

# Written evidence submitted by the North East Local Enterprise Partnership (PEG0237)

## Introduction

The North East Local Enterprise Partnership (North East LEP) is pleased to provide evidence to the Business, Energy and Industrial Strategy Select Committee.

The North East LEP is a public, private, and education sector partnership working across County Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland local authority areas. We develop and lead the delivery of the North East Strategic Economic Plan (SEP)<sup>1</sup> which sets out the agreed strategic framework to grow and develop the North East economy.

In addition to the key comments in this short document which has been prepared in conjunction with colleagues in our 2 Combined Authorities and 7 Local Authorities, we have referenced other documents and publications and would be pleased to elaborate further to support the work of the Committee.

## Summary of response

Our key points are as follows:

- The response to the Covid-19 pandemic has delivered a significant and diverse impact on the North East economy across business, communities and the labour market.
- There is evidence of a highly differentiated response in different sectors and places in the short term since March 2020 with some growth and identifiable future opportunities in some areas of the economy, and profound challenges in others, often underpinned by pre-existing challenges. There are significant long-term risks.
- Whilst it is too early to come to firm conclusions it is likely that the long-term outcome will see some permanent change in population behaviours, business models, employment prospects and skills needs, and also in the economic role of parts of our region.
- The creation of a recovery and renewal package is a key opportunity to embed positive outcomes and to address firmly and on an ongoing basis the range of challenges we face, and to prevent long term scarring of our economy. Leaders in the region are united that the aim should be to realise our long-term ambitions set out in the North East Strategic Economic Plan of driving more and better employment opportunities for our residents. In delivering on this aim, Covid-19 has created conditions to accelerate a pivot of the North East economy to be greener, healthier, and more productive and inclusive, an opportunity we are determined to grasp.
- This will require continuation and further development of the high level of regional scale collaboration which underpins our approach in the North East, and new ways

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<sup>1</sup> [The North East Strategic Economic Plan](#) (2019)

of working with Government which Covid-19 has inculcated. We will need to continue to build our understanding of ongoing and distinctive changes across the North East LEP geography and will need the capacity and resources to act strategically over short and longer terms. Government should use the forthcoming Comprehensive Spending Review and legislative agenda to develop a framework to strengthen the capacity and resources of local and regional leaders and institutions to enable this to happen.

## Questions

*Q1) What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?*

The North East LEP and regional partners established a Covid-19 Economic Response Group<sup>2</sup> in March 2020 to co-ordinate the economic response to Covid-19 across the North East LEP area, support businesses to keep people in employment and maintain operations safely, and prepare for the longer-term with a shared plan for recovery.

The Group published a summary of a comprehensive review of economic evidence and regional intelligence about the immediate impact of Covid-19 in the North East, and a proposal for a phased approach to economic recovery on 15<sup>th</sup> June, which is available here: <https://www.northeastlep.co.uk/news/regional-collaboration-sees-staged-economic-recovery-plan-agreed>.

The Response Group continues to act together, including by gathering and reporting on a regular cycle about data and intelligence. This ongoing detailed monitoring and response to place-based impacts is an important principle that the Committee should recognise in its report. We will be happy to provide more detail and information from the initial report or the ongoing intelligence if this would be of value to the Committee.

The report demonstrates the wide-ranging and varied impact of the response to the pandemic on the region with impacts across the regional economy, affecting businesses, communities and people at work. It shows that some sectors have been able to respond effectively, with some growth in areas like pharmaceuticals and digital which were key to supporting the response to the pandemic, and resilience in some other sectors such as energy. It also shows significant downturns across other sectors which either saw activity significantly curtailed or in some cases stopped. The impact on the labour force and on places in the region was extensive, and without ongoing intervention seems likely to persist.

Looking forward, the North East economy has been slow to recover after previous recessions, and the region had the highest rate of unemployment in the country prior to the pandemic. We are calling on the Government to focus their recovery package on enabling the North East to:

- build on the economic strengths in our key sectors and to support interventions which can take advantage of positive changes which have occurred or have been

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<sup>2</sup> The North East Covid-19 Economic Response Group includes members representing the North East LEP, the North East and North of Tyne Combined Authorities, the CBI on behalf of regional business organisations, the North East Joint Transport Committee, and representatives of our regional universities.

accelerated by Covid to drive a greener, more resilient, more productive and more inclusive economy

- address significant expected short to medium challenges in the labour market as the support to the economy is released, and into the long term deliver the labour market and skills interventions that will be needed to achieve inclusive economic growth
- rethink and invest into the local economies of different places within the region
- level up the UK as a whole, by driving productivity improvements through investment in science and innovation, skills and infrastructure, including with a focus on improving the productivity and resilience of places
- invest to support, enhance and integrate the approach to connectivity across digital and transport infrastructure within the region and to support our economic links to national and international markets

Evidence of the economic impact of Covid-19 on different sectors, places, and demographic groups continues to emerge and our report envisages distinct phases of the progression as we live with the existence of Covid-19 and move forward to adapt and recover the economy. It could be some time before we have accurate data at the regional and local levels to produce a full picture. It is therefore important that the Government adopts the principles of flexibility and subsidiarity when designing the recovery package. As has been shown by the Covid-19 Economic Response Group, local structures have the ability to react to emerging priorities, addressing the needs of businesses and communities effectively and in a way which can be more targeted than centrally designed and delivered programmes.

*Q2) How can the Government borrow and/or invest to help the UK deliver on these principles?*

The capital investment announced for the North East in the Getting Building Fund (GBF) allocation, and the financial support for businesses and employees throughout the pandemic has been welcome. Partners in the region in the North East LEP and the 7 Local Authorities have worked closely with the Government and together to distribute support resources which have been made available and have produced compelling proposals for the GBF. Other partners have demonstrated their capability to use central monies to good effect, for example by keeping the transport system active.

This illustrates the wider record of partners in the region who have demonstrated their capacity to use resources strategically, for example through the Local Growth Fund and Enterprise Zone programme over the longer term. We have also demonstrated a significant capacity to apply those existing resources which are currently available creatively and flexibly to target gaps in the Covid-19 support packages made available through central programmes. For example:

- the Crowdfund North East LEP<sup>3</sup> scheme provides support to small businesses, charities, and sole traders who have been adversely affected by Covid-19 and are raising money by crowdfunding. Many of the businesses supported by this scheme have been unable to access alternative sources of funding such as the Small Business Grants Fund or the Retail, Hospitality and Leisure Grant Fund.

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<sup>3</sup> <https://www.crowdfunder.co.uk/funds/crowdfund-north-east-lep>

- the Covid-19 Patent Protection Scheme<sup>4</sup> was launched by the North East LEP in response to feedback from businesses operating in the health and life sciences sector. This is a grant fund that can be used to cover the cost of retaining or registering new patents, to ensure that early stage, high value proposition businesses that have been negatively affected by Covid-19 do not lose their intellectual property, and can continue to grow and create jobs in the North East.

However, the constrained levels, timescales, and the performance frameworks of some of the resources available have been problematic. For example, we do not have ready sources of revenue finance and the short term nature of some of the resources we have received (including the re-directed European funds to provide business support and small scale business grants) have meant that some of the response is short term and sub-scale. The LEP and regional partners are working together to continue to build and adapt our pipeline of strategic projects for investment. In addition to the GBF allocation for “shovel-ready” projects, the Government should support the implementation of this programme and allow for further business case development to enable a strategic, long-term approach to investment.

The region has developed a comprehensive proposal for a Recovery Plan package which will require sustained investment at a higher level than currently available to restore and pivot the economy and we recommend that this is seen as a framework for investment in the regional and national economy, supported through central investment and devolved funding to the North East region.

The Government should ensure that funding for current expenditure is available for skills and training alongside capital investment, especially given the likely extensive impact on the existing labour force and younger people entering it. Control of this funding should be devolved to the regional level, with priorities informed by the work of Skills Advisory Panels.

In addition to these new regional resources, addressing the shortfall in Local Authority funding with a multi-year settlement must be a priority for the Comprehensive Spending Review and the Autumn Budget if the Government are committed to levelling up the regions. Local Authorities in the North East have experienced cuts to their grant funding from central Government over several years and are now facing falling revenues and an increase in demand for services.

### *Q3) What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?*

Businesses need a combination of actions to be taken to rebuild consumer confidence and stimulate sustainable growth.

The trading environment has changed significantly for businesses in all sectors during the pandemic. Patterns of demand have changed and will continue to change as consumers and businesses adapt. Working and commuting patterns have changed, with large numbers of office-based staff working from home where this is possible. The public transport network has had to transform its calculations with respect of capacity which

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<sup>4</sup> <https://www.northeastlep.co.uk/news/unique-new-fund-announced-to-protect-ip-of-health-and-life-sciences-businesses-in-the-north-east>

affect long-term funding models due to the need for social distancing. Market drivers and routes to market are changing, as the adoption and utilisation of technology has introduced new possibilities.

Footfall on the high street and at other commercial locations around the region is still much lower compared to the same period in 2019, and is unlikely to fully recover in the short term. Consumer facing firms that have survived a period of enforced closure and begun to reopen will need to adapt to the new trading environment, and businesses and Local Authorities will need powers and funding to create safe environments for staff and customers to enable this. During this period, certainty about Government measures to control Covid-19 will be crucial for businesses to be able to plan. Any new restrictions, changes to official guidance, and in particular the introduction of localised measures must be clearly communicated to businesses as early as possible.

Businesses will also need access to advice and support, and potentially to sources of finance. The Covid-19 Toolkit created by the North East Growth Hub<sup>5</sup> has provided guidance and advice to businesses throughout the pandemic, including facilitating one-to-one support with specialists. This support has been effectively co-ordinated at the regional level where it can be delivered by advisors with local knowledge, and Local Authorities have played a vital role in intelligence gathering during the pandemic, administering and distributing emergency funds to businesses. The Government should ensure that Growth Hubs and Local Authority teams continue to be funded to deliver this support during the next phase of the Covid-19 response.

In some sectors, businesses will need ongoing support to retain their workers, particularly if their business model is challenged by Covid-19. For example, the arts, cultural, and hospitality sectors which underpin the cultural life of our region, and rely on serving large audiences in person will take time to adapt their offer to social distancing requirements, and for some a replacement digital or online offer is not feasible. The Government should adopt policies which preserve and restructure these sectors, to prevent unemployment and provide rapid and flexible support for workers who have been made redundant, as this will be key to rebuilding consumer confidence and stimulating demand.

Cashflow was highlighted as a concern for many smaller businesses in the North East prior to the pandemic, and the Government should carefully manage the withdrawal of grant funding schemes, wage subsidies, and the process of repaying Bounce Back loans to give businesses the greatest chance of survival.

In addition to short and medium term financial support, the Government's recovery package should include plans to prepare and adapt to new ways of working in the long term, including changing patterns of transport and digital connectivity, and the demand for office space, retail, and housing. It is likely that the long-term role of different types of place will change, which will affect consumer use and business confidence. Local Authorities will need to be enabled to plan and react to these changes, with support to ensure the viability of cities and towns, and of public transport networks.

#### *Q4) Whether the government should give a higher priority to environmental goals in future support?*

In the short term, the Government should consider policies which maintain and enable those positive environmental benefits that have occurred as a result of the lockdown,

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<sup>5</sup> <https://www.northeastgrowthhub.co.uk/toolkits/covid-19-coronavirus-toolkit>

including a reduction in carbon emissions and improved air quality, which are also likely to enhance health. Changes to working patterns provide an opportunity to invest in schemes which contribute to the Net Zero targets and embed positive behavioural changes such as an increase in cycling and walking.

Over the longer term, the North East is well placed to play a leading role in the UK's transition to Net Zero.

The region is home to world-class assets in offshore wind, subsea technology, and the associated supply chain. We produce more electric vehicles than any other region and have a growing capability in battery production. The Government could provide support for green jobs in the North East with energy policy interventions, including increasing and enforcing the minimum percentage of UK manufactured content in offshore wind infrastructure. Future inward investment and trade marketing activity led by the Government should promote the North East offshore wind cluster to international investors.

The North East also has natural assets and expertise that provide a competitive advantage. In relation to water as an example, we have a history of academic and business collaboration led by the Institute for Climate Risk and Resilience at Durham University and the Water Group at Newcastle University, the Environment Agency and Northumbrian Water, with support from the North East LEP. We have wider assets in other environmental sectors. This presents an opportunity for the Government to provide support for projects that will build on our innovation, demonstration and delivery assets and help to transition the rural economy with investments in green infrastructure as an enabler of wider economic growth.

Every Local Authority in the region has declared a climate emergency and pledged to reduce carbon emissions ahead of the national targets. To support these aims, the Government should prioritise investment in projects that create jobs and contribute towards our ambitious climate targets. This will require a joined-up approach and collaboration across Government departments.

The National Infrastructure Strategy should focus on local and regional energy programmes, including the decarbonisation of heat and energy innovation. The Government's innovation and R&D strategy should be designed to stimulate private sector innovation and business growth in offshore and onshore renewables, energy efficiency and low carbon transport.

Investment in digital connectivity will also be needed to facilitate the increase in home working and remote study, particularly in rural areas that still lack reliable broadband and mobile connections. This will contribute to the wider transition and digitalisation of the North East economy across all sectors, providing additional benefits for health, digital skills, productivity, and resilience.

*Q5) Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?*

Our Strategic Economic Plan identifies opportunities for growth in the digital, advanced manufacturing, health and life sciences, and energy sectors; enabled by support from financial, professional and business services, transport and logistics, construction, and education. These are sectors with higher levels of productivity, good growth prospects and

the potential for sustainable higher value employment. We need to be able to continue to invest in and accelerate each of these areas of opportunity.

To recover from Covid-19 and close the pre-Covid gap in employment with the national average, we estimate that the North East will need to renew our commitment to create 100,000 more and better full time jobs. This will require a continuing focus on these sectors. However, the wide-ranging effects of the pandemic means that achievement of these aims will require ongoing support for those that have fared badly in the pandemic and employ large numbers of people, for example non-food retail, transport, and hospitality, both to maintain their role as employers, but also to reflect the critical contribution they make to the economic and social fabric of the region.

For example, the hospitality, culture, and tourism sectors are key to the visitor economy in the North East, and these sectors have been among the most affected by the lockdown and the slowest to reopen. The visitor economy is particularly important for rural areas in the North East, reinforcing the need for place-based and sectoral recovery programmes to be aligned.

The Government's recovery package should also take account of the links between these sectors and the secondary impacts of Covid-19, for example the reduction in the number of visitors to the North East has impacted on transport, which will require a complementary package of support to return to pre-Covid levels. Changes in the commercial property market resulting from increasing home working and lower demand for office space will have a knock-on effect for retail and high street businesses. Support for these sectors could be provided alongside funding for retraining to support transitions into high employment sectors where demand is growing, such as adult social care, food retail and processing, and for skilled trades to support construction for energy efficient housing.

The forthcoming regional connectivity blueprint - developed by a coalition of partners including the regional transport authority, business, Local and Combined Authorities, universities, the voluntary and community sector, and trade unions - demonstrates the importance of thinking and acting differently to connect people and business to the economy in the region and beyond. The blueprint recognises that in the future people and businesses will think sustainably and holistically about their economic and social lives and sets out opportunities to support growth and regeneration by accelerating and transforming digital and transport through an integrated vision for connectivity. As well as supporting the economy, this will provide benefits for public health and help to meet our ambitious climate targets.

The North East region has a greater proportion of workers in the advanced manufacturing sector than other regions, with particular strengths in automotive and pharmaceuticals. These sectors drive our region's export performance, but they face further disruption and additional costs at the end of the year from EU Exit, even if the UK agrees a trade deal with the EU.

Designing a sectoral recovery plan at the national level will be complex and could risk outcomes that are contrary to the levelling up agenda. The Government should devolve funding to the regional level to better address regional sectoral priorities.

*Q6) How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?*

The impact of Covid-19 on the labour market in the North East has been significant, and a targeted programme of skills and employment support will be needed during the recovery phase.

Around 30% of the total regional workforce has been furloughed under the Job Retention Scheme up to the end of June 2020. The number of Universal Credit claimants in the North East LEP area has increased by over 70,000 (57%) between mid-March and mid-July. In addition, 50,900 claims were made to the Self Employment Income Support Scheme from the North East LEP area up to the end of May 2020.

Claims for unemployment benefits in the North East are similar across all working-age groups, but highest among those aged 45 to 49 and 50 to 54. Some of the sectors that have been the most negatively affected by the lockdown, such as hospitality, leisure, and tourism, employ a greater proportion of younger workers and women than sectors that have remained more resilient. The job recovery measures put in place nationally and regionally must take account of the unequal impact that Covid-19 has had on employment opportunities for different demographic groups, and include measures to support the creation of both highly-skilled and entry-level jobs.

Government policy should aim to provide support for the existing regional infrastructure to target unemployment, retraining and upskilling, combined with ensuring regional flexibilities for national initiatives such as the Kickstart scheme and apprenticeship bonus scheme. LEPs and Local Authorities are able to advise on the requirements of each local labour market through Skills Advisory Panels.

The Government can best aid the economic recovery and drive progression and productivity by:

- improving flexibility in the eligibility criteria for existing schemes and programmes, including the ability to repurpose funds for apprenticeships, the European Social Fund, Adult Education Budget and other devolved funds
- enabling rapid data sharing, including on applications for Universal Credit and Jobseekers Allowance, and HR1 redundancy notifications, to provide an accurate picture of both the quantum and individuals to target for support
- committing to bring together specialist employment support teams to rapidly design and implement a North East Job Recovery Scheme, co-located with Council services and with a “one-stop-shop” approach to minimize bureaucracy
- focusing support on sectors where the region has long term economic and growth opportunities, and in those where employment and demand is growing in the immediate term, including adult social care, food retail and processing, skilled trades and construction for energy efficient housing, digital, and advanced manufacturing
- ensuring an inclusive recovery by linking support to the adoption of the Good Work agenda

Additional investment to support these aims could include bringing forward a bespoke North East Education Challenge, reflecting the level of existing educational inequalities and emerging Covid-19 challenges.

*Q7) Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?*

The national Industrial Strategy is still highly relevant and appropriate to address the longer term challenges for the UK economy, but there is work to be done to focus on the post-Covid-19 context.

The Government should use the forthcoming Devolution and Local Recovery White Paper to continue to focus on support for long term economic priorities. As part of this review, there is a need to strengthen the support for local industrial opportunities as a vehicle to deliver regional recovery. A revised Local Industrial Strategy framework or similar document which confirms a joint approach between Government and the North East should be part of this approach.

In the process of developing the North East Strategic Economic Plan, the region has developed a strong knowledge base and understanding of the opportunities and challenges for economic growth. The draft Local Industrial Strategy provided an opportunity to effectively position regional assets and strengths into UK-wide programmes such as sector deals.

The disruption and uncertainty caused by Covid-19, and the complex interaction of impacts on sectors, infrastructure, and places has strengthened the need for local and regional flexibilities in response. The working relationships between LEP's, local Government, and central Government departments and agencies will need to change to best deliver post-pandemic economic growth, with support for innovation and creativity when approaching regional challenges. Local Industrial Strategies should be positioned in the White Paper as one of the principal mechanisms of delivery for recovery funding and powers.

*Q8) How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?*

The North East LEP has successfully unlocked funding streams to deliver the objectives in the SEP, including the Local Growth Fund, the Enterprise Zone programme, the North East Investment Fund and other Government funding streams relating to skills, transport and digital connectivity programmes.

International research has highlighted the importance of the “triple helix”<sup>6</sup> model for knowledge based economic development, with a framework for interaction between universities, industry, and government. Reforming economic development policy to further strengthen these interactions with clearly defined roles and lines of communication would assist with the regional recovery from Covid-19.

LEP's are often constrained in terms of flexibility in decision making around the use of resources, and do not have access to all relevant performance data with respect of resources aligned to the SEP, meaning that an impact evaluation of the allocation of funding is difficult and may be incomplete. Examples include:

- The Government took ultimate decisions on how initial rounds of Growth Deal funding would be allocated, reducing the North East LEP's influence to carefully

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<sup>6</sup> Etzkowitz, Henry and Leydesdorff, Loet, The Triple Helix -- University-Industry-Government Relations: A Laboratory for Knowledge Based Economic Development (January 1, 1995). EASST Review, Vol. 14, No. 1, pp. 14-19, 1995, Available at SSRN: <https://ssrn.com/abstract=2480085>

target at the SEP's programmes of delivery and align outputs to SEP objectives effectively

- LEP's do not manage the allocation of European Structural and Investment Funds (ESIF); this process is delivered by central Government, although influenced by the SEP as the key policy framework for the ESIF programme and through the mechanism of the regional European Steering Group. One challenge is that ESIF accountability and data is held centrally and not currently shared formally with the LEP; making the monitoring of projects challenging

The Devolution and Local Recovery White Paper should include a clear framework for future devolution in England, setting out a roadmap of future powers and funding to be devolved, and the responsibilities and obligations that will need to be met to enable this. It should strengthen the framework for cross-sectoral collaboration to strengthen regional and local economies.

Post-pandemic recovery initiatives should be designed to work and build capacity at the scale of the functional economy. For some programmes this will require models of co-operation beyond existing geographies where this could build on collaborative networks or sectors which already operate across a wider geography. We are active partners in various partnerships and networks that operate with Government support, including the Northern Powerhouse, Borderlands Partnership, the Core Cities network, and the LGA Cities and Regions Board. These are most effective when they are built on a stable and well-resourced institutional framework.

Local leaders should have the powers to draw together the work of Government departments and agencies, with their associated funding streams and schemes, to create interventions that provide solutions to regional local issues, from skills and housing to transport and climate change. What works at a LEP or Combined Authority level in one area may be better suited at a Local Authority level in another.

Government should empower and trust Local and Combined Authorities and Local Enterprise Partnerships to devise the best governance model and accountability structure that suits the needs of the area's residents and businesses. This will require powers and resources to deliver real change and to drive a sustainable recovery.

The use of data and intelligence is key to identify areas of strategic importance, shape interventions, and for monitoring of both economic performance and delivery. In addition, production, interpretation and dissemination of reliable and comprehensive data helps to inform both the work of the LEP and partners in the region. We continue to add to our outputs through the publication of the 'Our Economy' report<sup>7</sup>, the regularly updated North East Data Hub and an enhanced research programme.

The availability of economic datasets at the regional and local level is a barrier to evidence-led economic policy making. Sitting below the SEP targets, we seek to adopt KPI frameworks for key delivery programmes, which reflect the key intervention areas for regional economic growth; business growth; innovation; skills and progression; transport connectivity and investment. In each, there is a clear need for better data.

The inclusion of regional and/or LEP level statistics in budgets, spring statements and similar publications would ensure that the availability of such data was highlighted and encourage the belief that regional imbalances were being addressed. The development of a new local data web site, centred around data for LEP areas, city regions, Mayoral

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<sup>7</sup> <https://www.northeastdatahub.co.uk/report/our-economy-2020>

Combined Authorities and individual local authorities would improve the visibility of these statistics and encourage their use.

We would also recommend further investment in regional and local analytical capacity. North East partners are committed to the effective use of data and intelligence in our work and the promotion and commissioning of research. We have innovated to both promote evidence-based working and to leverage knowledge resources of our partners and stakeholders, including national bodies, through the creation of the North East Economic Evidence Forum<sup>8</sup>, and the Economic Prospects group which we support alongside the Bank of England. And we have demonstrated the capability to work with Government on the use of data to shape responses. For example, the North East Skills Advisory Panel has commissioned research on future skills demand in the offshore wind sector, the opportunity to boost digital skills in the social care sector, and mapping the region's skills and training assets. With sustained funding this work and a trust framework for data sharing, we could cover more sectors of the economy and better align skills supply and demand.

*Q9) What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?*

The pandemic and its response have highlighted a number of issues and opportunities to improve the planning and processes to focus on long term priorities, including ensuring that there is a comprehensive approach to the identification and preparation for future risks, ensuring that there are adequate supplies of essential products and equipment, and that there are robust processes of national to regional co-ordination to ensure that available assets are brought to bear during responses. It has also exacerbated vulnerabilities in regions and communities whose economies were least resilient.

The response in the North East has seen the acceleration of collaboration, behavioural changes amongst businesses and residents in areas like deployment of digital technologies and in mobility and also evidence of the shared sense of responsibility within local communities and across generations. Each of these provide opportunities to learn from and build on to ensure that the future economy can pivot to be greener, more resilient, more productive and more inclusive.

Looking at this from a regional perspective, during the recovery from the 2008 recession, the North East has benefitted from European funding - through regional development and social funds and agricultural funds – and from targeted UK resource such as Local Growth Funding. These have both been instrumental in transforming the economy.

The Government has committed to replacing European funding streams with a UK Shared Prosperity Fund (UKSPF), however very little detail has been published. The consultation activity carried out by Government to inform the UKSPF largely took place prior to the pandemic.

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<sup>8</sup> Membership of NEEEF currently includes What Works Centre for Local Economic Growth, Centre for Cities, Joseph Rowntree Foundation, IPPR North, BEIS, Newcastle University, Northumbria University, Bank of England, North East England Chamber of Commerce, CBI, Analyst Network North East and representatives of each of 7 local authorities,

The UKSPF could be a key driver of Government and regional priorities alongside the wider package of changes envisaged within this response, including the transition to Net Zero and the levelling up agenda. To achieve this, the objectives of the UKSPF should be aligned to the regionally determined priorities outlined in the SEP. Control of the fund should be devolved to LEP areas as an allocated fund based on need, rather than as a competitive process. The UKSPF should be a flexible, multi-year funding programme to facilitate long term economic planning.

*Q10) What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?*

In the first phase of the pandemic, disruption caused by travel restrictions in the UK and overseas highlighted a lack of resilience in supply chains for a number of sectors. Intelligence and evidence from the North East identified issues in sourcing building materials for the construction sector, chemicals and Personal Protective Equipment (PPE) for the pharmaceuticals sector, and the movement of goods in the food and drink sector. Businesses in the offshore wind and oil and gas sectors also faced operational constraints due to social distancing requirements and the need for staff to quarantine when returning from working offshore. There were co-ordination challenges between national and regional scales in connecting regional businesses to support the response to national challenges. Local Authorities played a pivotal role in overcoming supply chain disruption and resource shortages in the North East at the height of lockdown.

The Government has an opportunity to improve resilience in UK supply chains during the recovery. This can be achieved by supporting the development of clusters around existing specialisms in the North East (Northshoring), incentivising supply chain consolidation for advanced manufacturing and ensuring that we have the digital and transport connectivity to move goods between our ports and manufacturing sites. Locating civil service teams working on the post-pandemic recovery package, trade facilitation and inward investment, industrial strategy, transport, and skills outside of London would improve institutional knowledge about the vulnerability of places and sectors to future shocks, and improve the UK's resilience. Relocation of targeted strategic parts of central government could thicken regional labour markets in areas of opportunity.

In recent years, there has been significant consolidation in supply chains in the global pharmaceutical sector and a trend to manufacture in Asia for reasons of economy. The North East life sciences cluster has nonetheless continued to thrive by focusing relentlessly on availability, reliability and compliance. The manufacture of generic pharmaceuticals, products which have lost patent protection, is driven by competition on price. As a result, generics manufacture has moved globally to countries with lower labour costs.

The NHS benefits from lower drug costs for these very widely-used drugs. The disbenefit is often fragile supply chains that lead to shortages of drugs within the NHS: sometimes a generic is manufactured in one site at global remove and any disruption in manufacture or supply leads to an immediate global shortage. These shortcomings have been thrown into sharp relief during the Covid-19 pandemic.

As an example of the potential to address these issues, increase domestic manufacturing capability, and create skilled jobs in the region, the North East LEP is working to develop a

public-private partnership initiative between Newcastle Hospitals NHS Trust (NuTH) and the regional pharmaceutical manufacturing supply chain to deliver a generics manufacturer managed by the Newcastle Specials Pharmacy Production Unit (NSPPU) on existing regional pharmaceutical manufacturing sites.

This programme will minimize the requirement for capital investment through the use of existing sites, facilitate the sharing of knowledge and experience between industry and the NHS, and help to form a robust and integrated generics supply chain for the UK.

More generally, North East manufacturers have also responded to national calls to produce ventilators and PPE for the NHS. To prepare for future external shocks, Government should produce an assessment of key strategic supplies – food and medicine, PPE, medical equipment – which can then be communicated to manufacturers and ensure that effective and resilient co-ordination mechanisms are in place.

*Q11) What opportunities exist for the UK economy post Brexit and the pandemic for export growth?*

As noted above, many sectors are reviewing their supply chains in light of the disruption caused by Covid-19, and we have an opportunity to help to support consolidation and building resilience by growing the supply base in the North East.

There are also lessons to be learned in preparation for the end of the European Union transition period, and the implementation of an independent UK trading policy. We would like to see the Government develop a strong and integrated approach around accelerated trade facilitation, internationalisation and inward investment at the regional level to allow for a focus on regional sectoral strengths.

Our response to the Government's consultation on Freeports<sup>9</sup> called for a framework that will enable a digitally enabled, multi-site Free Trade Zone in the North East with an initial focus on offshore wind and advanced manufacturing. We will prepare a bid for a North East Free Trade Zone with regional partners when the competition is launched in the Autumn as part of our wider approach.

The creation of a North East Free Trade Zone and an enhanced trade facilitation offer will help to mitigate some of the impact of the UK leaving the Single Market and the Customs Union, however it will not be a substitute for a comprehensive free trade deal with the EU. The European Single Market is the primary current market for goods exported from the North East, accounting for 60% of the region's exports in 2018. The Government should continue to prioritise a free trade deal, as an increase in tariffs, non-tariff barriers and regulatory costs for manufacturers resulting from a No Deal scenario risks harming the regional recovery from Covid-19.

To better monitor opportunities for export growth and the performance of regional exporters when the UK has left the EU, Government should make available more detailed trade statistics at the regional level. Currently, the HMRC Trade in Goods statistics are not published at the LEP level, and the NUTS2-level regional data is not timely. It would also be useful to receive a regional breakdown of ONS International Trade in Services data at the LEP level.

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<sup>9</sup> <https://www.northeastlep.co.uk/news/north-east-lep-and-regional-partners-submit-response-to-governments-consultation-on-uk-freeports>

*Q12) What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?*

The Government has a significant role to play at the local level in supporting business growth, utilizing the knowledge and expertise of regional institutions and partners.

The delivery of Enterprise Zones, the North East Fund, and the North East Ambition<sup>10</sup> programme to support the delivery of careers advice in schools are examples of national programmes that the North East has proven can be delivered locally. We are seeking more flexibility across a wider range of areas to address the challenges of recovering from Covid-19, especially in areas that cut across the responsibilities of Government departments.

In the North East our priorities are as follows:

- Building infrastructure to lead transformation and encourage future investment
- An inclusive recovery, supported by at-scale labour market and skills support
- Accelerate the transition to a greener, more digital and resilient economy, powered by innovation
- Delivering support to enable a rapid recovery of businesses and sectors
- Creating resilient places and strong communities to adapt to challenges and capitalise on new opportunities, and supporting the cultural recovery

*September 2020*

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<sup>10</sup> <https://www.northeastambition.co.uk/>