



North East England  
Chamber of Commerce

20 January 2017

Rt Hon Philip Hammond MP  
Chancellor of the Exchequer  
HM Treasury  
Horse Guards Road  
London  
SW1A 2HQ

Dear Chancellor,

### **Budget 8 March 2017**

This letter outlines the views of the North East England Chamber of Commerce ahead of your forthcoming Budget. The Chamber is the North East's leading business membership organisation and one of the largest chambers of commerce in the country. We represent approximately 4,000 businesses located across the region, covering both local enterprise partnerships. Our members are drawn from all sizes of business across all sectors and employ about 30% of the region's workforce.

At the beginning of the year we published our Manifesto for North East businesses; setting out the policy changes we believe can make a real impact on the economic success of our region. As in previous years, this submission outlines the specific proposals we would like to see in the Budget that can help further that success. In addition, we have contributed to a submission made by the British Chambers of Commerce, which this document should be considered alongside.

North East England is a highly successful yet under-utilised part of the UK economy. Since 2009 our region has seen the highest levels of growth in labour productivity of anywhere in the country. According to data published this month, our level of unemployment has fallen by 17,000 over the past year. We continue to be a strong exporting region built on globally recognised expertise in fields such as automotive manufacturing, chemical production and software development. In many cases, North East England is an exemplar of how national economic aspirations can be achieved.

Despite this success, we must not rest on our laurels. The achievements listed above have come about despite the barriers created by decades of under-investment in our region. Credit for this must go to the businesses who continually strive to improve and grow. Just think what our region could achieve if the North East was given the right tools and support to build on recent success.

Our 2017 Manifesto has continued with the five clear ambitions for North East England we established last year. We want to see an **Influential North East**. The region must punch its weight on the national stage and be given the ability to shape its own economic destiny. Further afield, we must aspire to be a **Global North East**. Our export success is built on the back of a relatively small number of companies and we still lag behind other regions when it comes to inward investment. A **Connected North East** is one where our businesses have easy access to markets and where people and products can move freely around the region.

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Developing a **Competitive North East** will involve meaningful collaboration between the public and private sectors to drive local prosperity. Finally, the success we want to see will only come about if we make the transition to a **Working North East**. Despite recent positive trends, the number of people unemployed in the region remains far too large. At a time when too many businesses tell us they cannot find the right skills in the labour market, this is unacceptable.

I have set out below the changes that could be made by the Government in the forthcoming budget to tackle these issues and realise the North East's potential. In summary, some of our key asks are:

- Continued backing for meaningful devolution to North East England;
- A significant increase in export support and overseas trade missions to develop our international reach;
- Rapid delivery of road improvement schemes and major investment in the region's rail infrastructure;
- Coherent and fair reform of business rates;
- Further clarity on the operation of the Apprenticeship Levy and measures to encourage employers to invest in training.

### **Influential North East**

We remain supporters of the principle of devolution as a means of improving local economic development. Money for investment has already started to flow to Tees Valley as a result of the deal there and we are working closely with the Combined Authority to ensure effective business influence over how this is spent. We also remain committed to securing further devolution to the north of our region and urge the Government to work with local authorities in the area to make this a reality.

As we have seen in other areas, devolution is an iterative process. The Government should continue to be open minded to proposals for further devolution that come from the North East and allocate resources that reflect the ambition for our region to fulfil its potential to deliver much greater economic returns.

While we keenly await the publication of the Government's forthcoming industrial strategy, we would caution against further upheaval in the economic development landscape. To this end, we encourage you to build upon your predecessor's Northern Powerhouse initiative with a genuine and meaningful focus on decision making that supports economic growth across all areas of the north. The Northern Powerhouse will achieve so much less without the full inclusion and participation of the North East and we will continue to advocate for that role.

### **Global North East**

The decision to leave the EU will undoubtedly have repercussions for the country's global export relationships. For the North East, which is the country's best performing region for exports, it is essential that the Government seeks to minimise harms and maximise opportunities created as a result of Brexit.

To do this, the Government must commit significantly more resources to both supporting exporters to break into new markets and encouraging non-exporters to take their first steps into international trade. This is best achieved through knowledgeable, on-the-ground support tailored to regional needs and aspirations, coupled with a dramatic increase in the number and scale of overseas trade missions to improve our companies' market knowledge. Development of Department for International Trade services will represent a sound long-term investment in our economic future.



Ahead of leaving the EU, we must ensure that nobody is in any doubt that the country, and the North East in particular, is open for business. The recent announcement of a major investment by Nissan in our region is testament to the abilities of our region and its workforce. Yet we continue to be badly served by the national approach to inward investment. We therefore call for far greater support for inward investment services, predicated on a strategy that recognises our region's strengths and markets them effectively across the globe.

### **Connected North East**

While North East England has long suffered from underinvestment in its infrastructure, we have been pleased to see significant progress in recent years, with a package of work ongoing on both the A1 and the A19, with further upgrades planned, including a commitment to improve the A66 and A69. But there is much more to do, and we call on government to continue to improve the region's road connectivity, delivering the current plans as swiftly as possible and ensuring a pipeline of investment is in place, leading to full dualling of the A1 to Scotland.

The region's rail and local transport infrastructure needs investment too. The East Coast Mainline requires urgent investment to ease capacity constraints along its length and allow planned improvements to passenger services, while action is needed to unlock freight paths in the region, linking our ports and logistics hubs with locations around the country. Darlington Station itself requires investment in realignment to help ensure it remains a gateway from the rail network to the Tees Valley. This investment will also help prepare it for the arrival of High Speed Rail, as will planned improvements to Newcastle's Central Station.

These improvements to Newcastle Central Station will also create a second entrance on the south side of the station, unlocking development alongside the city's new Stephenson Quarter. Connecting to the station is the Tyne & Wear Metro, which requires significant investment to ensure it can continue to play a vital role linking the region – tying together the economies of Tyneside and Wearside with the East Coast Mainline and Newcastle International Airport.

As a globally-facing region, we welcomed the positive decision in favour of expansion at Heathrow, and will continue to lend our support to the process. We hope this vital additional capacity will be delivered as soon as possible, securing existing domestic flights between Newcastle International and Heathrow, and seeing potential new links between Heathrow and Durham Tees Valley Airport.

On Air Passenger Duty (APD), however, we were dismayed to see government delay action to support regional airports in England until after Britain has left the European Union. This deferral came despite having received a commitment from the previous Prime Minister that action would be taken to mitigate the impact of the decision to devolve APD to Scotland. We call on the Government to address the issue as a matter of urgency – any further delay harms the competitiveness of regional airports in the North of England, and will ultimately call into question the viability of routes at a time when the country needs greater connectivity, both domestically and internationally.

For the region to continue to grow and continue to attract inward investment, our businesses need access to cheap, reliable and secure energy. As a region with a high proportion of energy intensive industries – as well as a specialism in the manufacture and delivery of offshore, subsea and renewable energy – we need commitment from government to create a policy environment, both nationally and via local planning rules, which can both enable our manufacturing economy to keep costs down and allow us to continue to be at the centre of energy generation in the UK.



## **Competitive North East**

The public sector has a significant role to play in creating the right conditions for business growth. Proposed reforms leading to the local retention of business rates have created tremendous confusion. These announcements have come about in the middle of an extended review of the entire business rate system, which has only served to add further confusion.

While we welcome moves to incentivise Local Authorities to grow their business base, the proposals have the potential to cause significant harm to our economy without the necessary safeguards. Councils in the North East which have relatively low levels of business rate income will have little scope to reduce rates, while those in more affluent areas will be able to make themselves more attractive to firms. This has the potential to create a vicious cycle and a 'race to the bottom' which would be unacceptable to businesses in our region. More clarity is needed from Government as to how this system will be fair and equitable to all regions.

We continue to believe that Business Rates are an outdated and inequitable form of taxation that heap upfront costs on businesses with no reference to ability to pay, and require much more fundamental reform than has been delivered to date.

A Competitive North East needs the right tools to shape the region's housing provision and attract a talented workforce to the North East. The crisis facing our region's housing market is different to the crisis elsewhere in the country – the North East has slow house price growth and the lowest average house prices in England, yet levels of homeownership remain low. More support is needed to help young people buy their first home, in the form of advice and education coupled with continued financial support through existing government schemes. Local authorities in the region must also be given the power to tailor their approach to specific local conditions, with more freedom to use a combination of affordable homes initiatives, build to buy and to rent, and including Starter Homes, shared ownership and rent to buy.

The retail sector in the North East is not only a significant contributor to our economy, but it forms an integral part of our offer to those looking to relocate to our region. In many areas however, growth of the sector is hampered by poor infrastructure, under-investment and an unappealing physical environment. We therefore call on the Government to empower and work with local authorities, in genuine partnership with the private sector, to take action on these issues and kick start retail-led regeneration across our towns and cities.

## **Working North East**

People are the most fundamental resource for businesses in the North East. The North East has made major gains in reducing unemployment in the past 12 months. Credit for this must go to our exceptional business community, which continues to grow and invest in people. Despite this progress we still have too many people out of work and removed from the labour market. Yet at the same time many businesses are finding it difficult to fill skilled vacancies. This situation cannot continue.

The introduction of the Apprenticeship Levy and wider apprenticeship reforms in May is a significant opportunity to address the low level of skills in our region, but our members remain concerned about the lack of flexibility in the system. We are yet to be reassured that the reforms will not lead to a two-tier system between larger and smaller employers, and that the voice of employers in the North East will be heard by the Institute for Apprenticeships. It is also not clear how the Levy will operate alongside existing industry schemes such as the CITB training levy. Without these reassurances, the Government risks deterring employers from investing in training, rather than encouraging them.

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More generally, Government skills funding must be truly responsive to local business needs. This means far stronger collaboration between employers and funding providers to ensure money is spent in a way that provides the right skills for the local labour market. In addition to support for the training of young people, the Government must recognise the challenges we face in equipping older workers and those who may wish or need to change industry with the right skills to succeed in the modern economy. In many areas the North East is at the forefront of digital technology, but its implementation may be hindered by a lack of basic IT skills. Support for this kind of up-skilling is hugely inadequate at the moment. Investment from Government will undoubtedly be repaid many times over through improvements to employability and productivity.

I hope you find all of the above recommendations helpful and constructive. We look forward to your Budget and challenge the Government to recognise and strengthen the role of the North East England in rebalancing the economy and contributing to the UK's economic growth. Please do not hesitate to contact me if you require further information on any of the issues raised in this submission.

Yours sincerely

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Head of Policy and Campaigns