Meeting Need | Realising Opportunity

A Socio-Economic Framework for the East Midlands to Inform the Delivery of EU Structural Funds (2014-2020)

First Working Draft: 20th September 2013
(For discussion by EMC Executive Board on the 27th September 2013)

East Midlands Councils

°Climate east midlands
The Regional Climate Change Partnership

NOTTINGHAM BUSINESS SCHOOL
Nottingham Trent University

EUROPEAN UNION
Investing in Your Future
European Regional Development Fund 2007-13

Executive Summary

This document has been produced as part of an EU funded Technical Assistance project led by East Midlands Councils, with support from Nottingham Trent University and Climate East Midlands, to inform the development of the 2014-2020 EU Structural Fund Programme.

It tells the economic story of the local economies that make up the East Midlands, sets out a number of key investment opportunities highlighted during six well attended consultation events, and gives some practical advice for LEPs and others about how to make the most of future EU funding, learning from past experience.

The East Midlands has some significant economic challenges, but also a number of key strengths with huge potential to contribute to national growth. EU funding can help to realise this potential, helping businesses to grow and innovate and giving local people the skills and knowledge needed to succeed in their working lives.

To make the most of these opportunities LEPs need to be bold, set out clear local growth priorities grounded in evidence and prioritise their investment accordingly.

But LEPs must also be open to the 'bigger picture', and in particular to opportunities for collaboration that could deliver strategic scale initiatives that maximise investment power and reduce administrative costs. Key opportunities include the following sectors and themes:

Sectors:

- Transport Equipment
- High Performance Engineering
- Energy Generation & Supply
- Food Technology

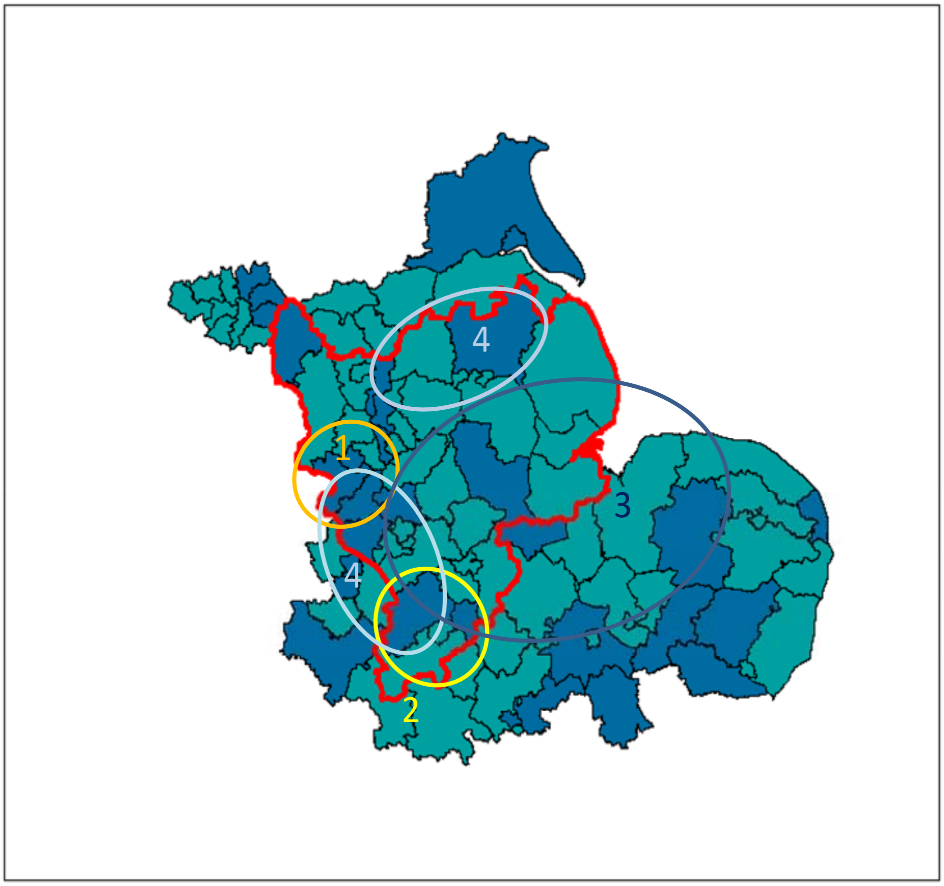
Themes:

- Access to SME Finance
- Access to Business Support & Training Services
- Support for the Visitor Economy
- Improving Low Skill Levels

The spatial concentration of key sectors is illustrated in the diagram opposite. Further detail is contained in Section 3 of the document.

EU Funding offers a significant financial boost to our local economies at a time when other forms of public investment are under pressure. It is an opportunity that must be grasped and cannot be wasted.

Opportunities for Collaborative Activity



1: Transport Equipment (Automotive, Rail & Aerospace)

2: High Performance Automotive/ Motorsports

3: Food Technology

4: Energy Generation & Supply

East Midlands Region

Region

Employment in high and medium-high technology industry (%)

- 4.51 to 12.4 (32)
- 0.7 to 4.5 (63)

Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011.'* Data accessed from NOMIS [13th September, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.

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Section 1: Introduction

1.1 Background

1.1.1 East Midlands Councils (EMC), with support from Nottingham Trent University and Climate East Midlands, has been part-funded through ERDF technical assistance (PA3) to develop a 'Socio-Economic Framework' to inform the development of the 2014-2020 EU Structural Fund Programme. The Framework has two main objectives:

- To provide a strategic context within which LEPs across the East Midlands can develop and finalise local EU Investment Plans by January 2014; and
- To support the case made by LEPs to secure and retain proposed 'notional' allocations of EU funding for the period 2014-20.

1.1.2 The Framework identifies investment opportunities at both sub-regional and regional level that will help maximise the economic impact of European investment across the East Midlands. It aims 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.

1.1.3 An Interim Report was published on the 2nd August 2013, available here , which sumerised emerging evidence and the outcomes of six consultation events led by EMC which took place during July 2013.

1.2 Proposed Arrangements for EU funding (2014-2020)

1.2.1 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.

1.2.2 The Government is consulting separately on the scope of the next Rural Development Programme for England later in 2013, but it is likely that a least a proportion of rural funding will feature in the UK Growth Programme.

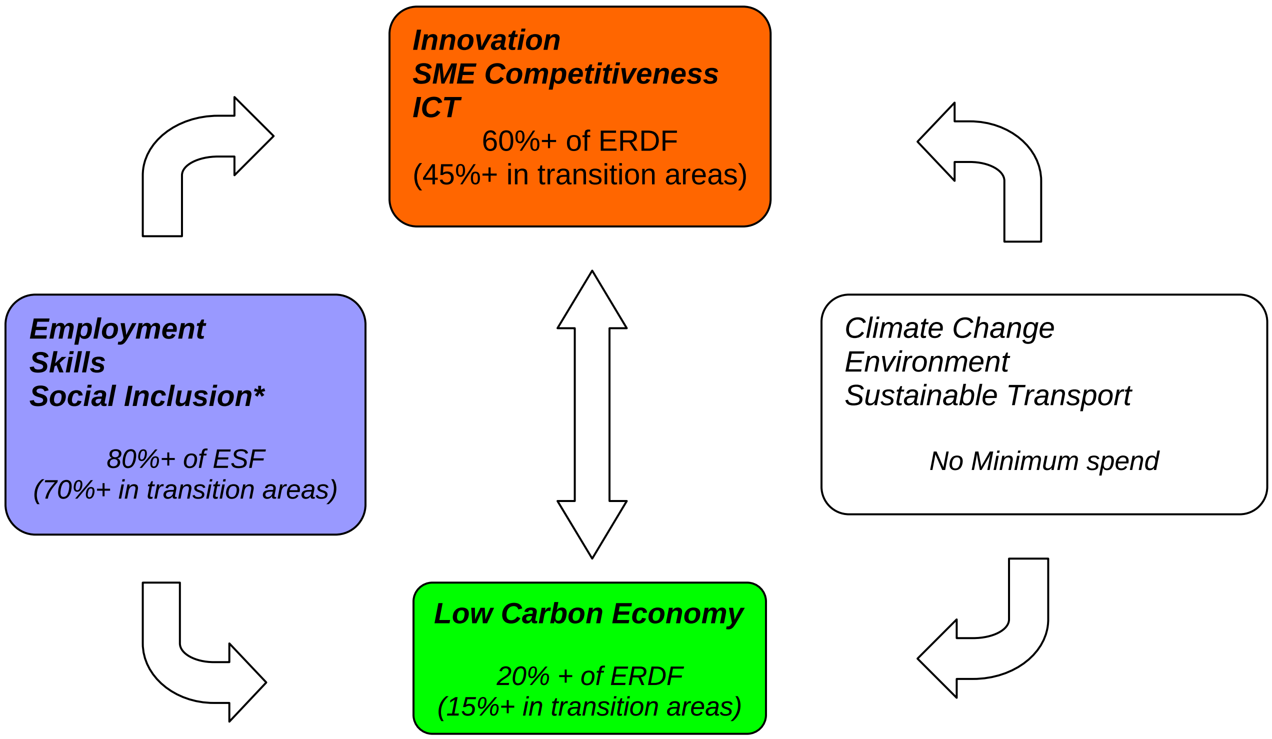
1.2.3 The Government has made the following EU wide objectives 'top priorities' for the UK's EU Growth Programme:

- **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.

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

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

1.2.5 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.



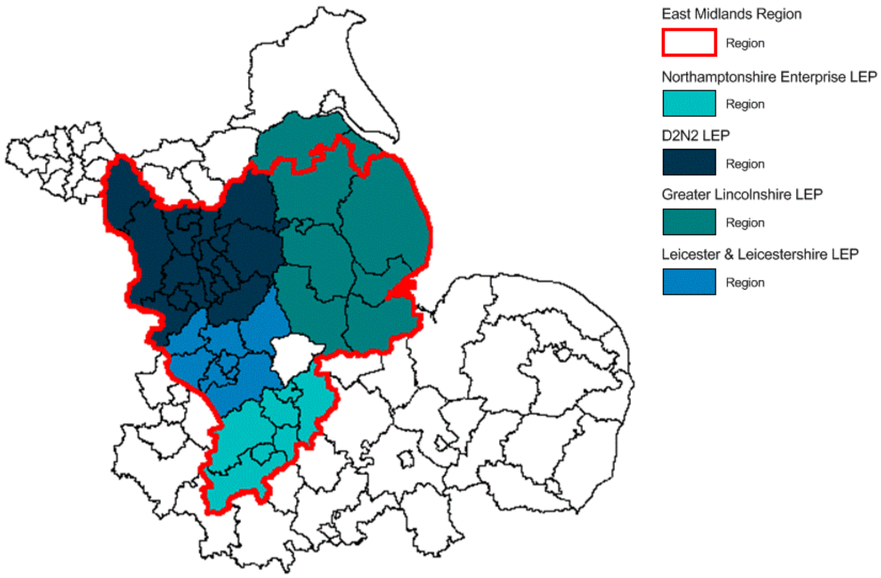
*Minimum 20% of spend

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

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

1.2.7 There are seven LEPs covering the East Midlands, four of which overlap: the Sheffield City Region overlaps with the D2N2 LEP area; and the Northamptonshire Enterprise and South East Midlands LEP areas overlap. Following consultation feedback, the scope of this work was extended to cover four additional neighbouring LEPs where there was a history of collaboration with areas in the East Midlands: The Humber (overlapping Greater Lincolnshire); Greater Manchester (which shares a border with D2N2); New Anglia (which overlaps Greater Cambridge & Greater Peterborough and shares a border with Greater Lincolnshire); and Coventry & Warwickshire (which shares borders with Leicester & Leicestershire and Northamptonshire Enterprise LEP areas). These eleven LEPs are illustrated in the two maps below:

Map 1: LEPs within the East Midlands



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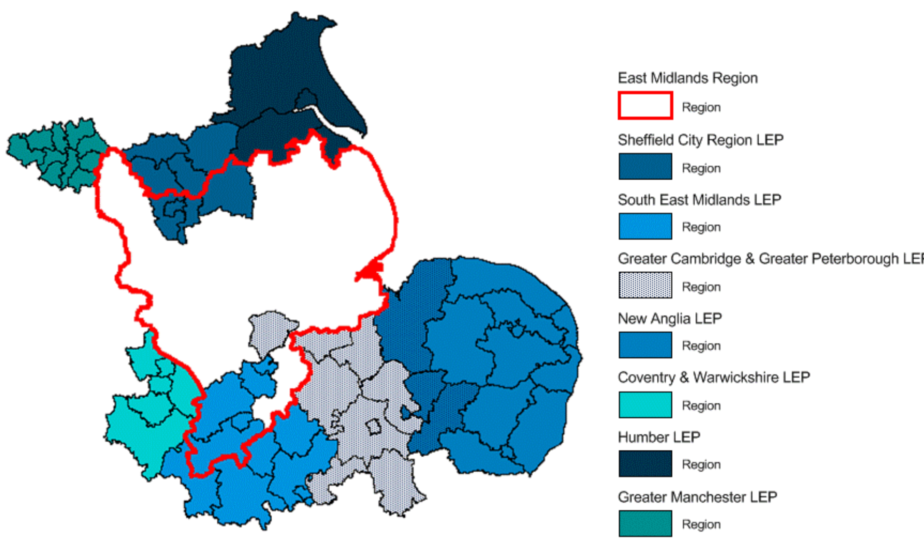
Map 2: LEPs Overlapping or Neighbouring the East Midlands



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1.2.8 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:	€249.7m
Greater Cambridgeshire & Greater Peterborough LEP:	€75.5m
Greater Lincoln LEP:	€133.5m
Leicester & Leicestershire LEP:	€126.3m
Northamptonshire Enterprise Partnership:	€55.0m
Sheffield City Region	€203.4m
South East Midlands LEP:	€88.3m

1.2.9 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 match funding for EU Structural funds. Although proposed LEP allocations have yet to be determined, at a national level the fund will be made up of the following elements:

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

1.2.10 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.

1.2.11 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 have made 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)

1.2.12 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.

1.3 Consultation to date

1.3.1 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 following months.

1.3.2 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
Leicester & Leicestershire LEP	5th July	Curve Theatre, Leicester	77
Northamptonshire Enterprise Partnership & SEMLEP	16th July	Northampton Saints Rugby Ground	41
D2N2 (with SCR in attendance)	22nd July	Notts County Football Club	73
SME Competitiveness Roundtable	9th July	Phoenix House, Melton Mowbray	17
Green Economy Roundtable	25th July	Phoenix House, Melton Mowbray	22

1.3.3 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.

1.3.3 Each of the LEP events used a similar format, starting with an introductory presentation followed by Nottingham Trent University (NTU) outlining 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 in advance with each LEP. The raw written feedback was made available to each LEP secretariat, and is summarised in the Interim Report. D2N2 also used its event to formally launch a public consultation on emerging EU investment priorities, available here.

1.3.4 For the two roundtable events, presentations from EMC and NTU were followed by a structured discussion around four key challenges which were considered for around 20 minutes each. A note of the event was made and circulated to participants.

1.3.5 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!”*

Section 2: Economic Context

This section provides summary analysis of key economic data and highlights similarities and differences between LEP areas within and adjoining the East Midlands.

2.1 Growth & Productivity

2.1.1 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. Despite recent indicators of a strengthening recovery and increasing business confidence, 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.

2.1.2 The performance of individual LEP areas within or neighbouring the East Midlands, 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).[1] 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, Greater Manchester and South Yorkshire) whilst economies to the south and east of the region appear to have been more resilient – with Berkshire, Buckinghamshire & Oxfordshire, Herefordshire, Worcestershire & Warwickshire 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, have experienced greater than average losses of output.

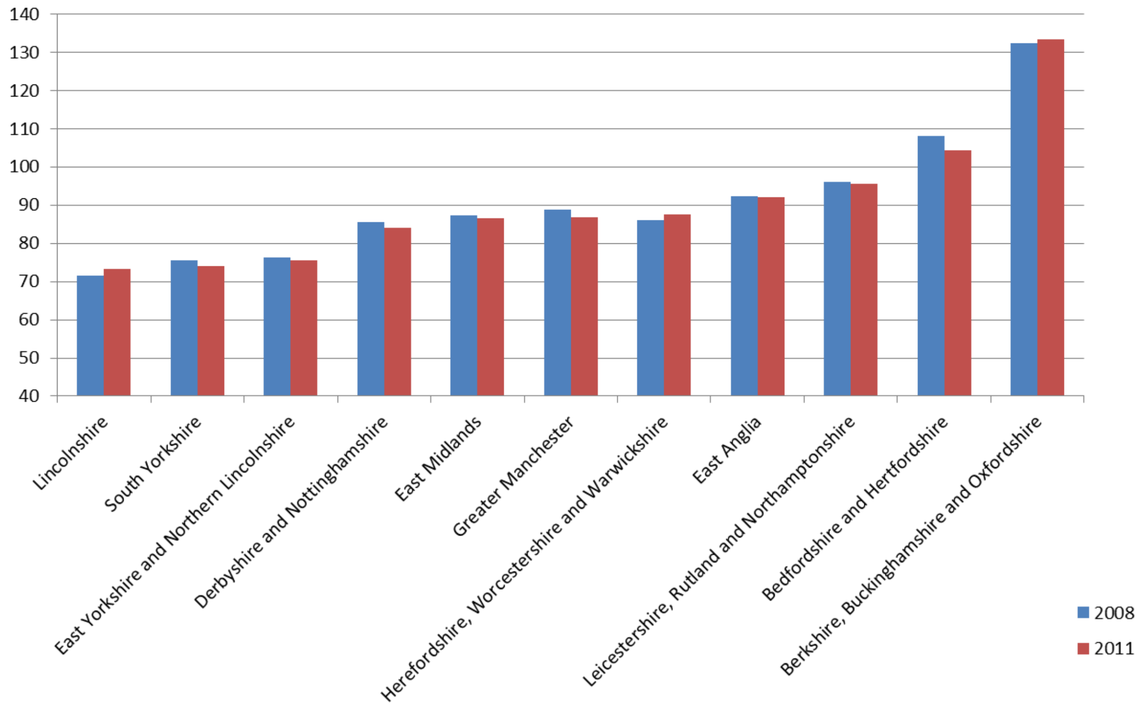
2.1.3 GVA per head in the Derbyshire & Nottinghamshire NUTS2 area fell from 85.6% to 84.1% of the UK average between 2008 and 2011. Within the D2N2 area, most NUTS3 areas also experienced a greater fall in GVA than in the UK overall – particularly the area with the highest output per capita, Nottingham 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

[1] See Table 1 in the Statistical Annex for full NUTS2 figures.

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). To the north-west of the East Midlands, output per head in Greater Manchester also fell at a significantly faster rate than in the UK overall, from 88.7% to 86.8% of the UK average.

2.1.4 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. Closely linked to the Leicestershire and Northamptonshire economies, GVA per head in the neighbouring NUTS 2 area to the west of the East Midlands, Herefordshire, Worcestershire & Warwickshire also increased slightly relative to the UK average, from 86% to 87.4% between 2008 and 2011.

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

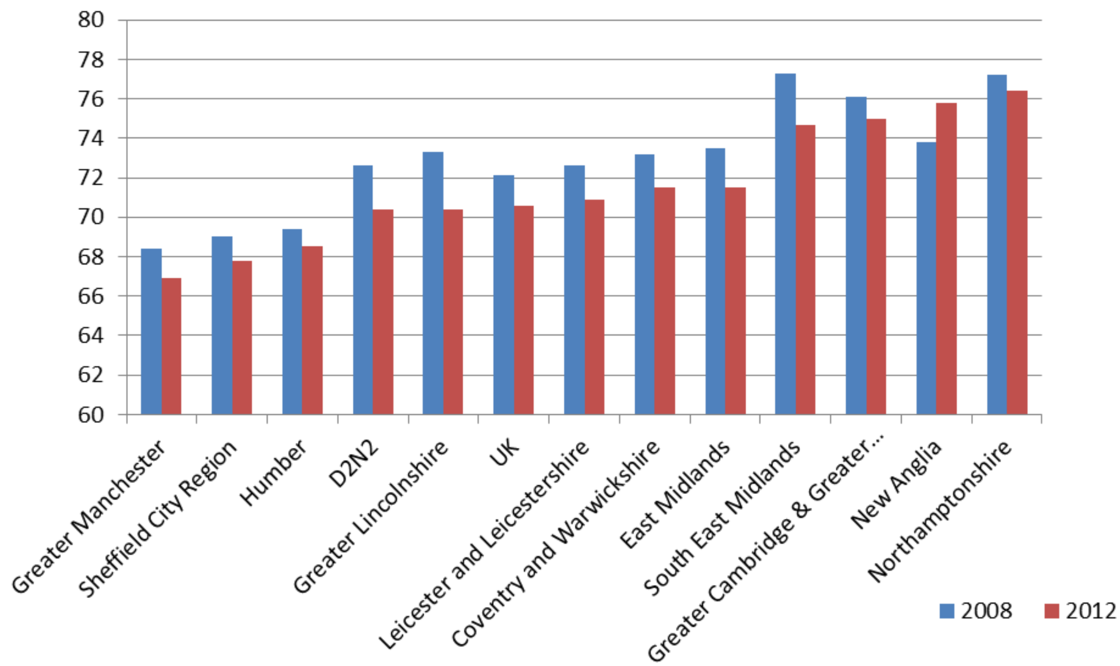


Source: ONS Crown Copyright, 2012. ‘*Regional Gross Value Added, 2011*’.

2.2 Employment

2.2.1 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 12th September, 2013].

2.2.2 Chart 2 shows the change in employment rates for the eleven LEP areas between 2008 and 2012, whilst Chart 3 shows the change in unemployment rates over the same period.[2] Sheffield City Region, Greater Manchester, D2N2 and Greater Lincolnshire all experienced significant falls in rates of employment and significant increases in unemployment, whilst the Humber experienced a particularly significant increase in unemployment (but employment rates remained relatively flat):

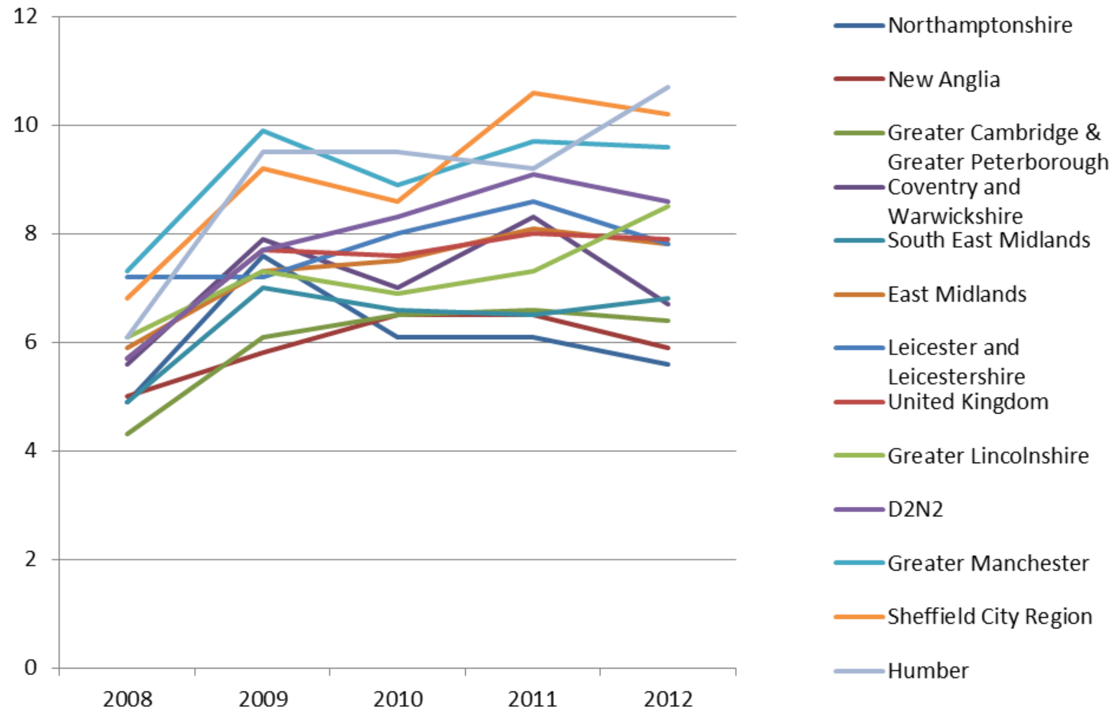
- Employment in D2N2 and Greater Lincolnshire fell by 2.2 and 2.9 percentage points respectively, going from above the UK average in 2008 to below it in 2012 in both cases;
- Unemployment increased significantly in both LEP areas, by 2.9 and 2.4 percentage points respectively; and
- Sheffield City Region and the Humber both experienced very significant increases in the rates of unemployment between 2008 and 2012, from 6.8% to 10.2% and from 6.1% to 10.7% respectively(an increase of 3.4 and 4.6 percentage points respectively).

[2] See Tables 2 and 3 in the Statistical Annex for full LEP figures.

2.2.3 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. The employment rate in the New Anglia LEP, to the south east of the East Midlands, increased by 2 percentage points over the period, from 73.8% to 75.8%, whilst unemployment rates increased very slightly (0.9 percentage points) between 2008 and 2012. Northamptonshire also only experienced a small increase in the rate of unemployment (of 0.7 percentage points).

2.2.4 The outcome of these differing local experiences is clearly illustrated in Chart 3. In 2008, there was only a 3 percentage point difference between the LEP area with the highest rate of unemployment (Greater Manchester) and the lowest (Greater Peterborough and Greater Cambridgeshire). By 2012 this gap had increased to 5.1 percentage points, with the Humber experiencing the greatest increase in unemployment to reach a rate of 10.7%, whilst Northamptonshire remained relatively stable, with one of the smallest changes and the lowest rate of 5.6%. By 2012 therefore, there is a far clearer north-south divide in labour market performance than in 2008. This is also clear in Table 3 (Statistical Annex), which is ranked by level of unemployment: most LEPs that have experienced the highest percentage point increase between 2008 and 2012 were also those with the highest unemployment rates in 2008 (i.e. it is those areas that had the most vulnerable labour markets prior to the recession that experienced the greatest impacts on employment and/or unemployment rates).

Chart 3:Unemployment Rate (% economically active residents aged 16+), 2008- 2012



Source: ONS Crown Copyright, 2013. '*Annual Population Survey*', January-December 2008 and January-December 2012. From NOMIS [accessed 12th September, , 2013].

2.2.5 This suggests some common challenges and opportunities for collaborative action for the Humber, Greater Manchester, 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 Greater Manchester, Sheffield, Rotherham, Doncaster, Lincoln, Nottingham and Derby will have quite different contributory factors – thus requiring different interventions set out in local Investment Strategies.

2.3 SME Competitiveness

2.3.1 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 business survival, and a greater proportion of businesses exporting, innovating and achieving high growth (in employment, sales and turnover).

2.3.2 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;[3]
- 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 (BoE) 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;[4]
- Regional and national surveys suggest that export activity has increased significantly, in both the production and service sectors; and

[3] 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
[4] Bank of England, June 2013. '*Agents' Report*'. URL: http://www.bankofengland.co.uk/publications/Documents/agentssummary/agsum13jun.pdf

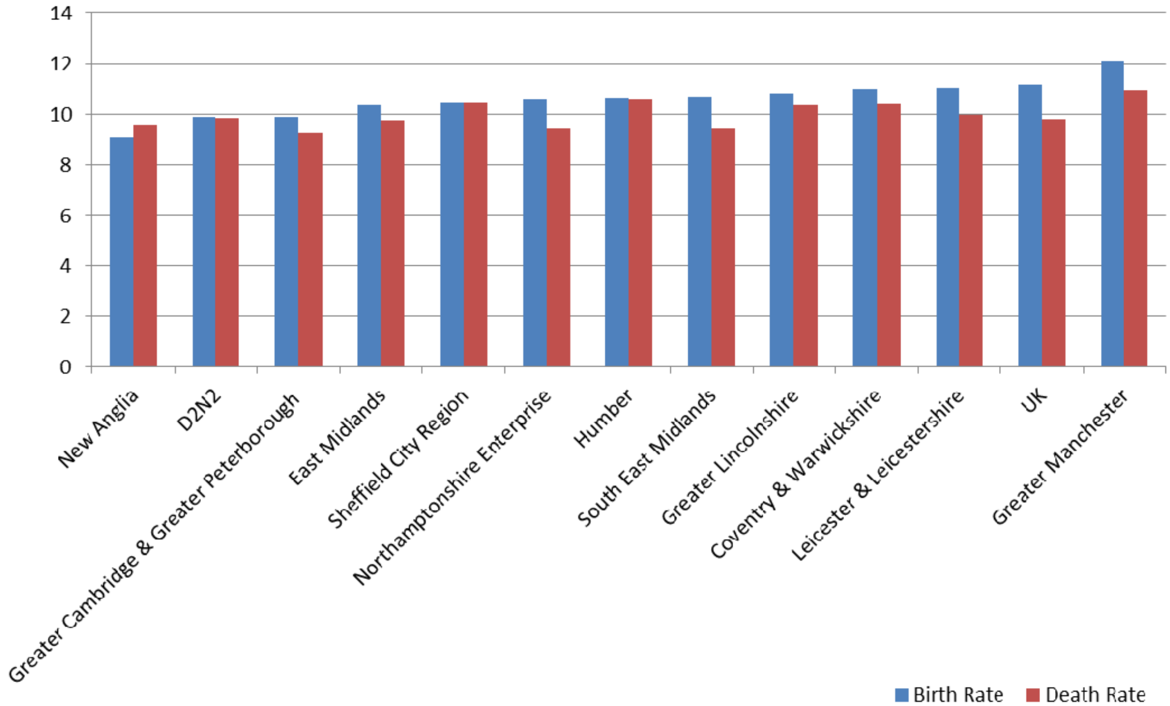
- Surveys also point to a more consistent improvement in business confidence in the last quarter.

2.3.3 Chart 4 shows business birth and death rates for the eleven LEP areas within or neighbouring the East Midlands.[5] With the exception of Greater Manchester, 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, New Anglia and D2N2. Well-connected areas of Leicester & Leicestershire, South East Midlands, Northamptonshire and Greater Lincolnshire had the highest birth-rates.

2.3.4 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.

[5] See Table 4 in the Statistical Annex for full LEP figures.

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.*'

2.3.5 There has been a significant decrease in the survival of new businesses in the UK as a whole – 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.

2.3.6 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.[6] 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.

2.3.7 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.

2.4 Innovation

2.4.1 Innovation is strongly emphasised in the EU'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.

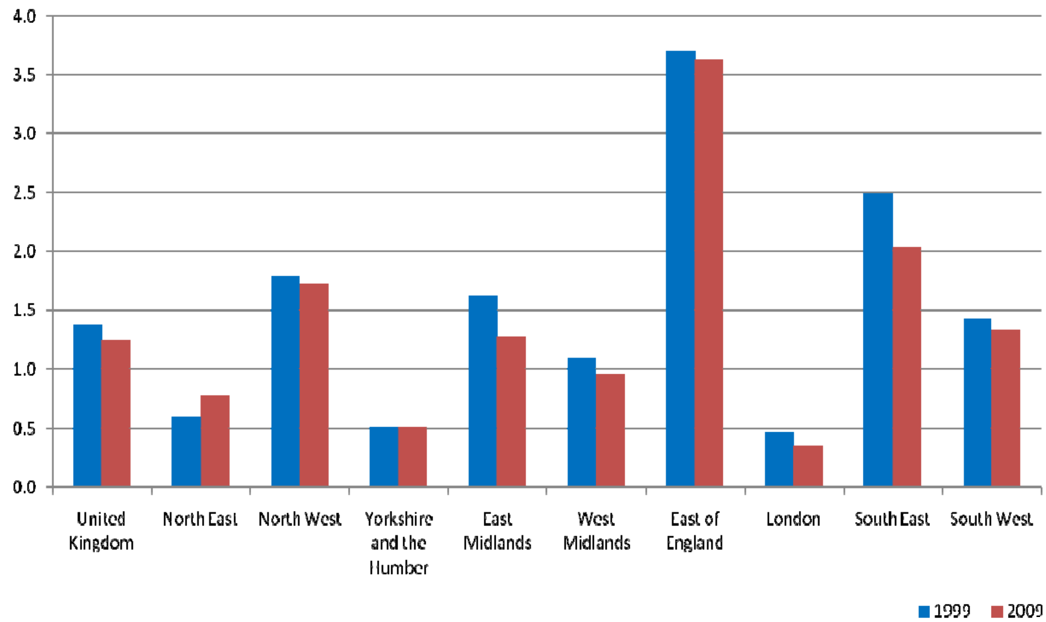
2.4.2 From published data on innovation inputs and outputs, and employment within sectors that are associated with higher than average levels of innovative activity, it is clear that the East Midlands has a number of strengths – and a number of complementarities between LEPs. These include Advanced Manufacturing – concentrated in D2N2 and Leicester & Leicestershire (and also in Coventry & Warwickshire to the west of the East Midlands). This does not just include the

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

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, 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, a manufacturer of power generation equipment).

2.4.3 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

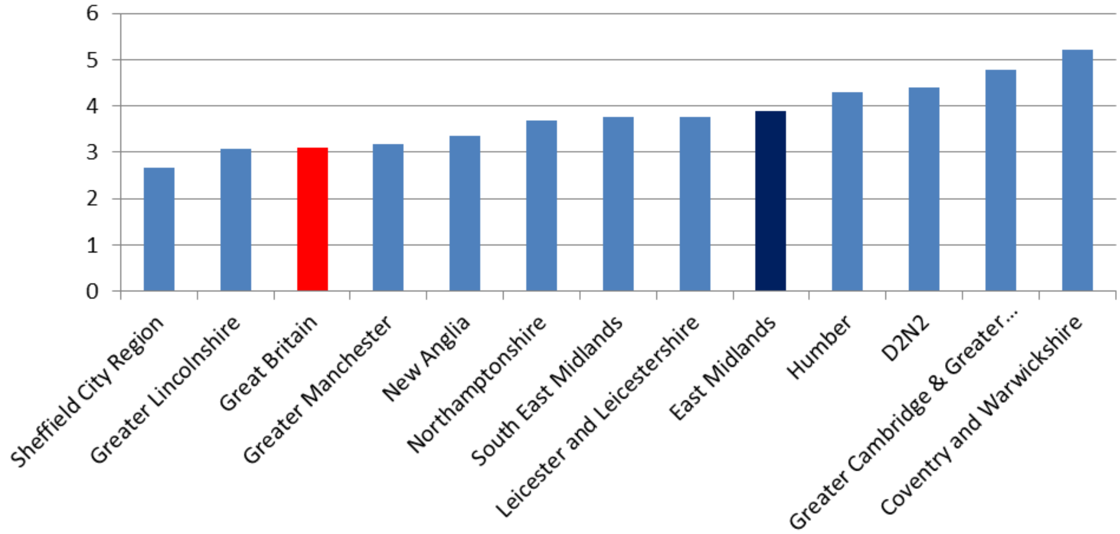


Source: Department for Business, Innovation and Skills, 2012. '*Regional Economic Performance Indicators – Live Tables'.*

2.4.4 Chart 6 and Map 3 illustrate an employment based measure of innovation – 'employment in High and Medium-High Technology Industries '.[7] 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, Greater Cambridge and Greater Peterborough and Coventry and Warwickshire LEP areas particularly high (at 4.4%, 4.8% and 5.2% respectively).

[7] See Table 5 in the Statistical Annex for full LEP figures.

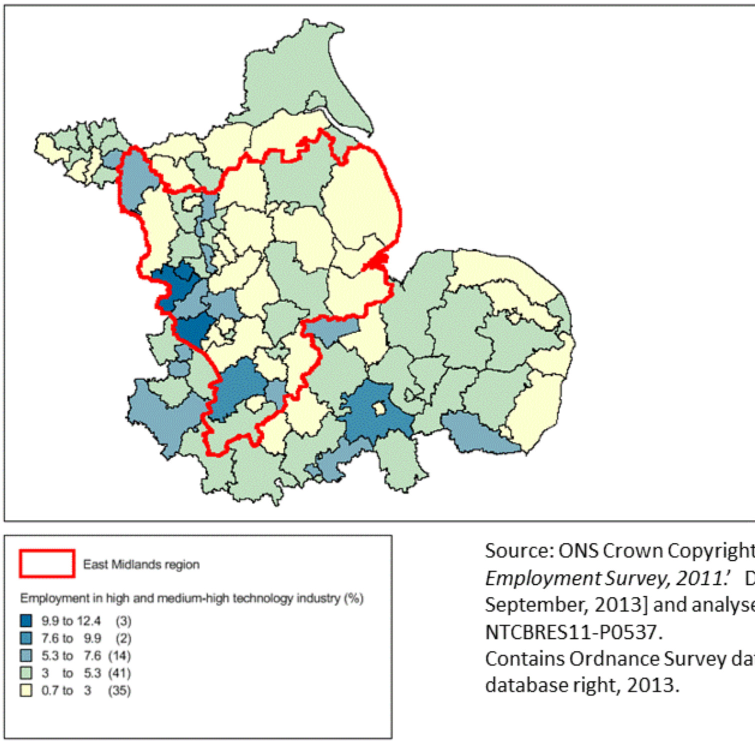
Chart 6: Employment in High and Medium-High Technology Industries (% work-based employment), 2011



Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011*.' Data accessed from NOMIS [13th September, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.

2.4.5 However, Map 3 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), with a lower level – but still significant level of concentration – in Daventry (Northamptonshire) and in Coventry & Warwickshire. This represents clear opportunities for collaboration between D2N2, Leicester & Leicestershire, Coventry & Warwickshire and Northamptonshire LEPs on the basis of the objectives set out in the EU's 'smart specialisation' agenda.

Map 3: Employment in High and Medium-High Technology Industries (%), 2011



NOTTINGHAM BUSINESS SCHOOL
Nottingham Trent University

Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011.'* Data accessed from NOMIS [13th September, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.
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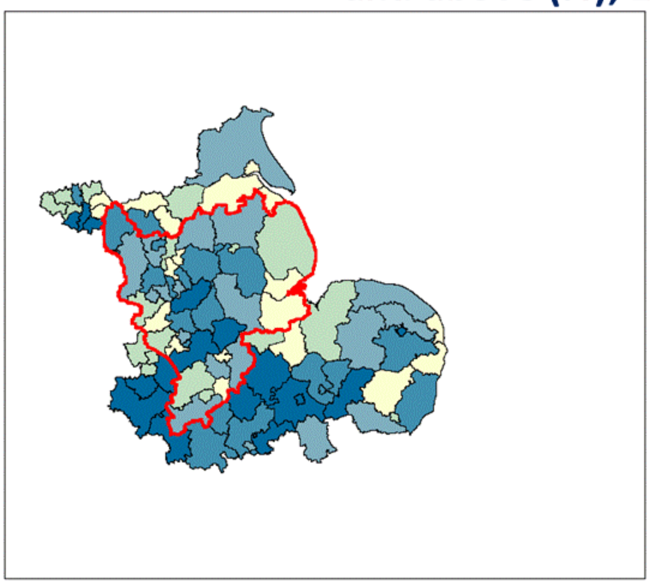
2.5 Skills

2.5.1 As sections 2.3 and 2.4 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.[8] 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

[8] 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.

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 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).[9]

Map 4: Resident Adults Qualified to a Level 4 (first degree) and above (%), 2012



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Nottingham Trent University

East Midlands region

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

- 37.4 to 65.8 (18)
- 32.6 to 37.4 (20)
- 27.8 to 32.6 (19)
- 24.6 to 27.8 (19)
- 12.4 to 24.6 (19)

Source: ONS Crown Copyright, 2012. ‘*Annual Population Survey*’, January-December 2012. From NOMIS [accessed 13th September, 2013].
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2.5.2 Map 4 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

[9] See Table 6 in the Statistical Annex for full LEP figures.

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.

2.5.3 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.

2.6 Summary of Common Challenges & Opportunities

2.6.1 The table below summarises some of the key areas where there appears to be strong evidence of synergies, linkages and common challenges across the LEPs within and adjoining the East Midlands.

Common Challenges and Opportunities		
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, West Burton and 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, the Humber, Greater Manchester, 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 & Greater Peterborough** common challenges of 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 demand for skills).

Section 3: Investment Case

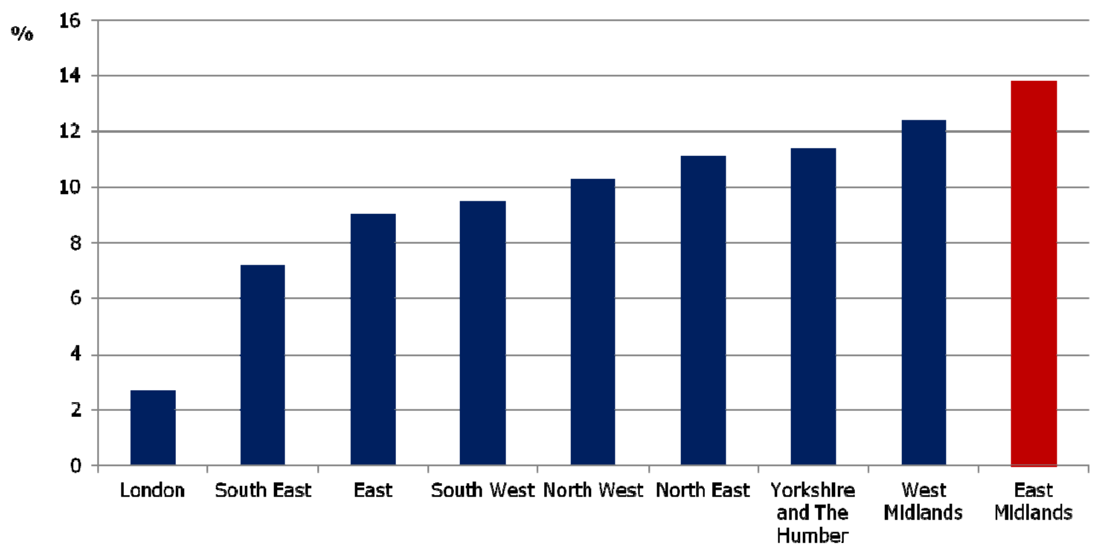
This section sets out a strategic economic case for investment in local economies across the East Midlands to deliver against EU and UK Government growth objectives, and highlights some key potential interventions that could overcome market failures and boost growth based on feedback from the six consultation events.

3.1 Strategic Economic Case

3.1.1 Despite the challenges outlined above, local economies across the East Midlands remain well placed to deliver against EU policy objectives set out in 'Europe 2020' and the UK Government's 'Plan for Growth' and emerging industrial strategy.

3.1.2 The East Midlands already has the highest proportion of manufacturing employment in England. Manufacturing gross value added (GVA) in the East Midlands is £13.2 billion[10] – 16% of output, a higher proportion than in any other region in England

Chart 7: Manufacturing as a proportion of Employment (2010)



Source: ONS Crown Copyright, 2010 'Business Register and Employment Survey'. From NOMIS, 3rd May, 2012

3.1.2 In addition, several sectors are significantly more productive compared to the UK national average, giving the East Midlands a competitive advantage: transport

[10] Regional, Sub-Regional and Local Gross Value Added, ONS, December 2012

equipment manufacturing, food and drink manufacturing, and construction[11]. There is also significant growth potential in areas such as power generating machinery, life sciences, logistics, and low carbon goods and services. These strengths are consistent with the Government's emerging industrial strategy and are critical to its delivery.

3.1.3 The local economies of the East Midlands are already a strong contributor to the UK balance of payments exporting around 20% of GVA, with power generating machinery and automotive equipment accounting for the largest exports over the period 2007-11[12] The proportion of exports to Asia and Oceania is the highest in England, and the East Midlands is less reliant on the EU as an export destination than most other regions.

Transport Equipment Manufacturing

3.1.4 This sector includes aerospace, automotive and rail, and is 40% more productive in the East Midlands than for the UK as a whole. The sector employs over 26,000 people and generates around £2.4 billion of GVA per year. There is a world class motorsport and high performing engineering cluster based in Northamptonshire, including internationally recognised engine builders Cosworth and F1 constructors Mercedes GP Petronas and Force India, with further growth potential at the Northampton Waterside Enterprise Zone. The area in and around Derby is home to globally significant companies such as Rolls Royce, Toyota, JCB Power Systems and Bombardier - which is also part of a nationally significant rail engineering cluster. In Leicestershire the automotive research centre at MIRA is now part of an Enterprise Zone and Caterpillar UK Ltd is based in Leicester. The University of Leicester houses one of the foremost academic space science and instrumentation centres in Europe with links to a number of local high tech companies.

Food & Drink Manufacturing

3.1.5 This sector is closely related to the East Midlands agricultural strengths and is around 5% more productive in the East Midlands than for the country as a whole. It employs over 57,000 people and generates around £3.6 billion of GVA per year. South Lincolnshire is home to Bakkavor Food Ltd, part of a nationally significant agri-business sector worth £1 billion pa, serving the major supermarket chains both in the UK and abroad, closely related to the abundance of highly productive Grade 1 agricultural land. Elsewhere, Melton Mowbray is renowned for Stilton Cheese and the pork pie, Carlsberg and Weetabix are based in Northamptonshire, Newark is the national location for sugar refining and High Peak is home to Buxton Water. There is also a growing market for high value niche products

[11] Making the most of housing and growth in the East Midlands, Smith Institute, September 2012
[12] Regional Trade Statistics (RTS) datasets www.uktradeinfo.com

across the rural East Midlands, closely related to the visitor economy and ‘food tourism’ in places such as the Peak District National Park. The National Centre for Food Manufacturing is based at Lincoln University.

Construction

3.1.6 Construction is a key enabling sector for the economy, and is around 10% more productive in the East Midlands than for England as a whole. The sector employs over 60,000 people and generates around £5.9 billion GVA per year. Construction is well represented across Derbyshire and parts of North Nottinghamshire and Lincolnshire. Key companies include Bowmer and Kirkland, Langley Holdings, North Midland, Bloor Homes Ltd and a large number of more specialist smaller companies with strong linkages to local planning and design consultancies. The sector has key education strengths with Derby, Nottingham, Nottingham Trent, De Montford and Lincoln Universities all having schools of Architecture and Design. There is a growing emphasis on sustainable construction and design, with strong links to the Energy Technologies Institute based at Loughborough University, and Lincoln is a centre for building conservation skills.

3.1.7 Other related economic strengths include:

- **Power generating machinery**: Lincoln is home to a division of the world-class gas turbine manufacturers, Siemens and a new School of Engineering recently opened at the University of Lincoln.

- **Life sciences**: Alliance Boots plc has its head quarters just outside Nottingham as part of an Enterprise Zone. Bio-City also hosts over 70 companies. 3M Healthcare Limited are based in Loughborough. Peakdale Molecular is based in Chapel-en-le-Frith.

- **Logistics**: Leicestershire and Northamptonshire together with parts of Warwickshire form the ‘Golden Triangle’ – the hub of the UK logistics industry. Key facilities include the Daventry International Freight Terminal, Corby Eurohub, Magna Park near Market Harborough and East Midlands Airport – the largest freight hub outside Heathrow.

- **Low carbon goods & services**: Northamptonshire is a centre of excellence for specialised low carbon technologies. Derby based Rolls Royce is active in research to reduce aviation emissions and in the civil nuclear industry, E.ON’s global R&D facility is based at Radcliffe-on-Soar in Nottinghamshire.

- **Visitor Economy**: The Peak District National Park is a visitor attraction of national significance as well a key environmental asset. Other major attractions include the Lincolnshire holiday coast, the National Forest, Sherwood Forest, and international sporting venues at Silverstone and Trent Bridge Cricket Ground.

3.2 Potential Interventions: SME Growth & Competitiveness

3.2.1 **Improved Access to finance for SMEs**. Access to finance for SMEs was highlighted as a market failure by participants at all the consultation events. Numerous examples were given where companies with apparently good growth prospects that had been denied commercial lending by the banks. At the same time, it was recognised that pressure placed on the banking sector by regulators to re-capitalise balance-sheets has resulted in more risk-adverse lending decisions, despite the Government's 'funding for lending' initiative. Independent research jointly commissioned by five LEPs in the East Midlands has indicated that there is a particular issue for local companies seeking investment of between £50,000 and £750,000[13]. There is therefore a clear opportunity for an EU funded initiative to fill this gap and contribute to enhanced SME growth, if the delivery challenges of scale, complexity and risk can be overcome.

3.2.2 **Managed workspace for new and growing businesses**. The provision of managed workspace was highlighted, particularly in the SME Competitiveness round table, as a tried and tested approach to delivering business support. The combination of modern flexible workspace with good broadband connectivity along with dedicated on-site business support was considered to be particularly effective. There are a number of successful examples of managed workspace around the East Midlands which have been developed with ERDF support under current and previous programmes. However, there have been challenges relating to the interpretation of State Aid rules for such projects elsewhere in Europe that have yet to be fully resolved, and which may limit delivery in the future.

3.2.3 **More extensive broadband infrastructure with higher speeds**. Access to high quality broadband was highlighted as a pre-requisite for business growth in all the consultation events, of similar importance to utilities such as electricity and water supply. UK and international studies have confirmed that increased broadband penetration can have a significant (and quick) GVA uplift through increasing business efficiencies and enhancing trading opportunities. Based on

[13] Access to Finance Market Study, Mazzars (to be completed)

this analysis, maximising broadband access across the East Midlands could boost GVA by up to 3.8% or £2.4 billion.[14] Provision to support broadband infrastructure was originally omitted from the current regional ERDF operating programme but was subsequently added in with the agreement of the Commission. There remain opportunities to add value to UK Government investment managed by BDUK, and to extend the current Government rollout of super-fast fibre optic broadband delivering up to 100 megabytes per second, which will currently only benefit Derby, to other urban areas in the East Midlands.

3.2.4 **Accessible business advice & support relevant to both 'high' and 'middle/low' growth companies**. Attention was drawn to the existence of a number of national business growth initiatives supported by BIS such as Growth Accelerator, the Manufacturing Advisory Service and LEAN. There is significant potential to extend the scale and reach of such initiatives with ERDF funding. However, these initiatives tend to be focussed on a relatively small number of companies with high growth potential. A number of the consultation events highlighted the collective economic potential of relatively small increases in productivity (particularly related to the use of IT) across a wider number of 'ordinary' businesses. The Government's 'growth voucher' initiative was felt to have partially filled this gap, but there was scope to use ERDF to extend its reach more widely and/or to develop smaller scale complementary measures.

3.2.5 **Inward investment linked to supply chain growth.** Although the focus of all the consultation events was on growing and developing indigenous businesses, it was recognised that there remains a role for attracting inward investment, including foreign direct investment. There is potential to use ERDF to develop an enhanced local offer from UKTI. However to be fully effective, this approach needs to be complemented by initiatives that will help to develop supply chain linkages between new companies and local SMEs.

3.2.6 **Community-led economic development in both urban and rural areas.** The 'Leader' approach to local economic development has been widely seen as an effective way of supporting small scale local economic development in isolated rural areas. There was considerable interest at some of the consultation events in applying the principles and mechanisms of Leader to a limited number of more deprived urban communities. However, it was recognised that it may not be possible to use ERDF funding in the same way as RDPE support due to State Aid rules.

[14] Data aggregated from 'Social Study 2012, The Economic Impact of BT in the United Kingdom and the East Midlands (2012); Regeneris Consulting, 2012

3.2.7 **Developing more effective links between HE and a wider range of SMEs.** There have been a number of ERDF funded initiatives that have supported the use of technical expertise within higher education institutions by SMEs to help drive productivity. However, there has been a perception that such support will only benefit 'high tech' companies. There is potential to expand the reach of such services to a wider range of SMEs which have traditionally had little or no links with HE institutions. This may well require a joint or federated approach involving a number of HE institutions, as well as effective signposting and marketing to potential SMEs, perhaps as part of a wider business support initiative.

3.3 Potential Interventions: Low Carbon Economy

3.3.1 **Business Resource Efficiency.** Whilst the deployment of new low carbon technology has the potential to save local companies energy and money (and generate business for local suppliers), it will be important to ensure that there are still business support services available that provide basic resource efficiency advice to SMEs, along the lines of current ERDF funded local authority and university projects. The consultation events highlighted some of the many low-cost and no-cost measures that can and should be taken to save energy prior to investment in technology in the first instance. Recent Household Energy Statistics from ONS[15] highlight that the East Midlands has the highest consumption in the UK, particularly in Leicestershire and Rutland, and this may provide additional justification for action. There is also scope to support retrofitting of business and commercial property on a major scale. Initially this could focus on local authority owned business units, where EU funding could fill the gap to help invest in appropriate low carbon technology.

3.3.2 **Accelerating the deployment of carbon saving technologies.** There is potential to support demonstrator projects, benchmarking, good data and access to independent advice to help SMEs invest in the most appropriate technology. Participants highlighted the importance of appropriate language, terminology (e.g. efficiency can be more resonant than the sometimes clunky language of sustainability) and methods of engagement in any business-facing support project to ensure that technical concepts and benefits are properly understood. It is also important that the business benefits are communicated internally within the companies receiving support and that there is some means to up-skill their employees accordingly. Financial incentives can also encourage uptake of

[15] Household Energy Consumption in England & Wales, 2005-11, ONS 2013

technologies. There are already some in place at UK level, including the Feed in Tariff and Renewable Heat Incentive, but EU funds could provide extra incentives. These could enable shorter payback periods for building retrofit projects for instance, where companies may be unwilling to commit to investments that repay over a long timescale.

3.3.3 **Stimulating local markets through direct investment.** Building retrofit and public transport are both labour intensive and have wider economic and social benefits. A number of investment streams were highlighted where there may be potential for EU project match funding, including the Green Deal and Energy Company Obligation. The proposed social housing retro-fit financial instrument provides a major opportunity to stimulate local demand for low carbon goods and services. Where there are plans or projects in place for local energy parks (e.g. Northampton, Nottingham) additional EU investment could accelerate development and provide local exemplars of low carbon technology, buildings and businesses. Adaptation to climate change is highlighted within the Government's National Adaptation Programme as a new high growth sector with good export potential for the UK. EU funds could provide support to projects which help to future proof areas of economic activity or economic potential by helping reduce the risks associated with climate change.

3.3.4 **Enhanced Infrastructure.** Environment Agency investment in flood prevention or water company investment in supply or treatment infrastructure can be used to secure additional or multiple benefits with ERDF support. One example given was the 'Our City, Our River' masterplan in Derby where Environment Agency investment into flood alleviation is being used as a catalyst for a wider economic regeneration scheme. Where the development of low carbon energy generation is hindered by market failures including lack of grid capacity and access to the grid, EU investment could potentially be applied to address the situation, subject to State Aid rules. There is also scope to extend district heating schemes, which have already proved successful in parts of Nottingham and Leicester.

3.3.5 **Links with the wider SME agenda.** 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 in relation to skills and innovation. Some of the solutions that EU funding could support are therefore partly generic; green businesses need to be innovative and have the right skills, and all businesses need to be more resource efficient and resilient. Likewise there is scope for projects which tie all these issues together. For example, an integrated National Forest project which could incorporate training, tourism and skills (visitor centre and training opportunities), and generating energy from biomass. Training in

3.4 Potential Interventions: Skills & Employment

3.4.1 **Development of training programmes clearly linked to ERDF funded initiatives**. One of the major opportunities presented by an integrated EU Growth Programme is to establish much better links between ERDF investments and ESF funded training opportunities that will assist local people to access the new employment opportunities. To be successful, potential for such linkages should be built into projects at an early stage, rather then 'retro-fitted' at a later date. This approach would also engage SMEs and individuals with information about the benefits of training and skills development.

3.4.2 **Measures to stimulate the take up of apprenticeships**. Feedback from the consultation events indicated a strong demand for apprenticeships, which has been further enhanced by recent changes to the funding of higher education. Whilst the Government has taken steps to extend the numbers of apprenticeships available at a national level, there is potential for further extending provision locally through the use of EU funding. This will require close working between LEPs and local business leaders and the provision of clear information about the benefits to both SMEs and potential employees.

3.4.3 **Focus on work-readiness and basic IT skills for young people**. The consultation events also confirmed a continuing requirement for so called 'work readiness' and basic IT skills for young people (18-24) looking to participate in the labour market for the first time. This would address the need to uplift basic skills and create better links between education and employers. There are clear linkages between this agenda and the priorities of the Government's Work Programme, and potential to extend this offer locally with the use of EU Funding.

3.4.4 **More extensive use of the third sector to engage 'hard to reach' groups.** Both the Government and local partners recognise the potential of the third sector to engage with groups of disadvantaged people that the public and private sectors can find difficult to reach. This will require partners to address the difficulties experienced by the third sector in securing match funding, especially given the likely focus on larger projects with a high level of minimum spend. There is potential to make extensive use of the BIG Lottery Fund social inclusion 'Opt-In' in this context, particularly in the early years of the programme, if this can be made sufficiently flexible to meet the needs of local communities.

3.4.5 **Sector-based training initiatives linked to meeting skills gaps within SMEs**. The development of so-called 'work academies' of similar initiatives linked to meeting skills requirements in particular sectors, for example the installation of carbon saving technologies into existing buildings. It is important to acknowledge that potential project must take some account of different sectors and be sensitive to their needs, and may well have to be delivered on a multi-LEP basis to be viable and effective.

3.4.6 **Better information and signposting to services**: Lack of information amongst both SMEs and potential beneficiaries about the range of potential skills training opportunities available was highlighted as a key barrier to participation, at a number of the consultation events. As well as taking steps to simplify and streamline the range of support available (whilst ensuring sufficient flexibility to meet local needs), a requirement to make consistent information on the potential training offer more widely available across LEP areas was identified. This could form part of a wider 'front end' service for business support initiatives.

3.5 Potential Interventions: Collaborative Activity

3.5.1 Based on the economic analysis set out in Section 2 and feedback from the consultation events, there are a number of opportunities for co-ordinated action across LEP boundaries which would bring together one or more of the interventions outlined above. Key opportunities include the following sectors or clusters (also highlighted in the diagram below) - however the list is by no means exhaustive.

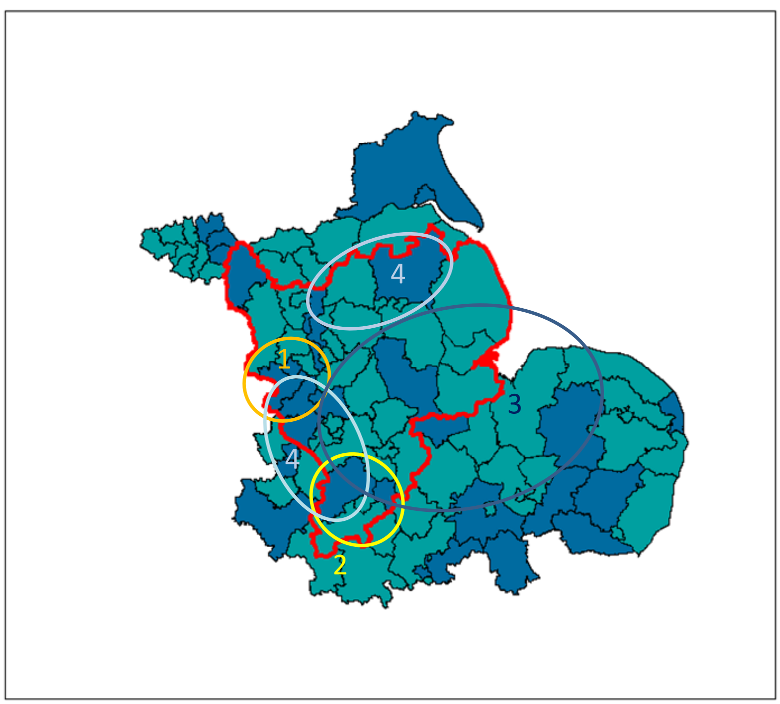
- **Advanced Manufacturing (Transport Equipment)**: There is strong cluster of transport equipment companies across the south of Derbyshire, the north and west of Leicestershire and stretching across to the West Midlands, which also has clear links to the emerging low carbon sector. There is considerable potential for LEPs in these areas to develop joint initiatives that will further boost investment, stimulate local supply chains and ensure that specialist skills are developed and maintained.

- **Advanced Manufacturing (High Performance Engineering)**: Northamptonshire is home to a world class motor sport and high performance engineering cluster, which also stretches to Milton Keynes in the south (where F1 champions Red Bull are based) and into Warwickshire in the west. There are opportunities for collaborative approaches between LEPs that will help to maintain and develop this specialised and highly competitive sector.

- **Energy Generation & Supply**: There is a strong and growing renewable energy sector based around the Humber along with longstanding expertise in power generation and supply along the Trent Valley and in Lincoln, and in parts of the southern Derbyshire, Leicestershire and the West Midlands. There is considerable scope for LEPs to work together to support major investors, stimulate local supply chains and develop better linkages between the low carbon and traditional energy generating sectors.

- **Food Technology:** Food production is a traditional strength for much of southern Lincolnshire, the Rutland and Melton areas and large parts of the east of England. Although not generally viewed as an innovative sector, there are strong links between food producers and both commercial and academic based research institutions which could be further enhanced by joint LEP action. There is also scope to develop synergies with the future Rural Development Programme.

Map 5: Opportunities for Collaborative Activity



1: Transport Equipment (Automotive, Rail & Aerospace)

2: High Performance Automotive/ Motorsports

3: Food Technology

4: Energy Generation & Supply

East Midlands Region

Region

Employment in high and medium-high technology industry (%)

4.51 to 12.4 (32)

0.7 to 4.5 (63)

Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011.'* Data accessed from NOMIS [13th September, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.

3.5.2 In addition, there is potential for collaborative activity more widely between LEPs on the following themes.

- **Access to SME Finance**: Access to SME finance is a significant economic constraint across the East Midlands. Collaborative research undertaken by five LEPs[13] has highlighted the scale and nature of this market failure, along with the minimum size of investment required to make any intervention viable. This will necessitate a multi-LEP approach to be effective and deliverable.

- **Access to Business Support and Training initiatives**: As well as taking steps to simplify the complex landscape of business support and training initiatives that currently exists in many areas, there is scope for joint LEP action to provide consistent information on a co-ordinated basis for all relevant services in a particular sector or geographic area - particularly (but not exclusively) where LEPs over-lap.

- **Support for the Visitor Economy**: Whilst there is no appetite or justification for initiatives to develop the visitor economy on an East Midlands basis, there is potential for cross LEP initiatives that reflect natural geographies or markets – for example the Fens, the Peak District National Park or sectors such as farm tourism.

- **Improving Low Skill Levels:** There is a swathe of 'low skill' areas stretching from Sheffield and the Humber in the north, through to the former coalfields and along the Lincolnshire and Norfolk coasts. There is scope for collaborative training activities (potentially with a strong role for the third sector), along with initiatives to stimulate private sector demand for higher level skills.

Section 4: Delivery Challenges and Solutions

This section highlights potential challenges to effective programme delivery highlighted by the consultation events, along with potential mitigating solutions.

4.1 Securing Match Funding

4.1.1 A major delivery challenge for all LEPs will be securing the levels of match-funding required to spend the national allocations of EU resources. Recent and planned reductions in expenditure by local councils, traditionally major contributors to EU programmes, will place further pressure on delivery, particularly in the run-up to the first review of notional LEP allocations in 2017.

4.1.2 However, there are some new sources of match-funding which can help LEPs to bridge the gap.

- **National opt-in proposals**. The Government has made available a significant amount of match funding centrally to support proposed opt-ins to a number of nationally managed schemes that will deliver an enhanced local offer (further details are set out under 1.2.8). It will clearly be very important for LEPs taking up such offers to secure clear economic outcomes consistent with local growth objectives and at a cost that represents value for money. However, accepting some or all of the opt-in proposals has the potential to substantially reduce the level of match funding required and help to guarantee project spend, particularly in the early part of the programme prior to the 2017 review.

- **LEP Local Growth Fund.** The Government has made proposals to establish a Local Growth Fund for LEPs from 2015 onwards which could be used as match funding for EU projects (further details are set out under 1.2.9). On average, this could provide a pot of around £50 million per LEP (actual figures will depend on the distribution criteria adopted by Government). Although some of the individual budgets that make up the fund have yet to be confirmed and over half the funding relates to transport (which is not an EU funding priority for the UK Government), there are elements which could be used to support EU skills and training initiatives.

4.2 Reducing Risk & Complexity

4.2.1 There was widespread concern expressed by existing project sponsors about the level of project audit and the way in which EU Regulations relating to eligible expenditure and State Aid were now being applied. There is a perception that the level of administrative burden and complexity is becoming an active deterrent to project development and delivery.

4.2.2 It is recognised that the UK Managing Authorities have little scope to influence the substance and application of such regulations, and that procedures had been tightened in recent years in response to a number of EU external audits. As a result, there will need to be a greater emphasis on designing projects in ways that inherently reduce the potential risk to both project sponsors and beneficiaries, learning from the experience of the current programmes. There are a number of ways in which this could be achieved.

- **Investment in EU Funding expertise.** It will be important for both LEPs and potential project sponsors to have sufficient in-house expertise to ensure that projects are robustly designed, assessed and managed. This will require some up-front investment, although project management costs can count as eligible expenditure and there may be scope for LEPs to access Technical Assistance. Experience from previous programmes has demonstrated the benefits of 'out-reach' officers to provide technical information and assistance to potential project sponsors at a formative stage.

- **Fully integrated Government Growth Teams.** The role of Government Growth Teams in supporting LEPs and the delivery of the EU Growth Program locally will be crucial. To be effective, Growth Teams must be adequately resourced and include representatives with appropriate expertise and seniority from <u>all</u> the departments managing EU funds: BIS, DCLG, Defra and DWP.

- **Publicising Best Practice Examples.** There is an understandable reluctance on behalf of Government to publish exhaustive EU funding guidance notes. However, there is scope to support 'peer to peer' learning by identifying individual projects that demonstrate best practice in terms of impact and management arrangements. Such exemplars might cover a range of different project types: such as a joint university business innovation scheme, a managed workspace development, or a community based training initiative run by a third sector organisation.

- **Using Appropriate Project Indicators.** The Commission are likely to move towards a system of 'payment by results'. This will mean that projects that do not achieve expected outcomes may not be fully funded, despite eligible expenditure having been defrayed. It will therefore be vitally important for project sponsors to choose metrics that are both achievable and easily measurable.

4.3 Countering Fragmentation

4.3.1 There was key concern that under the current regional arrangements there has been a plethora of relatively small projects which had struggled to demonstrate a strategic impact and which have resulted in a complex pattern of support that SMEs have found hard to engage with (so far 214 projects have been supported under the current ERDF programme with an average grant of £750,000). There was an acknowledged danger that a move to project prioritisation at a smaller spatial scale could exacerbate this trend unless active steps are taken to secure a more strategic approach.

4.3.2 There are a number of potential actions that could help to achieve this:

- **Minimum Project Size.** LEPs could consider specifying a minimum grant level for different kinds of initiatives to increase the scale and reach of projects and reduce transaction costs. This could be combined with a 'commissioning approach' to ensure that interventions meet local strategic needs identified by LEPs.

- **Joint LEP Initiatives**. As highlighted under Section 3.5, there is significant scope to develop projects that will address some challenges on a cross or multi-LEP basis. This will help to reduce project transaction costs, maximise the strategic impact of investments, and simplify the experience for potential beneficiaries.

- **Development of partnership arrangements or 'specialist centres'.** One obvious way of developing larger more strategic interventions is to encourage partnership working between project sponsors developing similar initiatives. For example, collaboration between a number of universities to provide specialist innovation support to SMEs. Such arrangements must be robustly managed: lead partners will need to replicate contractual conditions required by Government with local partners to manage risk. Alternatively, a number of single institutions could take a different specialist role on a wider basis and provide a service in a number of LEP areas.

4.4 Addressing Cross Cutting Issues

4.4.1 A challenge under the current programmes has been to clearly demonstrate delivery against cross-cutting themes as well as programme priorities. The next EU programme will have two cross cutting themes relating to equal opportunities and sustainable development, and the indications are that the Commission will want to see clear evidence that projects are contributing to the delivery of both.

4.4.2 There are a number of tools that could be used by LEPs and project sponsors to demonstrate that these themes are being addressed by projects recommended for approval.

- **Embedding Social Inclusion**: **A framework to support LEP investment strategies for the 2014-20 EU SIF Programme.** This tool has been developed by One East Midlands for the National Council for Voluntary Organisations (NCVO) and is aimed at both potential project sponsors and LEPs to help identify the contribution that social inclusion can make to meeting growth objectives. For further information visit: http://www.regionalvoices.org/node/148

- **Sustainable Development.** There are a range of resources, tookits and best practice examples to support the mainstreaming of sustainable development principles into public policy and funding decisions available on the Defra website at: http://sd.defra.gov.uk/advice/public/nsppp/prioritisation-tool/

- **Climate Change**. There are a range of resources, toolkits and best practice examples to support climate change adaptation and mitigation and the transition to a low carbon economy available on the Climate UK web-site at: http://climateuk.net/

- **'Health Gain'.** Health Gain is an initiative developed with EU support to provide information, methods and suggestions on how to design Structural Fund investments that will also deliver health gains. For further information visit: http://www.healthgain.eu/

- **Rural Proofing Toolkit (Defra).** Defra have developed a rural proofing tool kit in order to ensure that the needs of rural areas are fully reflected in public policy and funding decisions. For more information visit: https://www.gov.uk/rural-proofing-guidance

Section 5: Statistical Annex

This section summarises comparative economic data for LEPs within and adjoining the East Midlands

Table 1: Sub-regional Economic Output – relative to the UK average, Headline GVA per Head Indices (UK=100), 2008 and 2011

NUTS 2 Area	2008	2011
Lincolnshire	71.6	73.2
South Yorkshire	75.4	74.1
East Yorkshire and Northern Lincolnshire	76.2	75.5
Derbyshire and Nottinghamshire	85.6	84.1
East Midlands Region (NUTS1)	**87.3**	**86.6**
Greater Manchester	88.7	86.8
Herefordshire, Worcestershire and Warwickshire	86.0	87.4
East Anglia	92.2	91.9
Leicestershire, Rutland and Northamptonshire	96.0	95.4
Bedfordshire and Hertfordshire	108.1	104.3
Berkshire, Buckinghamshire and Oxfordshire	132.2	133.2

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

Table 2: Employment Rates (% residents aged 16-64), 2008 and 2012

LEP Area	2008	2012	pp change
Greater Manchester	68.4	66.9	-1.5
Sheffield City Region	69.0	67.8	-1.2
Humber	69.4	68.5	-0.9
D2N2	72.6	70.4	-2.2
Greater Lincolnshire	73.3	70.4	-2.9
UK	**72.1**	**70.6**	**-1.5**
Leicester and Leicestershire	72.6	70.9	-1.7
Coventry and Warwickshire	73.2	71.5	-1.7
East Midlands	**73.5**	**71.5**	**-2.0**
South East Midlands	77.3	74.7	-2.6
Greater Cambridge & Greater Peterborough	76.1	75.0	-1.1
New Anglia	73.8	75.8	2.0
Northamptonshire	77.2	76.4	-0.8

Source: ONS Crown Copyright, 2013. '*Annual Population Survey'*, January-December 2008 and January-December 2012. From NOMIS [accessed 12th September, 2013].

Table 3: Unemployment Rates (% economically active residents aged 16+), 2008 and 2012

LEP Area	2008	2009	2010	2011	2012	pp change
Northamptonshire	4.9	7.6	6.1	6.1	5.6	0.7
New Anglia	5.0	5.8	6.5	6.5	5.9	0.9
Greater Cambridge & Greater Peterborough	4.3	6.1	6.5	6.6	6.4	2.1
Coventry and Warwickshire	5.6	7.9	7.0	8.3	6.7	1.1
South East Midlands	4.9	7.0	6.6	6.5	6.8	1.9
East Midlands	**5.9**	**7.3**	**7.5**	**8.1**	**7.8**	**1.9**
Leicester and Leicestershire	7.2	7.2	8.0	8.6	7.8	0.6
United Kingdom	**5.7**	**7.7**	**7.6**	**8.0**	**7.9**	**2.2**
Greater Lincolnshire	6.1	7.3	6.9	7.3	8.5	2.4
D2N2	5.7	7.7	8.3	9.1	8.6	2.9
Greater Manchester	7.3	9.9	8.9	9.7	9.6	2.3
Sheffield City Region	6.8	9.2	8.6	10.6	10.2	3.4
Humber	6.1	9.5	9.5	9.2	10.7	4.6

Source: ONS Crown Copyright, 2013. '*Annual Population Survey*', January-December 2008 and January-December 2012. From NOMIS [accessed 12th September, 2013].

Table 4: Business Birth and Death Rates by LEP Area (number of business births/deaths as a % of total stock of active enterprises), 2011

LEP Area	Birth Rate	Death Rate
New Anglia	9.1	9.6
D2N2	9.9	9.9
Greater Cambridge & Greater Peterborough	9.9	9.2
East Midlands	**10.3**	**9.8**
Sheffield City Region	10.4	10.5
Northamptonshire Enterprise	10.6	9.4
Humber	10.7	10.6
South East Midlands	10.7	9.5
Greater Lincolnshire	10.8	10.4
Coventry & Warwickshire	11.0	10.4
Leicester & Leicestershire	11.0	10.0
UK	**11.2**	**9.8**
Greater Manchester	12.1	10.9

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

Table 5: Employment in High and Medium High Technology Manufacturing by LEP area

LEP Area	Employment in High and Medium-High Technology Industries (%)
Sheffield City Region	2.7
Greater Lincolnshire	3.1
Great Britain	**3.1**
Greater Manchester	3.2
New Anglia	3.4
Northamptonshire	3.7
South East Midlands	3.8
Leicester and Leicestershire	3.8
East Midlands	**3.9**
Humber	4.3
D2N2	4.4
Greater Cambridge & Greater Peterborough	4.8
Coventry and Warwickshire	5.2

Source: ONS Crown Copyright, 2012. *'Business Register and Employment Survey, 2011.*' Data accessed from NOMIS [13th September, 2013] and analysed under Chancellor's Notice Ref NTCBRES11-P0537.

Table 6: Higher level qualifications (Level 4+) by LEP area

LEP Area	% with NVQ4+ (16-64)
Greater Lincolnshire	25.1
Humber	25.7
Northamptonshire	27.5
Sheffield City Region	27.9
East Midlands	**29**
Leicester and Leicestershire	29.6
New Anglia	29.8
D2N2	29.9
Greater Manchester	31.0
Coventry and Warwickshire	32.1
South East Midlands	32.8
United Kingdom	**34.2**
Greater Cambridge & Greater Peterborough	37.9

Source: ONS Crown Copyright, 2012. '*Annual Population Survey*', January-December 2012. From NOMIS [accessed 13th September, 2013].