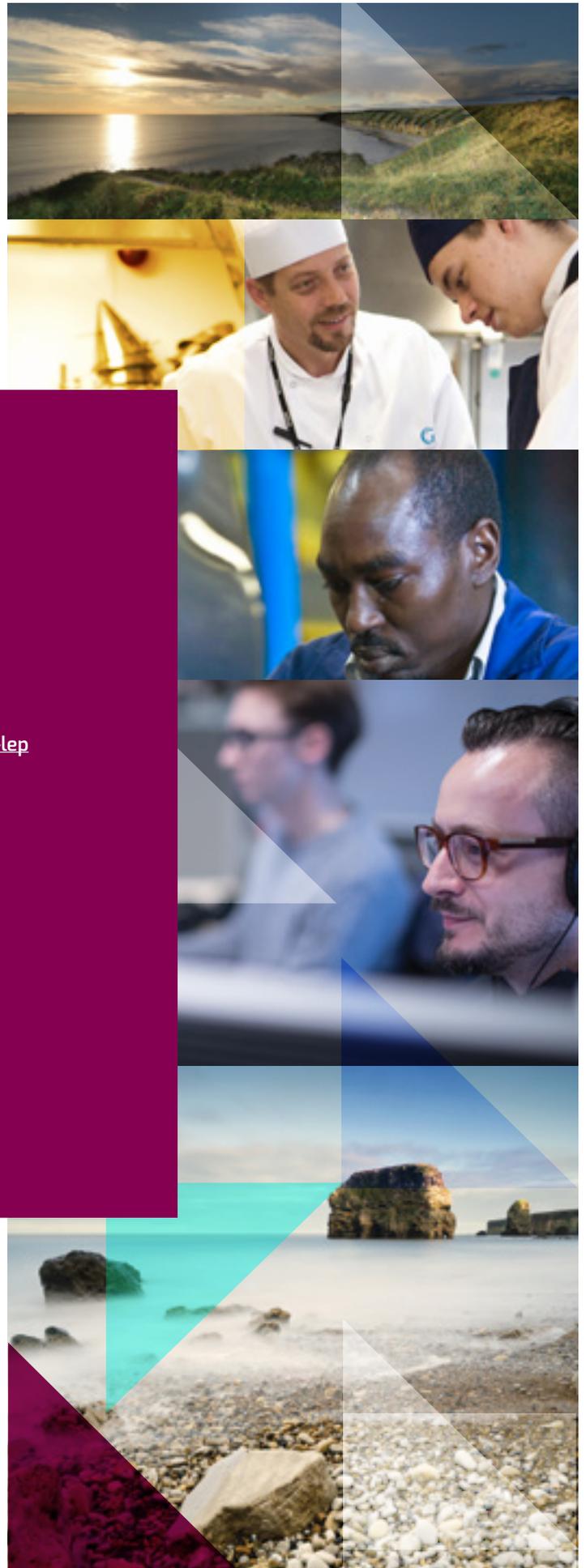
The North East LEP has been able to provide an effective vehicle for securing and prioritising investment and for co-ordination of the development and delivery of the SEP, the capacity of each of these institutions remains constrained and the regular changes in structure and capacity of institutions has not served regions like the North East well. There needs to be a clear and stable institutional framework which can develop and promote a medium term economic strategy for the region. Partners across the North East support significant devolution of powers and resources to strengthen the potential of local institutions to make an impact in key areas of the economy, in particular supporting the programmes set out in the SEP, and also to work in partnership at other scales with other regions and localities on shared priorities.

There are already many examples of structured collaboration on key issues (including for example East Coast collaboration between Local Authorities, LEPs, Scottish institutions and Transport bodies on North-South transport linkages, the Northern Powerhouse initiative including Transport for the North and other Northern LEPs and local authorities, and sectoral engagement with neighbours in Tees Valley and Scotland in areas like digital and energy). The North East LEP is also working with more networked approaches in collaborative projects with the Catapult Network, collaboration on skills and labour market initiatives such as the Gatsby and through the Growth Hubs network to deliver a national network

of support for business. Ensuring that there is strategic local capacity able to perform these roles should be an important outcome of the discussion of the Green Paper.

Government departments also need to take a more consistent approach across their responsibilities. The challenge faced by the UK to raise its productivity, skills and investment levels requires clear alignment between national policy, regional strategy and local economic advantages and opportunities. Delivery of the ambition set out in the Green Paper will require a genuinely whole of Whitehall approach with departments developing a culture of practical internal flexibility to support the pursuit of the specific objectives of local economies in collaboration with local partners. Businesses will rightly expect public sector partners to work together to deliver against shared objectives and departments across Government should be active in engaging with local proposals articulated in SEPs and local devolution deals. Current practice is inconsistent with some departments engaging well with local and regional partners whilst others adopt unitary national approaches which often fail to respond to genuine local differences in circumstances, in particular in local labour markets.

Whilst further local institutional changes may well be forthcoming as work on devolution develops in different parts of the country, including in the North East, LEPs remain a crucial collaborative vehicle bringing together business, local government and education leaders to providing a point of strategic economic leadership and co-ordination, the capacity to develop and deliver strategic projects across their geography with a particular focus on business facing programmes, and facilitation of key national programmes in regions including the Enterprise Zones. It is essential that continuing resources are available to support these functions and that more flexible and integrated resource streams become available.



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