



House of Commons
North East Regional Committee

**Industry and
Innovation in the
North East of England:
Government Response
to the Committee's
First Report of Session
2009–10**

**First Special Report of Session
2009–10**

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North East Regional Committee

The North East Regional Committee is appointed by the House of Commons to examine regional strategies and the work of regional bodies.

Current membership

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Mr David Anderson MP (*Labour, Blaydon*)
Mrs Sharon Hodgson MP (*Labour, Gateshead East & Washington West*)
Mr Denis Murphy MP (*Labour, Wansbeck*)
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First Special Report

On 18 December 2009, the North East Regional Committee published its First Report of Session 2009–10, *Industry and Innovation in the North East of England* (HC 169). On 9 February 2010, the Committee received a memorandum from the Government which contained its response to the Report. The response is published as an appendix to this Report.

Appendix: Government response

Introduction

The North East Regional Committee published its First Report of Session 2009–10 into Industry and Innovation in the North East of England on 18 December 2009. The Government welcomes the Report and thanks the Committee for its work.

The Government Office for the North East coordinated the Government's response to the Report which is submitted to the Committee in the form of this memorandum by the Minister for the North East, Rt Hon Nick Brown MP.

The Government responds specifically to the conclusions and recommendations on page 55 of the Report. The paragraph numbers and relevant text have been reproduced from the Committee's Report and set in bold type above the Government's response.

Government Response

1. We hope that political disagreements regarding the establishment of Regional Committees will be resolved so that opposition Members will be able to participate in the work of the North East Regional Committee. (Paragraph 2)

The Government endorses the Committee's comments. We stand by our original view that a system of regional committees will provide a vital strengthening of accountability to Parliament and scrutiny of decisions on spending and other matters, not just in the North East, but in each of the English regions. We believe that the regional select and grand committees that have taken place so far have demonstrated the value of robust debate at the regional level.

2. Manufacturing plays a fundamental role in the economy of the North East of England. This needs to be appropriately valued, but according to some employer's organisations manufacturing is under-resourced by central Government in favour of industries, such as those in the public and financial sectors. In particular manufacturing has suffered in the past year from reduced demand and increased cost. (Paragraph 14)

3. The Government must reassert the importance of manufacturing industry. It is clear, however, that manufacturing industries in the region must innovate if they are to attain and maintain global competitiveness. We encourage the development of manufacturing industries away from traditional fossil fuel-based manufacturing towards the next generation of industrial development. (Paragraph 15)

The 2008 Manufacturing Strategy 'Manufacturing: New Challenges, New Opportunities' reaffirmed the Government's commitment to manufacturing as part of a mixed and balanced economy and set out a more active role for Government in supporting the sector. The Strategy was supported by a £150 million package of measures aimed at accelerating the use of new technologies and intellectual property, improving the skills base and helping business to exploit the opportunities offered by global value chains and the growing low carbon economy. In addition the Low Carbon Industrial Strategy outlined £405 million of investment in Low Carbon Industries and advanced green manufacturing.

The Government is targeting action and support on those areas where it can make the most difference. Through the 'New Industry, New Jobs' strategic vision, the Government has also launched the advanced manufacturing package, comprising a further £150 million of investment to boost our manufacturing skills base and encourage the take-up of new technologies. Flowing from the Advanced Manufacturing package, the Composites Strategy was launched on November 2009 and the Plastics Electronics Strategy in December 2009. This support includes a £20 million expansion of the Printable Electronics Centre (PETEC) in the North East, comprising £12 million of Strategic Investment Fund (SIF) monies and £8.5 million from the European Regional Development Fund.

The Government is also investing £30 million of new money, matched by £30 million from One North East, as part of the Tees Valley Industrial Programme, to equip Teesside to realise its potential to be part of our low carbon manufacturing base.

Since 2002 the highly successful Manufacturing Advisory Service (MAS) has provided practical support to manufacturing companies to improve their productivity and competitiveness. MAS has conducted over 31,000 manufacturing reviews and supported more than 11,000 implementation projects worth nearly £700 million in added value to the companies concerned. The first annual results for MAS North East (re-formed in October 2008) show that it supported 543 firms across the North East, helping secure £21.1 million in productivity savings to businesses.

4. The North East Development Agency (One North East) has a key role in driving and co-ordinating regional economic development. We note the general level of support for its role in the region. The Regional Economic Strategy drawn up by One North East sets out a vision to create a “vibrant, self reliant, ambitious and outward looking region featuring a dynamic economy, a healthy environment and a distinctive culture”. We commend its regional priorities and fully support its vision and ambition. (Paragraph 19)

5. One North East was originally established to provide strategic economic leadership in the region. Since its establishment, it has, at the Government’s request, taken on a large number of additional responsibilities and has moved beyond its original strategic role, becoming responsible for the delivery of a number of grants and European Development Funds. We note concerns raised by witnesses that this may cause One North East to lose its business focus and urge it to ensure that that focus remains its clear priority. (Paragraph 23)

The Government welcomes the level of support shown for the role of One North East. The primary role of Regional Development Agencies (RDAs) is as strategic drivers of economic development in the regions, coordinating regional economic development and regeneration, enabling regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions. An independent study in 2009 (PricewaterhouseCoopers) found that every pound spent by RDAs generates an extra £4.50 for the economy.

RDAs have played a key role at the frontline of the Government’s response to the global economic downturn. They have risen to the challenge of the recession while continuing to plan for the upturn, investing to create the right environment for the growth of future and emerging economic sectors, such as low-carbon technologies, high-tech manufacturing and digital communications. The RDAs will invest £1 billion between 2009 and 2011 to support innovative businesses.

The Government agrees that the focus of the RDAs should continue to be on sustainable economic development. This is why we have given them (jointly with local authorities) responsibility for developing, implementing and monitoring new single regional strategies. A key purpose of the Regional Strategy will be to drive sustainable economic growth in the region.

The responsibilities of RDAs have changed since they were established, but where new responsibilities have been transferred to RDAs it has been because the Government felt that there was a fit with the agencies’ statutory purposes. In all cases, we have consulted the RDAs on the changes to their responsibilities.

The main changes have been the transfer of Grant for Research and Development, management of Business Links and responsibility for the 2007–13 European Regional Development Fund to the RDAs. At the same time, the Department for Business, Innovation and Skills (BIS) has been working closely with RDAs and local authorities under the Business Support Simplification Initiative to streamline the range of business support products. The Government is keen that the RDAs' focus remains on economic development, which is where their business led Boards make a significant contribution.

6. We welcome the Single Programme Grant in Aid which allows One North East to influence effectively regional economic priorities and which gives greater flexibility in managing available resources. The agency's effectiveness is harmed, however, by reductions in its budget. These reductions can be made at short notice, which affects expenditure already allocated. We recommend that One North East suffers no further short or immediate-term budget reduction in order to enable it to take strategic decisions for the good of the region on a stable and agreed financial footing. (Paragraph 27)

A combination of factors led the RDA to review its capital budgets for 2009–10 and 2010–11—the impact of the Government's 2007 Comprehensive Spending Review, reprioritisation of Government funding and the effects of recession on its ability to raise receipts. Total reduction in resources for One North East for the two years 2009–10 and 2010–11 is £42 million. However, it is important to note that total Government investment in One North East for 2008–09 was £245 million, which equates to £98 per capita—the highest of all the RDAs.

The Government cannot give firm commitments in relation to the RDAs' future budgets, but we have issued all RDAs with an indicative budget for 2010–11 to inform their planning. We expect decisions about the RDAs' budgets to be made in the context of the next Spending Review and following consultation between RDAs and government departments.

7. We welcome the Government's recognition that innovation is essential to the UK's future prosperity. We agree that a policy of industrial activism, with the Government taking a leading role in supporting the development of innovation and investment, is essential to the future growth of our economy. (Paragraph 35)

8. The manufacturing industry is essential to the rebalancing of our economy. The Government must ensure that it plays to the strengths of the North East region, working with One North East and local partners to enable economic development. While the Government recognise the importance of innovation, they must also ensure that traditional industries in the manufacturing economy are not forgotten and are helped to innovate. (Paragraph 36)

The Government welcomes the Committee's endorsement of its approach to industrial activism. We recognise the need to encourage a broad range of manufacturing industries to develop and innovate. 'New Industry, New Jobs—Building Britain's Future' published in April 2009 sets out the Government's strategic approach to investing in the country's industrial future. Industrial activism is about readiness for the upturn and preparing for a world economy that will be very different, and more challenging, than that experienced

before the recession. The Government will work to remove barriers to success, create the conditions in which businesses can thrive and provide targeted support to industry.

‘New Industry, New Jobs’ set out the Government’s priority policy areas—skills, innovation, infrastructure, finance and access to global markets, employment and enterprise and business support. This was followed by ‘Partnerships for Growth—a national framework for regional and local economic development’ published in December 2009 which sets out the delivery approach for each of these priority policy areas. It also identifies priority sectors targeted for intervention—the digital economy, creative industries, low carbon industries, Low Carbon Economic Areas, advanced manufacturing and life sciences.

Building on this, the Government has launched its growth strategy for the UK, ‘Going for Growth’. The strategy recognises the crucial role of innovation and knowledge transfer and the successful commercial exploitation of new technologies in helping UK businesses grow and exploit new market opportunities.

‘Going for Growth’ also confirms the Government’s continued commitment to its policy of industrial activism, delivering renewed growth and prosperity through targeted strategic interventions designed to build on our industrial strengths and areas where we have particular expertise or might gain a comparative advantage.

9. One North East plays a key role in developing and implementing innovation policies. We welcome its focus on the Three Pillars where the region has significant potential to be a global leader. (Paragraph 40)

The Government welcomes the recognition of the role played by One North East in developing and implementing innovation policies in the region. The region’s universities and the Strategy for Success are key to this succeeding. Growing the business base is crucial to meeting regional economic ambitions—creating new businesses as well as building on the region’s strengths. One North East has worked through vehicles such as the Manufacturing Advisory Service, the North East Productivity Alliance, the Centre for Process Industries and the North East Process Industry Cluster to successfully boost competitiveness, skills and productivity in the region and is working to develop the Innovation Connectors in the North East in order to develop new world-class facilities and approaches to integrating business and universities.

One North East has a key role to play in delivering the strategic vision for Britain’s future set out in ‘New Industry, New Jobs’ and is working with regional stakeholders to focus on new economic opportunities to create new jobs and businesses. This work is focusing on a range of sectors including plastic electronics, industrial biotechnology, low carbon industries and ultra low carbon vehicles.

10. We congratulate NEPIC and NETPark on the work that they are doing in assisting the commercialisation of cutting-edge research and developments. Such schemes provide technology companies with the tools, infrastructure and support to create financially stable, high-growth enterprises, enabling the development and growth of science and technology businesses in the region. (Paragraph 43)

The Government welcomes the recognition of the work of the North East Process Industry Cluster (NEPIC) and NETPark in the region. One North East supports the region's process industries through NEPIC, which was established by the Agency in 2005. NEPIC works to promote the sector as an attractive career opportunity, to develop new routes to obtaining a career in this highly-skilled sector and promoting the region's capabilities to secure new investment. NEPIC has received £1.65 million of funding from One North East to support the regional process industries over the next three years. This is in addition to £1.4 million of funding already invested by One North East.

One North East is also working with Durham County Council, the County Durham Development Company, the Centre for Process Innovation and Durham University to establish the next phase of NETPark, involving approximately £13.5 million of European Regional Development Fund investment.

11. The North East Region has the potential to be a global leader in the development of the renewable energy industry. We were deeply impressed by the work done at NaREC, which has helped put the region on the map with regard to blade testing for wind turbines. We welcome the announcement that a new turbine factory will be built by Clipper Windpower and its commitment to the region. We also welcome the work being done in the region in the development of greener vehicles and the investment by Nissan at Sunderland in battery production. Major opportunities also exist for carbon capture and storage because of the region's proximity to the North Sea and we welcome the research and development taking place at the Alcan facility in Lynemouth. (Paragraph 58)

12. Private industry must be given clear signals on where to invest. The Government must indicate its priorities and provide clear direction if the potential present in the region is to be realised. The Government must act quickly while a window of opportunity exists for pioneers to emerge in the field of renewable energies, as the UK faces competition in this area from other countries. We urge the Government to work with One North East, the business community and local partners in the North East to analyse the strengths of the region and to determine where future economic and sustainable growth exists. (Paragraph 59)

The Government welcomes the Committee's endorsement of the work being done in the region to develop a renewables industry and capacity. This regional activity is very much in line with national policy on supporting renewable energy and related industries, and Government is committed to continuing support.

Budget 2009 announced an extra £1.4 billion in support for low carbon industries. This included £405 million to support the development of a world-leading low-carbon and advanced green manufacturing sector in the UK and £90 million to fund engineering and design studies for carbon capture and storage. Total low carbon investment from the Strategic Investment Fund in 2009–10 amounts to nearly £70 million.

North East England is one of the UK's Low Carbon Economic Areas, specialising in ultra low carbon vehicles and led by One North East. This follows the Agency's ongoing work with a wide range of industrial and public sector partners to make the region the best place in the UK for the development of electric vehicle technology, which has played a

fundamental role in Nissan's decision to bring its new £200 million rechargeable battery plant to Washington.

In September 2009, the Government announced a grant of £4.4 million to Clipper Wind Power to develop their first prototype 70 metre blade for the Britannia project—the largest wind turbines in the world. It is anticipated that as a result of their award Clipper will start work on a plant in the North East of England where blades for their giant turbines will be developed.

'New Industry, New Jobs', 'Partnerships for Growth' and 'Going for Growth' all identify priority sectors targeted for intervention, giving clear signals on where to invest, but regional partners have a key role to play in identifying regional priorities. The Government will work with regions to ensure that there is a coordinated approach to support for national priorities.

RDAs have a key role to play in delivering NINJ on the ground. One North East is working with regional stakeholders to focus on new economic opportunities to create new jobs and businesses for the future and has been focussing on a range of sectors to support this new approach—Low Carbon Vehicles, Low Carbon Process Industries, Offshore Wind and Printable Electronics.

The new regional strategies, that will be developed jointly by the RDAs and the regional local authority Leaders' Boards, will set out the priorities for each region. The Government will work with regions to encourage this new approach, and will drive alignment in delivery at national, regional and local levels. Every other delivery partner will need to play their part, focusing on the things that they are best placed to do, and working with others to ensure that businesses and people get the help they need to prosper. The task is critical to our future economy and society and the Government will work with business, local authorities and all those involved in economic development to ensure success.

13. The ability of businesses to access adequate finance is one of the significant issues raised during the inquiry. Witnesses spoke of lending practices making it more difficult for businesses to access finance. This is putting businesses at risk. The banks' regional managers must work more closely with the region's business groups to ensure that their lending practices and charges are appropriate for supporting North East businesses through the current economic climate. (Paragraph 71)

The Government takes the concerns of SME businesses very seriously. Indeed, the Government has continued to demonstrate its support for SME businesses through lending commitments agreed with the banks, policies such as the Enterprise Finance Guarantee, which has offered loans to over 7,400 SMEs, and other Real Help measures. The Government also continues to hold regular dialogue with the banks on issues such as this, including through the Small Business Finance Forum and encourages similar engagement between banks and businesses at a regional level.

One North East, Business & Enterprise North East and regional bank representatives met on a quarterly basis throughout 2009 and this effective working relationship has resulted in both high level engagement and sharing of issues, as well as activity to directly support businesses in securing finance.

In addition to this high level engagement there has been more operational level activity. Recognising the changed credit environment, Business Link, in partnership with the banks, has developed a guide to help businesses improve their ability to raise finance.

The availability of funds such as JEREMIE (Joint European Resources for Micro to Medium Enterprises Initiative) is also important to support businesses in the region (see recommendation 23 for more detail).

14. A lack of communication resulted in confusion about lending under the European Finance Guarantee Scheme. Bank staff were not aware of the scheme when it was introduced and could not provide information to interested businesses. The Government, in introducing schemes to assist businesses during the current economic climate, must ensure that adequate pre-briefing and pre-training takes place before they are rolled out to the public. (Paragraph 76)

While we acknowledge that there were some initial teething problems with the roll-out of the Enterprise Finance Guarantee Scheme, the Department for Business, Innovation and Skills and Capital for Enterprise Limited took prompt action to address these, clarifying the aims of the Scheme and encouraging lenders to improve the proliferation of information about the Scheme to staff at branch level. The Government has ensured that the lessons learnt have been recorded for future reference.

15. One North East has taken positive and effective steps to provide support to businesses. We welcome the approach it has taken with regional partners to ensure that marketing and promotional efforts are co-ordinated in the North East. This has allowed much-needed help to be quickly accessed by those requiring support. (Paragraph 81)

The Government acted swiftly to ensure that effective support was provided for businesses during the recession, in particular through the ‘Real Help for Businesses Now’ campaign, offering a range of practical support to help businesses through the recession and return to growth.

The Government welcomes the recognition of One North East's effectiveness in providing business support, and ensuring that promotion of that support is co-ordinated in the region. This support has mainly been delivered through Business Link as Government's single portal for all businesses seeking advice.

The ‘Real Help for Business and People Now’ campaign in the North East uses two main strands—media relations (with newspaper and regional media endorsement) and marketing (events, advertisements and leaflets). One North East, the Learning and Skills Council, Business & Enterprise North East, Jobcentre Plus and the Government Office for the North East, have worked together to ensure all marketing and promotional efforts are co-ordinated, using pooled resources so consistent information is communicated to businesses and individuals across the North East.

Membership of the ‘Real Help for Business and People Now’ campaign group has been extended to include the Association of North East Councils (representing the region's twelve local authorities) and the TUC, who have been important in spreading the ‘Real Help’ message to citizens and businesses on the ground in a cost effective way.

16. We welcome the work done by One North East, the Regional Minister and regional partners in the Response Groups to the large-scale job losses that occurred at Nissan. (Paragraph 84)

We welcome recognition of the work of One North East, the Minister for the North East and regional partners in providing support via the Response Groups to Nissan.

One North East has led the response to significant economic shocks in the region, including the restructuring of Northern Rock, the announcement by Nissan in January 2009 of its plan to reduce staff by 1,200 and the announcement by Corus in May 2009 that it may mothball its Teesside steel plant. In all cases One North East has worked closely with partners to establish a Response Group that then works closely with management to support affected employees and workers in the associated supply chains with advice on accessing job vacancies, retraining opportunities, updating CVs, interview skills and benefits.

17. The Committee will comment further on the situation at Corus in an emergency Report in the new year following this month's announcement of substantial job losses and the mothballing of some facilities in the North East. (Paragraph 86)

The Minister for the North East and Vera Baird MP (Parliamentary Assistant to the Regional Minister) gave evidence to the Committee on 19 January 2010 in relation to this separate inquiry and we look forward to receiving the Committee's report.

18. A key role of the Regional Minister is to champion the region in central Government, and this has been welcomed by witnesses, particularly by those from the business sector. The current Minister has played an important role in the region during the current economic climate and has been a strong advocate for regional interests. We believe that the role is a valuable one which future Governments should seek to fill. (Paragraph 92)

The Government welcomes the Committee's support for the role of the Minister for the North East and agrees that the role of Regional Ministers should continue.

Regional Ministers were appointed to provide a closer connection between Government and the regions as part of a package of measures to improve the accountability and transparency of Government and Parliament. Regional Ministers have played a key role in the response to the economic downturn. The Minister for the North East has played a particularly active role in talking to regional partners in both the public and private sector and relaying their thoughts, ideas and concerns directly to Whitehall colleagues, helping to inform the Government's response to the economic downturn and ensuring, where appropriate, action is taken.

19. We are concerned by inconsistencies in the amount of research and development investment that occurs in the North East, particularly in comparison with funding within the 'golden triangle' bounded by Oxford, Cambridge and London. This has a detrimental effect on the abilities of businesses in the North East to increase their knowledge base and to work towards improving the economy of the region. We urge the Government to examine the means by which bids for research and development are

rewarded with a view towards ensuring an appropriate balance across all the UK's nations and regions. (Paragraph 102)

There is no evidence of an unfair advantage to any region. Research funding is dedicated to supporting excellence as assessed by researchers' peers and Research Council grants are highly competitive. The North East ranks fourth amongst the UK's regions and nations in research funding per university from Research Councils and the Higher Education Funding Council for England (HEFCE) and has two of the top twenty UK funding recipients.

Both Research and Funding Councils' means of allocating research funding are robust and transparent and are on the basis of excellence as assessed by researchers' peers. Research Councils will fund the very best research and facilities, wherever they are located in the UK. This fits entirely with the Haldane Principle that decisions about what to spend research funds on should be made by researchers rather than politicians. The allocation of Quality Related research funding by HEFCE is informed by the results of the 2008 Research Assessment Exercise (RAE).

Funding bodies are already examining the means by which research is funded. HEFCE is developing its proposals for the Research Excellence Framework (REF), the successor to the RAE. They propose that the REF will for the first time include an element on impact in the total assessment in order to take better account of the benefit that excellent research has on the economy and society. They will develop their proposals in the light of responses to their consultation (which closed in December 2009) and an impact assessment pilot exercise which is due to conclude in mid-2010. In 2009, Research Councils introduced sections to their grant application forms to gather additional information on plans for potential impact from research proposals.

20. There is no doubt that the UK has a world-class research base. Too much of that knowledge is lost, however, because of the innovation gap. Witnesses have highlighted areas where ideas that emerge in Britain are developed abroad, leading to a loss of benefit for the economy. The Government must realise that it cannot rely on the UK's research capabilities alone. This must be matched by the ability to change ideas into new and innovative product processes or services for the market place and the Government could learn from the way in which NETPark has assisted in the development of ideas into usable technologies. A balance is beginning to emerge under the Government's industrial activism policy, with recent Government investment of £12 million in the Printable Electronics Centre (PETEC) in Sedgefield, and a £10 million investment at NaREC. We urge the Government to increase its funding to close the innovation gap and to ensure the future prosperity of our economy. (Paragraph 108)

The Government agrees that the successful development and commercialisation of new technologies is crucial in supporting the future growth and competitiveness of the UK economy. We have worked with business to develop strategies for growing areas such as life sciences, digital technology, low carbon and advanced manufacturing.

Expansion of the UK's centres of excellence and innovation in key technology areas has been stepped up. The Government's original £750 million Strategic Investment Fund,

which has made major investments in PETEC and Industrial Biotechnology in the North East, received an additional £200 million in the 2009 Pre-Budget Report.

Government funding for science and innovation will have more than doubled in the ten years to 2010, to £6 billion per annum. The Government is providing substantial support to companies that are developing new technologies and help to bring new products to market quickly. The Higher Education Innovation Fund, worth £150 million a year by 2010–11, invests in universities' capacity to commercialise research and work with businesses. The research and development tax credit has also provided £3 billion of support to UK businesses since 2000.

The Government is currently working with the RDAs to ensure that at least 500 businesses in England take advantage of innovation vouchers to work with the knowledge base. The RDAs lead for the Government on innovation in the regions and their collective investment in innovation infrastructure and schemes in 2007–08 is estimated at £260 million, helping more than 8,000 businesses to work with the knowledge base, turning new ideas and technologies into commercial products and services. Between 2008 and 2011, the RDAs will also be investing over £180 million in collaborative projects with the Technology Strategy Board and the Research Councils to help deliver the national technology strategy and regional innovation priorities.

21. We welcome the business support products for innovation that were launched in March of this year. However witnesses have expressed confusion regarding the funding streams available to businesses and a lack of information surrounding them. We urge One North East to work with businesses to increase their awareness of the funding assistance that is available and what is most appropriate for them. (Paragraph 112)

One North East is improving awareness of innovation support available in the region by a number of means, including Innovation Vouchers, Business Link's North East innovation campaign and identification of 'innovation champions' within Business Link—enhancing their capacity to diagnose and support innovation needs. There has also been closer working between Business Link and Universities for the North East.

One North East tries to ensure that all innovation activity funded by the Agency is easy to understand. This is achieved through compliance with the Government's Solutions for Business (SfB) product criteria and brand and referrals between Business Link and innovation deliverers. One North East also utilises existing approaches (for example the North East England Investment Centre) wherever possible to simplify access and minimise customer confusion.

Innovation activities are also funded by other Government agencies such as the Technology Strategy Board, HEFCE and the Research Councils. This must align with SfB to minimise customer confusion and One North East and BIS continue to work together to encourage further simplification of schemes.

22. We congratulate One North East on its foresight in establishing the Centres of Excellence. Their reputation has led to major companies establishing a base in the region. We note the model of the Fraunhofer-Gesellschaft in Germany which receives funds from regional and national government. This is augmented by the winning of public-private contracts and by direct private investment. We urge the Government

and One North East to provide long-term establishment funding in the Centres of Excellence. We recommend that the Government consider developing a model in the North East and the UK similar to those that operate in Germany. (Paragraph 119)

We have huge potential in our existing innovation networks, including through universities increasingly realising the commercial potential of their research activity and RDA investment in innovation centres. The Government accepts that we need to learn how best to further build and consolidate. As set out in 'Going for Growth, we have asked technology entrepreneur, Herman Hauser, to lead a review, working closely with the Technology Strategy Board and BIS, to see how the UK could learn from other innovation networks, such as the Fraunhofer institutes in Germany and the Delft Centre in Holland.

23. We welcome the creation of the UK Innovation Investment Fund. Private Sector investment must be encouraged and it is vital that the Government takes some of the risk out of private sector involvement. (Paragraph 123)

Government welcomes the Committee's support for the UK Innovation Investment Fund (UKIIF) which will ensure that venture capital is available to invest in innovative British businesses in key sectors (life sciences, clean technology, digital and advanced manufacturing). The Government's investment of £150 million has leveraged £175 million in additional money, creating a pool of funding initially worth £325 million. Further private investment will be secured before the Fund closes for investors in 2011.

On a regional level, the £125 million Finance for Business North East Fund (previously called JEREMIE) launched on 22 January 2010 will also encourage private sector investment in the region. Over the next five years, the fund will support up to 850 small and medium-sized North East companies with the aim of creating more than 5,000 jobs through targeted loans and equity investments.

The European Investment Bank has committed £62.5 million into the fund, with £44.25 million coming from the European Regional Development Fund 2013 and £18.25 million from One North East. This venture capital fund will play a key part in getting small and medium sized businesses to invest in the recovery. Along with other Government support measures, this will help ensure the region's economic prosperity, helping hundreds of businesses and creating thousands of new jobs.

24. Serious barriers exist for those who want to invest in the region. Delays in planning applications mean that investors search elsewhere, leaving the North East and the UK unable to benefit. We urge that the current planning framework be simplified, with the Government taking a lead through clear national and regional strategies to encourage local support of industry. It is to be hoped that the Infrastructure Planning Commission will have some impact in this regard. It is essential that the Government and the supply industry develop the National Grid to create the capacity for new energy facilities to connect to the network. (Paragraph 136)

In response to the Killian Pretty Review, the Government is undertaking an ambitious programme of reform of the planning application process to make it more efficient, effective and responsive to economic change. It is also simplifying the regional planning and investment framework by bringing together Regional Economic Strategies and Regional Spatial Strategies into single Regional Strategies. The new Planning Policy

Statement 'Planning for Sustainable Economic Growth' published in December 2009 heralds a positive national approach.

As the Committee notes, Government has established the Infrastructure Planning Commission (IPC) to help deliver investment by reducing the time taken to process and examine nationally significant infrastructure projects. We are committed to streamlining the planning process whilst safeguarding the interests of all parties. New National Policy Statements (currently draft) will set the context for commissioner's decisions based upon evidence examined.

Overall, the North East performs better than national rates for planning application turnaround and approval.

The Government recognises larger electricity grid capacity and faster new infrastructure delivery is critical to achieving its 15 per cent target of energy from renewables by 2020. A national review of Grid access improvement options was consulted upon by the Department for Energy and Climate Change in 2009. The Government will publish a response and a further technical consultation in early 2010 to ensure that a refreshed regime, for industry licences and codes, can take effect from June 2010. National Grid is currently progressing options for major power lines in the North East.

25. Underinvestment in transport links is detrimental to investment in the region. Serious gaps remain in road links in the North to Edinburgh and in the West to Cumbria and Carlisle. We urge the Government to examine the complexity surrounding responsibility for roads. We call on One North East and the Regional Minister to lobby Government more effectively to increase investment in the area. (Paragraph 137)

Total public expenditure on transport in the North East has increased by 31 per cent (well ahead of the rate of inflation) in the five years to 2008–09, from £461 million in 2003–04 to £603 million in 2008–09. Under the Local Transport Plan Settlement, the North East received more funding per head of population in 2008–09 than any other region except the South West.

The Government is committed to improving transport infrastructure where projects can demonstrate robust business cases with regional support and where funding is available. For example, we have recently announced a package worth £580 million to support improvements to the Tyne and Wear Metro. This investment will not only guarantee the future of the Tyne and Wear Metro, but will also support jobs and businesses in the region.

Through the Regional Funding Advice (RFA) process, regions are given the opportunity to advise the Government on capital infrastructure investment priorities for transport over a ten year period. The region's latest advice to Government in 2009 did not identify routes to the north or west as priorities for investment against competing pressures elsewhere in the region.

Responsibility for roads is clear. The Secretary of State for Transport is the Highway Authority for the national network of trunk roads and motorways and local authorities for the remainder.

Both One North East and the Minister for the North East were closely involved in the RFA process. One North East, the Association of North East Councils and the North East Assembly led the process in the region, bringing together regional partners to produce an agreed set of advice to Government. The Minister for the North East was particularly engaged in the transport advice. By chairing the Interim Regional Transport Board on 29 May 2009 and through discussions with regional partners and the Department for Transport (DfT), he helped ensure the region's transport advice was compliant with DfT guidelines. The Minister secured some quick wins and flexibilities in the programme to enable the region to respond positively to the current economic downturn and ensure full spend of available spending. He also secured agreement from the Secretary of State that any under-spend on the current programme can be off-set by an over-spend in future years subject to the constraint of available headroom within the national budget.

The new Regional Strategy that will be developed by One North East and the Local Authority Leaders' Board will, at a strategic level, look at transport. One North East is putting in place measures to take on this role, including leading a joint regional response to the Delivering a Sustainable Transport System (DaSTS) consultation and reviewing priorities and challenges and building a stronger evidence base.

DaSTS is a new approach to delivering Government's identified goals for transport, looking at national and regional transport issues and priorities. It will facilitate joint working between national Government and the regions in order to inform the development of a future transport strategy that tackles immediate problems as well as addressing the need for transport solutions to meet longer term challenges, including climate change and reducing greenhouse gas emissions.

A number of studies are currently underway that will inform decisions on future policy interventions and/or investment priorities for the periods up to 2014, 2014–19 and beyond. The region is leading on five North East studies into connectivity in each of the two city regions, rural transport and connectivity, project management and strategic connections and participating in others that have significance for the region. Interim reports on these studies are due in May 2010.

26. The Government must consider incentives to counter opposition to the development of renewable industries in the region. We urge them to learn from across continental Europe where communities often benefit directly from proximity to a wind farm, through, for example, reduced energy bills. We recommend that the Government examine how similar schemes could be established in the North East and the UK. (Paragraph 138)

People or communities living near a wind farm may not be getting their electricity from that wind farm or that company, so it would not necessarily be cheaper to supply them. This means that other electricity consumers would, in practice, pick up the costs of any discount that they would receive. The Government believes that community engagement is the most appropriate way to gain acceptance for renewable energy projects.

We have already taken positive action to encourage the provision of community benefits in relation to renewable energy development. Effective engagement with local communities and sharing some of the benefits from renewable deployment with those who host them is

an essential part of encouraging greater acceptance of renewable energy developments. A good example of this in the North East is at Lynemouth where a Community Trust Fund has been established, paying £2,000 a year per megawatt installed for the life of the wind farm. This is expected to result in £60,000 a year to the Community Trust Fund.

Renewable energy developers have a central role to play and to help them, in July 2009 DECC published a revised toolkit for developers, local authorities and community groups. This toolkit provides information and case studies for delivering community benefits. It will help developers to consider a range of ways in which to provide benefits to the local community and to learn from case studies in the UK showing how other projects have approached this issue.

However, planning decisions must be based on planning issues and the planning decision should not be influenced by additional payments or contributions offered by a developer which are not linked to making the proposal acceptable in planning terms.

One North East has shown leadership in this area by setting up a Social Enterprise, Community Renewable Energy (CoRE), to work closely with communities to ensure that they benefit from renewable energy development with lower fuel bills and a feeling of empowerment and ownership. One North East has also engaged with a range of private companies that are taking innovative action in this field.

The Feed-in Tariffs (FITs) scheme being introduced in April 2010 will also encourage the uptake of low-carbon energy technologies where communities can benefit by getting together to bring forward small scale generation.

27. The North East has a lower proportion of adults qualified to Level 3 and 4 and of those without qualifications than is the case for England and Wales as a whole, although the position has been improving in recent years. This has a detrimental effect on the potential growth of the region. It is vital that there is an improvement in the skills of school leavers. They must be given the opportunity to develop entrepreneurial skills, essential for creating new businesses in the region. We recognise that long-standing cultural issues surrounding enterprise in the region cannot be dealt with quickly, but we urge One North East to work together with local authorities, universities and business partners to ensure that individuals receive the support they need when starting up their own business. (Paragraph 146)

Skills are essential to developing a more entrepreneurial workforce and building an internationally attractive and competitive region. One North East is working closely with local authorities, universities, colleges and the private sector to address the skills levels of school leavers.

One North East has been involved in a number of projects with partners, including the establishment of an Entrepreneurs Forum, which has worked closely with public and private sector partners in embedding an enterprise culture across the region. It has also looked to fund specific programmes of enterprise activity in schools, initially focusing on supporting existing enterprise activities delivered at Key Stage 3 and 4. During 2008–09, One North East also supported educational establishments to embed enterprise and entrepreneurship into the curriculum for Key Stage 5.

Since 2008, One North East has worked closely with partners in developing a new Enterprise Framework for the region. This has resulted in the development of the Enterprise Journey—a programme of intervention that aims to increase levels of self employment and business formation in the region by tackling the particular barriers faced by specific groups of people.

28. The Department for Business, Innovation and Skills (BIS) and One North East must work with regional partners to make engineering and manufacturing attractive to school leavers and graduates. We recognise and welcome the work that is currently being undertaken in schools to promote manufacturing and engineering as viable career paths and encourage their continuation. (Paragraph 151)

The Manufacturing Strategy and ‘New Industry, New Jobs’ signal the importance that the Government places on the role of manufacturing in the UK’s strategic vision to prepare for the upturn and beyond. The Government is committed to increasing post-16 participation and attainment in Science, Technology, Engineering and Mathematics (STEM).

The Government supports a wide range of STEM based activities such as STEMNET (Science, Technology, Engineering and Mathematics Network), a UK wide charity that promotes STEM awareness among young people. STEMNET also provides sponsorship of the three National Academies—The Royal Society, The British Academy and The Royal Academy of Engineering. The principal purpose of these Academies is to support and develop outstanding scientists and engineers through prestigious research fellowships and to provide authoritative, impartial advice to Government. The Academies also help to improve public engagement with science and engineering issues, and to increase the number of people studying and pursuing careers in STEM subjects.

Following a commitment in the Manufacturing Strategy, Manufacturing Insight was established in partnership with industry and the regions, to provide national leadership in the field of manufacturing awareness. It will play a key part in helping to challenge and change public perceptions of the sector, including campaigns in schools to build enthusiasm for careers in manufacturing.

One North East is leading on collective regional action to maximise the contribution of STEM to the regional economy. It has led the development of a Regional Integrated STEM Framework and successfully completed a detailed and positive process of stakeholder consultation. A regional STEM Board has been established to drive this agenda forward. One North East's lead role on regional skills will ensure that this issue is addressed in the Regional Skills Strategy in the future.

29. We note the popularity of the Train to Gain scheme and recognise the commitment amongst employers in the region to training. We are concerned that some sectors of the business community remain unaware of the benefits of Train to Gain. We urge the Learning and Skills Council, One North East and local authorities to continue to publicise the scheme and to target small businesses to ensure that they are aware of the benefits. We urge the Learning and Skills Council to seek ways in which the training programme can be delivered more flexibly, taking into account the needs of small businesses. We recommend that funding for the Train to Gain scheme is continued as long as there is demand for it. (Paragraph 161)

Government is committed to the continuing provision of Train to Gain for the foreseeable future. Both the Skills Strategy and Skills Investment Strategy set out an ongoing funding commitment with an overall budget increase to 2011.

In the North East, the scheme is promoted through a variety of methods, including the activities of training providers and colleges and Business Link. The Real Help Now campaign signposts all businesses to Business Link for help and advice to address their needs, including skills needs which can be met by Train to Gain. The scheme is also promoted through business organisations such as the NE Chamber of Commerce.

Local authorities also play a key role, in some cases as training providers but also as major employers in their own right and as stakeholders in a position to raise awareness and engagement within their localities. The Learning and Skills Council and one of its successor bodies, the Skills Funding Agency, will continue to work with local authorities to raise awareness of Train to Gain.

In addition to the range of accredited training services such as Train to Gain and apprenticeships, there are a range of training providers and colleges that offer learning and development activities for employers that can be specifically tailored to meet their business needs. Business Link, the Employers Guide to Training website and the Training Quality Standard will all help employers to identify appropriate training providers.

In the North East, European Social Fund money has been used to complement the national Train to Gain programme by creating a Skills Solutions Fund, managed by Business and Enterprise North East. In cases where a SME has a training need which cannot be met from a national programme such as Train to Gain, but is clearly needed to improve its competitiveness, the fund offers a subsidy of up to 45 per cent of the cost of training.

30. We note with concern that the current economic climate is adversely affecting the number of apprenticeships available. We urge the Learning and Skills Council, One North East, and business representatives to ensure that it is possible to retain individuals in an apprenticeship. (Paragraph 165)

Despite the challenging economic climate, apprenticeship participation in the region is now at record levels, with over 17,000 North East residents starting an apprenticeship in 2008–09. Achievement rates in the North East are also at their highest, with over 67 per cent of all participants completing their apprenticeship in 2008–09.

The Skills for Growth White Paper, published in November 2009, sets a new overarching ambition for the higher education and skills system, that three-quarters of people should participate in higher education or complete an Advanced Apprenticeship or equivalent level course by the age of 30. To help achieve this, and to ensure people are equipped for the higher level jobs of the future, the Government will almost double the number of advanced and higher apprenticeships places available for people aged 19–30 by 35,000 beginning over the next two years.

Boosting the number of Advanced Apprenticeships is critical to building the skills of young people and remedying the shortage of skilled technicians, especially in those markets and sectors of the economy that have been designated as priorities in ‘New Industry, New Jobs’.

Apprenticeships are the preferred option for 19–30 year olds at Level 3 and, where a suitable framework is available, it is expected they would be supported through this route.

The National Apprenticeship Service (NAS) has been established to lead the delivery of a world class apprenticeship programme. The NAS provides a dedicated support service not only to employers who wish to offer apprenticeship places, but also to learners who want to become an apprentice and support for those participating in an apprenticeship.

The NAS recognises the need for flexibility during the economic downturn and is exploring how apprenticeships can be used as businesses work towards the upturn, whilst supporting partners in helping to ensure people have the opportunity to complete their apprenticeship programme. This has resulted in a number of specific financial support programmes, including Access to Education Maintenance Allowance support, Hardship funding for 16–25 year olds and additional support through European Social Fund budgets.

There is also flexibility being given to Sector Skills Councils and Awarding Bodies to approve the completion of an apprenticeship framework in a learning environment if an individual is made redundant and is close to completion. Construction Skills, the Sector Skills Council for the construction sector, has a proactive matching service for displaced apprentices which is available to all providers of construction apprenticeships and has recently been enhanced with additional Learning and Skills Council funding providing a £1,000 upfront grant to an employer.

31. We note the concerns raised by witnesses that the reform of the structure of Government agencies dealing with skills is taking place during a period of economic uncertainty. We are concerned that, following the reforms, the economic strategy for the North East will be drawn up at a regional level with skills planning taking place at local level through councils up to age 19, or at national level for adults through the Skills Funding Agency. This gap must be bridged and local authorities must work effectively with regional partners to ensure coherent planning. (Paragraph 170)

One North East will work closely with local government and other stakeholders in preparing the new Regional Skills Strategy. The Strategy will sit within the framework of the new single Regional Strategy which will be jointly developed by One North East and the Local Authority Leaders' Board.

Regional skills strategies will put skills at the heart of economic development and will coordinate a coherent picture of employer demand. This will enable the supply of skills in each region to match these needs and make a real difference for businesses, for individuals, and for the economy—looking at the whole life path of learning and skills, from 14–19 through to university.

Regional partners will work together through Skills North East, the Regional Employment and Skills Partnership, to ensure that the new structures are implemented and operated effectively in the region. One North East will work closely with local government, Sector Skills Councils, businesses and sub-regional bodies to define the skills requirement of the people and businesses in the region. They will also have a very close relationship with the new Skills Funding Agency to ensure effective and timely delivery of regional priorities and

will work with the Department for Work and Pensions and Job Centre Plus to ensure strong integration of support for employment and skills.

32. We recommend that GONE begin discussions with the National School of Government to encourage the wider secondment of fast-streamers to gain experience of the regions and regional policy. (Paragraph 173)

The Government Office Network's Human Resources Policy Unit has entered into agreement with one of the Network's key sponsor departments, Communities and Local Government, to include bids from the Government Office network in their submission to Cabinet Office for new Fast Streamers. It also maintains links with Fast Stream Grade Managers in each of the other sponsor departments, ensuring that any suitable secondment opportunities are brought to the attention of prospective secondees.

A further emerging route for securing Fast Streamers in the regional Government Offices is through the Civil Service in the English Regions (CSER) initiative. CSER will encourage collaboration between departments operating in the regions including the movement of Fast Streamers. Civil Service North East (CSNE) has been working with leaders in all government departments across the region to raise the profile of the Fast Stream programme and the benefits it can bring to their organisation. CSNE is liaising with Cabinet Office and Fast Stream Grade Managers in individual departments to increase the number of placements offered and encourage participants to spend time in the region.

There are eight Fast Streamers currently occupying posts in the region—seven in the Department for Work and Pensions and one in the Government Office (on loan from Communities and Local Government)—putting the region ahead of most other regions.

However, the number of Fast Streamers that can be secured in the regions can be limited by budgetary constraints and the fact that the majority of people on the programme are located in London.

Following the request by the Committee at the oral evidence session on 3 November 2009, BIS officials have spoken to the National School for Government (NSG) about the need to ensure that NSG core training includes sufficient material on the characteristics and needs of the different English regions, as well as teaching about regional and local institutions.

Regional issues are currently on the agendas of a number of existing training programmes and there are plans to increase the amount of regional coverage as part of future development of the curriculum. A new Core Learning Programme is under development, under the direction of the Permanent Secretaries' Learning and Skills Board. This programme will include material aimed at developing the Civil Service's policy capability and courses are being devised between now and early 2011. Understanding and working with the English regions is expected to be part of this aspect of the core programme and BIS officials will have the opportunity to influence the content of any relevant courses. The dialogue between BIS and the NSG will continue to ensure that appropriate content is included in this important new programme.

NSG do run a course called Government and Business which contains a regional element. The main aim of the course is to develop an understanding of the performance and operation of the private sector and how these are influenced by government. Since 2007,

the Government Office for the North East has hosted regional visits as part of this course twice a year. The Regional Director and senior colleagues participate in the course programme, introducing the work of the Government Offices and their involvement in regional issues.

Formal learning opportunities are just one way that Whitehall gain knowledge of the regions. The Government Office and the Minister for the North East maintain regular dialogue with regional partners and Whitehall departments, ensuring that regional issues and concerns are fed directly back to Whitehall.

9 February 2010