Developing a socio-economic framework to guide the 2014-2020 EU Structural Fund Programme in the East Midlands

Interim Report: 2 August 2013

Executive Summary

This report summarises work undertaken to the end of July 2013 on a PA3 project to inform the next round of EU Structural funding (2014-2020) led by East Midlands Councils (EMC).

In particular, it highlights the key evidence and outcomes from six events delivered by EMC, with support from Nottingham Trent University and in partnership with Local Enterprise Partnerships (LEPs) and Climate East Midlands, which directly engaged with 279 local representatives during July 2013.

Event	Date	Venue	Attendees
Greater Lincolnshire LEP (with GC&GP LEP in attendance)	1st July	Bishop Grosseteste University, Lincoln	49
Leicester & Leicestershire LEP	5th July	Curve Theatre, Leicester	77
Northamptonshire Enterprise & SEMLEP	16th July	Northampton Saints Rugby Ground	41
D2N2 (with SCR in attendance)	22nd July	Notts County Football Club	73
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The events yielded a wealth of insight and information which is summarised in the main body of the report. However, at general level three key issues were highlighted:

- **Complexity:** There was widespread concern in the apparent increase in the complexity of EU funded projects and programmes over recent years. If the next EU programme is to be successfully implemented, then effort must be made to design projects in ways that simplify procedures and reduce risks to both project sponsors and beneficiaries.

- **Fragmentation**: There was considered to be a real danger of the next programme leading to a plethora of business support initiatives that would be ineffective and poorly understood by SMEs. There should to be an element of strategic co-ordination to ensure such initiatives meet identified needs in an efficient manner and to simplify the experience from an SME perspective.

- **Skills**: Addressing skills issues is seen as critical to economic success in all areas. However, skills initiatives must meet clearly identified sectoral or local needs to be effective, and there must be much better integration between ERDF funded projects and ESF funded training projects to maximise the impact of EU investment.

In addition, evidence developed by Nottingham Trent University has highlighted a number of potential areas of collaboration between LEPs that should inform the development of local EU investment strategies. These are summarised in the table opposite.

Potential for Collaboration Between LEPs		
SME Competitiveness	**Innovation (and Low Carbon)**	**Employment, Skills and Social Inclusion**
D2N2, Sheffield City Region and **Greater Lincolnshire:** common challenges related to the impact of recession on the SME environment: seen in (greater than average) falls in output and productivity, lower business birth rates and higher death rates. **For all LEPs**: Construction is important across the East Midlands, as both a key employer and an enabling sector for SME Competitiveness and Innovation (and note opportunities raised in round-table sessions related to maximising the opportunities of the Green Deal and other low carbon-related investment programmes).	**D2N2, Leicester & Leicestershire, Greater Lincolnshire, Northamptonshire** (and **Coventry and Warwickshire**)**:** the cluster of Advanced Manufacturing in the north of **Leicester & Leicestershire** and the south of **D2N2** – includes a range of sub-sectors including, but not restricted to, Transport Equipment. Important supply chain links and knowledge transfer relationships with HE. The development and manufacture of power generation equipment in **D2N2, Leicester & Leicestershire, Northamptonshire** and **Greater Lincolnshire** links to key sources of demand for these technologies, especially in **D2N2** (Radcliffe-on-Soar, Burton and West Cottam power plants). **Greater Lincolnshire**, **Leicester & Leicestershire** and **Greater Cambridge & Greater Peterborough**: innovative activities around food technology – although not covered in the 'high and medium high tech' definition, local research points to significant opportunities for collaboration and maximisation of supply-chain linkages.	**Sheffield City Region**, **Greater Lincolnshire** and **D2N2**: increased unemployment in both urban and rural areas (and increased disparities with more resilient areas). Local Investment Strategies need to be cognisant of differing underlying factors between some areas (e.g. long term legacy of de-industrialisation in **D2N2** and **Sheffield City Region**, urban concentrations of unemployment, and issues related to remote rurality). Common issues contributing to worklessness of key groups – such as young people – affect **all LEPs**, particularly low skills. **Greater Lincolnshire** and **Greater Cambridge and Greater Peterborough**: common challenges around coastal concentration of low skills. **Leicester and Leicestershire, South East Midlands, Northamptonshire** and **Greater Cambridge & Greater Peterborough:** common challenges around out-migration of skilled workers and common risks of local under-employment (thus opportunities for collaboration on projects/programmes aimed at raising local employer demand for skills)

Contents

1. Introduction

1.1 East Midlands Councils (EMC) has been supported through ERDF technical assistance (PA3) to develop a 'socio-economic framework' to inform the development of the 2014-2020 EU Structural Fund Programme. The project officially started on the 5th March 2013. A draft framework will be published by the end of September 2013, and finalised by the end of December 2013. The socio-economic framework will identify investment opportunities at both sub-regional and regional level that will maximise the economic impact of European investment across the East Midlands. It will help to ensure that a future structural fund programme reflects the needs of the local economies of the East Midlands, with strong alignment between the activities of local partners and objectives of the programme. Ultimately, success will be measured by the effective delivery of a future structural fund programme.

1.2 This interim report summarises progress up to the end of July 2013. In particular it highlights the main evidence and conclusions from six consultation/awareness raising events delivered by EMC during July 2013, with support from the Economic Strategy Research Bureau at Nottingham Trent University's Business School, which will be used to inform the socio-economic framework and well as the draft investment strategies of individual LEPs.

2. Proposed Arrangements for EU funding (2014-2020)

2.1 The Government proposition for the next period of EU funding is based around the following:

- A single governance framework at the national level for most structural funds (including all ERDF & ESF) to be known as the 'EU Growth Programme'.
- Within this framework, Local Enterprises Partnerships (LEPs) will have responsibility for developing local 'EU Investment Strategies'.
- Each LEP will be given a 'notional allocation' of national EU funding to prioritise against its investment strategy (although the cash will be held centrally by Government as the managing authority). These allocations will be reviewed on an annual basis against performance from 2017 onwards.

2.2 The Government is consulting separately on the scope of the next Rural Development Programme for England, but it is likely that a least a proportion of rural funding will feature in the UK Growth Programme.

2.3 The Government has made the following EU wide objectives 'top priorities' for the UK's EU Growth Programme:

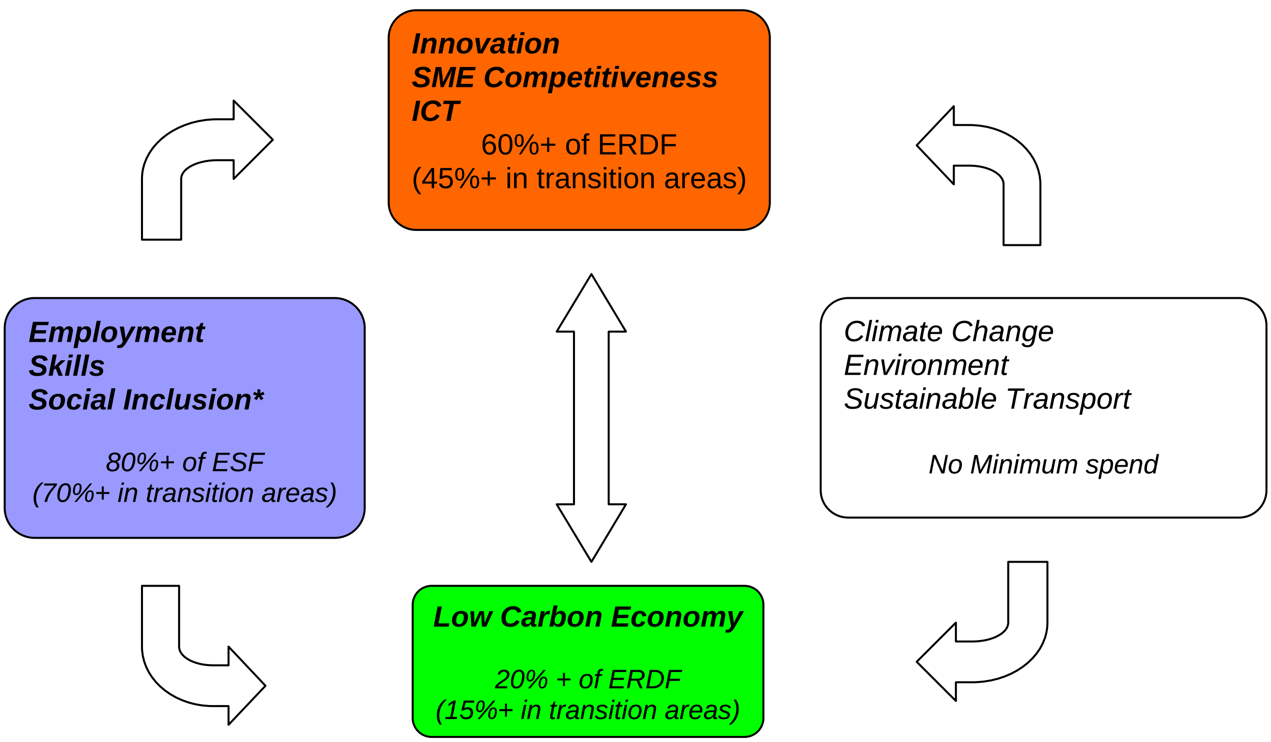
- **Innovation and research & development**: with a particular focus on promoting greater private sector investment.
- **Support for small & medium Enterprises**: to improve rates of business start-up, survival and growth.

- **Information & Communications Technology (ICT)** to improve speeds and levels of access.
- **Low carbon economy:** with a particular focus on promoting energy efficiency and business growth.
- **Education, skills & life long learning**: creating a better educated more flexible workforce.
- **Promoting employment and labour mobility:** with a particular focus on reducing workless households and youth unemployment.
- **Promoting social inclusion & combating poverty:** with a particular focus on individuals and families facing multiple disadvantages.

2.4 The remaining EU wide objectives will be of a lesser priority for the UK Government:

- Climate Change
- Environmental Protection
- Sustainable Transport
- Institutional Capacity

2.5 The level of spend on each priority is also influenced the level of GDP relative to the EU average in a given 'NUTS2' (sub-national) area. Most of the East Midlands is classed as 'more developed' (90-100% of EU average GDP). The exception is Lincolnshire, which is classed as a 'transition area' (75-90% of EU average GDP). A diagram summarising required spend against priorities is set out below (UK Government priorities in bold). Whilst individual LEPs can deviate from this profile, collective spend must be consistent when measured at the national level.

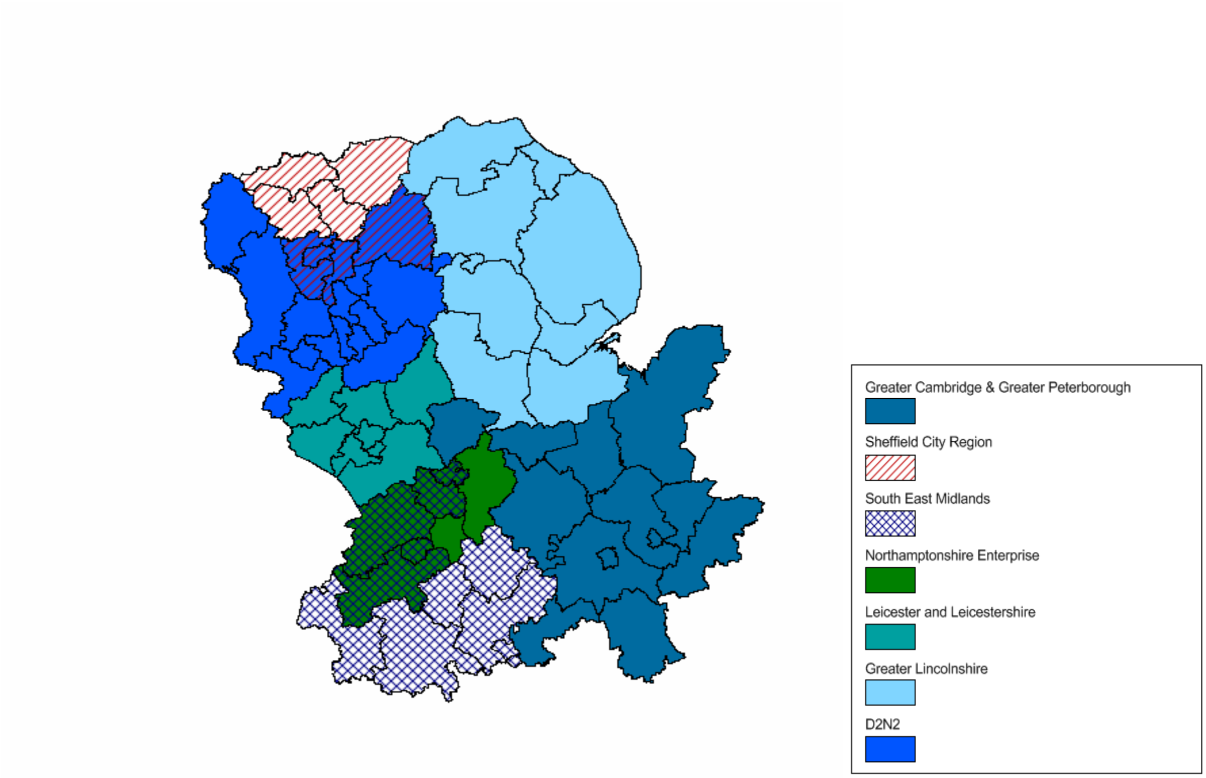


*Minimum 20% of spend

2.6 In addition, all investment strategies must consider the following cross-cutting priorities:

- Gender equality, equal opportunities, and non-discrimination.
- Sustainable Development.

2.7 There are seven LEPs covering the East Midlands, four of which overlap:



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2.8 Government announced proposed notional allocations for all LEPs at the end of June 2013. For those LEPs covering the East Midlands the proposed allocations are as follows:

D2N2:	€249.7
Greater Cambridgeshire & Greater Peterborough LEP:	€75.5
Greater Lincoln LEP:	€133.5
Leicester & Leicestershire LEP:	€126.3
Northamptonshire Enterprise Partnership:	€55.0
Sheffield City Region	€203.4
South East Midlands LEP:	€88.3

2.9 In July 2013 the Government announced provisional details of a UK funded 'Local Growth Fund', which will be available to LEPs from 2015 onwards and could potentially be seen as

New Homes Bonus	£400m
LA Major Transport Schemes	£819m
Local Sustainable Transport Fund	£100m
Integrated Transport Block	£200m
Further Education Capital Fund	£330m
ESF Skills Match Funding	£170M

2.10 Supplementary guidance on the development of EU Local Investment Strategies was issued to LEPs by Government on the 19th July 2013 (available here). The guidance confirms that LEPs will have until 7 October 2013 to submit draft investment strategies, with final version to be completed by the end of January 2014. The Government is anticipating that the next EU Programme will become operational in mid 2014.

2.11 The supplementary guidance allows for LEPs to 'opt in' to a number of national programmes, using EU money to deliver enhanced outcomes. The following organisations/programmes are making opt-in offers to LEPs at this stage:

- UK Trade and Investment
- The Manufacturing Advisory Service
- Growth Accelerator
- The Skills Funding Agency
- European Investment Bank (for social housing retrofit); and
- The Big Lottery Fund (for social inclusion)

2.12 One East Midlands, the collective body for third sector organisations in the East Midlands, has produced a very clear briefing note aimed at readers without a background in EU funding. 'LEPs and their role in the 2014-20 EU Funding Programme', is available here.

3. EMC Activity to date

3.1 Initial discussions were held with all 7 East Midlands LEP secretariats between the 15th-27th March 2013 to discuss how best the project could best support their work and to agree practical working arrangements over the coming months.

3.2 A small sub-contract was let in June 2013 to provide technical and analytical support to inform the statistical evidence base underpinning the framework. After a competitive tendering process, the Economic Strategy Research Bureau at Nottingham Trent University's Business School (NTU) was appointed.

3.3 Progress was reported to the EMC Executive Board on the 14th June and the subsequent debate used to inform the development of the project.

3.4 During July 2013 EMC delivered four half-day LEP based consultation events and two half-day technical roundtable events:

Event	Date	Venue	Attendees
Greater Lincolnshire LEP (with GC&GP LEP in attendance)	1st July	Bishop Grosseteste University, Lincoln	49
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3.5 Delegate invite lists for the LEP events were agreed with each LEP secretariat, and efforts were made to ensure a range of interests were represented, including from the public, private and third sectors. Participants for the two roundtable events were selected by EMC in consultation with regional stakeholders on the basis of acknowledged expertise on relevant issues.

3.6 Each of the LEP events used a similar format, starting with an introductory presentation, followed by one by Nottingham Trent University on the emerging economic evidence base. Copies of all the presentations are available on the EMC web-site (here). After a period for questions a series of table based workshops took place on specific questions agreed with each LEP. The raw written feedback was made available to each LEP secretariat, and is summarized later in this report. D2N2 also used its event to formally launch a public consultation on emerging EU investment priorities, available here.

3.7 For the two roundtable events, presentations from EMC and NTU were followed by a structured discussion round four key challenges, which were considered for around 20 minutes each. A note of the event was made and circulated to participants. The key issues arising are summarised later in this report.

3.8 In total, 279 people attended the six events. Of those that completed the feed back forms, 87% considered the events to be either ‘good’, ‘very good’ or ‘excellent’. Comments made included:

“Very good event, thanks”

“Very well facilitated and chaired”

“It was awesome. Well organized and informative – keep it up!”


Workshop discussions at the LLEP Event at the Curve Theatre on the 5th July 2013

4. Next Steps

4.1 EMC is aiming to produce a draft socio-economic framework by the end of September 2013. This will make use of updated economic analysis undertaken by NTU which will also extend to the Greater Manchester LEP, the Coventry & Warwickshire LEP and the New Anglia LEP, where preliminary research has indicated common challenges or opportunities exist with one or more of the seven LEPs that extend across the East Midlands.

4.2 The draft will be discussed by the EMC Executive Board before being made available on the EMC web-site for an extended period of open consultation. A revised draft will be discussed by the EMC Executive Board in early December 2013, before being finalised by the end of December 2013.

5. The East Midlands Economy: Summary Analysis

5.1 EMC commissioned Nottingham Trent University's Business School to provide economic analysis to inform the socio-economic framework. This section is drawn from Stage 1 of their work as presented to the four LEP based events and two Roundtables.

5.2 There are 7 LEPs within or overlapping the East Midlands Region. Data in this section is presented for these LEPs:

- D2N2
- Greater Cambridge and Greater Peterborough
- Greater Lincolnshire
- Leicester and Leicestershire
- Northamptonshire Enterprise
- Sheffield City Region
- South East Midlands

5.3 This evidence is presented in terms of an overall economic context, with particular focus on the widening disparities between some LEP areas following the onset of recession in 2008, followed by thematic analysis related to key EU Objectives: SME Competitiveness, Innovation, Employment and Skills.

5.4 Economic Context

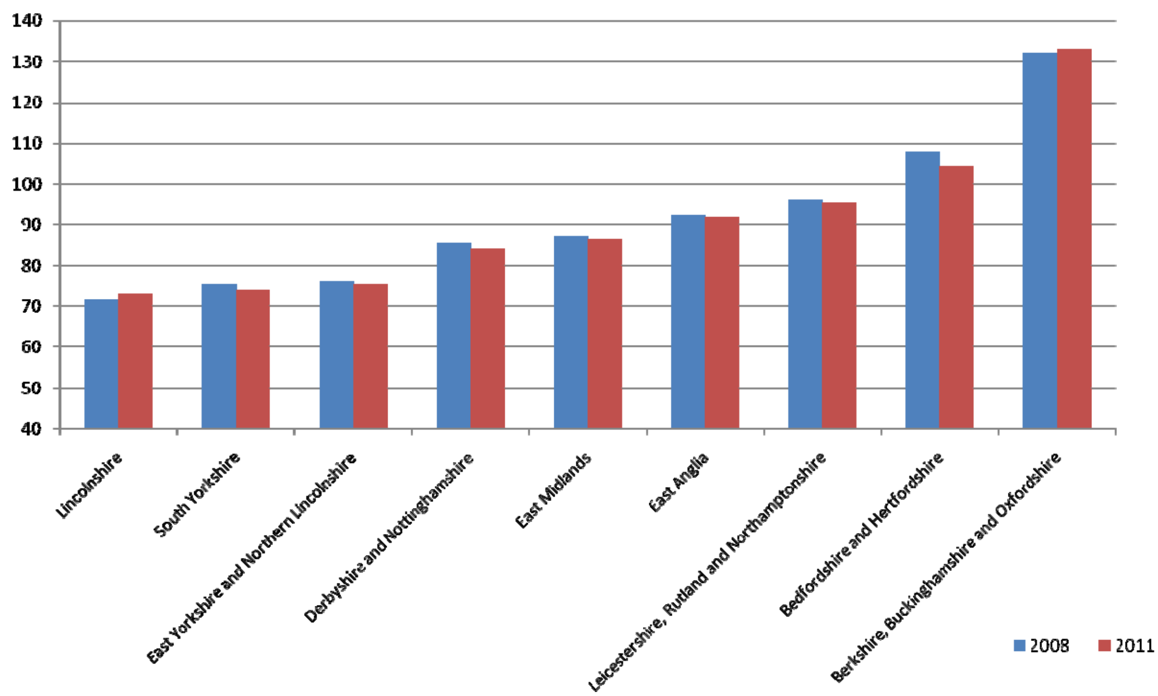
5.4.1 The UK economy contracted significantly from the onset of recession in 2008. Between the first quarter of 2008 and the second quarter of 2009, real GDP fell by 7.2% (ONS, 2013). This is similar to the extent of output lost in the Great Depression of the 1930s, and significantly exceeds the contraction experienced in the recessions of the 1970s, 80s and 90s. However, the UK economy has yet to experience a recovery comparable to those that followed earlier recessions, including the 1930s, with the latest output estimates remaining significantly lower than the pre-recession peak.

5.4.2 The performance of individual LEP areas, in terms of Gross Value Added (GVA) per head, has differed significantly. Chart 1 illustrates a north-south divide across the LEP areas included in Stage 1 of this project (in this case, represented by NUTS2 sub-regions). With the exception of Bedfordshire and Hertfordshire, output has decreased more than average in areas to the north of the East Midlands between 2008 and 2011 (particularly Derbyshire & Nottinghamshire and South Yorkshire) whilst economies to the south and east of the region appear to have been more resilient – with Berkshire, Buckinghamshire & Oxfordshire and Lincolnshire NUTS2 areas experiencing a significantly smaller decrease in output than in the UK overall. This is broadly consistent with a picture of widening disparities between sub-regions observed across the UK. Many sub-regions that had lower levels of output per head prior to the recession, such as Derbyshire & Nottinghamshire, experienced greater than average losses of output.

5.4.3 GVA per head in the Derbyshire & Nottinghamshire NUTS2 area fell from 85.6% to 84.1% of the UK average between 2008 and 2011. Within the D2N2 area, most NUTS3 areas also experienced a greater fall in GVA than in the UK overall – particularly the area with the highest output per capita, Nottingham City, which fell from 125% to 119.3% of the UK average. Output in Derby City, North Nottingham and South Nottingham also contracted more significantly than the UK average – whilst East Derbyshire appeared more resilient, with output per capita increasing relative to the UK average, from 68.5% to 70.7% (whilst South & West Derbyshire remained around 73-74% of the UK average).

5.4.4 Conversely, the Leicestershire, Rutland and Northamptonshire NUTS2 area remained at 95% of UK GVA per head in both 2008 and 2011 – significantly above the average for the East Midlands region (87%). Within this area, NUTS3 data indicates that West Northamptonshire has remained consistently higher than the UK average (109-110%) between 2008 and 2011, but North Northamptonshire has a significantly lower output per head – although this has increased slightly relative to the UK average, from 84.9% to 85.4%. In all, this indicates a relatively resilient economy – with the well-connected west of Northamptonshire in particular outperforming other parts of the UK.

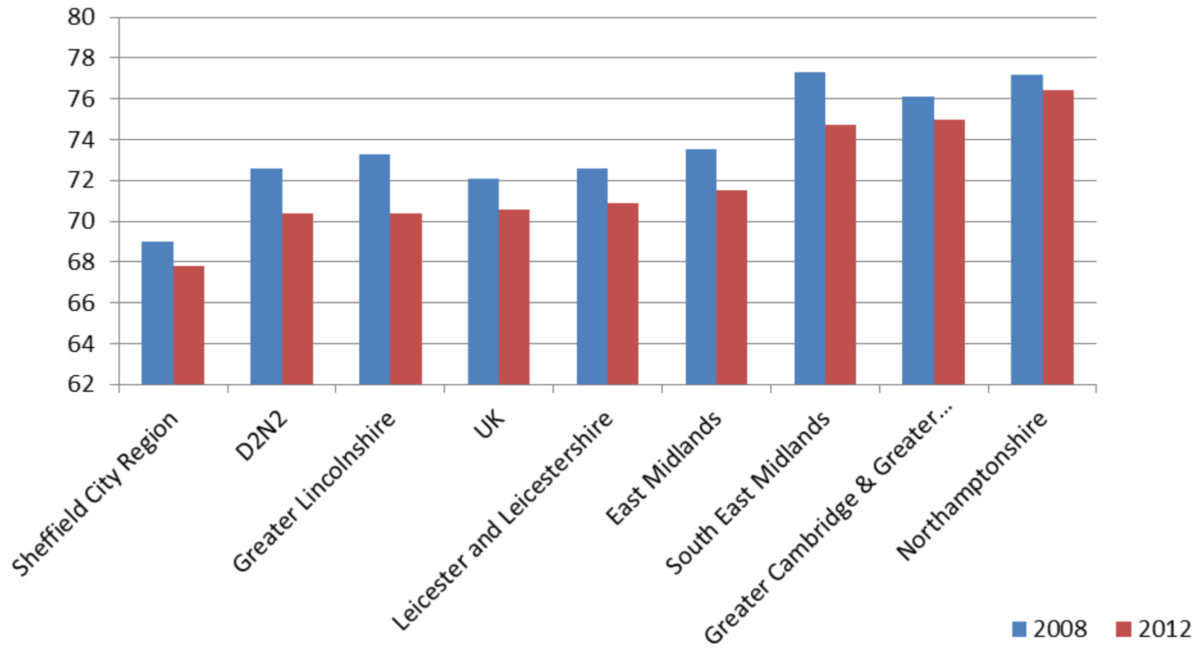
Chart 1: Headline GVA per head indices (UK=100) NUTS2, 2011



Source: ONS Crown Copyright, 2012. '*Regional Gross Value Added, 2011*'.

5.4.5 Alongside the depth of contraction and relative weakness of recovery in terms of output, the other key feature of the recent recession has been the comparative stability of the UK labour market. Employment has fallen, and unemployment has risen, by far less than in previous recessions. However, despite this relatively stable picture nationally, Labour Force Survey data also illustrates significantly widening sub-regional disparities. Generally speaking, areas that experienced the largest falls in employment after the recession began in 2008 tended to be those areas that already had higher levels of unemployment prior to the recession.

Chart 2: Employment rate (% working age residents), 2008- 2012



Source: ONS Crown Copyright, 2013. '*Annual Population Survey*', January-December 2008 and January-December 2012. From NOMIS [accessed 24th June, 2013].

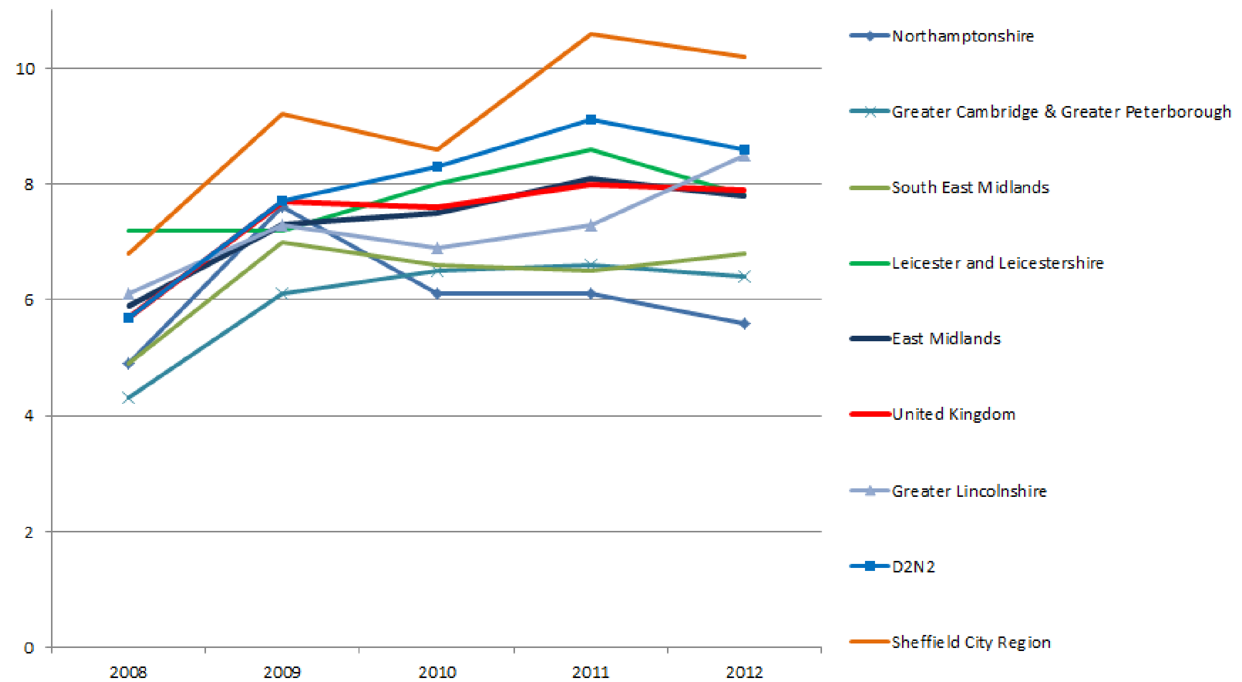
5.4.6 Chart 2 shows the change in employment rates for the seven LEP areas between 2008 and 2012, whilst Chart 3 shows the change in unemployment rates over the same period. Sheffield City Region, D2N2 and Greater Lincolnshire all experienced significant falls in rates of employment and significant increases in unemployment:

- Employment in D2N2 and Greater Lincolnshire fell by 2.2 and 2.9 percentage points respectively, going from above the UK average in 2008 to below it in 2012 in both cases;
- Unemployment increased significantly in both LEP areas, by 2.9 and 2.4 percentage points respectively; and
- Sheffield City Region experienced a particularly significant increase in the rate of unemployment, from 6.8% in 2008 to 10.2% in 2012 (an increase of 3.4 percentage points).

5.4.7 A number of LEP areas to the south of the East Midlands experienced very little change in these headline labour market indicators, with employment rates in Northamptonshire and Greater Cambridge and Greater Peterborough falling by only 0.8 and 1.1 percentage points respectively, remaining significantly higher than both the East Midlands and the UK averages. Northamptonshire also only experienced a small increase in the rate of unemployment (by 0.7 percentage points).

5.4.8 The outcome of these differing local experiences is clearly illustrated in Chart 3. In 2008, there was only a 2.9 percentage point difference between the LEP area with the highest rate of unemployment (Leicester and Leicestershire) and the lowest (Greater Peterborough and Greater Cambridgeshire). By 2012 this gap had increased to 4.6 percentage points, with Sheffield City Region experiencing the greatest increase in unemployment to reach a rate of 10.2%, whilst Northamptonshire remained relatively stable, with the smallest change and lowest rate of 5.6%. By 2012 therefore, there is a far clearer north-south divide in labour market performance than in 2008.

Chart 3:Umployment rate (% economically active residents), 2008- 2012



Source: ONS Crown Copyright, 2013. '*Annual Population Survey*', January-December 2008 and January-December 2012. From NOMIS [accessed 24th June, 2013].

5.4.9 This suggests some common challenges and opportunities for collaborative action for Greater Lincolnshire, D2N2 and Sheffield City Region, although the underlying factors that have contributed to these developments are likely to differ – both between LEP areas and within them. For example, increased unemployment in coastal Lincolnshire and some of the more rural parts of D2N2 (including the former coalfields areas), will be exacerbated by poor connectivity and reliance on weak, seasonal labour markets (and the on-going legacy of both de-industrialisation and the long-term decline in agricultural employment). However, increasing unemployment in the more urban areas of north Lincolnshire, around the Humber estuary, and the large conurbations of Sheffield, Rotheram, Doncaster, Lincoln, Nottingham and Derby will have quite different contributory factors – thus requiring different interventions set out in local Investment Strategies.

5.5 SME Competitiveness

5.5.1 EU Thematic Objective 3 advocates projects and programmes that aim to support a competitive SME base – resulting in increased levels of entrepreneurship, higher rates of

5.5.2 Evidence for the current state of the SME environment in the UK is mixed, with some signs of improvement alongside evidence of persistent barriers and challenges. For example:

- Between 2009 and 2011, business birth rates have increased and business death rates have fallen across the LEP areas in this study and in the UK overall;
- However, the survival rates of new businesses remain significantly lower than pre-recession levels;
- Due to the decision taken by many smaller employers (<50 employees) to retain staff despite falling demand for goods and services (one of the main reasons why employment rates have remained relatively stable), these firms have also been less likely to invest in equipment and may have frozen or cut wages, with a resulting loss of productivity;
- Large firms (>250 employees) have been more prepared to cut staff and have maintained both investment and productivity at pre-recession levels. However, in the UK overall, productivity levels have fallen and unit labour costs have increased – despite weak wage growth;[1]
- Therefore, although weak wage growth may have helped keep employment levels stable, it also means that some firms are substituting cheap labour for investment in capital, training, Research & Development, etc.;
- Related to this, lenders interviewed for the latest Bank of England's Agents' Report stated that the demand for credit from businesses remained low – with businesses concerned not to take on additional risk and to retain their cash reserves;
- However, BoE Agents were told by businesses that, when they did need loans - for either working capital or to finance growth - lenders remained overly risk averse and likely to refuse credit;[2]
- Regional and national surveys suggest that export activity has increased significantly, in both the production and service sectors; and
- Surveys also point to a more consistent improvement in business confidence in the last quarter.

5.5.3 Chart 4 shows business birth and death rates for the seven LEP areas within or overlapping the East Midlands. All LEPs in the study area have a lower business birth rate (new registrations for VAT and/or PAYE as a % of the total end of year business stock) than the UK average. In contrast to the output and employment data, this indicator does not show a north-south divide. Instead, the distribution of entrepreneurial activity is more spatially complex, and is highly affected by relative connectivity. For example, business birth rates are particularly low in the more remote rural areas of Greater Cambridgeshire & Greater Peterborough and D2N2.

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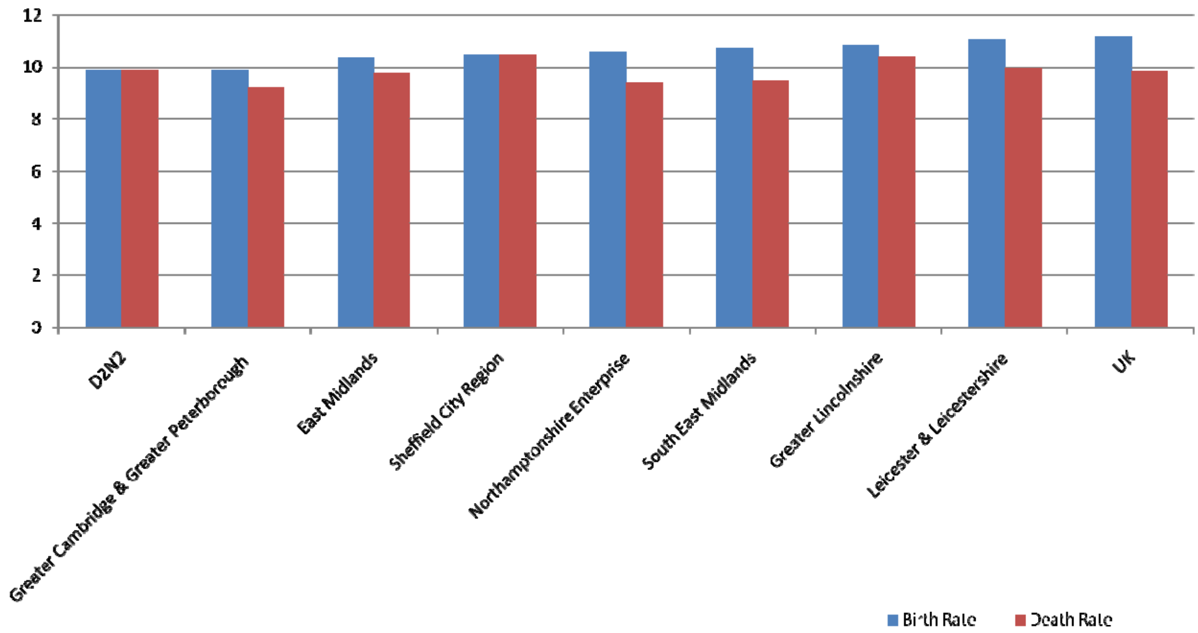
[1] Institute of Fiscal Studies (IFS), 2013. '*Workers keep their jobs but one third faced nominal wage freezes or cuts*'. URL:http://www.ifs.org.uk/pr/fs_june2013_launch_pr.pdf
[2] Bank of England, June 2013. '*Agents' Report*'. URL: http://www.bankofengland.co.uk/publications/Documents/agentssummary/agsum13jun.pdf

Well-connected areas of Leicester & Leicestershire, South East Midlands, Northamptonshire and Greater Lincolnshire had the highest birth-rates.

5.5.4 The birth rate increased in most areas between 2009 and 2011. This reflects both a genuine increase in the number of business births over the period, but also a change (decrease) in the stock over the period. In the East Midlands overall, the business birth-rate increased from 9.4% to 10.3%, reflecting the fact that business births increases from 14,860 to 16,055, but also that the end-of-year count of enterprises fell from 158,120 to 155,270. This was because the number of business deaths significantly exceeded the number of births in 2009 and 2010.

Chart 4: Business Births and Deaths (% of end-of-year count of active enterprises), 2011



Source: ONS Crown Copyright, 2012. *'Business Demography 2011 – Enterprise Births, Deaths and Survivals.'*

5.5.5 There has been a significant decrease in the survival of new businesses – but the East Midlands and most of the LEP areas within the region have continued to out-perform the UK average:

- The proportion of businesses 'born' in 2006 that survived two years (to 2008) was 81.2% in the East Midlands and 80.7% in the UK;
- With the onset of recession this decreased, so that the proportion of businesses 'born' in 2009 and surviving to 2011 fell to 75.1% in the East Midlands and 73.8% in the UK; and
- Leicester & Leicestershire, Northamptonshire and Greater Lincolnshire all had higher survival rates than the East Midlands average (before and after the recession), whilst survival rates in D2N2 and Sheffield City Region were lower.

5.5.6 Increasing business start-up and survival are not the only indicators of a competitive SME base that local Investment Strategies can support. In order to achieve a portfolio of projects and programmes that support private-sector job growth, EU investment also needs to support a greater number of businesses attaining 'high growth' (in this case, defined as an average employment growth of 20% per annum over a 3 year period). Research suggests that although such firms only accounted for 7% of the business stock in the UK overall and across most LEP areas, they were responsible for around 50% of all new jobs generated between 2002 and 2008.[3] However, such companies are hard to identify before they attain high growth, as they can be found across all sectors of the economy, can be recent start-ups or established companies, can be large or small employers, and can be located in urban or rural areas. The one characteristic these firms share is that they are innovative, and have the following common needs:

- Access to finance for growth;
- A skilled workforce;
- Infrastructure that enables the flow of ideas (i.e. physical and electronic communications infrastructure – including fast broadband connectivity); and
- A demand for innovative products and processes, stimulated through supply-chain and public sector procurement activities.

5.5.7 Therefore, although it may not be possible for Investment Strategies to target high growth businesses per se, they can target those factors that are necessary for businesses to enter and maintain high growth – factors that are also supportive for a healthy SME base more widely.

5.6 Innovation

5.6.1 Innovation is strongly emphasised in the EC's Cohesion Strategy for 2014-2020, underpinning the objective for nations and regions to achieve a sustainable, innovation-led recovery. Of direct relevance to LEPs' Investment Strategies, is the cross-cutting policy of 'smart specialisation', where local areas are encouraged to identify their unique clusters or sectors of comparative advantage – in terms of product excellence, innovation and knowledge transfer – and develop projects and programmes that link these assets to complementary strengths in other areas, building and diversifying on these assets.

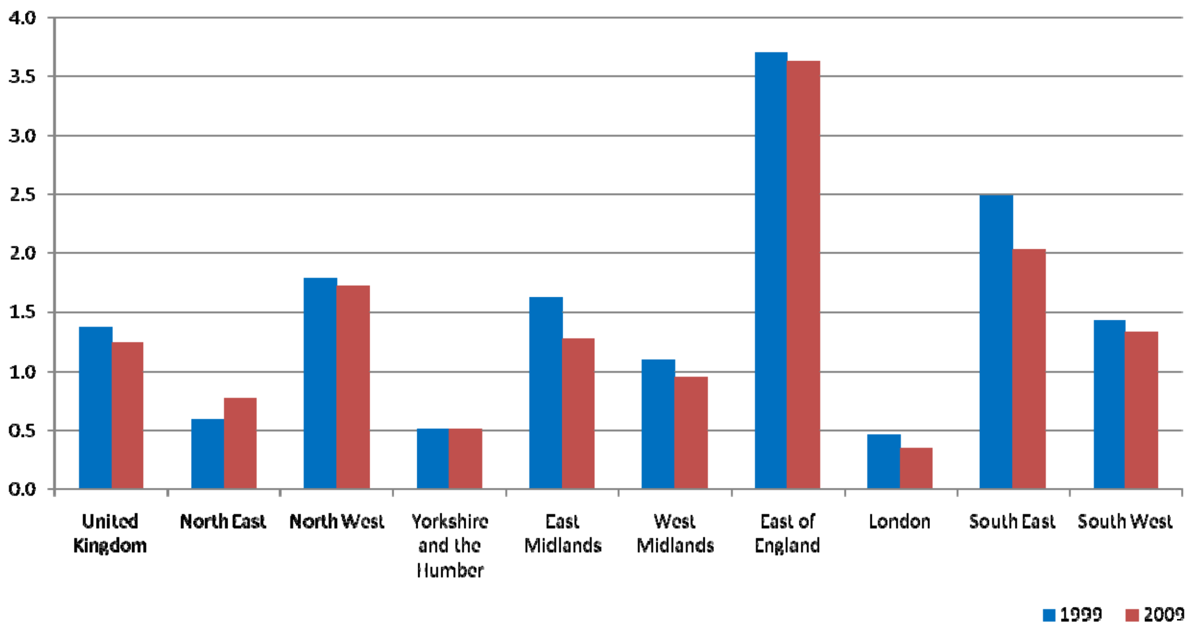
5.6.2 From published data on innovation inputs and outputs, and employment within sectors that are associated with higher than average levels of innovative activity, it is clear that the East Midlands has a number of strengths – and a number of complementarities between LEPs. These include Advanced Manufacturing – concentrated in D2N2 and Leicester & Leicestershire (and also in Coventry & Warwickshire to the west of the East Midlands). This does not just include the transport equipment sub-sector (aerospace, rail and automotive) that is strongly established in Derby and South Derbyshire with Toyota, Rolls Royce and Bombardier, but also includes the manufacturing of power generation equipment (including the development,

[3] NESTA, '*Vital Growth: The importance of high growth businesses to the recovery*', March 2011.

manufacture and installation of energy efficient turbine technology), electronics and a range of other manufacturing specialisms (such as medical devices in Nottingham, Leicester and Loughborough). These assets are complemented by clusters in Lincoln (with Alstom and Siemens in innovative power generation equipment) and also Daventry (Cummins, again a manufacturer of power generation equipment).

5.6.3 Chart 5 shows that, in terms of investment in Research and Development (as a % of total GVA), the East Midlands is in-line with the UK average, having previously been significantly higher. There is a particular concentration of private sector R&D investment in the South East & East of England (the Oxford-Cambridge arc), which skews the national average. The decline in R&D investment in East Midlands may have been affected by the loss of a number of important R&D assets, such as Astra Zenica in Loughborough. Measures of innovation inputs and outputs by sector show the dominance of manufacturing sub-sectors in R&D, both regionally and nationally. This demonstrates that, although strong in the East Midlands, advantages in R&D intensive manufacturing can be relatively easily lost – given the costs and risks inherent in investment in innovation.

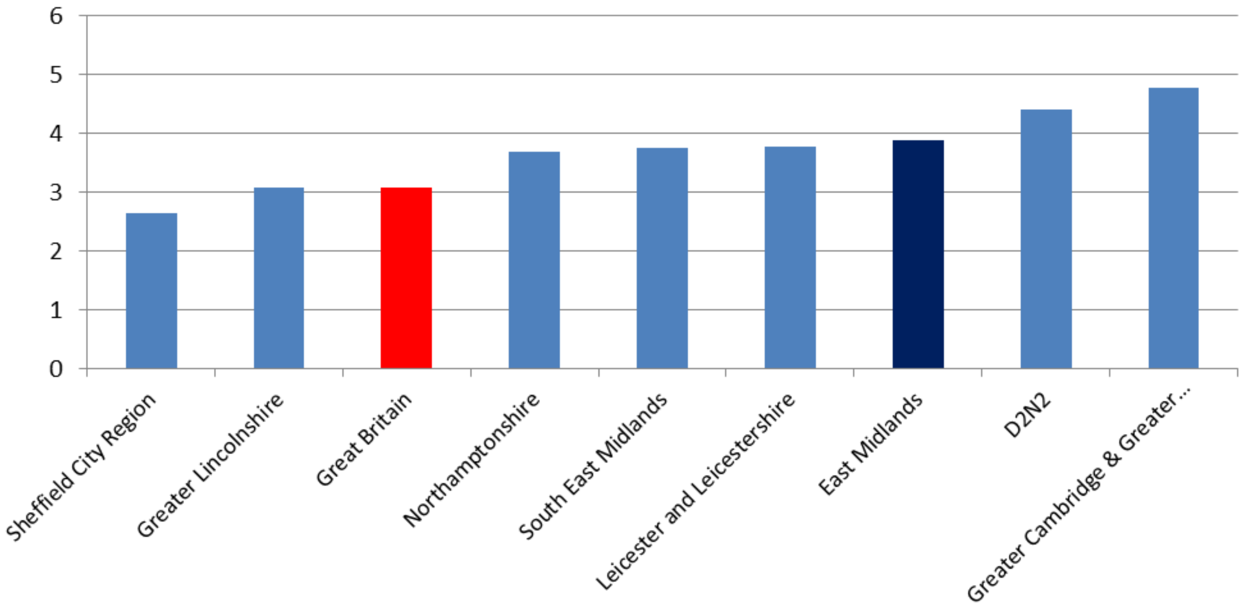
Chart 5: Innovation inputs: Business Enterprise Investment in R&D (as a % of total workplace GVA), 1999 and 2009



Source: Department for Business, Innovation and Skills, 2012. *'Regional Economic Performance Indicators – Live Tables'.*

5.6.4 Chart 6 and Map 1 illustrate an employment based measure of innovation –'employment in High and Medium-High Technology Industries '. Chart 6 shows that the East Midlands and all but two of the seven LEP areas in this study have a proportion of workers employed in these sectors that exceeds the national average (3.1%), with employment in the D2N2 area particularly high (at 4.4%).

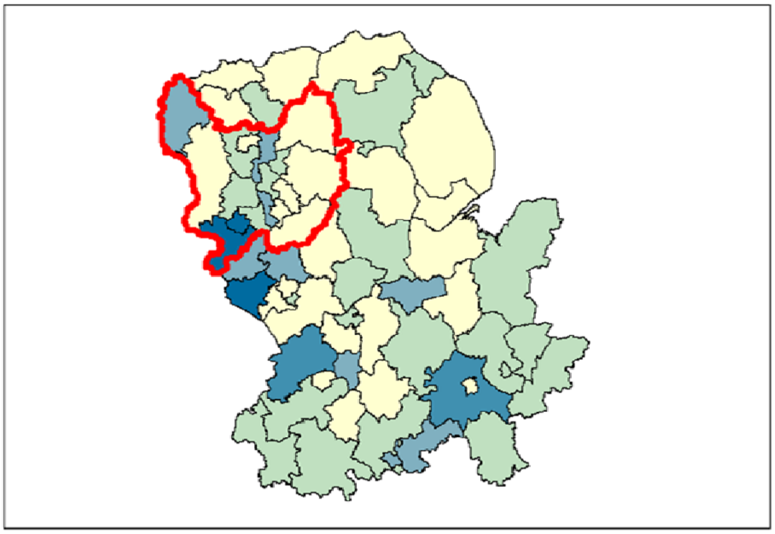
Chart 6: Employment in High and Medium-High Technology Industries (% work-based employment), 2011



Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011*.' Data accessed from NOMIS [17th June, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.

5.6.5 However, Map 1 shows just how spatially concentrated this employment is – with the largest proportions clearly concentrated in South Derbyshire and Derby and northern Leicestershire (particularly Charnwood and North West Leicestershire) – a clear example of an opportunity for collaboration between D2N2 and Leicester and Leicestershire LEPs on the basis of the objectives set out in the EC's 'smart specialisation' agenda.

Map 1 : Employment in High and Medium-High Technology Industries (%), 2011



Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011.'* Data accessed from NOMIS [17th June, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.
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5.7 Skills

5.7.1 As sections 5.5 and 5.6 on SME Competitiveness and Innovation demonstrated, skills are not only important to ensure that individuals can remain employable (accessing, retaining and progressing within employment), but are a key common need for high growth, innovative businesses. Research indicates a 'virtuous circle' in the relationship between skills and innovation.[4] Skills are an important perquisite for successful innovation. In turn, innovation further increases a firm's demand for skills in order to unlock the benefits of product or process improvements. Skills are therefore an important focus of investment to support both economic development objectives (innovation, high growth businesses) and economic inclusion and employment objectives. However, the East Midlands region, and many of the LEP areas included within it, exhibit characteristics indicative of a 'low pay, low skill equilibrium'. This describes a situation in which a lower demand for skills from many employers, due to the nature of the products or services they produce and their positioning within their markets (i.e. their 'product market strategy'), is accompanied by a lower level of skills amongst the local

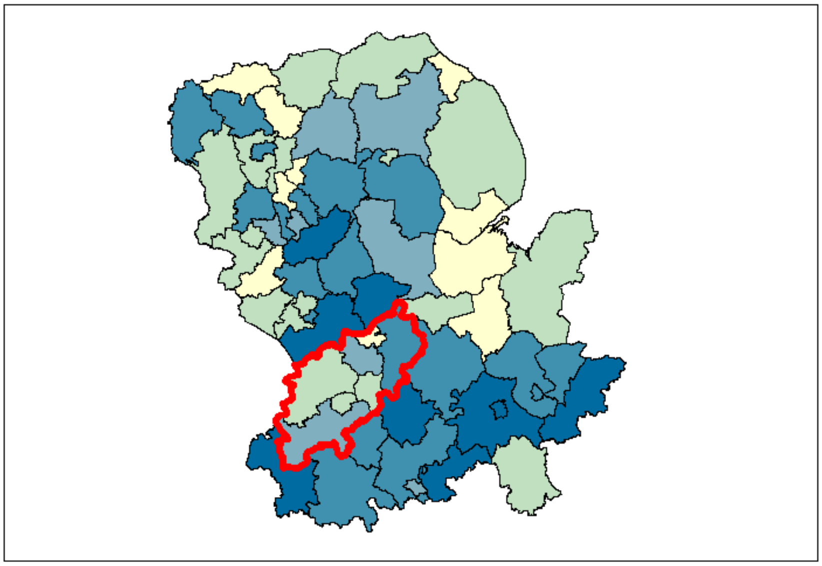
[4] Atherton, Andrew and Price, Liz, Gray, David and Bosworth, Gary, on behalf of the East Midlands Development Agency, 2010. '*The relationship between rurality, skills and productivity in the East Midlands: final report.'* Nottingham: emda.

workforce. This perpetuates a cycle, where companies may find it difficult to innovate (or to implement new or improved processes) due to a lack of workforce skills, whilst individuals may have limited incentive to invest in their skill development. Furthermore, highly skilled individuals are incentivised to migrate away from the local area or commute to work elsewhere. This is demonstrated by the fact that all LEP areas included in this study, with the exception of Greater Cambridge and Greater Peterborough, had significantly lower than average proportions of resident adults qualified to a first degree or higher in 2012 – with only 25.1% of residents in Greater Lincolnshire qualified to this level (compared to 34.2% in the UK overall).

5.7.2 Map 2 illustrates the spatial variation in the proportion of adults qualified to a Level 4 (first degree) and above (%), as a proxy-measure of the higher level skills required by high growth firms and innovative businesses more generally. The map demonstrates a coastal concentration of lower skills from North East Lincolnshire, East Lindsey, Boston and South Holland in Greater Lincolnshire, into Fenland in Greater Cambridge & Greater Peterborough. This provides a case for possible collaboration to address the factors that drive low levels of skills in coastal areas.

5.7.3 Conversely, the highest skill levels are to the south of the study area (in the Leicester and Leicestershire, South East Midlands and Greater Cambridge and Greater Peterborough LEPs) – i.e. the ‘commuter belt’ as well as the ‘Oxford-Cambridge arc’. All these areas are likely to experience a level of ‘brain-drain’, given their good connectivity and proximity to London and the Greater South East – thus presenting opportunities for collaborative action to increase the demand for skills amongst local employers.

Map 2: Employment, Social Inclusion and Skills: Resident Adults Qualified to a Level 4 (first degree) and above (%), 2012



Northamptonshire Enterprise Partnership

Region

Adults qualified to a Level 4+ (% 16-64)

- 38.9 to 65.8 (9)
- 32.4 to 38.9 (18)
- 28.7 to 32.4 (8)
- 23.9 to 28.7 (18)
- 12.4 to 23.9 (10)

Source: ONS Crown Copyright, 2012. '*Annual Population Survey*', January-December 2012. From NOMIS [accessed 17th June, 2013].
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5.8 Summary of Common Issues and Opportunities for Collaboration between LEP Areas

5.8.1 The table below summarises some of the key areas where there appears to be strong evidence of synergies, linkages and common challenges across the seven LEPs covered in Stage 1 of this project, where economies of scale or enhanced impact could be achieved through collaborative projects and programmes.

Potential for Collaboration Between LEPs		
SME Competitiveness	**Innovation (and Low Carbon)**	**Employment, Skills and Social Inclusion**
D2N2, Sheffield City Region and **Greater Lincolnshire:** common challenges related to the impact of recession on the SME environment: seen in (greater than average) falls in output and productivity, lower business birth rates and higher death rates. **For all LEPs**: Construction is important across the East Midlands, as both a key employer and an enabling sector for SME Competitiveness and Innovation (and note opportunities raised in round-table sessions related to the maximising the opportunities of the Green Deal and other low carbon-related investment programmes).	**D2N2, Leicester & Leicestershire, Greater Lincolnshire, Northamptonshire** (and **Coventry and Warwickshire**)**:** the cluster of Advanced Manufacturing in the north of **Leicester & Leicestershire** and the south of **D2N2** – includes a range of sub-sectors including, but not restricted to, Transport Equipment. Important supply chain links and knowledge transfer relationships with HE. The development and manufacture of power generation equipment in **D2N2, Leicester & Leicestershire, Northamptonshire** and **Greater Lincolnshire** links to key sources of demand for these technologies, especially in **D2N2** (Radcliffe-on-Soar, Burton and West Cottam power plants). **Greater Lincolnshire**, **Leicester & Leicestershire** and **Greater Cambridge & Greater Peterborough**: innovative activities around food technology – although not covered in the 'high and medium high tech' definition, local research points to significant opportunities for collaboration and maximisation of supply-chain linkages.	**Sheffield City Region**, **Greater Lincolnshire** and **D2N2**: increased unemployment in both urban and rural areas (and increased disparities with more resilient areas). Local Investment Strategies need to be cognisant of differing underlying factors between some areas (e.g. long term legacy of de-industrialisation in **D2N2** and **Sheffield City Region**, urban concentrations of unemployment, and issues related to remote rurality). Common issues contributing to worklessness of key groups – such as young people – affect **all LEPs**, particularly low skills. **Greater Lincolnshire** and **Greater Cambridge and Greater Peterborough**: common challenges around coastal concentration of low skills. **Leicester and Leicestershire, South East Midlands, Northamptonshire** and **Greater Cambridge & Greater Peterborough:** common challenges around out-migration of skilled workers and common risks of local under-employment (thus opportunities for collaboration on projects/programmes aimed at raising local employer demand for skills)

6. Events Outcomes

During July 2013 EMC delivered four half-day LEP based consultation events and two half-day technical round table events (SME Competitiveness and Green Economy). The events served to raise awareness among local stakeholders, and to identify economic challenges that could be addressed by EU funds. The key issues highlighted in each event are summarized below, grouped into broad topic areas. A summary table for the four LEP events is set out in Annex 1.

6.1 Greater Lincolnshire LEP: 1st July, Bishop Grosseteste University, Lincoln (49 delegates)

a) Increasing innovation by SMEs

- There is a need to assist business to think creatively and innovatively; and to enable SMEs to have the confidence to invest both time and money in product/service innovation. Access to finance to help businesses innovate is a concern. Existing and new innovation projects need to align and possibly form an innovation hub/first stop shop.

- There is a need to join up thinking and develop collaborative projects with HE/FE, including the possibility of a sectoral approach to innovation e.g. agriculture or engineering. Businesses need support to access Technology Strategy Board support (guidance and application writing) because they often don't have the time or expertise to do this. Furthermore, future Innovation support needs to be flexible and focused and at a time to suit business e.g. around 2 hours, preferably 8-10 am workshops in order to achieve maximum attendance.

b) Improving SME competitiveness

- Many new starts are good at what they do but failure is often due to lack of business knowledge (business planning, financial management, HR, writing contracts etc.). New start businesses need confidence and a supportive environment to help them to grow: a 'new start' hub or one-stop shop would be helpful. Businesses value one-to-one support: hand-holding or a critical friend to talk to when they aren't quite sure.

- There is merit in increasing access to finance, particularly by supporting SMEs to bid for funding themselves (e.g. employer ownership of skills pilots, Technology Strategy Board funding) and to enable them to win more contracts (perhaps by a contracts finder for the private sector).

c) Making better use of ICT by SMEs

- There are three main issues: provision of Infrastructure: take up and exploitation by SME's of emerging technologies and ICT workforce skills

- Work is currently being undertaken to roll out connectivity in the area and ensure that rural communities have access to superfast broadband. There is concern, however, that the Digital Agenda of Europe is citing even higher speeds of 100mbs for 50% of users. Many rural communities still experience slower speeds suggesting that the solution may be other forms of connectivity e.g. satellite, wireless etc.

- Cost is the main barrier to businesses utilising ICT. Businesses need to be made aware of how initial investments in ICT could help reduce operational costs in the long term and help develop new business models.

- ICT skills are an important issue but general ICT skills may not help a business in the long-term. Specific advanced (individual) ICT skills gaps need to be properly identified and addressed in order to help a business grow.

d) Developing a low carbon economy

- Differentiating between what would be high level Research/R&D, and the work needed to develop the readiness for sectors/markets to capitalise on adoption of low carbon solutions
- The need to develop a framework of low carbon opportunities, to use as a communication tool to local businesses
- The need to change behaviours around the benefits of low carbon solutions, so that take up and knowledge is greater of associated benefits
- Supply chain development, allowing better engagement in Low Carbon solutions. This also includes skills, and associated bank lending investment models to support this. This may even extend to Risk Management Solutions for SMEs to be supported, including joint investment.
- Engagement with Private, HE & Public Sector, to make the proposals work, develop peer network, and also have a captive sectoral support for any proposals
- Engagement with other LEPs will be necessary, in order to maximise opportunities, particularly those that border GLLEP

e) Improving workforce skills

- There are examples of market failure which relate to individuals and businesses failing or being unable to access information about opportunities. Challenges relate to the complexity of redeployment of skilled labour. There is a need to uplift basic skills and create better links between education and employers. However, the low pay/ low skills economy in the GLLEP area can also represent an opportunity.

- Solutions to these market failures include linking existing activity more effectively and engaging SMEs and individuals with information about the benefits of training and skills (as well as the costs). A one stop shop on skills and funding for employers, individuals, providers (including colleges) etc. of all sizes could address these information/marketing needs and match employer demand and individual demand more effectively.

- The following opportunities for collaboration exist: on basic skills and ICT awareness with Nottinghamshire (the NE Group); ensuring ESF is responsive - opportunity to collaborate between groups of SMEs and training providers; grow cross-border collaborations already in place (e.g. Siemens apprenticeships, D2N2, GCGP).

f) Conclusions

Much of what emerged from the workshops related to increasing basic business information and support – both in terms of getting more messages out to businesses but also ensuring everyone who is in contact with businesses to have a good level of knowledge about what's available.

There is work on-going to agree the GLLEP growth plan. The emerging priorities for the GLLEP are:

- Sector plans – especially agri-food, visitor economy, and manufacturing but also including low carbon and care sector
- Digital communications – use of ICT by businesses and mobile signals as much as superfast broadband infrastructure
- Water management – both managing flood risk and managing supply/demand conflicts
- Small and medium sized business growth – including access to finance, premises, export markets, and innovation
- Market towns – as attractive locations for investors/new residents and also balancing retail/leisure considerations
- Promotion – setting out the benefits of Lincolnshire to investors and visitors in particular

There is a recognition that GLLEP needs to use its allocation effectively. That means generating and using private sector match funding, and delivering catalyst projects which may not have high levels of outputs in their own right but will unlock further development (this might include tourism, public realm enhancement, and small infrastructure schemes).

6.2 Leicester and Leicestershire Enterprise Partnership: 5th July, the Curve Theatre Leicester (77 delegates).

a) Increasing innovation by SMEs

- There is need for more grow-on space for SMEs, and better support for businesses in how to use on-line effectively for e.g. export . Another group also spoke of the need for start-up business accommodation. A number of the workshops identified the need for greater collaboration between universities. Clustering, mentoring, and use of premises as match-funding were also identified as potential opportunities.

b) Improving SME competitiveness

- Use of funds should reflect the need for one central point for accessing SME support and explore the potential for private sector led virtual academies. The current trend for on-shoring – the drive for products to be made in the UK was identified as a potential opportunity. Provision of internships for everyone leaving school or college, and the need for a collective evidence base for SMEs to support evidence to banks to access finance were also identified.

c) Making better use of ICT by SMEs

- Improve capacity of SMEs (e.g. through use of graduates & technical/specialist experts with SMEs) and ensure ESF/ERDF is flexible to ensure SMEs are supported as a whole
- Developing a hub & spoke model of support
- Generic business support with specific sector priorities: creative industries, high growth, R&D, manufacturing, tourism & environmental etc.
- Online/export – social media, communications
- Collective access to support (i-net)
- Roll out of broadband essential

d) Developing a low carbon economy

- EU Funds should be aligned with Green Deal and be used to speed up delivery of low carbon retrofit. This would generate or support construction jobs, SME opportunities, innovative technologies and supply chains. Better intelligence from existing data is needed to support this and deliver low carbon at community level.

- The Carbon Change agenda should be built into other LLEP priorities especially transport and logistics. Funds should be used to support community enterprises which reflect actual patterns of demand e.g. assistance for locally owned taxi businesses rather than capital support to run empty buses.

- There is scope for an integrated National Forest project which could incorporate training, tourism and skills (visitor centre and training opportunities), energy from biomass etc.

e) Improving workforce skills

- There are some clear workforce qualification differences across the LLEP area. Qualifications are consistently higher in the county than the city. In Leicester City, 14% of the city workforce has no recognised qualifications and 10% have qualifications other than NVQ or equivalent compared to 8% and 6% respectively in the county. Feedback from the workshop participants urged that the LLEP area should be viewed as a whole, however, rather than as a "doughnut with a hole in the middle".

Level 2012 data	Leicester City	Leicestershire County	England
NVQ 4 equivalent (degree)	**28%**	**30%**	**34%**
NVQ 3 equivalent (A levels)	**48%**	**55%**	**55%**
NVQ 2 equivalent (GCSEs)	**64%**	**73%**	**72%**
Other Qualifications	**10%**	**6%**	**6%**
NO Qualifications	**14%**	**8%**	**9.5%**

- Participants suggested that the fragmentation of providers may contribute to disengagement of learners and suggested that a consortium approach with FE, private sector and voluntary sector providers working together could improve capacity. Similarly, community-led local development was seen as having the potential to engage hard-to-reach groups.

- Providers could bring together the range of existing incentives for employers to recruit, and sharpen their focus on creating jobs which will generate GVA. EU funds should be used to enhance what is already available e.g. extend the timescales which apply and raise awareness of existing opportunities.

f) Conclusions

A key issue related to increasing basic business information and ensuring a comprehensive and streamlined mechanism for business support. The level and distribution of workforce skills, both in terms of basic 'work readiness' and higher level technical qualifications was also a widely held concern.

Work is underway to develop priorities for the LLEP area. The following were highlighted as emerging priorities:

- Create a business friendly physical environment through investment in infrastructure – transport, employment land, housing

- Build on our strengths in manufacturing and logistics sectors, grow the knowledge-based sectors and develop our growth sectors (space and aerospace, environmental technologies, creative design)

- Ensure skills supply meets employer demand – now and in the future

- Support people, particularly young people into the new jobs that will be created and into replacement demand

- Raise aspirations and communicate a diverse range of local opportunities

6.3 **Northamptonshire Enterprise Partnership and SEMLEP: 16 July, Northampton Saints Rugby Ground (41 delegates).**

a) Common challenges

Northamptonshire and beyond:

- Super fast broadband connectivity (including rural areas) is critical
- Securing match funding is always challenging and the key is flexibility and the simplification of EU rules and procedures
- Youth unemployment is a waste of valuable resource and employers should be encouraged to engage with schools
- Cross border opportunities are different to other LEPs. East-West links (e.g. Oxford and Cambridge) should be the focus of collaboration
- Currently too little incentive for investment in the workforce i.e. damaging short term thinking

Northamptonshire-wide:

- The County's industrial legacy (manual/skilled trades) should be built upon
- Support should be given to start-up companies to encourage sustainability and growth
- Northamptonshire's Enterprise Zone can help address the skills shortage in key sectors
- Availability of the right type of housing and good transport links need to be in place
- The social enterprise sector has a key role to play
- The image of the county is important in attracting new businesses

Local:

- Significant in/out commuting is taking place in South Northants
- Improving infrastructure will also benefit the employment and skills agenda
- Transport infrastructure needs to support the 24/7 economy
- The success of the high engineering and food and drink sectors should be built upon
- The Environment Agency is potentially a key provider of evidence as well as match funding
- Youth unemployment could be address through encouraging local businesses to engage with school and offer work experience

b) Increasing innovation by SMEs

- One of the biggest barriers to setting up a successful SME was considered to be the availability of good quality and affordable incubator units which also need to give access to business mentoring and advice opportunities. Alongside this the local transport infrastructure needs to meet the needs of business. Other issues which may be holding back SMEs from innovating included a lack of aspiration in some of the county's young people, alongside a lack of finance and access to grants. However, the county's strategic location and presence of an Enterprise Zone allow for opportunities to create tailored opportunities to meet industry needs. Suggestions included mentoring and coaching; provision of additional (incubator) business space; LEPs working with the FE/HE sectors to

c) Improving SME competitiveness

- The workshop felt that SMEs were forced to navigate through a complex landscape. A number of disparate issues had been faced in the county which had challenged the ability of SMEs to be competitive including: access to affordable/suitable premises; unlocking patents; disappearance of niche markets; and, access to business advice.

- Opportunities for collaborative activity/improving the competitiveness of SMEs in the county included groupings of businesses working together, although the mechanism by which this might be achieved was unclear; joint management of available funding pots to support SMEs; LEP based marketing campaign on behalf of the county's SMEs; and, the integrated delivery of business services by business and government organisations.

d) Making better use of ICT by SMEs

- There was general agreement that the market was not providing adequate broadband bandwidth to meet business needs and the problem was particularly acute in rural areas. Whilst EU funds can potentially be used to provide high-speed broadband, a number of hurdles had to be overcome before doing so due to state aid rules. Other potential collaborative solutions included the use of SME vouchers to purchase additional capacity; running workshops for SMEs in order to educate them about the potential benefits of new technologies; and, looking collectively at where the are the biggest gaps in provision and then working with partner agencies to see how these might be addressed.

e) Developing a low carbon economy

- The main market failures that were identified were grid capacity and access to the grid; difficulties of delivering low carbon energy generation; and, not meeting carbon emission targets. Attempts were being made to address this in one part of the county through commissioning a developer to undertake research on current energy infrastructure using section 106 funding.

- A wide range of possible partners to engage in collaborative activity to address some of the issues identified included: - energy companies, social enterprises and DWP who, it was suggested, might link their employment programmes to training in the installation of renewable energy technology. Another suggestion was to prioritise R&D grants for innovation in high performance engineering to those that are capable of exploiting low carbon technology.

f) Improving workforce skills and helping the long-term unemployed

Challenges identified included:

- Information failure
- Cost for training providers
- Risk/time lag/cost (Can ESF/ERDF develop incentives and SME engagement?)
- Equity of standards of educational facilitates
- Skilled manual trades displaced by recession
- Pockets of worklessness
- Transition from education to work
- People! Business mentoring: for investment readiness and for growth readiness

Opportunities for collaborative activity included:

- Linking skills development with specific company's investment in capital and new processes (Mentoring, innovation centre and ICT)
- Evidence of interconnections between sector (In order to better target interventions and collaboration)
- Collaboration between enterprise objectives and skills/education i.e. enterprise centres in schools and colleges
- Specialisation (Skills/colleges focus on local "LEP Ambassador Programme")
- Building on success (existing and past mentors, strong employers and enterprising local area

g) Promoting social inclusion

- The workshop felt that projects were not joined up but rather a number of fairly modest piecemeal projects in operation. It was also felt that social inclusion was not at the heart of most mainstream projects and this should be addressed by specific reference (including inclusion targets) to harder to reach groups e.g. ex offenders. It was felt that the need was greater than ever to have specialist targeted programmes which would positively discriminate. The social enterprises sector could play a key role here.

- The challenge is particularly acute in rural areas where the use of ESF funding should be considered to address rural exclusion.

- The main opportunity for collaborative activity was through the Northamptonshire Leadership Group, of which NEP is a member, as are most of the key county stakeholders.

h) Conclusions

It was recognised that the Northamptonshire had a relatively small notional EU allocation compared with other LEP areas in the East Midlands, and that as a result effective targeting of resources based on clear evidence would be necessary. The challenges around skills were highlighted by many delegates, and the fact that the county is characterised by areas of relative affluence and enterprise, within which sit a number of deprived communities.

6.4 D2N2: 25th July, Notts County Football Ground, Nottingham (73 delegates)

a) Top EU funding priorities for D2N2

- Skills: up-skilling; attracting skills into the area; preparing people for the world of work and providing what employers need.
- Infrastructure, including broadband: supports skills and access to opportunity; supports low carbon economy and reduced travel; supports inclusion.
- Low carbon/ green economy/ promote green business as good business
- Social inclusion/inclusive jobs growth
- Safe-guarding existing jobs/ continued practical support for successful existing initiatives.

b) Increasing innovation by SMEs

- The word “innovation” itself was identified as a challenge, given a lack of understanding around what it means, particularly in an SME context. One solution is to modify the language used to communicate with businesses, e.g. frame it as “process improvement” or “product development”. There is a link with skills, in making sure there are the right skills within an organisation to facilitate innovation. Supporting innovation also links with issues around access to finance, and match funding. Accepting a higher level of risk, and introducing schemes to allow testing and trialling of innovative products or processes, would support innovation. Infrastructure is also crucial, and needs to be in place to support innovation.

- Opportunities for collaborative activity include: A face-to-face business diagnostics project, which could be delivered on a cross-LEP basis, with a commissioned approach but delivered locally; Using a combined authority approach to unlock different funding pots; Collaboration between universities and SMEs; Promotion of innovation in sectors not normally considered innovative; Focus on resource efficiency to develop innovation, e.g. green business, overhead reduction.

c) Improving SME competitiveness

- Some of the challenges identified were to do with a lack of specialist business support for existing businesses with the loss of Business link. A suggested solution was one-to-one support for businesses/ support for start ups in the D2N2 area, which could be tailored to disadvantaged areas. Another challenge identified was the difficulty of accessing finance/ securing business investment. One solution might be to introduce innovative approaches to providing enterprise guarantee funding. The challenge of maximising the benefit of inward investment brought up an opportunity for collaborative activity, namely the “clustering” of projects with similar goals to achieve economies of scale. There was a concern that despite the existence of public sector procurement strategies, social clauses aren’t emphasised enough to support supplier diversity. Incentivising the public sector to address their procurement outcomes was seen as a solution to this problem.

d) Making better use of ICT by SMEs

- Challenges identified included: Welfare to Work, the cost associated with working with larger organisations' systems, a lack of expertise, and archaic payment systems. Proposed solutions included: adopting centralised IT systems, better data sharing practices, and streamlining payment systems.

- Opportunities for collaborative activity included: adopting/developing industry relevant systems; improved processes for engagement/payment; ring-fenced partnership data sharing.

e) Developing a low carbon economy

- Terminology was identified as a challenge, with a lack of understanding and education as to what "low carbon" means, and differing perceptions of what it means. Access to technology, pay-back periods, and access to finance to invest were also identified as challenges. Solutions suggested included a scheme of "trusted" businesses supplying goods and services to support the low carbon economy, and perhaps LEP endorsement for projects to provide a level of comfort. In terms of innovation, a focus on developing rather than manufacturing was seem to be helpful.

- Opportunities for collaborative activity included: Working through business supply chains; Innovation in technology – identify companies that can innovate; Using Green Deal money to match fund to bring broader community benefits e.g. skills, green communications, health, social exclusion; Using ESF to match fund for up-skilling so that we have capacity to deliver; Better use of public sector estate e.g. street lighting.

f) Improving workforce skills

Challenges identified included:

- funding for work-based learning
- the ability of the third sector to secure match funding especially given the focus on larger projects/ minimum spend
- meeting the different urban and rural priorities
- making skills development business focused and increasing industry links as schools become more community based
- encouraging SMEs to get involved
- communicating the value of apprenticeships and managing expectations.

Solutions included:

- Tighten up communication between work programme providers and third sector organisations across the D2N2 area
- Follow LEADER model – opt for community led local developments; local projects

- Take a commissioning approach
- Sector-based work academies
- Steering towards employable skills qualifications
- Increase value of apprenticeships
- Grants to take on and train older people and graduates.
- Employer/ SME engagement on funding for skills and training.

Opportunities for collaborative activity:

- Using relevant third sector organisations that are regionally based
- Commissioning approach – a way of delivering a more flexible, tailored approach
- Use SME networks within DNCC: formulate collaborative bids to support members.
- Social enterprise partnerships to deliver skills programmes to keep maximum benefit in local communities
- Sharing apprentices
- Group training agencies and apprenticeship training agencies.

g) Reducing social exclusion

- Challenges included: unemployment, and under-employment (people working fewer hours than they need), and access to information/ communication. Solutions included: improving access to ICT, developing a communications strategy, intermediary/community based organisations, businesses supported to create jobs, transferrable skills/ life-long learning/ multi-skillling, taking a bottom up approach.

- Opportunities for collaborative activity included: mentoring schemes matching people aged 50+ with young people, and matching larger and smaller organisations e.g. universities engaging more with those socially excluded via intermediary organisations.

h) Workforce skills and reducing social exclusion

- Challenges included: issues from the employer's side, e.g. too much paperwork, and restrictions due to funding being on an annual cycle, and not much flexibility for smaller employers compared with larger employers. On the other hand issues such as the long-term inter-generational problems around unemployment, the mindset, expectations and low levels of pay also present challenges to increasing employment.

- Suggested solutions included managing expectations and supporting the transition to work; learning from Troubled Families work through local authorities; supporting employers to take a risk e.g. like the Future Jobs Fund; a wage incentive to take on 18-24 year olds; easier engagement through an impartial brand or community organisation; and driver conversion courses and driver certificate of professional competence.

- Opportunities for collaborative activity included: Use ESF to collaborate with third sector organisations to reach target groups; Getting schools, colleges and universities to add value

i) SME competitiveness and the low carbon economy

- Challenges identified included: reducing costs, access to finance/information, improving resource efficiency, ensuring the "low carbon economy" really is low carbon, and ensuring a healthy workforce (e.g. obesity time bands).

- Solutions identified included: nil/low cost practical help for SMEs; suitable incubation space and grow-on space and ICT; tailored support for areas; real coordination of effort and resource; partnership training from the outset; and high quality assurance via universities.

- Opportunities for collaborative activity included: developing the role of the LEP to coordinate activity; improving access to finance East Midlands-wide, through achieving scale and critical mass; and healthy workforce development (mental and physical health) including leadership skills, sustainable transport and social inclusion.

j) Conclusions

Skills and social inclusion were major challenges highlighted by many delegates, reflecting the particular challenges of the area. A number of common economic challenges with the Sheffield City Region LEP were emphasised, along with the common opportunities around high value engineering with part of the LLEP and the Coventry & Warwickshire LEP.

6.5 **SME Competitiveness Roundtable: 9th July, Melton Mowbray (17 participants).**

EMC invited a range of public and private sector experts to consider how to ensure the East Midlands maximises the potential of EU investment over the life of the next Programme, with specific reference to identifying & addressing 'market failure' in research, innovation and SME competitiveness. A list of participants is contained in Appendix 1. This discussion was structured around four key challenges.

a) Increasing private sector spend on research and innovation

I. The discussion began by noting that large companies tend to focus on their own customer satisfaction. Suppliers, which are often SMEs, may have little control and experience difficulty maintaining their profit levels if their main customers are looking to drive down costs. They are also subject to downtime when their customers discontinue old models.

II. Discussion then turned to whether SMEs in this position could benefit from assistance from EU funding. It was felt that a set of common requirements of SMEs could be identified as a useful starting point. It might then be possible to support SMEs to access funding including accessing match funding, accessing the supply chain, providing advice on customer requirements and look at issues around adaptability and responsiveness to change. Another key area when many SMEs were considered to be weak was around leadership and the ability to turn a winning concept into reality.

III. The Group felt it would also be useful to make a distinction between SMEs which are high growth and those which are "plodding" along. It was felt that given the right type of support this latter group could become a key driver of the economy. Current Government initiatives to support SMEs tended to focus upon those that were high growth (ie. 20% year on year). A Growth Voucher Programme which focused on "middle growth" businesses had partially addressed this gap, but could potentially be expanded with EU support.

IV. One Government initiative that did encourage innovation in SMEs was R&D Tax Credits. Their limitation was the time it took to claim money back, often too late for an SME that had limited cash flow.

V. The Group widely acknowledged difficulties in SMEs persuading banks to provide funding for R&D activity. Although some alternative funding such as the Business Growth Fund provided some with an alternative source of income (but tended to focus on low-risk lending), increasingly SMEs had been turning to Business Angel Investors to make up the shortfall in lending. It was understood that the Government were acknowledging difficulties companies would face in approaching the banks for finance and so were looking to be supportive of peer to peer lending.

VI. A further issue the East Midlands had faced for a number of years was the difficulty in retaining students who lived in the region or had studied in the region but then moved away leading to a skill's gap, particularly in the cities.

VII. With regard to the food and drink sector, margins were tight which had led to companies adopting strategies to simply survive in the short term at the expense of long-term investment. EU funding with the appropriate support could help companies in the sector better understand product life cycle and adapt accordingly in the long term. One of the key challenges and frustrations was the amount of time the process of securing funding from the EU can take.

VIII. One consistent message from the Group was a plea to not only simplify the process of accessing EU funding but to improve signposting – the papers for the round table had included available schemes for SME support which many were unaware of. Particularly around ERDF funding the Group felt that a step change in the quality of information currently available is needed. Related to this there are currently a lot of schemes able to provide advice and/or funds but in some cases many of these are believed to overlap whereas other schemes are not known to the people who would be their target audience

IX. The importance of providing the right type of business advice was again stressed with two issues highlighted. Firstly, students should be seen as an asset to a company and not a burden, since the abilities of students is often underestimated. Secondly, advice on how to take the risk out of R&D activity by separating it from the rest of the business was a common strategy of many SMEs and should be supported.

b) Deploying innovation widely amongst SMEs

I. A number of opportunities to increase innovation had been identified through research undertaken by NTU who had concluded that innovation should be seen to go beyond traditional R&D activities.

II. It was again stated that manufacturing advantage can decline rapidly and that firms at the top of the supply chain are best able to respond to remain competitive, but this can have huge implications for SMEs who supply the larger companies.

III. A possible solution to address the vulnerability of some SMEs was to utilise IT to innovate and gain competitive advantage. Liverpool University's Collaborate to Innovate project was given as a case study example of how to provide organisational and technical support to local manufacturing businesses. However, the advantages offered by IT could only be put into practice if combined with education and training. Too often companies were aware of the need to improve efficiency and innovate but have little understanding of how to go about this. This is where European funding could be used to put in place a package to support SMEs, particularly following the demise of the Business Link network. Any such scheme should be developed in collaboration with the higher education sector to add credibility and independence.

IV. The key area in which IT can be applied to improve business competitiveness is broadband but it was felt that businesses needed help to understand the possibilities it provides. In addition, the Government's minimum target of 2MB connectivity speed is insufficient for today's business needs. Architects, for example, complain that a standard broadband network is too slow to transfer plans and drawing overseas which is leading to a loss of potential business.

V. However, care was needed when applying for EU funding to support IT initiatives, particularly those around broadband, due to state aid restrictions. The final point on IT and broadband was again around lack of information and knowledge as to what support may be available and that many companies are missing out on schemes such as R&D Tax Credits because of limited publicity.

VI. Trust was identified as a big factor when seeking business advice as there are a lot of companies who claim to offer advice but may not always have the necessary business credentials. As a business grows it has been demonstrated that their needs, particularly around IT, change in a predicable manner, so it should be possible to provide good quality advice. Nottinghamshire & Derbyshire Chamber of Commerce was cited as an example of good practice in this area. Rather than attempt to "reinvent the wheel" the Group felt that using EU funding to support and grow existing initiatives known to be well used and trusted, would be the better option.

VII. The food and drink sector was then given as an example where companies share common needs around product development and an example where companies have been encouraged to support each other. As many of these companies rely on capital investment to remain competitive some are struggling as the banks are more reluctant to provide funding. Working together can help businesses maximise the return from their investments.

VIII. Where national sector priorities can be applied to the region this should be considered e.g. support is being offered to the construction sector to meet the future need for new homes. The Technology Strategy Board, which reports to BIS, is leading on knowledge transfer and provides a test bed for innovation with critical links to the higher education sector. The Whitty Review is also expected to make recommendations on how universities can help support local growth.

IX. Discussion then focused on the pros and cons of a sector based policy given the impossibility of the task to pick winners in business or predict when an SME may develop an innovative product. It was however acknowledged that policy must take some account of different sectors and be sensitive to their needs.

c) Increasing business start-up and survival

I. The example of Leicester's Business Centre was given as a case study in how (clusters of) SMEs may be provided with flexible low cost premises and support in order to be able to flourish. A food and drink business sector is also being set up in the region. It was agreed that EU funding would be well used in setting up and running additional business centres with a focus on clusters of businesses operating in the same market – but there are challenges around state aid rules.

II. It was also suggested that better use be made of services that currently exist and that these are brought together in a network to enable those that have no access to a particular service in a locality to then have that gap plugged. For example, Nottingham has two universities but access to financial services may need to come from elsewhere. Services would have to be brought together in an "intelligent" way and be sensitive to the particular needs of a sector. This was felt to be a failure of current EU funding in that many projects had been set up independently with little apparent thought as to how they might fit in with existing business support activity.

III. The importance of the infrastructure pipeline was again stressed as an opportunity for SMEs to link with larger companies around projects like HS2 and Midland Main Line upgrade and electrification, particularly if procurement processes can allow for smaller bidders to be given the same opportunities to secure a contract.

IV. Some sectors like food and drink however were acknowledged to have higher barriers to entry.

V. In order to compete with competition from China and elsewhere it was suggested that SMEs might consider adopting a model like "sales and operations planning", an integrated business management process developed in the 1980s through which the executive/leadership team continually achieves focus and alignment among all functions of the organisation.

VI. Attention then turned to what research on business support was already out there (particularly that supporting the current ERDF Programme) as a starting point for developing ideas without the need to commission new research. *emda's* business support legacy report might provide some help. It was agreed this would be a good starting point but it was pointed out that any judgment of success would only come much later as initiatives bed down, so some would need to be tracked across the life of the current ERDF Programme. It was also acknowledged that a lot would come down to an analysis of imperfect data and "gut feeling" as to what might work, with the focus being on outputs.

VII. Discussion concluded by looking a range of possible initiatives to support new business start-ups including Growth Vouchers and the use of internships, and it was agreed that evidence must exist which analyses the successes of failures of a range of schemes.

d) Increasing access to investment by SMEs

I. Most of main points the Group wanted to raise had already been covered in previous discussions but it was noted that a Growth & Investment Network has been set up in the East Midlands which included angel investors.

II. It was also reported that a number of LEPs in the region are currently funding a piece of work which is looking to identify common needs around access to finance, which is likely to report in the autumn of 2013.

6.6 Green Economy Roundtable: 25th July, Melton Mowbray (22 participants)

EMC and Climate East Midlands invited a range of public, private and voluntary sector experts to consider how to ensure the East Midlands maximises the potential of EU investment over the life of the next Programme, with specific reference to identifying & addressing 'market failure' in the low carbon and wider green economy. A list of participants is contained in Appendix 1. The discussion was structured around four key challenges.

a) Moving SMEs in all sectors towards a 'low carbon' economy

I. Although economic and technological changes are taking place very quickly, by being proactive it is possible to make great progress, as the example of BioCity in Nottingham shows. Ten years ago there was very little bio-medical business activity, but following the donation of a specialist facility by BASF, a cluster of rapidly growing companies has developed. Some public sector leadership is required.

II. The difference between low carbon development and deployment was highlighted as an issue. Whilst there has been rapid deployment of solar PV in recent times, this has sucked in imports because there's been little emphasis on UK development of this technology. It was noted that low carbon/sustainable development opportunities are very place specific and that to ensure maximum value (including social benefits), place based solutions were often required to effectively integrate 'top-down' and 'bottom-up' policy approaches.

III. Some of the biggest barriers to SMEs engaging in EU funded programmes is the off-putting technical language and the bureaucratic 'faff factor', along with a lack of match funding. However large projects can reduce the amount of complexity that would be generated through several smaller projects (as long as they are genuinely collaborative partnerships). The emphasis on reducing fraud has also meant the proliferation of bureaucracy. Financial risk is a further barrier, with many small businesses unable to access grants due to cash flow issues.

IV. Part of the solution to these barriers can be found through a peer to peer/business to business approach, between SMEs and Voluntary and Community Organisations talking to one another in their own terms, explaining the benefits and helping to share knowledge and build momentum. Good demonstrator projects are another way of simplifying the process and improving access. Choosing the right low carbon technology is also a challenge, when a variety of solutions may have been developed by companies or through academic research, but there is insufficient trustworthy information to make an informed investment choice (with scientists in particular sometimes being 'rubbish' at providing a coherent message). Solutions included benchmarking, good data and access to independent advice to avoid SMEs being sold the wrong technology.

V. New technology is not always the answer to low carbon development by SMEs, as many issues should be tackled first through simple resource efficiency measures. 'Good growth'

VI. As a region with a lot of manufacturing (and hence energy demand), the offer from the national Manufacturing Advisory Service to provide additional local service to LEPs (using EU funds) could be a relatively painless way to improve support. MAS has historically provided low carbon services.

b) Adapting to climate change and managing the associated economic risks

I. Adaptation to climate change is not just about managing risk, it is identified within new Government policy (National Adaptation Programme) as an important national/international economic opportunity for the UK and a high growth area.

II. An example of investment in flood risk management in Derby by the Environment Agency was identified as a good way to achieve additional benefits – this is a local authority led scheme that is designed to regenerate the river corridor through the city centre and bring about wider economic, social and environmental improvements whilst also reducing flood risk. By thinking about new developments or regeneration sites in this way, making them more sustainable and climate proofed from the outset, they can be cheaper to run, more attractive and less prone to flooding, overheating, etc. particularly by incorporating green infrastructure and sustainable drainage in spaces between buildings.

III. Technologies that reduce reliance on fossil fuels help to improve economic resilience by replacing expenditure on volatile energy prices with more predictable loan repayments.

IV. Green Deal loans aren't yet available for commercial properties, which is a barrier. Financial instruments to offer low interest loans may be a solution. In Germany the interest rate for this is 2% - affordability is vital to bring some certainty to the market. Green Deal, although complex in operation can potentially be an important link between low carbon, resource efficiency and adaptation. Financing remains a key issue though there are now some private sector providers offering lower interest loans. The new ECO scheme is a more reliable mechanism to retrofit houses with energy efficiency at scale and maybe this provides opportunities for co-financing and levering in additional benefits, e.g. for adaptation.

V. The current heatwave has brought attention to the potential problem of overheating in homes (which is a subject of various research projects), which can be exacerbated by increasing insulation. This could be a potential technical issue to be addressed through EU funding, looking at how to achieve lower carbon homes that are better adapted to hot weather (which is projected to increase in frequency and maximum temperatures over time).

VI. To effectively target retrofit programmes in domestic or commercial sectors, good data about the building stock is vital. EU funding could help to improve knowledge of the state of property in each LEP area, in order to improve the potential for targeted investment. It may also be possible to create demonstrator projects to show how this works in practice.

VII. For SMEs hosted in local authority owned business units, a barrier to lower carbon/adaptation is that this part of the estate is rarely prioritised for investment – perhaps EU funding could tackle this issue.

VIII. A recent Climate East Midlands low carbon project targeted at schools (SCoRE) demonstrated the value of very simple low cost/no cost measures in engaging people and saving money on bills (and carbon). This principle could also apply to SMEs and could be EU-funded.

c) EU funding to improve resource efficiency and protect the environment

I. Experience from the social housing sector suggests that children have been good at teaching their parents how to benefit from energy efficiency improvements to their homes. The value of young people is also confirmed by experience within the manufacturing sector, where new graduates often have a good understanding of sustainability principles and are more easily able to apply these to business practices, e.g. through process engineering than many older employees. Selling the business benefits internally within the company and up-skilling employees is key and 'efficiency' is a term that resonates, rather than the clunky language of sustainability. Using well tried and tested models that work like LEAN is also a good way of providing solutions.

II. Selling the message about climate and energy top businesses is difficult as it's technical and complex and people don't automatically think about it. 1:1 contact with people is often needed, though the contact person needs to have a wide knowledge to be an effective advocate. Drip feeding information also helps.

III. The Small Business Research Initiative was flagged up as a good programme designed to help SMEs sell to the UK public sector and the Public Sector Social Value Act identified as another useful lever.

IV. One of the largest sectors in the East Midlands is agriculture, which has national significance because of the percentage of grade 1 agricultural land. Natural resources like soil and water are vital and the Environment Agency used the previous EU programme to support the construction of on farm reservoirs to save rainwater. This could be extended. Different technologies can be employed on farms, eg. to process waste water and make it suitable for irrigation.

V. It is also important to identify new resources – road verges are an example of an important biological habitat that is also a significant resource. By careful cutting and processing, the resulting material can be an energy source either dry for biomass, or in anaerobic digestion.

d) Other measures to boost the wider 'green economy'

I. It was further identified that for companies to grow and become part of the growing low carbon and green sector, there are strong links with the wider small business agenda, particularly on skills and innovation. Hence some of the solutions that EU funding could support are partly generic; green businesses need to be innovative and have the right skills and all businesses need to be more resource efficient and resilient.

II. Finally, it was acknowledged that for some sectors, there are particular opportunities for employment growth. For instance, building retrofit and public transport are both labour intensive and have wider public and economic benefits in providing better environments and enabling people to access training and employment.

Appendix 1

Attendees – SME Competitiveness Roundtable 9 July 2013

Dr Alan	Srbljanin	DCMS/BDUK
Ian	Harrison	BIS Local
Dr Darren	Clark	Medilink East Midlands
David	Nicholls	Leicestershire Northamptonshire & Rutland FSB
Adrian	Coy	ICE East Midlands
Peter	Williams	East Midlands Councils
Sue	Kirby	EEF Ltd.
David	Bramwell	EEF and Quality Furniture Co. UK
Katherine	Bramwell	University of York
Will	Rossiter	Nottingham Business School
Chris	Lawton	Nottingham Business School
Mike	Peverill	Climate East Midlands
Fiona	Anderson	The Food and Drink Forum
Andrew	Pritchard	East Midlands Councils
Dr Dan	King	University of Nottingham
Chris	Hill	One East Midlands
Stuart	Young	East Midlands Councils

Attendees – Green Economy Roundtable 25 July 2013

Jerome	Baddley	Nottingham Energy Partnership
Emily	Braham	Nottingham City Homes
Nick	Cheffin	Peakhill Asociates
Paul	Fleming	De Montfort University
Ben	Fowler	Nottinghamshire County Council
Nick	Gostick	Intropy
Ian	Harrison	BIS Local
Neil	Horsley	Clean Tech Business Ltd
Christine	Jones	Derby Business School
Bettina	Lange	East Midlands Environment Link
Chris	Lawton	Nottingham Business School
John	Liddle	Nottingham Trent University
Tolu	Omideyi	EEF
Sharon	Palmer	Environment Agency
Amanda	Pearce	Natural England
Howard	Perry	Severn Trent Water
Mike	Peverill	Climate East Midlands
Chris	Pook	Derby City Council
Andrew	Pritchard	East Midlands Councils
Pete	Smith	Efficiency East Midlands
Melanie	Watts	University of Nottingham
Stuart	Young	East Midlands Councils