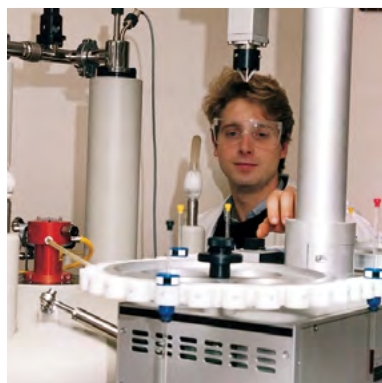
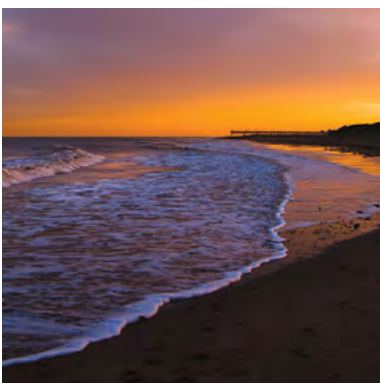


Meeting Need Realising Opportunity

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



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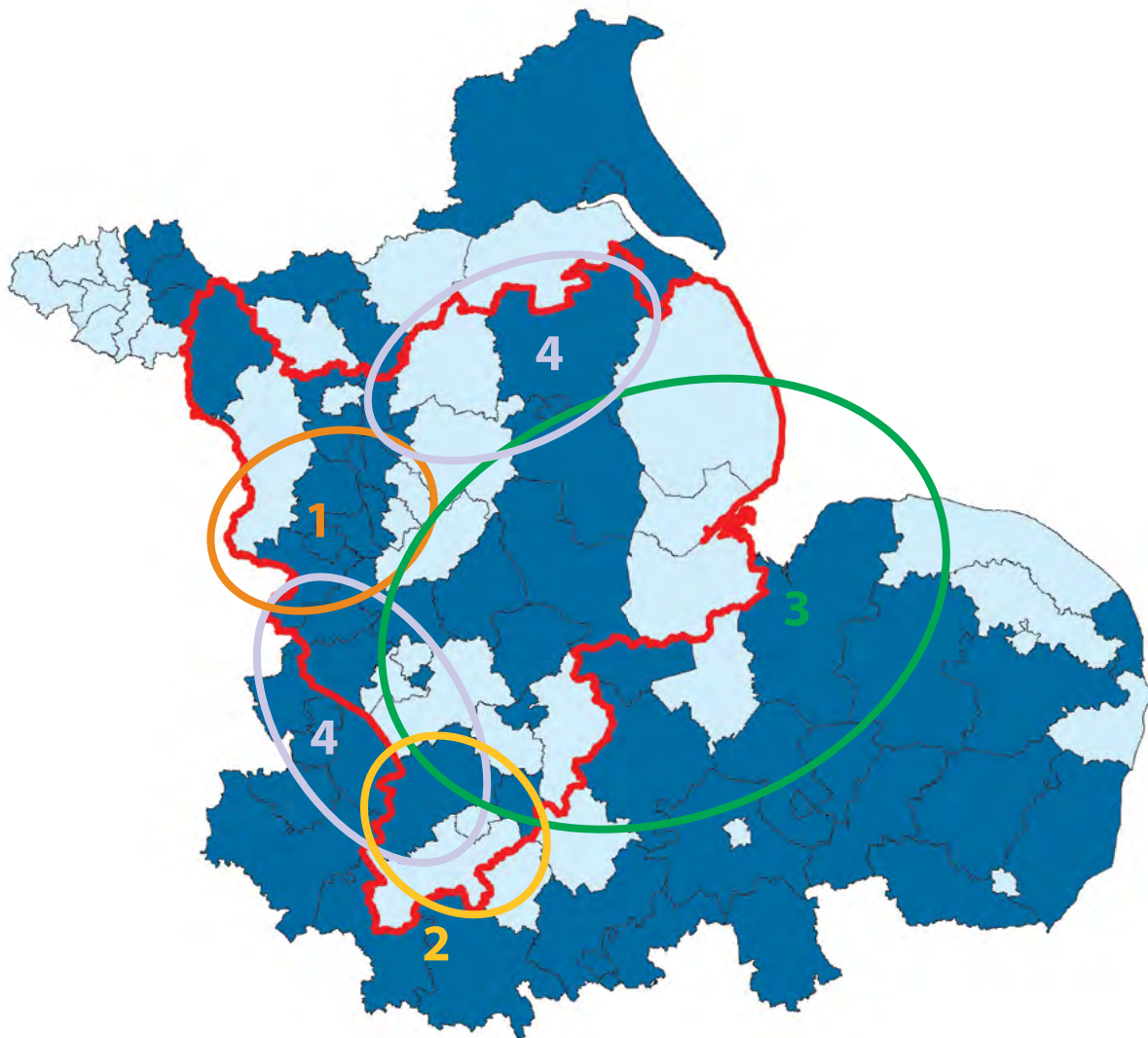
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Opportunities for Collaborative Activity



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

Above / below national average

- East Midlands Region
- 0.8 to 3.1 (36)
- 3.1 to 15.0 (59)

- 1** Transport Equipment (Automotive, Rail & Aerospace)
- 2** High Performance Automotive/ Motorsports
- 3** Food Technology
- 4** Energy Generation & Supply

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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, some of which have the potential to be of national significance. Key opportunities include the following sectors (also illustrated in the diagram on previous page) 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 document also highlights a number of delivery challenges based on experience of current programmes, along with potential mitigating solutions that LEPs, Government and potential projects sponsors should consider.

Securing Match Funding

- Using central Government match funding to deliver locally agreed enhanced outcomes - which will also help to ensure spend targets are met in the period up to the 2017 review.
- Using the LEP Local Growth Fund post 2015 as match funding, particularly to support skills & training initiatives.

Reducing Risk & Complexity

- Investment in EU funding expertise by LEPs and project sponsors, including 'out-reach' officers to provide advice project sponsors at a formative stage and giving active consideration to the establishment of a 'Joint European Team'.
- Fully integrated Government Growth Teams with appropriate representation by BIS, DCLG, Defra and DWP.
- Learning from best practice in other parts of England through case studies of common project 'types'.
- Using project indicators that are measurable and achievable - particularly important as future payments will be much more dependant on results.

Countering Fragmentation

- Establishing minimum grant levels for certain kinds of projects to encourage larger more strategic initiatives.
- Maximising the potential for cross LEP collaboration on key sectors and themes.
- Establishment of robust partnership arrangements between institutions (such as universities) to deliver strategic scale initiatives.

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.

1: Background

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 at <http://www.emcouncils.gov.uk/write/PA3-Draft-Report-Final.pdf>, which summarised 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.

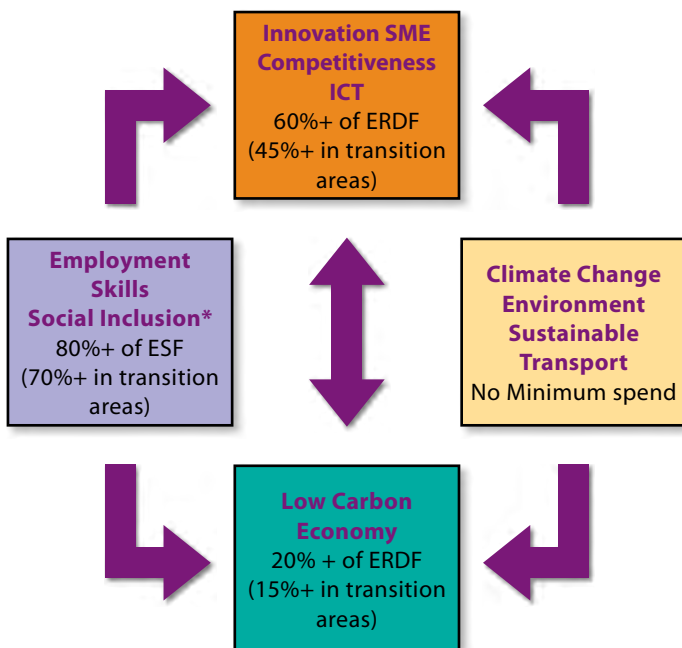
1.2.3 The Government has made the following EU wide objectives 'top priorities' for the UK's EU Growth Programme:

- **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.



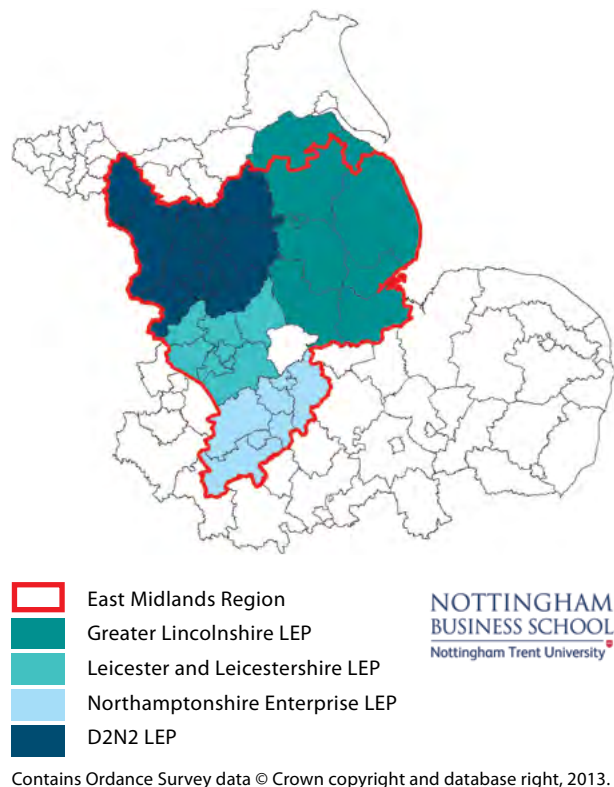
* Minimum 20% of spend.

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 four LEPs composed of Districts and Unitary Authorities that are either entirely (D2N2, Leicester & Leicestershire and Northamptonshire Enterprise) or almost entirely within the East Midlands region (Greater Lincolnshire). These LEPs are shown in Map 1.

Map 1: LEPs within the East Midlands



1.2.8 A further three LEPs overlap significantly with areas within the East Midlands:

- The Sheffield City Region LEP includes five districts that are also covered by the D2N2 LEP;
- The South East Midlands LEP shares five districts in Northamptonshire with the Northamptonshire Enterprise LEP; and
- The Greater Cambridge and Greater Peterborough LEP covers the Unitary Authority of Rutland, within the East Midlands region but not covered by any other LEP.

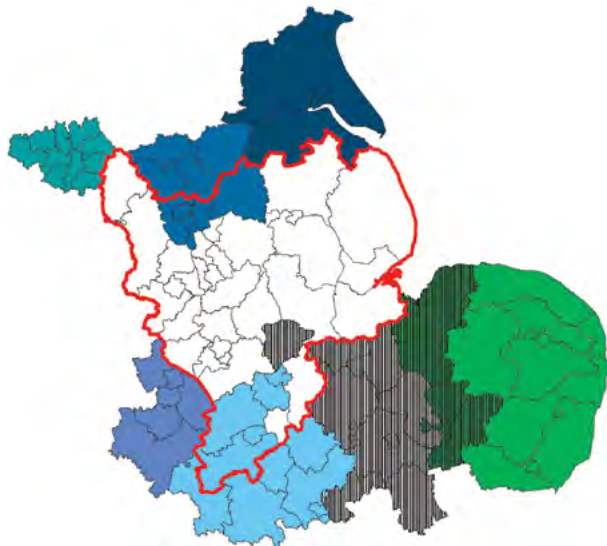
1.2.9 Following feedback from the LEP consultation events in July and August 2013, the scope of this study was extended to a further four LEP areas. These areas were added on the basis of a history of collaboration

with organisations and partnerships within the East Midlands:

- The Humber LEP covers the two north Lincolnshire Unitary Authorities that are also included within the Greater Lincolnshire LEP;
- Greater Manchester shares a border with D2N2, although the two LEP areas do not overlap;
- New Anglia overlaps the Greater Cambridge & Greater Peterborough LEP and shares a border with Greater Lincolnshire; and
- The Coventry & Warwickshire LEP in the West Midlands shares borders with the Leicester & Leicestershire and Northamptonshire Enterprise LEPs, although it does not overlap either of these two East Midlands LEPs.

1.2.10 Map 2 shows the seven LEPs that either overlap with areas within the East Midlands or are strategic neighbours of the four LEPs within the East Midlands.

Map 2: LEPs Overlapping or Neighbouring the East Midlands



-  East Midlands Region
-  Sheffield City Region LEP
-  Greater Manchester LEP
-  South East Midlands LEP
-  Greater Cambridge and Greater Peterborough LEP
-  New Anglia LEP
-  Coventry and Warwickshire LEP
-  The Humber LEP

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1.2.11 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

1.2.12 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 a number of elements including the following:

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

1.2.13 Supplementary guidance on the development of EU Local Investment Strategies was issued to LEPs by Government on the 19th July 2013 (available here -<https://www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships>). The guidance confirmed that LEPs had until 7 October 2013 to submit draft Investment Strategies, with final versions to be completed by the end of January 2014. Where relevant, the Government is keen to see clear linkages between EU Local Investment Strategies and City Deal Strategies. The Government is anticipating that the next EU Programme will become operational in mid 2014.

1.2.14 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)
- The Big Lottery Fund (for social inclusion)
- Department of Work & Pensions
- Prince's Trust

1.2.15 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. (http://www.oneeastmidlands.org.uk/sites/default/files/library/LEP%20briefing%20revised%20July%202013_0.pdf)

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 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.

1.3.4 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 (<http://www.emcouncils.gov.uk/European-Investment-Plan>). 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 (<http://www.emcouncils.gov.uk/write/PA3-Draft-Report-Final.pdf>). D2N2 also used its event to formally launch a public consultation on emerging EU investment priorities, available here (<http://www.d2n2lep.org/EUFunding>).

1.3.5 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.

1.3.6 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!”

2: Economic Context

This section provides summary analysis of key social and economic data in order to highlight possible priorities for investment and opportunities for collaboration between LEP areas within and adjoining the East Midlands.

The evidence on where collaborative action can build on LEPs' shared strengths or common challenges are summarized in the table at the end of this section (see 2.8: Common Challenges and Opportunities).

Detailed tables relating to the charts, maps and analysis are provided in Section 5: Statistical Annex, at the end of this report, and are signposted in this section where relevant.

2.1 Economic Growth

2.1.1 The UK economy contracted significantly from the onset of recession in the second quarter of 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, including the preliminary estimate for the 3rd quarter of 2013 suggesting growth of 0.8%, the UK economy has still yet to experience a recovery comparable to those that followed earlier recessions, including the 1930s, with output remaining below the pre-recession peak.

2.1.2 The trend in the economic output, as measured by Gross Value Added (GVA) per head,¹ has varied significantly between LEP areas. Chart 1 illustrates a north-south divide across the LEP areas included in this project (in this case, represented by NUTS2 sub-regions). The estimates for 2008 and 2011 are included for all eleven LEP areas in Table 1 of the Statistical Annex.

2.1.3 With the exception of Bedfordshire and Hertfordshire, output has decreased more than average in the NUTS2 areas to the north of the East Midlands between 2008 and 2011 (particularly Derbyshire & Nottinghamshire, Greater Manchester and South Yorkshire). Economies to the south and east of the region appear to have been more resilient. GVA per head in the NUTS2 areas of

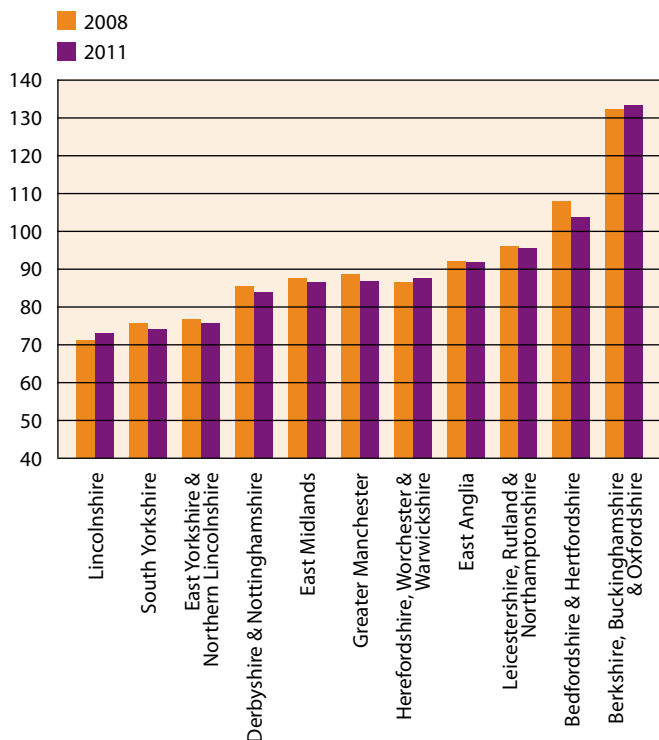
Berkshire, Buckinghamshire & Oxfordshire, Herefordshire, Worcestershire & Warwickshire and Lincolnshire increased relative to the UK average.

2.1.4 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. GVA per head in the Derbyshire & Nottinghamshire NUTS2 area fell from 85.6% to 84.1% of the UK average between 2008 and 2011.

2.1.5 Within the D2N2 area, most NUTS3 sub-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). 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.

2.1.6 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'.

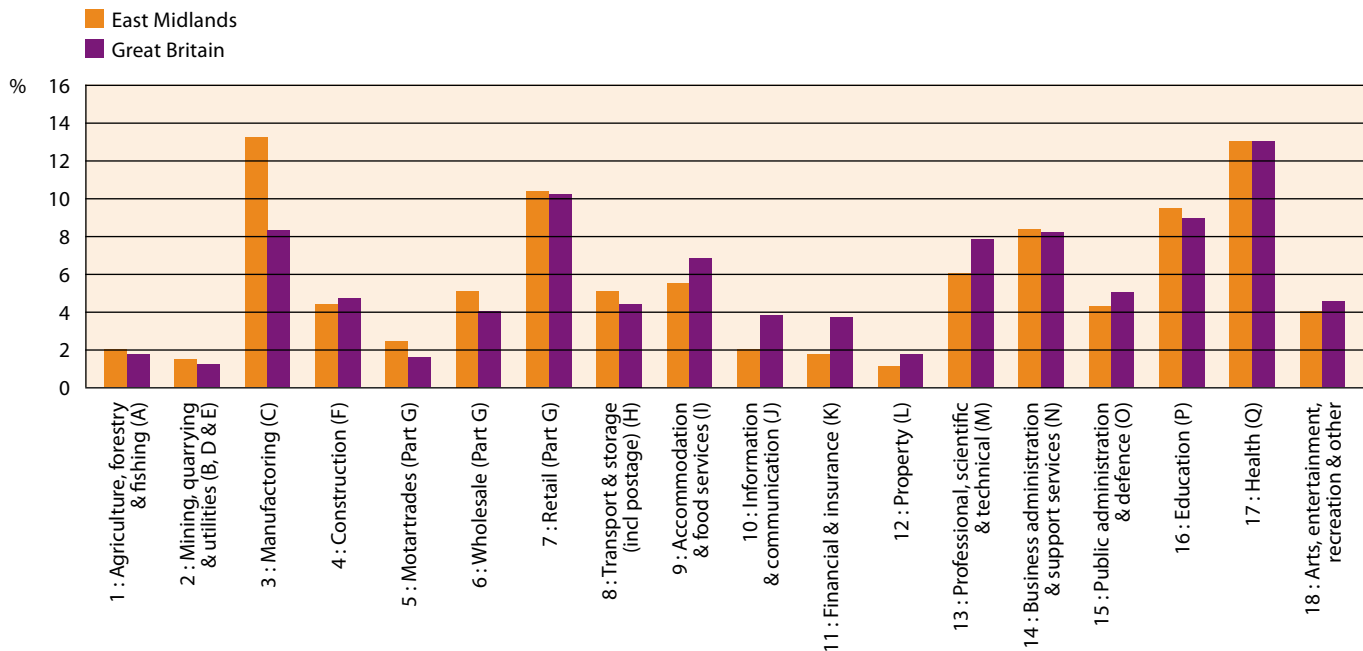
2.1.7 An assessment of sectoral structure is important to understand some of the reasons for the varying impacts of the recession across the areas covered in this report.

2.1.8 Chart 2 shows the share of total workplace-based employment in the East Midlands region compared to the UK average in each of the broad Standard Industrial Classification (SIC) groups. This shows the very significant regional over-representation in Manufacturing (explored in more detail in Chart 8, Section 3 of this report), a sector that was heavily affected in the initial period of recession in 2008-2009. Chart 2 also shows the relative regional importance of sectors related to retail, wholesale and distribution – which have been affected by the decline in demand from consumers, associated with the on-going squeeze on household incomes. Conversely, the chart also demonstrates the relative under-representation of sectors that have experienced a strong recovery in output and employment in the UK overall, particularly business and professional services (including financial services).

2.1.9 Table 2 in the Statistical Annex illustrates how the sectoral structure of employment varies across the 11 LEP areas included in this study. This shows the relative importance of the Construction sector to a range of LEP areas. Employment in Construction is comparatively over-represented in the D2N2, Greater Lincolnshire, Humber, New Anglia and Sheffield City Region LEP areas. Although this sector does not account for the largest share of employment in any of these areas, it is important strategically and often cited as a barometer of the wider health of local economies, given it is usually one of the first sectors to be affected by a decline in economic activity and business and consumer confidence. Employment and output in Construction fell significantly in the initial period of recession, and has only recently started to recover. In the East Midlands as a whole, the share of total employment in Construction fell from 5.6% in 2009 to 4.4% in 2012.

2.1.10 Construction is also an enabling sector for a range of other activities that may be prioritised within Investment Strategies (such as the improvement or expansion of business premises and transport infrastructure networks), and also relates to opportunities in the development and adoption of low carbon technologies and climate change adaptation. Associated with the good transport links across the East Midlands, Transport and Storage (i.e. distribution) is also highly over-represented in some LEP areas – notably Northamptonshire Enterprise, where it accounts for 8.4% of workplace-based employment compared to 4.5% in Great Britain overall.

Chart 2: Employment by Broad SIC, 2012



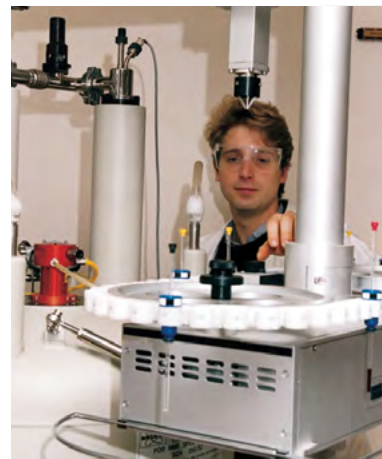
Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2012'. From NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

2.2 Employment

2.2.1 Alongside the depth of contraction and relative weakness of recovery in output, the other key feature of the recent recession has been the comparative stability of the UK labour market. Overall employment has fallen, and unemployment has risen, by far less than in previous recessions.

2.2.2 However, it is important to note that national unemployment remains well above its pre-recession

level. According to the latest Labour Force Survey estimates, 2.47 million adults are unemployed across the UK. This is equivalent to 7.6% of the economically active population – which compares to around 5% prior to the recession. Of these, 1.3 million have been unemployed for over 6 months. These headline estimates also hide a number of other issues of concern, such as relatively high levels of youth unemployment (with 21% of 16 to 24 year olds defined as unemployed) and record levels of 'under-employment' – indicated by those in employment or self-employment who are working part-time because they have been unable to find full-time work.²



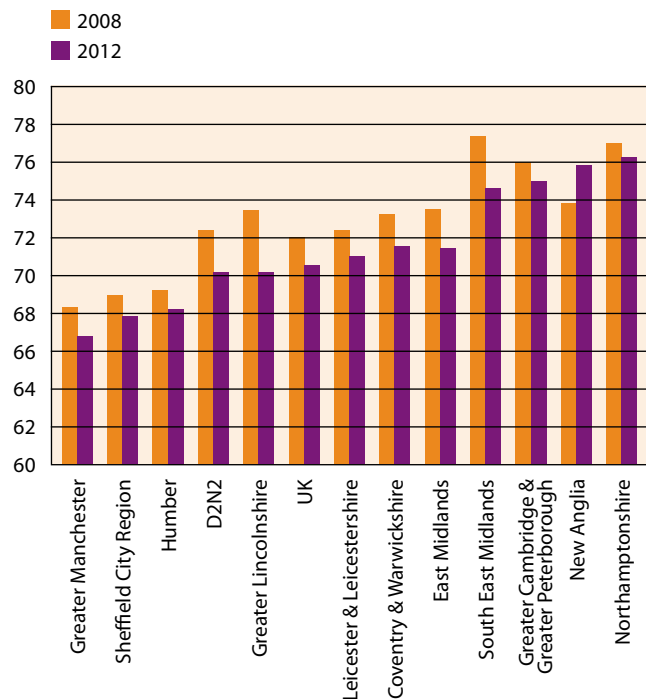
2.2.3 Headline labour market indicators for the East Midlands region as a whole have followed the national trend, with a slightly steeper fall in employment compared to the UK. This means that the East Midlands has gone from having higher than average rates of employment prior to the recession to being broadly in line with the national average according to the latest estimates.

2.2.4 Despite the relatively stable headline picture nationally and regionally, Labour Force Survey data suggests that sub-regional disparities have increased significantly. 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 3 shows the change in employment rates for the eleven LEP areas between 2008 and 2012, whilst Chart 4 shows the change in unemployment rates over the same period.³ 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 fell by a relatively small amount):

- Employment in D2N2 and Greater Lincolnshire fell by 2.2 and 2.9 percentage points respectively, in both cases going from above the UK average in 2008 to below it in 2012;
- Unemployment increased significantly in both these 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).

2.2.5 Conversely, a number of LEP areas to the south of the East Midlands experienced less significant falls in employment. In the Northamptonshire and the Greater Cambridge and Greater Peterborough LEP areas, employment rates fell by 0.8 and 1.1 percentage points respectively between 2009 and 2012, but remained significantly higher than both the East Midlands and the UK averages. The employment rate in the New Anglia

Chart 3: 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].

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

2.2.6 The outcome of these differing local experiences is clearly illustrated in Chart 4, illustrating the widening disparities between sub-regions.

2.2.7 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, reaching a rate of 10.7%, whilst Northamptonshire remained relatively stable, with one of the smallest changes over the period and the lowest rate in 2012 of 5.6%.

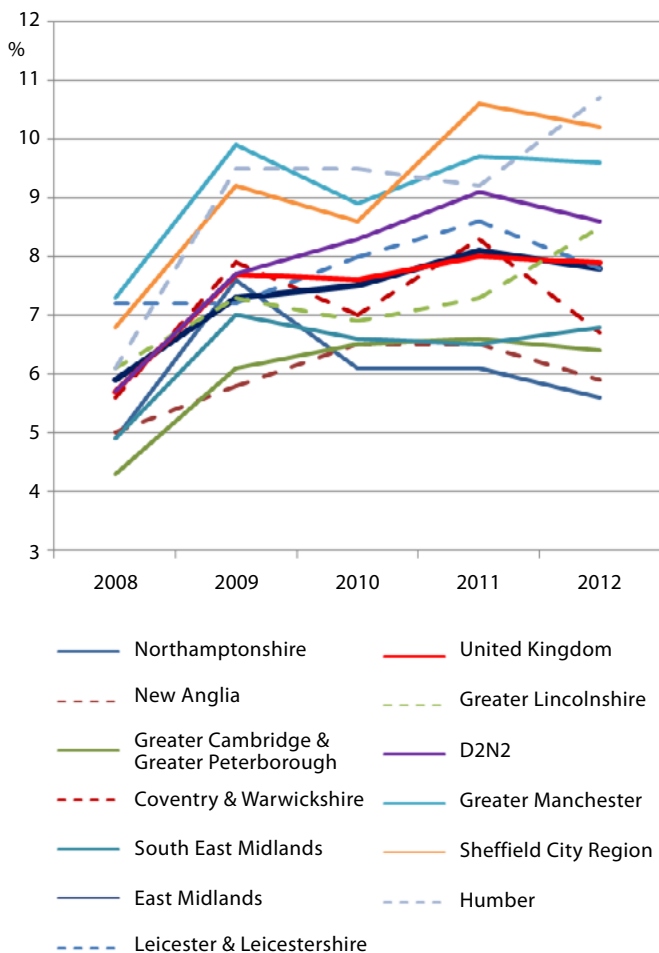
³ See Tables 3 and 4 in the Statistical Annex for full LEP figures.

2.2.8 By 2012 therefore, there was a far clearer north-south divide in labour market performance than in 2008. This is also clear in Table 4 (in the Statistical Annex), where LEPs are ranked by unemployment rates (lowest to highest). This shows that most of the LEPs that experienced the greatest increase in unemployment rates between 2008 and 2012 were also those that had the highest unemployment rates in 2008 - i.e. it was those areas that had the most vulnerable labour markets prior to the recession that went on to experience the greatest negative impacts. Map A2 in the Statistical Annex shows these disparities in more detail, clearly indicating the significantly higher unemployment in areas to the north of the East Midlands (particularly Sheffield City Region,

most of Greater Manchester, and the former coalfield areas in D2N2) as well as the eastern coastal stretch from the Humber, the Lincolnshire coast, and into New Anglia, and the main urban centres (Hull, Sheffield and Rotherham, Nottingham, Derby, Lincoln, Coventry and Leicester).

2.2.9 This suggests some common challenges and opportunities for collaborative action for the Humber, Greater Manchester, Greater Lincolnshire, D2N2 and Sheffield City Region LEPs, 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, along with the ongoing legacies of 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 within 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.

Chart 4: Unemployment Rate (% economically active residents aged 16+), 2008- 2012



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 on the current state of the wider business environment is mixed, with some signs of improvement alongside evidence of persistent barriers and challenges. For example:

- Regional and national surveys suggest that export activity has increased significantly, in both the production and service sectors, business confidence is improving, and that this is translating into increased recruitment activity;

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

- The Derbyshire and Nottinghamshire Chambers of Commerce 'Quarterly Economic Survey' (Quarter 3, 2013) reports that local firms have experienced significant improvements in sales (both UK sales and exports) and cash flow for the last two quarters;
- However, in almost every quarter in the five years since the onset of recession, earnings growth in the UK overall has been significantly lower than the rate of inflation. The latest estimate of total earnings growth was 0.7% between July-September 2012 and July-September 2013, compared to a rate of inflation for October of 2.2% (on the CPI – although this has fallen from 2.7% in September). This prolonged squeeze on household incomes presents a significant threat to recovery, particularly in terms of consumer spending;
- Many smaller firms may have substituted relatively cheap labour (retaining staff on frozen or lower wages) for investment, resulting in a loss of productivity – both for the individual firms and for the UK economy in aggregate;⁴
- Lenders interviewed for the latest Bank of England's Agents' Report stated that the demand for credit from businesses remained low – with many businesses concerned not to take on additional risk and to rebuild their cash reserves; and
- However, businesses reported that, when they did need loans - for either working capital or to finance growth - lenders remained overly risk averse and could be unwilling to provide credit.⁵

2.3.3 To reflect trends in entrepreneurship through the period following the onset of recession, Chart 5 shows business birth and death rates for the eleven LEP areas within or neighbouring the East Midlands.⁶

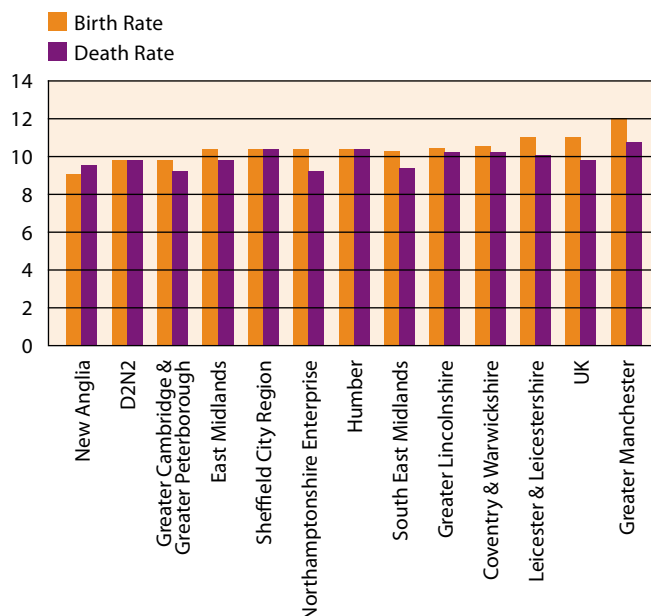
2.3.4 With the exception of Greater Manchester, all LEPs in the study area have a lower business birth rate (new registrations for VAT and/or PAYE as a % of the total end-of-year business stock) than the UK average.

2.3.5 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 Cambridge and Greater Peterborough, New Anglia and

D2N2, the coastal districts of Greater Lincolnshire and the East Riding of Yorkshire in the Humber LEP, as shown in Map A1 in the Statistical Annex. Well-connected areas in Leicester and Leicestershire, the South East Midlands and Northamptonshire, and areas in the south of D2N2 and Greater Lincolnshire, had the highest birth-rates – particularly along the main transport networks (the A1, M1 and the Midland Mainline) and/or areas proximate to large urban areas.

2.3.6 The business 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 decrease in the stock over the period. In the East Midlands overall, the business birth-rate increased from 9.4% to 10.3%, as the number of business births increased from 14,860 to 16,055 but also as 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 5: 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'

⁴ 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

⁵ Bank of England, September 2013. 'Agents' Report'. URL: <http://www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx>

⁶ See Table 5 in the Statistical Annex for full LEP figures.

2.3.7 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 rate decreased. The proportion of businesses ‘born’ in 2009 that were still trading 2011 fell to 75.1% in the East Midlands and 73.8% in the UK; and
- Leicester and 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.

2.3.8 Increasing business start-up and survival rates are not the only objectives that local Investment Strategies should include for interventions aimed at the SME environment.

2.3.9 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’ (defined as an average employment growth of 20% per annum over a 3 year period). Research suggests that although firms that are experiencing such growth only account 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 2008.⁷

2.3.10 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.

2.3.11 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 business base more widely.

2.4 Innovation

2.4.1 Innovation is strongly emphasised in the European Commission’s Cohesion Strategy for 2014-2020, underpinning the objective for nations and regions to achieve a sustainable, innovation-led recovery.

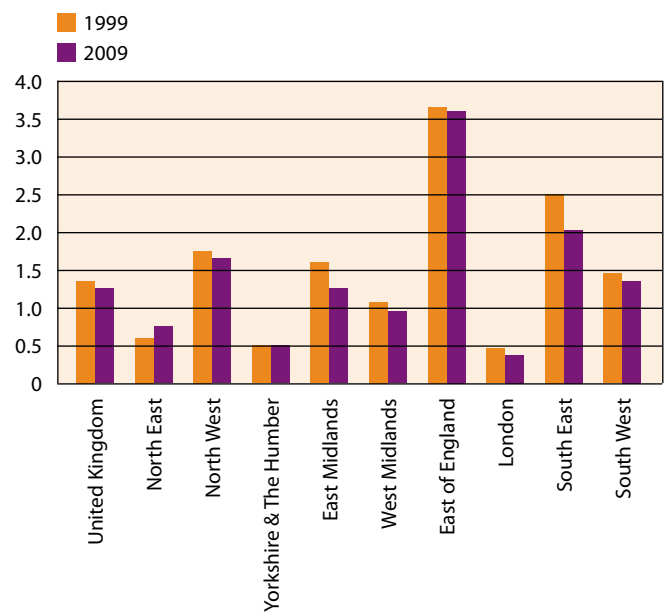
2.4.2 Of direct relevance to local Investment Strategies, is the cross-cutting policy of ‘smart specialisation’, where local areas are encouraged to identify unique clusters or



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.

- 2.4.3 From published data on innovation inputs and outputs, and employment within the sectors 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 and Leicestershire (and also in Coventry and Warwickshire to the west of the East Midlands, and the motorsports sub-sector in Northamptonshire). 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, 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). These sectoral linkages between areas are illustrated in Map 5 in section 3.
- 2.4.4 Chart 6 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 and the 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 relative advantages in R&D intensive manufacturing can be relatively easily lost – given the costs and risks inherent in investment in innovation.

Chart 6: 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'.

- 2.4.5 The Manufacturing sector as a whole is strongly represented in the East Midlands, and in most of its constituent and neighbouring LEPs. Table 6 in the Statistical Annex shows that, in 2012, the East Midlands had the highest proportion of workplace employment in manufacturing of the nine English regions, and that this proportion had increased slightly since 2009 – suggesting a recovery in manufacturing jobs since the onset of recession. Table 7 shows that a number of LEPs have particularly high concentrations of manufacturing employment, including the Humber (15.6%), Greater Lincolnshire (14.4%), Leicester and Leicestershire (14.1%) and D2N2 (13.8%).
- 2.4.6 Chart 7 and Map 3 illustrate an employment based measure of innovation – 'employment in High and Medium-High Technology Industries' – a sub-set of the wider Manufacturing sector⁸, based on activities that are associated with the use of advanced technologies and are likely to be associated with high levels of R&D investment.⁹ Chart 7 shows that the East Midlands (4.2%) and all but two of the eleven LEP areas in this study have

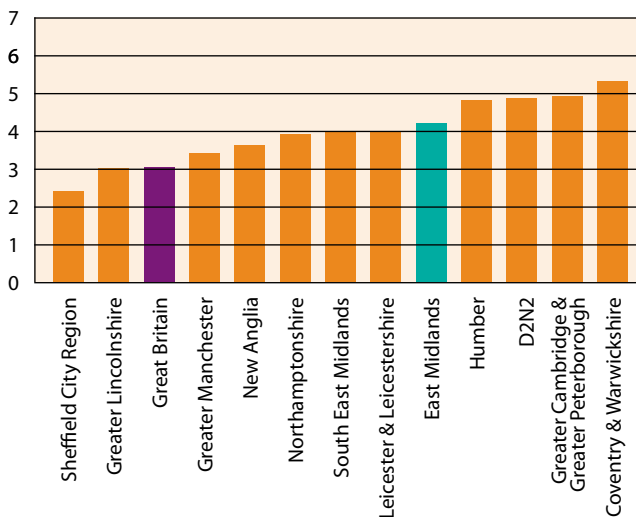
⁸ This definitions encompasses the following manufacturing activities: chemicals; pharmaceuticals; computers, electronic and optical products; electrical equipment; motor vehicles; repair and installation of machinery and equipment; rail; aerospace; military equipment and vehicles; and manufacturing of vehicles, machinery and equipment not elsewhere classified (which includes turbines, generators, cooling equipment and air conditioning, etc.).

⁹ See Table 8 in the Statistical Annex for full LEP figures.

a proportion of workers employed in these sectors that exceeds the national average (3.1%), with employment in the D2N2, Humber, Greater Cambridge and Greater Peterborough and Coventry and Warwickshire LEP areas particularly high (at 4.8%, 4.8%, 4.9% and 5.3% respectively).

2.4.9 It is important to note, however, that the definition of 'high and medium-high technology industries' used here (based on innovation activity by sector observed across the UK) does not include some sectors in the East Midlands which are known to engage in highly innovative and specialised activity. For example, both leading international companies and niche SMEs in food and drink manufacturing, in Greater Lincolnshire, D2N2, Leicester & Leicestershire and Northamptonshire Enterprise, invest significantly in product and process R&D, and collaborate with specialist centres in a number of regional universities.¹⁰

Chart 7: Employment in High and Medium-High Technology Industries (% work-based employment), 2012

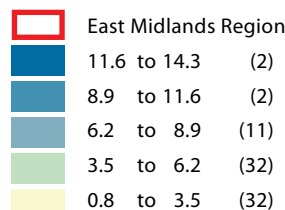
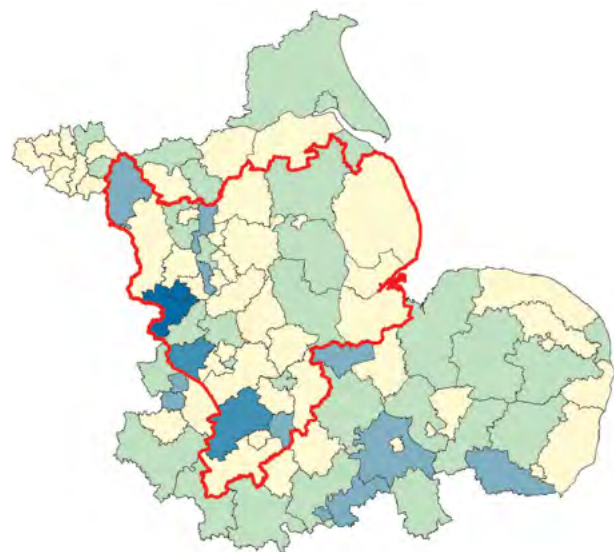


Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2012.' Data accessed from NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

2.4.7 However, Map 3 shows just how spatially concentrated this employment is – with the largest proportions clearly concentrated in South Derbyshire and Derby, northern Leicestershire (particularly Charnwood and North West Leicestershire) and neighbouring districts in Coventry and Warwickshire, and also Daventry in Northamptonshire.

2.4.8 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 EC's 'smart specialisation' agenda.

Map 3: Employment in High and Medium-High Technology Industries (% work-based employment), 2012



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Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2012.' Data accessed from NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

¹⁰ Rose Regeneration and CMI International, on behalf of the Greater Lincolnshire LEP, 2012. 'Opportunities for Innovation within the Greater Lincolnshire Traditional Industries'; and University of Lincoln and ADAS, on behalf of the Greater Lincolnshire LEP, 2012. 'Opportunities for Greater Lincolnshire Supply Chains'.

2.5 Low Carbon

2.5.1 'Low Carbon' is prioritised in both the EU's 11 stated aims for the 2014-2020 funding programme (Thematic Objective 4) and the UK Government in their guidance for local Investment Strategies. The Low Carbon Thematic Objective places sustainability aims within the context of activities designed to support innovation and business growth. This is separate, but complementary, to Thematic Objectives 5 and 6, 'Climate Change' and 'Protecting the Environment and Promoting Resource Efficiency', in that it positions environmental objectives as supportive of the EU's wider sustainable, innovation-led growth agenda.

2.5.2 Therefore activities set out in local Investment Strategies to meet this Thematic Objective should emphasise the job and output-generating potential of low carbon, sustainable and energy efficient technologies, products, services and practices, and where local areas have particular strengths in these areas.

2.5.3 The target in the Europe 2020 strategy is to reduce greenhouse gas emissions by 20% on 1990 levels, increasing the share of total energy consumption from renewable sources, and increasing energy efficiency on behalf of both firms and households. The UK Government has developed its own targets for all of these areas, including the national objective of a 34% decrease in emissions compared to 1990 levels. The UK Government believes that investment designed to meet this target will also lead to job creation in the low carbon sector and supply chains (and increased demand for skills in sectors like Construction) alongside opportunities to link R&D with adoption, deployment and overall cost reduction. Projects and programmes could build on opportunities in domestic and commercial building retrofit, heat and cooling networks, transport design, community energy solutions, demand management and climate change adaptation.¹¹

2.5.4 There are several market failures and other challenges that, whilst affecting innovation more widely, act as particular barriers for the development and adoption of low carbon technologies and processes, which local Investment Strategies can seek to address, including:



- The availability of appropriate skills amongst the local workforce;
- Information failures, risk and uncertainty. These include: lack of information on the benefits of the adoption or development of low carbon technologies or processes to SMEs and potential investors; time-lags between up-front costs and future benefits; difficulties in accessing information on available support and local areas of excellence; and limited information on benefits amongst households or supply chain customers;
- Difficulties in accessing finance for investment in development, due to perceptions of risk on behalf of investors;
- Weaknesses in local infrastructure, including infrastructure for knowledge transfer; and
- Externalities (where some of the costs or benefits 'spill-over' to affect parties other than those involved in the original activity), which can disincentivize investment in all kinds of innovation (including in low carbon technologies), as the party making the original investment may not be able to recoup a sufficient share of the benefits. Local Investment Strategies could identify interventions that could either reduce the up-front costs to the business, or which could enable them to capture a larger share of the benefits.

2.5.5 The Department for Business, Innovation and Skills commission annual studies of businesses engaged in the provision of products and services (including consultancy and training) related to the Low Carbon

¹¹ HM Government, 2013. 'Technical Annex: Preliminary guidance to Local Enterprise Partnerships on development of Structural & Investment Fund Strategies.' BIS: London.

agenda, providing regional estimates of the value of sales and the numbers employed in the 'Low Carbon and Environmental Goods and Services' (LCEGS) sector. This analysis demonstrates the diversity of the low carbon economy and differing strengths across regions:

- LCEGS activities account for a relatively small share of employment across the nine English regions, at between 3 and 4% of total workplace-based employment in 2011;
- In the East Midlands, LCEGS sectors account for 3.1% of total employment, compared to 3.3% in England overall.¹² This is equivalent to approximately 62,500 jobs in the East Midlands. It is important to emphasise that, despite the relatively small number of individuals directly engaged in these activities, they represent cross-cutting technologies, processes and practices that can have wide applications across the economy – indirectly affecting many more individuals and businesses;
- Of the LCEGS sub-sectors identified in the BIS analysis, the East Midlands is over-represented in terms of 'Renewable Energy', which accounts for 34% of total LCEGS employment, compared to 29% in England. Within the Renewable Energy sub-sector, the East Midlands has particular strengths in wind energy; and
- The 'Low Carbon' sub-sector accounts for the largest share of total LCEGS employment in both the East Midlands and England overall (49% and 50% respectively). Within this sub-sector, the East Midlands is comparatively over-represented in Alternative Fuels and Building Technologies – associated with wider regional strengths in Advanced Manufacturing (especially automotive, rail and aerospace) and Construction. A detailed breakdown of regional employment by LCEGS sub-sector is provided in Table 13 and Chart A1 in the Statistical Annex.¹³

2.5.6 Statistical evidence on LCEGS activity at a sub-regional level is very limited. The largest relevant sub-sector identifiable at local level in the Business Register and Employment Survey (BRES) is power-generation, in which there are concentrations of employment in the D2N2 and Leicester and Leicestershire LEPs, notably in Leicester

City, Blaby, and Ashfield and Bassetlaw. Assets include the two co-firing stations of Cottam and West Burton near Retford, the nationally important coal-fired site at Ratcliffe-on-Soar, and the E-ON offices in Nottingham and EDF energy offices in Retford, all in the D2N2 LEP area.

2.5.7 Within manufacturing, there are also concentrations of activity in the production of equipment for power generation (turbines, cooling systems, etc.) as noted in section 2.4. A number of significant manufacturers in the D2N2 area, and in Coventry and Warwickshire, are international leaders in low carbon technologies, including Toyota and Rolls Royce in the development of low carbon vehicles and fuels. Rolls Royce is active in R&D in technologies to reduce aviation emissions and in the production of components for the civil nuclear industry. A number of universities (Derby, Nottingham, NTU and Loughborough) have interests in low carbon technologies, whilst the British Geological Survey (BGS), in Keyworth (D2N2) is a globally recognised research centre.

2.5.8 These represent key opportunities for collaborative activity between LEPs, building on existing areas of cross-border activity. For example, the Energy Technologies Institute (ETI) is an East Midlands/West Midlands collaboration between Nottingham, Birmingham and Loughborough Universities.¹⁴

2.6 Skills

2.6.1 As discussed in sections 2.3 and 2.4 on SME Competitiveness and Innovation, 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.¹⁵ Skills are an important prerequisite 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.

¹² See Table 12 in the Statistical Annex for figures for the nine English regions.

¹³ K Matrix, on behalf of BIS, 2012. 'Low Carbon Environmental Goods and Services: Report for 2010/11'. BIS: London.

¹⁴ Pro Enviro, on behalf of emda, 'Energy Technologies in the East Midlands', 2011. EMDA: Nottingham.

¹⁵ 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.

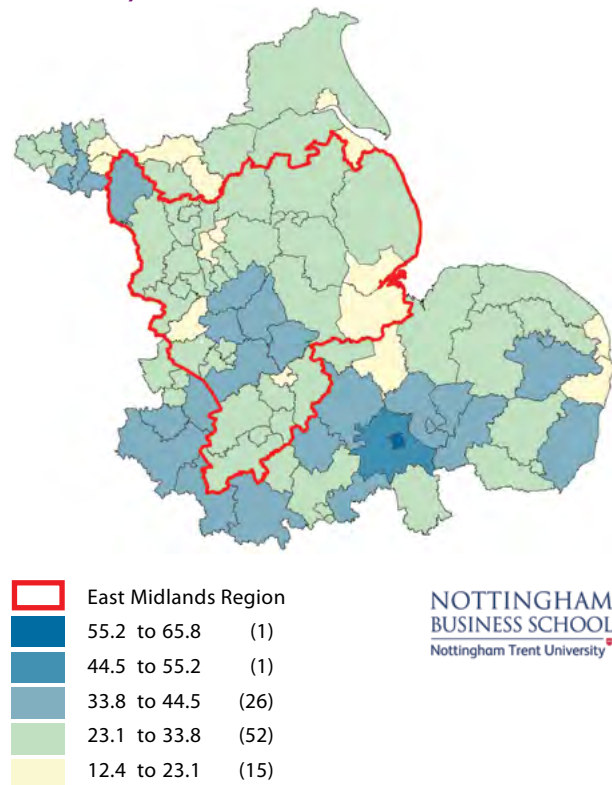
2.6.2 However, the East Midlands region, and many of the LEP areas included within it, exhibit characteristics indicative of a 'low pay, low skill equilibrium'. This describes a situation in which a lower demand for skills from many employers, due to the nature of the products or services they produce and their positioning within their markets (i.e. their 'product market strategy'), is accompanied by a lower level of skills amongst the local 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.

2.6.3 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).¹⁶

2.6.4 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, 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.

2.6.5 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 4: Higher level qualifications (% working-age residents with qualifications at Level 4+)



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

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2.6.6 Table 10 in the Statistical Annex indicates that a number of LEPs within the East Midlands have distinct strengths in higher-intermediate skills (indicated by qualifications equivalent to an NVQ Level 3 – such as an Advanced Apprenticeship), associated with 'technician' jobs in Manufacturing, Construction and the Services (e.g. laboratory technicians, electrical and electronic technicians, IT support officers, paramedics, dispensing opticians, pharmaceutical, medical and dental technicians, youth and community workers, etc.). In Greater Lincolnshire and Leicester and Leicestershire, 22.1% and 21.1% of adults were qualified to a Level 3 respectively, compared to a national average of 18.9% in 2012.

¹⁶ See Table 9 in the Statistical Annex for full LEP figures.

2.6.7 This local over-representation of intermediate qualifications at Level 3 is consistent with the structure of employment by occupation, which suggests a stronger than average requirement for intermediate ‘technician’ skills in some LEP areas. The structure of employment by occupational group (SOC 2010) is presented in Table 11 in the Statistical Annex.¹⁷ Greater Lincolnshire has a higher than average proportion of residents working in the Skilled Trades (12.4% compared to 10.6% in the UK), whilst Leicester and Leicestershire has a higher proportion than the UK in the Skilled Trades (11.7%) and a higher proportion than the East Midlands average working in Associate Professional and Technical Occupations (13.7%). However, Table 11 also shows the lower than average demand for higher level skills (equivalent to Level 4+) across many of the LEPs within the East Midlands, with the Northamptonshire Enterprise and Greater Lincolnshire LEP areas having particularly low proportions of residents working as Managers or Professionals.

2.7 Deprivation and Inclusion

2.7.1 Alongside Thematic Objective 10, ‘Investing in education, skills and lifelong learning’, which emphasises action in education and skills to improve the performance of an area’s business base, the EC have set out two additional and related priorities around social inclusion and access to employment: Thematic Objectives 8 and 9, ‘Promoting employment and supporting labour mobility’ and ‘Promoting social inclusion and combating poverty’. In the UK, Thematic Objectives 8, 9 and 10 should collectively cover between 60 and 80% of the ESF allocation per programme depending on the status of the region where the investment is delivered (Less Developed, Transition or More Developed). ERDF allocations can also count towards the total delivered under Objective 9 ‘social inclusion’.

2.7.2 The East Midlands is one of the less deprived areas in England, with 6% of Lower Super Output Areas (LSOAs) ranked in the 10% most deprived nationally¹⁸, according to the 2010 Indices of Deprivation (ID 2010). This compares to 17% in Yorkshire and the Humber and 28% in the North West. However, there are significant local

concentrations of deprivation – especially in the main urban centres in all LEP areas, the former coalfields in the north of D2N2, and along the Lincolnshire coast.¹⁹

2.7.3 Some elements of these challenges have already been discussed in the assessment of unemployment (see Chart 4 and Map A2) and variations in skills (Map 4), but the ID 2010 includes a wider range of factors. Some of these are related to labour market conditions, whilst others relate to more deep-seated historic, social and physical characteristics (which in turn affect labour market participation). The ID 2010 compares LSOAs on a combination of factors relevant to economic inclusion such as: crime; poor health; housing quality; access to services; low skills and educational attainment and participation; and measures of employment and income. This identifies other common challenges for LEPs in addition to those targeted in projects and programmes that may be aimed at job generation and skills development.

2.7.4 Map A3 in the Statistical Annex shows LSOAs in the East Midlands by rank of overall deprivation. LSOAs in Mansfield, Nottingham, Leicester, Lincoln, Bassetlaw, Corby and West Lindsey are amongst the most deprived in the region. When compared to Map A2, which shows unemployment rates at a district level, Map A3 shows the local concentration of deprivation in far greater detail. This is particularly evident along the Lincolnshire coast, where relative deprivation on this wider measure contrasts with other areas more starkly than through an analysis of unemployment rates alone. This indicates that areas along the Lincolnshire coast are relatively deprived in a number of other areas, such as access to services, health, and educational attainment, and investment aimed at increasing participation in the labour market needs to be combined with interventions addressing these other issues.

¹⁷ The Standard Occupational Classification (SOC, 2010) is derived from Labour Force Survey responses on the activities that individuals do in their jobs based on skills specialisation (the types of skill used) and skill level. These correspond closely to the NVQ-equivalent levels of qualification supplied in the workforce, although an individual in a given occupation does not necessarily need to hold a formal qualification at the level suggested (e.g. owner-managers of SMEs may not necessarily have a degree-level qualification, although their job is likely to require an equivalent level of skill).

¹⁸ Out of a total of 32,482 LSOAs in England. There are 533 in the East Midlands region.

¹⁹ Communities and Local Government, 2011. ‘The English Indices of Deprivation 2010 – Neighbourhoods Statistical Release.’ HM Government: London.

2.8 Summary of Common Challenges & Opportunities

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
<p>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.</p> <p>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).</p>	<p>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.</p> <p>D2N2, Leicester & Leicestershire, Northamptonshire and Greater Lincolnshire: The development and manufacture of power generation equipment links to key sources of demand for these technologies, especially in D2N2 (Radcliffe-on-Soar, Burton and West Cottam power plants).</p> <p>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.</p>	<p>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).</p> <p>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).</p> <p>For all LEPs: Common issues contributing to worklessness of key groups – such as young people – particularly low skills.</p> <p>Greater Lincolnshire and Greater Cambridge and Greater Peterborough: Common challenges around coastal concentration of low skills and deprivation.</p> <p>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).</p>

3: Investment Case

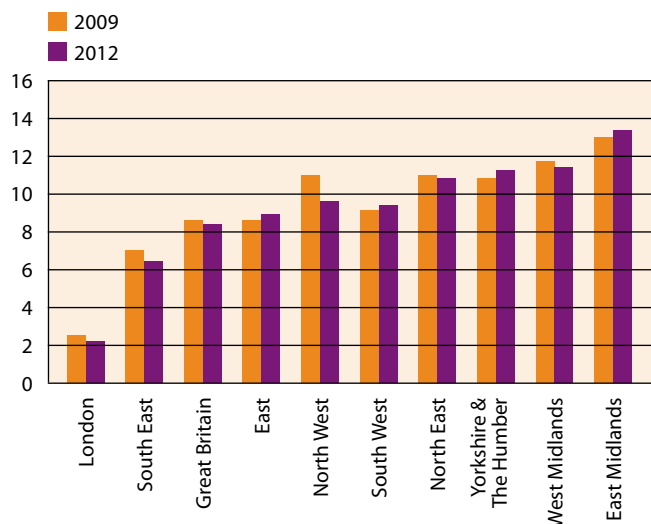
This section sets out a strategic economic case for investment in local economies across the East Midlands to deliver against EU and UK Government growth objectives, and highlights some key potential interventions that could overcome market failures and boost growth based on feedback from the six consultation 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 has the highest proportion of manufacturing employment in England and, as Chart 8 shows, this has increased slightly between 2009 and 2012 – indicating a recovery in manufacturing jobs since the onset of recession. In 2012, manufacturing accounted for 13.4% of total employment in workplaces within the East Midlands – equivalent to over 260,000 jobs. This compares to 8.4% of employment in manufacturing in Great Britain overall. The proportions of total employment in manufacturing for each English region are presented in Table 5 and for the eleven LEPs covered in this study in Table 6 of the Statistical Annex.
- 3.1.3 Manufacturing gross value added (GVA) in the East Midlands was £13.2 billion²⁰ – 16% of output, also a higher proportion than in any other region in England.



Chart 8: Manufacturing as a proportion of work-place based Employment (2012)



Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2009 and 2012'. From NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

- 3.1.4 In addition, several sectors are significantly more productive compared to the UK national average, giving the East Midlands a competitive advantage: transport equipment manufacturing, food and drink manufacturing, and construction²¹. 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.
- 3.1.5 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 2007-11²². The proportion

²⁰ Regional, Sub-Regional and Local Gross Value Added, ONS, December 2012

²¹ Making the most of housing and growth in the East Midlands, Smith Institute, September 2012

²² Regional Trade Statistics (RTS) datasets www.uktradeinfo.com

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

- 3.1.6 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

- 3.1.7 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 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

- 3.1.8 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.
- 3.1.9 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 as 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 £750,000²³. 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 this analysis, maximising broadband access across the East Midlands could boost GVA by up to 3.8% or £2.4 billion.²⁴ 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.

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 ONS²⁵ 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

²⁵ Household Energy Consumption in England & Wales, 2005-11, ONS 2013

also encourage uptake of 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 renewable energy technology installation could form the basis of a possible ESF project and link to the DWP Work Programme.

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 than '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 projects 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 map 5) - 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

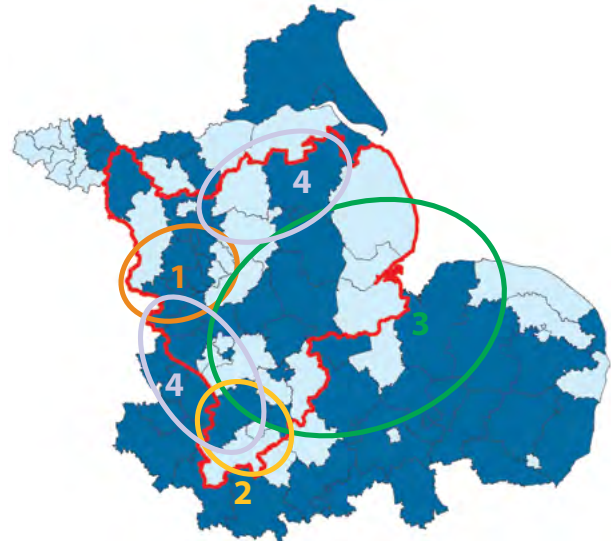
south (where F1 champions Red Bull are based) and into Warwickshire in the west. There are opportunities for collaborative approaches between LEPs that will help to maintain and develop this specialised and highly competitive sector.

- **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.

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 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.

Map 5: Opportunities for Collaborative Activity



Employment in high and medium-high technology industry (%)
Above / below national average

	East Midlands Region
	0.8 to 3.1 (36)
	3.1 to 15.0 (59)

1	Transport Equipment (Automotive, Rail & Aerospace)
2	High Performance Automotive/ Motorsports
3	Food Technology
4	Energy Generation & Supply

NOTTINGHAM BUSINESS SCHOOL
Nottingham Trent University

Contains Ordnance Survey data © Crown copyright and database right, 2013.

Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2012'. From NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

- **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.

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. There is potential for several LEPs to share expertise through the establishment of a 'Joint European Team'. 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 all 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.

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.

4.3 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

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>

- **Community-led Local Development (CLLD).** The NCVO has also published advice on applying the principles of community-led local development in both urban and rural areas. For further information visit: <http://europeanfundingnetwork.eu/policy/cohesion-policy-2014-2020/CLLDfinal.pdf>
- **Sustainable Development.** There are a range of resources, toolkits 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>



5: Statistical Annex

Tables of key statistics by LEP area.

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 3: 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 and 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 2: Employment by Industry Sector (SIC 2007 Broad Industry Groups)
(% total employment), 2012**

18: Arts, entertainment, recreation & other services (R,S,T & U)	4.1	4.2	4.1	3.6	3.8	3.8	3.7	4.3	4.2	4.6	4.2	4.8	4.5
17: Health (Q)	13.1	11.7	14.3	11.3	14.6	13.7	15.2	11.9	13.1	11.3	16.6	10.9	13.1
16: Education (P)	9.6	11.3	10.2	10.3	9.6	9.1	9.4	9.6	8.7	8.1	11.3	8.9	9.1
15: Public admin & defence (O)	4.3	3.8	4.9	3.9	3.6	4.6	6.4	4.3	4.5	3.5	5.2	4.6	4.8
14: Business admin & support services (N)	8.3	8.1	8.8	9.4	7.8	9.4	6.8	8.0	8.3	8.8	6.3	9.2	8.1
13: Professional, scientific & technical (M)	6.0	7.0	5.5	8.4	4.3	8.4	4.4	7.7	5.8	6.8	5.0	7.8	7.7
12: Property (L)	1.1	1.7	1.2	1.7	1.1	2.2	1.0	1.1	1.5	1.0	1.0	1.5	1.8
11: Financial & insurance (K)	1.8	3.1	1.5	2.3	1.1	4.0	1.0	2.0	3.3	3.0	2.3	2.8	3.8
10: Information & communication (J)	1.9	3.7	2.4	3.9	1.2	3.2	1.7	1.7	2.2	1.7	2.7	3.3	3.8
9: Accommodation & food services (I)	5.6	6.8	5.7	6.6	6.5	6.2	5.5	5.2	7.8	5.1	5.1	5.4	6.8
8: Transport & storage (inc postal) (H)	5.1	6.2	3.9	4.9	5.6	4.8	6.0	6.4	5.2	8.4	4.8	6.7	4.5
7: Retail (Part G)	10.3	9.2	10.9	9.9	11.7	10.2	10.8	9.5	11.3	9.1	10.7	9.8	10.2
6: Wholesale (Part G)	5.2	5.1	4.3	4.4	4.8	4.8	3.6	5.5	3.9	7.7	4.0	6.1	4.0
5: Motor trades (Part G)	2.3	2.9	2.2	2.2	2.6	1.6	2.0	2.1	2.3	2.6	2.1	2.8	1.8
4: Construction (F)	4.4	4.2	4.8	4.5	5.2	4.6	5.4	4.1	5.5	4.1	5.0	4.5	4.6
3: Manufacturing (C)	13.4	9.7	13.8	11.3	14.4	8.2	15.6	14.1	10.6	13.1	12	10.1	8.4
1 & 2: Agriculture & Mining, quarrying & utilities (A, B, D, & E)	3.5	1.5	1.6	1.3	2.0	1.2	1.5	2.4	1.7	1.0	1.5	0.9	3.0
LEP Area	East Midlands	Coventry & Warwickshire	D2N2	Greater Cambridge & Greater Peterborough	Greater Lincolnshire	Greater Manchester	Humber	Leicester & Leicestershire	New Anglia	Northamptonshire	Sheffield City Region	South East Midlands	Great Britain

**Table 4: Unemployment Rates
(% economically active residents aged 16+), 2008 to 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 and 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 5: 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 6: Employment in Manufacturing by English region (% total workplace employment), 2009 and 2012

NUTS1 (GO) Region	2009	2012
London	2.7	2.5
South East	7.0	6.5
Great Britain	8.7	8.4
East	8.8	9.0
North West	10.9	9.5
South West	9.4	9.5
North East	11.0	10.8
Yorkshire and The Humber	11.0	11.4
West Midlands	11.8	11.5
East Midlands	13.1	13.4

Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2009 and 2012'. From NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

Table 7: Employment in Manufacturing by LEP area (% total workplace employment), 2009 and 2012

LEP Area	2009	2012
Greater Manchester	9.5	8.2
Great Britain	8.7	8.4
Coventry and Warwickshire	10.5	9.7
South East Midlands	9.9	10.1
New Anglia	10.5	10.6
Greater Cambridge and Greater Peterborough	11.0	11.3
Sheffield City Region	11.6	12.0
Northamptonshire	12.8	13.1
East Midlands	13.1	13.4
D2N2	13.7	13.8
Leicester and Leicestershire	13.6	14.1
Greater Lincolnshire	13.8	14.4
Humber	14.4	15.6

Source: ONS Crown Copyright, 2013. 'Business Register and Employment Survey, 2009 and 2012'. From NOMIS [accessed 5th November 2013] and analysed under Chancellor's Notice Ref: NTC/BRES12-P0220.

Table 8: Employment in High and Medium High Technology Manufacturing by LEP area, 2011 and 2012

LEP Area	Employment in High and Medium-High Technology Industries (%) 2011	Employment in High and Medium-High Technology Industries (%) 2012
Greater Manchester	3.2	2.4
Sheffield City Region	2.7	3.0
Great Britain	3.1	3.1
Greater Lincolnshire	3.1	3.4
New Anglia	3.4	3.6
Northamptonshire	3.7	3.9
South East Midlands	3.8	3.9
Leicester and Leicestershire	3.8	3.9
East Midlands	3.9	4.2
Humber	4.3	4.8
D2N2	4.4	4.8
Greater Cambridge and Greater Peterborough	4.8	4.9
Coventry and Warwickshire	5.2	5.3

Source: ONS Crown Copyright, 2012. 'Business Register and Employment Survey, 2011'. Data accessed from NOMIS [18th November, 2013] and analysed under Chancellor's Notice Ref NTC/BRES12-P0220.

Table 9: Higher level qualifications (% working-age residents with qualifications at 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	29.0
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 and Greater Peterborough	37.9

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

Table 10: Intermediate qualifications (% working-age residents with qualifications at Level 3, Level 2 and Below Level 2)

LEP Area	% with Level 3 (16-64)	% with Level 2 (16-64)	% below Level 2 (16-64)
Humber	20.1	21.9	32.4
Sheffield City Region	20.1	20.5	31.5
Greater Lincolnshire	22.1	21.5	31.3
Greater Manchester	19.3	18.8	30.9
Northamptonshire	19.8	21.9	30.8
Coventry and Warwickshire	18.9	18.3	30.7
Leicester and Leicestershire	21.1	19.1	30.3
East Midlands	21.0	20.0	30.0
D2N2	20.9	19.4	29.8
New Anglia	19.6	21.1	29.4
United Kingdom	18.9	18.6	28.3
South East Midlands	18.9	20.1	28.1
Greater Cambridge and Greater Peterborough	17.5	17.2	27.3

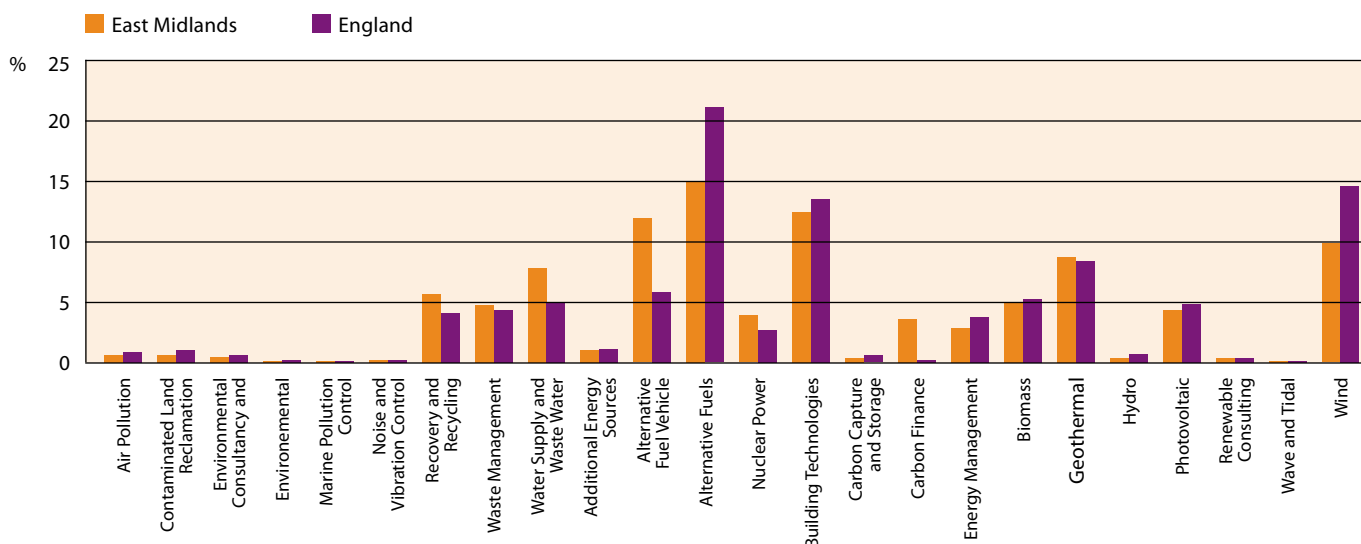
Source: ONS Crown Copyright, 2012. 'Annual Population Survey', January-December 2012. From NOMIS [accessed 13th September, 2013].

Table 11: Employment by Occupation (SOC2010) (% of all employed adults), 2012

LEP Area	1: Managers, directors and senior officials	2: Professional occupations	3: Associate prof & tech occupations	4: Admin and secretarial	5: Skilled trades	6: Caring, leisure and other service occupations	7: Sales and customer service occupations	8: Process, plant and machine operatives	9: Elementary occupations
Greater Manchester	8.5	18.6	13.6	11.6	9.3	9.2	9.8	7.3	11.3
Sheffield City Region	8.9	18.0	11.7	9.8	10.9	8.8	9.6	8.9	12.6
D2N2	9.5	17.1	13.0	10.4	11.1	9.6	7.8	8.7	12.5
New Anglia	9.6	17.0	13.8	10.5	12.5	8.8	8.5	7.2	11.7
Northamptonshire	9.6	15.3	14.6	11.8	9.9	10.9	6.8	7.8	13.2
Greater Lincolnshire	9.8	16.0	10.3	9.0	12.4	9.5	7.8	11.1	13.9
East Midlands	9.9	16.9	13.0	10.5	11.1	9.2	7.6	8.5	12.8
Humber	9.9	14.8	11.4	10.0	13.6	10.0	8.4	9.0	12.4
Coventry and Warwickshire	10.0	19.3	13.5	11.2	10.4	6.9	9.1	6.0	13.3
South East Midlands	10.0	18.4	14.3	11.8	10.7	9.0	7.7	6.9	10.8
United Kingdom	10.1	19.4	14.1	10.9	10.6	9.0	8.2	6.3	10.8
Leicester and Leicestershire	10.5	17.1	13.7	11.2	11.7	7.0	7.8	7.5	13.0
Greater Cambridge and Greater Peterborough	10.8	22.8	14.7	9.8	9.5	7.9	7.3	5.7	11.2

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

Chart A1: Employment in LCEGS Level 1 categories and Level 2 sub-categories (% of LCEGS total), 2011



Source: K Matrix, on behalf of BIS, 2012. 'Low Carbon Environmental Goods and Services: Report for 2010/11'. BIS: London.

Table 12: Number of Businesses and Employment in Low Carbon and Environmental Goods and Services (LCEGS) by English Region

Regions	Number of Businesses	Employment	Employment as a % of 2011 BRES total
East Midlands	3405	62512	3.1
East of England	4994	86885	3.5
London	9247	163841	3.7
North East	2033	38793	3.7
North West	5116	93909	3.0
South East	6585	119858	3.1
South West	4260	77721	3.2
West Midlands	4235	77311	3.2
Yorks & Humber	3743	67872	3.0
England	43618	788702	3.3

Source: K Matrix, on behalf of BIS, 2012. 'Low Carbon Environmental Goods and Services: Report for 2010/11'. BIS: London.

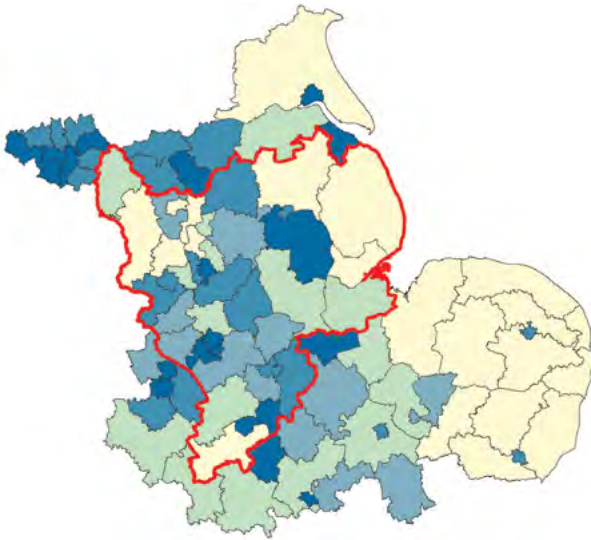
Table 13: Employment in LCEGS Level 1 categories and Level 2 sub-categories (% of LCEGS total), 2011







(Areas where East Midlands is significantly over-represented compared to England in orange font)

Level 1	Level 2	England	East Midlands
Environmental	Air Pollution	0.9	1.1
	Contaminated Land Reclamation & Remediation	0.9	1.2
	Environmental Consultancy & Related Services	0.8	1.0
	Environmental Monitoring, Instrumentation and Analysis	0.1	0.2
	Marine Pollution Control	0.1	0.1
	Noise & Vibration Control	0.2	0.2
	Recovery and Recycling	5.8	4.1
	Waste Management	4.8	4.3
	Water Supply and Waste Water Treatment	7.4	5.1
	Low Carbon	Additional Energy Sources	1.2
Alternative Fuel Vehicle		11.8	6.1
Alternative Fuels		15.2	21.3
Nuclear Power		3.8	2.7
Building Technologies		12.1	13.2
Carbon Capture & Storage		0.5	0.6
Carbon Finance		3.1	0.1
Energy Management		2.5	3.4
Renewable Energy	Biomass	4.9	5.3
	Geothermal	8.6	8.2
	Hydro	0.5	0.8
	Photovoltaic	4.3	4.9
	Renewable consulting	0.5	0.5
	Wave & Tidal	0.1	0.1
	Wind	9.9	14.4

Source: K Matrix, on behalf of BIS, 2012. 'Low Carbon Environmental Goods and Services: Report for 2010/11'. BIS: London.

Map A1: Business Birth Rates
(number of business births as a % of total stock of active enterprises), 2011



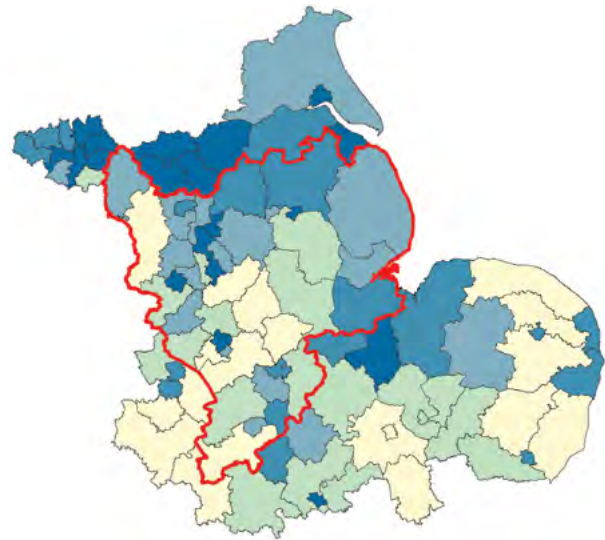
	East Midlands Region
	11.2 to 18.3 (20)
	10.1 to 11.2 (22)
	9.8 to 10.1 (14)
	9.2 to 9.8 (16)
	7.4 to 9.2 (23)







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

Map A2: Model-based Unemployment Rates
(% economically active residents aged 16+), 2012



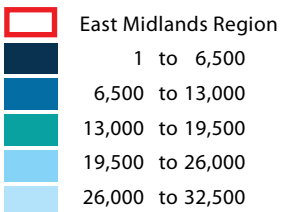
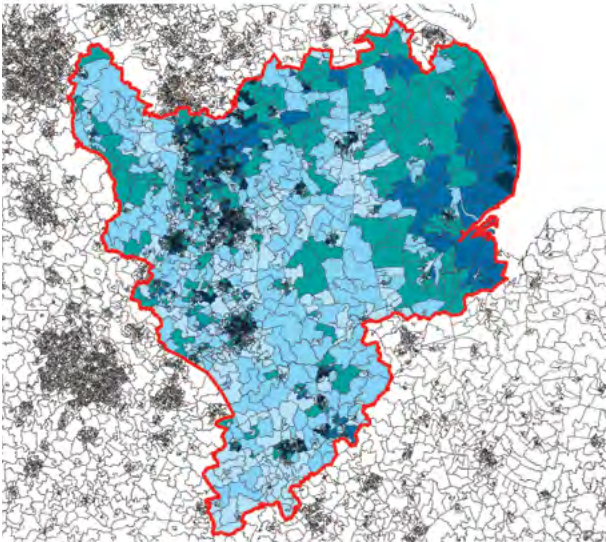
	East Midlands Region
	9.6 to 15.6 (19)
	7.7 to 9.6 (20)
	6.7 to 7.7 (17)
	5.2 to 6.7 (20)
	3.7 to 5.2 (19)

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Source: ONS Crown Copyright, 2012. 'Model-based estimates of unemployment', January-December 2012. From NOMIS [accessed 18th November, 2013].

Map A3: Indices of Deprivation, 2010



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Source: Communities and Local Government, 2011. 'The English Indices of Deprivation 2010 – Neighbourhoods Statistical Release.' HM Government: London.



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