

# CABINET



Wednesday 9 March 2016 at 4.30 pm

Meeting to be held in the Studio Theatre at the Live Theatre, Broad Chare, Quayside, Newcastle upon Tyne, NE1 3DQ

<b>Membership Councillors:</b>	N Forbes, J McCarty, G Bell, V Dunn, N Kemp, K Kilgour, J Kingsland, S Powers, D Stockdale and J Streater A Lower and W Taylor (Opposition Observers)
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## AGENDA

Page No

1. **Apologies for Absence**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).

Please also remember to leave the meeting where any personal interest requires this.

3. **Newcastle, the North East and Europe**

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An induction loop system is available on request for meetings in the Committee Suite at the Civic Centre. Anyone wishing to use this facility should ring the Contact Officer. Contact Officer: Linda Couch, Democratic Services. Tel: 0191 211 5121  
linda.couch@newcastle.gov.uk

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# thinkabout

## Newcastle, the North East and Europe

Policy Cabinet – Briefing Paper, 9 March 2016

### Summary

- On 23rd June this year, there will be a referendum on the UK's continued membership of the European Union. The outcome could have far reaching impacts not just for people living and working in Britain but for 500 million people across European Union.
- Whilst we are already seeing this debate played out on a national stage, it is also one which will have unique regional and even local dimensions.
- Newcastle and the wider region have links with Europe that span thousands of years of cultural exchange, movement of people and, of course, trade.
- Today, exports to the EU account for over half of the North East of the region's international exports - in 2014, 56 per cent of the total value of goods exported from the region went to the EU.
- And, Newcastle has benefited over the years from substantial investment from the EU, around £90m over the last 7 years – helping to drive economic growth, regeneration and creating iconic places and spaces for businesses to thrive and, for residents and visitors to enjoy.
- The new European Structural and Investment Funds 2014-20 will provide £400m to the North East to support economic growth, low carbon and climate change interventions, skills, employability and social inclusion.
- Supporters of the EU highlight the economic, funding and cultural risks from the UK voting to leave. At the same time, those campaigning to leave state that the UK can continue to enjoy strong trading and cultural links with Europe and the wider world without being members of the EU. And they argue that overall, the UK get less money back than it pays into Brussels.
- This paper does not express a view on these arguments but rather aims to promote debate and discussions on these critical issues for Newcastle and the North East.



## Introduction

On 23<sup>rd</sup> June this year, there will be a referendum on the UK's continued membership of the European Union. This is already a hotly-contested debate with impassioned arguments on both sides. Whilst the so called 'Brexit' debate is likely to divide opinion across the country, most people are agreed it is perhaps the biggest political issue for a generation. The outcome could have far reaching impacts not just for people living and working in Britain but for 500 million people across European Union.

Whilst we are already seeing this debate played out on a national stage, it is also one which could have had unique regional and even local dimensions. Newcastle and the wider North East's links with Europe span thousands of years of cultural exchange, movement of people and, of course, trade. Our story has in many ways been shaped by our proximity and relationship to the rest of Europe. So, it is important, as part of this debate, we explore the current relationship between Newcastle, the wider region and Europe.

This brief paper focuses on three key elements: trade; funding; and, people and culture. This is intended to be a starting point for discussion, not a comprehensive coverage of the whole EU debate. Nor, does this paper express a view on the big 'in / out' question. That is a matter for the people of the UK to determine.

## The Economy and the European Union

### *National context*

As we move closer towards the vote, numerous economic studies are being published – almost on a daily basis - drawing varying conclusions on the benefits and costs of EU membership.

For example, economists at the *Confederation of British Industry* (CBI) have judged the net benefit of EU membership at around 4-5% of Gross Domestic Product per year. That amounts to £62-78bn, roughly equivalent to the size of the economies of the North East and Northern Ireland combined. This figure is noted alongside the UK's net contribution to the EU budget as being around €7.3bn, or 0.4% of GDP<sup>1</sup>

However those opposed to EU membership claim the cost is actually a lot more, and in total amounts to £83bn gross if you include all possible costs, such as an 'estimated' £48bn of regulation costs.<sup>2</sup>

Looking ahead to potential economic implications of an 'in' or 'out' result in the referendum, research by *Open Europe* predicts best and worst case scenarios. In a worst case scenario, where the UK fails to strike a trade deal with the rest of the EU and does not pursue a free trade agenda, Gross Domestic Product (GDP) would be 2.2% lower than if we had remained inside the EU. In a best case scenario, where the UK strikes a Free Trade Agreement (FTA) with the EU, pursues very ambitious deregulation of its economy

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<sup>1</sup> <http://news.cbi.org.uk/campaigns/our-global-future/factsheets/factsheet-2-benefits-of-eu-membership-outweigh-costs/>

<sup>2</sup> <http://www.economicshelp.org/europe/disadvantages-eu/>



and opens up almost fully to trade with the rest of the world, UK GDP would be 1.6% higher than if it had stayed within the EU<sup>3</sup>.

### *Business, trade and investment*

Half of all European headquarters of non-EU firms are in the UK, with the UK hosting more headquarters than Germany, France, Switzerland and the Netherlands put together. The UK therefore currently has an attractive offer to inward investors including a gateway to the EU. Some 72% of investors cite access to the European single market as important to the UK's attractiveness<sup>4</sup>.

However, there are constraints on attracting inward investment due to EU state aid rules which can affect government's ability to assist investors. Further, a frequent criticism of the EU is burdensome and costly red tape, particularly for businesses and in areas of employment and procurement. On the other hand, what may appear costly regulation for some, may be much valued protection of rights for others (e.g. workers' access to paid holidays).

Open Europe estimates that the cost of the '100 most burdensome' EU-derived regulations to the UK economy stands at £33.3bn a year. However, leaving the EU and joining the European Economic Area (EEA) like Norway would not necessarily resolve this as 93 of the 100 costliest EU-derived regulations could remain in place at a cost of £31.4bn (94.3% of the total cost)<sup>5</sup>.

### *Business perspective*

The impact on our economy of retaining or giving up membership of the European Union is likely to be a central issue in the referendum debate in the coming weeks and months. At the time of writing this paper, bosses at some 36 of the biggest companies<sup>6</sup> in the UK are reported to have signed a letter stating that leaving the EU could deter investment and threaten jobs, putting the UK's economy at risk<sup>7</sup>.

This appears to be a significant move by companies that employ hundreds of thousands of workers across the country, including in Newcastle and the North East. However, in response, those campaigning to leave the EU have highlighted that two thirds or the biggest companies in the UK (i.e. the other 64 'FTSE 100' firms) have not signed the letter. They argue that opinion amongst businesses is more divided than the reported letter suggests and that small businesses are more sympathetic to their views<sup>8</sup>.

A recent survey of *North East Chamber of Commerce* members shows that business backing for the EU has increased in the region<sup>9</sup>. The poll, carried out in early 2016, found

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<sup>3</sup> What if...? The Consequences, challenges & opportunities facing Britain outside EU  
Open Europe – March 2016

<sup>4</sup> EY Attractiveness Survey, 2015

<sup>5</sup> What if...? The Consequences, challenges & opportunities facing Britain outside EU  
Open Europe – March 2016

<sup>6</sup> Reported by BBC News to be 36 'FTSE 100' companies

<sup>7</sup> Reported in BBC News (Website) Article "EU exit would risk jobs, says group of business bosses" 23/2/16.  
Letter published by The Times 23/2/16.

<sup>8</sup> BBC News (Website) Article 23/2/16

<sup>9</sup> <https://www.necc.co.uk/news/necc/necc-survey-majority-of-regions-businesses-backing-eu>



that 63% plan on voting to remain in the EU, a slight increase compared to the last survey in September 2015. The percentage of those planning to vote to leave the EU is 29.3%, with 7.6% still to make a decision. *The Chamber* has noted that the results show a continued desire among their members to remain within the EU. While there is not a uniform business view, many see significant risks from a possible exit.

### *Regional context*

Alongside the national economic context in this debate, it is also important for us to consider the regional picture. Data from HMRC on regional trade indicates the following headline facts and figures:

- **The North East is a net exporter of goods and services** – the region has had a ‘positive balance of payments’ for most of the past twenty years.
- **The total value of goods exported internationally from the North East was £12.5bn in 2014.**
- **Our international exports are dominated by particular kinds of goods** – machinery and transport equipment (54.8 per cent in 2014 and 52.5 per cent in the first three quarters of 2015), and chemicals (27.6 per cent in 2014, and 31.3 per cent in the first three quarters of 2015).
- **The North East is seen as an important gateway** – for example the region’s six ports are significant for international and national trade<sup>10</sup>, making it an attractive place for manufacturers.
- **Exports to the EU account for over half of the North East of the region’s international exports** - in 2014, 56 per cent of the total value of goods exported from the region went to the EU and in the first three quarters of 2015 57.4 per cent of total goods exports went to the EU. Four of the north east’s ‘top five’ international export destinations are EU countries.
- **Between 2012 and 2014, the EU was the only destination to which international goods exports from the north east rose in percentage terms.** This rise (7.49 per cent) contrasts with a fall of 14.5 per cent to non-EU destinations.

Those in favour of leaving argue we could negotiate a trade deal with the EU that would be equally advantageous as the single market. There are differing views about who would be in the driving seat of these negotiations, given our existing reliance on European trade.

Looking to the future, there are arguably advantages to EU membership for North East businesses, particularly in high growth and high volume industries. As a net exporter, the region’s ports, along with Newcastle Airport provide a gateway to key European markets. And, we can play to these strengths in the development of the Northern Powerhouse, which is currently high on the national policy agenda. Research by *Open Europe* shows that a ‘Brexit’ is likely to impact on key export sectors of cars, pharmaceuticals, capital goods and machinery, food and beverages, insurance and professional services<sup>11</sup>.

<sup>10</sup> [http://www.ippr.org/files/images/media/files/publication/2013/10/Faraway-so-close\\_Oct2013\\_11358.pdf?noredirect=1](http://www.ippr.org/files/images/media/files/publication/2013/10/Faraway-so-close_Oct2013_11358.pdf?noredirect=1)

<sup>11</sup> What if...? The Consequences, challenges & opportunities facing Britain outside EU  
Open Europe – March 2016



The digital sector is also one of the fastest growing and most dynamic part of Newcastle's economy. We could be one of the areas with most to gain from planned changes to open up the digital single market across Europe. However this potential for business growth must be considered alongside the counter economic arguments noted above.

## Newcastle and EU Investment

Those arguing for the UK to remain in the EU will point towards the European funding that goes to regions across the country, benefiting a wide range of programmes and initiatives as well as supporting small and medium enterprises. For the Council and other organisations in Newcastle, over the last 7 years, this has meant:

- **£38m European Regional Development Funding (ERDF)<sup>12</sup>** – invested across the city for capital and revenue projects in innovation and Small and Medium Enterprises (SME). This investment levered more than £43m match-funding.
- **£47.5m investment through the ERDF Jeremie programme (Access to Finance)** - into Newcastle-based SMEs as part of the 2007-13 NE Programme.
- **1,400 jobs created, 1,300 jobs safeguarded and 1,000 local businesses supported.**
- **£2.5m European Social Fund (ESF)<sup>13</sup> projects** - delivered by the Council – in addition to activities forming part of regional projects (e.g. £13.5m Families project).
- **Transnational European funding** - Newcastle also benefits from other sources of EU funds. For example, the Council received €1m technical assistance grant from the Intelligent Energy Europe fund<sup>14</sup> for our flagship energy efficient programme “Warm up North”. And, Newcastle University is one of the main recipients of technology funding: some 235 projects were awarded over €110m.

European Funding can often appear very detailed and complex, with numerous programmes, acronyms, eligibility rules and spending guidelines. Indeed councils and organisations across the country require capacity and expertise to ensure they secure a ‘fair share’ of EU funding. The North East does comparatively well from EU funding allocations. The chart below shows that our region is ranked third per head of population out of 39 LEP areas in England (London is 21st) in relation to the value of EU funding allocated for the 2014-20 European Structural and Investment Funds programme for England.

### Chart 1: Top Ten<sup>15</sup> EU Funding Allocations per head<sup>16</sup>

<sup>12</sup> 2007-13 Programmes. This includes ERDF secured by Newcastle City Council and other organisations for Newcastle projects and an estimated share of the regional projects which have partly benefited Newcastle

<sup>13</sup> 2007-13 Programmes

<sup>14</sup> 2007-13 Programme

<sup>15</sup> Includes London as a comparison

<sup>16</sup> Based on LEP Allocations 2013



LEP Area <sup>17</sup>	Approx GDP <sup>18</sup>	Population (millions) 2011 mid-year estimate	Allocation (€ millions)	€ per head
Cornwall and Isles of Scilly	73%	0.534	593	1110
Tees Valley	79%	0.663	202	305
<b>North Eastern</b>	<b>86%</b>	<b>1.933</b>	<b>540</b>	<b>279</b>
Coventry and Warwickshire	93%	0.536	136	254
Cumbria	89%	0.500	91	182
Lancashire	85%	1.461	266	182
The Marches	88%	0.658	114	173
Cheshire and Warrington	119%	0.903	142	157
Black Country	95%	1.141	177	155
Greater Manchester	98%	2.685	415	155
London	240%	8.204	748	91

Yet, by focusing on the headline funding statistics and apparent complexity of funding regimes, it is perhaps easy to forget the many developments across Newcastle that have been supported by the EU over the last seven years. Key examples include:

- **The Core** – a landmark building in Science Central, providing serviced office space for high growth technology and science-based businesses - £5.6m ERDF funding.
- **The Toffee Factory** – refurbishment of the former ‘Maynard Toffee Factory’ into a brand new building providing high quality and contemporary serviced office space for a range of digital and creative businesses - £2.8m ERDF funding.
- **Live Theatre Liveworks** - construction of a new four-floor business centre providing premium, large office space within the iconic landscape of the Newcastle’s quayside - £2.5m in ERDF.
- **North Bank of the Tyne** – a programme enabling infrastructure works to develop this key riverside site which will enhance the competitiveness of the area in the sub-sea marine offshore sectors - £2.48m ERDF.
- **The Beacon** – an enterprise hub created to address the social and economic needs in the West end of Newcastle - £2.4m ERDF.
- **Newcastle Science City Company’s ‘Newcastle Innovation Machine’** - identifying technology and science applications that are available or open to development - £2.28m ERDF.
- **Newcastle University Translational Research Building** – a new building located on the Campus of Ageing and Vitality, providing space for clinicians, academics and commercial companies jointly engaged to bring together industry projects and academic research - £1.8m ERDF.

<sup>17</sup> Figures shown are approx as some LEP boundaries not co-terminus with boundaries used by EUROSTAT for regional GDP

<sup>18</sup> GDP shown as % of EU average GDP, which is method used by the EU to define regions which highest level of assistance



- **Hoults Ltd, Maling Exchange** - conversion of an existing building part of the former Hoults pottery into High Tech /IT / Digital business accommodation in a location already established as a creative cluster - £1.47m ERDF.
- **Newcastle Enterprise Package** - interventions delivered in the most deprived areas of Newcastle aimed at supporting people to become more entrepreneurial and start up businesses as well as supporting existing businesses and social enterprises to grow. Phases 1 &2 have been supported by ERDF funding of - £1.5m and £0.8m respectively.
- **Business and IP Centre** - the running of a centre, located in the City Library, designed to enable SMEs to access free business information and expert guidance regarding Intellectual Property development, protection and commercialisation - £0.6m ERDF.
- **Newcastle Science City Community engagement** – An integrated package of projects connecting residents and Voluntary and Community Groups (mainly from disadvantaged areas of the city) to Science and Technology in order to raise their awareness of opportunities and benefits created by Newcastle Science City - £0.77m ERDF.

Most people would agree these have been beneficial for Newcastle and the wider region. And this list does not include previous projects part-funded by Europe prior to 2007 including for example: DanceCity, Theatre Royal, Tyneside Cinema, Live Theatre, Great North Museum. So, the scale and range of investments as well as their legacy is actually much greater. Such funding has played a critical role in the city's regeneration and renaissance, helping to create iconic buildings and spaces for business to establish and grow and for residents and visitors to enjoy. Some of the investments being made now will be pivotal in pump priming future economic growth. And, devolution to the Combined Authority will enable us to choose which projects in the North East should receive a share of around €500m in European funding. Greater control over how this money is spent will help us to ensure the benefits of investment are felt within the region.

Of course, it is pointed out that this funding is simply the UK 'getting back' money that it pays into the European Union. The argument is that if the UK were not an EU member, the UK Government could choose to invest directly in UK cities and regions using money previously sent to Brussels. In fact, those campaigning for the UK to leave the EU argue that the UK pays more into the EU budget than we receive back in grants to regions. And, they maintain decisions on grants are better taken in the UK, not Brussels.

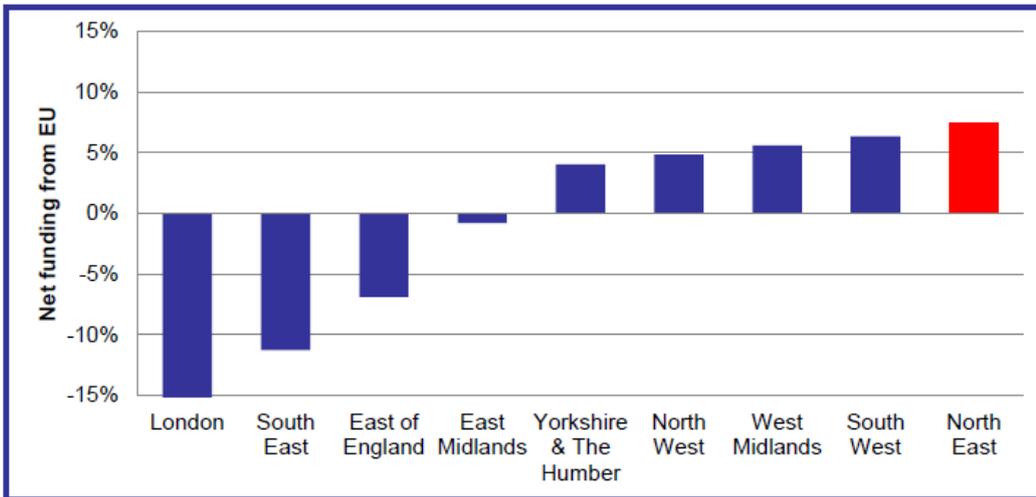
However, thinking about this at a regional level, the North East Chamber of Commerce pointed out last year that the North East is a net beneficiary from European funding (illustrated below) and this helps offset some more negative changes in the regional distribution of funds for economic development by the UK Government<sup>19</sup>.

### Chart 2: Net EU Funding by Region<sup>20</sup>

<sup>19</sup> NECC Briefing European Funding February 2015

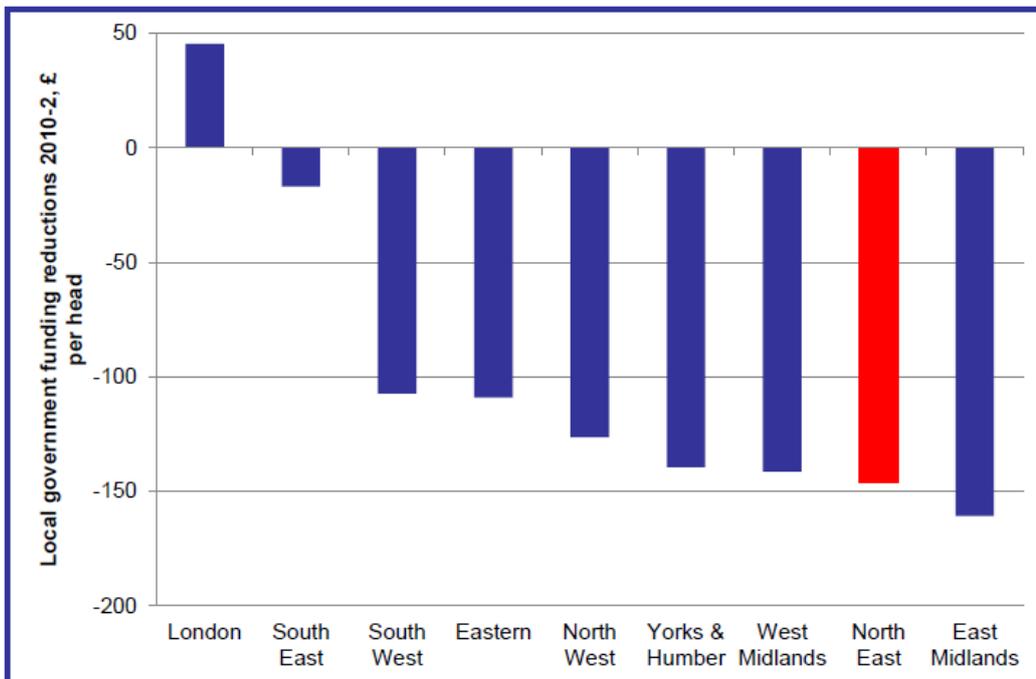
<sup>20</sup> NECC Briefing European Funding, February 2015 - Calculated as regional GVA as % of UK total GVA 2012 from Office of National Statistics (rough calculation of regional contribution to UK's payment to EU based on national GNI) compared to % EU funding to regional Local Enterprise Partnerships 2014 -2020 (Department of Business Innovation and Skills data).





The *Chamber's* paper compares the level of funding the North East receives from the EU with per-head local government spending cuts by the UK Government across the English regions (below).

**Chart 3: Local Government Funding Reductions**



So, there are no guarantees that the UK Government would choose to invest in our region to the same extent as the EU has done. Some would argue that the North East does better out of Brussels now than we might in the future from Westminster in the event of a UK exit. Of course, at this stage, there is no way of proving or dismissing this argument.

## Culture and People



So far, the focus on the 'in / out' debate has tended to be on economic and funding arguments – what we potentially stand to lose or gain in terms of grants, economic growth and formal cooperation with other governments. There has been less emphasis on issues of shared culture, heritage and learning, perhaps because these issues are more difficult to quantify and model. But, this does not make cultural and people issues less profound and it is important we consider these within a North East context. Key points include:

- **Shared culture and heritage** – the UK and the countries of the European Union share a common heritage stretching back over millennia. We have benefited from a sharing of arts and culture and many would argue that the exchange of ideas continues to thrive in Europe, supported and facilitated by European Union funding and free movement. There exists evidence of North East arts and cultural organisations engaging with similar organisations and networks across Europe. Some people argue that leaving EU membership risks cutting the UK off from cultural exchanges and would lead to a more isolationist and culturally-poor UK. The counter argument is that Britain and the North East's cultural relationships with European nations has been established over centuries and does not rely on EU membership to continue to flourish.

### Exchange of culture, learning and ideas

The *Ouseburn Trust* has a history of involvement in transnational projects. Recently, the *Trust* has engaged in learning with colleagues in Berlin and Amsterdam, looking at the regeneration of areas similar to the *Ouseburn* across the Continent and attempting to establish a balanced growth of mixed-use regeneration, protecting heritage and cultural identity while embracing sustainable growth.

The *Trust* has become involved in Europe-wide projects involving Universities around heritage and regeneration, undertaking research and hosting visiting international delegations of academics and is keen to do more to ensure we access opportunities for learning and funding.

The *Trust* also manages the award winning *Victoria Tunnel* tours, and last year saw international visitors exceed 10% of total visitor numbers, highlighting the need to ensure our social and cultural offer and engagement with overseas visitors is effective.

- **Free movement of people** – freedom of movement represents opportunities for people from the UK to work, study, settle and even retire across the European Union. Many of us have enjoyed the experience of inexpensive and open travel across Europe. And, fans across the region have cheered on football stars who have joined North East teams from the Continent. Again, there is an argument that people from the UK could enjoy all of these rights and benefits even if the UK was not an EU member. However, these would likely require to be re-negotiated with no guarantee that current rights would be maintained.
- **Human Rights and social justice** – the EU and the European Convention on Human Rights are closely linked, protecting human rights for citizens of the European Union. And, the EU is seen by many to promote social justice through, for example, protection of workers' rights as well as funding for social and economic programmes in regions of high need. Millions of workers in the UK take for granted rights such as paid holidays or fair treatment for part-time workers for example. Equally, the UK has a long tradition of protecting fundamental rights – some dating back to *Magna Carta*. Many of the



rights we enjoy in the UK have been developed over centuries of Parliamentary democracy and common law tradition and are an integral part of our constitution.

- **Common challenges** – supporters of the European Union highlight that many of the challenges faced by cities such as Newcastle are shared with places across the EU. They argue issues such as tackling deprivation, driving economic growth in a globalised economy and adapting to climate change are best done in partnership with cities across Europe, sharing learning, expertise and funding. Indeed Newcastle has developed many collaborative arrangements with cities in Europe. For example, we recently worked with the city of Malmo, exploring how we can promote health and environmental sustainability through food supply (GAIA project). And, we have built on our historic bonds of friendship with the city of Nancy to cement wider economic relationships across France. Of course, campaigners to leave the EU would point out that Newcastle’s strong international relations – including with cities of the EU – existed before the UK became a Member and there is no reason why these could not continue. They argue that withdrawing from EU Membership does not equate to isolationism.
- **Influence of British culture and language** – almost all the preceding issues have centred on some of the potential impacts, risks and opportunities for Newcastle, the region and wider UK. But, we should also think about the impact on the rest of the EU from a potential UK exit. Some commentators point to the substantial influence of British culture in Europe. The English language is for example widely used in exchanges between EU members. Our arts, sport and pop-culture are instantly recognised across the Continent. Perhaps more important, our democratic institutions and adherence to the ‘rule of law’ are respected throughout. In this sense, this debate is not solely about what we get from Europe but also about our role and responsibility for ensuring a fair, prosperous and peaceful Europe. The question is: can the UK’s role as a force for good in Europe be stronger inside or outside the EU?

## Conclusion

This paper aims to promote debate and discussion on our relationship with Europe now and in the future. It sets out some of the big issues, where possible within a Newcastle and North East context in a neutral manner. The referendum on the future of the UK – and by implication the North East - in Europe takes place in just under four months. People across the UK will decide on an issue which will have impacts for over 500 million EU citizens.

### Questions for discussion



1. Is the EU referendum about economy, identity or both?
  2. How well informed are you about the key issues in this debate?
  3. Do you think the North East has a distinct or even unique relationship with other parts of Europe?
  4. What do you see as the role of the Council and other public institutions in this debate?
  5. Do you think we (in the North East) are more connected to the institutions of Westminster and Whitehall than those in Brussels?
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