

# centreforcities

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## mind the enterprise gap

is enterprise policy working  
to help businesses in deprived areas?

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### Abstract

*Building enterprise in deprived urban areas is a key policy goal. But relatively little is known about the effectiveness of enterprise initiatives in deprived areas, or about the needs of businesses that are located there. The Centre for Cities' City Markets Project has surveyed 348 businesses in deprived areas in Derby, Doncaster and Sunderland. We have found out about the market factors affecting business location in these areas and the real impact of enterprise initiatives. Our survey reveals three key findings. First, connectivity is the main asset of these deprived areas. Building on this and other assets is the way forward. Second, business support schemes such as Business Link are not well recognised, but those who use Business Link are reasonably satisfied. And third, the benefits of Enterprise Areas are hardly utilised – only two percent of our sample had used any of them.*

### Introduction

Building a stronger enterprise culture in areas of deprivation is one of the Government's key policy goals. The focus on 'building enterprise' has its roots in data reflecting regional disparities at various geographies between deprived and more prosperous areas. The underlying premise of enterprise policy is that this 'enterprise gap' needs to be addressed by policy makers if deprived communities are to emerge as successful, vibrant and sustainable. As such, much of the policy framework has focused on promoting enterprise in deprived areas, especially by encouraging more start-ups. "Enterprise is central to the Government's approach to economic policy and to rebuilding local communities...SMEs [small and medium enterprises] form part of the bedrock of local communities, contributing to both economic prosperity and social cohesion."<sup>1</sup>

The Government has taken an area-based approach to enterprise policy in deprived areas. This was explicit in the 2002 Pre-Budget Report's announcement of Enterprise Areas spreading across nearly 2,000 deprived wards, all qualifying for a range of locally-targeted fiscal measures.

With many programmes in place that aim to bridge the enterprise gap, it is surprising how relatively little is known about the real obstacles – and the most effective solutions – to promoting enterprise in deprived areas. The assets of deprived areas are either overplayed or overlooked, and the effectiveness of pro-enterprise policies has been under-researched.

“ It is surprising how relatively little is known about the real obstacles – and the most effective solutions – to promoting enterprise in deprived areas ”

This information gap hinders effective targeting and prevents policies from being taken up. Analysis of VAT registration levels, an oft-cited Treasury indicator, shows little convergence has been achieved between deprived areas and the rest of the country.<sup>2</sup> Even with lacklustre results from previous programmes, the launch of the next area-based initiative programme, the Local Enterprise Growth Initiative (LEGI), promises more targeted funding for enterprise in deprived areas starting in Spring 2006.

The Centre for Cities' *City Markets* project is working to fill the knowledge gaps and inform the policy debate about efforts to build enterprise in deprived areas. We commissioned a survey of 348 businesses located within the 'Enterprise Areas' of Derby, Doncaster, and Sunderland – places where Area Based Initiatives (ABIs) have been targeted.

This interim report sets out the headline results from those surveys. The full *City Markets* report will be released in Spring 2006, alongside the launch of LEGI.

### UK Policy Context

Public support for deprived areas in the UK has come largely in two forms, via the bending of mainstream funding and the provision of additional funding through a succession of targeted ABIs.

#### *Floor Targets*

Public Service Agreement “floor targets” were introduced in 2000. They require departments to bend mainstream funds towards a minimum standard of service delivery for disadvantaged groups or areas, narrowing the gap between them and the rest of the country. They cover a broad spectrum of policy areas, including education, employment, crime and housing.

Floor targets were recommended by the 2000 cross-cutting Review of Government Intervention in Deprived Areas. At the time, the Review concluded that “core public

services should be the main weapons against deprivation; and area-targeted initiatives should be additional to main services, rather than a compensation for their failings” (HMT, 18 July 2000). This conclusion came after a raft of disappointing performance across Education, Health and other Zones in deprived areas, in the late 1990s, and was a move away from promoting ABIs as the leading policy approach for deprived areas.

#### *ABIs*

Notwithstanding the shift of focus towards the bending of mainstream funding, ABIs are still in operation.

#### *Neighbourhood Renewal Fund (NRF)*

The NRF is the largest example of an ABI in operation in the UK. It emerged out of the National Strategy for Neighbourhood Renewal and is in line with the Government's aim that within the next two decades, no one should be seriously disadvantaged by where they live.

NRF sits alongside mainstreaming but is shorter term and includes an additional £1.875 billion of targeted resources for the 88 most deprived local authorities.<sup>3</sup> The effects, to date, have not been viewed as entirely positive: “The budgets in regeneration programmes and targeted initiatives are dwarfed by those within mainstream budgets. And people already living outside of mainstream life sometimes do not want to be further stigmatised and excluded by creating separate initiatives for them” (David Miliband, 29 Nov 2005).

While the NRF is an important initiative, it does not have an explicitly enterprise-led focus. However, the areas it targets are now eligible to bid for a new enterprise-focused initiative – LEGI. But only a few will actually get it each year.

#### *Enterprise Areas*

Enterprise Areas are another, but very different, ABI. They aim to address barriers to enterprise and economic activity, with a range of fiscal and business support measures. These include:

“ Analysis of VAT registration levels, an oft-cited Treasury indicator, shows little convergence has been achieved between deprived areas and the rest of the country ”

“ Statistics tell only part of the story. Local knowledge is needed to understand the underlying causes of deprivation and the barriers to economic growth ”

- Community Investment Tax Relief (CITR): set up in 2003, this aims to attract private investment into deprived areas, via Community Development Finance Institutions (CDFIs).
- Bridges Community Development Venture Fund: the first £40 million fund was set up in 2003 to provide venture capital to viable SMEs located in the 25 percent most deprived wards in England.
- Enhanced support from HM Revenue and Customs for businesses in deprived areas, through Business Support Teams.
- Targeted support from Business Links, which have a specific focus to increase take-up in deprived areas.

Meanwhile, other enterprise programmes have also impacted on Enterprise Areas:

- The Phoenix Fund has supported enterprise in deprived areas, for example through its Challenge Fund for CDFIs. However, there is currently some doubt over the future of the Phoenix Fund.
- The Inner City 100 (2001–04), was a yearly index of the top 100 fastest growing businesses in deprived inner city areas. It came to the UK, following success in the US and highlights the competitive advantages of inner city businesses.
- City Growth has developed market-led, cluster-based strategies for business growth in a range of cities and towns in England – including Derby.

There has been little analysis of the effectiveness of these measures. Our detailed business surveys in 35 Enterprise Areas – in Derby, Doncaster and Sunderland – allow us to assess the effectiveness of government policy interventions to date. This is critical now – given the imminent arrival of LEGI.

### Case Study Areas

We deliberately picked Derby, Doncaster and Sunderland because they are non-core urban areas that have traditionally relied on one

major industry and are now searching for a new economic role.

Derby, Doncaster and Sunderland are among the 88 most deprived local authorities in England, based on the Indices of Deprivation (ID),<sup>4</sup> but the extent of deprivation among the three varies. As of 2004, Doncaster and Sunderland qualified on all six indicators of the ID,<sup>5</sup> whilst Derby qualified on two.

Local knowledge is needed to understand the underlying causes of deprivation and the barriers to economic growth. Yet many deprived areas – including Derby, Doncaster, and Sunderland – share some common characteristics of deprivation. This allows us to apply the findings from our case study areas to the wider enterprise policy debate.

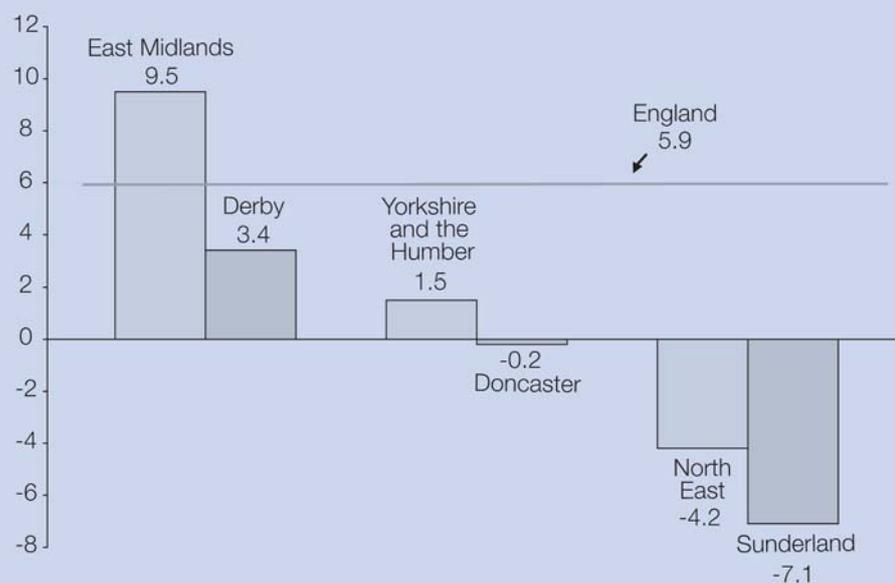
### *Local Economic Histories*

Although their economic histories, infrastructure and assets are all different, our three case study areas all face the need to move from a legacy of manufacturing towards more diverse economies.

Derby's economy has been driven by heavy industry and it continues to be manufacturing-led. The city has survived by shifting its base from heavy to high, value-added manufacturing. Its major private sector employers include Rolls Royce, Toyota and Bombardier. It also has a small financial and professional services sector and is trying to promote the notion of a burgeoning 'creative industries' sector. The city's GVA per capita was £19,195 in 2002, sixth highest among the 56 English cities, but Derby is still struggling to improve employment rates and to eliminate deprivation within the city.

In Doncaster, the replacement of lost mining jobs has been a top priority. By strengthening local infrastructure, Doncaster has been able to promote logistics and distribution as a key growth industry. Held back by low aspirations, Doncaster is now driving to gain city status by 2010, to grow into an established office location, and to retain more of its young people who are often drawn to nearby Leeds and Sheffield.

**Figure 1: Percentage change in population, 1982-2002**



Source: ONS, Mid-Year Estimates

Doncaster also has its own directly elected mayor.

Sunderland was an early centre for shipbuilding and coalmining, and has maintained its large single employer tradition with the current presence of Nissan, one of the area's largest employers. Despite its sizeable manufacturing base and close proximity to economic activity in Newcastle, Sunderland experiences some of the highest rates of worklessness in the country. Residents remain tied to the old tradition of a career working for a single employer, and aspirations and educational attainment are low. Sunderland is seeking to boost its profile as an IT and call-centre location and motivate local residents back into the work force.

#### *Indications of Deprivation*

While the economies of all three areas are evolving, data indicates that progress has been slow. All three urban areas are lagging when compared to their respective regions on a number of indicators, particularly population growth (see Figure 1). Over the past two decades, population growth has been sluggish in Derby, flat in Doncaster and negative in Sunderland.

Coupled with slow growth rates, low labour force participation rates create a static

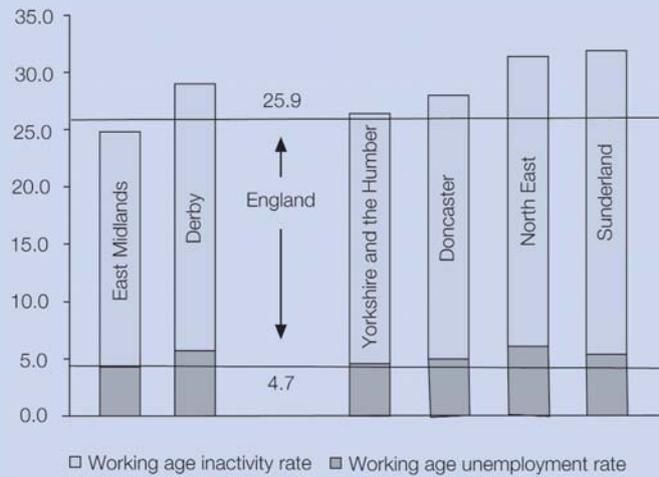
labour pool. Derby, Doncaster and Sunderland all experience high rates of economic inactivity among the working age population and higher-than-average rates of unemployment among the economically active. Figure 2 indicates these trends over 2004-2005. Despite the cyclical nature of industry and jobs in these areas, worklessness rates have been consistently high over the last ten years.

These trends resonate with the comparatively low levels of VAT-registered businesses in each of the three areas compared with their respective regions (Figure 3). While VAT registrations are an imperfect proxy for enterprise, the Government has used this in recent years as a key measurement of start-up rates and of the success of its enterprise policies in reducing deprivation.

Although Derby, Doncaster and Sunderland have low levels of employment and VAT-registered businesses, the mix of industry sectors that does exist is similar to that in their respective regions.<sup>6</sup> These three areas have a balanced industry mix, but overall levels of economic activity are low.

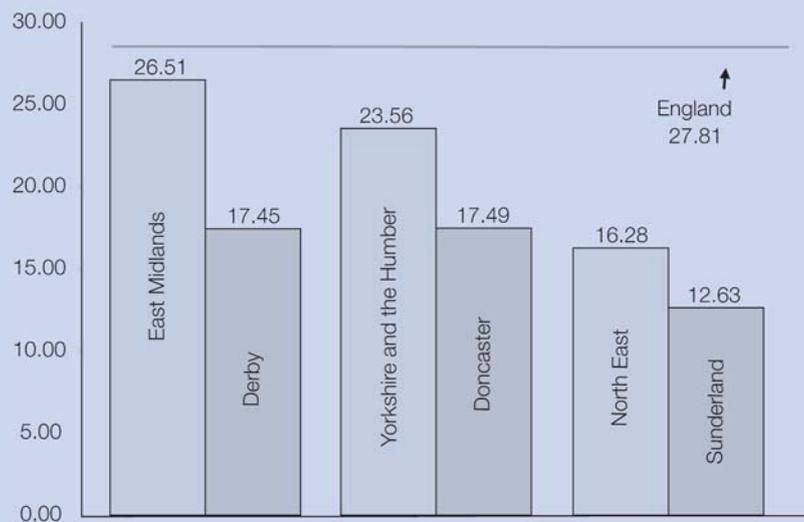
Furthermore, the sluggish labour market contributes to low incomes: all three areas rank among the 50 most income-deprived in

**Figure 2: Working age unemployment and inactivity, year ending June 2005**



Source: ONS, NOMIS, Labour Force Survey, average of four quarters ending June, 2005

**Figure 3: VAT-registered businesses per 1000 residents 16+**



Source: ONS, NeSS, Counts of VAT-Based Enterprises by Broad Industry Group, 2005

England.<sup>7</sup> Reported crime is at higher levels in both Derby and Sunderland than their regions; the opposite is true in Doncaster.<sup>8</sup> Lagging performance at local schools, with low levels of students gaining five or more good GCSE passes, hints at future challenges.<sup>9</sup>

### Business Surveys

The Centre for Cities commissioned Trends Business Research (TBR) to carry out field research. TBR limited calls to businesses within the Enterprise Areas of Derby, Doncaster and Sunderland. The Enterprise

Area wards are indicated in the maps in Annex A. Businesses were selected at random from a proprietary database that TBR maintains, containing both VAT-registered and non-registered businesses. A total of 348 responses were secured. For a detailed methodology, please see Annex B (available on our website).<sup>10</sup>

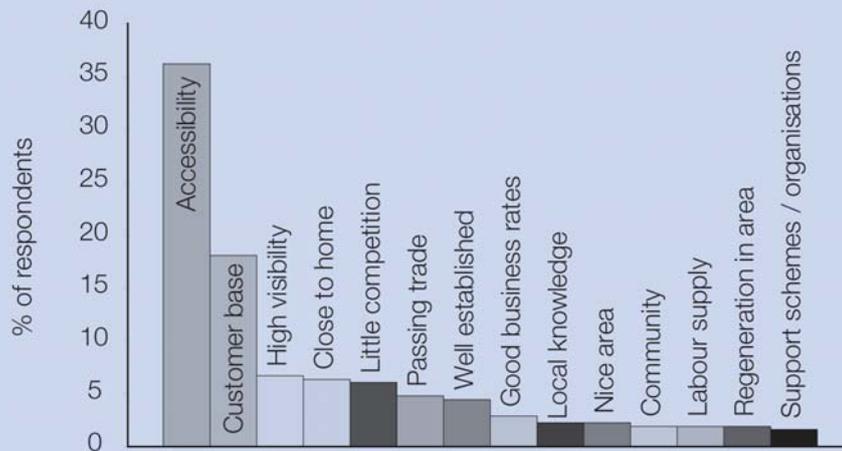
### Results

The survey uncovered three key themes:

- The importance of connectivity to business location

“ Most respondents did not know their locations were Enterprise Areas – or the benefits they convey ”

Figure 4: Main assets of business locations in deprived areas



- The limited extent to which public sector support (e.g. business support) is reaching businesses in deprived communities
- The limited awareness and take-up of Enterprise Area schemes

The importance of connectivity and accessibility is supported again in a subsequent question that asks, out of a broad list, what factor of the local area is most important to their company’s growth. Transport and proximity to customers were the most highly rated.

**Importance of Connectivity**

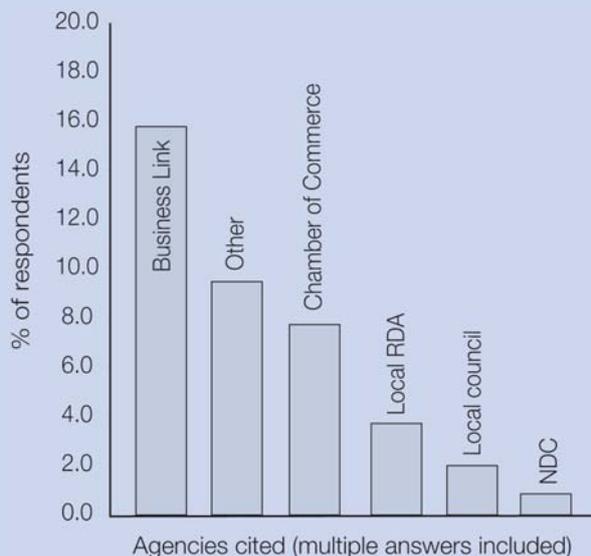
When asked about the single biggest advantage of doing business in their area, accessibility was the top response, with nearly one third of all businesses reporting it as their location’s main asset (see Figure 4). The second most cited asset was the local customer base. Interestingly, very few businesses cited support schemes/ABIs as the most important advantage to the location of their business.

**Limited Reach of Business Services**

Most of the respondents were not aware of local public sector support available to them. For example, most respondents did not know their locations were Enterprise Areas or the benefits such status can provide.

Only 36% of businesses could name public sector support agencies without prompting. Business Link was the most well known,

Figure 5: Awareness of Public Sector Support Agencies



mentioned by 16% of businesses (see figure 5). There are a few possible explanations for this. Deprived areas tend to be chronically disconnected from various channels of support.<sup>11</sup> Public sector support agencies may be located far from deprived areas. Support agencies also change names, programming and goals frequently, which could easily leave the business community confused.

Evidence for all three explanations can be found in our survey areas:

- In Sunderland, respondents were surprisingly unaware of Business Link, despite the fact that the sub-regional office is headquartered in Sunderland.

- Some Business Link services are only offered at the regional office, which in Derby's case is 20 miles away and in Doncaster's case is 12 miles away.
- In Derby, Business Link has been shifted under several delivery vehicles and services are currently offered in conjunction with the Chamber of Commerce. Businesses referred by the Chamber would not necessarily know the organisation to which their advisor belongs.

In sum, the responses in Figure 5 indicate that public sector support agencies are not well known by businesses in deprived areas.

**Figure 6: Awareness, Reach and Impact of Business Link**



**Figure 7: Why Business Link Not Used**

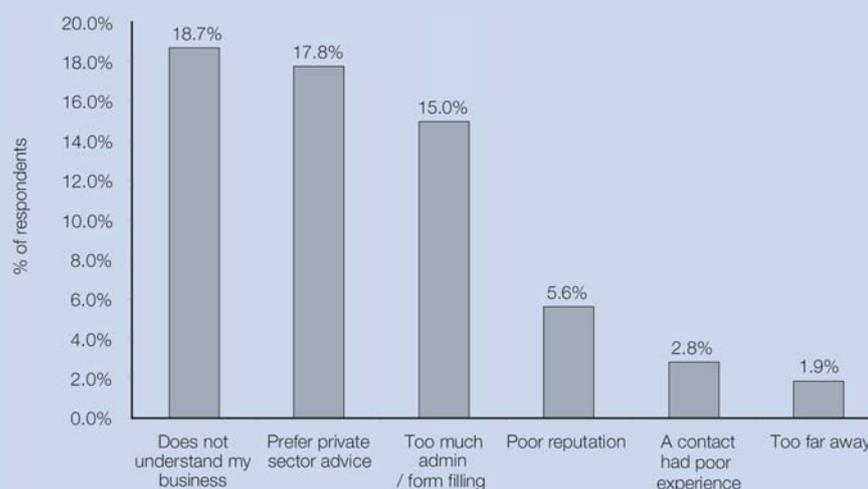


Figure 8: Awareness of Enterprise Area Status

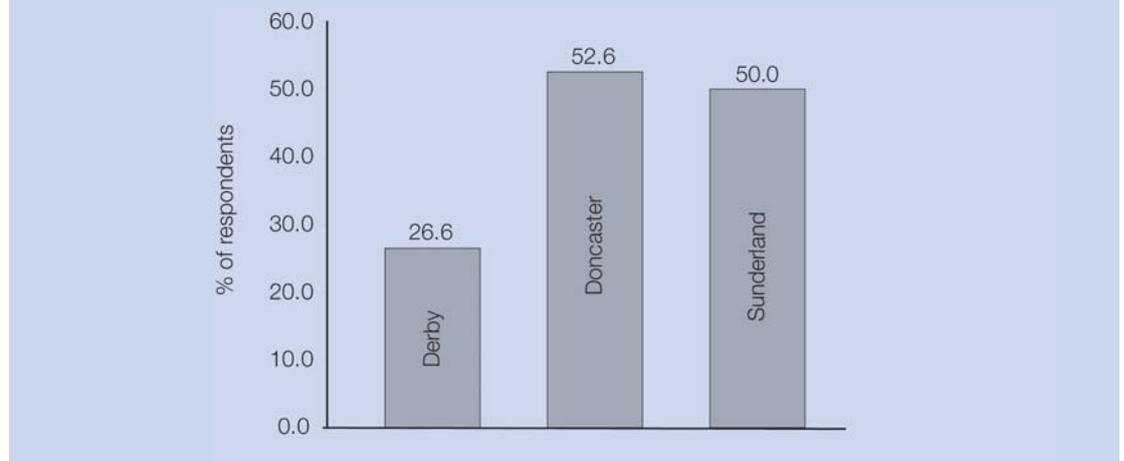
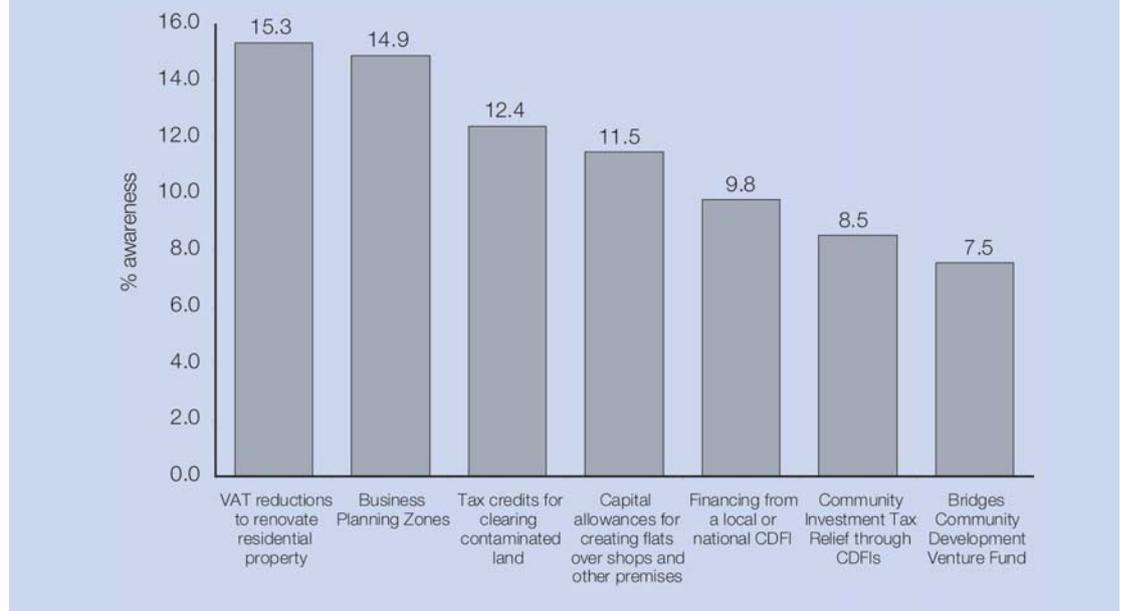


Figure 9: Awareness of ABIs/Enterprise Area Benefits



When prompted about Business Link, more respondents indicated familiarity than in the previous open-ended question. As Figure 6 shows, nearly 80% of respondents had heard of Business Link. Overall, nearly 30% of respondents had used Business Link, and a vast majority of those considered the advice worth having (79%) and would use the service again (77%).

These figures give a mixed picture. Awareness of Business Link may be low and take-up levels are only one-third of the population, but satisfaction amongst users is high.

Can Business Link reach more businesses in deprived areas? Probably, if they can make

their offering more appealing to local businesses by broadening their sector expertise and limiting red tape (see Figure 7).

#### *Low Awareness of Enterprise Areas*

All of the businesses surveyed are in Enterprise Areas. But only 46% of respondents were aware that they were in an Enterprise Area, with awareness in Derby well below that in Doncaster and Sunderland (Figure 8). Further research in Derby suggested that Enterprise Area assistance is not well promoted because relatively few wards in Derby are Enterprise Areas (see map in Annex A). This contrasts sharply with Doncaster and Sunderland, where

Enterprise Areas have broader coverage and such schemes are more likely to be promoted.

Respondents in all areas were even less aware of the benefits available to them through Enterprise Area status (Figure 9). *Only six businesses in total (less than 2%) had made use of any Enterprise Area scheme.*

### Policy Implications

Enterprise policy needs to be re-examined. It is difficult to provide clear evidence of the benefits of ABIs at the local level. Too few businesses know about Enterprise Areas, ABIs or related business support services, and their offerings do not match the needs or enhance the strengths of deprived areas.

#### *Build on the strengths of deprived areas*

Many deprived areas have particular assets that make their location attractive to business. The businesses we surveyed in Enterprise Areas in Derby, Doncaster and Sunderland, listed connectivity as the main asset of their company's location. Building on this and other assets is the way forward. Future policy efforts need to promote the existing assets of deprived areas, rather than proliferate little-used tax breaks and other incentives.

#### *Reassess the effectiveness of Business Link*

Sixty-eight per cent of the businesses surveyed had not used Business Link services. However, those that did reported a positive experience and a willingness to use Business Link again. More research is needed to understand the reach and perceived effectiveness of Business Link. It is too early to judge whether the take-up rate is reasonable. The service has a relatively limited offer and is hampered by bureaucracy and red tape. There is a complex, confused array of organisations focused on enterprise support; and their effectiveness, alignment and marketing to the business community needs to be assessed.

#### *Enterprise Area benefits are not working*

The businesses we surveyed hardly benefited from Enterprise Area status at all. The ward-by-ward designation of Enterprise Areas is

confusing, leading to low programme awareness and take-up rates. Given the sizeable policy effort dedicated to helping businesses in these wards, it seems there is little unique benefit derived. Our full report will examine whether Enterprise Area benefits are indeed ineffective as a strategy, or are instead suffering from poor promotion within the business community.

### Looking Forward

These survey results will become part of our final City Markets report – which will be published in Spring 2006. Our on-going research will tackle the issues raised by the survey evidence, especially the effectiveness of Enterprise Areas and area-based initiatives, and the prospects for LEGI.

### Notes

- 1 Treasury Productivity in the UK:4 the local dimension, HM Treasury, 2003, p.38)
- 2 SBS VAT registration survey, 2005
- 3 Over the first five years, from 2001/02 to 2005/06
- 4 Derby, Doncaster, and Sunderland all qualified in the original round of selection for Neighbourhood Renewal Funds, recognising the 88 most deprived wards, based on the 2000 Indices of Deprivation. All three areas have also recently qualified as among the 86 most deprived areas for continuation of funds through 2008, based on the 2004 Indices of Deprivation.
- 5 The six indicators are: rank of average ward score, rank of average ward rank, rank of extent of deprivation, rank of concentration of deprivation, rank of income deprivation, and rank of employment deprivation. For more, see: [http://www.odpm.gov.uk/stellent/groups/odpm\\_control/documents/contentservertemplate/odpm\\_index.hcst?n=4610&l=3](http://www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=4610&l=3)
- 6 Based on 2001 Census data of employees by sector and 2005 ONS data on VAT-registered business by broad industry groups
- 7 2004 ID income deprivation rankings (1 being most deprived, 354 being least deprived): Derby ranked 44th, Doncaster 26th, and Sunderland 20th.
- 8 ONS, Neighbourhood Statistics, 2005
- 9 ONS, GCSE/GNVQ Results for Young People By Gender, In England 2001/2002 (Referenced by Location of Pupil Residence)
- 10 Annex B can be found at <http://www.ippr.org/centreforcities/research/teams/project.asp?id=1705&tID=1752&pID=1705>
- 11 Walsh, Joan (1997). Stories of Renewal: Community Building and the Future of Urban America. The Rockefeller Foundation: New York.

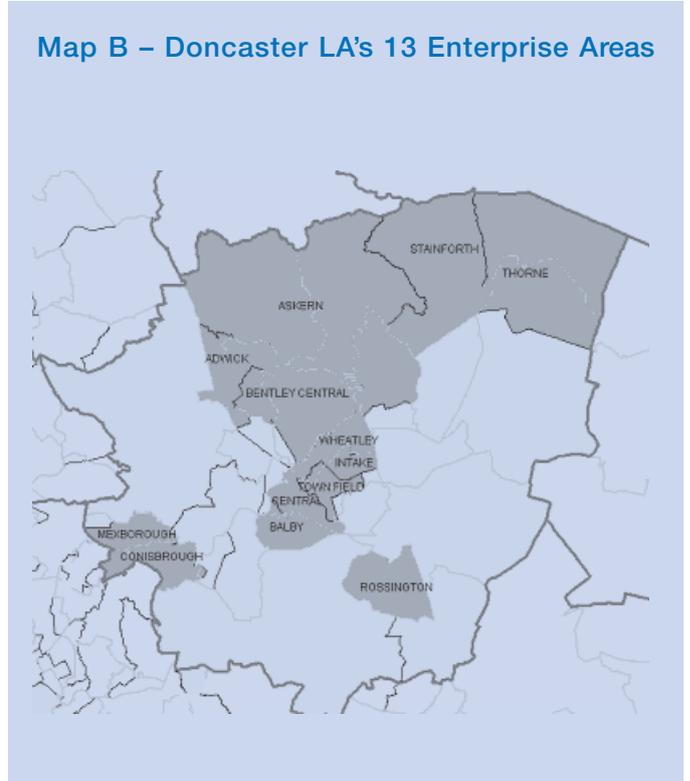
## Annex A: Maps of Survey Areas

The business surveys were undertaken in the Enterprise Area wards of Derby, Doncaster, and Sunderland. The Enterprise Areas are shown below in dark green. Maps courtesy of Trends Business Research.

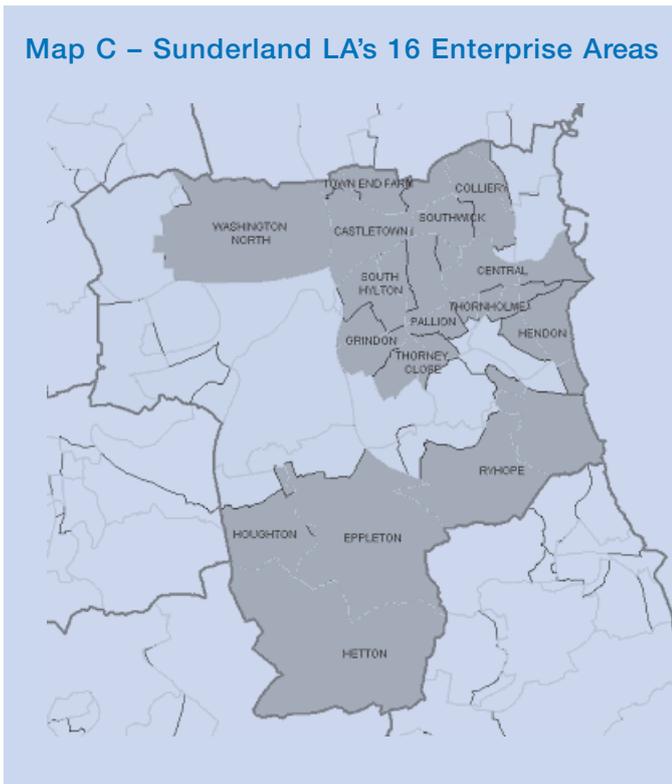
Map A – Derby UA's 6 Enterprise Areas



Map B – Doncaster LA's 13 Enterprise Areas



Map C – Sunderland LA's 16 Enterprise Areas



## centreforcities

The Centre for Cities is an independent urban research unit based at ippr, the Institute for Public Policy Research. We are taking a fresh look at how UK cities function, focusing on the economic drivers behind city growth – investment, enterprise, innovation, skills and employment.

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