

Cabinet

Tuesday 22 October 2019 at 2.00 pm

Meeting to be held: Committee Room, Northumberland County Council, Morpeth, NE61 2EF

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SUPPLEMENTAL AGENDA

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Subject: Investment Fund and Brexit Update

Report of: Interim Director of Inclusive Growth

Portfolio: Economic Growth

Report Summary

At the time of writing this report, the UK Government expects the UK to leave the European Union on 31st October 2019. But there remains a large amount of uncertainty on both the timescale and the nature of the exit. The Government's preferred strategy has been to leave the EU with a deal and a transition period and under such circumstances commercial relationships are unlikely to change until December 2020. It remains possible, however, that the UK will leave with no deal and under these circumstances there is a risk of disruption to trade. If the Withdrawal Agreement is agreed, firms may respond to this and the political declaration and start to implement their Brexit scenario plans.

The North of Tyne Combined Authority (NTCA) is committed to seeking ways to unlock potential, to create the conditions for businesses to flourish, nurture investment and support new jobs growth. This report focusses on the activity of the NTCA to help support longer-term growth and minimise any short-term negative impacts associated with Brexit.

The report also provides a short update on progress toward establishing a Citizen's Assembly as part of the Combined Authority's response to climate change.

Recommendations

The Cabinet is recommended to

1. Note the launch of the North of Tyne Inward Investment Grant fund and the progress with the North of Tyne Growth Fund and North of Tyne Rural Growth.
2. Establish a NTCA Brexit task-force to consider any systemic or structural issues.
3. Agree the key asks of Government as outlined in the report.
4. Endorse further development work to set up a Citizens' Assembly which will consider action on climate change at a Combined Authority level.

1. Support for Businesses

1.1 Background

1.1.1 The North of Tyne Combined Authority is committed to seeking ways to unlock potential, create the conditions for businesses to flourish, nurture investment and support new jobs growth with a focus on enabling innovative, long-term opportunities for growth that reflect a transforming economy. In the NTCA's Economic Vision there are clear priorities to encourage the development of start-up and scale-up businesses; support existing businesses to grow and attract talent; attract further investment in business; and support the rural economy.

1.1.2 To deliver on the priorities highlighted in the Economic Vision, the Combined Authority is working with local and regional partners to ensure North of Tyne businesses have access to appropriate and relevant support whilst also looking to attract more businesses and investment to the area. This is particularly important in the current climate of uncertainty.

1.1.3 The Combined Authority is bringing forward a coordinated package of schemes to support businesses and promote inward investment. This report includes details on the newly launched North of Tyne Inward Investment Fund and highlights another two schemes, the North of Tyne Growth Fund and the North of Tyne Rural Business Growth Fund which will be launched pending final funding approvals by the Ministry for Housing, Communities and Local Government (MHCLG) for European Regional Development Funding (ERDF). Through these schemes the NTCA will establish an enhanced offer of business support for both inward investment and indigenous business which will dovetail with existing business support provision for businesses.

1.2 North of Tyne Inward Investment Fund

1.2.1 In February 2019 the NTCA Cabinet approved a proposal to create an Inward Investment Grant Fund with an initial budget of £1m per annum. The £3m fund is now operational and open for applications until 30th September 2022 and it is anticipated that it will help create 600 jobs and leverage £17.1m of private sector investment. The fund fills a gap left by the withdrawal of past grant sources and enables the NTCA area to compete with other investment locations in the UK and Europe who are already offering grant assistance to inward investors.

1.2.2 The fund can provide a minimum grant of £100,000 and a maximum grant of £1million for foreign or UK owned businesses making a first investment in the region. In exceptional circumstances it can also support companies already based in the area who are setting up a completely new type of economic activity. The North of Tyne Inward Investment Grant fund has been designed to complement not duplicate other business support activity both available currently or planned in the near future.

1.2.3 The North of Tyne Inward Investment Grant fund is not intended to support existing companies who are seeking to expand operations from existing premises or those which are seeking to relocate their operations within the NTCA area. This is activity which will be covered by the North of Tyne Growth Fund and the North of Tyne Rural Business Growth Fund.

1.3 North of Tyne Business Growth Fund

- 1.3.1 In November 2018, Cabinet were advised on the opportunity to bid for ERDF funding to invest in strategic reinvestment and business growth opportunities for SMEs in the North of Tyne. The proposal was supported, and an outline application was submitted to MHCLG for ERDF investment of £4,640,938, matched entirely with SME contributions. In February 2019, the NTCA was invited to submit a full application which was submitted in June. NTCA has received a letter of assurance from MHCLG approving the scheme in principle therefore the scheme will be able to commence by the end of this year.
- 1.3.1 The NTGF will support SMEs with existing operations in the North of Tyne area. Grants will be available starting from £40,000, requiring a minimum total investment of £200k for a medium and £133k for a small business. Businesses seeking support will need to demonstrate that financial assistance is required in order for the investment to progress.
- 1.3.2 The primary aim of the fund is to support investment into the NTCA area that will create employment and stimulate growth. Grant awards will be provided to de-risk investment projects or make job creating projects viable. The NTGF will contribute towards supporting business growth and fostering innovative processes which will drive productivity resulting in increased profitability, wage growth and employment growth in SMEs. This scheme will support around 28 business, deliver 252 jobs and leverage £10.5m of private sector investment.
- 1.3.3 UMi is the NTCA's delivery partner for this scheme and they will take a lead role in delivering the NTGF including promotion of the scheme, delivery of information, diagnostic and brokerage support to eligible SMEs, facilitation and management of a decision-making North of Tyne Grant Fund Panel, grant management and monitoring of beneficiaries. The scheme will be open for applications from the 1st January 2019, prior to this UMi will manage expressions of interest.

1.4 North of Tyne Rural Growth Fund

- 1.4.1 The North of Tyne Growth Fund application has been developed in parallel with the North of Tyne Rural Business Growth Project for which Northumberland County Council is the lead applicant and NTCA funding has been approved alongside an application for ERDF funding. The NTCA Cabinet agreed £1.26m (over 4 years) in March 2019 to Northumberland County Council to be matched with £3.8m of ERDF and £2.8m of private sector investment. The application for ERDF funding is in the final stages of the decision making process and subject to a positive outcome expected soon, the scheme will likely be operational by the end of 2019.
- 1.4.2 This 3-year project aims to support economic growth in rural economies and the economic rebalancing of rural communities. The rural parts of the North of Tyne area play a very important role in the local economy, accounting for a significant share of total employment. While possessing significant economic potential, rural businesses face a number of unique barriers to growth associated with their remote location, which are more acute than those faced by businesses in urban areas. The Rural Business Growth Fund aims to address the scale up challenge of businesses with

growth potential in rural areas, supporting them to access suitable finance products, enabling growth and maximising their scale up opportunities. The scheme will help drive increased productivity and business performance, encouraging more overseas trading and incentivising business innovation.

1.4.3 The Rural Business Growth scheme has two linked components:

- Business Advice and Support Services to support the development of growth plans and guide businesses towards appropriate sources of finance.
- A Capital Grant Investment Fund to support investment in projects that enable rural businesses to expand productive capacity and / or diversify into new markets or products.

This scheme will provide 300 businesses with information, diagnostic and brokerage support, of which 245 businesses will be provided with more intensive support to develop growth plans and 62 businesses will benefit from a capital grant to invest in these growth plans. It is expected that 187 new FTE direct jobs will be created in businesses supported with a capital grant and £2.8m of private sector investment will be leveraged.

1.5 Alignment

1.5.1 The North of Tyne Growth Fund, the Rural Business Growth and the Inward Investment Grant fund will complement and plug into the existing business support and inward investment provision available in the North of Tyne area. Specifically, in regard to the support provided by Advance Northumberland, Newcastle City Council and North Tyneside Council, the North of Tyne Combined Authority has enabled much closer working and integration of provision at a North of Tyne level. This cooperation and integration will ensure North of Tyne businesses have access to appropriate and relevant support.

1.5.2 The support delivered through the North of Tyne schemes will fully align with and complement provision delivered by other providers. The schemes will enhance, complement and promote the business support landscape in the North East and will be integrated into the North East Growth Hub. The Growth Hub joins up national and local business support in the North East so it is easy for businesses to find the help they need.

2. Brexit Update

2.1 Background

2.1.1 At the time of writing this report, the UK Government expects the UK to leave the European Union on 31st October 2019. But there still remains a large amount of uncertainty on the timescale and nature of the exit. The Government's preferred strategy has been to leave the EU via the Withdrawal Agreement with a transition period and under such circumstances commercial relationships are unlikely to change until December 2020. It remains possible, however, that the UK will leave without the Withdrawal Agreement in place and under these circumstances there is a risk of disruption to trade. In March 2019, a similar period of uncertainty resulted in some businesses to stockpile imported raw materials; any subsequent no deal after 31st October may result in some businesses incurring additional costs / losing business.

2.1.2 In February 2019, the NTCA Cabinet agreed a number of activities to help provide Brexit resilience. This identified the need for:

- Increased business engagement, including both consultation events and more targeted visits
- Identification of sectors or issues of concern to the business community
- Development of an inward investment fund, to support businesses making a first investment in the area
- Consideration of a Brexit Response Fund, to respond positively to counter any potential negative Brexit effects
- Development of a longer-term response to Brexit, including consideration of a skills-response using the Adult Skills Budget and supporting the development of a wider regional Free Trade Zone proposal.

2.1.3 In addition to progressing these actions, the NTCA and the three constituent authorities have played a full part wider national and regional Brexit preparedness arrangements. This has included working with the Local Resilience Forum and other partners on issues including: continuity of regulatory services; minimising disruption at the Ports and Airport; working with health partners to ensure continuity of health services; and encouraging broader Brexit preparedness.

2.2 North of Tyne Business Context

The NTCA and its constituent authorities have undertaken a substantive programme of engagement with companies and sectoral bodies. Some business concerns are sector-specific, although we have also found considerable diversity in views within sectors. But there are also several general messages:

- Most large businesses we have spoken to have developed Brexit plans, but many smaller businesses have not – either because their actions will be dependant on their customers/supply chain or because of ongoing uncertainty about final trade arrangements with the EU.
- A number of businesses have put investment programmes on hold until there is greater certainty about the future relationship with the EU. This provides an economic opportunity once there is more clarity around longer-term trading arrangements, but also risks associated with the nature of these future decisions.
- The importance of developing confidence in the area and its economy, to counter the impact of uncertainty
- Urging patience on behalf of the financial sector during a period of potential cash-flow interruption.
- Support for any practical help which the constituent authorities might be able to give – including if there are short-term cash flow issues.
- The importance of the skills system for UK residents post-Brexit and ensuring that there is ongoing access to highly skilled migrants. Issues identified include ensuring that any regional salary cap reflects wage levels within the area; ongoing access to language skills; maintaining staffing levels in critical areas of employment.
- Working together in the case of any specific shocks.

2.5 Communications

The NTCA has worked with partners to promote Brexit-preparations events and to raise awareness of advice available for:

- Businesses
- Residents planning to visit the EU after Brexit
- Those living and working within the EU
- EU citizens currently living in the NTCA

<https://www.gov.uk/Brexit>

The CBI has also recently created a website for businesses to use as a resource – members and non-members alike – available at:

<https://www.cbi.org.uk/no-deal-preparations-hub/>

2.6 Increasing Economic Resilience

2.6.1 Despite the preparations of businesses, residents and wider partners in the region, the NTCA is acutely aware that Government's economic forecasts predict that the NE will be the part of the country most affected by both a no-deal Brexit and if there are medium-longer term tariff or regulatory barriers to trade with the EU. This reflects the underlying sectoral composition of the economy and unusually high levels of exports from the NE to the European Union.

2.6.2 The NTCA urges businesses within the area to approach the respective local authority, the Combined Authority or other partners across Government and the NELEP should they be adversely affected by Brexit.

2.6.3 The Public sector will look to use discretionary powers where possible, considering:

1. Issues related to the company/companies (including whether cash-flow related)
2. Impact on the supply chain
3. Support available to affected employees, including by the employee, DWP and locally-available training opportunities.

2.6.4 In addition, the NTCA will set up a task-force to consider any systemic or structural issues. It will seek suitably senior representatives from DWP, BEIS and any other relevant departments. This will focus on the overall effect on the local economy, together with any wider issues. including on communities and sense of place.

2.7 Ask of Government

2.7.1 Because of these underlying concerns, and as we are already seeing a slowdown in business investment and thus opportunities for future growth, the NTCA calls on Government to provide an immediate economic stimulus to the NTCA area and to provide a clear demonstration of confidence in the region's economic future by:

- Accelerating the process of further devolution of powers and funding to the NTCA.
- Providing a short-term fiscal stimulus, including:

- For Government to promptly agree existing submitted bids, including Transforming Cities, NE-CHAIN Ageing Industrial Strategy Challenge Fund and releasing funding associated with the Borderlands deal
- Providing support for the NTCA education challenge - £10m p.a. for 5 years
- Provision of a flexible funding of sufficient scale to bring forward capital projects. This should include the area's share of unallocated ERDF and ESF funding
- Approving borrowing powers for the NTCA, to enable additional investment by the Authority
- Ensuring that the immediate stimulus package sits alongside a temporary replacement for EU funds and other local growth funds and a strategic approach to the UKSPF to deliver longer term economic rebalancing.

2.7.2 In addition to the asks above, in the event of a 'no deal' scenario – or should businesses respond negatively to any final agreed deal – Government is asked to provide additional resources to the NTCA to establish a **Brexit Response fund**. Businesses adversely affected by a 'no deal' Brexit would be able to bid into this loan fund to provide them with support. We would anticipate that the fund would operate over a period of 3 years and reflect the following key design principles:

- Be available to companies who need to stabilise their position in the short-term, as a direct result of Brexit, but remain viable in the long term
- Provide short term finance for a period of up to 24 months
- Provide loans of £25K to £250K
- Comply with state aid; charge the reference rate applicable to the business.
- Ensure that the loan agreement meets normal commercial terms.
- Provide funding decisions in a timely manner

3. Update on Climate Change

The NTCA has declared a Climate Emergency, as have its three constituent authorities and is committed to implementing appropriate action to reduce carbon emissions.

The NTCA is asked to endorse further development work to explore the setting up of a Citizens' Assembly to consider action on climate change at a Combined Authority level. The Citizens' Assembly would be a representative group of residents who are selected at random from the population to learn about, deliberate upon, and make trade-offs and arrive at workable recommendations.

Working closely with other stakeholder groups, this approach would:

- Provide meaningful participation, enabling NTCA residents to shape policy and influence decision making.
- Enable different ideas to be tested.
- Provide realistic data about what people will and won't do, and different value judgements.
- Get buy-in for the conclusions, providing further legitimacy to any subsequent proposals from the Combined Authority to national Government.

4. Potential Impact on Objectives

4.1 The projects identified in the report are consistent with the priorities set out in the NTCA vision.

5. Key Risks

5.1 Risks have been considered as part of the application and appraisal process in relation to the North East Inward Investment Fund; North of Tyne Growth Fund and North of Tyne Rural Business Growth Fun. Risks associated with the Brexit Response Fund will be considered as part of a forthcoming application and appraisal process.

6. Financial and Other Resources Implications

6.1 The overall impact on the use of the Investment Fund has been considered in separate Cabinet Papers and the financial management report on the agenda for the 22nd October Cabinet meeting shows the approved spend to date.

7. Legal Implications

7.1 The Interim Monitoring Officer's comments have been included in this report.

8. Consultation/Engagement

8.1 Stakeholders have been fully engaged in the development of the project proposals and as part of wider Brexit related engagement.

9. Appendices

9.1 N/A

10. Background Papers

10.1 February 2019, NTCA Cabinet Papers

11. Contact Officers

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12. Glossary

ERDF - European Regional Development Fund

MHCLG - Ministry of Housing, Communities and Local Government

SME - Small and Medium-sized Enterprise

13. Sign-off

13.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes