Evaluation of SEEDA Business Investments in the South East: Innovation Infrastructure

A Final Report by Regeneris Consulting

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South East of England Development Agency

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Executive Summary

Purpose & Scope of Evaluation

i. This study is part of a wider programme of evaluation undertaken by Regional Development Agencies (RDAs) to report on the impact of their interventions during the period 2002/3 to 2006/7. It focuses on Innovation Infrastructure and is one of three undertaken by Regeneris Consulting and explores:

- Managed Workspace
- Innovation & Knowledge Transfer.

ii. This is a programme-level evaluation, exploring investment themes rather than specific projects. It endeavours to develop a rounded picture of each theme and has not been designed as a replacement for a more detailed project-level assessment. Although the evaluation explores the impact of SEEDA's investment up to the end of 2006/7, there are undoubtedly further impacts accruing to these investments, which have yet to manifest themselves in the economy. This is especially the case with Managed Workspace interventions, as a number of the centres examined in this evaluation had only been operational for a short period of time. The evaluation has been designed and undertaken in order to comply with the principles set out in the Impact Evaluation Framework[1] to guide how RDAs demonstrate their impact on regional conditions and will feed to the *Evaluation of the Impact of RDA Spending report,* commissioned by BERR.

iii. The evaluation has been based on a review of a sample of projects and a sample of business beneficiaries. Conclusions drawn from the fieldwork should be interpreted with the possible margins of error inherent in any sampling-based exercise. In addition, at the time of the survey design, it was believed that the capital build projects were incubation centres. The survey questions therefore sought to assess the impact of revenue support and services available to tenants, as well as the impacts of locating in the centres themselves. On closer subsequent inspection, it became apparent that although displaying some of the characteristics of incubators, the Business Centres are better defined as Managed Workspace and it would have been more appropriate for them to be included in the evaluation of SEEDA land and property investments, which has been ongoing at the same time as this evaluation. Furthermore, the evaluation focuses on regional impacts, whereas the Managed Workspace projects are focused on local areas.

iv. The evaluation has been designed and undertaken in order to comply with the principles set out in the Impact Evaluation Framework (IEF) to guide how RDAs demonstrate their impact on regional conditions. The exercise focused on four central elements of the IEF:

- to review conditions and strategies in the South East
- to gauge the relevance of interventions to the challenges facing the regional economy

[1] Evaluating the Impact of England's Regional Development Agencies: developing a Methodology and Evaluation Framework – February 2006 - http://www.berr.gov.uk/files/file21900.pdf

- to provide a quantitative assessment of net economic impact, as a measure of effectiveness of the interventions reviewed
- to assess efficiency by considering value-for-money indicators on unit costs to the public purse of the interventions reviewed.

v. Where possible, the evaluation endeavours to:

- generate lessons and advice to SEEDA on the utility and sustainability of the interventions to help shape future rounds of investment
- and, to identify examples of strategic added value which have been secured through SEEDA's involvement in policy development.

Strategic Context and Investments

Managed Workspace

vi. SEEDA's approach to incubation has been to fund the development of managed workspace around the region, which can support enterprise and innovation in underperforming areas where there is an apparent lack of suitable accommodation for small and starter businesses. Previously, intervention was by way of gap funding, but this has been avoided in recent years due to State Aid issues. The Managed Workspace programme has been specifically brought forward to support the Enterprise Hub and Enterprise Gateway business support programmes.

vii. The investments examined in this evaluation clearly support the South East Regional Economic Strategy (RES) 2002-12 commitment to increase the rate of new business starts and to improve the rates of survival and growth of young companies. SEEDA's objective to raise the levels of enterprise and business competitiveness in less prosperous parts of the South East, in part through the provision of specialist business premises, was reaffirmed in the latest RES (2006-16). The latest RES also reflects SEEDA's refocusing its efforts on provision of business premises to further stimulate entrepreneurialism and innovation in existing growth areas, which is reflected in SEEDA's more recent business workspace proposals.

Innovation & Knowledge Transfer

viii. The RES (2002 and 2006) identified innovation as one of the key priorities for achieving a dynamic, diverse and knowledge-based economy. Key actions, supported by the investments examined in this evaluation, are:

- Supporting knowledge transfer into the business community

- Driving the adoption of best practice through networks, and ensuring high- quality business support.

ix. The RES priorities are reiterated throughout SEEDA's Corporate Plans (2002-05 and 2005-08). For example, the 2005-08 Plan's Innovation Priority places a major emphasis on supporting fledgling technology businesses, seen as the key drivers of innovation. SEEDA will continue to help such businesses through its network of Enterprise Hubs, provision of appropriate business space and provide access to finance and a faster route to market for new ideas. The latest Corporate Plan (2008-11) sets out how the Enterprise Hubs will be delivered through sub-regional Innovation Teams in order to support the Business Support Simplification Process innovation products, roll-outs of which are anticipated from April 2009.

Market Failure

x. The most compelling argument for SEEDA's Managed Workspace interventions (and one that was implicit in all the projects reviewed) is on equity grounds. The investments have sought to tackle economic under-performance in lagging areas and to foster a more equitable spread of enterprise and business growth across the region, by increasing the stock of business premises and facilitating access to business support for small and starter businesses. In doing so, the projects were clearly supporting RES and Corporate Plan objectives.

xi. The most powerful market failure argument for the Innovation and Knowledge Transfer theme, one which was not cited, centres on imperfect information (where poor awareness and limited understanding led to sub-optimal or irrational decision-making). The innovation process is a complex one which requires companies to understand a wide array of issues, from technical testing obligations to the funding regimes which can support R&D. Without at least a basic amount of understanding of the options available, businesses may make sub-optimal investment decisions or simply not invest at all. SEEDA-funded innovation support is helping SMEs to navigate this landscape when, particularly for very small and start-up businesses, it may absorb substantial resources and be prohibitive in cost terms.

Table 1: Summary of Potential Rationale for SEEDA's Interventions

	Market Failure				Equity
	Public Goods	Externalities	Imperfect Information	Market power	
Managed Workspace		√√	√		√√√
	Equity. The investments have sought to tackle economic under-performance in lagging areas and to foster a more equitable spread of enterprise and business growth across the region by increasing the stock of business premises.				
Innovation & Knowledge Transfer		√√	√√√	√	
	Imperfect information. Poor awareness and limited understanding of technologies lead to low levels of take up.				

Note: For strength of market failure case, 1 tick = weak case, 2 ticks = partial case, and 3 ticks = compelling case. No ticks = no case. Source: Project Reviews.

Performance & Impact on Businesses Supported

xii. The majority of businesses assisted have seen no significant improvement in their standing after receiving SEEDA-funded innovation infrastructure support. Although firms have grown their turnover and employment since receiving support, the figures do not show SEEDA's assistance to be a decisive factor. Too many firms have reported no change in competitiveness at a time when the wider economy had continued to grow strongly.

xiii. Many more businesses stated that they were now more likely to seek external support in the future than those who were less likely to. This suggests that the support received has been valued by clients and provides a good platform for effecting wider levels of change through business support.

xiv. The most noticeable impacts reported by firms located in Managed Workspace centres were on their confidence and on the efficiency of their business to run more efficiently. Greater awareness of businesses' competitive position was cited as another important benefit.

xv. Innovation/knowledge transfer support appears to have yielded the greatest impacts on business confidence and skills. A relatively high number stated that they have developed new products, whilst the high percentage of businesses that have seen new markets opening up suggests that the support has been configured to new customers, and perhaps has been well integrated with mainstream marketing advice.

Managed Workspace

xvi. By and large the Managed Workspace projects did not have specific output targets for the evaluation period, although there were targets further downstream. Nevertheless, to date the centres have secured a higher number of tenants than predicted at this stage of their project life cycle. Overall performance will need to be considered over a longer period of time and under a wider framework than consideration of initial short-term outputs, which are mainly relevant while the centres are becoming established.

Innovation & Knowledge Transfer

xvii. Innovation and Knowledge Transfer projects have, on the whole, supported far more businesses than were contracted. This is because (for the overall theme) unit costs were lower than anticipated at commencement of project delivery, and that the projects were more successful in attracting clients. The average unit costs reported (£16,100 per business assist) is an indication of intensive assistance, so the projects have assisted a greater number of businesses whilst still providing intensive interventions.

xviii. The core RDA Tasking Framework outputs do not truly reflect the activities being delivered by the projects. For example, whilst the output indicator 4a[2] provides an effective measure of first interaction between the businesses and the knowledge base, it provides no evidence of the depth of interaction or relationship development. A number of project teams have reviewed options for generating other KPIs, but have found that this is far from being a simple task (e.g. how to quantify the human interaction benefits of knowledge networks and other knowledge collaboration activity). NESTA are currently working on developing more appropriate innovation metrics.

Impact on the South East Economy[3]

Net Cumulative Impact on the Economy

xix. The evaluation estimates that the cumulative total achievement of the Managed Workspace programme is a net additional gross value added of between £470,000 and £640,000. It appears that the majority of impacts have occurred more recently, which is to be expected

[2] Number of businesses engaged in new collaborations with the knowledge base (4a).

[3] [3] Gross and Net impacts have mainly been generated using survey responses from businesses supported by SEEDA investments. The technical approach adopted and the survey questionnaire can been seen in the associated appendices to this report. Multipliers were calculated using a cautious 1.3 uplift factor taken from EP Guidance for "limited local supply linkages and induced or income effects".

given the lag between spend and occupancy of the managed workspace.

Table 2: Cumulative Impacts for Managed Workspace		
Relevant spend covered (£m)	£15.3 million	
	Jobs	**GVA**
Gross Impacts	55 – 75	£2.04 - £2.8
Effective Additionality Ratio	44%	23%
Net Impacts	24 - 33	£0.47 - £0.64
Return on Investment	£487k per addl job	£0.04 per £1 invested

xx. The evaluation estimates that cumulative net gross additional value added of £41million-£48million has been generated by the Innovation and Knowledge Transfer theme. This analysis suggests that the impact of the interventions has become more apparent over time (as new ways of working become more ingrained and as the impact of related investments/actions start to manifest themselves).

Table 3: Cumulative Impacts for Innovation & Knowledge Transfer		
Relevant spend covered (£m)	£16.4 million	
	Jobs	**GVA**
Gross Impacts	3,117 -3,662	£180 - £212
Overall Additionality Ratio	20%	23%
Net Impacts	629 - 739	£40.7 - £47.8
Return on Investment	£24k per addl job	£2.70 per £1 invested

Returns on Investment

xxi. Net returns for Managed Workspace are modest to date, but it is clearly too early to form any definitive judgements on their impacts (capital schemes have a much longer payback period than the period covered in this evaluation). Impacts will take longer to materialise due to the lag between investment and tenant occupancy. However, returns should start to look better as occupancy at the centres nears capacity. In addition, net returns on investment should increase in the future, as the physical premises are 'recycled' (i.e. many more firms will benefit from the premises in the long term than are housed at any one time). If the cumulative impacts to date are projected forward, assuming an annual tenant 'successful relocation'[4] rate of 10%-20%[5], the Managed Workspace programme could potentially generate net additional GVA in the range of £29-£45million over the next 25 years.

xxii. Net returns on investment to date are reasonable for the Innovation & Knowledge Transfer investments. To date, a pound of public sector investment could be expected to have generated £3.30 of net additional turnover and £2.70 of net additional GVA. In terms of value for money, this is firmly in the middle of other similar programmes evaluated. Best-performing programmes evaluated previously have generated around £14 of net additional turnover and up to £4.50 of net additional GVA per £1. However, there are examples of programmes in which returns were so poor that they generated less profit and turnover than they cost to deliver. Innovation & Knowledge Transfer projects will have a longer-term pervasive impact on firms' performance, so can be expected to generate returns into the future.

[4] The assumption is that each year 5% of managed workspace centre tenants will move onto alternative premises in order to meet their growth aspirations and that new tenants will be secured.

[5] Based on an assessment of exit survey evidence provided by commercial operators.

SEEDA's Impact on Changing Conditions

Table 4: Setting Programme Impacts into Context of Regional GVA performance

	GVA Uplift		Jobs Increases	
Theme	**Cumulative Increase in SE (£millions)**	**% of GVA Increase Attributable to SEEDA**	**Total Increases in SE**	**Percentage of Jobs Increase Attributable to SEEDA**
Managed Workspace	£44,587	0.001%	54,000	0.1%
Innovation and Knowledge Transfer		0.09%		1.3%

Source: Regeneris Consulting calculations of impact and Headline GVA at current basic prices (National Statistics) Regional GVA available to 2006/07. The average uplift in regional GVA 1997/8 to 2005/06 has been used for 2006/07 and 2007/08.
Increase in jobs in the region has been calculated using Annual Business Inquiry (ONS) 1998 - 2006. For 2006/07 and 2007/08 the average annual increase has been used to allow an overall figure for regional growth in employment during the relevant period to be generated.

xxiii. Taking cumulative impacts to date, the Managed Workspace programme has made only a trace contribution to the regional economy. The Innovation and Knowledge Transfer programme is estimated to be responsible for an uplift of 0.09% to the region's GVA growth.

Strategic Added Value

xxiv. The projects that have been examined in this evaluation have yielded some important Strategic Added Value (SAV) benefits, which are summarised in Table 5 below.

Table 5: Strategic Added Value

	Managed Workspace	Innovation & Knowledge Transfer
Leadership	The projects have made a strong and clear case for local provision of business space and made key local partners more aware of the need for business space for start-up and growing businesses.	Within the BSSP agenda SEEDA is leading on the streamlining and targeting of innovation and growth support to high potential businesses. Knowledge transfer investments have promoted greater collaboration between businesses and the research base in SEEDA's priority technology areas.
Influence	A number of other neighbouring authorities have expressed an interest in developing similar centres in their main business locations.	SEEDA's innovation approach appears to be carrying weight with big companies, which are demanding more engagement with the HEI and SME bases.
Leverage	Leverage has been achieved in two ways: • Subsequent investment from tenant businesses in the local economy • Nurturing entrepreneurship and elevating the aspirations of local people.	Innovation services are helping companies to lever in funding from a wide variety of sources for R&D. Knowledge transfer activity is acting as a catalyst for R&D collaboration between businesses and the research base.
Synergy	The centres have become business hubs for the town. The centres have become regular meeting venues for knowledge sharing by local stakeholders.	Engagement with Business Link, Enterprise Hubs, Finance South East and Sector Consortia shows good synergistic working.
Engagement	The roll-out of the centres has cemented some good working relationships that already existed.	Again, cooperation with Business Link and the Enterprise Hubs has been an important form of engagement.

Overall Reflections & Key Evaluation Questions

Managed Workspace

xxv. The Managed Workspace projects examined in this evaluation are targeted at improving the local area economy, not the regional economy. Whilst it is clearly too early to draw any definitive conclusions on future impact, the projects may have a larger impact in the future. Evidence of interventions elsewhere has shown that Managed Workspace can have a noticeable impact on business confidence, business formation, survival and growth rates.

xxvi. Most of the projects delivered to date can really only be defined as managed work space, although they do display some of the characteristics of incubators with on-site management, on-site support, links to business events, and links to business support. Other projects within the incubation programme now being brought forward lean closer towards promoting innovation and knowledge transfer.

Innovation & Knowledge Transfer

xxvii. Many of the SEEDA projects examined in this evaluation are aimed at changing the culture of the way businesses and universities operate and interact; the intention is that this will flow into greater interactions, leading to collaborative work (part-funded through other bodies or funded entirely by the companies themselves).

xxviii. SEEDA has acknowledged that support should be focused and targeted on businesses with the greatest potential to innovate and grow. Also duplication/overlap of services should be reduced, such as has happened with aspects of the Innovation Advisory Service and Enterprise Hubs, where they have both addressed the needs of early stage technology businesses in a very similar way.

Recommendations

xxix. There are a number of clear overarching messages:

1) SEEDA must work to ensure that a greater proportion of supported businesses experience a transformative change in their performance.

2) A more targeted approach to investment is required to ensure that the modest resources at SEEDA's disposal are focused on interventions that will generate the largest returns.

3) A more rigorous and consistent approach to measuring Key Performance Indicators (KPIs) is needed.

4) Investments should be underpinned by a more rigorous assessment of market failure, so it is clear where SEEDA's intervention might have the largest effect. This market failure assessment should inform how they intervene (direct development of Managed Workspace at 100% of cost is hard to justify on a market failure assessment alone although it is justified on economic equity grounds).

Managed Workspace

xxx. Managed workspace investment has a continuing role to play in supporting the growth of enterprise and employment in deprived areas of the South East through provision of high-specification office space on favourable (i.e. flexible) lease terms, for a maximum period of two years (before tenants are required to move on to new premises) and provision of access to a range of business support and advice.

xxxi. Incubation centres have a major role to play in facilitating the development and management of innovative, high-growth, knowledge-based organisations and the interchange of concepts, ideas and experiences[6].

xxxii. Premises funding will have different impacts depending on its purpose and also the scale at which it is being utilised (i.e. regional, sub-regional, local level). The strongest impacts are likely to come through the development of specialist business space demanded by higher value, technology orientated companies and provision of tailored on-site support.

xxxiii. Future investment should be firmly predicated on tackling clear and well-evidenced market failures. The evidence from this evaluation and from elsewhere suggests that:

- The strongest market failure arguments for provision of incubation space relate to the process of **clustering** or **knowledge transfer.** The new development at the University of Kent and the Isle of Wight are in keeping with the approach, as was the Aylesbury Vale Hatchery.
- There is an entirely separate case in terms of SME **starter premises** as a means of encouraging more enterprise in a particular location or community, as was the case in Shoreham and Faringdon.

xxxiv. These two distinct rationales for incubation and managed workspace need to more explicitly inform how SEEDA intervenes and invests and the kinds of impacts and returns it might expect to secure.

Innovation & Knowledge Transfer

xxxv. Encouraging university-business collaboration should remain at the forefront of SEEDA's corporate objectives. This will require the very real institutional and funding barriers that remain in the way of greater commercial exploitation of research and the knowledge generated to be removed.

xxxvi. SEEDA is becoming more demand-led in its approach, and has learned from experience. It has taken the initiative to redesign support for high-growth potential businesses with the Innovation and Growth Team model, which aims to improve the return on investment and, using the relatively small amount of funding available, to achieve the maximum impact.

xxxvii. Substantial investment has been made in Innovation and Knowledge Transfer in recent years, much of which has come from RDA and European funding sources. Looking forward, Innovation and Knowledge Transfer will surely feature just as heavily in the future. With this in mind, future investment should be firmly predicated on tackling clear and well-evidenced

[6] Source: CLG, *Good Practice Guidance for ERDF and ESF* (2006).

market failures.

xxxviii. The evidence from this evaluation and from elsewhere suggests that imperfect information provides the most powerful market failure argument. The innovation process is a complex one, which requires companies to understand a wide array of issues from technical testing obligations to the funding regimes which can support R&D. Innovation support is clearly helping SMEs to navigate this landscape when, particularly for very small and start-up businesses, it may absorb substantial resources and be prohibitive in cost terms.

1. Introduction & Background

Scope & Purpose of the Evaluation

1.1 This evaluation study is part of a wider programme of evaluation undertaken by RDAs to report on the impact of their interventions during the period 2002/3 to 2006/7. It focuses on *Innovation Infrastructure* and is one of three undertaken by Regeneris Consulting, looking at different aspects of SEEDA's involvement in business development & competitiveness (the other two reports are *Business Competitiveness* and *Individual Enterprise*). The evaluation explores two themes which make up SEEDA's commitment to Innovation Infrastructure[7],:

- Managed Workspace[8]
- Innovation/Knowledge Transfer.

1.2 This is a programme-level evaluation, exploring investment themes rather than specific projects. This evaluation will feed to the *Evaluation of the Impact of RDA Spending* report, commissioned by BERR and subcontracted to Regeneris Consulting by PricewaterhouseCoopers LLP. The evaluation has been designed and undertaken in order to comply with the principles set out in the Impact Evaluation Framework[9] It endeavours to develop a rounded picture of each theme and has not been designed as a replacement for a more detailed project-level assessment. Although the evaluation explores the impact of SEEDA's investment up to the end of 2006/7, there are undoubtedly further impacts accruing to these investments which have yet to manifest themselves in the economy. This is especially the case with managed workspace interventions as a number of the centres examined in this evaluation had only been operational for a short period of time. The evaluation has been based on a review of a sample of projects and a sample of business beneficiaries. Conclusions drawn from th*e fieldwork should be interpreted with th*e possible margins of error inherent in any sampling-based exercise in mind.

1.3 In addition, at the time of the survey design, it was believed that capital build projects were incubation centres. The survey questions therefore sought to assess the impact of revenue support and services available to tenants, as well as the impacts of locating in the centres themselves. On closer subsequent inspection, it became apparent that although displaying some of the characteristics of incubators, the Business Centres are better defined as Managed Workspace and it would have been more appropriate for them to be included in

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7 These themes have been constructed for the purposes of this evaluation exercise to match the wider national programme of assessment being undertaken. SEEDA has its own grouping of investments and this evaluation draws on TH02 Managed Workspace Physical Infrastructure, TH03 Business Support and TH05 Knowledge Transfer. Although these themes are included within the same report, they are very different in their delivery and target areas and the evalaution does not therefore make any comparisons between them.

8 These investments were categorised under SEEDA's Incubation Programme, but the major projects included in the sample for this evaluation are existing Managed Workspace projects located in regeneration areas. This is reflected in the evaluation analysis and conclusions. Incubation centres are characterised by provision of time-bound specalist business space for new starts, the provision of ongoing hand-holding and tailored on-site support, written into the contractual terms of tenancy.

9 Evaluating the Impact of England's Regional Development Agencies: developing a Methodology and Evaluation Framework' – February 2006 - http://www.berr.gov.uk/files/file21900.pdf

the evaluation of SEEDA land and property investments, which has been ongoing at the same time as this evaluation. Furthermore, the evaluation focuses on regional impacts, whereas the Managed Workspace projects are focused on local areas.

1.4 The evaluation has been designed and undertaken in order to comply with the principles set out in the Impact Evaluation Framework[10] to *guide how RDAs demonstrate their impact* on regional conditions. The exercise focused on four central elements of the IEF:

- to review conditions and strategies in the South East
- to gauge the relevance of interventions to the challenges facing the regional economy
- to provide a quantitative assessment of net economic impact, as a measure of effectiveness of the interventions reviewed
- to assess efficiency by considering value-for-money indicators on unit costs to the public purse of the interventions reviewed.

1.5 Where possible, the evaluation endeavours to:

- generate lessons and advice to SEEDA on the utility and sustainability of the interventions to help shape future rounds of investment
- and, to identify examples of strategic added value which have been secured through SEEDA's involvement in policy development.

1.6 It should of course be borne in mind that IEF criteria were not in place when the projects under review were designed and initially began operating.

Approach & Work Undertaken

1.7 The evaluations have been built up from a series of fieldwork tasks:

- An initial round of **scoping interviews** with SEEDA staff[11] to understand regional strategic priorities, the South East context and the approach adopted by SEEDA to intervening in each of the theme areas. These sessions also helped identify the short-list sample of projects for detailed review.
- **Desk-based analysis** exploring the region's stated strategic priorities (in the RES, Corporate Plan and other documents), combined with an assessment of the overall scale of spend and performance of investments.
- A series of **project reviews** with the short-listed sample of projects to understand how interventions had been managed and delivered on the ground, and to assess how they have contributed to regional economic priorities.

[10] *Evaluating the Impact of England's Regional Development Agencies: developing a Methodology and Evaluation Framework'* – February 2006 - http://www.berr.gov.uk/files/file21900.pdf

[11] Geoff Hawkins and Jeremy Herring. for managed workspace; Colin Baldwin and Tiziana Boyland for innovation & knowledge transfer.

- An extensive telephone **survey of businesses**[12] assisted by the short-listed projects to gauge the perceptions of business people and the impact services have had on the performance of individual companies.

- A brief round of **stakeholder interviews** with SEEDA partners to develop an understanding of the appropriateness of strategic priorities, assess how closely interventions fit with needs and opportunities, and better understand how the region has progressed over the relevant period.

1.8 This report sets out an analysis of the fieldwork findings. Technical details on the scale of the fieldwork, the research tools deployed and supplementary findings (including some of the raw data) can be found in the Appendices.

Strategic Context in the South East

South East Socio-Economic Position

Overview

1.9 The South East is a prosperous region, consistently outperforming the national average on a wide range of measures of economic well-being. In 2004, it recorded resident-based Gross Value Added (GVA) of £158,187 million, second in England only to London. South East England also has the second highest workplace-based GVA per head of any UK region. In 2004, it recorded workplace GVA per head of £19,505, higher than the UK average of £17,258. However, this strong performance is not uniform across the region; almost half of South East England's local authorities scored under the UK average in terms of workplace GVA per head.

1.10 According to data from the Annual Population Survey, South East England has the highest employment rate of all UK regions at 79.0%. Over the past decade, the employment rate in South East England has increased by 5.1%, although most of the increase occurred during the late 1990s.[13] The region has the third lowest unemployment rate of the English regions.

Enterprise and Business Competitiveness

1.11 On the measure of new VAT registrations as a percentage of total business stock, the South East ranks third of the English regions with 9.9%[14]. With 43.5 new VAT registrations per 10,000 adults, the South East's performance is well ahead of the national level (39.2), ranking behind only London. In the South East, self-employment accounts for 14.1% of all employment, ahead of the national level, but only the fourth highest of UK regions. Nearly 70% of business registered for VAT in South East England are still operating after three years; this is the highest survival rate of all the English regions, and is above the UK figure of 66.5%.

[12] The survey included 31 managed workspace tenants and 135 businesses assisted by the sampled innovation & knowledge transfer projects.

[13] Annual Population Survey, July 2004 – June 2005, NOMIS

[14] Inter-Departmental Business Register, ONS and Small Business Service, DTI

Innovation

1.12 Data from the Fourth Community Innovation Survey (CIS4) shows that the South East is, along with London, the top performing region in England with 30% of the region's turnover attributable to new or improved products. The region also performs well in respect of gross expenditure on R&D as a percentage of GVA (2.9%), the second highest in England behind the East of England region[15]. Other data from CIS4 report a similarly strong performance:

- 60% of all enterprises in the South East engage in some form of innovation activity, the highest in the country.

- The South East is second to London in respect of bringing new products/ processes to market, with 32 % of its firms introducing either a new process or new product in the 2002-04 period.

1.13 Of all the UK regions only firms and government in the East of England spend more on R&D per unit of GDP than the South East. However, despite the notable research strength of the South East's universities, the region is only a moderate performer relative to other UK regions for research and development expenditure by higher education institutions. Increased R&D investment by universities would help to elevate the South East above the 3% of GDP target suggested by the Lisbon Agenda. At 2.9% the South East is already performing above the 2.5% national target set by the UK Government in the Science & Innovation Investment Framework 2004-2014.

Managed Workspace

Regional Economic Strategy

1.14 One of the key priorities of the South East Regional Economic Strategy (RES) 2002-12 is to increase the rate of new business starts and to improve the rates of survival and growth of young companies through the creation of a network of:

1) **Enterprise Hubs.** Provision of business support services particularly focused on businesses in high-growth areas and sectors. Key initiatives are designed to promote clustering, improve networking and share knowledge & technology.

2) **Enterprise Gateways.** Developed in partnership with South East Business Link, these give business Managed Workspace support to a wide range of businesses in underperforming locations. Priority is given to rural areas and groups within those areas, where entrepreneurship and business skills are low. However, the programme is currently being reviewed in light of the business support simplification process and the move to a regional Business Link Information, Diagnostics & Brokerage (IDB) model.

1.15 The Enterprise Hubs and Enterprise Gateways (subject to a separate analysis in the *Individual Enterprise* evaluation) are intended to be supported by the provision of incubation facilities and managed workspace for a broad range of small businesses across the region,

[15] ONS and RHA, 2005

although this has not always been the case.

1.16 SEEDA's commitment to raise the levels of enterprise and business competitiveness in less prosperous parts of the South East, in part through the provision of business premises, was reaffirmed in the latest RES (2006-16) under Action 5.6. The RES also reflects SEEDA's refocusing its efforts on provision of business premises to further stimulate entrepreneurialism and innovation in existing growth areas, recognising that survival rates should be higher even in more prosperous areas, by:

- Supporting and promoting the concept of the Oxford to Cambridge Arc
- Supporting the creation of a network of innovation and Managed Workspace centres across the Milton Keynes–South Midlands growth triangle
- Providing enhanced business support and supporting business-to-business collaboration in key clusters and sectors.

SEEDA Corporate Plan

1.17 The RES priorities are reiterated throughout SEEDA's Corporate Plans (2002-05 and 2005-08). For example, the 2005-08 Plan's Innovation Priority places a major emphasis on supporting fledgling technology businesses that are regarded as the key drivers of innovation. The latest Corporate Plan (2008-11) sets out how the Enterprise Hubs will be delivered through sub-regional Innovation Teams in order to support the Business Support Simplification innovation products, roll-outs of which are anticipated from April 2009. The latest Corporate Plan (2008-11) confirmed that the Enterprise Gateways are to be restructured and refocused on community outreach work, providing an intensive pre-start up service which will be mainstreamed into Business Link by 2010.

Innovation & Knowledge Transfer

Regional Economic Strategy

1.18 The **RES (2002 and 2006)** identified innovation as one of the key priorities for achieving a dynamic, diverse and knowledge-based economy. Key actions around this priority are:

- Supporting knowledge transfer into the business community
- Driving the adoption of best practice through networks, and ensuring high-quality business support
- Supporting rural businesses by encouraging investment in new technologies, processes and markets.

SEEDA Corporate Plan

1.19 Innovation is one of four priorities set out in SEEDA's **Corporate Plan 2005-2008**, and the promotion of innovation is a key requisite for driving up productivity through sustainable economic growth. The Corporate Plan recognises that the region lags behind in international comparisons of levels of product and process innovation in companies and in levels of business R&D.

1.20 The region also lags behind key competitors in the levels of higher skills in the workforce, and in the amounts of training undertaken by business. Although the South East England performs well compared to the rest of the UK, it ranks 34th of the best-performing global regions[16], with labour productivity 25% below the high-performing global average. The region is 55% below Hartford (US), the best performing global region, and 53 % below Luxembourg, the best performing European region.

Overview of Approach

Managed Workspace

1.21 SEEDA's approach to incubation has been to fund the development of managed workspace around the region to support enterprise and innovation, including in underperforming areas where there is an apparent lack of suitable accommodation for small and starter businesses. Previously, intervention was by way of gap funding, but this has not been possible in recent years due to State Aid issues.

1.22 The private sector already provides managed workspace in many areas of the region. Specialist operators include Basepoint, Evans Easyspace, Oxford Innovation and Start. In addition Regus provide a more commercial approach. SEEDA's intervention is designed to tackle market failure where the private sector is unable or unwilling to provide space.

1.23 SEEDA typically invests in managed workspace in locations where there is a viability gap between initial cost and value. Centres in lagging areas are characterised by lower property rental values, leading to a viability gap that is often high. The Managed Workspace programme has been specifically brought forward to support separate Enterprise Hub and Enterprise Gateway business support programmes.

1.24 Costs of development are typically between £4million and £6million, including site costs (although larger projects can cost more), with an end value of about half that, depending on size and location. This discrepancy between cost and value is caused by a number of factors – low property values, high turnover because of the flexible letting terms, the cost of on-site management and the need for meeting rooms and management space, which reduce the net lettable area. Workspace is let at market rates.

1.25 A South East Special Purpose Company is to be established by SEEDA and its partners. The stated intention is for the direct provision of new managed business centres around the region, and commitment to supporting the provision of incubation for other programmes such as science and innovation campuses. Existing SEEDA Incubation property assets and land will be transferred to the company, along with a number of development sites and ground leases. The company will seek to obtain alternative forms of private- and public-sector funding to accelerate delivery of the incubation development programme by levering in private debt finance.

[16] Robert Huggins Associates (2008) Global Index of Regional Knowledge Economies and World Knowledge Competitiveness Index.

Innovation & Knowledge Transfer

1.26 SEEDA's broad intention is to increase innovation among South East businesses (including the exploitation of new technologies and ideas) through better linkages involving the region's universities, research institutes and private R&D centres, based on a three-pronged approach:

- Working with SMEs to develop Knowledge Transfer Networks, as envisaged by BERR[17]. SEEDA Sector Consortia, and the supply chains they relate to, are seen as key routes to market for this initiative.

- A brokerage service for knowledge transfer primarily directed at the 50-500 employee group, drawing on the Chalmers model in Gothenburg.

- Support for a clustering of the universities into five 'SET Hubs' to simplify access, and offer a wide range of knowledge and technology, including the provision of high-level specialist technical skills training, on a sub-regional basis.

1.27 SEEDA is content for businesses to work with a knowledge base partner outside the SE region; the priority is for businesses to find the most appropriate partner. SEEDA's approach also includes:

- Commitment to Knowledge Transfer Partnerships – including the piloting of a shorter "mini-KTP" and work with Momenta's Senior KTP Advisor in the region to see projects proposals brought forward which include an international element.

- Investment in Collaborative R&D in priority areas as identified by the regional Science & Industry Council. Support for Intelligent Transport Systems and Services has been aligned with the Technology Strategy Board's ITSS Innovation Platform.

- The support / development of regional Science & Innovation Campuses, again focused on regional priority areas.

1.28 SEEDA also welcomed the findings of the Sainsbury Review[18] which recommended more flexible KTPs and RDAs working more closely with the Technology Strategy Board.

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[17] BERR, *Knowledge Transfer Networks* - http://www.berr.gov.uk/files/file35678.pdf.

[18] HM Treasury, Sainsbury Review of Science and Innovation (2007)

2. Analysis of SEEDA's Investments

Total Programme Commitments by Theme

2.1 During the evaluation period 2002/03 to 2006/07 SEEDA has invested £15.3million into its Managed Workspace centres and £16.4million into innovation/knowledge transfer activities. However, SEEDA's investment in Innovation and Knowledge Transfer activity has increased at a rapid rate since 2004. Annual Managed Workspace spend has varied from year to year, which may reflect the availability of suitable sites and premises coming forward for development, as well as SEEDA's available capital.

2.2 The balance of spend is likely to shift in the future. Common with most RDAs, SEEDA is planning to reduce its spend on physical investments (including business premises) during the next Corporate Plan period. Innovation & knowledge transfer is increasingly placed at the heart of RDA Corporate Plans and European Regional Development Fund (ERDF) programmes, which are now administered by RDAs (which in turn are expected to provide the bulk of the match funding).

2.3 The South East ERDF Programme for 2007-13 has a strong emphasis on innovation & knowledge transfer, with a limited amount of money put aside for spend on specialist premises. The shift in spend may also reflect the fact that market failure arguments tend to be less persuasive for general sites & premises investment[19], although the market failure case for provision of specialist space such as incubators is widely accepted.

2.4 SEEDA has spent £99.4million in total on business interventions within the relevant period across all of the themes. Once already evaluated projects have been removed from these themes, the population of investment in scope of the three evaluations is £64.4million, of which this report focuses on £31.6million (covering a population of 15 Managed Workspace projects and 15 Innovation/ Knowledge Transfer projects).

Table 2-1: SEEDA Spend By Year (£000s)

	2002/3	2003/4	2004/5	2005/6	2006/7	Total
Managed Workspace	139	439	4,288	5,709	4,653	15,227
Innovation/ Knowledge Transfer	1,993	1,273	1,710	3,480	7,969	16,425
Total	2,132	1,712	5,998	9,189	12,621	31,653

Source: Aggresso (SEEDA)

Scale of Achievements

2.5 **Table 2-2** shows the total population of outputs by the population of projects according to the PMS system. This data should be treated with extreme caution, as it may not have been reliably or consistently entered by SEEDA staff across the themes and over time. The evaluation period also stretches over a shift from Tier 3 outputs (2004/05) to Tasking Framework outputs (2005/06 and 2006/07). Data for 2002/03 and 2003/04 has not been

[19] CLG, Good Practice Guidance for ERDF and ESF Investment (2006).

provided to us.

Table 2-2: SEEDA Achievements By Year				
	2004/5	**2005/6**	**2006/7**	**Total**
New jobs created/safeguarded				
Managed Workspace	0	0	0	0
Innovation & Knowledge Transfer	4	0	8	12
Brownfield land reclaimed and/or redeveloped (ha)				
Managed Workspace	No Previous Output	0	3	3
Innovation & Knowledge Transfer		0	0	0
Number of businesses assisted to improve their performance				
Managed Workspace	No Previous Output	0	0	0
Innovation & Knowledge Transfer		413	465	878
Source: PMS (SEEDA)				

2.6 Overall, SEEDA's investments have generated substantial outputs during the Relevant Period, which have been reported to BERR and partners. Given the manner in which this information is stored, it has not been possible to include a comprehensive illustration of those achievements for these themes. This, however, does not affect any of the subsequent analysis of impact in the rest of the evaluation report.

The Sample of Projects Reviewed

2.7 The sample of projects reviewed in the course of this evaluation is made up of 10 projects, and a total spend of £15.4million[20]. The Managed Workspace projects are, on average, much larger in terms of financial scale than the Innovation & Knowledge Transfer projects, due to the substantial resources required to construct new centres and renovate existing buildings.

Table 2-3: Sample Shortlist		
Theme	Number of Projects	Total Spend in Relevant Period - Aggresso (£000s)
Managed Workspace	4	9,652
Innovation/ Knowledge Transfer	6	5,723
Total	10	15,375
Source: Aggresso Data		

Managed Workspace

2.8 The strategic objective of the Managed Workspace schemes was to improve the competitiveness and survival rates of SMEs (both new and established) by meeting their needs for premises where it was demonstrated that the market would not. SEEDA funding has provided resources to increase the supply of high-quality business premises, infrastructure and support available to SMEs. Projects examined in this evaluation have by and large involved re-use of existing sites and buildings and designed to benefit new or small businesses in lagging economic areas, and to complement existing Enterprise Hubs and Enterprise Gateway business support programmes.

[20] The sampling methodology is described in detail in the Technical Appendix.

2.9 The main aim of the projects was to promote a culture of business enterprise and entrepreneurship, by offering start-up and growing companies new high-quality office space, with the additional benefits of on-site meeting rooms, conference facilities and communal & break-out areas. A variety of units, from single person offices, workshops and larger suites are available on easy in–easy out, monthly terms. Offices tend to be self-contained and fully furnished with telephone and broadband connections.

2.10 Support to tenants has been available from the Enterprise Gateways and Enterprise Hubs, which provided business support (and in some cases were co-located with the managed business centres). Therefore, access to premises was just one element of the overall offer to businesses. The projects reviewed were:

- **Hatchery: Aylesbury Vale Hub.** Provision of flexible high-specification office space to entrepreneurs who meet the Aylesbury Vale Enterprise Hub criteria for portfolio or network membership.
- **Newhaven Enterprise Gateway Building Denton Island and Shoreham Enterprise Gateway Building.** These are managed business centres providing office space for new and growing companies and on-site facilities including meeting rooms, conference facilities and 'break-out' areas. Units include provision of small incubator units, larger general business space, workshop units (at Newhaven) and studios for new and small businesses, offered on flexible monthly, 'easy in–easy out' licence terms.
- The **Faringdon Enterprise Gateway Building** is intended to be a similar development. However, to date the main activity undertaken has been the site acquisition. An existing office on the site has been temporarily used as a shop front and to house a small number of local businesses

2.11 The locations were chosen specifically to assist the delivery of existing **Enterprise Hubs and Gateways business networks** in key areas. Part of the Enterprise Hub and Gateway strategy has always been to work with partners to develop physical incubators and managed workspace in areas where these facilities are not already available, and to add value to these SEEDA initiatives.

Innovation & Knowledge Transfer

2.12 Innovation has been identified in the South East RES as key contributor to business competitiveness. The key objectives of the investments are to facilitate knowledge transfer between the knowledge base and South East businesses, and to exploit research opportunities, catalyse collaborations and bring more innovation to market, in order to:

- Increase the number of SMEs working with a HEI partner
- Increase the number of start-up businesses in the region
- Increase the number of companies that are technologically innovative.

2.13 The projects reviewed were:

- **Regional Technology Advisors/ Technology Users - Business Fellows.** Piloting a model to improve links between businesses and the region's knowledge base, and adding additional Business Fellows to the current cohort.

- **Emerging Technologies - Knowledge Networks.** Facilitation of knowledge transfer between the knowledge base and South East businesses through the creation of Knowledge Networks and engagement with innovation-support initiatives.

- **Knowledge Transfer Partnerships (KTPs).** Placement of a KTP associate (graduate or at least NVQ4 qualified) in a company to work on a knowledge transfer project which is core to the strategic development of the business.

- **POCKET 05-06.** Repayable awards of up to £30,000 to innovative SMEs or entrepreneurs to undertake collaborative work with a HEI partner at the proof of concept phase of commercialisation.

- **Innovation Advisory Service.** Innovation advisor service to offer support to growth companies and to engage businesses to stimulate interest in innovation, with a focus on those which are technology intensive.

- **South East Motorsports Education Centre.** Part-funding of the development of a Motorsport Engineering Centre, which houses a number of labs containing industry-standard test and research facilities.

Project Scale

2.14 Actual and contracted spend figures for the shortlisted sample are shown in Table 2-4 below.

Table 2-4: SEEDA Costs

£000s	Managed Workspace	Innovation/ Knowledge Transfer	Grand Total
Total SEEDA Costs – Contracted[1]	£13,590	£5,723	£19,313
Total SEEDA Costs - Actual	£13,590	£5,723	£19.313
Actual - Contracted	0	£0	0
Average of Actual as % of Contracted	100%	100%	100%

Source: Regeneris Project Review Database.
Note: 1. The Managed Workspace projects are in effect direct delivery with 100% SEEDA funding. The terminology in the table is retained for consistency with the other evaluation reports.
Actual as % of Contracted presented as an average of individual projects within each theme

Managed Workspace

2.15 It should be noted that by and large the Managed Workspace projects did not have specific output targets for the evaluation period. There is a clear time lag between the physical investment and the resulting impact of Managed Workspace schemes once businesses take up tenancy. A number of projects have targets for the subsequent years and have begun to report business assists/new businesses during 2007/08. Currently, unit costs appear high, but this needs to be balanced against the fact that these are major capital investments with a long life-cycle. Unit costs vary considerably between projects. This mainly reflects the current status of the Faringdon Gateway project: money has been committed but full development has yet to take place. For the other centres, unit costs were broadly in line with English Partnerships benchmarks for these types of investments.

2.16 In addition, projects were not required to distinguish between job creation and jobs safeguarded, and there are no definitive figures for new jobs from the project claims forms. It is likely that embedded in the new/safeguarded jobs figures are jobs that have been created by tenant businesses. The underperformance on new business creation reflects the reality that the projects were in fact managed workspace rather than genuine incubation centres, and did not place as much importance on new starts as genuine incubation projects would do.

2.17 The strong performance on businesses support is due to more rapid take-up of the business units than was originally envisaged (rather than a high churn/turnover rate of businesses). According to project managers, churn to date has been lower than they had anticipated.

2.18 Outputs will need to be considered over a longer period of time, other than consideration of initial short-term outputs while the centres are becoming established. A rate of churn and of new jobs and businesses creation per year will be maintained into the future together with multiplier effects.

Table 2-5: Performance of Managed Workspace Projects

£000s	Job Creation	Business Creation	Business Support	Floorspace (sq m)
Contracted	39	16	64	4183
Actual	37	4	97	4183
Balance	-2	-12	33	0
Average of Actual as % of Contracted	95%	25%	151%	100%
Average unit costs (£000s)	£374	£3,458	£143	£4
Range of unit costs (£000s)	£142-£554	£2,123- £4,100	£76-£345	£2-£7

Source: Regeneris Project Review Database.
Actual as % of Contracted presented as an average of individual projects within each theme

Innovation & Knowledge Transfer

2.19 Innovation and Knowledge Transfer projects have, on the whole, supported far more businesses than were contracted. Nevertheless, the average unit costs reported (£16,100 per business assist) is an indication of intensive assistance, so the projects have assisted a greater number of businesses whilst still providing intensive interventions.

2.20 Unit costs for job creation, whilst slightly below target, are reasonable if these are higher-value jobs in key innovation and technology-oriented sectors. Given the projects' emphasis on boosting innovation and use of knowledge, we would expect the impact on productivity to be much greater than on employment. It is pleasing that the activities have stimulated some new business formation, even though this was not part of delivery contracts.

Table 2-6: Performance of Innovation & Knowledge Transfer Projects			
	Job Creation	**Business Creation**	**Business Support**
Contracted	30	0	128
Actual	27	9	302
Balance	-3	9	174
Average of Actual as % of Contracted	90%	N/A	236%
Average unit costs	£50,078	£110,000	£16,101
Range of unit costs[1]	N/A	N/A	£3,085 - £43,333

Source: Regeneris Project Review Database.

Note: 1. Only one project (Knowledge Transfer Partnerships) was required to report on job creation and none were required to report on businesses created.

Actual as % of Contracted presented as an average of individual projects within each theme

2.21 The core RDA Tasking Framework outputs do not truly reflect the activities being delivered by the projects. For example, whilst the output indicator 4a[21] provides an effective measure of first interaction between the businesses and the knowledge base, it provides no evidence of the depth of interaction or relationship development. A number of project teams have reviewed options for generating other KPIs, but have found that this is far from being a simple task (e.g. how to quantify the human interaction benefits of knowledge networks and other knowledge collaboration activity). NESTA are currently working on developing innovation metrics.

2.22 Other key outputs recorded were:

- New connections to the knowledge base (defined as both private and public sector research organisations).

- Number of businesses engaging with regional, national, and European innovation support initiatives. This is consistent with projects which seek both to connect beneficiaries to the region's knowledge base, and assist them in accessing funding for innovation.

- Number of people assisted with their skills development (work-based training). This reflects the fact that training is also regarded as an important part of the innovation process (e.g. to improve the capacity of a company to drive forward innovation within the business).

- Applicants moving to the next stage of commercialisation (i.e. next stage funding, license agreement, revenue generation, commercial collaborations).

2.23 By and large, projects appeared to be successful in meeting contracted (or forecast) targets on these indicators. For example, the IAS project helped 191 businesses to connect with the knowledge base and provided some 466 individuals with work-based training.

[21] Number of businesses engaged in new collaborations with the knowledge base (4a).

Project Investment

Managed Workspace

2.24 For the Managed Workspace projects, all funding was considered capital (SEEDA directly developed and funded fully). There was no up-front private sector investment in the schemes, although tenants of the centres do pay a full market rental rate. There are some staff costs for on-site management and reception facilities. However, these are not reflected in the table below, as the majority of these costs are offset by the revenue income from renting the units. The costs of providing any business-support-related activities were met by the Enterprise Gateways/Hubs contracts.

2.25 Initially, SEEDA provided gap funding for provision of managed business space/incubators around the region: however, this was declared illegal State Aid by the EU in 2000. Since that date SEEDA has made a strategic decision to directly provide new managed business centres.

Innovation & Knowledge Transfer

2.26 Innovation & Knowledge Transfer projects were mainly revenue spend, and interventions were delivered by teams of advisors. In the future, delivery arrangements are likely to look very different; under the IDB model, Business Link will broker support to specialist providers (including in the private sector) and, sub-regional place-based Innovation Teams are being established.

2.27 The majority of the Innovation & Knowledge Transfer projects were funded entirely by SEEDA. The£750,000 private costs shown in Table 2-7 below were accounted for by just one project; the Knowledge Transfer Partnerships required businesses to part-fund interventions intended to help them engage with the knowledge base for specific projects of strategic importance to their business growth.

Table 2-7: Project Spend (£000's)

	Incubation	Innovation/ Knowledge Transfer
Total SEEDA Costs	£13,590,058	£5,722,977
Total Private Costs	£0	£757,643
Total Public Costs	£0	£0
Total Contributions in Kind	£0	£0
Total Costs	£13,590,058	£6,300,620

The Beneficiaries

Managed Workspace

2.28 According to project managers, the majority of tenants were at the micro end of the SME market (i.e. 1-10 employees) or sole traders. Very few firms had more than 10 employees, reflecting the aims of the centres to provide a place for small and start-up firms to locate. This is reflected in the results of the tenant survey - around two-thirds of respondents were micro businesses and some 30% were sole traders.

2.29 Not surprisingly, the majority of businesses could be found in the lower turnover bands -

around one-half of firms surveyed reported an annual turnover of under £200,000. The employment and turnover ranges can partly be explained by the age of the businesses. Around one-third of tenants had been in business less than two years, with another one-third being in business for between three and five years.

2.30 Sector targeting has been considered by the projects, reflecting the composition of the local economy. At the time when the projects were developed and brought forward, there was no clear identified need for a sectoral focus in Newhaven. In Shoreham the Enterprise Gateway already had a creative sector focus, but it was felt that these users had no special needs which could be reasonably met by the business centre. A similar decision was taken for Faringdon where the local market has a rural sector focus. Workshops provide space for more 'manual' professions/firms and manufacturers. As the centres approach full occupancy, one of the issues that will need to be considered further will be whether there is a case for a more sectoral focus.

2.31 The majority of firms are focused on local markets (some 60% of businesses surveyed reported at least 80% of sales being in the South East). Whilst this is partly down to the buoyancy of the region's economy (i.e. a strong local market), it also reflects the sectoral composition of tenants, many of which are likely to be operating in local markets, adding little additional wealth to the local economy.

Innovation & Knowledge Transfer

2.32 For this theme, there was a much greater variation in the size of businesses supported. Around one-third of the 135 firms that took part in the survey were micro businesses, but one-quarter were large businesses (i.e. more than 250 employees). There was an equally striking spread by turnover, with just over one-fifth of businesses reporting an annual turnover of under £50,000 and some 30% of firms turning over more than £2.5 million per year. This is a positive finding, as one of the core aims of provision of Innovation and Knowledge Transfer services should be to create collaborative working between small and large businesses, as well as between the HEI and private sectors.

2.33 The sectoral pattern of businesses that took part in the survey was concentrated in business services, computing services and manufacturing. More than half of businesses surveyed reported less than 10% of sales being in the South East region. This again reflects the nature of the markets in which these businesses operate in – firms operating in intensely competitive sectors that are open to trade, and which need to innovate to stay ahead of rivals.

The Support Provided

2.34 The Managed Workspace centres provide 'first-step' grow-on space and an opportunity for networking with other firms. However, when asked what support they had received, of the 31 Managed Workspace clients that took part in the survey just 21 stated that they had received assistance with business premises. Clearly, all were (or had been) tenants of the centres and were occupying business space in premises funded by SEEDA. However, a number of businesses received additional support (possibly from the Enterprise Gateways). The Managed Workspace tenants were charged market rents (i.e. no subsidy) and it may be that some did not view locating in the Managed Workspace centres as a type of business assistance.

2.35 Firms assisted under the Innovation & Knowledge Transfer projects in the main utilised financial support, specific advice and access to networks.

Table 2-8: Type of Assistance Received by Participants in Telephone Survey

Assistance received	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	%
Financial	1	3%	57	42%
Assistance with business premises	21	68%	7	5%
Specific advice or guidance	10	32%	40	30%
General Information	3	10%	19	14%
Access to networks	2	6%	49	36%
Total	37	-	172	-

Source: Regeneris Consulting Survey of beneficiaries Q16.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

2.36 The majority of firms claimed to have only received one type of assistance. Some received 2 or 3. A number of firms supported under the Innovation and Knowledge Transfer strand had received both the provision of advice and financial support for innovation.

Table 2-9: Number of Types of Assistance

Number of Types of Assistance received	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	%
One	27	87%	111	82%
Two	2	7%	17	13%
Three	2	7%	4	3%
Four	-	0	-	0
Five	-	0%	3	2%
Grand Total	**31**	**100%**	**135**	**100%**

Source: Regeneris Consulting Survey of Beneficiaries Q16.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

Market Failure

Managed Workspace

2.37 The Managed Workspace programme does not neatly or completely address any single one of the established market failure categories. Instead it touches upon several possible market failures. SEEDA has justified its investment on the grounds of a value gap between the costs of developing the centres and the rental returns that might be secured[22]. Whilst market

[22] A lack of private sector workspace provision is not in itself evidence of market failure if it is due to a rationale business decision that investment will not generate sufficient returns (i.e. there is insufficient demand). In other words, the lack of investments in these areas may be the most market efficient outcome.

testing and appraisal suggested that rental levels should be high enough to cover running costs, they were judged to be insufficient to generate a return on investment which could cover capital costs. Three possible market failure cases could be put forward:

- The **spillover effects** of investment ie the centres are acting as a stimulus for generating a more entrepreneurial culture, and also focal point for local regeneration. These have been further enhanced by the linkages forged between the firms in the managed business centres. For the spill-overs to actually realise it full impact on local economic conditions, the investment should probably be on a larger scale and more integrated into wider physical initiatives.

- A case could also be made on the grounds of tackling **negative externalities** associated with undeveloped land. These workspaces have remediated brownfield land and made it more economically viable for future development in locations where the market assessed costs to be too high. This case provides a justification for the preparation element of the workspace initiatives rather than the subsequent construction of high-spec workspace.

- Previous evaluations have also cited **imperfect information** as a rationale for investment in managed workspace, based around an assertion that the private market is not aware of latent demand and potential in the local economy. In these cases, projects have provided schemes of a comparable quality/fit to that provided by the private sector, in order to send a signal to the market that there is demand that can be tapped into. This case is further strengthened by the risks than associated with the flexible leases offered to tenants (although some private sector developers such as Basepoint and Regus do offer flexible lease terms in their developments in more buoyant areas). In this instance, the imperfect information case is not strong as the market testing and appraisal found that the private sector would not have brought the investments forward under any circumstances.

- **Market power** was cited as a possible justification for investment. This would be appropriate cause for intervention if dominant ownership of physical assets or an overly restrictive planning regime were acting as barriers to investment. However, in this instance, the market power case is not strong.

2.38 A clear case can be made for the Managed Workspace interventions (and one that was implicit in all the projects reviewed) on **equity grounds** as the investments have sought to stimulate business creation and growth in areas of economic under-performance[23].

2.39 Together these factors point towards a reasonable grounds for intervention. Whilst each could be further strengthened with more evidence, better structured around the established concepts of market failure, partners including Business Link, local Chambers and local authorities all agreed that a lack of business space was constraining business creation in the target areas. The investments are a reasonable and practical response to local market conditions.

2.40 Although there have been State Aids reasons standing in the way of SEEDA pursuing gap

[23] Equity here is in the context of spatial economic outcomes , rather than socially optimal outcomes.

funding with the private sector, a closer logic chain to explain the actual configuration of each investment and how it is intended to address market failures would put this programme on a stronger footing in the future.

Innovation & Knowledge Transfer

2.41 A number of possible market failures were cited by project managers:

- **Knowledge Transfer.** There is a sub-optimal interface between the holders and users of knowledge, as identified by the Lambert Review[24] and BERR Innovation Report[25]. Although the UK has a strong science, engineering and technology base, the record of knowledge transfer and exploitation by business has generally been weaker than in other nations, although the South East performs better than most other English regions. The knowledge transfer partnerships and networks were set up specifically to address this failure. This is arguably a way of addressing a market failure around market power (although it is not directly addressing issues on monopoly or monopsony power distorting market conditions).

- **Innovation skills.** This is a clear example of an externality market failure, under which the knock-on benefits of investment (in this case in skills) are not adequately priced by conventional market mechanisms, leading to under-supply (e.g. a well-trained workforce has a positive effect on the underlying competitiveness of labour markets and benefits the economy, but businesses tend not to invest enough because they fear losing trained staff to competitor businesses). The Innovation Advisory Service was configured to tackle this market failure.

- **Innovation advice.** Companies need collaborators and face costs scouting for innovation connections in the South East. Large companies often do not commit the resource to search for new innovations, are not incentivised to sell/exploit intellectual property in the short-term. Companies are reluctant to license concepts for development and engage in collaboration. Innovation advice fills a gap by bringing large companies together with the small companies that can deliver for them. The Innovation Advisory Service was configured to tackle this market failure. Again, this is arguably a way of indirectly addressing a market failure around market power.

2.42 The most powerful market failure argument, but one which was not cited, centres on imperfect information (where poor awareness and limited understanding lead to sub-optimal or irrational decision-making). The innovation process is a complex one, which requires companies to understand a wide array of issues from technical testing obligations to the funding regimes which can support R&D. Without at least a basic amount of understanding of the options available, businesses may make the wrong investment decisions or simply not invest at all. SEEDA-funded innovation support is helping SMEs to navigate this landscape when, particularly for very small and start-up businesses, it may absorb substantial resources and be prohibitive in cost terms.

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[24] HM Treasury, Lambert Review of Business-University Collaboration (2003).

[25] BERR, Competing in the Global Economy: the Innovation Challenge (2003).

2.43 The Public Goods market failures (i.e. goods and services to which access is hard to control and thus difficult to charge for, such as awareness-raising campaigns and other forms of information to businesses) does not appear relevant in the projects examined in this evaluation.

Summary Assessment of Projects

2.44 Table 2-10 below summarises the potential rationale for SEEDA's interventions, with further information provided under each of the theme headings.

<table>
<tr><th colspan="6">Table 2-10: Summary of Potential Rationale for SEEDA's Interventions</th></tr>
<tr><td></td><td colspan="4">Market Failure</td><td rowspan="2">Equity</td></tr>
<tr><td></td><td>Public Goods</td><td>Externalities</td><td>Imperfect Information</td><td>Market power</td></tr>
<tr><td rowspan="2">Managed Workspace</td><td></td><td>√√</td><td>√</td><td></td><td>√√√</td></tr>
<tr><td colspan="5">Equity. The investments have sought to tackle economic under-performance in lagging areas and to foster a more equitable spread of enterprise and business growth across the region by increasing the stock of business premises.</td></tr>
<tr><td rowspan="2">Innovation & Knowledge Transfer</td><td></td><td>√√</td><td>√√√</td><td>√</td><td></td></tr>
<tr><td colspan="5">Imperfect information. Poor awareness and limited understanding of technologies lead to low levels of take up.</td></tr>
<tr><td colspan="6">Note: For strength of market failure case, 1 tick = weak case, 2 ticks = partial case, and 3 ticks = compelling case. No ticks = no case. Source: Project Reviews.</td></tr>
</table>

2.45 The following section assesses the themes against a number of key tests of project suitability.

Managed Workspace

- **Tackling regional objectives.** The projects appear to support the objectives described in the RES of raising the level of start-up activity in less prosperous parts of the South East. The investments are also providing urban regeneration benefits. In addition, the projects may have some impact on business perceptions, business confidence and the rate of new business formation in the target areas. Once the centres have been operating for a number of years they could have a larger impact on business confidence, establishment rates and business survival and growth rates.

- **Efficiency of delivery.** Managed Workspace projects complement the enterprise hubs and gateways and appear to have provided high-quality business space at a cost that is in line with English Partnerships benchmarks.

- **Targeting of beneficiaries.** The sectoral composition of tenants reflects that of the local economy. The centres appear to be attracting a mixture of clients in terms of their growth objectives.

- **Project ambition.** The centres are ambitious in the sense that they are located in areas in which the economy had been underperforming the regional average for many years, and are all intended to become commercially sustainable without the need for ongoing SEEDA funding. This is an aspiration that looks likely to be realised.

- **Best-practice and innovation in delivery.** The centres have incorporated best-practice in design, technology and sustainable materials, and are rated under the Building Research Establishment Environmental Assessment Method (BREEAM) as either 'very good or excellent'.

- **Impact on strategic objectives.** The projects are likely to have only a modest impact in the short-term on regional objectives to boost the rate of new business formation, although they may have a longer-term impact on local enterprise rates. Given the quality of the business space, they may be more successful in helping to increase the survival rate of local businesses, although this has to be tempered against the fact that a high percentage of tenants are likely to be operating in local markets, and so high displacement of existing activity is likely to result in little overall addition to the business stock.

- **Market failure and complementarity.** The most compelling argument is on equity grounds. The investments have sought to tackle economic under-performance in lagging areas and to foster a more equitable spread of enterprise and business growth across the region by increasing the stock of business premises.

- **Appropriateness of beneficiaries.** The managed business centres are very suitable for small and starter businesses that do not want to commit to a long lease, and could be in a period of rapid growth or change. Some businesses which are located in the centres may well have previously been operating in sub-standard premises (e.g. old workshops, back offices or bedrooms and garages).

2.46 There does appear to be a clear logic chain for the investments in terms of inputs, activities, outputs and intended impacts, although project managers were most concerned with delivery of outputs.

Innovation & Knowledge Transfer

- **Tackling regional objectives.** The projects are clearly providing intensive support to knowledge-intensive companies in growth sectors. However, the volume of companies provided with assistance represents a low level of market penetration of either the overall business base or the innovation active segment of it. This most likely can be explained by a combination of i) resources and ii) the intensity of assists. Following advice from the regional Science & Industry Council (and based on limited budgets), it was decided to focus investment in priority sectors/ technologies. Knowledge transfer projects appear to have a comprehensive process of matching academics to businesses to assist R&D aspects. They have also been heavily influenced by the Lambert Review[26] which recommends stronger and more effective HEI-business interaction.

- **Efficiency of delivery.** It is difficult to assess the efficiency of innovation service delivery, since performance has been reported in an informal and variable manner. Given that long-term assists are one key feature of the innovation support, assistance will inevitably be resource intensive. Knowledge-transfer support draws on a number of existing networks, including individuals from universities to forge

[26] HM Treasury, Lambert Review of Business-University Collaboration (2003).

links and bypass the bureaucracy of universities' Technology Transfer Offices. In other words, the services may be more efficient, but it is difficult to come to a definitive judgement based on the monitoring information collected to date.

- **Targeting of beneficiaries.** Again, it is difficult to make an assessment for innovation services, given the type of assistance which is available. However, it appears from case studies and descriptions of the type of assistance received by companies that the service is offering a highly tailored approach. Nevertheless, at present this targeting is not sufficiently focused (i.e. there has been a 'first-come, first-served' approach). Knowledge transfer projects appear to be matching companies to academics well.

- **Project ambition.** The innovation projects are clearly operating with comparatively low volumes of clients and they offer an unusually intensive approach. There is no robust evidence, as yet, that can conclusively demonstrate that the projects are encouraging businesses to become more ambitious, but large and small businesses are being brought together by the service and it is expected that this will lead to some potentially high value collaborations. Nevertheless, it is probably too much to expect that these projects alone will have a transformative effect on the South East economy.

- **Best-practice and innovation in delivery.** The innovation services are unique in terms of both flexibility and intensity. The open innovation concept is becoming established within and outside of the region. Knowledge transfer projects are using a holistic comprehensive approach based on knowledge collaborations rather than grants to promote R&D.

- **Impact on strategic objectives.** A substantially scaled-up innovation support could have a significant impact on the region's overall innovation performance. But the penetration rate is currently very low as a percentage of the innovating business base and the services are unlikely to make any noticeable impact on the overall pattern of innovation. SEEDA should consider investing in more discrete, but foundational catalytic demonstrator interventions than in trying to provide large volumes of businesses with innovation advice.

- **Market failure and complementarity.** There is a persuasive case that the private sector would not take up innovation support of this intensity and duration on a commercial basis, and that the SEEDA-funded projects are offering services which provide a coherent approach to a complex, risky and potentially costly challenge for businesses. Market failures relating to imperfect information stemming from the technical complexity of some aspects of innovation provide a more convincing rationale for intervention than those relating to negative externalities. For SMEs in particular, finding a way through the maze of information about new product development is difficult and the hands-on support of an expert advisor appears to provide crucial guidance.

- **Appropriateness of beneficiaries.** The target beneficiaries appear to be appropriate, but the projects should do more to clearly define those targets and the criteria for entry to the service. In addition, the projects appear to have supported a large number of firms located outside the South East (24% of those that took part in the beneficiary survey). Whilst these firms may have important supplier/customers linkages with other firms in the region, this does suggest that a more careful review of business locations is required.

2.47 There does appear to be a clear logic chain for the investments in terms of inputs, activities, outputs and intended impacts, although project managers were most concerned with delivery of outputs.

3. Impact on Businesses Supported

Business Trends and Ambitions

3.1 The majority of businesses assisted have seen no significant improvement in their standing after receiving SEEDA-funded innovation infrastructure support. Although firms have grown their turnover and employment since receiving support, the figures do not show SEEDA's assistance to be a decisive factor. Too many firms have reported no change in competitiveness at a time when the wider economy had continued to grow strongly.

3.2 Some 39% of firms benefitting from Managed Workspace reported an improvement in their standing. Still, fully half of firms described their businesses as having the same competitive position now as they did prior to receiving the support. This is a similar figure to that reported by firms assisted by the Enterprise Gateways (see *Individual Enterprise* evaluation). Just over one-quarter of firms that have received innovation/knowledge transfer support reported an improvement in performance, with 61% reporting no change.

Table 3-1: Improvement in Company Performance After Receiving Support

Change in company performance	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	%
Improved	12	39%	35	26%
Worsened	3	10%	17	13%
Stayed the same	16	52%	83	61%
Total	31	100%	135	100%

Source: Regeneris Consulting Survey of beneficiaries Q14 and 71a
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 16.5%, Innovation and Knowledge Transfer +/- 8.9%

3.3 Around 90% of businesses provided with Innovation and Knowledge Transfer support appear to be growth minded, which is a positive message, and suggests that the projects have been successful in working with more ambitious businesses. Some 75% of businesses in Managed Workspace wish to grow their businesses. This reflects the composition of the tenant bases: the Managed Workspace centres contained a mixture of businesses, some of which are serving local markets and have more modest growth ambitions.

Table 3-2: Growth Ambitions of Company

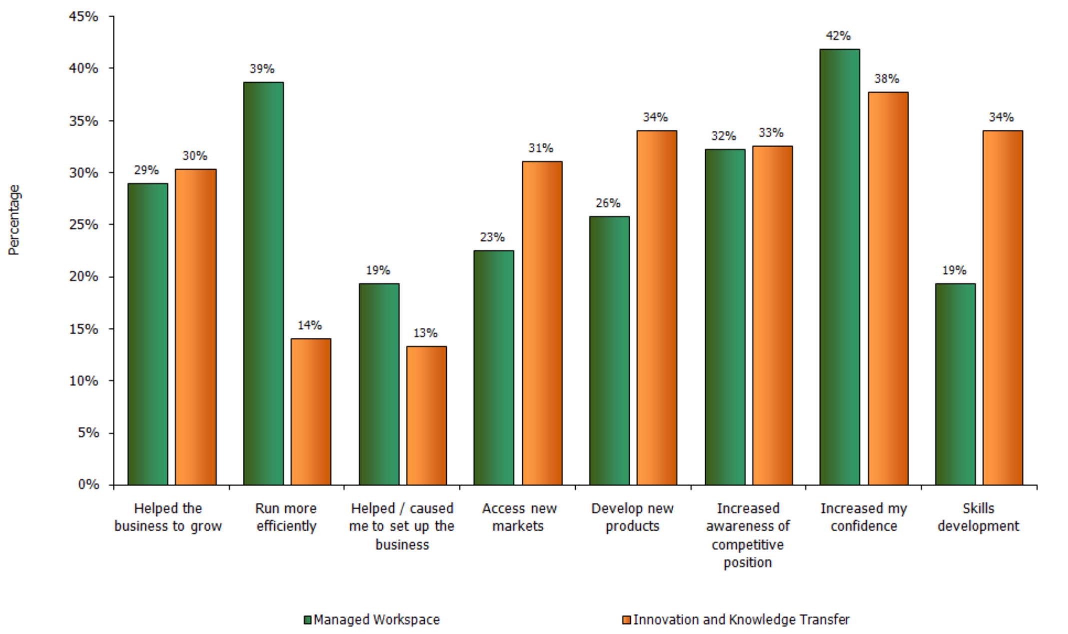
	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	%
Focused on ensuring survival	2	6%	9	7%
Do not wish to grow the business beyond its current size	6	19%	6	4%
Wish to grow the size of the business a little	10	32%	32	24%
Wish to grow the size of the business significantly	13	42%	88	65%
Total	31	100%	135	100%

Source: Regeneris Consulting Survey of beneficiaries Q15.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

Changes to the business

3.4 On six of the eight potential impacts of the business support, more than 20% of Managed Workspace firms surveyed report a fairly significant or transformational impact since receiving the support.

Figure 3-1: Companies Stating a Fairly Significant or Major and Transformative Impact on Aspects of Business Performance



Source: Regeneris Consulting Survey of Beneficiaries Q72

Note: At a 95% confidence level, the data in this figure has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

3.5 The most noticeable impacts reported by firms located in Managed Workspace centres were on their confidence and on the efficiency of their business to run more efficiently. Greater awareness of businesses' competitive position was cited as another important benefit.

3.6 Innovation/knowledge transfer support appears to have yielded the greatest impacts on business confidence and skills. A relatively high number stated that they have developed new products, whilst the high percentage of businesses that have seen new markets opening up suggests that the support has been configured to new customers, and perhaps has been well integrated with mainstream marketing advice.

Table 3-3: New Markets Opened Up as a Result of Services Received				
	Managed Workspace		Innovation and Knowledge Transfer	
	Number	% of businesses	Number	% of businesses
In the South East	9	29%	42	31%
In the rest of the UK	4	13%	48	36%
Overseas	3	10%	39	29%
No new markets have opened up	19	61%	65	48%
Total	35	-	194	-

Source: Regeneris Consulting Survey of Beneficiaries Q71.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 8.06%.

3.7 Most firms stated that they would not be prepared to pay any more (or pay at all if the services received were free), and many firms did not know whether they would be prepared to pay more. Only 20% of innovation/knowledge transfer beneficiaries would be prepared to pay any more for the support they received, suggesting that much more work is needed to persuade businesses to take more of a stake in the services they received. This may, however, be a more localised response to the specific experience they had. Given that Managed Workspace tenants are being charged market rents, it is unlikely that they would be willing to pay any extra.

Table 3-4: Preparation to Pay More for the Service Received				
	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	Number
I would not be prepared to pay any more	21	68%	75	56%
I would pay between 0-10% more	4	13%	18	13%
I would pay between 11-25% more	-	0%	8	6%
I would pay between 25-50% more	-	0%	1	1%
I would pay more than 50% more	-	0%	3	2%
Don't know	6	19%	30	22%
Grand Total	**31**	**100%**	**135**	**100%**

Source: Regeneris Consulting Survey of beneficiaries Q76.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

3.8 For the most part, businesses' experience of the services received and accommodation provided were in line with what they expected. On the one hand, this suggests that providers clearly explained to firms the support they could expect to receive, firms understood this, and providers largely delivered on expectations. On the other, it may, when allied to the other findings on actual changes, suggest low levels of expectations before receiving the support.

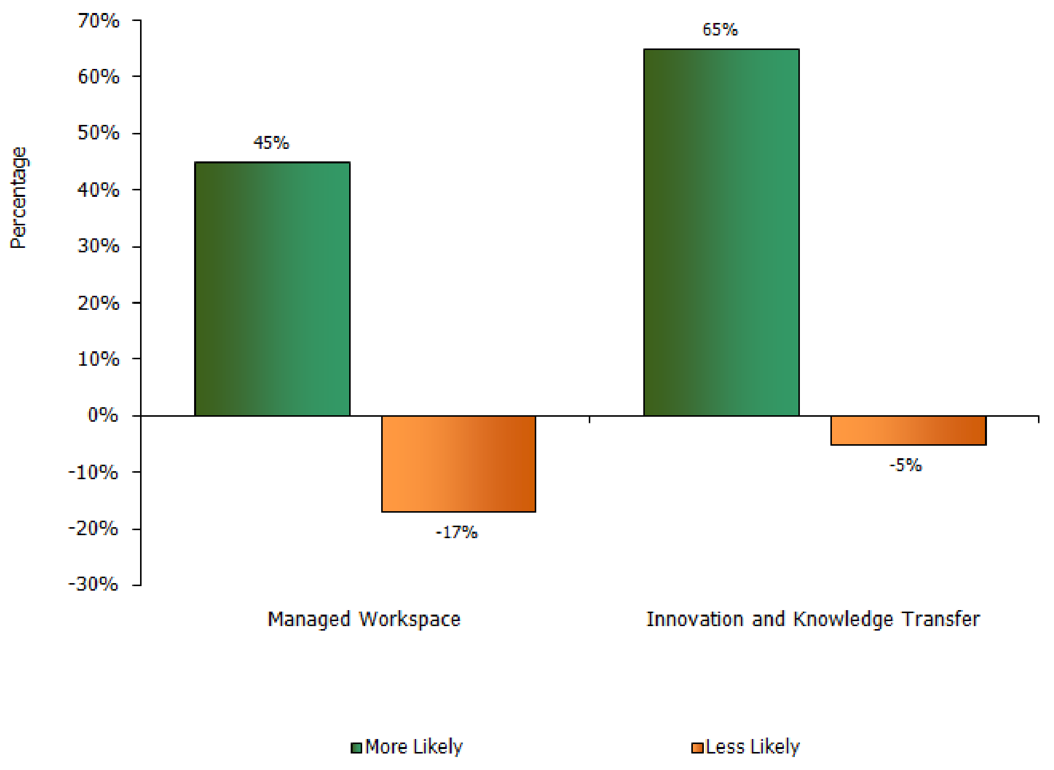
Table 3-5: Match up of Experience and Expectations

	Managed Workspace		Innovation and Knowledge Transfer	
	Number	%	Number	Number
Greatly exceeded them	6	19%	8	6%
Slightly exceeded them	5	16%	27	20%
Largely in line with them	16	52%	80	59%
Fell slightly short of them	3	10%	10	7%
Fell well short of them	1	3%	8	6%
Don't know	-	0%	2	1%
Grand Total	**31**	**100%**	**135**	**100%**

Source: Regeneris Consulting Survey of beneficiaries Q77.
Note: At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

3.9 Nevertheless, many more businesses stated that they were now more likely to seek external support in the future than those who were less likely to. This does suggest that the support received has been valued by clients, that it was of sufficient quality to make customers come back for more and provides a good platform for increasing business use of personal advice.

Figure 3-2: Change in Likelihood of Seeking External Support

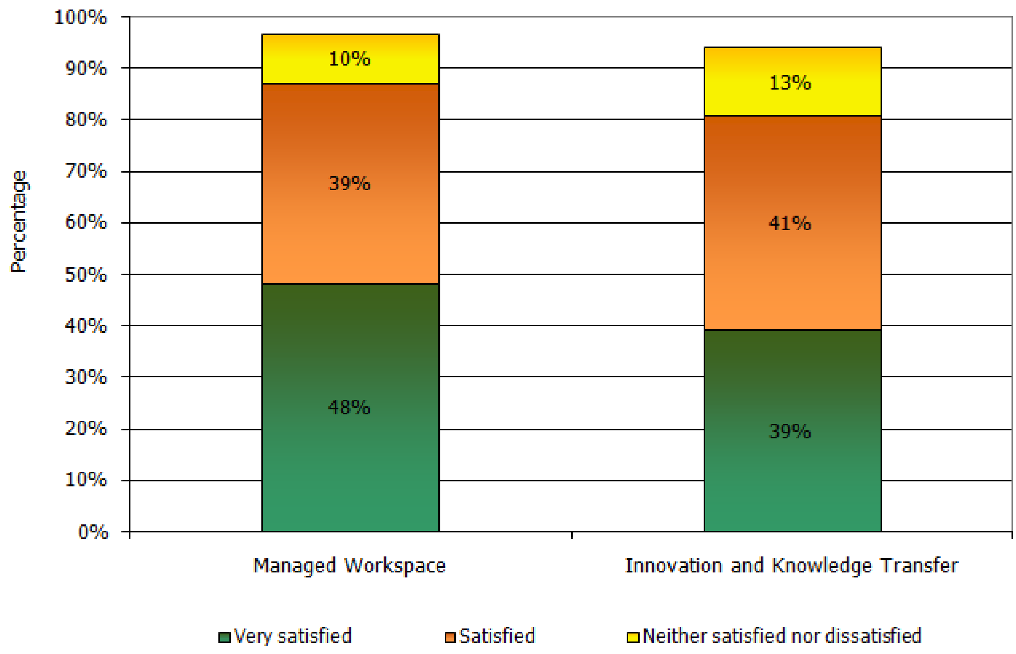


Source: Regeneris Consulting Survey of beneficiaries Q78.
Note: At a 95% confidence level, the data in this figure has the following margins of error: Managed Workspace +/- 15.3%, Innovation and Knowledge Transfer +/- 7.9%.

Perceptions of the Support Received

3.10 Projects were judged against five key criteria: understanding of business needs; responsiveness of service to company needs; appropriateness of advice, guidance, and support offered; overall quality of the service; and technical understanding of business needs. Across all these measures, the projects by and large appear to have offered a good fit to the business needs of the companies assisted. Overall, the survey provides very positive feedback on the satisfaction levels of firms. As is often the case, despite limited signs of change in the way the company is run, businesses are on the whole pretty satisfied with the support they received.

Figure 3-3: Overall Satisfaction with Service Received



Source: Regeneris Consulting Survey of beneficiaries Q79.
Note: At a 95% confidence level, the data in this figure has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

What Might Otherwise Have Happened: The Counterfactual

Managed Workspace

3.11 Some 50% of firms supported under the Managed Workspace theme stated that, had the SEEDA-funded accommodation not been available to them, they would have been able to find suitable alternative premises in their required timeframe elsewhere in the South East, and that the growth of their business would not have been constrained in any way. A further 10% stated that they would have found premises, but not necessarily as quickly or at the same cost. Around one-third of businesses which are located in the centres were previously operating in sub-standard premises (e.g. old workshops, back offices or bedrooms and garages). Even taking into account the small size of the sample, the results (for the projects reviewed) suggest that for the majority of tenant businesses a lack of suitable accommodation is not a major constraint on their performance.

Innovation & Knowledge Transfer

3.12 Some two-thirds of businesses assisted under this theme stated that without the SEEDA-funded support, they would not have been able to undertake similar investment/actions to those that resulted from their involvement in the project. This suggests that for many of the businesses, the projects enabled them to do something that they would not have been able to do if left to their own devices. Around 40% felt that they would not have been able to find any alternative sources of advice/support if they had to search the commercial marketplace.

Qualitative Impacts on Businesses

3.13 Whilst the analysis has focused in the main on the quantitative impacts of support, it is important to consider qualitative impacts, which are not easily captured in standard economic indicators.

Managed Workspace

3.14 The reviewed Managed Workspace projects have yet to undertake any large-scale formal assessment of impact from their clients. However, all pointed to website testimonials from satisfied tenants. The centres have provided companies with flexible environments within which to grow and they have helped to create a business community within which firms can network. They have also brought firms into contact with the business support on offer from the enterprise hubs/gateways.

Innovation & Knowledge Transfer

3.15 It is important that the focus of this evaluation on economic measures of impact should not exclude the wider impacts of Innovation and Knowledge Transfer activities, and in particular the wider impacts on HEI's longer-term commitment to supporting business development, engaging in collaborative applied research, delivering economic development services and participating in networks. Evidence, albeit anecdotal, points to a number of positive impacts of the projects:

- They are stimulating a peer group of collaborating entrepreneurs
- They are demonstrating the value of innovation
- More businesses are being encouraged to work with universities and there is some evidence from the beneficiary survey that some HEIs are becoming better at understanding businesses needs.

4. Impact on the South East Economy

Impacts Measured

4.1 We have included three assessments of impact:

- **Current Year Impact.** This assessment simply takes the figures for 2008 turnover, jobs and profit to generate the gross increases in company performance since the time the support was received.

- **Cumulative Impact.** This assessment takes into account the fact that supplementary financial impacts will have accrued to the company and region in the intervening years between 2008 and the start date of the intervention. To include an assessment of the impact accruing to the intervening years, we have simplistically assumed a straight line growth trajectory[27].

- **Future Impacts.** This assessment is based on responses in the beneficiary survey on the business's future expected growth in the next five years and the degree to which they would attribute these changes back to the support received[28].

4.2 The focus on GVA was not a central driver at the time of some of the investments made by SEEDA. However, there has been a growing focus nationally on GVA over time, and the South East RES has consistently placed GVA at the heart of its vision. The evaluation therefore focuses upon this measure (and subsidiary factors which make it up) as required for IEF compliance. However, it is worth noting that there may be safeguarded impacts which the survey has not captured.

4.3 At the time of the survey design, it was believed that the capital build projects were incubation centres. The survey questions therefore sought to assess the impact of revenue support and services available to tenants, as well as the impacts of locating in the centres themselves. On closer subsequent inspection, it became apparent that the projects were Managed Workspace.

4.4 The impact, value for money and return on investment estimates in this evaluation therefore reflect in some cases the views of Managed Workspace tenants on the impact of revenue-funded services they have obtained during their tenancy, and not simply the impact of locating in the centres themselves (so a mixture of revenue and capital impacts). Nevertheless, the gross to net adjustment factors and headline impact and value for money estimates are largely unchanged if the 10 businesses that did not state that they had received assistance with business premises are removed from the sample. The results contained in this Chapter are therefore informed by the responses of all 31 Managed Workspace tenants surveyed.

[27] The cumulative analysis has not been applied to Jobs Created.

[28] The Future Impact Assessment is not cumulative due to the way in which the future impact questions were asked.

Gross Impacts of the Project Sample to Date

4.5 Table 4-1 below shows an aggregated analysis of the telephone survey responses to demonstrate the likely gross achievements of the sampled projects[29].

Managed Workspace

4.6 Based on the results of the survey, aggregated-up to reflect total project spend and achievements, the businesses assisted under the Managed Workspace theme have created 39 additional jobs (at an average salary of £23,000, which is modest compared to the regional average but fares well in relation to average salaries in the local areas in which the centres have been built) and an additional £1.0million of GVA since they received the support (some 40% of turnover).

Innovation & Knowledge Transfer

4.7 Firms that have received Innovation & Knowledge Transfer support have created a total of some 623 jobs (at an average salary of £35,000, well above the median for the region), as would be expected if the jobs being created are high-skilled and high value added). Total additional GVA at around £22.5million represents half of the growth in turnover, and provides further evidence that the services are targeting high-value businesses.

Table 4-1: Estimated Gross Impacts in Sampled Projects (current year impacts)

	Gross Additional Jobs (no.)	Gross Additional Value Added (£millions)
Managed Workspace	39[1]	£1.0
Innovation and Knowledge Transfer	623	£22.5

Source: Regeneris Consulting telephone survey of beneficiaries.

Note.1 The figure for gross additional jobs refers to the increase in employment of tenant firms in the current year (i.e. after they took up occupancy at the Managed Workspace centres). During the same period, some 100 jobs have been logged on SEEDA's PMS for these centres. The PMS total includes all employment by new tenants, whereas the results from the survey are for new employment within the businesses.

Gross to Net Adjustments Factors

Adjustment Factors

Impact to Date of Support Received

4.8 To assess the net impact of the business support activity on the South East's economy four potential effects were considered: deadweight; displacement; leakage and multipliers[30].

[29] The sample of projects has been grossed-up to reflect the total achievements of the shortlisted projects.

[30] The Technical Appendix contains more detail on how these adjustments factors were developed. There were no direct questions about substitution because it is a difficult concept to measure. The scale of support provided by SEEDA in the context of the regional economy indicates that substitution is likely to be negligible.

Table 4-2: Adjustment Factors Based on Current Year Impacts		
	Managed Workspace	**Innovation and Knowledge Transfer**
Jobs	12–34%	12-25%
Turnover	28-46%	8–22%
Profit	95-96%	2-16%

Source: Regeneris Consulting telephone survey of beneficiaries. This table shows the proportion of gross impacts that translate into net additional impacts once deadweight, displacement and leakage have been accounted for and a multiplier applied. They have been generated using survey responses, apart from multipliers which were calculated using a cautious 1.3 uplift factor taken from EP Guidance for "limited local supply linkages and induced or income effects". These figures have been generated based on Current Year Impacts **not** cumulative impacts which are different due to the weighting accorded to higher gross impacts. Please see Technical Appendix for detailed commentary on the calculation of individual adjustment factors for displacement, deadweight, leakage and multiplier.
Note: Ranges have been calculated based on the margins of error associated with relevant questions in each theme – see Technical Appendix for more detail.

Managed Workspace

4.9 Overall, the business survey shows that these adjustment factors are substantial, although not entirely surprising, given the timings of the investments. For example, around 70% of jobs would have been created by these firms without the intervention (i.e. 70% deadweight), whilst 43% of attributable jobs have been displaced from other firms in the region. Overall, therefore, in the Managed Workspace theme, around one-quarter (i.e. the mid-point of the ranges above) of jobs created are truly additional to the South East economy (when taking into account margins of error).

4.10 The projects appear to have had a much greater effect on job creation than on turnover. This suggests, for example, that the quality of the business premises has been important in helping firms to reduce operational costs (e.g. through more effective use of broadband, which was on offer to tenants at most centres reviewed) and to become more internally efficient. Nevertheless, on both metrics reported on, net additionality appears modest compared against common benchmarks[31].

Innovation & Knowledge Transfer

4.11 Among Innovation and Knowledge Transfer clients, around 76% of jobs would have been created by these firms without the intervention and 12% of attributable jobs have been displaced from other firms in the region. Overall, among Innovation and Knowledge Transfer clients, approximately 18% of jobs created are truly additional to the South East economy. Turnover adjustment factors from the Innovation & Knowledge Transfer projects were extremely high, due to high leakage: just under one-quarter of the businesses assisted are located outside the South East, and even when removing outliers, leakage remained high. The interventions had a larger effect on jobs than on turnover (15%), which is perhaps surprising given that job creation was not a core aim of the projects. It could be argued that the support has helped firms to improve their competitive position (as shown in section 3)

[31] English Partnerships' guidance on additionality assumes net additionality on jobs to be 64% based on an employment density of 23.2 sq m per job and an occupancy rate of 87% for investments in business premises in underperforming areas characterised by market failure and low private sector activity.

and this has helped them to secure new staff, but that there will be a lag before this is reflected in additional turnover generation. Nevertheless, on both metrics, net additionality appears modest compared against common benchmarks.

Net Impacts

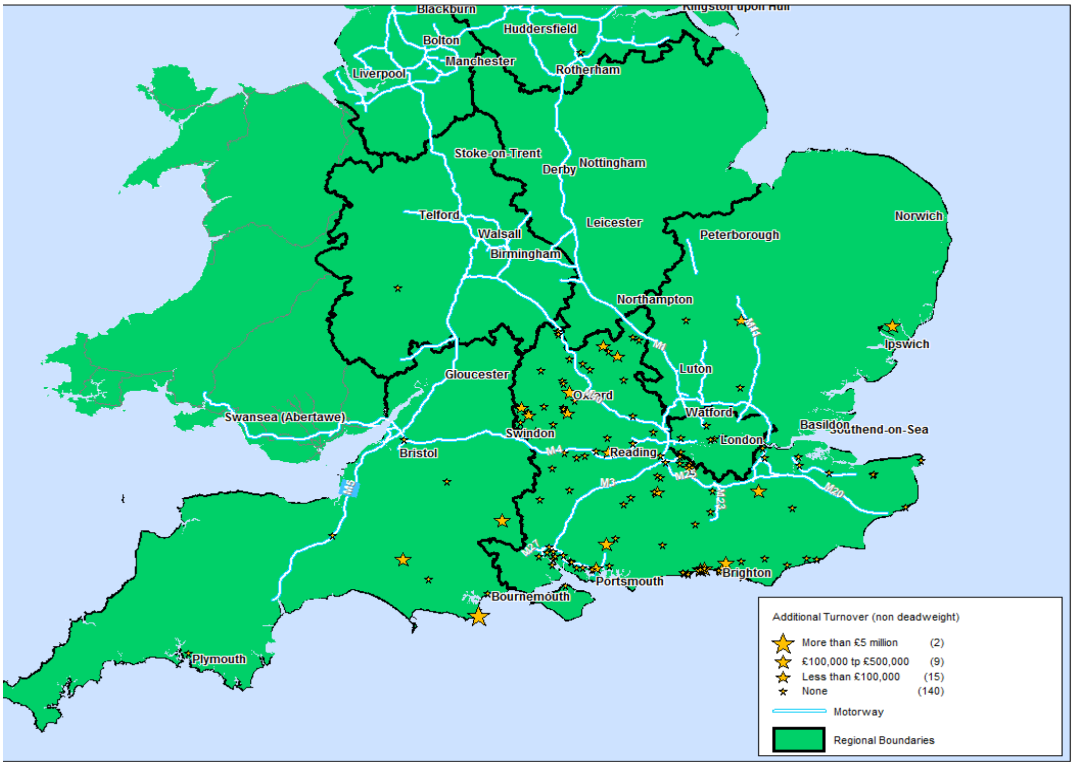
Managed Workspace

4.12 The Managed Workspace projects have generated an additional £1.3million of turnover and some £300,000 of net additional GVA, an additional GVA per job of some £17,700, which is reasonable given the timescales since the interventions took place.

Innovation & Knowledge Transfer

4.13 The Innovation & Knowledge Transfer projects examined in this evaluation have generated net additional impacts of £7million in turnover and £3.9million in GVA, an additional GVA per job of around £37,000. This is a good performance, and is likely to reflect a combination of the types and intensity of support provided and the types of businesses assisted (i.e. those that are or are seeking to become innovation active, and which are serving wider geographical markets).

Figure 4-1: Leakage of Turnover Impacts



Source: Regeneris Consulting Survey of Beneficiaries ©Digital Mapping Solutions from Dotted Eyes. All rights reserved. License number 10001998.

Contrasting Perspectives on Net Impacts

4.14 Project managers were asked for their opinion on the gross to net factors above for new sales, new jobs and businesses created. Whilst most project managers were confident that the deadweight, leakage and displacement effects of their projects would be minimal, the vast majority either found it difficult, or were unwilling, to quantify these factors and, in turn, to estimate the difference between the gross and net impact of their project. In some cases, managers were concerned that if they did provide quantitative answers to these questions, these could become de facto targets. The overall message is that project managers were more focused on the delivery of outputs, not impacts, as is often the case in RDA and European Structural Fund programmes, and they were not sufficiently focused on how they could configure the delivery of the project to maximise its overall impact on shifting the region's economic performance above it base trend line.

Table 4-3: Estimated Net Achievements in Project Sample (£millions)

	Managed Workspace	Innovation and Knowledge Transfer
Net Additional Turnover	£1.3	£7.1
Net Number of Additional jobs	17	106
Net Additional GVA	£0.3	£3.9

Source: Regeneris Consulting Survey of Beneficiaries.

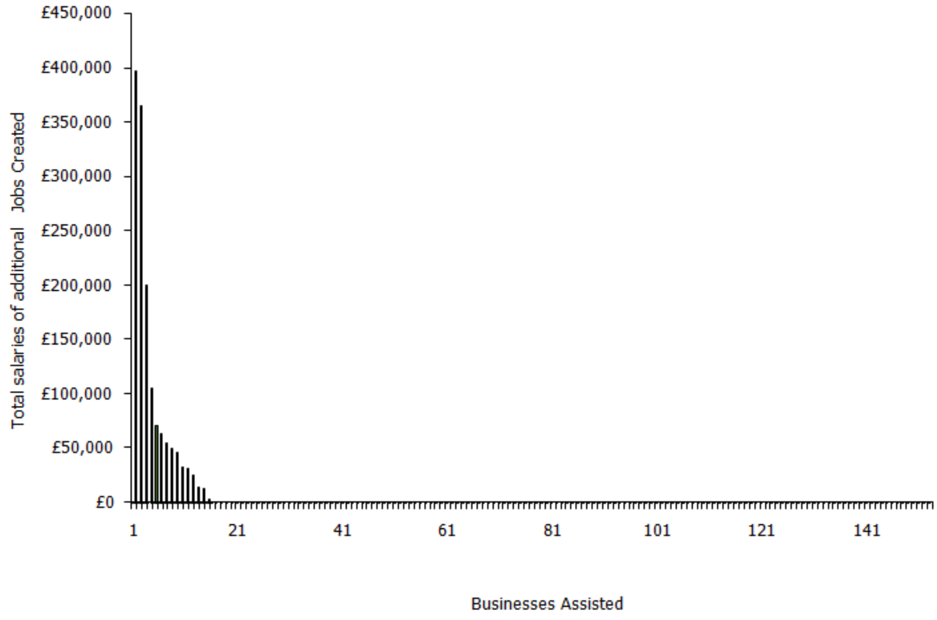
4.15 Previous experience – which was born out in this evaluation - suggests that when project managers do offer a view, they will tend to overstate the contribution of their projects to any changes both in the economic environment and in the performance of their target clients/beneficiaries, whilst the beneficiaries themselves are likely to understate the impact. This partly explains why the adjustment figures that have been generated from the beneficiary survey are much higher than those assumed by project managers.

4.16 The beneficiary survey played a crucial role in helping to provide a picture about the additionality to the South East economy of the SEEDA-funded interventions. There is always likely to be a perception gap between the views of the two, and arguably the narrower the gap, the greater the appreciation by clients of the value of the services provided, and the greater the net impact on the businesses.

Distribution of Impacts

4.17 The actual growth to date is highly concentrated in relatively few firms. Many of the businesses surveyed reported no increase in jobs. This is common with most publicly funded business support interventions.

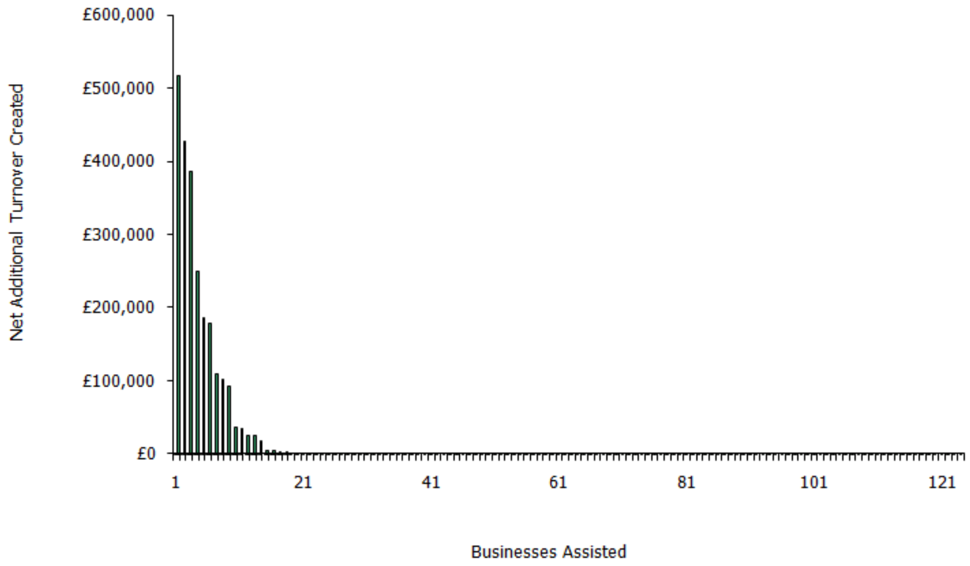
Figure 4-2: Distribution of Jobs Created



Source: Regeneris Consulting Telephone Survey Q61a.
Note: Businesses returning a don't know response to relevant questions have been excluded from this analysis. At a 95% confidence level, the data in this figure has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

4.18 The bulk of the net job gains achieved were accounted for by a minority of larger companies that had received Innovation and Knowledge Transfer support.

Figure 4-3: Distribution of Net Additional Turnover Created



Source: Regeneris Consulting Telephone Survey Q55 and Q56.
Note: Businesses returning a don't know response to relevant questions have been excluded from this analysis. At a 95% confidence level, the data in this table has the following margins of error: Managed Workspace +/- 14.6%, Innovation and Knowledge Transfer +/- 7.9%.

4.19 As with employment, a small number of firms for which net impacts were greatest accounted for the vast majority of the achieved net additional increase in turnover. Again, it was larger firms that generated much of these increases.

Estimated Achievements of the Programme

Impacts to Date

4.20 The total achievement of the programme can be estimated by grossing-up from the sample of projects to the entire programme of relevant SEEDA investments. In the current year, net additional GVA of between £400,000 and £500,000 has been generated by the Managed Workspace programme. The cumulative total achievement of the Managed Workspace programme is a net additional GVA of between £500,000 and £600,000.

4.21 This analysis suggests that the majority of impacts have occurred more recently, which is to be expected given the timings of the investments and the lag between spend occurring and subsequent occupancy of the Managed Workspace. During the evaluation period, the Newhaven Business Centre was under construction and did not generate any jobs or businesses until 2007/8, the Faringdon Business Centre had only just opened as a small shop front, and the Shoreham Business Centre had only been opened for a very short period of time.

Table 4-4: Overall Net Impacts on the South East Economy (current year impacts)

	Net Additional Jobs	Net Additional Turnover (£millions)	Net Additional GVA (£millions)
	Max-Min	Max-Min	Max-Min
Managed Workspace	33-24	£2.6-£1.9	£0.5-£0.4
Innovation and Knowledge Transfer	570-485	£37.9-£32.2	£20.9-£17.8

Source: Regeneris Consulting Survey of Beneficiaries

4.22 The Managed Workspace theme has generated net additional salaries of £12,000 per net additional job created, whilst the Innovation and Knowledge Transfer theme has generated a net additional salary of £35,000 per net additional job created.

Table 4-5: Average Net Additional Salaries of Jobs Created (current year impacts)

Theme	Average Salary of Jobs Created
Managed Workspace	£12,000
Innovation and Knowledge Transfer	£35,000

Source: Regeneris Consulting Survey of Beneficiaries.

4.23 Net additional GVA of £17.8million-£20.9million has been generated by the Innovation and Knowledge Transfer theme in the current year. Cumulative net additional GVA of £40.7million-£47.8million has been generated by the Innovation and Knowledge Transfer theme. These figures suggest that the impact of the interventions has become more apparent over time (as new ways of working become more ingrained and as the impact of related investments/actions start to manifest themselves).

Table 4-6: Estimated Overall Net Impacts on the South East Economy (cumulative impacts)			
	Net Additional Jobs	Net Additional Turnover (£millions)	Net Additional GVA (£millions)
	Max-Min	Max-Min	Max-Min
Managed Workspace	24-33	£3.0-£4.1	£0.5-£0.6
Innovation and Knowledge Transfer	629-739	£49.9-£58.6	£40.7-£47.8
Source: Regeneris Consulting Survey of Beneficiaries			

4.24 For those firms that have not reported either a past or expected future gain in employment or turnover, the support provided may have helped them to safeguard some jobs and sales (and to help to reduce costs). However, the survey results did not provide us with data to test this assertion.

Future Impacts

4.25 Businesses were also asked to estimate future employment and turnover growth over the next five years. There are two main reasons for this:

- The major benefit of some projects may have yet to be reflected in the reported figures - there is often a lag in generating and claiming jobs and sales (particularly so for physical workspace and for projects which seek to generate culture changes among assisted businesses)
- Business support interventions focused on long-term capacity building which might enhance business competitiveness and performance but only over the lifetime of the project spend (i.e. intended longer-term legacy impacts).

4.26 The estimated future impacts of the SEEDA investment programmes are much higher than the cumulative impact to date. It should be borne in mind, however, that firms' expectations of future performance may not always be calibrated by real work challenges. Previous evaluation evidence shows that firms often tend to be more positive about their future prospects. However, in this case, the uplift over their recent performance is massive (by a factor of about 12). These responses demonstrate a significant degree of ambition which appears not to have been adjusted for the reality of market conditions and the practical challenges of meeting goals. The estimated future impact from businesses will require a fundamental step-change in business performance to occur if they are to be realised.

Table 4-7: Overall Net Impacts on the South East Economy (future impacts)			
	Net Additional Jobs	Net Additional Turnover (£millions)	Net Additional GVA (£millions)
	Max-Min	Max-Min	Max-Min
Managed Workspace	226-310	£79-£109	£6.2-£8.5
Innovation and Knowledge Transfer	23,308 -27,379	£16,971 - £19,935	£631.7 - £742.0
Source: Regeneris Consulting Survey of Beneficiaries			

Total Return on SEEDA Investment

4.27 Using the beneficiary survey findings, the impact of the support has been compared with the costs of support to provide an overall assessment of value for money[32].

4.28 Cumulative net returns for Managed Workspace are modest to date, but it is clearly too early to form any definitive judgements on their impact. Cumulative return on investment figures are of little use in informing future investment decisions. Returns should start to look better as occupancy at the centres nears capacity. Looking to the future, net returns on investment should be greater than those achieved to date. This reflects both the ambition of businesses assisted and the characteristics of investments: physical premises that can be 'recycled' (i.e. many more firms will benefit from the premises in the long term than are housed at any one time). However, the net returns generated in this evaluation appear optimistic when compared to the achievements of these businesses to date.

4.29 In addition, although value for money is calculated on the basis of gross investment during the evaluation period, SEEDA intends to sell off the Managed Workspace assets in the future either to a commercial business centre operator or to an arms length special purpose company[33]. This will have the effect of greatly reducing SEEDA's total investment in these projects, which will further improve the value for money figures. For example, the Shoreham Business Centre is currently valued at £1.2m, and if sold at this value SEEDA's investment in this project would in effect be reduced by that amount.

Table 4-8: Return on SEEDA Investment (Current Year Impacts)

	Cost per Business Assist	Cost per job created	Turnover per £1 invested	GVA per £1 invested
Gross Return on Investment				
Managed Workspace	£84,200	£210,900	£0.40	£0.10
Innovation and Knowledge Transfer	£3,300	£5,300	£14	£6.80
Net Return on Investment				
Managed Workspace	n/a	£487,900	£0.20	£0.00
Innovation and Knowledge Transfer	n/a	£31,100	£2.10	£1.20
Source: Regeneris Consulting Survey of Beneficiaries and Aggresso Spend data.				

4.30 Cumulative net returns on investment to date are reasonable for Innovation & Knowledge Transfer programmes. To date, a pound of public sector investment could be expected to have generated £3.30 of net additional turnover and £2.70 of net additional GVA. In terms of value for money, this is firmly in the middle of other similar programmes evaluated. Best-performing programmes evaluated previously have generated around £14 of net additional turnover and up to £4.50 of net additional GVA per £1. However, there are examples of programmes in which returns were so poor that they generated less profit and turnover than they cost to deliver. Innovation & Knowledge Transfer projects will have a longer-term pervasive impact on firms' performance, so can be expected to generate returns into the future.

[32] All impacts have been attributed to the SEEDA funding.

[33] This will not happen at Newhaven, where the business centre is owned by the local authority.

Table 4-9: Return on SEEDA investment (Cumulative Impacts)				
	Cost per Business Assist	Cost per job created	Turnover per £1 invested	GVA per £1 invested
Gross Return on Investment				
Managed Workspace	£84,200	£210,900	£1.0	£0.2
Innovation and Knowledge Transfer	£3,300	£4,800	£110	£12
Net Return on Investment				
Managed Workspace	n/a	£487,900	£0.30	£0.00
Innovation and Knowledge Transfer	n/a	£31,100	£3.30	£2.70
Source: Regeneris Consulting Survey of Beneficiaries and Aggresso Spend data.				

Long-Term Impact of Managed Workspace

4.31 The Managed Workspace investments will continue to generate impacts on tenant businesses and on the wider economy for many years after they have come on stream (up to 25 years). This is due to a number of factors:

- Increase in occupancy rates (occupancy at some of the schemes reviewed in this evaluation has yet to hit capacity)
- The continuing benefits to individual businesses of being located in the centres (and as the impact of the workspace on newer tenants becomes more apparent)
- Churn in the tenant base, reflecting the likely introduction of 'move out' policies, whilst some businesses may find suitable grow-on space (and others may not survive in business). Many more businesses will benefit from locating in the centres than can be housed at any one time.

4.32 To date the Managed Workspace projects have generated an additional £0.5million-£0.6million in net additional GVA to the South East economy, of which £0.4million-£0.5million was generated in the current year. Given the ranges in the rates of current occupancy and the difficulties in predicting future churn and the performance of tenant businesses once they move out, it is very difficult to forecast with any degree of accuracy. However, if the cumulative impacts to date are projected forward, assuming an annual tenant 'successful relocation'[34] rate of 10%-20%[35], the Managed Workspace programme could potentially generate net additional GVA in the range of £29-£45million over the next 25 years.

[34] The assumption is that each year 5% of managed workspace centre tenants will move onto alternative premises in order to meet their growth aspirations and that new tenants will be secured.

[35] Based on an assessment of exit survey evidence provided by commercial operators.

Supplementary Value Added By Projects

Managed Workspace Centres

4.33 In all cases, the project deliverers had been involved with SEEDA-funded projects or other forms of business-support provision in the past. All four project managers stated that if SEEDA funding had not been available, the project would have not gone ahead, mainly due to finance and commercial viability. All project managers agreed that SEEDA money was critical in enabling the projects to proceed. It was clear from the project review process that SEEDA funding was the enabling factor behind the project, which provided certainties to other funding organisations and the project sponsors.

Innovation & Knowledge Transfer

4.34 SEEDA funding was again instrumental in ensuring that innovation/knowledge transfer projects were delivered. In most cases, project managers (4 out of 6 interviewed) acknowledged that these projects would not have gone ahead. Those projects that would have gone forward would have done so in greatly reduced scale and scope, and it was felt that this would have constrained the competitiveness of businesses assisted. For example, knowledge transfer partnerships were being delivered nationally, but SEEDA's involvement ensured more (and more intensive) KTPs happened. SEEDA's involvement also led to them having a say in the types of companies supported (i.e. helping to shape the services provided) to better fit strategic priorities.

4.35 SEEDA funding was viewed as especially important for increasing the penetration of innovation services to the SME market. Without this funding, project managers felt that the advice would only have been available to larger companies (due to costs), as SMEs may be more reluctant to buy-in private consultancy of the type on offer in these SEEDA-funded interventions.

Strategic Added Value

4.36 The IEF highlights the importance of assessing Strategic Added Value (SAV), to reflect the role of RDAs in coordinating, facilitating and stimulating the activities of others. The projects that have been examined in this evaluation have yielded some important SAV benefits.

Table 4-10: Strategic Added Value		
	Managed Workspace	Innovation & Knowledge Transfer
Leadership	The projects have made a strong and clear case for local provision of business space and made key local partners more aware of the need for business space for start-up and growing businesses. The developments incorporate best practice in design, technology and sustainable materials and are rated under the Building Research Establishment Environmental Assessment Method (BREEAM) as either 'very good or excellent'. In addition, most developments have been designed to be low carbon or carbon neutral where possible. By working with private-sector developers and promoting the sustainability agendas, SEEDA has increased private-sector awareness and knowledge of these issues in construction and management.	Within the BSSP agenda SEEDA is leading on the streamlining and targeting of innovation and growth support to high potential businesses. It is building the best practice developed by the South East Innovation Advisory Service, the Enterprise Hubs and High Growth Business Coaching into a network of Innovation and Growth Teams that will be delivering tailored innovation and growth support to 2000 of the businesses in the SEEDA region, where the intervention is likely to have most impact on the regional economy. In addition, knowledge transfer investments promoted greater collaboration between businesses and the research base in SEEDA's priority technology areas. There are no other South East regional organisations or fora for this. Through its sector consortia, SEEDA is able to reach the business community (particularly SMEs) and to act as an 'honest broker' in getting otherwise reluctant universities to build trust and work together.
Influence	A number of local authorities have expressed an interest in developing similar centres in their main business locations (the development of the business centres has been one way of persuading partners that there is potential for investment and growth in previously underperforming areas).	SEEDA's innovation approach appears to be carrying weight with big companies, which are demanding more engagement with the HEI and SME bases (and the survey results appear to back this up). Intelligence gathered from knowledge network activities is providing valuable information, which SEEDA can now use to influence national R&D policies and programmes.

Table 4-10: Strategic Added Value

Leverage	Although the projects have not by and large used the SEEDA money to draw down additional funding (aside from tenant rental fees, which are typically ahead of initial projections), leverage has been achieved in two ways: • Subsequent investment from tenant businesses in the local economy • Nurturing entrepreneurship and elevating the aspirations of local people. This was cited as an important factor by all project managers (although evidence to date is anecdotal). By working with private-sector developer partners SEEDA has helped promote public-private development partnerships, sharing of property and incubation knowledge and expertise, and also levered private-sector expertise into the projects.	There is evidence that the innovation services are helping companies to lever in funding from a wide variety of sources for R&D. For example, a number of the knowledge partnerships have won grants from the TSB (in some cases worth up to three times the total SEEDA investment in the partnerships). Furthermore, knowledge transfer activity is acting as a catalyst for R&D collaboration between businesses and the research base. The Knowledge Networks facilitated interaction and provide a basis for new collaboration in the future, as well as being a catalyst for further business/ university funding of networks in the future.
Synergy	The centres have become business hubs for the town. Local Chambers often hold meetings in the centres, have close links with the centre managers and can share information with members. The centres have become regular meeting venues for knowledge sharing by local stakeholders.	Engagement with Business Link, Enterprise Hubs, Finance South East and Sector Consortia shows good synergistic working. The flow of referrals to/from innovation advice services is two-way and has operated over the lifetime of the project. As the knowledge networks are starting to work together, they have the potential to generate significant synergistic impact (e.g. by introducing people that would not normally meet and facilitating disruptive innovation) and to facilitate closer working between the SEEDA Sector Consortia.
Engagement	Project managers suggested that engagement with local stakeholders has always been good, and the roll-out of the centres has cemented the good working relationships that already existed.	Again, co-operation with Business Link and the Enterprise Hubs has been an important form of engagement. However, project managers felt that there remains a need for better integration of services which support innovation and knowledge transfer in the region with mainstream services.

Source: Regeneris Consulting project review analysis.

Changing Baseline Conditions in the South East Region

South East Socio-Economic Position

4.37 The South East is a prosperous region, consistently outperforming the national average on a wide range of measures of economic well-being. In 2004, it recorded resident-based Gross Value Added (GVA) of £158,187million, second in England only to London. South East England also has the second highest workplace-based GVA per head of any UK region. In 2004, it recorded workplace GVA per head of £19,505, higher than the UK average of £17,258. However, this strong performance is not uniform across the region; almost half of South East England's local authorities scored under the UK average in terms of workplace GVA per head.

4.38 According to data from the Annual Population Survey, South East England has the highest employment rate of all UK regions at 79.0%. Over the past decade, the employment rate in South East England has increased by 5.1%, although most of the increase occurred during the late 1990s.[36] The region has the third lowest unemployment rate of the English regions.

Enterprise and Business Competitiveness

4.39 On the measure of new VAT registrations as a percentage of total business stock, the South East ranks third of the English regions with 9.9%[37]. On a related measure, with 43.5 new VAT registrations per 10,000 adults the South East's performance is well ahead of the national level (39.2), ranking behind only London. In the South East, self-employment accounts for 14.1% of all employment, ahead of the national level, but only the fourth highest of UK regions. Nearly 70% of businesses registered for VAT in South East England are still operating after three years; this is the highest survival rate of all the English regions, and is above the UK figure of 66.5%.

Innovation

4.40 The Fourth Community Innovation Survey (CIS4) shows that the South East is, along with London, the most innovative region in England. Some 30% of the region's turnover is attributable to new or improved products, and R&D spend is high - gross expenditure on R&D as a percentage of GVA at 2.9% is second only to the East of England[38]. Other data from CIS4 confirm the strong innovation performance of the South East region:

- 60%of South East firms engage in some form of innovation activity, the highest of any English region.
- The South East is second to London in respect of the propensity of businesses to take new products/processes to market; 32%of firms introduced either a new process or product between 2002 and 2004.

[36] Annual Population Survey, July 2004 – June 2005, NOMIS

[37] Inter-Departmental Business Register, ONS and Small Business Service, DTI

[38] ONS and RHA, 2005

4.41 The South East has a strong record in fostering university-business interaction. Data from the Higher Education Innovation Survey shows a sustained upward trend in the levels of collaborative activity between HEIS and the private sector, including engagement with SMEs. University income from research contracts with SMEs in the South East has increased rapidly in recent years (by some 49% between 2001/02 and 2003/04, up from £3.1million to £6.0million). This compares to a reduction of 6% across England as a whole during the same period. There is a clear association between the level of university-business collaboration in the region and its strong innovation performance.

4.42 However, in spite of the notable research strength of the South East's universities, the region is only a moderate performer relative to other UK regions for R&D spend by higher education institutions. Increased R&D investment by universities would help to elevate the South East above the 3%of GDP target suggested by the Lisbon Agenda. At 2.9 %the South East is already performing above the 2.5 %national target set by the UK Government in the Science & Innovation investment framework 2004-2014

4.43 The South East has a 27% share of the total UK R&D employment and 0.7% of South East total employment is employment in R&D, compared to just 0.4% in the UK as a whole.[39] Within the South East there are 204 patents per million people[40]. Although levels of innovation in the region are some 60% above the national average, they are 23% below the best-performing UK region (East of England). Within the South East, Berkshire, Buckinghamshire and Oxfordshire is the second best performing UK sub-region with 343 patents per million inhabitants. This level is some 67% above the regional average and almost three times greater than those seen in Kent.

SEEDA's Impact on Changing Conditions

4.44 Taking cumulative impacts to date, the Managed Workspace programme has provided a trace contribution to the regional economy. The Innovation and Knowledge Transfer programme has provided an estimated uplift of 0.09% to the region's GVA growth.

Table 4-11: Comparison of Impacts with Regional GVA Performance

Theme	Net GVA Uplift (Cumulative) (£millions)	Percentage of regional GVA uplift 2002/03 – 2007/08 (£45 billion)
Managed Workspace	£0.6	0.001%
Innovation and Knowledge Transfer	£47.8	0.09%

Source: Regeneris Consulting calculations of impact and Headline GVA at current basic prices (ONS, GVA at current basic prices 2002/03 to 2007/08) Regional GVA available to 2006/07 so the average uplift in regional GVA 1997/8 to 2005/06 has been used for 2006/07 and 2007/08. Overall GVA uplift was converted into 2007 prices (see technical appendix for methodology).

4.45 The South East received £85.6 billion of private sector investment[41]during the calendar years 2002 to 2006. SEEDA's investment in Innovation Infrastructure represents 0.03% of private sector investment in the region.

[39] Annual Business Inquiry (ABI) 2007

[40] Regional Economic Strategy 2006-16: The Evidence Base, p. 139

[41] This figure includes capital investment as well as financial investment and investment in intangible fixed assets.

4.46 SEEDA has delivered only a small amount of the change in the South East economy, but it was only responsible for a very small amount of the total investment in the region.

Managed Workspace

4.47 The Managed Workspace projects examined in this evaluation are targeted at improving the local area economy, not the regional economy. The cumulative impact of SEEDA's wider investment in the incubation programme on the South East region has been modest to date, but this is to be expected given the timing of the interventions.

4.48 Whilst it is clearly too early to draw any definitive conclusions on future impact, the projects may have a more transformational effect going forward. Evidence of incubation intervention elsewhere has shown that the creation of managed workspace can have a noticeable impact on business confidence, business establishments, survival and growth rates.

4.49 Projects have added to the overall supply of SME sites and premises, and have met SMEs' needs. Just over half of firms felt that they would have been able to secure suitable alternative accommodation in the absence of the SEEDA-supported provision (although not necessarily in the same locality).

Innovation & Knowledge Transfer

4.50 The South East is a strong and growing economy with a strong knowledge component and potential. There have been some recent setbacks and the future is challenging. SEEDA's budget is very small compared to the total public sector purse in the South East and is dwarfed by the sheer size of the region's economy. The total net additional impact on the economy was always likely to be marginal, even with the most focused of interventions, but the projects reviewed suggest that the investments offered reasonable value for money and provided modest additionality to the economy.

4.51 However, many of these projects are aimed at changing culture. They themselves were never going to have a huge impact on jobs or turnover. By changing the culture of the way businesses and universities operate and interact, the intention is that this will flow into greater interactions, leading to collaborative work (part-funded through other bodies or funded entirely by the companies themselves). However, there can be a huge lead-time into this.

4.52 A substantially scaled-up innovation support could have a significant impact on the region's strategic objectives for innovation in its business base and commercial connections to the knowledge base, but it would need to tackle high levels of deadweight to maximise returns.

4.53 SEEDA has acknowledged that to have a greater impact, innovation and growth-business support needs to be focused and targeted on businesses with the greatest potential to innovate and grow. Also duplication/overlap of services should be removed, such as has happened with aspects of the Innovation Advisory Service and Enterprise Hubs, where they have both addressed the needs of early stage technology businesses in a very similar way. SEEDA has consulted with partners across the region and will be focusing this support through Innovation and Growth teams with core funding from SEEDA and leveraging matched funding from local partners.

5. Conclusions & Reflections

Performance Management

5.1 Across all themes of the evaluation, there have been uncertainties about the scale of achievement by the projects under review and in the wider population. Over time SEEDA's approach to performance management has evolved. Although procedures and approaches have tightened up, an evaluation stretching back to 2002/3 has had to aggregate data on spend and outputs gathered using different approaches.

5.2 Although SEEDA has a central database for collating information on project performance, (the PMS) this has been used in very different ways by different staff and has not been able to provide the evaluators with a comprehensive or reliable illustration of the scale of achievement. This problem has been compounded by the disparate ways in which SEEDA officers have kept paper or local copies of performance data. During the course of the evaluation we endeavoured to build up a project-by-project assessment of the performance of the short-listed projects but often found accurate and comprehensive information was not readily available among SEEDA staff. Our third port of call was to approach project managers in the delivery organisations for their latest claim data. Although this was a more fruitful avenue, it did reveal the breadth of indicators against which projects had been asked to collate information. The evaluation has found an overly relaxed attitude towards performance management across SEEDA and many of the delivery organisations into which it invests public funds. The upshot is that:

1) The evaluation has not been able to arrive at a definitive assessment of the total number of outputs generated by the population of projects in each theme (spend data is stored in the Aggresso database, and is thought to be much more reliable).

2) Comparisons of performance between projects should be approached cautiously, as there are many different indicators in use, different interpretations of each output and different approaches to collating and reporting achievements.

5.3 This casual approach to performance management may have contributed in part to some of the less favourable outcomes and permitted too much performance variety among what, in some cases, should be quite similar schemes. SEEDA does not appear to have had accurate, reliable, timely or comparable management information available over the life-span of these projects to manage, guide and influence their decision-making.

5.4 Recently SEEDA has taken steps to establish a Programme Office with the objective to "*ensure robust and transparent investment decisions that generate the greatest possible impact and value for money, the Agency being able to map and monitor delivery of proposed benefits/impact.*"[42] At the same time, SEEDA is moving towards a *Strategic Investment Framework* approach to future rounds of spending. Although the evaluation has not reviewed these processes in detail, they are welcome steps in the right direction. To really tackle the issues the evaluation has encountered, these developments need to manifest

[42] Programme Office Summary Role and Rationale Paper by SEEDA

themselves in a more standardised approach to:

1) setting KPIs against which performance is measured

2) collating and verifying claimed achievements against KPIs

3) and, ensuring its investment decision-making and project management is more intelligence led.

Targeting of Resources

5.5 There are a number of clear common issues that this evaluation has uncovered:

1) SEEDA must work to ensure that a greater proportion of supported businesses experience a transformative change in their performance.

2) A more targeted approach to investment is required to ensure that the modest resources at SEEDA's disposal are focused on interventions that will generate the largest returns.

3) A more rigorous and consistent approach to measuring Key Performance Indicators (KPIs) is needed.

4) Investments should be underpinned by a clearer assessment of market failure, so it is clear where SEEDA's intervention might have the largest effect. This market failure assessment should inform how they intervene. For example, direct development of Managed Workspace at 100% of cost is hard to justify on a market failure assessment

Managed Workspace

Strategic Priorities

5.6 The incubation programme is a wide-ranging programme of support for businesses by the provision of physical space. Most of the projects delivered to date can really only be defined as managed workspace, although they do display some of the characteristics of incubators with on-site management, on-site support, links to business events, and links to business support. The projects are focused on provision of employment space for new and small businesses in areas of market failure, supporting enterprise hubs and gateways, and assisting in area regeneration.

5.7 Other projects within the incubation programme now being brought forward lean closer towards promoting innovation and knowledge transfer (the best example of this is Canterbury Innovation Centre on which SEEDA is working in partnership with the University of Kent, amongst others, and which is due to start on site later this year).

Investment Programme

5.8 The provision of Managed Workspace and incubation space is intended to directly support a number of key challenges and action points in the RES (2006-16), including a need to raise the levels of enterprise and business competitiveness in less prosperous parts of the South

East, and the need to further stimulate entrepreneurialism and innovation in existing growth areas, recognising that survival rates should be higher even in more prosperous areas. The evaluation has not shown that refocusing of any priorities is required.

Delivery and Performance

5.9 The workspace funded by SEEDA has largely met the needs of tenants and has helped to increase the overall supply of SME accommodation in the region (and importantly in local economies). However, there appears to be a large deadweight effect. The majority of tenants suggested that they could have found suitable accommodation elsewhere (although not necessarily in the same locality), with no detrimental effects on business growth. Arguably, these investments are making an important contribution to the regeneration of deprived local areas, and therefore are important in terms of equity[43], but have so far shown little real impact on the wider region's economic performance or that of tenant businesses.

5.10 Net returns for Managed Workspace are modest to date, although it is clearly too early to form any definitive judgements on their impact. Looking to the future, net returns on investment should be greater than those achieved to date. However, there will need to be a massive step change for them to recover their investment costs in a reasonable time frame. Nevertheless, the investments, in spite of modest impacts to date, appear to have been well-focused and have been managed effectively.

Recommendations

Key Issues

5.11 Throughout this evaluation a number of issues have recurred which are worthy of mention. None of these findings are unique to the projects reviewed in this evaluation, and most have been highlighted in other evaluations that have examined the provision of Managed Workspace centres. Nevertheless, there are some clear messages that the SEEDA investment decision-maker should keep in mind in determining the future focus of SEEDA capital investment.

Managed Workspace

- **Continuing to support growth of enterprise.** Managed workspace investment has a role to play in supporting the growth of enterprise and employment through more generic but modern accommodation (often on flexible terms) in deprived areas of the South East. Tackling acute distributional failures in particular communities or locations, in which entrepreneurs and SMEs are unable to access suitable business premises, remains an important justification for SEEDA intervention. This can include sector-specific schemes and more generic requirements.

- **Time-bound tenancy.** Managed Workspace centres should continue to provide high-specification office space, with favourable (i.e. flexible) lease terms, for a maximum period of two years (before they are required to move on to new premises) and

[43] This is consistent with key conclusions from an evaluation of the SEEDA-funded Gosport Business Centre, one of SEEDA's earliest Managed Workspace investments. The report found clear evidence of wider benefits arising from the provision of business centres in the locality.

access to a range of business support and advice. Generally, the Managed Workspace centres developed to date do not have a restrictive letting policy, although project managers are briefed to favour new and starter businesses. As occupancy reaches maturity, SEEDA's intention is to consider a more formal restrictive letting policy and to introduce a graduation policy, where businesses are required to move on after a certain period (likely to be two years). At the Canterbury innovation centre, this policy is being introduced straightaway.

- **Need for grow-on space.** Linked to the above, there is a growing recognition of the need to provide not only early stage incubation and flexible managed workspace, but also larger workspace units and grow-on space offered on more traditional terms. This reflects the observations of projects managers that there remains a shortage of grow-on space for supported companies to move into if the full impact of these Managed Workspace schemes is realised. Although there is no evidence, as yet, of 'bed-blocking', none of the Managed Workspace centres examined in this evaluation have explicit 'move-out' policies (i.e. so that existing tenants do not prevent new entrants). Given the success in take-up of tenancies at the centres (and a relatively low churn rate of businesses) this is likely to change as the occupancy reaches capacity). The region's portfolio of accommodation would be strengthened by establishing premises which will allow companies that have grown and developed in start-up workspace to move on into larger grow-on space, freeing up start-up accommodation to continue the cycle for new businesses to benefit from the premises. In some locations SEEDA has already entered into development arrangements with specialist developers, such as Priority Sites, to provide grow on accommodation. In Shoreham, SEEDA has specifically negotiated with partner developer Berkeley Homes to ensure that large office units are available as grow-on space for the Shoreham Business Centre, to be provided in the final phase of development.

- **Balance between lettable and non-lettable space.** A balance needs to be struck between providing additional non-lettable space, which may enhance the attractiveness of the accommodation on offer to potential SMEs, and the commercial aim of maximising lettable space. Caution should be used when designating the quantity of non-lettable space in the forms of atria and meeting rooms, as this could have a knock-on effect on the number of units available to SMEs and the total rental values which can be generated for the facility.

- **Utilising existing premises.** A careful assessment should be made about the viability of modernising, or bringing existing space back into use. It may be the case that a review of existing premises is required, with a view to modernisation and improvement, rather than new build. Although SEEDA's preference is for new build because this provides high-quality purpose built space, refurbishment is not discounted. The refurbishment of existing premises is actively considered for each project at site-search stage.

Incubation Centres

- **Supporting knowledge transfer.** Property provision, including pre-incubation, incubation and grow-on space for companies, are important parts of the knowledge transfer infrastructure. Incubation centres, above all those located on science parks have a major role to play in facilitating the development and management of innovative, high-growth, knowledge-based organisations and the interchange of concepts, ideas and experiences[44]. More knowledge is needed about where to invest and what type of provision is needed and to maximise leverage from the private sector. The proposed South East Enterprise Company supports this principle.

- **Need for a technology based focus.** What is clear from evaluations carried out elsewhere[45] is that premises funding will have different impacts depending on its purpose (i.e. whether incubation or general/managed workspace), and also the scale at which it is being utilised (i.e. regional, sub-regional, local level). The strongest impacts are likely to come through the development of specialist business space demanded by higher value, technology orientated companies and provision of tailored on-site support. Past evaluation evidence[46] suggests that projects that have been most successful in terms of generating impacts have tended to focus on providing workspace for innovative firms operating in specialised markets, which have the potential to generate high value-added income within the region. Recent SEEDA investments appear to have a more explicit focus on knowledge-based businesses. These include the Canterbury Innovation Centre, for which a site has been identified close to the University of Kent, and the Isle of Wight Enterprise Hub, which is part of a proposed Technology Park adjacent to GKN's Aerospace Advanced Composites Facility.

Tackling Market Failure

5.12 Future investment should be firmly predicated on tackling clear and well-evidenced market failures. The evidence from this evaluation and from elsewhere suggests that:

- The strongest market failure arguments on provision of business premises relate to the situation where the SME premises help the process of **clustering** (and its externalities from linkages between firms and other organisations) or **knowledge transfer** (as adjacency between firms and between firms and institutions can increase the rate and effectiveness of knowledge transfer). The new development at the University of Kent and the Isle of Wight are in keeping with the approach, as was the Aylesbury Vale Hatchery.

- There is a case in terms of SME **starter premises** as a means of encouraging more enterprise on the grounds of equity, particularly where the objective is to encourage enterprise in a particular location or community (i.e. social/equity grounds rather than market failure). However, this would only require managed workspace and not incubation space. Where lack of overall SME demand and rental levels relative to build costs mean that private-sector developers will not deliver SME space and this is shown to be restricting opportunities for SMEs to expand (especially in rural areas), there is a case for public intervention. This argument was cited by project

[44] Source: CLG, *Good Practice Guidance for ERDF and ESF* (2006).

[45] e.g. GONE, *Evaluation of Business Support in the North East Objective Two Programme 2000-06* (2006); CLG, *Good Practice Guide for Objective 1 and 2 Programmes* (2006).

[46] GONE, Evaluation of Objective Two Business Support 2000-06 (2006)

managers as being the principal reason for investment in Shoreham and Faringdon.

5.13 These two distinct rationales for incubation and managed workspace need to more explicitly inform how SEEDA intervenes and invests and the kinds of impacts and returns it might expect to secure.

5.14 In addition, there may be a **sustainability/environmental** case for public sector investment in the creation of SME premises where this involves the re-use of an older building, which acts as a deterrent for investment, and there are additional costs involved which prevent normal commercial development (e.g. remediation of contaminated land - as in the case of the Newhaven Business Centre). The presence of additional costs or abnormal costs is an indicator of a need for public intervention, although such investments are likely to yield greatest impacts when they are part of wider regeneration schemes.

Innovation & Knowledge Transfer

Strategic Priorities

5.15 The projects reviewed reflect the need for a strategic and coherent approach to promoting innovation and knowledge transfer. Particular attention has been paid to the role of knowledge transfer in regional economic development in South East England and building on existing assets and opportunities within the higher education and business base of the region. SEEDA's strategic priorities of raising levels of knowledge and innovation, stimulating innovation and job creation in new market sectors, and building appropriate connections between HEIs, research centres and SMEs in the region, remain appropriate.

Investment Programme

5.16 The projects are clearly providing intensive support to knowledge-intensive companies in growth sectors. However, the volume of companies provided with assistance is small. Knowledge transfer projects appear to have a comprehensive process of matching academics to businesses to assist R&D aspects. They have also been heavily influenced by the Lambert Review[47], which recommends stronger and more effective HEI-business interaction – a national as opposed to regional problem.

Delivery & Performance

5.17 Net returns on investment to date are reasonable for the Innovation & Knowledge Transfer programme. To date, a pound of public sector investment could be expected to have generated £3.30 of net additional turnover and £2.70 of net additional GVA. In terms of value for money, this is firmly in the middle of other similar programmes evaluated. Best performing programmes evaluated previously have generated around £14 of net additional turnover and up to £4.50 of net additional GVA per £1. However, there are examples of programmes in which returns were so poor that they generated less profit and turnover than they cost to deliver. Innovation & Knowledge Transfer projects will have a longer-term pervasive impact on firms' performance, so can be expected to generate returns into the future.

[47] HM Treasury, Lambert Review of Business-University Collaboration (2003).

5.18 The gross and net impacts are far from spread evenly across all the firms assisted. The impacts are highly concentrated in a small number of firms. The majority of firms have experienced (or will experience) only very modest changes and the success of a few businesses determines the overall value for money of business support. This is a common feature of public sector business support interventions and is by no means unique to the SEEDA investments examined in this evaluation. These high-impact SMEs come in different shapes and sizes; several are spin-out firms involved in high-tech manufacturing and others are in high-growth business services sectors. Typically, their main markets and competitors are outside the South East.

Recommendations

5.19 The potential role of universities has become more clearly defined (not least through the Lambert Review[48]) and the role of innovation and knowledge in shaping UK economic competitiveness has become more widely appreciated. Substantial investment has been made in Innovation and Knowledge Transfer in recent years, much of which has come from RDA and European funding sources. Looking forward, knowledge transfer will surely feature just as heavily in the future.

5.20 With this in mind, future investment should be firmly predicated on tackling clear and well-evidenced market failures. The evidence from this evaluation and from elsewhere suggests that:

- **HEI-business collaboration is vital.** Encouraging university-business collaboration should remain at the forefront of SEEDA's corporate objectives. This will require the very real institutional and funding barriers that remain in the way of greater commercial exploitation of research and the knowledge generated to be removed. Involvement in knowledge transfer and innovation schemes can be seen as expensive, and will always be a lower priority for universities (behind teaching and research). Knowledge transfer initiatives must provide the right incentives and appropriate support if they are to foster the participation of willing and able academics. Simply providing networking opportunities may not be sufficient. This is recognised by SEEDA, which now provides a range of support from information provision, brokerage and R&D programmes[49]. SEEDA is now developing Science & Innovation Campuses to bring these initiatives together.

- **Further promote provision of demand-led services.** The private sector should determine specifically what is required and the public sector should provide the package of support to reflect this. This demand-driven approach is based upon the premise that the market knows best. This is in line with the increasing emphasis in the UK on demand-pull rather than supply-push interventions (for all forms of business support, and not just innovation & knowledge transfer), which have led in the past to the public sector playing too great a role in determining the focus of intervention and the types of support on offer. SEEDA <u>is</u> becoming more demand-led in its approach, and has learned from experience. It has taken the initiative to redesign support for high-growth potential businesses with the Innovation and

[48] HM Treasury, Lambert Review of Business-University Collaboration (2003).

[49] Although these initiatives have not been covered as part of this evaluation.

Growth Team model, which aims to improve the return on investment and, using the relatively small amount of funding available, to achieve the maximum impact. In addition, the business support provided by the Motorsport Education Centre has been informed by the active participation of businesses in both design and delivery of services and supporting courses.

- **Integrated delivery.** Innovation & knowledge transfer support should be distinct from mainstream business support, but should be integrated in delivery terms. For example, marketing advice should increasingly be a key strand of knowledge transfer and innovation support. This has traditionally been overlooked in UK innovation policy, which has focused on technology support for new products and processes. The range of support available from the Innovation & Growth Teams will cover all aspects of innovation and growth – including sales and marketing specialist advice.

- **Business-focused HEI staff.** The use of permanent business-focused staff at universities with the specific role of facilitating and managing research projects with SMEs should be further encouraged (e.g. the Massachusetts Institute of Technology's 'principal scientists' approach is one model). The UK Sainsbury Review [50]has already recommended the use of Higher Education Innovation Fund (HEIF) money for senior industry professionals to be embedded into HEI research departments' knowledge transfer offices, acting in parallel to the scientific leader of major projects and acting as an interface between the academic and commercial worlds.

- **Investment in demonstrator projects.** SEEDA should consider investing in more discrete, but foundational catalytic demonstrator interventions than in trying to provide large volumes of businesses with innovation advice.

Tackling Market Failures

5.21 Future investment should be firmly predicated on tackling clear and well-evidenced market failures. The evidence from this evaluation and from elsewhere suggests that imperfect information provides the most powerful market failure argument. The innovation process is a complex one which requires companies to understand a wide array of issues, from technical testing obligations to the funding regimes which can support R&D. Innovation support is clearly helping SMEs to navigate this landscape when, particularly for very small and start-up businesses, it may absorb substantial resources and be prohibitive in cost terms.

[50] HM Treasury, Sainsbury Review of Science and Innovation (2007)

Appendix A Detailed Data Tables from The Client Survey

1. [This section will contain a more detailed analysis of the client survey findings.]

Appendix B: Project Review Findings

1. [This section will include a write-up of the Project Reviews and point readers to the database in which the information is stored.]

Appendix C Technical Matters

1. This section will explain all the technical issues encountered in the evaluation and the assumptions used to generate findings.]

Appendix D Research Tools

1. [This section will contain all the research tools used during the course of the evaluation.]

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