HOUSE OF COMMONS

Exiting the European Union Committee

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 815

Thursday 8 December 2016, Sunderland

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Watch the meeting

Members present: Hilary Benn (Chair); Joanna Cherry; Mark Durkan; Jonathan Edwards; Mr Peter Lilley; Mr Pat McFadden; Emma Reynolds; Stephen Timms

Questions 346 – 402

Witnesses

Richard Baker, Head of Policy and Strategy, North East Local Enterprise Partnership, John Elliott, MBE, DL, Executive Chairman of Ebac and representative of Business for Britain in the north east, Ross Smith, Director of Policy at North East England Chamber of Commerce, and Councillor Paul Watson, Leader of Sunderland City Council.

Examination of Witnesses

Richard Baker, John Elliott, Ross Smith and Councillor Paul Watson.

Q346 **Chair:** Good morning. I welcome Richard Baker, Head of Policy and Strategy, North East Local Enterprise Partnership, John Elliott, Executive Chairman of Ebac and representative of Business for Britain in the north-east, Ross Smith, Director of Policy at North East England Chamber of Commerce, and Councillor Paul Watson, Leader of Sunderland City Council. Can I thank you once again, Councillor Watson, for hosting us here today? I thank all of our witnesses for coming to give evidence.

As you know, the Select Committee was established about a month and a half ago. We have been taking evidence in Westminster but we have also decided that we are going to travel around the United Kingdom to find out what you think about Brexit and what is now required. We have come to Sunderland first, so this is the first occasion on which we have taken evidence outside of Westminster. It is a great pleasure, on behalf of the Committee, to be here.

We have a relatively short amount of time because it is quite a crammed programme, so if questions—to my colleagues, but also to you in giving your answers—could be reasonably succinct, that would be extremely helpful. I was going to begin by asking this, directed at you, Councillor Watson, first of all. We now know that the Government are going to publish a plan for the negotiations that will begin once Article 50 is triggered. We would be very interested to hear from you what you are looking for in that plan in respect of the particular interests and needs of Sunderland and the north-east more broadly, given the importance of trade with Europe to the region and the dependence on foreign direct investment.

Councillor Watson: Yes, I think we are already seeing to some extent the slowdown in foreign direct investment to the country. However, I think we as a city and a region have maybe bucked that trend a bit. We are reasonably happy with what has happened up until now. Certainly I think what we will be asking Government's Brexit plan to achieve would be the widest possible access to the widest possible export markets, our region being predicated on exports of manufactured goods. It is pretty straightforward and short. There will be dire consequences, I think, if there were real barriers to trade to our biggest export market.

Q347 **Chair:** Does that mean that you would be in favour of the United Kingdom remaining in the Customs Union?

Councillor Watson: At the moment there is some legal opinion saying that the European Union as an entity is not exclusive to our membership of the European Economic Area and that we would still be, regardless if we pull out of the European Union or when we pull out of the European Union, a member of the Economic Area. I think we need some legal judgments around that so that we know where we are.

Q348 **Chair:** Just so I understand correctly, you are saying what is important is no tariffs, no obstacles to trade, rules of origin, those kinds of things?

Councillor Watson: Yes, and understanding the detail. Clearly we import a lot of parts that go into these vehicles. Would we then put a tariff on those imports and then get a second tariff when they are exported in the whole vehicle? The difficulties that will create to keep a ship full of vehicles in port while they wait for two or three days, tens of thousands of pounds, these barriers to trade can be unforeseen but could really make it difficult to do the business.

Chair: Thank you very much. Mr Smith.

Ross Smith: I would sum up what the businesses we represent want to see under two headings. One is relatively unbureaucratic trade arrangements, both with the EU and around the wider world. We do have significant concerns about what the implications for customs arrangements could be if we were to leave the Customs Union without some kind of sensible transition arrangements being put in place.

The second is access to talent. The north-east, unlike the country as a whole, has population projections that see it losing working-age population over the next 10 years. We cannot afford to lose access to the widest possible field of talent.

Chair: Thank you for that. That is very clear. Mr Elliott.

John Elliott: My position is very clear. We cannot have our cake and eat it, so if we exit we have to accept, I think, we should have the same conditions that other countries not in the EU have with the EU. If that involves tariffs, it benefits us since we are net importers from the EU. It means the UK becomes more attractive as a manufacturing base for the UK market.

Q349 **Chair:** Given what you have just said, why do you think a big and important company like Nissan was so concerned about the implications indeed of facing tariffs and other non-tariff barriers to trade?

John Elliott: I have no idea. We export. I am a manufacturer. We export to France and the USA and what is tariffs and what is not is not a big deal. It is not a deal breaker. It is a nuisance. Tariffs, like currency changes, are a nuisance, not deal breakers. It is quite interesting, the UK exports more to the rest of the world where tariffs come into play and it is not a big deal. The ships are not held up for several days. Those times have moved on. We just have to be realistic. Exit means exit. We cannot be half in and half out. All we want is the same sort of terms as any other country that is not in the EU trading with the EU: the USA, Canada, Australia, Nigeria, South Africa. All of those countries trade with the EU and have tariffs that they can deal with. Our biggest customer is a French customer and this week they gave us another project, which will take us four to five years to do, to design a new watercooler for them, so it is not affecting them at all.

Chair: Thank you very much. Mr Baker?

Richard Baker: I won’t repeat what Ross and Councillor Watson have said because I would agree, but I know you have time constraints. I would add a couple of other areas if I can. If you look at the north east strategic economic plan, one of our leading strands of activity, leading programmes, is the whole area of innovation. If you look at the importance of the research networks that our universities have engaged with over the last few years at European level, they have been absolutely essential in bringing forward some quite important scientific discoveries and providing opportunities for commercialisation of some of that research base. I think the whole area of how we enable that continuing engagement with the European research programmes and other university and academic and research developments across the EU is quite an important area.

The other area where the north-east has been a net recipient is the whole area of regeneration funds and European strategic investment funds across a number of decades. They are really quite important in terms of business support arrangements, social fund investments to support skills development, some of the work that has been mentioned earlier on, and having some clarity about how that investment into those sorts of areas will continue after exit is quite important for the north-east.

Q350 **Chair:** Just one more question from me. I know, Mr Elliott, you said you had no idea why Nissan was concerned about the things that you have said to us that you as a manufacturer are not concerned about. I wondered whether anyone else wanted to offer a view. Clearly the assurances that the Government gave Nissan were important to the company and we have seen the consequences of that. That is really good, given the importance of the plant here and the number of jobs that it provides and the contribution it makes to the economy in Sunderland as well as the region. I just want to get a sense of your understanding of why there were those concerns and why therefore the assurances were so important. Councillor Watson.

Councillor Watson: I think it is clear to see that the world is coalescing into free trade zones and trade zones; China makes one of its own really, but there is the Pacific Rim, Malaysia, Indonesia, South America. Clearly when we see just in the recent past how Canada has spent seven years negotiating a trade deal with the European Union—and I do not pretend to know the machinations underneath that—we can clearly see that some very important markets out there consider some agreement and trade agreement very, very important. Certainly on the world stage the G8 and the rest of them are working together. We can see that TTIP has been on the horizon for some time now and clearly both America and Europe want that, but they need to get the details sorted out. Some of the best brains in the world understand the necessity for that, and I think some of that is based on the fact that if we were to allow free trade agreements with some countries, we are talking about countries that use child labour, countries that pollute the environment, the rivers and the air. Clearly we have to have some sort of arrangement whereby we are comparing like for like when we are importing and exporting. We cannot let some companies in other parts of the world have advantages like this and we end up with a Bhopal or whatever. We need to be able to sanction that.

Chair: Thank you very much indeed.

Q351 **Joanna Cherry:** Good morning, gentlemen. Thank you for your time. I wanted to pick up on Hilary's questions about Nissan. Can you tell me whether any of you are aware of the key content of the Government's discussions and agreement with Nissan and whether you are aware of any other similar discussions going on with other businesses in this region?

Councillor Watson: No, certainly not. We were not privy to any discussions about anything like that.

Ross Smith: Short answer: no.

John Elliott: Definitely not.

Richard Baker: No.

Q352 **Joanna Cherry:** Okay. Are any discussions going on between Sunderland or the north-east region and Downing Street to David Davis at the moment? Have you teamed up with the devolved Governments at all and the discussions that are taking place between Westminster and the devolved Governments?

Councillor Watson: We have the position as with the North East Combined Authority and with the Local Enterprise Partnership, and clearly we would like to be part of the discussions with the Government and the European Union as we do the Brexit. We have written as a group of combined authority leaders to the Government to say that we feel that we should be around that table and we should be able to put a regional slant on some of the discussions to demonstrate how important some of the different nuances are to us in this region, particularly in terms of some of the financial services issues earning billions for this country. We need to ensure that there is some access to markets in Europe for our financial services. Sometimes we get a feeling that we might not be at the forefront of the Government's mind, so we need a voice there to make sure that we can push our case.

Q353 **Joanna Cherry:** When did you write that letter?

Councillor Watson: Tony Lloyd, the interim Mayor of Manchester, wrote the letter and we signed it. I don't know how many other leaders of combined authorities signed it, but I signed it. I think there were about five in the north.

Q354 **Joanna Cherry:** When was the letter written?

Councillor Watson: It is a couple of months ago now. I can find that out for you.

Q355 **Joanna Cherry:** Have you had a response?

Councillor Watson: Not yet. I am not sure if the interim Mayor of Manchester has yet.

Q356 **Joanna Cherry:** Can you find out for us whether you have had a response to your letter and perhaps provide us with a copy of the letter and the response? Would that be possible?

Councillor Watson: Yes, absolutely.

Q357 **Joanna Cherry:** Thank you very much. Gentlemen, the rest of you, do you have any views on whether it would be beneficial for the north-east to be involved in the sort of discussions that Councillor Paul Watson has mentioned?

Richard Baker: Absolutely. The north-east is a distinctive economic area with different sorts of concerns and issues around the process and the impacts of Brexit. I think it would be very important that that is engaged into the conversation around the arrangements. Absolutely, I know as a group of organisations there is good co-ordination and good understanding about the issues that affect the region and it would be useful to be able to feed those in.

John Elliott: Not really. I am not a big fan of big committees. We have to get on with it and we get what we get.

Ross Smith: What the precise structures are I am not too concerned about, but I think it is absolutely vital that the voice of businesses in this region does get heard and that communication is two-way and they do get to understand the process that is being undertaken. Just by dint of geography, we can feel quite distant from that at times and that is a reason why we certainly welcome this visit by your Committee here today.

From an organisational perspective, one way in which we are more directly involved is in discussions with the Department for Exiting the European Union over customs arrangements and the potential impact there. That is an area where we have quite significant expertise because it is one of the services that we offer to our members. That is expertise that is in quite short supply, so we are quite anxious to make sure that we contribute where we can to aid that understanding in Whitehall.

Q358 **Joanna Cherry:** Thank you. Just briefly on immigration, we understand that immigration played a big part in the result in Sunderland and parts at least of the north-east. We understand that there are in fact only 200 asylum seekers in the city of Sunderland. Are you able to help us with how many EU migrants and non-EU migrants there are in Sunderland, Councillor Watson?

Councillor Watson: Yes. We have 4.1% of BME population in Sunderland. Some of them have been here a lot of years and some are relatively new. That against 14.5% of the population nationally is quite small, obviously. Clearly you hear people say when we have been out campaigning on the doorsteps, "What about this immigration?" You can ask people, "When has an immigrant asylum seeker taken a job you were applying for?" When you start asking those kinds of questions you find that the objections melt away to some degree.

There is some responsibility on media and reporting and telling people that very shortly we will be falling off the Cliffs of Dover because we are so overcrowded. People believe what they read in some of these newspapers. We cannot minimise the impact in certain areas that it has on public services. People tend to congregate around where they have a connection, for example, if they speak the same language, come from the same country, and clearly in some areas of the country it is a much bigger problem for services and service delivery and schools.

Michael Wilshaw just said yesterday that there are some areas where there are whole groups of schools where there is not a white face, but on the other hand, up here there are whole groups of schools where there is not a black face or a coloured face. It is about getting a proportionate and responsible media to report the facts as they are and understand what the pressures are. There are some pressures and there are some difficulties and we need to address them, but clearly we are not going to be falling off the Cliffs of Dover any time shortly.

Q359 **Joanna Cherry:** Of that 4.1% BME population in Sunderland, does that include EU nationals who are not British citizens?

Councillor Watson: That includes all that we know of, all immigrants that we know of.

Q360 **Joanna Cherry:** All immigrants that you are aware of. Are you able to tell us what proportion of that 4.1% are migrants from the European Union?

Councillor Watson: Not off the top of my head.

Q361 **Joanna Cherry:** Would you be able to get that figure for us? Thank you very much, Councillor. I think you wanted to come in, Mr Smith.

Ross Smith: Yes. I could not clarify the proportion from the European Union, but 1.6% of the north-east population was born overseas in 2014, which is the lowest proportion of any region in the country. As I mentioned earlier, we have a need to grow our working age population.

Q362 **Joanna Cherry:** Can I ask you very briefly—I do not want to run over my time—whether any of you think the north-east would benefit from an arrangement within the United Kingdom where there were differential immigration rules between the devolved nations and indeed the regions of England and Wales?

Ross Smith: I think that has the potential to be quite negative for the north-east. We have brought in a lot of skilled foreign workers to this region from other regions in the UK. They have come to the UK first and entered the UK labour market and then been attracted to the north-east. Typically that is people who would initially come to London and then be attracted to the north-east. The potential for differential visas whereby people are not able to move between regions of the UK once they arrive here could be quite negative for our businesses' ability to recruit talent.

Councillor Watson: Yes, I would absolutely agree with that. It is clear that the immigration policy is already impacting on our hospitals in the region, our universities in the region and our top businesses in the region to move even their own employees around. Clearly there is an international market in top surgeons for heart operations, for transplant operations and both in teaching and students to the universities to keep them viable. So absolutely hurting now and it would only make that worse, I think.

Q363 **Mr Peter Lilley:** I remember visiting the Nissan plant in the 1990s when I was Sec of State for Trade and Industry, it was enormously impressive even then. One of the issues I discussed with them was training and skills and they said they put all employees through a training process. The two most important things were improving numeracy and literacy. I do not know whether that is still the case, but they thought the calibre of people in terms of their loyalty and ability and whatnot—but that the education system was resulting in people without some basic skills. Is that still an issue? They did not say it was particularly unique to the north-east, but that is where they were operating. Is that something you have identified as something that needs to improve or has it improved over the ensuing 20 years?

Richard Baker: Skills is one of the most important issues, I think, for the north-east in general terms. Ross mentioned the numbers earlier on. What we have looking ahead in terms of both replacement demand and employment growth in the north-east gives us a net figure by 2024 of needing to identify about 500,000 additional people into the labour market, of which the skills mix is increasing rapidly. Over the last two years, just to give you some data, we have seen an uplift in the overall jobs number in the north-east of about 48,000, of which 60% we would classify as being better jobs, if you like, higher-skilled jobs. The skills profile of the region is increasing and that means that the supply of skills needs to continue to respond to that.

There is a significant issue already, as Councillor Watson said, about mismatches in some key areas. If you were to look at the list of gaps in the labour market, you would find things like computer programming and engineering. You would also find medicine and social care. There is a whole range of skills issues for us before you start looking at employment growth and change in the labour force.

In terms of how the skills system is responding to that, we have the highest number of people going into apprenticeships and we have some excellent schools. If you were to look at our skills mix of people coming out of education in the younger cohorts of the population, we are about on the national average. There is a residual issue, a continuing issue, for us about skills in the older part of the population, which we need to address. I think one of the concerns about Brexit is whether or not we will be able to respond to that skills demand as the population ages and that replacement demand on the labour market drives the need for further labour in the labour market.

Q364 **Mr Peter Lilley:** One of the things the Japanese management and indeed their British counterparts did not say or even consider was bringing in skilled workers from abroad, other than obviously the people with company-specific skills who came over for a while and transferred those skills and went back. That is because they are Japanese. It just would not occur to a Japanese company to bring in skilled workers from abroad. They train them up: if they do not have literacy skills they give them literacy skills; if they do not have numeracy skills, they give them. That is sadly not a general part of the British management culture, is it? Aren't you very lucky that they did not adopt the approach you seem to think, that you have to import skills from abroad? Shouldn't we be training up our own people and not importing people from abroad?

Ross Smith: I do not see that as an either/or situation. Certainly if you are talking about the basic skills, that is not largely where we see the need to bring people into the region. It is higher-level skills required for, as Richard has already mentioned, our software development industry, our pharmaceuticals industry.

Q365 **Mr Peter Lilley:** Are the people locally not capable of doing software skills or getting software skills?

Ross Smith: People are capable of doing that, but not in sufficient numbers at the moment. We need to increase the numbers of people with those skills in the region. Part of the answer to that is clearly training more within the region. Part of the answer to that is attracting more to come and study and to remain in the region from elsewhere in the UK. Part of the answer to that has been in recent years, out of necessity in many cases, to bring people from overseas as well. There needs to be a balance struck so that it is still possible to, first, fill the vacancies that are going to arise, but secondly, and significantly, to grow the economy here. If there is going to be a transition that says that we need to do that from people who are currently within the UK, then there needs to be a sensible arrangement to allow that transition because the access to that talent is not there currently in sufficient numbers.

Q366 **Mr Peter Lilley:** Paul mentioned the shortage of people in the health sector. Are you aware that the only categories of people at our universities, where until last year we restricted the number who could acquire skills, were nurses and doctors and that we turn away more than half of all the applicants—or we did until last year—to be nurses and doctors in this country and instead rely on recruiting them from poorer countries abroad who probably need them more than we do?

Councillor Watson: I think that is a not innocuous position. Clearly the Royal Colleges and people who have an influence on how many doctors, nurses and other professionals in the health service are trained need to understand that we need more. Certainly, the World Bank report says that in the next 15 to 20 years things like water and health will be the big places that cause friction around the world. Clearly we need to train doctors and nurses here to export abroad because we have the skills here to do that, not going around third world countries and stealing them from there. I think that is not a good thing to do.

Q367 **Emma Reynolds:** I would like to ask Ross Smith: the businesses that you represent, are they worried about the uncertainty of what happens in March 2019 when we leave? What would the impact on the businesses you represent be of falling back on WTO rules and tariffs? Maybe you can expand a little bit. In your first answer, you talked about sensible transitional arrangements with the Customs Union, but I wonder whether you could say a little bit more about how that would play out and whether that would also be for tariff and non-tariff barriers.

Ross Smith: Yes, sure. I think the implication of a sudden fall-back on WTO rules could be extremely significant and would have the potential to be extremely damaging to businesses who are both exporting and importing from the European Union. Smaller businesses particularly tend to see the European Union as an easy gateway into export markets so will start off trading into the European Union. Many businesses are used to doing that in a very easy and very straightforward way and not dealing with customs regimes in the way that they have to with other parts of the world.

That will be quite a sudden shock for many of those businesses to have to take that on board. If it was a sudden shift from one day not having to deal with that to the next day needing to do that, that would be quite significant. There simply is not sufficient expertise to support those businesses and help them to adapt to that at the moment. Those kinds of support mechanisms would need to be put in place pretty rapidly and we do not see enough people with enough knowledge to be able to do that in that timescale.

If you then look into businesses trading outside the EU, obviously in many cases they are reliant on trade agreements that have been negotiated via the EU so there is the potential for those to change quite significantly. Even down to simple things like access to relevant information to know what tariffs apply to different commodities and how to be able to price goods, at the moment that is all delivered via the European Union and there would need to be those systems that were put in place to assist companies. I am not saying that those things are impossible to do, but they are incredibly difficult to do and incredibly difficult to do within that timescale. If that was to happen, I think we would need to see much more rapid activity being in place as of now in order to prepare for that.

Richard Baker: Just a more general point, one of the key priorities for the UK as a whole, but particularly for regions like the north-east, is to support small businesses to scale up. If you look at all of the evidence that is out there, CBI published a report earlier this week that showed that helping companies or finding ways to support companies to export boosts their productivity and boosts their competitiveness quite significantly. I think it was a 1.6 multiplier or something like that. I cannot remember the exact figure, but I can find it for you after the meeting. As Ross says, the ability to gently enter into an exporting position by going to a relatively less difficult trading environment like the EU, as compared to more stringent regimes, is absolutely key in moving people then into global exporting. I think the strategic point about how you build a more internationalised business base is key in this context.

Q368 **Emma Reynolds:** We have heard that obviously Nissan has made this big investment decision and that is very, very welcome. We have also heard that there are other companies who are and have been postponing investment decisions, firstly prior to the referendum due to the uncertainty of the result and then following the referendum due to the uncertainty of what happens next. If the Government were to commit to seek a transitional arrangement, when would it be helpful for them to make that clear, given the sorts of investment decisions and the lead-in times for business for making those sorts of decisions? I don't know if Ross or Richard want to comment on that.

Ross Smith: The relatively simple answer to that is as soon as possible, but aside from specific commitments that could be made, I think that there is a need to increase the communication and just improve the level of confidence that businesses have that Government understand and recognise the potential issues that could be coming for, as I say, both exporters and importers. Certainly for businesses based in an area like the north-east, which as I mentioned earlier is distant from Whitehall, whose engagement with these kinds of debates and issues is often largely through the media, many of the debates are still in referendum mode, where people are either certain it will be a disaster or certain it will be a triumph.

The fact of the matter is it could be either and it will probably be somewhere in between. Where on that scale we end up depends on the decisions that are taken in the next couple of years and how effectively they are implemented. I think businesses just need to see a bit more confidence that the people who are taking those decisions understand that, understand that range of possibilities, are willing to listen to the implications that their decisions may have and are up for the challenge of making sure that they do that in the most successful way possible for our members.

Q369 **Emma Reynolds:** Can I take it from that that you would like to see greater clarity from the Government as soon as possible and certainly before they trigger Article 50? Is that something that you would agree with?

Ross Smith: Whether it is before or after triggering Article 50, in a way is a bit of a moot point. It is just as soon as possible, as I say, to have that two-way communication, to be able to hear back from businesses the implications that they see some of those decisions having.

Q370 **Emma Reynolds:** Do you feel that you know where to go? Obviously you are part of a wider national organisation, but do you feel that if you do have specific concerns about the businesses who are represented by the chambers in this region that you know which part of the Government you need to feed that into?

Ross Smith: We probably feel that we know that as a chamber, but there are many other organisations all attempting to have the same discussions, so it is a bit of a crowded marketplace for having that kind of access. For the businesses that we represent, individually they certainly would not necessarily know. Clearly that is part of our role to help them to be able to channel that effectively, but I think it would help if we were not having to press for that kind of access and to have those kinds of conversations if it was more two-way.

Chair: Can I just say on that, picking up Emma's point, but also going back to Joanna's question, if you have any views that you want to send us subsequently about how that conversation might effectively take place, recognising that in different parts of the country there are different local authority structures—there are combined authorities in some places, not in others—because I think it is an important issue that you have raised. I am sure from the Select Committee's point of view it is important that all of the perspectives from all parts of the United Kingdom, including all parts of England—which is why we are here in Sunderland today—get heard as these decisions are taken. Thank you very much indeed.

Q371 **Mark Durkan:** Can I take you on to the area of European structural investment funds? The announcement by the Chancellor that anything signed off before the autumn statement would be covered up to the year 2019 or 2020, and then it was extended to whenever the UK would leave the EU, first of all, how much assurance did that give people in this region who have been relying on using or looking to such funds? In operational terms, were you able to cope with the last orders effect that was created by having to have these things signed off? Were there any projects that missed out or anything else in any way like that?

Richard Baker: I think the announcement was very helpful. These are really important to the north-east. If you think of some of the projects that were on the table at the time, things like—

Q372 **Mark Durkan:** Yes, can you give us examples?

Richard Baker: —our North East Investment Fund, which provides finance for business—it was previously called the Jeremy fund—had joint money from the European Regional Development Fund and the European

Investment Bank and provides an ongoing source of finance for different types of business. That is one example. Sector support for things like the North East Automotive Alliance, which is the sector body for the automotive sector, and then in the labour force things like the mental health Trailblazer project and some skills funding where we were matching European money with national Skills Funding Agency money, these are important projects that support different parts of the north-east economy. It was very helpful that the projects that were waiting to go were able to go. A number of the project sponsors, the lead bodies who had in some cases been operating at risk, are now feeling a lot more confident about their position in terms of that funding.

In terms of the rest of the programme, there is obviously €560 million been allocated to the north-east LEP area, of which some of it is unallocated and unspent. Hopefully there will be continuing clarification. We have some calls due to go in the end of this month and at the beginning of next year and it will be very interesting to see whether we get the same level of response to those next calls, where that level of certainty is not necessarily there for people because the funding may disappear in 2019. Without some sense of certainty, people may not want to put the time in to create the projects or might feel that their projects might be terminated at some point. The announcement on the existing projects was very helpful, but I think there is more to do to build confidence among project sponsors.

Ross Smith: I think longer term there is an opportunity here. We would want to see the same level of funding that we have had committed from the UK Government and we want to see continued regional decision-making over how that is spent. If you take away some of the criteria over how that is used, there is a potential to put some of those monies to better use than they have been to date. If you could take away some of the cash flow burden and the audit burden for organisations using those funds, then again there might be more willingness from a greater variety of people to put forward projects that could be used. There is an opportunity there to move to a more effective system of regional funding if there is that commitment that the same level of funding comes and the same degree of regional decision-making.

Councillor Watson: It was particularly disappointing for the combined authority here that we had a meeting on 6 September and the guarantee was that any project that was agreed before the autumn statement, which was a few weeks away, would be guaranteed and nothing beyond that. Four of the seven, including Sunderland, of the combined authority members decided that that was not a strong enough guarantee to enable us to consult on the local scheme that was proposed. Then very shortly after, the Chancellor, Philip Hammond, announced at the Conservative Party conference that would be guaranteed up until the length of this Government.

Had we had that a few weeks earlier, I am pretty sure we would have a mayoral authority here by now, but unfortunately that was not the case. In other words, it was disappointing as well. Clearly the £30 million a year for 30 years that we were promised, you cannot fetter another Government, so it had to have every five years new Government gateway reviews to ensure that that money was being spent in that way. As Ross has just said, that is just another block on people's confidence that that will be a continuous stream.

Q373 **Mark Durkan:** The answer is it would have been very helpful obviously concentrated on the monies that were there in the current tranche for 2014 to 2020. In terms of what people may have been anticipating beyond that and the kinds of projects that people might have been thinking of developing, where do people in the north-east stand on those things? Are they worried that the loss of EU funds means there are going to be no opportunities there or are you thinking in the absence of EU funding there is going to have to be clearer and more coherent UK regional funding measures? Some people do contend that EU structural funds have often been used to mask and poorly compensate some regions that have lost out compared to the expenditure in London or compared to the money that has gone to some of the devolved Administrations, including EU funds. There are some who would contend—and maybe you were hinting at this, Ross—that a region like the north-east might, absent of EU funds, be able to confront the case for a fairer and more significant commitment of UK regional funding.

Ross Smith: Yes, I think that is a very good way of describing it.

Councillor Watson: I would agree with that, absolutely.

Q374 **Mark Durkan:** What would be your priorities and how would you go about making and winning that argument?

Ross Smith: I think the starting point has to be that the region does not lose out in terms of the funding that comes here on account of coming out of the European Union. The case that was made by those who were advocating the leave vote was about returning money to the UK and that has to be the case for all parts of the UK, including north-east England.

Councillor Watson: I would just say that given the current track record I am not holding my breath for that. I am not really hopeful.

Q375 **Mr Pat McFadden:** The Government made a commitment on its regional funding to keep things on track as they were until 2020 to give people some certainty. That statement was only made a few months ago. From what you know, is that running smoothly? Is that happening okay? Are there any problems with that? That is my first question.

Richard Baker: As far as I know, yes, that is fine. As I said, the projects that were in the pipeline are now going through and are getting funded. There were a number of people who have struggled, mind, to keep projects going because they were operating at risk for quite a long time, but that has now been caught up on.

Q376 **Mr Pat McFadden:** Mr Smith, you said European money comes with strings and it does. These funds are for specific purposes; they can only be spent on specific things and so on. Looking to the future beyond 2020 when this stream of money will stop, what kind of regional funding do you want to see? I suspect that future money, if there is a programme after 2020, will also come with strings because it will be Government money and there will be different strings. What kind of regional funding would you be looking for beyond 2020 compared to the kinds of programmes around ERDF and European Social Fund that we have now?

Ross Smith: I think, for example, the opportunity to spend more of that on capital schemes and infrastructure would be helpful. I think you made the point that history suggests that Government funds do come with strings attached and that is a source of frustration. We would quite like to see history overturned in that respect. Certainly as there are moves within England to greater devolution, to greater regional autonomy, that should apply to some of this funding as well. Also being able to move it between different time periods and not be constrained by having to spend certain amounts within particular time windows, which means that you sometimes fund the project that is ready, rather than the project that is right.

Q377 **Mr Peter Lilley:** Would you spend on training and skills?

Ross Smith: You would spend some of it on training and skills.

Q378 **Mr Peter Lilley:** You would spend some on training and skills? You just said you would spend it on infrastructure, not on skills and training.

Ross Smith: No, I said that it would be good to see more of it being available to spend on infrastructure and having more scope to spend that on infrastructure. I wouldn't spend 100% of it on infrastructure, by any means. Training and skills is absolutely vital.

Q379 **Mr Peter Lilley:** Skills and training are clearly not your priority, since you did not mention them.

Ross Smith: No, I didn't mention that at all. I said we wanted the flexibility to spend more on infrastructure than we have currently been able to. There is a lot that is currently spent on training and skills and I certainly would not seek to reduce that.

Councillor Watson: Can I just say that it is really important that we have real devolution and fiscal devolution to some extent so that these issues can be decided locally? There is nobody better than us know that we need an uplift in skills, whichever way we do it, but if we don't get that fiscal devolution, it means that whatever you decide here, you still have to trot down to Whitehall and put the begging bowl out, which we are not enamoured of doing. It is really important that as we pursue devolution there is some sort of real fiscal devolution.

Clearly the Government is now saying that we will be reliant on our own business rates by 2020, so if that is the case, we need to understand how we are going to fund both some of the educational aspirations that we have and the capital builds and the revenue spends. It is all very much up in the air at the moment and that is one of the things that hurt us most, the uncertainty and not knowing how it is going to work out and how it is going to happen.

Q380 **Mr Pat McFadden:** Immigration, I want to ask you about that as well. At the moment, net immigration to the UK is running at over 300,000 people a year. You have told us a story this morning that says in this region immigration is relatively low compared to the national picture. Immigration was a very big issue in the referendum, and for quite a number of people who voted leave, perhaps the most important thing in their minds, I would suggest. It is Government policy to reduce net immigration to less than a third of the current level. What are the implications of that for this region? Is that a good thing to happen; is it a bad thing to happen? What are the implications for it? If I could just go along the row, Mr Baker: net immigration at less than a third of what it is now.

Richard Baker: It is difficult to answer the question specifically, because there are a range of other labour market issues that we need to work through. We talked through earlier on the combination of labour market change and demographic change issues that are ahead of us over the period of the strategic economic plan. As Mr Lilley was implying, we have a number of strategies we need to adopt to make sure that we can fill the labour market demand that we are looking at. Part of that will be about skills training; part of that will be about economic inclusion; part of that will be about new sources of labour and that could be internal migration within the UK or it could be international migration. There are a number of different components of how you respond to our aspirations to grow economic growth and employment growth within the region.

If you are in a situation where you are restricting the number of people within an economy, I would have thought that the flow of labour would be where the most opportunities are and you would restrict the flows within that market, so there is a potential risk, no doubt, in having an impact on our capacity to fill our labour market needs. But I do not have particular figures to support that.

John Elliott: It seems to me that it does not make sense to have free movement of people between economies that are totally different, because people are going to move in one direction. Anyone coming from Romania here is much more motivated than a UK citizen because of where they are leaving, so it just distorts things. I think you cannot have free movement between economies that are very different. That just seems to me a fundamental flaw and immigration has to be controlled.

The other thing is we seem to be maintaining the status quo. I don't think the status quo is good enough. I believe we, as a country, underperform dramatically, so we have to start questioning our assumptions on things like global trade. We have to look closely at how we become more self-sufficient. If we were a business, we would be bankrupt. We survive by borrowing and selling assets and there are no plans to get rid of that, in my opinion. People talk about it, but nothing happens. We have to rethink the way we look at the economy. That is the first thing, the status quo is not working.

Q381 **Mr Pat McFadden:** Just on this immigration point, for you is it about control, absent from the numbers, or is it about control to reduce immigration to roughly that Government target?

John Elliott: You have to have control. I don't know what the figures are, but you have to have control, because I think that when people don't—

Mr Pat McFadden: But their target is a third.

John Elliott: Yes, and numbers are numbers, aren't they? We will play with those forever. The concept is I just think it is wrong to have free movement of labour between economies that are totally different. It just distorts markets. People come here who are more highly motivated because of what they have left behind and also we weaken that country as well. We have to take a different look at things. The current method of running things is not working. The status quo is not acceptable and we have to change it.

Ross Smith: I don't have a specific view on the overall number. I think there is an issue on the type of immigration that we are able to get and that we are able to restrict. As I mentioned before, I think we need more higher-skilled people in certain industries here in the north-east, and the kind of people who can contribute to business growth and help us grow job opportunities for local people. I don't see it in every case, by any means, as a zero-sum game, where a highly-skilled immigrant replaces a job opportunity for a local person.

We wouldn't want to see restrictions on the international students that we have had come to this region, who, first, have brought a significant amount of spending into the region, and secondly have been part of generating a positive view and positive linkages for the north-east overseas into the future. If there is a way of controlling overall numbers that doesn't restrict the immigration that is very specifically beneficial to the north-east, there may be a case for doing that. But I think we are nervous if it just becomes a numbers game, without looking at some more of those nuances.

Councillor Watson: Could I just agree exactly with that? I think what Mr Elliott was saying is true as well in terms of you have to have a balance there between the two, but there is also a humanitarian consideration. I do not think anyone who was sitting there watching that young child being taken out of the Eastern Mediterranean, dead after drowning, could deny there is a humanitarian consideration here. We need to address that in probably a better way than we are doing now. We do need to play our social part in Europe and probably the world.

Q382 **Stephen Timms:** Paul, can I go back to what you were saying a few minutes ago about the devolution deal? Seven local authorities in the north-east came together, I think a couple of years ago, and were working towards a deal. In September four of them, including Sunderland, pulled out and the deal collapsed. You have given an indication of a reason for that. Can you tell us a little bit: was it the uncertainty about future EU funding that was the only reason for the collapse? How did that particular uncertainty affect your thinking about the deal?

Councillor Watson: No, there was more than that. At the meeting on 6 September, each leader of each authority gave a pretty explicit reason why they weren't happy with what was going on. Clearly the certainty of the funding going forward was one of the things and clearly we had not had the guarantee until 2020 of EU funding at that time on 6 September.

There was also the idea that in the scheme that was presented to us that we would have had to consult the population on, there were three new streams of funding: there was a mayoral precept on the council tax; there was a Cabinet precept on the council tax and there was a mayoral levy, with the agreement of the LEP, on local businesses. Local businesses' only form of raising revenue is to put the prices up in their shops and factories. It felt that we were not getting guarantees of assurance of funding after each election, where there was a new Government who could say yes or no.

We felt that the European funding was not specifically guaranteed any further than the autumn statement at that time and also that the burden of paying for this was falling in the wrong place. We could maybe talk about how we shared the VAT take in the region to pay for the thing, because we have a lot of people who are asset rich and income poor in terms of council tax and other property taxes. We have pensioners living in homes that they do not want to leave, but they have lived there for 30 or 40 years and the family has flown the nest. There are lots of issues like that in there, which we felt that we were not happy to consult on that scheme, creating what some termed as a super-council with lots of regulatory powers in there and planning powers and housing powers.

There was more than just the assurance, but I have to say that is just from memory, it is not a comprehensive reason why four of the authorities felt that they would not want to go out to consultation on that. However, that is all it was. We were 100% behind devolution and the seven authorities still are 100% behind having devolution, but it has to be devolution that has a chance of working and surviving and being sustainable into the future.

Q383 **Stephen Timms:** Could I just press you a little bit further on this? The deal would have involved a programme of capital investment, would it? It would have involved you signing up to a programme of future investment, and from what you have said, you were not sure where the money for that investment was going to come from.

Councillor Watson: What the Government said and put on the table was £30 million for 30 years; it would give you £900 million. The mayoral precept could give you something in the region of that as well, so you would have £1.5 billion to spend. It was ring-fenced to infrastructure and couldn't be spent on social issues and welfare benefits and things like that, which is fine, because we are talking about economic development in both the LEP and the combined authority. That didn't present a problem, but we would have at each gateway review to demonstrate that we had contributed to Government's priorities and policies going forward, so there was still a hurdle to jump over. But yes, it would all be infrastructure.

Q384 **Stephen Timms:** You said earlier that if you had known then what you know now about the commitment to 2020, you probably would have all signed up to the deal. Does that mean you think it is going to be revived?

Councillor Watson: The devolution deal?

Stephen Timms: Yes.

Councillor Watson: Difficult to second-guess that, but clearly I can absolutely say that the seven authorities in the North East Combined Authority, which I chair, are 100% behind devolution. We definitely need to understand what that devolution would look like going forward, because as we said earlier, clearly it needs to have some fiscal devolution in there. If we are seeing that local authorities will then be reliant on their own business rates come 2020, then we need to understand how that will happen, because if you are in Sunderland—and we are a major manufacturing base, we build sheds for people to build things in, which we get an eighth of the business rate for that building as we would for a shop or a retail development, a commercial development—it means that the authorities in the area that major on retailing, the Metrocentre and places like that, get quite a big return for their investment on what they build and what people move into, whereas we are clearly a lot less well off in terms of that business rate return. We need to understand how it works. If we are going to do that building and supply the jobs, then we need to have some compensatory method in there.

Q385 **Stephen Timms:** One alternative that has been suggested is that the three authorities that did want to go ahead at the September meeting, which I think was North Tyneside, Northumberland and Newcastle, they might go ahead with their own deal. Do you think that is likely or is it more likely that the seven will come back together for a deal?

Councillor Watson: There are 12 authorities in the north-east. We used to have them under ANEC; we still have an ANEC there, the Association of North East Councils. It is a pity that the 12 didn’t get together. We really did try to do that for a devolution deal. It would be a tragedy if the seven did not stick together, but if three authorities are not willing partners, it would be wrong to stand in the way of them moving out, as it were. However, I believe that we will try everything to make sure that there is a seven devolution deal for the area.

Q386 **Stephen Timms:** Just one more to Mr Smith. I think the Chairman of the Chamber of Commerce had expressed some misgivings about the fact the deal did not go ahead. What are the Chamber of Commerce concerns about this?

Ross Smith: We were very disappointed that the deal did not go ahead. We think that there are a number of policy decisions and investment decisions that are currently taken in Whitehall that relate to the north-east that would be better taken in the north-east. We wanted to see this deal go ahead, which wasn’t a perfect deal, but we thought it was a good deal and we thought it was a good step towards getting a better deal in future years. We were disappointed that four of the authorities voted not to.

Q387 **Chair:** Am I right in saying that what has come across from the evidence that you have given is that you think greater devolution will help you to deal with the consequences of Brexit, whatever they are?

Ross Smith: Yes. I should say that the region that we cover also covers Tees Valley, which is going ahead with a devolution deal, which we are very supportive of, and look forward to that being a big success.

Q388 **Jonathan Edwards:** Clearly the UK Government could pursue a number of different Brexit models: staying within the single market and the Customs Union; a Norway model, which is within the single market, outside the Customs Union; a Turkish model outside the single market, inside the Customs Union; a bilateral trade deal or even just pursuing a WTO rules option, which seems to be the position that Mr Elliott was advancing earlier. Based on your understanding of the dynamics of the north-east economy, which would be your favourite model if you were making the decision that the Secretary of State will be making in the next few months?

Councillor Watson: For me, it would be to stay in the European Economic Area and take the fullest advantage, if we can, of the trading conditions in there.

Ross Smith: For us, what the precise model is I am not sure, but we would want unbureaucratic access to the single market and unbureaucratic customs regimes elsewhere in the world. If you are going to go outside of the single market and outside of the Customs Union, then there needs to be a sensible transitional arrangement to get there.

Jonathan Edwards: Mr Elliott, do you have anything to add?

John Elliott: Not really. I still think we are going to get what we are going to get. We have to assume we are outside the European Union. It is quite interesting: most of our trade is outside the European Union.

I would just like to make a point, just to digress slightly, that Ross, I am afraid, is making exporting look more difficult than it is. The secret of exporting is very, very simple. You make a product people want to buy, then you deal with trade deals and then you deal with currency changes. That is part of life; it is not the big issue. The big issue is make something that people want to buy.

Jonathan Edwards: Mr Baker, do you have a view?

Richard Baker: I am certain that the outcome will be a distinctive model for the UK following the negotiations. I would generally be in the same place as business on this, that they want free access to the single market. But I think there are some of those other things that we were talking about earlier on as well, about access to things like research networks, which are quite important.

Q389 **Jonathan Edwards:** It appears to me that we will not be members of the single market or the Customs Union following Brexit, and clearly, in my view, that has to be a pretty radical change for companies operating within the UK and in the north-east. Mr Smith, you did mention some of the changes that would entail for companies and how they operate. What could the UK Government do to help companies in that position once that decision is made? What could they do and what could the UK Government do?

Ross Smith: I will start that by just coming back on what John said earlier. I think he is absolutely right that you need to make things that people want to buy. Many of our members do make things that many people want to buy, which is why the north-east has the best export record in the country. If you suddenly make that more difficult, then that creates a big interruption and a big shock to a lot of the people who do that, which doesn't mean that it is impossible for them to continue, but it does mean that it has an impact.

What Government needs to be doing now is making as much effort to understand the implications of those changes that it can and to be fairly rapidly putting in place the kind of support infrastructure that is going to be needed to help businesses adapt to any changes that are coming their way, because it is simply not there at present. To a certain extent, the private sector will probably step in. Some consultants could make some significant earnings out of this in future years, but even with that, I don't think there is going to be enough to help businesses to overcome the level of change that is coming quickly enough.

Q390 **Jonathan Edwards:** You don't think that transition will be achieved within two years?

Ross Smith: It is very difficult to see how that transition could be achieved within two years. I do not think it is impossible, but it would require some very radical action, starting now.

Q391 **Jonathan Edwards:** The implication of that is reduced economic activity? It must be.

Ross Smith: It is hard to see how it wouldn't be, in the short term. I think businesses will be able to adapt, they will find a way to make a success out of whatever circumstances come their way. But if we make it more difficult for them and limit that capacity to achieve the growth that we need to create jobs, to create wealth, to pay for public services in the short to medium term, then that would seem a strange decision to take.

Q392 **Jonathan Edwards:** If I may pivot slightly, clearly whatever Brexit model the UK Government decides to follow, it is going to have a disproportionate effect on different parts of the British estate. The north-east has a higher exporting rate than most other parts, over 50% of the single market. Wales has a significant trade surplus. Do you think the UK Government needs to be taking account of those geographical differences, and if so, David Davis, sitting in Whitehall, what does he need to be doing to be able to take those factors into consideration?

Ross Smith: Generally the UK Government needs to take better account of regional differences across all areas of policy, including the implications of Brexit. I think, very straightforwardly, there needs to be probably a greater effort than we have seen to date from Ministers and from civil servants to get out to the regions and talk to and communicate with the businesses that are likely to be affected.

Q393 **Jonathan Edwards:** Just to confirm, as key stakeholders in the north-east economy, you have had no contact with the new Brexit Department?

Ross Smith: No, that is not right. We have been to the Department for Exiting the European Union on several occasions, and as I mentioned earlier, specifically to talk about those customs issues, because that is where we have specific expertise that we are helping them with. We see that we have a contribution to make there and we are certainly keen to do that. But in terms of talking directly to our members, there has been very limited opportunity for them to be able to get involved.

Q394 **Jonathan Edwards:** Time is extremely short.

Ross Smith: Yes. It is limited, yes.

Q395 **Jonathan Edwards:** Just a last question, Chair, if I may. We had some very interesting evidence yesterday, whereby one of the people giving evidence said that Brexit would force the Treasury to stop flogging the City and we will have to think wider in terms of sectoral and geographical rebalancing of the economy. Do you think there is a golden age about to happen following Brexit, whereby neglected regions like the north-east, and countries like my own, Wales, might get a fairer slice of the cake?

Ross Smith: There could be. As I said at the start, this is not destined to be a disaster or a triumph. It could be either and it could be anywhere along that scale. It depends on the decisions that are taken, how well they are implemented and what the commitment is to achieve that end goal. It is possible to do that. It is not easy, but it is possible.

Q396 **Mr Peter Lilley:** You showed us a presentation beforehand that showed that the difference between being in the European Economic area and trading on WTO terms was trivial, but both were negative. That presumably is ignoring the fact that we have just enjoyed a 15% improvement in our competitiveness. Undoubtedly Mr Elliott is right, that you only succeed in trade if you make goods people want to buy, but it surely helps enormously if you are suddenly 15% more competitive and the people who are competing with us are 15% less competitive. We have spent the whole morning discussing it and you haven't mentioned the biggest single change as a result of the decision on 23 June. Is that deliberate or what?

Councillor Watson: Are you talking about becoming more competitive with the devaluation of the currency?

Mr Peter Lilley: Yes.

Councillor Watson: Clearly that is good for imports.

Q397 **Mr Peter Lilley:** It is bad for imports.

Councillor Watson: Bad for imports, but it puts our prices up abroad when we are selling our goods abroad.

Q398 **Mr Peter Lilley:** No, it reduces our prices abroad.

Councillor Watson: Yes. We all know about Toblerone and Tesco: they want to put the price up and Tesco are not willing to do that. It is clear that has a beneficial effect on imports and not such a good effect on exports.

Q399 **Mr Peter Lilley:** Quite the reverse. It makes our exports 15% cheaper and imports 15% more expensive.

Councillor Watson: It balances itself out across the two areas.

Q400 **Mr Peter Lilley:** No, no. We are trying to export things, not to help other countries by importing things from them. We have a huge deficit, as Mr Elliott said, that has been financed by selling assets. Wouldn't it be wonderful if we could finance it by selling goods and services? There is now the prospect of doing that. You are the principal region or the one region in the country that is a net exporter. You should be jumping with joy. I just don't understand it.

John Elliott: Absolutely right. I think we have to look at opportunities rather than problems. We talk about exports, but why not substitute imports? We import 4 million washing machines a year. Why not make them here? It makes it more attractive with currency and tariffs. We have to get our manufacturing base back to where it was. This does help. I hope the Government do take advantage of that, but time will tell.

Q401 **Mr Peter Lilley:** Finally, harking back, when we encouraged Nissan, Honda and Toyota to come here, we hoped that something like 70% of the value of a car would be made in this country. According to the SMMT, only 40% of the value of a car is value-added in this country. Won't it be an opportunity for us to achieve that original target by making more of the components here, rather than importing them from abroad?

Councillor Watson: Yes, absolutely. I think it is over 50% abroad, maybe 60%, but if you were a car manufacturer in Germany, it would be over 80%. There is a massive opportunity there, but obviously we have to have the investment. We have the International Advanced Manufacturing Park coming, so that will bring more local indigenous manufacturers there to supply these extra bits to Nissan.

One of the things that we missed out earlier in terms of that, if we look at the new model that is coming, the Washington plant, then these businesses who got the contract to make the door hinges need now to make those business investment decisions: they need to get factories; they need to build factories or lease factories; they need to have their machinery brought here. If that car is going to be on the market in 2018 or 2019, then they need to make those decisions now. The choice between an uncertain future in terms of currency fluctuations and various other things that Brexit brings, the more positive and more assured if you are building that plant in Portland rather than in the north-east of England.

Q402 **Chair:** Just for the record, there was a point made earlier about where the north-east does most of its trade. According to the regional trade statistics that we have before us, 58% of exports from the north-east go to the rest of the European Union. That is a figure you recognise, so most of your trade in the north-east is with the European Union.

My final question was to you, Mr Smith, coming back to the point about the Customs Union, because the Government says it has not made up its mind. The Prime Minister said on two occasions it is not a binary choice and the Secretary of State for Exiting the European Union yesterday in the debate said, from memory, there are four—or at least four—different options. Do you understand what those might mean? There is in; there is out. What are the others in between? Have you been involved in any discussions about that and what might you be looking for if there was an option that was in between completely in or completely out?

Ross Smith: First, just on the point about the level of trade with the European Union, I think there is a certain amount of caution that has to be exercised with those statistics, because it will show you that the biggest individual market that we export to is the Netherlands. Now, that is clearly because of the Rotterdam Effect, so you have to bear that in mind. But clearly, either way it is a substantial part of our export trade.

No, we have not been involved specifically to date in discussions about what those models might be. What would we be looking for? I am conscious that I am in danger of repeating myself by this stage, so I would just go back to what I said earlier, which is that what we are looking for is the least possible bureaucracy and a sensible transition with sufficient structures in place to help business go through it.

Chair: Can I say, Mr Baker, Mr Elliott, Mr Smith and Councillor Watson, thank you very much for your evidence today, which has been extremely helpful. That concludes this session.