

EU 2020 Consultation Response

Purpose of this paper

This paper is a joint response from the South East England Development Agency, Southern England Local Partners and Kent County Council to the 'EU 2020' consultation paper. The boxed sections set out the summary of key messages responding to the points being made by the consultation document itself.

The response draws on a range of existing analysis and policy relating to the South East of England.

For more information please contact:

Tiziana Boyland, Head of European Partnerships, E: TizianaBoyland@seeda.co.uk
T: +44 (0) 1483 470 132 F: +44 (0) 1483 484 292

1. Introduction

1.1 We welcome the Commission's proposals for a strategy to move the EU out of economic crisis and into a sustainable high-growth economy. The South East of England is an advanced knowledge-based economy with global ties. We welcome a European policy and funding framework that promotes the further growth of knowledge-based economies such as ours, whilst helping to address shared social and environmental challenges and to realise economic opportunities. We support the longer-term retention of a number of measures implemented under the European Economic Recovery Plan, particularly those relating to increasing the *de minimis* threshold for State aid, accelerated tendering procedures and radically simplified procedures, especially for EU funding programmes.

1.2 The South East of England, a region best described as a multi-functional and economically diverse peri-urban area at London's doorstep, is the most populous English region housing over 8 million people in some 3.5 million households (~420 inhabitants/km²). The region encompasses 19 county and unitary authorities and 55 districts, stretching in an arc around London, from Thanet in the south-east to the New Forest in the south-west and to Aylesbury Vale and Milton Keynes in the north-west. While it is without a single dominant urban centre, the region is home to two cities with populations of around 250,000 (Brighton & Hove and Medway) and five cities with populations of greater than 100,000.

1.3 The South East of England is one of the strongest regional economies in the United Kingdom with almost **300,000 VAT registered businesses** and an employment rate of around 77% (higher than the national average).

1.4 The region has a high-quality environment, and many people enjoy a high quality of life; both of these factors are a considerable attraction. However, despite this regional success there are **significant variations in socio-economic performance** within the region, and considerable pressures on services and infrastructure.

1.5 The region is marked by **significant contrasts** between those areas that are performing strongly in economic and social terms, and those that require some degree of regeneration. Intra-regional variations are a key characteristic of the region, which needs concerted action to address – maintaining strong performance, and raising performance of those areas with greater potential is essential. The South East could be regarded in some ways as a microcosm of the EU, in that the

disparities in performance between different parts of the region could be seen as mirroring the variations between Member States.

1.6 The South East of England is the second largest regional economy within the UK (after London) and has a higher concentration of knowledge intensive sectors and global corporate headquarters than any other region apart from London. This entails a range of employment and skills issues.

1.7 The South East of England has almost **3,000 VAT-registered 'cleantech' businesses** whose combined sales turnover was £11.16 bn or €12.6 bn in 2006, equalling 14% of the UK market and **0.5% of the global market for 'cleantech'**. By 2016, we anticipate that this turnover will grow to around £26.2bn or €29.5 bn. Another important sector in the South East is the space industry centred on the International Space Innovation Centre, co-located with the European Space Agency's (ESA) Research Centre at the Harwell Science and Innovation Campus. With a UK share of **7% in the global space market** the space industry contributes some £6.5bn or €7.5 bn a year to the UK economy. SEEDA is committed to stimulate global market opportunities which will enable measurement of the impacts of climate change, monitoring the impacts of mitigation and adaptation and facilitating solutions such as intelligent, integrated transport systems and assisted living, all of which are essential to addressing key challenges for Europe.

1.8 We believe that public sector intervention will only achieve a significant positive economic impact if it is based on an understanding of the challenges and strengths of the relevant economy, and focuses on key priority sectors and clusters. SEEDA has identified six priority sectors for support, building on the region's strengths and assets, with significant potential to create new jobs and drive the region's economy out of the recession:

- **Environmental Technologies and services**
- **Advanced Engineering and Marine**
- **Aerospace and Defence**
- **Life Sciences and Health Technology**
- **ICT and Digital Media**
- **Financial Services**

In 2007 these six priority sectors contributed £65.9bn or €18.3 bn – equalling 42% of the region's economy -, employing some 1.5m people (35% of the total regional workforce).

2. Contributors

2.1 The South East England Regional Development Agency (SEEDA) supports the economic development by working at a local, regional, national and international level to attract inward investment, to help businesses reach their full potential and to win practical support from a range of partners. SEEDA aims to be the top performing economic development agency that a global region could have. SEEDA achieves this through expert interventions, expert deal-making and expert advice. SEEDA provides South East businesses with the support they need to grow.

2.2 This response also includes contributions from Kent County Council and Southern England Local Partners (SELP). Kent County Council has over 20 years' experience of working in the European field, including the development and implementation of a wide range of EU programmes. Southern England Local Partners is the representative EU Affairs office in Brussels for many of the Local Authorities and Universities in the South East of England. We represent more than

20 democratically elected Local Authorities with a responsibility for service delivery in areas such as education, children's services, care services to vulnerable adults including the elderly, environment, economic development, transport etc and universities with in excess of 75,000 students.

3. Consultation Response

Summary of Key Messages

- **A business-led approach to science, innovation and technology interventions would ensure that EU 2020 responds quickly and effectively to the challenge of embedding innovation in the European Union**
- **An employer-led skills agenda which recognises higher level skills including those for entrepreneurship and innovation is key to an EU 2020 strategy**
- **Vertical and horizontal policy coherence and integration is necessary to realise the full potential of an EU 2020 strategy, especially when responding quickly to the challenges of creating a truly effective green economy.**
- **A balance between sector prioritisation and a spatial approach to economic development can enable national, regional and local players to make a positive impact and generate a lasting economic advantage**

3.1 Creating value by basing growth on knowledge – a business-led approach to science, innovation and technology interventions

3.1.1 After ten years of investment, SEEDA has built a **powerful innovation programme** which engages large numbers of businesses and makes a significant contribution to achieving the relevant regional economic targets. Activities range from increased business expenditure on Research and Development (R&D), to prioritising support for innovation which aims to reduce carbon emissions, increase the use of renewable energy and reduce water consumption. We work closely with businesses and understand their needs.

3.1.2 SEEDA has **invested heavily in innovation** since 2001 and identified a return on innovation investment of £2.1bn or €2.4 bn of GVA (achieved and future potential). In terms of GVA achieved innovation has generated a higher rate of return on public expenditure than that attained by any other RDA activity. SEEDA also encourages **broader support of an innovation culture** which we believe needs to include business support for start-up and growth, as well as the right access to finance, partnerships and networking, and the knowledge base. Innovation policy also needs to take into account the complexity of **spatial aspects** of innovation and how quickly and effectively innovation is absorbed and dispersed into the regional economy. Successful regions need to be 'Innovation Leaders' and 'Innovation Absorbers' at the same time.

3.1.3 In responding quickly to the recession, EU 2020 should **put businesses at the heart of an open innovation process** – a process which encourages and enables companies to use and exploit external and internal knowledge to find new paths to market, and ensures that new technologies and innovations are transferred easily into and out of businesses. Businesses should be the drivers, customers and

consumers, beneficiaries and champions of innovation. We need a strategy for sustained economic growth and job creation which goes beyond research and intellectual property rights. The right level of importance needs to be given in this EU 2020 Strategy to the balance between economic growth - building on absorptive capacity and investment in the research base -, as well as private and public sector leadership – at national, regional and local levels - in encouraging others to be more innovative. This should complement existing efforts at a European level to support the SME agenda, optimise the Internal Market and develop financial services.

3.1.4 The **integration of innovation** into any long-term plan for the economy improves efficiency and value for money. Where possible and appropriate, there should be alignment with regional and government priorities with European technology Strategies. We do however need to recognise that the influence of investment in R&D is not just about improved technologies. Externalities, for example, are also beneficial, particularly the ‘knowledge and best practice spill-over’, which feeds into the economic activity of other sectors. Vertical and horizontal **policy coherence and integration** is necessary to realise the full potential of these effects.

3.1.6 **Finance for innovation**, including global venture capital funds, should continue to focus on support for scalable and high-growth innovative businesses to achieve maximum impact, moving beyond ‘just’ supporting start-ups. In the UK, for example, 6 per cent of businesses with the highest growth rates generated half of the new jobs created by existing businesses between 2002 and 2008¹.

3.1.7 **Global competition**: An essential link needs to be sustained between innovation, foreign direct investment and exports. Innovation activities are enhanced by being exposed to demanding customers in export markets as well as enriched by the migration of capital and ideas (‘brain circulation’). The proposed fifth freedom - free movement of knowledge and technology - is critical to exploiting this virtuous circle.

3.1.8 The Digital Economy, Broadband, and the Information and Communications Technology (ICT), provide the underpinning infrastructure to support economic growth of the EU. Challenges around inadequate coverage, especially in rural areas, need to be addressed. The availability and functioning of ICT is crucial to the economic development of all sectors and the delivery of both public and private sector services. Specific examples are manufacturing automation, online tax returns, online auctions and remote working. Creative industry companies are already big consumers of expensive high-speed bandwidth and at some level, all sectors will want, over time, to make the most of less expensive **Next Generation Broadband (NGB)** to remain internationally competitive.

¹ NESTA Research Summary: The vital 6 per cent, October 2009

Key Messages

- Take the European Research Area beyond its current focus on university collaboration and R&D and closer to business-needs with funding attached to the commercialisation end of any research.
- Encourage strategic commitment to business-to-business innovation particularly among many large quoted companies, many of which will be working closely with smaller companies within their own supply chains
- Raise awareness about the importance of up to date business best practice and state of the art product and process technology with businesses most especially SMEs. This can be achieved in part through existing business support infrastructure.
- Increase business capacity to invest sufficiently and easily in research and development, workforce skills and in-house technological capability.
- Help highly innovative and fast growing businesses to raise the finance required to innovate, including access to global venture capital.
- Support open innovation approaches to address complex societal, environmental and economic challenges.
- Ensure better exploitation of the strengths of the knowledge base (including Intellectual Property Rights) by providing better conduits of communication and linkages between universities and business.
- Support the delivery of Next Generation Broadband ensuring regional and local partners see it as an enabler for delivering their remit on sustainable communities.

3.2 Empowering people in inclusive societies – An Employer-led skills agenda and the development of entrepreneurship

3.2.1 Employers continue to require skilled senior / middle managers, trades people, services and technical/craft skills. The South East of England requires more adult higher apprenticeships, upskilling of the existing workforce and expansion of accelerated learning programmes.

3.2.2 The high number of SMEs in the region stimulates an increased number of service-oriented companies to support them, which provide opportunities for further skills development particularly at higher levels of the skills escalator.

3.2.3 Support for education, which leads to new skills or contributes to personal development and business improvement and growth, helps increase current levels of productivity and enables the introduction of new technologies to a business.

3.2.4 **High Level Skills** - A future-proof skills policy which is truly aligned with a fresh approach to industrial policy needs to be shaped by **employers'/businesses' skills needs** and must be seen holistically, as part of an escalator rather than by age or in 'skills level silos'.

3.2.5 The economic imperative driving the skills agenda should encourage talented individuals, to move into high-level skills, and recognise practical experience. Investing in High Level Skills, such as those necessary for innovation within the priority sectors, will also required due recognition of the **value from 'cross-cutting skills'** such as Leadership and Management. Better use should be made of **Postgraduates with the higher-level skills** required in key sectors of the economy,

in particular in growth and innovation industries, Postgraduates should be equipped with the right skills, experience and knowledge which will enable them to progress in employment and enable businesses to maximise their productivity.

3.2.6 Skills are only of value if they are deployed and released effectively within the workforce. **Skills utilisation**, by both businesses and the public sector, is therefore an essential component of success. Empowering regions to take decisions on skills commissioning/purchasing based on regional skills needs is also crucial. Ongoing support for programmes such as the European Social Fund (ESF) post 2013 is one way of supporting this agenda, as are the Lifelong Learning Programme and INTERREG.

3.2.7 We welcome the reference to empowering of individuals through **Self-employment and Entrepreneurship** and the impact this has on start-ups and the innovation process. The prospect of self-employment will only become a real option through better access and top quality business support at pre-start and start-up. In South East England, this is offered through Enterprise Coaching and Business Link services, both of which are built to remove disincentives for all, including under-represented groups in enterprise.

Key Messages

- **Reduce the skills gap by increasing the number of trained technicians and craftsman, managers and business qualified scientists and engineers**
- **Ensure a holistic approach to skills development and progression through a life-long learning approach**
- **Prioritise employer led skills approach, most especially high level skills in key sectors and for high growth companies and new technologies**
- **Focus on clear progression into employment or, towards a higher level, more productive skills base.**
- **Target up skilling and re skilling of the workforce in high growth, companies and SMEs in strategic supply chains, encouraging progression**
- **Meeting skills development demand associated with large scale investments be they for business, housing, transport and regeneration purposes, including skills development that assists in the retention of technical skills**
- **Develop leaders and managers to support direct and measurable business improvement, innovation, and business and employment growth (enterprise) through skills.**
- **Promote self employment as a real career option throughout education and by improving access and awareness of business support**

3.3 Creating a competitive, connected and greener economy; exploiting the opportunities and co-benefits offered by joined up policy and programme delivery

3.31 Real and concrete investment in the EU 'green sector' is essential to enable it to compete with other parts of the world already putting a huge amount of resource and funding behind the green economy. This will in turn build EU credibility on the global stage.

3.3.2 The South East of England has many of the key elements of a very exciting green economy agenda. We recognise that this agenda is about economic

development and global market opportunities that go hand-in-hand with business resource efficiency and community behaviour change to drive market demand.

3.3.3 Sustainable technologies are at the heart of SEEDA's key technology activity and support for innovation. We believe that the EU 2020 strategy should fully exploit the opportunities and **co-benefits** offered by innovation, regeneration, quality of life and low-carbon in order to achieve sustained economic growth. We also agree that better integration of transport networks, developing alternatives to road transport, promoting clean technologies, and upgrading infrastructure will be essential elements.

3.3.4 EU 2020 should encourage a focused and **sectorally based approach**, which joins up existing programmes on research, development and deployment; innovation and clustering, inward investment and skills, and links them in a more purposeful way with **place-based action planning** leading to major 'city-scale' activity. SEEDA has adopted an approach which complements this sectoral focus with 8 'Diamonds for Investment and Growth'. These are areas around the region where we can focus and maximise growth as well as return on investment.

Key Messages

- **Develop a joined-up, sector based approach to the green economy which builds supply chains for business and incentivises businesses, local authorities, higher education and communities to take concerted action**
- **Ensure policy and programme delivery coherence by working in a collaborative, cross-cutting way and bringing together research, development and deployment, commercialisation, innovation and clustering, and skills activities which apply to the green economy**
- **Utilise finance strategically – willingness from key players, such as the EIB, to target finance for this agenda can act as a catalyst to unlock other forms of finance**
- **Help private sector finance partners to spot opportunities of investment in the green economy**
- **Consolidate measures under the Commission's Temporary State Aid framework such as block exemptions, which enable SMEs to exploit new commercial opportunities in the green economy with EU funding support.**

3.4 Making it Happen

3.4.1 We welcome the renewed EU emphasis on the **importance of regions** in helping to meet the challenges of 2020. Regions and their local partners are critical components of the EU and they need to work together to find solutions, tailored to meet the global challenges and opportunities set out in this paper. Local Authorities play an important and direct role in supporting local businesses and provide essential input towards planning business critical infrastructure. Regional and local organisations are close to activity on the ground and have structures that support the interaction between people, businesses and the knowledge base that is necessary to support economic growth and generate GVA return. Regions will also play a crucial part in **translating the EU 2020 strategy, relationships and business opportunities into real activity and real economic growth.**

3.4.2 The most significant step change for Europe 2020 should be a global, **outward-facing** agenda; it should tackle the challenges ahead, such as climate change, energy, pressure on natural resources, security, demographic stress from an ageing and growing world population and immigration – all of which are significant market opportunities at the same time. Europe as a strong global entity benefits from its individual regions' strengths in addressing these challenges, and European regions individually and collectively should make the most of the EU's ability to act as a channel to world markets.

3.4.3 Top performing global regions like the South East of England are critical component parts of the EU as a global entity, and pivotal in the effort to move beyond the 'closing the performance gap' policies of the past. We believe there is a vital role to be played by European regions, which have the potential and scale to respond to Europe's current and future economic challenges and opportunities. **Top performing global regions also have the potential to drive direct investment into the EU** from those countries identified as key to providing sources of international investment, trade and access to new markets. These global players should be recognised and supported not only as central wealth creators but also as enablers of change across the EU.

Key Messages

- **Recognise further the role played by regions in strengthening innovation infrastructure, developing strategies, and bringing together partnerships to deliver and lead activities to develop the innovation capacity for industries in their regions, using their influence and resources.**
- **Promote top performing regions, like the South East of England and its Greater South East neighbours, in international fora, giving regions a central role in achieving the national and European vision to be global leaders in rapid, effective and sustainable innovation that creates wealth.**
- **Maximising financial resources – we welcome recognition of the need to tighten public spending and to be as targeted as possible. With access to finance being the life-blood of the economy, pump-priming business activity from start-ups to sustained growth, we support a focus on access to credit and effective market supervision. This includes making instruments such as 'JEREMIE' or 'JASMINE' more understandable and accessible to those micro and medium sized enterprises seeking credit.**
- **Harnessing existing instruments in a new approach – we support the drive for increased coherence between diverse EU policies. This should also be reflected at national level. Robust linkages between Brussels and the regional and local levels should be strengthened and that goal will be supported by better coherence of EU policies.**