city markets

business location in deprived areas

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About centreforcities

The Centre for Cities is an independent urban policy unit, based at the institute for public policy research (ippr). It is taking a fresh look at how cities function, focusing on the economic drivers behind urban growth and change.

About the authors

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Any errors or omissions are entirely the authors' own.

executive summary

- Boosting enterprise in deprived areas has been a recurring goal of government policy, aimed at kick-starting local economies and alleviating deprivation. The Local Enterprise Growth Initiative (LEGI) is the latest example. But enterprise programmes have had disappointing results in deprived areas, and been poorly targeted. The Comprehensive Spending Review is now looking to rationalise and improve economic development and regeneration schemes. This report will contribute to that process.
- *City Markets* looks at deprived areas according to their levels of business activity. It focuses on a group of 30 *business-deprived* areas – those Neighbourhood Renewal Fund (NRF) districts that have very low levels of business activity. Most are in the North-East (e.g. Sunderland) and the North-West (e.g. Oldham). Five are in London (e.g. Newham). Separately, a minority of deprived areas have relatively high levels of business activity (e.g. Preston, Leeds and Camden).
- Business-led regeneration should focus on business-deprived areas, but should intervene with care. Government should subsidise business activity only where specific market failures exist (e.g. lack of local market information, limited access to finance), in proportion to those market failures and in line with local labour markets and other conditions.
- Most business-deprived areas have significant market failures, and should be able to sustain increased business activity. But some, for example in London, have less need for more business activity, because their residents are already well-connected to wider labour markets.

Key recommendations for business-deprived areas (BDAs):

- **Intervene only where market failures exist.** Each BDA needs to identify and understand its own market failures, before any government intervention to boost business activity. Interventions should be proportionate to the degree of evidenced market failure, and tailored to local labour markets. More start-ups is not the answer for all areas.
- **Improve local market intelligence.** One of the biggest market failures is the lack of local market data. BDAs should gather and share more high quality economic information, for example on their strengths and weaknesses. This would help

make interventions more effective. It would also enhance local capacity, create more market certainty and support programme evaluations. Previous efforts such as City Growth are a useful starting point.

- **Intervene at the right spatial scale.** BDAs do not operate in isolation, but are part of wider economic areas such as travel-to-work areas. Interventions should be directed where market failures exist. Ward-level Enterprise Areas are far too small, and not well-recognised – they should be shut down.
- **Intervene on the demand-side as well as supply-side.** The Government's approach to deprived areas has been mainly on the supply-side. In many parts of the country, this will be enough. But in BDAs which are part of larger, low-performing economies, the Government should look at the scope for more demand-side interventions to stimulate business activity.
- **Focus less on start-ups, more on employment.** Enterprise policy in deprived areas has focused too much on start-ups. Start-ups are a necessary part of any vibrant economy, but they do not generate many jobs. The recent broader focus on inward investment and franchises is welcome.
- **Rationalise business support and make it more demand-led.** Current publicly-funded business support is supply-led, with far too many different providers and schemes. Business support should be more demand-led, targeted more at businesses themselves – perhaps through a voucher system. RDAs should explore this as part of the Comprehensive Spending Review.
- **Incentivise private sector investment.** New incentives are needed to revive the property markets in BDAs. Further research is required to identify how such interventions should be designed and implemented to maximise value for money. We will explore this with the British Property Federation and others.

foreword

Dermot Finch – Director, Centre for Cities

> *Inner cities and established industrial areas should be seen as new markets with competitive advantages - their strategic locations, their often untapped retail markets, and the potential of their workforce. And so we want to put in place the right incentive structure to stimulate business-led growth in our inner cities and estates and encourage much bigger flows of private investment.*[1]

Promoting enterprise in areas of deprivation has been a key goal of Gordon Brown's Treasury. It's been a recurrent theme of successive Budgets, and is an issue very close to the Chancellor's heart.

Has the Government succeeded in promoting enterprise in deprived areas? And has this helped to increase employment and incomes? This Government has clearly invested a lot of policy effort and some targeted funding on this. But the outcomes are less clear.

The Government claims to have narrowed the "enterprise gap" between the most and least deprived areas between 2000 and 2004. But it's not clear how business activity in deprived areas has increased because of macroeconomic factors, or because of specific government policy interventions.

The Government has also taken a very supply-side approach to deprived areas, investing more in labour market skills and job-matching than in new job creation. This may be appropriate for those deprived areas that are near to available jobs. But, as this report shows, other deprived areas are suffering from real demand-side deficiencies. In other words, they have a shortage of jobs. Policy needs to recognise and address this.

City Markets takes a close look at the links between business activity and deprivation. It finds that a minority of the 88 Neighbourhood Renewal Fund areas actually have business activity levels at or above the national average. But the report does identify a group of 30 NRF areas that are *business-deprived* – not only are they deprived, but they also suffer from very low business activity levels.

This report calls for tailored interventions to boost demand in business-deprived areas (BDAs), by attracting businesses and increasing employment – but only once specific market failures have been addressed.

Deprived areas: the big picture

Deprived areas have benefited from steady macro economic growth and high public spending for most of the last decade. This has lifted the performance of most areas, including the poorest, and provided a more secure

1 Rt Hon Gordon Brown MP Chancellor of the Exchequer, October 2003

investment climate for businesses to start up and grow.

The Government has also invested huge amounts of public money in deprived areas, through major programmes such as the New Deal for Communities – and through the use of public spending "floor targets" on education, health and other essential services. This has helped to raise the living standards of many people in deprived areas – and create a better environment for business.

But regional disparities remain, as *The State of the English Cities* report made clear recently. Cities in the North and West of England are performing significantly worse than those in the South and East. And there are still very sharp differences in economic performance within our cities. Many low-income areas are still cut off from the more vibrant economic areas around them.

Deprived areas have stayed relatively deprived. It's still more difficult to do business in Burnley than in Basingstoke.

Looking ahead, the twin drivers of macro-economic growth and high public spending are both likely to recede. This will impact on the business environment. Doing business in deprived areas could get more difficult. Already, VAT registrations – one of the most widely used measures of business start-ups – have started to level off. So it's even more important that we get the policy approach right.

Enterprise initiative overload

There are currently far too many different enterprise programmes in deprived areas, many of them quite small and short-term. The Government has showered places like Toxteth and Tower Hamlets with one scheme after another – including the Phoenix Fund, New Entrepreneur Scholarships, Community Investment Tax Relief (CITR) plus business support programmes.

The latest scheme, the Local Enterprise Growth Initiative (LEGI), allocated its first round of awards earlier this year. LEGI's broader enterprise focus – not just on start-ups, but also on business growth, franchises and inward investment – is welcome. But there are some delivery and implementation issues still to resolve. And there's a risk that recipient areas remain heavily dependent on grant aid – one of the downsides of state-sponsored enterprise promotion.

Enterprise Areas are another piece of the jigsaw. They operate in nearly 2,000 of the UK's most deprived wards. But awareness among qualifying firms is very low, which undermines their effectiveness. This is partly due to poor spatial targeting. Ward-level interventions are too small to be effective, and do not match well with the reality of how markets work in practice. This report calls for Enterprise Areas to be shut down.

The proliferation of enterprise schemes in deprived areas, many of them not properly

evaluated, is very confusing. It's difficult to tell what has worked, and what hasn't. The Comprehensive Spending Review needs to deliver a rationalisation of existing enterprise programmes, especially business support.

Business surveys

Last year, the Centre for Cities surveyed 350 businesses in deprived areas in Derby, Doncaster and Sunderland. We asked about the market factors affecting business location in these areas, and about the real impact of enterprise initiatives. Our interim report, *Mind the Enterprise Gap* (December 2005), revealed three key findings:

- Deprived areas need to identify and build on their assets, such as strategic location or available labour pool. Those places that are well connected to surrounding markets tend to do better than those that are not.
- Business support schemes such as Business Link are not well recognised, and are of variable quality. Those who use Business Link are reasonably satisfied, but penetration into deprived areas is not high enough.
- The benefits of Enterprise Areas are hardly used at all - only 2 per cent of our 350 businesses had used any of them.

Business support is not working as well as it should in deprived areas. In particular, the performance of Business Links is questionable. The Government is looking at this, as part of the CSR. Businesses in deprived areas should have access to high-quality advice and support, through a better focused demand-led system.

Tax incentives for business investment in deprived areas have had a chequered history. The Stamp Duty exemption was closed down last year, following excessive deadweight costs and poor targeting. But other, smaller tax incentives such as the Community Investment Tax Relief have attracted disappointing levels of investment. This report says that new fiscal incentives may be needed to encourage investment in BDAs, but any such scheme should be targeted on specific market failures and be based on solid local market intelligence – and, crucially, represent good value for money.

Ultimately, the enterprise policy toolkit in deprived areas is marginal. Business activity is dependent not on any particular initiative, but on broader market factors such as the availability of suitable premises, the dynamics of the labour pool and good transport connections.

Comprehensive Spending Review

Despite the Government's best efforts, the results of its enterprise schemes in deprived areas are difficult to measure. There is some

unease at the lack of hard evaluation evidence. Have they worked or not? Have they boosted business activity in deprived areas? And has this led to a reduction in levels of deprivation?

The Treasury is now looking at all this, as part of the Comprehensive Spending Review. The sub-national review of economic development and regeneration is aiming for fewer, more strategic interventions. This report supports that approach, and argues that business-led regeneration should focus on BDAs as a priority, where market failures exist, to support new business location and employment in those areas.

Devolution

Finally, there is a governance angle to all this. Most of these enterprise initiatives are too centrally driven – designed, run and funded by Whitehall. Some, like the Phoenix Fund and LEGI, contain a competitive bidding process with decisions made centrally. There is very little scope for local areas to innovate and develop their own business development strategies.

Our recent *City Leadership* report set out a strong case for financial devolution over economic development. That includes enterprise in deprived areas.

Deprived areas are not all the same. Some have quite high levels of business activity, others don't. Some are located very near to vibrant economic areas, others aren't. Some suffer from perception problems, others face much bigger barriers to business location and growth. And these barriers are different in different places – low skills, poor connectivity, crime against business premises. So, enterprise strategies need to be tailored to local or city-regional economies – not to a national menu of targets.

Boosting enterprise in deprived areas is a great goal. But the causal links between business activity and deprivation are not straightforward. Enterprise policy to reduce deprivation should focus more closely on addressing the sources of deprivation, and should link more directly to job creation.

But at the same time, policy interventions should be careful not to distort market decisions. Enterprise policy should focus not on deprived areas in isolation, but on deprived areas as part of wider economies.

Less is definitely more in this case. And that means fewer schemes and initiatives, with more impact. This *City Markets* report sets out a possible way forward.

1 introduction

What's the problem?

Over the last decade of macroeconomic growth and stability, many urban areas have improved. But some have performed better than others – notably, towns and cities in the South and East of England, while those in the North and West have performed less well.

In addition, many of our towns and cities still have areas of persistent and concentrated deprivation within them – most notably, areas that have suffered particularly sharp shocks through deindustrialisation. These deprived areas have tended to stay deprived over the last decade, cut off from the relatively high growth elsewhere and struggling to deal with mismatches of labour demand and supply.

In many cases, the presence of market failures has restricted the ability of these areas to develop new business activity and employment opportunities.

Successive governments have made concerted and repeated efforts to address the problems of deprived areas, through a range of different programmes aimed at economic, physical and social challenges. But the effectiveness of these programmes has been mixed, and value for money questionable in some cases.

Why this report adds value

This report identifies a group of 30 'business-deprived areas' – 30 Neighbourhood Renewal Fund areas that display not only high levels of income deprivation, but also the lowest levels of business activity.

We deploy a broad range of indicators to underpin this category of business-deprived areas (BDAs), including not just VAT registrations, but other business activity and job indicators too.

The report then makes the case for Government to pay much closer attention to BDAs. Business-led regeneration should focus not just on the most income-deprived areas, but on those deprived areas with little business activity.

Is the Government's approach working?

This report focuses on the economic barriers to business activity in BDAs. The Government has long argued that increased enterprise – in all its forms, but especially start-ups – will help address concentrated deprivation, by creating jobs for local people.

This report takes a hard look at the enterprise agenda, as it relates to BDAs.

Are the Government's enterprise policies working in BDAs? Not as well as they could.

In general, the current government's response has been largely on the supply side – through welfare to work, benefit reform and workforce development. But people-based, supply-side responses, although an essential pre-condition to tackling worklessness, are not sufficient in themselves to deal with the problem. Specific policy interventions are required to correct market failures and thereby boost business activity and increase the demand for labour.

On the demand side, Government is running a number of business-led regeneration policies, including a strong focus on enterprise measures. But the focus on start-ups, generalised business support and micro area-based initiatives has not been very effective.

Successful economies are built on a combination of new business creation, expansion of existing enterprises, attraction of inward investment and business retention. However, enterprise policy in deprived areas has tended to focus disproportionately on encouraging start-ups. Only recently, with the arrival of the Local Enterprise Growth Initiative, has Government broadened its focus to include growing businesses and inward investment.

The report argues that Government should focus more policy and resource on promoting business activity in those BDAs that can identify specific market failures. The precise nature of intervention in individual BDAs will vary, but we propose a range of possible options to boost the demand for employment and investment.

Why is this important now?

Two reasons:

- The 2007 Comprehensive Spending Review is currently looking at sub-national economic development and regeneration programmes, including business support and other enterprise policies. It is vital that the CSR helps to refocus policy and resources on supporting business activity in business-deprived areas, and supporting other deprived areas in more appropriate ways.
- The Local Enterprise Growth Initiative (LEGI) recently completed its first round. There is room for improvement in the second round, with better targeting on BDAs and more support for local authorities that lack the capacity to compete for LEGI funding.

This report will contribute to the Treasury's thinking on business support and enterprise in deprived areas; and will help shape the second and subsequent rounds of LEGI.

The report

The report is arranged as follows:

- Chapter 2 profiles the location and characteristics of deprived areas in England, including case studies of Sunderland, Doncaster and Derby;
- Chapter 3 explores the relationship between deprivation and enterprise, and identifies a group of 30 'business-deprived areas' with the lowest business activity rates;
- Chapter 4 examines why business activity levels are so low in BDAs, and looks in particular at a range of market failures;
- Chapter 5 outlines the Government's strategic approach to economic development in deprived areas, especially policies to promote employment and business activity;
- Chapter 6 assesses the effectiveness of specific business-led regeneration interventions since 1997, and identifies a need for improved demand-side policies in BDAs;
- Chapter 7 identifies lessons to learn from four area-based initiatives: Enterprise Zones, Enterprise Areas, Local Enterprise Growth Initiative and Business Improvement Districts; and
- Chapter 8 sets out some key principles for boosting business activity in BDAs.

2 understanding deprived areas

Introduction

The causes of deprivation are complex, and vary from neighbourhood to neighbourhood. But one thing remains constant – that deprived areas tend to remain deprived. Even during the last decade of economic growth, deprived areas have been unable to grow themselves into closer convergence with more vibrant areas. Government has spent much of the last decade deploying different types of intervention, all designed to enable deprived areas to catch up.

This report is principally concerned with the goal of promoting business activity in deprived areas. Why, and in which deprived areas, is promoting business activity the right intervention?

This chapter briefly profiles the location and characteristics of deprived areas in England – those local authority districts that rank in the top 88 on the Indices of Deprivation (ID), and qualify for the Neighbourhood Renewal Fund (NRF).[1] It sets out some key facts about deprivation in England, to inform our later discussion of business activity and location in deprived areas.

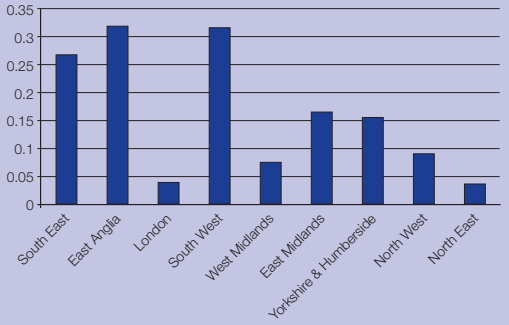
Economic histories

Many deprived areas in the North and West of England share the same economic history of deindustrialisation during the 1970s and 1980s, with sluggish job growth over the last 25 years.

The decline in demand for labour was sharp, especially in the North. Manufacturing employment in the UK dropped by 43 per cent from 1978 to 2000 and the share of all workers employed in manufacturing fell from 28 per cent in 1978 to 15 per cent in 2000 (ONS, Average Earnings Inquiry). In the North East alone, at least 19 collieries and five shipyards closed during the 1970s.

As manufacturing declined, blue collar jobs were lost, and many of the newly unemployed lacked the skills needed in new services and

Figure 2.1. Percentage job growth, 1981-2005[2]



Source: Author's calculations of Estimates of Workforce Jobs, NOMIS (Crown Copyright).

1 The ID indicators changed slightly in 2004. We have considered the 2000 NRF recipients because they were all eligible to bid for LEGI and they were all deprived at the same moment in time.

2 This data is presented by Standard Statistical Region, a designation that changed in 1996 to the current Government Office Regions (GOR). The data is held constant in the 1981 geographies, so that the North East region contains all of the current North East GOR plus Cumbria; East Anglia contains Cambridgeshire, Norfolk and Suffolk (from the current East of England GOR); and the remainder of the East of England GOR (Bedfordshire, Essex and Hertfordshire) is in the South East Standard Statistical Region.

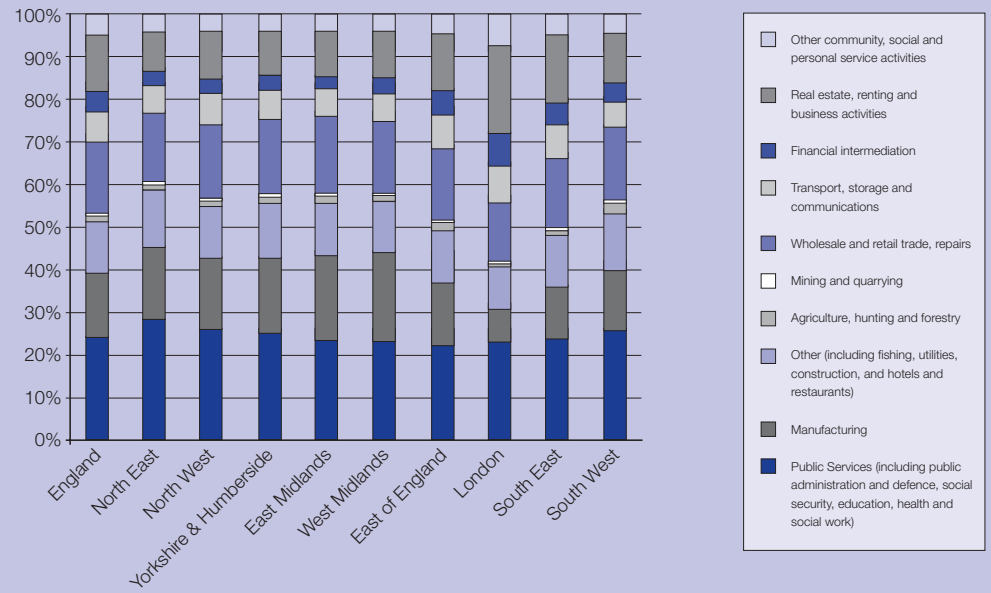
knowledge-based industries. Turok and Edge (1999) analysed the change in the eight major conurbations, and found that these urban areas saw a significant decline in manual jobs while professional managerial jobs increased substantially from 1981-1991, creating a 'jobs gap.'[3]

The transition for these workers (and their children) to other industries has been slow. The industry mix in the North and West of England still contains more manufacturing and public-sector employment than in London and the South, indicating that there may be more transition to come (see Figure 2.2).

To some degree, this manufacturing reliance makes sense – northern and western regions have more assets for manufacturing than other areas. But it may also be a concern, as the future sustainability of the manufacturing sector remains in question. Jobs may be lost to offshoring or simply to technological improvements, meaning that further upskilling will be needed to maintain employment levels.

For a better context of these changes, we have provided case study profiles of Sunderland, Doncaster and Derby at the end of this chapter.

Figure 2.2. Share of employment by sector by region, 2001



Source: Author's calculations of 2001 Census data (Crown Copyright).

3 The conurbations assessed were: West Midlands, Greater Manchester, West Yorkshire, Clydeside, South Yorkshire, Merseyside, Tyneside and Greater London.

Deprived economies today

Deprived economies are complex and persistent. Despite a wide array of interventions, deprived areas tend to remain deprived (Gordon, 1999; Lupton, 2005; Chatterton and Bradley, 2000; ODPM, 2003a). Across wards in all six major English conurbations outside London,[4] Lupton (2005) found that work poverty ranking in 1991 was highly correlated (.96) with work poverty ranking in 2001.[5] Many residents of deprived areas still remain disconnected from jobs and employment opportunities.

Why such a persistent disconnect? A mismatch of labour supply and demand perpetuates deprivation in many areas, which suggests a wide variety of sources of – and solutions to – deprivation.

On the labour demand side, some deprived areas need a broader employment base – there simply are not enough jobs in the labour market. On the labour supply side, some residents lack the skills, abilities and characteristics to compete favourably against other job seekers, no matter how many jobs are nearby (Gordon, 1999; Morrison, 2005). Some residents lack the connectivity – whether transportation, internet access or local awareness – to link up with employment opportunities across the labour market. This complex framework of supply-side and demand-side labour deficiencies frames our thinking about how to kick-start deprived economies.

We are particularly concerned about deprived areas, in addition to deprived individuals, because concentrations of poverty have 'area effects' – which tend to occur at the neighbourhood level. These effects mean that 'concentrations of deprivation limit the life chances of people living within them, above and beyond their own personal circumstances' (Berube, 2005b: 19). For example, a poor person in a deprived area may be worse off than a poor person in a middle-income area (Ellen and Turner, 1997). Residents of deprived areas are often exposed to limited job networks, over-burdened local schools, high levels of crime and negative impacts on health (Berube, 2005b).

Currently, the Indices of Deprivation (ID) are used to rank wards based on indicators related to employment, income, housing, health, education and geographical access to services. These ward results are aggregated into district-level ratings, and 81 low-rated districts, as well as seven others that ranked low on previous measures, were designated as 'deprived' and recipients of Neighbourhood Renewal Funds in 2000. For a full listing see Annex 1.

Local authority districts do not fully capture functioning labour markets, and are not ideal for measuring deprivation. But we assess deprivation at this geography because programmes such as the Local Enterprise Growth Initiative (to be discussed in Chapter 7) are administered at the district level.

4 These conurbations are: Tyne and Wear, Merseyside, Greater Manchester, West Midlands, West Yorkshire, South Yorkshire. London could not be assessed in the same way because of ward boundary changes.

5 Work poverty is defined as: 'the proportion of individuals of working age within a ward who were not working, studying, or training' (Lupton, 2005).

The components of the ID are a good indicator of the common features of deprived areas. They have among the highest levels of worklessness, unemployment and incapacity benefit in England. Most also have low levels of education and skills. Average incomes and homeownership in many of these districts are also low (see Annex 1).

Location of deprived areas

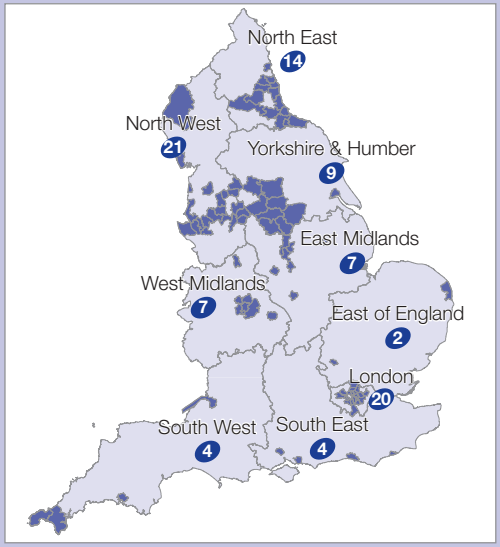
Deprived areas are not evenly distributed across England (see Map A). Sixty-three per cent are in just three regions: the North East, North West and Greater London.[6] Most are urban in nature, although some are more rural in the South West and East, for example.

The following case studies of Sunderland, Doncaster and Derby give a picture of deprived local economies in England.

Case studies

The Centre for Cities commissioned a survey of businesses in the Enterprise Areas of Derby, Doncaster, and Sunderland. We published the results separately (Kornblatt and Troni, 2005), and this paper can be accessed from the Centre's website. We cite the findings of the survey as they aid our understanding throughout the text, and, here, we discuss the insight into their economies gained from local research.

Map A Number of NRF districts by region (2000)



6 Although the ID has been recalculated for 2004, we assess the deprived local authority districts from the 2000 assessment because these were the districts that were eligible to bid for Round 1 of LEGI funding.

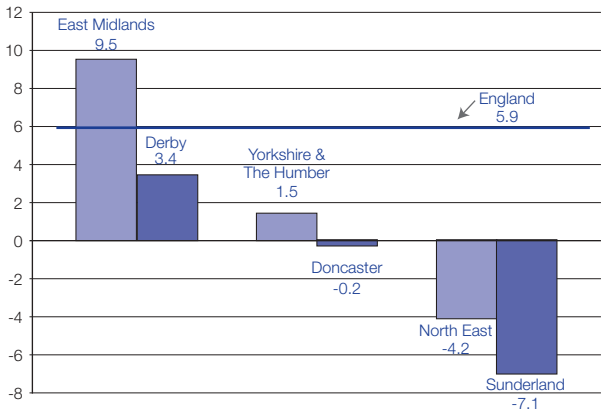
Case study A: Sunderland

Sunderland was an early centre for shipbuilding and coalmining and has struggled since the decline of both of these industries in the 1970s and 1980s. The entire area was affected and is still recovering – educational attainment is low, and residents remain tied to the old tradition of a career working for a single employer. Despite its sizeable manufacturing base and close proximity to economic activity in Newcastle, Sunderland experiences some of the highest rates of worklessness in England. Deprivation in Sunderland is widespread – see the map to the right. A majority of Sunderland's wards were designated Enterprise Areas (EAs) based on ward-level deprivation in the 1990s (and these EA designations are still in effect).

Sunderland

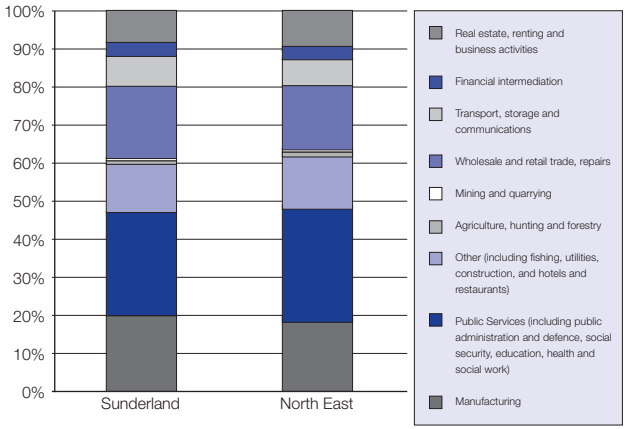
Although all three of our selected case study areas have experienced sluggish population growth compared to England and their respective regions, Sunderland has experienced the most rapid decline in population from 1982 to 2002 (see Figure 2.3). But Sunderland is starting to develop its economic base. Since 1986, Nissan has been a major employer, and the city has branched out beyond its traditional manufacturing base, growing its services sector. And the current mix of industries reflects new opportunities in Sunderland. Although manufacturing remains a major presence, it is not dominant, and the industry mix is much like the rest of the North East (see Figure 2.4).

Figure 2.3. Percentage change in population, 1982-2002



Source: ONS (Crown Copyright).

Figure 2.4. Share of employees by sector, 2001



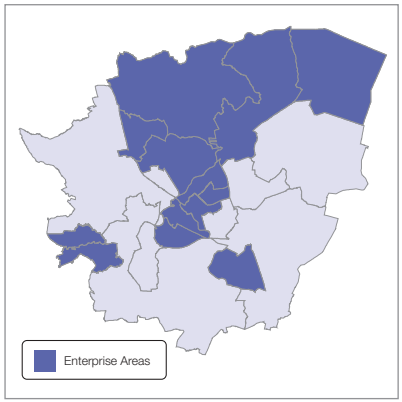
Source: 2001 Census (Crown Copyright).

Case study B: Doncaster

In Doncaster, lost mining and railway jobs have contributed to an economic downturn that is spatially distributed differently than in Sunderland. As shown in the map to the right, deprived Enterprise Areas cover less of the district than in Sunderland, and many EAs are some way from the town centre, reflecting the deprivation in the more remote mining areas on the northern edge.

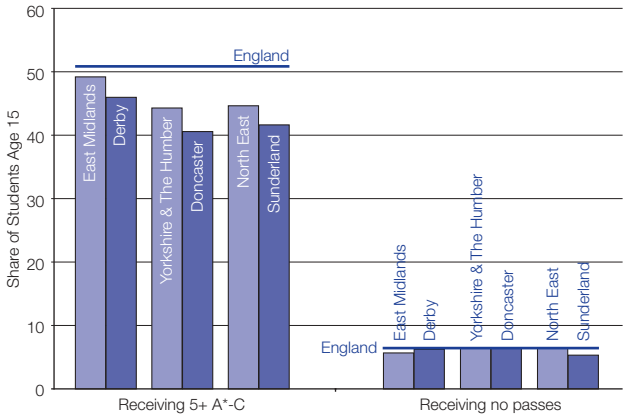
Doncaster has assets – especially connectivity. The town had early success as a stagecoach trading post, and was home to the Great Northern Rail Locomotive and Carriage Building Works, solidifying both road and rail linkages. Today, Doncaster is on the A1(M) and M18 motorways and near the M1 and M62. It is also a hub for the GNER railway, with good links to London (around 90 minutes), the North East and Scotland. Robin Hood Airport, which opened in 2005, is the latest contribution to connectivity, and has helped strengthen the town's logistics and distribution sectors.

Doncaster



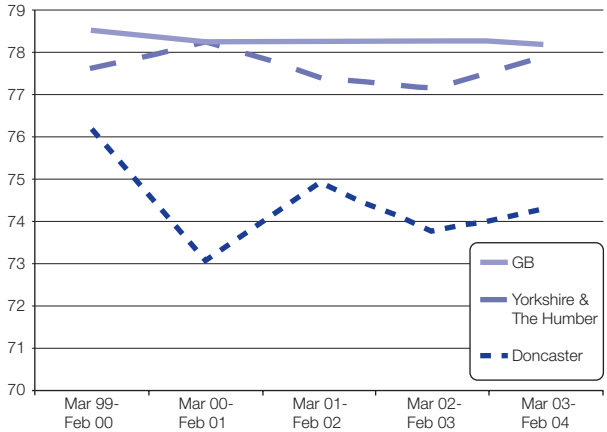
But Doncaster still faces challenges. Among them, connectivity is a two-way street, and many young people are drawn to nearby Sheffield and Leeds. Although educational attainment lags in all of our case study cites, Doncaster is the weakest performer on GCSE scores (as shown in Figure 2.5 below). And economic activity among the working age population still lags the national and regional averages significantly (See Figure 2.6).

Figure 2.5. GCSE performance by student (age 15) by home address, 2001-2002.



Source: ONS (Crown Copyright).

Figure 2.6. Economically active share of the working- age population



Data from ONS, NOMIS (Crown Copyright).

Case study C: Derby

Derby was at the heart of the industrial revolution, introducing water-powered silk and cotton mills to the UK. Like Doncaster and Sunderland, this manufacturing emphasis base has been exposed to economic decline in recent years. But unlike Doncaster and Sunderland, Derby was able to retain one of its largest manufacturing employers, Rolls-Royce, and has added to its base with Toyota.

Manufacturing has increasingly become higher-end in Derby, creating a concentration of engineering skill, and boosting GVA per full time equivalent to £41,278 in 2001, 11th highest among England's 93 NUTS 3 regions (see Figure 2.7). Derby also has a small financial and professional services sector (Egg, the internet bank, has its national office in Derby), and the textile industry still has a prominent presence in Derby and across the region.

But growth and success in Derby has not been evenly spread. Prosperity is seen more among those who work in Derby than those who live in Derby. As new firms locate around the fringe of the city, many workers are in-commuters, and many local residents, particularly near the city centre, remain deprived - see the map above. Despite high GVA achieved by Derby's workers (Figure 2.7), Derby's residents trail on many indicators, including education and homeownership – and crime (see Figure 2.8).

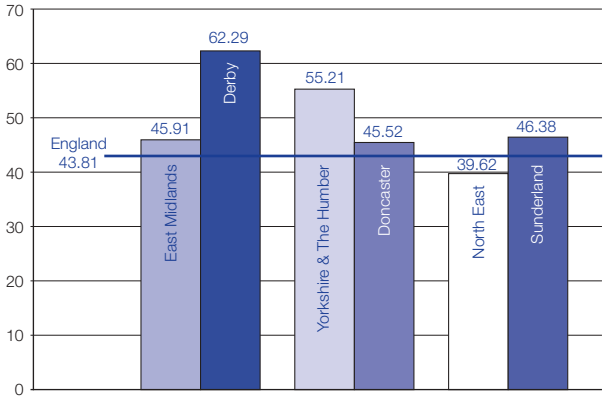
Derby

Figure 2.7. Rank of gross value added per full time equivalent in NUTS 3 Regions, 2001

Rank	NUTS 3 Region	GVA per FTE
1	Inner London - West	49,674
2	Berkshire	48,369
3	Outer London - West and North West	47,878
4	Buckinghamshire CC	47,656
5	Surrey	47,304
6	Thurrock	46,624
7	Hertfordshire	44,716
8	Inner London - East	44,063
9	Oxfordshire	42,397
10	South Nottinghamshire	41,744
11	Derby	41,278
12	Outer London - East and North East	40,942
13	Swindon	40,929
14	Cheshire CC	40,682
15	Luton	40,303

Source: State of the Cities Data, http://www.sasi.group.shef.ac.uk/socr/, Social and Spatial Inequalities Group, Department of Geography, University of Sheffield, Original data from ONS GVA data and FTE from Annual Business Inquiry, NOMIS (Crown Copyright).

Figure 2.8. Number of crimes per 1,000 residents, 2003-2004



Source: ONS, Notifiable Offences Recorded by the Police, 2003/04 (Crown Copyright).

3 business-deprived areas

Introduction

This chapter explores the relationship between deprivation and enterprise. The evidence shows that most of the 88 Neighbourhood Renewal Fund (NRF) deprived areas rank low on enterprise indicators such as quantities of business, but less so on other enterprise indicators such as jobs. A minority of NRF areas perform at or above the national and regional averages on enterprise indicators – for example, Preston, Manchester, Leeds, Leicester, Hammersmith and Fulham and Hackney. Indeed, some NRF areas are among their region's and the nation's very best ranked in enterprise activity – such as Westminster, Kensington and Chelsea, Islington, Camden and Tower Hamlets.

Given that not all deprived areas lag in business activity, we identify a group of 30 *business-deprived* areas (BDAs) – the 'hard core' of deprived NRF districts that display the lowest business activity rates.

Later in the report, we argue that these business-deprived areas merit special attention. Stimulating business activity in certain BDAs is likely have a greater effect than in deprived areas with little business deficiency, provided that the area has reversible market failures. Each BDA will require a different approach, dependent on its own particular local economy.

Not all BDAs will merit the same degree of intervention. Some may not have sufficient assets to justify the promotion of new business activity. But a significant number will. This chapter, and the rest of the report, explains why.

Government's approach to deprived areas

Since 1997, the Government's approach to tackling deprivation has been both people- and place-based. It has targeted individuals with measures to reduce worklessness (e.g. through the New Deals) and to make work pay (e.g. through the minimum wage and Working Families Tax Credit). Government has also tried to address the 'area effects' of concentrated deprivation with place-based measures or 'area-based initiatives'.

Enterprise area-based initiatives

Government has run a series of small-scale area-based initiatives designed to increase new business activity in deprived areas. Programmes have included Enterprise Zones, Enterprise Areas and the Local Enterprise Growth Initiative. We discuss these in more

detail in Chapter 7.

The overriding thinking behind such policies has been that deprivation and low levels of enterprise (e.g. VAT registrations) are closely related. The 2006 Budget paper on cities stated that:

> *'High levels of local deprivation appear to be associated with low business formation rates…The negative relationship between deprivation and entrepreneurial activity appears to be clear-cut…Enterprise is an important tool for tackling deprivation.'*
> (HMT, 2006)

Most deprived areas do display low levels of business activity. But a minority have relatively high business activity rates. So the relationship between deprivation and enterprise is not totally clear-cut. It is also important to understand why an area has low business activity, including the type and extent of market failures. Enterprise may be an important tool for tackling deprivation, but only if it is sustainable and if it generates local employment.

Relationship between enterprise and deprivation

The Indices of Deprivation are a robust measure of deprivation. But the measurement of enterprise has been much less comprehensive, and has been based too much on a single indicator – VAT registrations. This is unsatisfactory, as enterprise should encompass a broader spectrum of business activity, including both growth of existing businesses as well as new starts.

This report addresses this data gap, with a new combination of indicators - including measures of both jobs and business activity, to give a more accurate and comprehensive picture of enterprise in deprived areas. Levels of business activity in England's most deprived areas[7] are compared to national and regional performance, using four indicators:

- New VAT registrations
- Stock of VAT registered companies
- Stock of companies according to Annual Business Inquiry (ABI)
- Number of jobs

These indicators are *all* indicators of enterprise, and should be considered together rather than in isolation.

Data summary

Our assessment of these data is extensive. A fuller assessment is provided in Annex 5, and a summary is presented below.

As stated above, we compare performance of the deprived districts to national and regional averages. The comparison to national averages is relatively straightforward. But comparing levels of business activity in deprived areas with

7 Defined as the original 88 Neighbourhood Renewal Fund (NRF) districts – see Annex 1.

8 VAT registrations are a limited measure because only businesses that pass an income threshold (currently £61,000) are required to register, certain other businesses are exempt from VAT registration, and businesses with multiple branches or locations are counted only once at the address of registration, which may or may not be their primary place of business. For more on the cautions of VAT registration data, see Ashcroft *et al*, 1991.

all the districts across England can produce misleading results, since business activity is often strongly influenced by regional factors. So we have also compared deprived areas to their respective regional peers, to net out any misleading 'noise' in the data.

New VAT registrations:

VAT registrations are a limited measure of quantities of businesses. Indeed, less than half of all UK businesses are believed to be VAT-registered (ODPM 2003a).[8] But VAT registrations are a frequently-cited indicator, so we assess them here along with our other business measures.

Most deprived districts have rates of new VAT-registrations that are below the national average (in Table 3.1, Quintiles 1 and 2), although 18.2 per cent performed well above average (Quintiles 4 and 5). Netting out the regional bias, the deprived areas performed better: more regions (roughly 19.3 per cent) performed around the regional average, while another 19.3 per cent performed well above the regional average.

Stock of VAT-registered companies

A vast majority of deprived districts (81.9 per cent) rank in the bottom two-fifths across England on stock of VAT-registered businesses per working age adult (Quintiles 1 and 2 in

Table 3.1. NRF Districts by new VAT registrations per working age adult by national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest new VAT levels	46	52.3
2	18	20.5
3	8	9.1
4	5	5.7
5 – highest new VAT levels	11	12.5
TOTAL	**88**	**100.1**

Quintiles established by ranking English districts by new VAT-registrations per working age adult. Q1 contains the lowest ranked 20 per cent in England; Q5 contains the highest ranked 20 per cent in England. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

Table 3.2. NRF Districts by stock of VAT-registered business per working age adult national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest VAT levels	51	58.0
2	21	23.9
3	9	10.2
4	3	3.4
5 – highest VAT levels	4	4.5
TOTAL	**88**	**100**

Quintiles established by ranking English districts by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent. Q5 contains the highest ranked 20 per cent. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates.

Table 3.3. NRF Districts by ABI-estimated business stock per working age adult national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest business levels	48	54.4
2	18	20.1
3	11	12.5
4	5	5.7
5 – highest business levels	6	6.8
TOTAL	**88**	**99.6**

Quintiles established by ranking English districts by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent, through Q5 containing the highest ranked 20 per cent in each region. Data Source: ABI, NOMIS, 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

Table 3.2). This data seems significantly driven by regional factors. When we compare the deprived districts to their regional peers, the size of the majority falls to 69.3 per cent. A small share (13.7 percent) are among the top two-fifths (Quintile 4 and Quintile 5) of their region in VAT-registered stock.

Stock of companies according to Annual Business Inquiry (ABI)

ABI estimates of local businesses help balance against the limitations of VAT registration data. In particular, this data indicates relatively more businesses in deprived areas than VAT registrations reveal (see Table 3.3). This seems reasonable - there may be many businesses with a branch in a deprived area, but a head office elsewhere, and these locations would be picked up by the ABI, though not in VAT registrations. Based on the ABI, 74.6 per cent of deprived districts rank in the bottom two-fifths of all districts. Regional factors are again significant here. By regional comparisons, 63.6 per cent of districts were in the bottom two-fifths of their region, whilst 20.4 per cent were among their region's top two-fifths.

Number of jobs

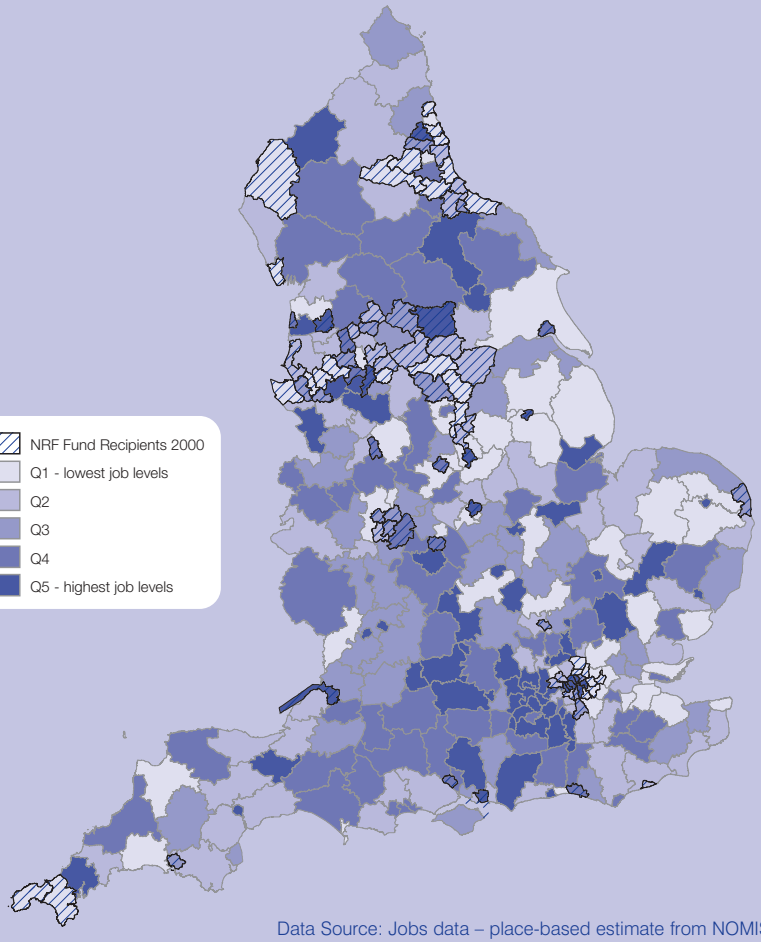
Data on local jobs is a valuable measure, since growth in VAT registrations does not always lead to jobs growth, and vice-versa (see Annexes 3 and 4). We assess the number of jobs present in each local area, although these are not necessarily taken by local people. Assessing the number of jobs per capita gives a sense of which places experience severe labour-demand driven deficiencies, rather than areas with higher levels of jobs and supply-side problems with helping local residents to access jobs.

Unlike the other three indicators, the deprived districts showed much less lag on quantity of jobs. As compared to all of England's districts, 51.2 per cent performed in the bottom two-fifths, while 29.6 per cent performed in England's top two-fifths. As shown in Map B, deprived districts and non-deprived districts have a wide range of job levels. Little correlation between

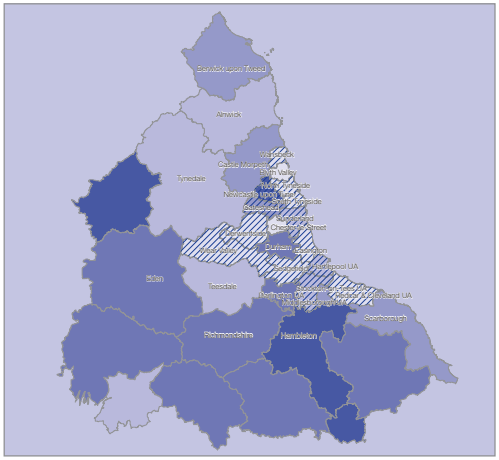
job levels and deprivation emerges: there are deprived districts with among the highest levels of jobs in England and non-deprived districts with among the lowest job levels in England.

Furthermore, on a regional basis, the distribution of deprived districts was near even with non-deprived districts (see Table 3.4).

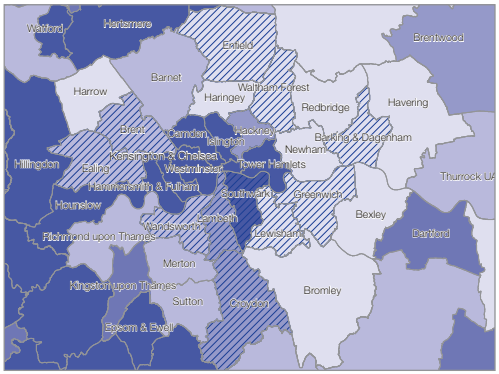
Map B District jobs per resident age 15-65 and Neighbourhood Renewal Fund status



North East



Map B inserts: London



Data Source: Jobs data – place-based estimate from NOMIS, including employees (from ABI), self-employment jobs (from LFS), government-supported trainees (from DfES and DWP), and HM forces (from MoD). Residents age 15-65 by district, from NOMIS mid-year estimates.

Table 3.4. NRF Districts by jobs per working age adult regional quintiles, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest job levels	18	20.5
2	21	23.9
3	20	22.7
4	15	17.0
5 – highest job levels	14	15.9
TOTAL	**88**	**100**

Quintiles established by ranking the districts in each region by jobs per working age adult. Q1 contains the lowest ranked 20 per cent in each region, Q5 contains the highest ranked 20 per cent in each region. Data Source: Jobs data: place-based estimate from NOMIS, including employees (from ABI), self-employment jobs (from LFS), government-supported trainees (from DfES and DWP), and HM forces (from MoD). Residents age 15-64 by district, from NOMIS.

Business activity in deprived areas

The four indicators of business activity examined provide an interesting story. All of the 88 areas assessed are deprived and have high levels of worklessness and income deprivation. But they do not all lack jobs and business activity. The relationship between deprivation and business activity is not clear-cut, and policy interventions need to reflect this.

A minority of deprived areas have relatively high levels of business activity – such as Preston, Manchester, Leeds, Westminster and Camden. In these areas, increasing business activity is unlikely to be the most efficient way to reduce worklessness. Labour supply issues for example should be the focus here.

Most other deprived areas have low levels of business activity, but a hard core of 30 deprived areas have very low business activity levels. This report focuses on these business-deprived areas.

Business-deprived areas

Table 3.5 identifies the 30 districts which are both deprived and, according to the four indicators used above, have the lowest levels of business activity. We refer to these 30 districts as business-deprived areas (BDAs).

Not all BDAs share the same problems, but they have the greatest potential need for an increase in business activity. Map C provides the geographical distribution of these districts, and Annex 2 provides the full ranking of all 88 deprived areas, with more detail on the methodology applied.

As Table 3.5 shows, BDAs are concentrated in the North East and North West – and to a lesser extent, in Greater London.

Nine of the local authorities included in the first LEGI round feature among the 30 – Derwentside, Easington, Sedgefield, South Tyneside, Wear Valley, St Helens, Barking and Dagenham, Ashfield and Bolsover. However, Mansfield, Hastings, Bradford, Coventry, Croydon, and Great Yarmouth also made successful LEGI bids but are not classified as business-deprived. Chapter 7 considers this in more detail.

Table 3.5. Deprived areas with lowest business activity

Region	District or Unitary Area	Business-deprived ranking	LEGI Recipient
North East	Derwentside	5	*
	Easington	1	*
	Hartlepool	21	
	North Tyneside	13	
	Redcar and Cleveland	3	
	Sedgefield	15	*
	South Tyneside	4	*
	Stockton-on-Tees	23	
	Sunderland	17	
	Wansbeck	2	
	Wear Valley	24	*
North West	Barrow-in-Furness	9	
	Hyndburn	28	
	Oldham	30	
	Knowsley	10	
	Rochdale	29	
	St Helens	11	*
	Tameside	25	
	Wigan	16	
	Wirral	14	
London	Barking and Dagenham	12	*
	Greenwich	22	
	Lewisham	6	
	Newham	8	
	Waltham Forest	19	
Yorkshire and Humberside	Barnsley	20	
	Doncaster	26	
	Rotherham	18	
East Midlands	Ashfield	27	*
	Bolsover	7	*

Map C Business-deprived areas

Understanding business-deprivation areas

Annex 2 ranks the most deprived areas in England (the 88 Neighbourhood Renewal Fund districts) according to their levels of business activity. The 30 deprived areas in Table 3.5 have the lowest business activity levels out of the 88 NRF areas. They are 'business-deprived areas' – deprived areas with low business activity levels.

Annex 2 gives a weighted sum of the rankings of the four indicators that this chapter has discussed. All indicators are measured per 1,000 working-age adults:

- ABI-based businesses (business stock)
- VAT-registered businesses (business stock)
- ABI-based jobs per working-age adult (jobs situated in the local area)
- New VAT registrations (new starts above £61,000 turnover p.a.)

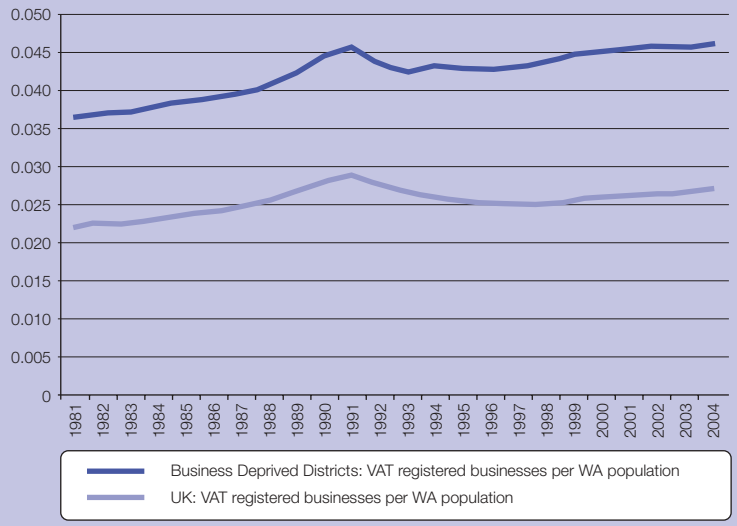
The jobs indicator has been chosen deliberately, as a proxy for local business activity. Measuring the whole employment picture would not be appropriate for this exercise, since residents often work outside their district.

This report argues that business-led regeneration policies should be focused on deprived areas with low levels of business activity. Annex 2 is a useful tool in helping to decide whether certain deprived areas are appropriate for business-led interventions. The 30 BDAs will each require different types of intervention, depending on the type and scale of any market failures that are hindering business activity.

BDAs display low levels of business activity persistently over time. Figure 3.1 shows the number of VAT-registered businesses per working age adult for the 30 BDAs and the UK. It shows that BDAs have persistently lagged behind the national average since the early 1980s.[9]

The rest of this report argues that Government should consider specific, tailored interventions to promote business activity in those BDAs that display reversible market failures and economic viability.

Figure 3.1. VAT-registered businesses per working-age population, BDAs vs. all UK



Source: Author's calculations of VAT registrations from SBS, working age population estimated as all residents age 15-64, from NOMIS mid-year population estimates (Crown copyright).

9 The peak in the early 1990s is explained by increases in the VAT registration threshold that were significantly above inflation in 1991 and 1993.

4 market failures: understanding low levels of business location in deprived areas

Introduction

This chapter develops an understanding of why there are persistently low levels of business activity in business-deprived areas (BDAs), identifying certain market failures that are particularly significant in these areas.

Why does the operation of market forces not lead to higher levels of business activity in business-deprived areas? To some degree, relatively low business levels reflect the fact that these areas are fundamentally less attractive locations for business. For a whole host of reasons, some areas will not be suited to high levels of business activity. They may lack the assets needed to support a large business base. Or they may be better suited to a residential function, providing the home to a labour force that primarily works in neighbouring districts.

However, in many BDAs the persistently low levels of business activity reflect the fact that market forces are not working effectively. Here the economic fundamentals indicate that the level of business activity should be higher, but the market is not working effectively to encourage businesses to start-up, grow in or move to these areas. When the working of market forces fails to incentivise economic behaviour in line with economic fundamentals, there is a market failure. It is the presence of market failures that provides the economic grounds for government intervention in the economy.

The Treasury commented on this back in 2002:

> *The Government's approach recognises the power of market forces, but also acknowledges their limitations, and it is acting to correct various market failures that inhibit enterprising behaviour, which are frequently most acute in smaller businesses, particularly those in less prosperous communities.*
> (HMT and SBS 2002)

This chapter identifies the market failures that are particularly relevant to BDAs. We argue that in fact the Government has underestimated the significance of market failures in BDAs (HMT and DTI, 2006);

and overestimated the power of market forces to provide optimal outcomes. In short, Government has failed to intervene sufficiently in business-deprived areas. Policy interventions are required wherever there are market failures and in proportion to each district's market failures.

Given that property investment is a necessary condition for economic regeneration (Adair *et al*, 2005) and that a key determinant in the quality of a business location is the business environment (Weissbourd and Bodini, 2005; Glaeser and Kohlhase, 2003), BDAs' most significant market failures are to be found in the underdeveloped property markets and the poor business environment. The lack of access to capital and high levels of crime are other specific market failures.

These market failures are particularly relevant to understanding the relative position of BDAs. But we recognise that other types of market failures (such as the poor incentives for firms and individuals to invest in skills or research and development, for example) are as relevant in BDAs as in the rest of the country.

Market failures in property markets

Many deprived areas lack the premises required for business activity. The amount of commercial space per working age adult in the 30 BDAs is noticeably less than the national average.[10]

The difference is especially pronounced with office space, which is particularly important to the growing service sector. Across all local authority districts, there is an average of 4.6 square metres of office space per working age adult. In the 30 BDAs, the average was just 1.4 square metres.[10]

Furthermore, the proportion of commercial property stock classified as modern (post-1980) is lower than the national average in BDAs. So, on average, BDAs have a smaller stock of buildings and the stock that they do have is of a relatively low quality.[10]

A pre-condition to an increase in business activity is therefore an increase in the availability of suitable business premises. This makes the correction of market failures in the property market very significant.

There are a number of market failures that the property markets of many BDAs suffer from, including:

- **Poor information** – without complete and accurate information, businesses and consumers are hindered in their ability to make economic choices that are best for them, damaging their own and wider economic outcomes.
- **Co-ordination failures** – caused by a lack of information, when for example one business's decision is dependent on the decision of other businesses. Without information on the action of other firms, businesses cannot make optimal

10 Author's calculations of DCLG Age of Commercial and Industrial Stock Local Authority Level 2004, Table 3.2: Total floorspace by LAD and age for each bulk class.

economic decisions.

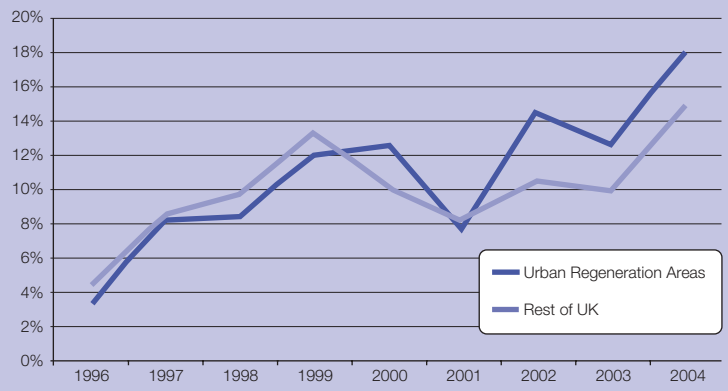
- **Externalities** – these occur when the costs and benefits of an activity are not entirely incurred and enjoyed by those undertaking the activity. For example, the owner of a car will not consider the costs in terms of air and noise pollution to wider society when deciding how much they drive.

Poor information

In regeneration areas, weak and confused market signals have perpetuated misconceptions regarding the returns to property investment resulting in many would-be-profitable opportunities being ignored (RICS, 2002; Sabety and Carlson, 2004). A primary reason for a lack of market information in deprived areas is simply a lack of market activity. Developers cannot judge market opportunities by their previous experiences, by the experiences of their competitors or the data such experiences generate.

Adair *el al* (1998) identify a perception gap between investors that have achieved above average rates of return and those who perceive this to be impossible. This is caused by inadequate market signals. Research has shown that the size of this perception gap is significant. In the office and industrial sectors, regeneration areas[11] have tended to outperform adjacent areas (English Partnerships *et al*, 2006).

Figure 4.1. Office Total Returns



Source: English Partnerships *et al* (2006)

Other research has confirmed that investment property in regeneration areas can out-perform national and local benchmarks (RICS, 2002). Furthermore, Adair *et al* (2005) find that rental growth in regeneration locations is similar to the prime market. BDAs are likely to include good property investment opportunities.

Without market signals, developers fail to see these opportunities. Unaware of the returns available and with such low turnover rates, data in these areas is simply not collected and fails to appear among the key data sets of decision makers. In part, this is because the public sector holds property market data in inaccessible formats (RICS, 2002). This problem is compounded by the poor quality of

11 Regeneration areas are places where there is a current urban regeneration programme support-ed by the public sector including all Urban Regeneration Company areas in England and Wales, former coalfield area projects and a number of major area initiatives in major cities including Bristol, Cardiff, London, Manchester and Newcastle (English Partnerships *et al*, 2006).

local economic data generally. This impacts on the ability of the private sector to make decisions and develop investment plans.

There is an overwhelming need for good local economic information. Improving the knowledge of existing data and communicating its messages more effectively is a key step public agencies can take to increase private sector investment in the physical infrastructure of deprived areas (Adair *et al*, 2005).

It should be recognised, however, that there are limits to what can be achieved through the public provision of information. Actors in the private sector are more accustomed to reading and responding to clear market signals. Policies should be put in place to bring market activity in line with economic fundamentals. Only then will the perception gap be bridged.

The market cannot be relied on to bring property investment to deprived areas, due to co-ordination failures and the significant externalities associated with derelict sites.

Co-ordination failures

A lack of information also results in co-ordination failures between developers and potential tenants. They occur because developers are uncertain that tenants will come if premises are constructed. In a thriving area, developers build business premises with the confidence that tenants will be found. But in BDAs, there is less certainty. Without knowing if potential tenants will start to prefer new locations once suitable business premises are built, developers have low incentives to build in BDAs.

There is a danger that in the absence of government intervention, BDAs could remain locked in a vicious circle – with businesses unable to move to an area until they know suitable premises are available, but suitable properties not becoming available until developers know businesses will locate there.

Information and coordination problems are likely to result in a sub-optimal provision of commercial properties. Policy measures are necessary to compensate for the higher risks associated with the uncertainty found in BDA property markets.

Externalities

Externalities associated with distressed and derelict sites represent a serious market failure in BDAs. They occur, for example, when the benefits of developing one site or property in a BDA are not entirely enjoyed by the investing company. In an area with a small stock of relatively poor properties the development of new buildings will make the area more attractive to other investors. The costs associated with neighbouring derelict or vacant premises are reduced while any benefits of co-location are gained. One investment would therefore increase the profitability of another, but this benefit is not captured when the costs and benefits of an investment are being

weighed up. Hence, underinvestment in property development is likely.

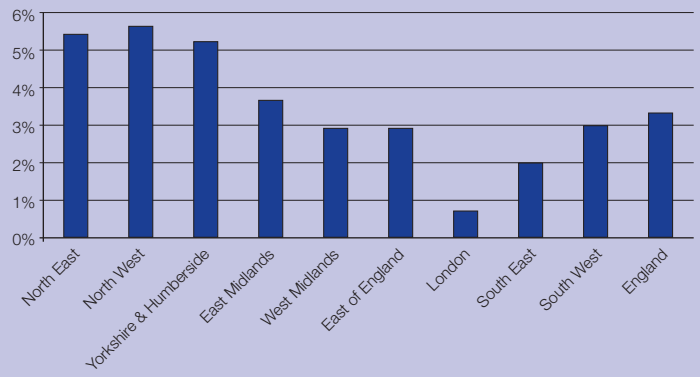
As Figure 4.2 shows, there is significant variation between regions in the proportion of developed land that is derelict. The two regions with the highest concentrations of BDAs – the North East and North West – both have relatively large amounts of derelict land. It is in these areas that such externalities are present and therefore the under development of property is most likely.

Government policy can most effectively correct market failures in the property sector by reducing commercial risks and generating private sector confidence in an area – through, for example, tax breaks, favourable planning treatment or improved information provision.

Such policy initiatives should be designed to create the belief that there will be a large and sustained demand for commercial space in the future in line with economic fundamentals. Private sector investment will only invest in business deprived areas with substantial public sector commitment (Adair *et al*, 2002).

Beyond the undeveloped nature of the property sector, a number of other market failures exist in deprived areas. Some of these are also relevant to the property sector, but show that government intervention is required to correct market failures more widely.

Figure 4.2. Total known vacant and derelict land as a percentage of total land developed, 2001



Source: Data from Urban Land Figures from ODPM/ONS Urban Settlements for 2001, in ODPM (2005a).

Wider market failures

Poor business environment

There are certain benefits to locating near other businesses. For example, many businesses value proximity to other agents in the supply chain (Weissbourd and Bodini, 2005). And the location of similar businesses in the same area can generate significant positive external economies of scale through agglomeration effects (Glaeser and Kohlhase, 2003). Porter (1995) argues that clusters drive economic development through creating a critical mass of skill, information, relationships and infrastructure which generate productivity growth. The sharing of knowledge or increased specialisation results in higher productivity among firms in the same sector across the economy (Simmie, 2004). There are clear

benefits to co-location both for firms in the same industry and in different sectors.

Just as the incentives for property developers to invest in an area are dependent on the action and information on the actions of others, so the incentives for businesses to locate in a particular area will depend on the location decisions of other businesses. With no history as a business location, they are simply not on the radar, even if premises exist. Perceptions are important to location decisions, often to the detriment of deprived areas.

Again, poor information and the presence of externalities are likely to result in a below-optimal level of economic activity. Intervention should therefore create strong incentives for location in a certain area and thereby generate private sector confidence.

Lack of access to capital

This barrier is particularly significant for potential start-ups in BDAs. People in deprived areas are less likely to have collateral to act as security on a loan. Personal wealth is a key determinant of the likelihood of an individual starting a new business (HMT, 2002). Furthermore, people in BDAs are also less likely to have the informal contacts with friends and family that provide an important source of capital to many entrepreneurs (HMT and SBS, 2002).

Other reasons for the wide gap between the demand from small businesses for finance and the supply from banks and other financial intermediaries include the higher objective risk of running a small company in a deprived area and the high level of information asymmetries (HMT 1999). Information asymmetries exist when, for example, the owner of a firm has better information about a firm's prospects than a lender. In BDAs these asymmetries could be larger, as lenders will have relatively little experience of working with local companies and owners may be less able to present financial information credibly (HMT, 1999). The result is that disadvantaged communities typically face higher interest charges (HMT, 2002).

Furthermore, within the UK, venture capital firms are heavily concentrated in London and the South East (Simmie *et al*, 2004). Given that venture capital firms need close and regular contact with recipients, they tend to invest with firms that are relatively nearby (Martin *et al*, 2003). The North West is the only part of the UK outside the South East that accounts for more than 10 per cent of total venture capital investment (Simmie *et al*, 2004). Venture capital is still very hard to find in many other regions of the UK, including the North East, where there are significant numbers of deprived areas.

Crime

The protection of property rights through law enforcement is less effective in deprived areas. Residents of deprived areas are more likely to

be victims of crime. Police records indicate that whereas there were around 54 crimes committed per 1,000 residents in non-deprived neighbourhoods, there were about 75 in BDAs (ONS, Notifiable Offences Recorded by the Police, 2003/04).

Relatively high crime levels add to the negative perception of an area. 'Crime and the fear of crime are therefore regularly cited as key reasons for companies deciding not to invest in deprived areas (HMT *et al*, 2005)'. This represents another market failure particularly present in deprived districts.

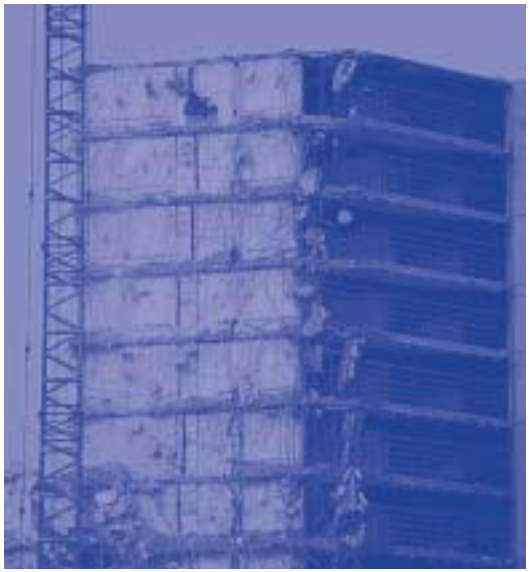
Conclusion

There are a number of significant market failures in deprived districts, especially in relation to the property market, which help explain why they are often associated with low levels of business activity. If the market were to act efficiently, there would be higher levels of business activity. In such instances, where market forces are not working, there is a clear case for government intervention.

5 the need for policy to increase business activity in business-deprived areas

Introduction

In many deprived areas, a fundamental problem is the lack of private sector activity. We have identified the 30 most business-deprived areas as a priority for policy intervention. Market forces have not encouraged high numbers of new firms into these areas, or helped existing firms develop and grow – often due to the market failures identified in Chapter 4.



So what can the Government do? This chapter outlines the Government's strategic approach to economic development in deprived areas – and in particular, policies to promote employment and business activity.

We set out three key strategic principles for business-led regeneration:

- First, policy needs to balance the short-term objective of increasing economic activity with the long-term objective of promoting economic diversity.
- Second, policy should focus on all types of business activity, not just start-ups.
- And third, policy should aim to encourage the growth of indigenous firms and attract inward investment, not just increase the number of start-ups.

Economic development in deprived areas: putting enterprise in context

Since 1997, the Government has developed a four-fold approach to improving economic conditions in poor places. These are set out in Table 5.1.

Table 5.1. Economic development in deprived areas: New Labour's approach

Agenda	Purpose	Main components	Key institutions
Making work pay	Removing benefit traps and incentivising paid work	Minimum wage Tax Credits Housing benefit reform	DWP Benefits Agency
Welfare to work	Moving the unemployed / inactive into the labour market Improving supply of labour to firms	New Deals Employment Zones Job Action Teams Pathways pilots Other pilots	DWP JobCentre Plus Service providers
Workforce development	Improving individuals' employability Improving local skills base	Level 2 skills entitlement Train to Gain	DfES RDAs and LSCs Sector skills councils HE and FE Colleges Service providers
Promoting business activity	Structural economic adjustment Safeguarding jobs Promoting investment and business activity	'Enterprise agenda' Regional Selective Assistance EU Structural Funds	EU DTI RDAs Business Link

The four policy agendas are benefit reform, welfare to work, workforce development and skills – and a range of demand-side measures, aimed at helping structural adjustment in local economies, safeguarding jobs and promoting investment.

In practice, the Government has focused on people-based, supply-side approaches embodied in the first three agendas: demand-side measures have received less attention. It has argued that there are enough employment opportunities everywhere, and that the main challenges relate to labour mobility and job-matching, to move people into available employment (e.g. HMT, 2000). The Government now recognises that there are

significant variations in employment and jobs across regions (DWP and HMT, 2003). But it remains primarily focused on getting more people into existing jobs.

Making work pay

The Government has progressively removed a number of key benefit traps, and introduced a Minimum Wage and a number of new means-tested in-work benefits. The aim has been to keep employer costs relatively low, with the state making significant contributions. Results have been positive, but not uniformly so. Despite predictions, the Minimum Wage has had almost no negative impact on employment rates (Low Pay Commission, 2000). Tax credits are much more generous than their predecessors, but the system has been dogged by variable take-up and overpayment problems (IFS, 2006).

The Government is now focused on two outstanding challenges. The first is reform of the Housing Benefit system, which has been identified as a major disincentive to move into employment. The second is the Incapacity Benefit system (see below).

Workforce development

Following the Skills Strategy White Paper of 2003, the Government introduced the Level 2 Entitlement. This is a key strand of the Government's approach to workforce development and is relevant to those both in and out of work. It provides a package of support, including tuition fee remission and an Adult Learning Grant to adults without a first full level two qualification.

In increasing skill levels, such policies are improving the employability of many individuals. However, there are serious doubts as to whether the size of the Adult Learning Grant is large enough to encourage disadvantaged adults into learning (Adams, 2005). Furthermore, the rigid focus on Level 2 qualifications, when not all such qualifications are equally valued in the market place, points to a need for a less directive policy approach based on empowering individuals to make their own learning choices (Adams, 2005)

Welfare to work

The Government has used its flagship New Deal programmes to move the unemployed into the labour market, backed up by a range of pilot programmes aimed at 'hard to help' people and places. Evaluations of the main New Deal programme suggest it has been a 'modest' success, moving around 30,000 additional 18-24 year olds into employment, at net gain to the Exchequer (Riley and Young, 2000; Van Reenen *et al*, 2003).

The focus of the welfare to work programme has progressively shifted away from New Deal – which helps the most employable – to those programmes aimed at hard to help groups and deprived areas.

The main challenge is now economic inactivity, which is often concentrated in ex-industrial communities. As unemployment has fallen in the UK, economic inactivity rates have remained high (Adams, 2005; Berthoud, 2003). For every unemployed person in the UK, there are at least two economically inactive people who would like to work (Nathan, 2003). In particular, the structure of Incapacity Benefit creates a number of disincentives to find employment (Stanley and Regan, 2003).

To tackle this, the Government has recently introduced a number of 'Pathways to Work' pilot programmes, aimed at Incapacity Benefit claimants (DWP, 2006).

Increasing employment: what has been achieved?

Much progress has been made on all of these fronts. The Government should rightly take credit for overseeing economic and labour market policy over a period when the UK has had one of the highest employment rates in the developed world. Along with macroeconomic stability, supply-side strategies have played a role in this success.

However, it is clear that there are limits to the effectiveness of the Government's people-based, supply-side approach in tackling the problems of deprived areas.

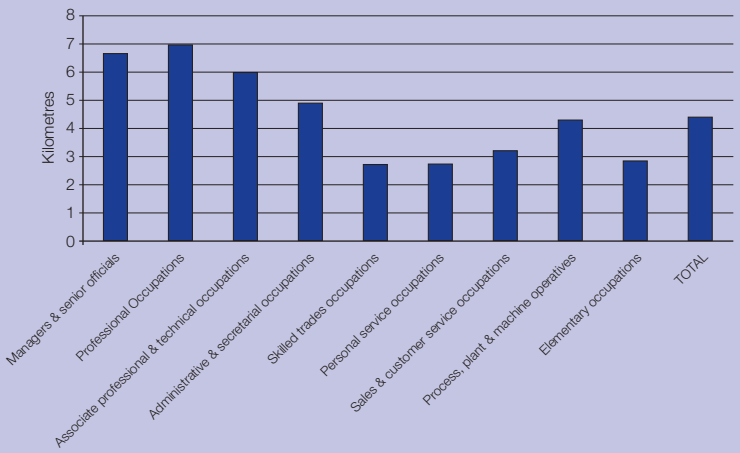
First, a number of commentators argue that the welfare to work and skills agendas are not well-integrated, either at strategic level or in delivery. This will impact the performance of supply-side approaches. JobCentre Plus and the LSCs need shared objectives and targets (NEP, 2005). Overall, the Government needs to take an 'attachment' approach, streamlining the delivery of job search, retention and progression (Nathan, 2001).

Second, a supply-side focus may itself be inadequate. Impressive national employment figures hide very significant regional and local variations (Adams *et al*, 2003; ODPM, 2006). Despite nearly a decade of supply-side interventions and macro-economic growth, concentrations of high unemployment and deprivation persist (Turok and Edge, 1999; Martin and Morrison, 2003).

As Martin and Morrison (2003) have observed, making work pay policies work best in buoyant and dynamic labour markets and less well in stagnant localities. Similarly, Sunley *et al* (2001) found that the New Deal has been less effective in inner-city and depressed industrial labour markets and argue that local labour market conditions can exert a significant influence on the outcomes of welfare to work policies.

Can we simply move people in deprived areas to jobs nearby? In areas of Inner London, which are part of a buoyant labour market, improving physical access to work is indeed a priority (Adams, 2005). However, many workless people live in poorly-performing economies, where employment rates across the labour market are low. Here, improving mobility will have little impact.

Figure 5.1. Median commuting distances by occupation



Source: Calculations by Green and Owen (2006), Data from Census of Population, 2001 (Crown Copyright)

First, there is a shortage of jobs for people to take (Adams, 2005). Second, less employable people are the most geographically constrained. As Green and Owen (2006) found, 'the quantity and quality of jobs available locally is of particular importance to them: geography matters most for those with poor skills.' Those with low skills, or in routine / low skilled work typically travel shorter than the average distance to work (Figure 5.1, above). Professional and managerial workers tend to travel much greater distances (ODPM, 2006).

There are a number of factors that result in low travel horizons amongst individuals looking for work in areas of multiple deprivation in the UK (Strategy Unit and ODPM 2005). As low-income earners, they are unlikely to be car owners and the inconvenience and unreliability of public transport becomes a barrier to commuting. Both money and non-money costs of travel act to limit the size of the area in which people low earning people seek work (Webster, 2006). Looking at young people, Nathan (2000) found considerable practical and psychological barriers to greater mobility.

Both people- and place-based factors influence workforce participation and both supply and demand side interventions are required (Green and Owen, 2006). Employment policy will be more effective if programmes aimed at improving the skills of the workforce are complemented by demand-side policies to bring relevant employment opportunities to high-unemployment areas (Turok, 2005; Turok and Edge, 1999). The principal cause of worklessness in many areas of deprivation is a fall in demand for labour resulting from deindustrialisation.

It comes as no surprise that area-specific deprivation persists. Chapter 4 showed that place-specific market failures (e.g. poor information and the presence of externalities) create significant barriers to businesses moving into or emerging in certain areas. Among other things, correcting market failures in the property market is a prerequisite to increasing the number of people in work in the local economy. There are strict constraints on what can be achieved through just labour market policies.

In other words, the Government needs to take demand-side policies more seriously. What has it done so far?

Promoting business activity

Alongside employment policies and benefit reform, there are a number of programmes designed to promote business activity in deprived areas. These fall into three main categories:

- Regional Selective Assistance – capital grants aimed at attracting investment, safeguarding employment and improving firms' competitiveness
- EU Structural Funds – European grants aimed at promoting fundamental structural change in deprived areas, e.g. ex-industrial communities
- The 'enterprise agenda' – a package of 'enterprise' measures, largely aimed at increasing the rate of start-ups in deprived communities

Is this the right approach? We argue that area-based initiatives have so far lacked ambition in terms of scale and scope, and that intervention has been primarily based on business support policies focused on start-ups and small businesses.

Regional Selective Assistance

Regional Selective Assistance (RSA) is the most important national regional policy instrument (Armstrong, 2001). It is a discretionary grant awarded to commercial projects within Assisted Areas where capital expenditure exceeds £500,000 and it can be proven that the expenditure was dependent on receiving the grant.

Although the National Audit Office (2003) found that RSA had a mixed record in terms of increasing productivity, it is widely seen as an effective job creation tool (Adams *et al*, 2003; Armstrong, 2001). Between 1991 and 1995, it created or safeguarded 40,000 net additional permanent job equivalents at a net cost of £17,500 per job (Arup Economics and Planning, 2000).

However, RSA works on the wrong scale. Assisted Areas are based on wards. Attempts to create employment at such a small scale are likely to result in the 'leakage' of newly created jobs to non-residents (Gordon, 1999). Furthermore, RSAs have been criticised for excessively focusing on the manufacturing sector and 'prestige' inward investment projects (Adams *et al*, 2003).

Structural Funds

The UK's disadvantaged regions currently receive significant EU Structural Funds to be used principally to foster growth and increase employment levels. Regions are given a large degree of freedom as to how these funds are spent, as long as expenditure targets these two broad goals.

However, the UK's Structural Fund receipts are to be reduced from €16.6 bn for 2000 - 2006 to €9.4 bn for 2007-2013 (Marshall and Adams, 2006). Only a proportion of this will be available for business-led regeneration, making the need for other policies that can foster business activity and job creation in BDAs even more urgent.

Enterprise agenda

A highly-performing small business sector is seen as crucial to a thriving economy. Over 90 per cent of people are employed in firms with less than 50 employees (ABI stats, 2004). Also, small businesses introduce competitive pressures and are an important source of innovation (HMT and DTI, 2006).

The small business sector faces a number of barriers such as a lack of access to capital, poor support service provision, and disproportionately high regulatory and administrative burdens. So the Government has introduced the provision of training, business advice and initial funding through a variety of schemes across the country with the aim of boosting employment, productivity and output growth.

Because the Government has identified the relatively low rate of start-ups in deprived areas, it has made them the focus of many business support policies. Indeed, the DTI has a Public Sector Agreement to increase new business start-ups in deprived areas (DTI, 2005).

There are two main limitations to this approach. First, policies that encourage new businesses are unlikely to create as much employment as measures which seek to facilitate the growth of existing firms or inward investment. Generally, new start-ups are not significant employers. Most start-ups only ever employ one person.

In 1989, only 5.5 per cent of the stock of UK employment was in firms created in the previous two years (Storey, 1994). This figure may well be lower for deprived areas as the survival rates of businesses created by someone previously unemployed are low relative to those created by somebody previously in employment (North and Smallbone, 2000).

Van Stel and Storey (2004) argue that it is unlikely that public policy-induced increase in the birth-rate of firms is a consistently cost effective way of enhancing employment. They examine the relationship between firm births and job creation and find that in the 1980s, government policy focused on increasing start-up rates did not create jobs. In the North East of England, an area with little tradition of entrepreneurship, there was a negative relationship between start-up rates and employment. In the 1990s, when policy shifted to encourage business growth in England, jobs increased as firm numbers increased. But in Scotland, where policy continued to aim to increase the number of new businesses, a negative relationship between firm birth rates

and employment emerged (Van Stel and Storey, 2004).

Second, focusing on start-ups is doubly inappropriate in deprived areas. As we have already shown, the relationship between areas of deprivation and areas of low start-up rates is not as strong as the Government has previously assumed. Although most deprived areas have low start-up rates, there is not a clear-cut relationship between the two.

Perhaps more importantly, we would argue that the Government's understanding of the causal flows within the relationship is incorrect. Rather than low start-up rates explaining deprivation, high levels of deprivation explain low start-up rates. In business-deprived areas, it is much harder for start-ups to get a foothold in local markets. And there may also be cultural and personal barriers in moving from worklessness to entrepreneurship. Only 4 per cent of small business owners come from unemployment (Chatterton and Bradley, 2000).

Chapter 6 goes on to explore the impact of business-led regeneration in more detail.

6 business-led regeneration: policy evaluation

Introduction

This chapter assesses the effectiveness of business-led regeneration generally since 1997, to see what can be learned for business-deprived areas. Going forward, we argue that business-deprived areas should be the priority focus of business-led regeneration policies.

As well as supply-side measures, successive governments since the 1980s have pursued business-led regeneration in deprived areas. Such an approach aims to increase the demand for labour through stimulating business activity. Component measures have included promoting new business start-ups, improving access to business finance and improving business support.

There have been two main types of government intervention to promote business activity in deprived areas: area-based initiatives and business-based measures – or a combination of both. For example, the most recent area-based initiatives have been Enterprise Areas and the Local Enterprise Growth Initiative (LEGI). Many business-based measures have focused on improving access to finance, for example through loan guarantees and tax incentives for investments in high-growth SMEs.

Focus on start-ups

Chapter 5 explained the limitations of the start-up focus of enterprise policy since the 1980s. Despite these limitations, much of business support policy since the 1980s has continued to focus on maximising the quantity of start-ups. There has been an effort to encourage new business quality over quantity, but the rate of churn in deprived areas has remained persistently high.

We argue that interventions in business-deprived areas should focus less on start-ups, and more on jobs.

Enterprise for All

Under Gordon Brown, enterprise policy was refocused following HM Treasury's 1999 Policy Action Team report on 'Enterprise and Social Inclusion' (HMT, 1999). It concluded that start-ups were an essential route to tackling economic disadvantage in England's poorest and most distressed communities:

> *There is a vital role that enterprise can play in helping to renew our poorest and most marginal communities. It helps to create jobs and stimulate activity in communities where crime and unemployment are high.*

The 1999 PAT report concluded that the main barriers facing inner-city enterprises were:

- market failures in access to finance;
- insufficient accessible, high quality business support;
- weak culture of support for enterprise across local and national institutions and
- complexities of the tax and benefit system.

The Treasury has since aimed to increase the quantity of start-ups in deprived areas, as part of its 'Enterprise for All' strategy – on the grounds that this would create jobs and reduce unemployment in areas suffering industrial decline. And, as mentioned in Chapter 5, the DTI was given a Public Service Agreement (PSA) target to generate more sustainable enterprise in the 20 per cent most disadvantaged local authority wards.[12]

The State of the English Cities report states that VAT registrations per 10,000 residents in primary urban areas increased from 39.1 to 41.4 during 1996-2003. But the report concedes that 'it is not possible to assess what part, if any, recent measures have played' (ODPM, 2006: Vol 2, 57).

In fact, start-ups have remained stubbornly low in the most deprived wards. A 2002 Bank of England study (Kempson and Mackinnon, 2002) revealed that 6 per cent of workers in deprived areas were self-employed, compared to 8.8 per cent in non-deprived areas. And this year, the State of the English Cities report stated that the most deprived wards had only 27 start-ups per 10,000 residents, compared to 51 per 10,000 in the least deprived districts (ODPM, 2006).

As stated earlier, start-ups are not significant employers, and, given the risk of starting a business to those with fewer resources, we do not think this gap need be bridged completely. We argue that start-ups should not be the prime focus for business-deprived areas. Instead, BDAs should focus on attracting larger businesses with more employment potential.

12 69 per cent of these wards were also in the 88 NRF local authorities

Business support

Business support has been a key feature of government intervention. In 2001-2002, central government spent nearly £8bn on services for small businesses (see table 6.1).

This included £3.1bn of DEFRA expenditure on agri-businesses (including £2.8bn p.a. of CAP subsidies) and £2.6bn on tax measures.

Excluding these tax measures and CAP payments, the Government spent about £2.5bn a year on a wide range of services for SMEs. This was confirmed in analysis commissioned by the SBS in 2003-2004 that the Government spent £2.5bn in supporting small businesses (PACEC, 2005).

Table 6.1. Government spending on services for small businesses (2001-02)

Body	Service	Estimated cost (£m)
SBS	e.g. Business Link	350
DTI	over 100 schemes	160
DTI Agencies	e.g. OST	115
BTI	e.g. trade fairs	45
DTLR and Agencies	e.g. NRF	110
DCMS and Agencies	e.g. Arts Council	335
DfES and Agencies	e.g. Learn Direct	140
DEFRA and Agencies	over 120 schemes	3,120
DWP	e.g. New Deal	70
Customs and Excise	e.g. VAT support	30
Inland Revenue	e.g. Enquiry Centre	50
RDAs	range of initiatives	275
Local Authorities	range of initiatives	300
European Commission	e.g. ESF	225
European Investment Bank	e.g. loan guarantees	20
Tax measures	e.g. R&D tax credit	2,590
Total		£7.93 bn

Source: Cross Cutting Review of Government Services for Small Business 2001/2002 (SBS/HMT)

About a third of this was spent on services for all 3.7m small firms; and two-thirds on specific business support schemes, which benefited about 10 per cent of firms.

The £2.5bn spending in 2001-02 was split as follows:

- £465m on small business advice (e.g. on regulations and tax/benefit obligations);
- £620m on grant schemes such as the Small Firm Loan Guarantee Scheme;
- £295m on in-kind benefits such as LSC expenditure on workforce development; and
- £1.2bn on a mix of support via RDAs, local authorities, NRF, EU funds.

Much of business support is now delivered regionally, following the move of Business Links from the Small Business Service to the Regional Development Agencies in April 2005. However, current business support provision is still too complex and fragmented, with too many schemes delivered at too many different levels. There are currently around 2,650 business grants and support schemes in England alone.

In some places (e.g. Derby), Business Links operate in conjunction with other delivery vehicles such as local Chambers of Commerce. This leads to confusion over branding, and partly explains the low awareness levels.

The governance of business support is also confusing. As stated above, Business Links are now run by RDAs – whose sponsor department is the DTI. But the Local Enterprise Growth Initiative (LEGI), which includes funding for business support in deprived areas, is run by Government Offices – which report to the Department for Communities and Local Government (DCLG).

Improving the quality of, and access to, business support is important to promoting sustainable business activity in business-deprived areas. The current business support budget of around £460m p.a. should be focused more strongly on the businesses that need it, including those in business-deprived areas.

Evaluation

Seven years on from the PAT 3 report, deprived areas are still facing many of the same barriers to business finance and business support – despite a range of policy interventions designed to address them.

The *State of the English Cities* report (ODPM 2006) set out the latest official evaluation of interventions to promote business-led regeneration. However, there are major gaps in the evidence base, since most evaluations do not distinguish policy effects on different urban areas; and many programmes are too recent to be sensibly evaluated.

Table 6.2 shows the mixed record of business-based measures to promote enterprise.

Table 6.2. Government policy measures targeted at urban enterprises

Scheme/type of support	Evaluation findings
Small Firms' Loan Guarantee Scheme: last resort financing for those with good business ideas but insufficient security	Objectives not well understood, availability patchy and too much bureaucracy. Was reformed following the Graham Review in 2004
Community Development Finance Institutions: £49m of capital and revenue grants and loan guarantees (over 2001-4) for delivering credit and related services to enterprises unable to access mainstream lending	Limited awareness of CDFIs, and limited volume of private investment
Community Investment Tax Relief: tax break to encourage private investment in both for profit/not-for-profit enterprises in under-invested communities through CDFIs	Take-up by investors has been much slower than expected - £8m private sector lending raised from 136 investors and only 5 out of 23 CDFIs making active use of CITR
Bridges Community Development Venture Fund: £40m public/private fund for SMEs in Enterprise Areas	Successful, although some firms not keen on venture capital because of loss of control
Phoenix Development Fund: range of SBS initiatives in Enterprise Areas	90 projects, involving 8,100 new businesses and 8,900 existing businesses. But likely to be wound up as part of CSR
City Growth: engaging local business in action plans for local economic growth	Most successful where private sector has taken the lead. But now needs to translate strategies into action. Official scheme now ended
Business Broker Programme: use of independent brokers to engage business more effectively in 10 pilot deprived areas	Successful business-led provision of support services, but funding is time-limited

Source: ODPM 2006

In general, the more successful initiatives have had a clear spatial and sectoral dimension, and entailed real and direct business involvement. But there have been some real weaknesses, including:[13]

- many schemes have been modest in scale and only operated in the most income-deprived areas;
- the large and growing number of different initiatives continues to confuse businesses;
- some programmes could be better marketed and more user-friendly (e.g. CITR);
- some initiatives are time-limited and/or are transferred from one agency to another, e.g. Phoenix Fund, Business Link;
- interventions do not tackle fundamental problems such as the rising price and limited availability of business premises in inner areas; and
- some interventions (e.g. Enterprise Areas) were introduced without full consultation between departments, which has undermined their effectiveness (House of Commons ODPM Select Committee, 2003).

The Local Enterprise Growth Initiative (LEGI), introduced in 2005, is the latest in this series of measures. See Chapter 7 for more on LEGI.

Business support

Evaluation of business support has been particularly difficult. Various studies have demonstrated the general benefits of offering advice and training to start-up businesses. But previous evaluations have been unable to pinpoint the effectiveness of business support in deprived areas, compared to elsewhere.

For example, in 2001, Barclays/National Federation of Enterprise Agencies found that well-supported start-ups were less likely to close under distress, experienced fewer financial difficulties, and showed greater ability to recover from financial difficulties than a control group of non-assisted start-ups (Barclays Business Banking, 2001). But these findings were based on a relatively small sample, and did not distinguish between deprived and other areas.

A 2003 report commissioned by the Neighbourhood Renewal Unit (ODPM, 2003a) examined the impact of business support in deprived areas. It found that evaluation of business support was very difficult:

- Many business support programmes in deprived areas suffered from vague and over-ambitious objectives;
- It was difficult to separate the impact of a policy intervention (additionality) from deadweight effects, i.e. the extent to which recipients of support would have performed had they had no support;
- Displacement effects (i.e. the impact of new firm formation on existing firms) were difficult to measure and

13 ODPM (2006) State of the English Cities, 2: 58

- Evaluations rarely picked up the employment effects of firms located outside a deprived area.

It also found that:

- The main source of future business investment was most likely to come from firms already located in a local or regional economy, highlighting the importance of indigenous investment and follow-on investments by existing inward investors.
- The most successful business regeneration initiatives in deprived areas were targeted on specific sectors and business types.
- Solutions to the employment needs of deprived areas need to be found at the sub-regional rather than the local scale.

Our stakeholder interviews in Derby also suggested that traditional business support providers often find it difficult to penetrate BDAs, and instead tend to focus their efforts on easier-to-reach businesses.

Good quality business support should improve the survival and growth prospects of businesses in business-deprived areas. So it is important that we get it right. This strongly suggests a requirement for more rigorous evaluation of business support generally, and especially in BDAs.

The Government is currently carrying out a 'zero-based' review of business support, as part of the Comprehensive Spending Review. The Treasury conceded in this year's Budget that existing business support provision was not working well:

> *This [review] responds to strong evidence, from business and elsewhere that the business support landscape is too complex with a plethora of schemes and providers which make the system hard to use for the customer as well as affecting efficiency and effectiveness.*
> (HMT, 2006 : 67)

We welcome this review, which will rationalise and simplify publicly funded business support provision at all levels – national, regional and local. This de-proliferation exercise should close down those schemes that do not add value; and it should re-focus those resources on business-deprived areas.

Later in the report, we recommend that business support provision is made more demand-led. Business support should be targeted directly at businesses - especially those in BDAs. This demand-led approach, perhaps through a voucher system, would be more efficient and effective.

A voucher could be used to help pay for certain support services – for example, business planning, mentoring or tax advice. This demand-led process would accelerate the rationalisation of business support provision,

with high quality providers doing well and poor quality ones closing down.

RDAs should explore this as part of the CSR. They should have some flexibility in operating the scheme, to respond to different types of business and local economies. For example, the value of the voucher should be responsive to different areas or types of business.

Our surveys

Given the deficiencies of the existing evidence base, we commissioned our own research in 2005 on the effectiveness of various measures targeted at businesses in deprived areas. We interviewed 348 businesses in the 35 Enterprise Areas of Derby, Doncaster and Sunderland, and found that:

- The benefits of Enterprise Areas were hardly utilised. Only 46 per cent of businesses were aware they were in an Enterprise Area, and only 2 per cent of our sample had benefited from any Enterprise Area scheme such as the Community Investment Tax Relief.
- Awareness of business support providers was quite low, but no lower than the national average. 16 per cent of our businesses were aware of Business Links, without being prompted. This was in line with nationwide unprompted awareness of Business Links, of around 15 per cent.[14]
- 32 per cent of businesses had used Business Links, and most were reasonably satisfied with its service. But that still left 68 per cent of businesses untouched by Business Links.

These surveys suggest that Enterprise Areas are not effective and that business support needs to be improved in business-deprived areas.

Rethinking business-led regeneration

In the right conditions, more start-ups can have a positive impact on employment. And it is important that the market failures that SMEs face are rectified. So business support policies must be reformed to best achieve their objectives.

But the changes required in business-deprived areas cannot be driven by higher start-up rates. More significant employment growth is best achieved through encouraging the expansion of existing business and attracting inward investment.

This has a number of implications for policy. Government strategies need to integrate the enterprise agenda with existing tools for business development and embedding investment. Government also needs to take the potential of large firms more seriously – not just small firms and start-ups.

The evidence favours this more diverse approach. Both job and firm survival rates tend

14 Cross Cutting Review of Government Services for Small Business 2001/2002 (SBS/HMT)

to increase with firm size (Davis *et al*, 2004). Similarly, government evaluations have supported programmes that encourage investment, rather than 'assisting marginal, low value-added start-up businesses' (ODPM, 2003a).

Large businesses may create more employment, and it is likely they will bring better employment. Wage levels are higher in larger firms (Atkinson and Storey, 1993). And training opportunities are generally greater in larger firms and extremely limited in small firms (Devins *et al*, 2001), so inward investors may offer the most in terms of up-skilling the labour force. Furthermore, with a high failure rate, start-ups are unlikely to provide the job security many larger firms can offer.

Beyond direct employment effects, the number of jobs created and the level of investment made means large business can have a significant multiplier and catalyst effects in the local economy.

New business activity will bring indirect employment effects through developing local supply chains and increasing local expenditure. The amount of indirect employment generated by an increase in business activity in deprived areas depends significantly on the extent to which new business activity makes use of local suppliers (Westall, 2000). Without significant initial investments there cannot be significant multiplier effects.

Finally, attracting significant business investment can have a highly catalytic effect in deprived areas. If one firm locates in a deprived area, it is likely to increase the possibility of others doing so. As one site is developed, so the development potential of neighbouring sites improves. And as the potential for property increases, so do the incentives for developers to invest in the area. With the area receiving more attention and the physical landscape beginning to change, perceptions of an area will change with more firms considering and investigating the area's investment opportunities.

Most importantly, the Government needs to sharpen its strategic focus. The aims of business-led regeneration should be to:

- increase business activity in the short term; and
- encourage economic diversity in the long term.

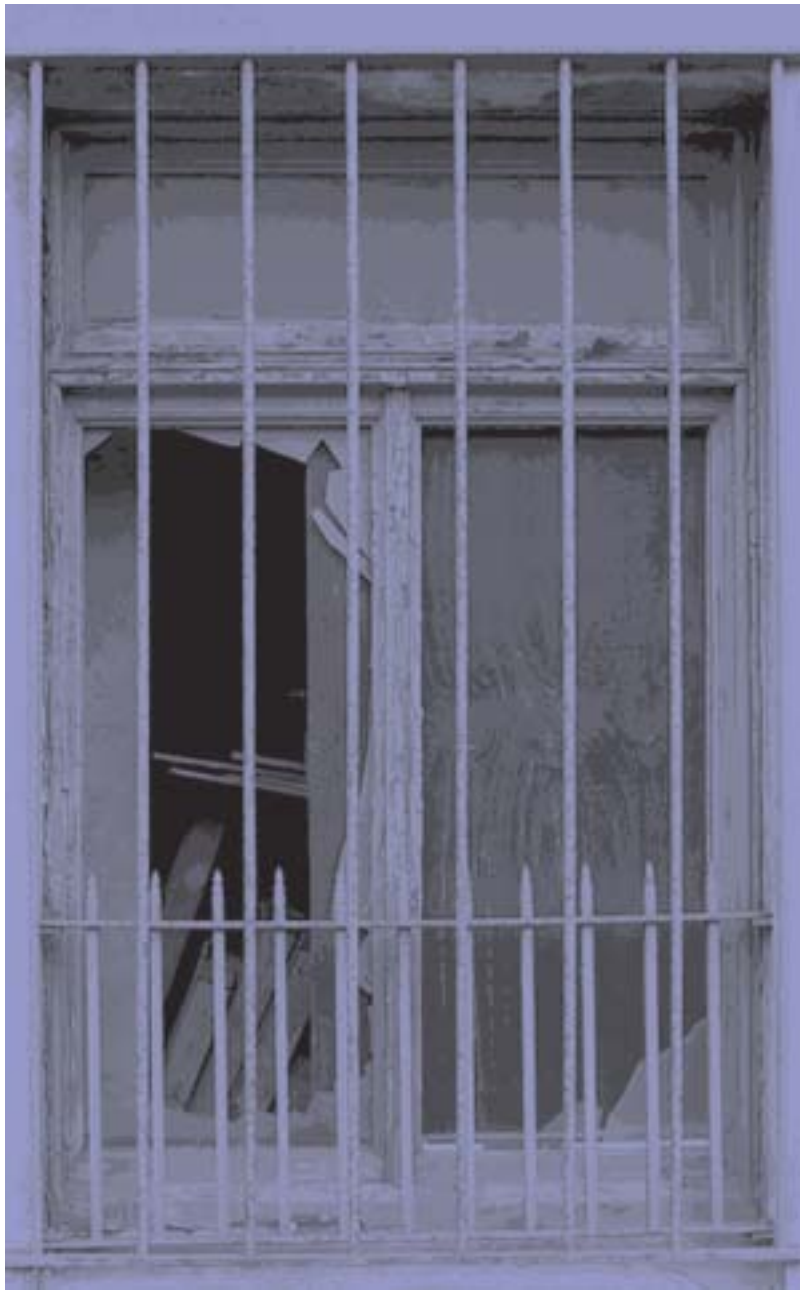
The second principle is critical. Regeneration policies should not aim to pick winners, or bar entry into markets. But regeneration strategies should aim to avoid dependence on single large firms or sectors.

From a consumer perspective, large single firms may harm economic welfare – by reducing choice, or increasing price. From a strategic perspective, local economies have better long-term prospects if they can avoid single-industry dependency. It is better to build

a portfolio of strengths across a number of sectors rather than repeat the mistakes of the industrial past (Gertler, 2004; Martin and Sunley, 2003). And dominance by large single firms may drive out smaller firms, cutting net economic gains and reducing competitive pressures.

Overall, the Government's approach to economic development in deprived areas has gone far, but not far enough. There is a strong case to broaden and better integrate demand-side policies, and to place greater emphasis on increasing business activity in BDAs.

Chapter 7 develops a case for doing this, through more targeted area-based initiatives for business-deprived areas. Chapter 8 then sets out some specific proposals.



7 lessons from area-based initiatives for business-deprived areas

This report argues for a new approach for business-deprived areas, with more emphasis on demand-side measures to boost business activity and employment. This chapter makes the case in principle for area-based initiatives in business-deprived areas, building on the lessons of previous area-based initiatives.

As Chapter 6 made clear, enterprise-related area-based initiatives in deprived urban areas have had a mixed record of success. There have been too many modest and small-scale schemes, which have been overly complex and poorly marketed. They have also suffered from being time-limited, or switched between different agencies. Critically, some have been focused at the wrong spatial scale. At the same time, other area-based initiatives have been poorly designed and targeted, such as the Stamp Duty exemption (which was withdrawn in 2005).

On the other hand, some aspects of previous area-based initiatives have produced positive results, attracting additional new investment and jobs. For example, Urban Development Corporations and Enterprise Zones added 125,500 and 58,000 jobs, respectively, to their targeted areas (Tyler, 2001 in Adair *et al*, 2005).

This chapter looks at four recent examples of area-based initiatives, and sets out what lessons can be learned:

- Enterprise Zones
- Enterprise Areas
- Local Enterprise Growth Initiative
- Business Improvement Districts

1. Enterprise Zones

Enterprise Zones (EZs) were first introduced in the early 1980s. A total of 38 EZs were set up in 'areas of economic and physical decay, where conventional economic policies have not succeeded in regenerating self sustaining economic activity' (Department of the Environment, 1980).

Mainly located in urban cores or on the fringes of urban areas – for example, in Gateshead's MetroCentre, Dudley's Merry Hill, London's Canary Wharf and Salford Quays – the final one, in Tyne Riverside, expires in August 2006.

Each EZ ran for 10 years.[15] EZs were primarily aimed at freeing up the property market in deprived areas, by attracting inward investment and building new commercial and

15 It was possible to extend the capital allowances by identifying future areas for development under so called 'golden contracts'. Six former EZs are eligible for golden contracts: Dearne Valley, East Durham, East Midlands, Lanarkshire, North West Kent and Sunderland

industrial space to stimulate business creation.

The benefits included generous tax breaks for the firms that located there – including 100 per cent capital allowances for construction of commercial property (the most important and effective incentive) and exemption from business rates for occupiers. They also included simplified planning procedures and exemptions from certain statutory controls.

London Docklands was one of the biggest Enterprise Zones. Close to 2.5m square metres of floor space, 44,000 net new jobs and 24,000 new housing units were created during its lifespan of 1982-1992 (Tyler 2001 in Adair *et al*, 2005).

EZs had some success in attracting inward investment. 73.4 per cent of inward investors claimed that EZ designation was an important benefit to the growth of their business (Potter and Moore, 2000). Inward investors were larger employers than other establishments: they accounted for 18 per cent of establishments and 34 per cent of employment (Table 7.1). On average, inward investment accounted for three-quarters of new jobs at the time of EZ de-designations. The 'cost per job' figures for the scheme were comparable to the DTI's Regional Selective Assistance scheme – £17,000 per job (ODPM, 2006).

Supporters of EZs highlight their long-term legacy effect - for example, the heritage of modern commercial properties. Also, by attracting new business activity, EZs have been credited with raising perceptions and reducing risks for potential new developers.

However, EZs did cause some local displacement. Many of the 58,000 jobs 'created' in EZs were hardly new – 35 per cent of employers were relocations of existing businesses from less than 10 miles away (Table 7.1).

Table 7.1. Job creation in Enterprise Zones

Type	Percentage of establishments	Percentage of employment
Inward investor (more than 10 miles)	18	34
Short-distance transfer (less than 10 miles)	35	28
Immobile firms (not influenced by EZ policy)	15	13
New starts	23	9
Already existing before EZ	11	19

Source: Potter and Moore, 2000

Any balanced assessment of EZs needs to weigh up their costs and benefits. A 2003 ODPM evaluation of Enterprise Zones concluded that: 'Whatever their problems and constraints, (they) made a positive contribution to local economies. It is perhaps their ability to respond to new markets, through the supply of suitable buildings, that is the strongest argument in favour.' (ODPM, 2003).

Enterprise Zones did not work in areas of systemic and acute market failure, where for example commercial rents were below levels at which it was economically viable to construct new buildings. Indeed, many of the problems associated with EZs arose because they were set up in areas that lacked any functioning market. Market activity was artificially created and was not sustainable beyond the life of the EZ initiative.

Lessons to learn:

- Inward investment has strong employment potential, but will only be appropriate for certain BDAs.
- Any component tax incentives should be significant and long-term.
- Some displacement of jobs will be inevitable, but this should be minimised with targeted supply-side measures aimed at the local workforce.
- Future area-based initiatives should be designed to offer the best possible value for money.
- Intervention should only occur in rescuable markets, where specific market failures have been identified.
- New incentives may be needed to address failures in the property markets of BDAs. But further work is needed on design and targeting.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2. Enterprise Areas

Enterprise Areas are a totally different type of area-based initiative – it is a much smaller, ward-level initiative with a range of more modest measures.

Almost 2,000 Enterprise Areas were established in 2002, covering the 15 per cent most deprived wards in England and Scotland (and the most 42 per cent deprived wards in Wales and Northern Ireland).

The Government initially had very high hopes for EAs: 'The Government's focus on the two thousand Enterprise Areas will play a crucial role in ensuring that enterprise makes the fullest possible contribution to productivity growth and to rising prosperity that can be shared by all.' (HM Treasury and SBS, 2002: 61)

The Enterprise Area toolkit initially included Stamp Duty exemption on property transactions, but this was shut down in 2005 due to excessive deadweight costs and poor targeting. It also included a range of projects under the Phoenix Fund, but this was closed down in March 2006.

The remaining toolkit of measures in Enterprise Areas now looks very limited. For example:

- Community Investment Tax Relief, to improve access to finance for small business through community development finance institutions (CDFIs)
- Bridges Community Development Venture Fund – a £40m public-private fund to provide venture capital funding
- Enhanced and targeted tax advice and support

Lessons to learn:

- Enterprise Areas are at the wrong spatial level – wards are too small-scale to address economic development issues.
- They are also too fragmented and complex, containing too many minor schemes.
- This undermines awareness and take-up levels – only 2 per cent of businesses in the Enterprise Areas we surveyed had actually used the benefits on offer.

We recommend that Enterprise Areas are closed down, as they no longer serve a useful purpose. CITR and Bridges should continue without Enterprise Areas, as part of other spatial strategies such as LEGI or RDAs' regional economic strategies. Neither CITR nor Bridges currently benefit from being part of Enterprise Areas.

3. Local Enterprise Growth Initiative (LEGI)

Budget 2005 announced a Local Enterprise Growth Initiative (LEGI) to provide flexible, devolved investment in some of the most deprived areas of England, to support locally developed proposals to stimulate economic activity through enterprise.[16]

16 Budget 2006, Chapter 3: 58

Under LEGI, the Government has sensibly broadened its focus wider than start-ups, to include support for growth businesses, franchises and inward investment. But LEGI's competitive bidding process created some problems in its first round, announced in February 2006.

For example, many of the most business-deprived local authorities were least able and prepared to bid, and failed to secure any funding.

Round 1 of LEGI allocated £126m over three years to 10 applications, from 15 local authorities. Some of these local authorities had joined together in cross-boundary bids. The winning local authorities are listed in Table 7.2, along with our business-deprived rankings.

Nine out of the 15 successful local authorities are in our list of 30 business-deprived areas – which is quite a good strike rate for the first round. But there is room for improvement.

Table 7.2. Local Enterprise Growth Initiative – Round 1

Winning local authorities	Business-deprived ranking	LEGI award (£m)
Bradford	55	21.4
Croydon	60	20.3
South Tyneside	4	16.2
Barking and Dagenham	12	15.5
St Helens	11	13.4
Coventry	54	12.6
Derwentside, Easington, Sedgefield and Wear Valley	5, 1, 15 and 24	10.2
Great Yarmouth	61	8.7
Ashfield, Mansfield and Bolsover	27, 31 and 7	3.8
Hastings	44	3.6

Lessons to learn:

- The principles underpinning LEGI – devolved funding, additional flexibility, focus on enterprise – are all good.
- But the bidding process has produced some unintended results in Round 1.

We recommend the following changes for Round 2, which is now underway:

- Round 2 should provide more targeted support to help develop the bidding capacity of business-deprived areas.
- Round 2 awards should treat business-deprived areas as a priority, since these are the areas where LEGI investment would add most value.

4. Business Improvement Districts (BIDs)

Business Improvement Districts were introduced in England and Wales, via the 2002 Local Government Bill. Since then, 28 BIDs have been set up. This is a good start, but there is plenty of scope for more BIDs nationally. BIDs could also make a contribution in business-deprived areas, as part of a wider package of interventions to boost the local business environment.

A BID allows local firms to agree to pay a supplementary levy on their business rates in order to obtain certain services in addition to those provided by the local authority.[17] BIDs are levied on business tenants – property owners are not charged at all, even though they are clear beneficiaries. The businesses themselves decide how these resources should be allocated. Money is often spent on 'crime and grime' initiatives such as additional security and street cleaning.

BIDs are growing in popularity, based on their flexibility and relative effectiveness in improving the quality of the local business environment. As Hochleutner (2003) notes when analysing the US experience, BIDs have shown themselves to be 'more nimble than traditional city bureaucracies…[and they] have improved conditions within their borders, particularly in terms of increased business activity' (quoted in Ward, 2006: 61).

Most (24) of the current BIDs are in established centres of retail and leisure – areas closely associated with the 'experience economy'. Firms located in these areas have the most to gain from collaborating over the provision of additional services and improving the local trading environment – for example, the Camden Town Unlimited and New West End Company BIDs.

However, there has been much less take-up of BIDs in ex-industrial areas and those areas with lower business densities. There are no BIDs in our 30 business-deprived areas, although Plymouth and Coventry have set up a BID – 40th and 54th in our index of business-deprived areas. This limited take-up is due to a variety of factors, particularly the lack of local business base and the less vibrant economic climate.

The BIDs legislation is currently under review. This review should push for an increase in the take-up of BIDs, by expanding the BID levy to property owners as well as business tenants. Currently, there is no formal mechanism for involving property owners in BIDs.

Increasing the take-up of BIDs in business-deprived areas, as part of a wider set of interventions, has the potential to help overcome some of the development barriers experienced by businesses in BDAs – such as poor quality physical environment.

The involvement of property owners in BIDs would be a good step forward of itself. But it would also help to encourage take-up in

17 In order for a BID to be approved a majority of those businesses voting (not all the businesses in the area) must vote yes, and those voting in favour must represent a majority of the rateable value of all businesses voting.

BDAs. The involvement of property owners would be fairer, helping to spread the burden more widely and reduce individual financial contributions. It could also result in a larger overall pot and more purchased services for the local business community.

Moreover, as the British Property Federation has pointed out, involving property owners will help ensure that more business tenants support a BID (BPF, 2006), and further increase the chances of a BID being adopted. Involving property owners in BIDs therefore has some real attractions.

Lessons to learn:

- Take-up of BIDs would increase if they applied to property owners as well as business tenants.
- BIDs could make a contribution in BDAs, as part of a wider package of interventions to improve the local physical environment.

We recommend that the Government review of BIDs should explore the scope for involving property owners, including in BDAs.

Area-based initiatives and State Aid

The scope for any further new area-based initiatives has been constrained by the European Commission's State Aid rules. Under Article 92 (1) of the Treaty of Rome, the definition of State Aid refers to 'aid which distorts or threatens to distort competition'. The Commission has recently taken a much closer interest in regeneration programmes and their impact on competition – not just spending programmes, but tax measures too. This State Aid angle will need to be borne in mind, as future policies are developed for BDAs.

Several schemes have been delayed or blocked by the Commission. This has caused considerable tension between the UK Government and Brussels. For example, EU Competition Directorate objections resulted in the closure of the Partnership Investment Programme (PIP) in 1999, because it was deemed to have distorted competition.

PIP was set up in 1994 by English Partnerships, to support the physical regeneration of deprived areas. It provided gap-funding and innovative partnership mechanisms to enable developers and other partners to undertake schemes where legitimate development costs would otherwise exceed end values.

Any PIP successor scheme(s) would have to be targeted at so-called 'Assisted Areas'. But 'Assisted Areas' do not correspond fully with our 88 NRF districts. This is making it increasingly difficult to devise regeneration programmes that will satisfy the Commission. The DTI is shortly expected to consult on proposed revisions to the geography of UK's 'Assisted Areas'.

Conclusion

Area-based initiatives have had a mixed record of success and failure. But there are some positive lessons to learn, in considering an area-based approach to business-deprived areas. For example:

- **Interventions in BDAs must be targeted at identified and specific market failures.** BDAs need to identify their own assets and specific market failures (e.g. lack of suitable business premises). Any interventions must be designed and delivered accordingly, and targeted at market failures. This means that BDAs need to develop much greater local market intelligence, based on robust data; and interventions need to be tailored for each BDA.

- **Interventions aimed at generating more employment should go for inward investment and larger employers rather than start-ups.** This approach would generate more secure, and better paid, employment opportunities. It would also create stronger multiplier effects – for example, through supply chains and increased demand for retail.

- **Area-based initiatives should be designed to minimise the distortions they cause within the local economy.** BDAs should ensure that supply-side measures are in place to help local residents take new jobs. Local authorities should also co-ordinate their interventions with neighbouring LADs and their wider city-region (where relevant). But some displacement is inevitable.

8 conclusion

This report takes a different look at deprived areas. Using a range of indicators of business activity, we produce a new ranking of the 88 Neighbourhood Renewal Fund areas. Our Business Deprivation Index (Chapter 3 and Annex 2) highlights the 30 NRF areas with the lowest levels of business activity.

These business-deprived areas (BDAs) are important. Business-led regeneration should focus not simply on the most deprived areas, but on those deprived areas with little business activity. Interventions should be related not just to levels of deprivation, but to specific and identifiable market failures – such as inadequate information, poor business environment and limited access to capital.

BDAs will each require a different approach, dependent on their own particular local economic circumstances:

- For some BDAs, the lack of business activity is not a major problem. Lewisham, for example, has relatively low levels of business activity compared to other NRF areas. But its labour market functions reasonably well. Most residents are able to find work within the wider travel-to-work area of London. Interventions here and elsewhere in London should focus more on connectivity and skills.
- Some other BDAs will need to be cautious about kickstarting new businesses. Places like Easington, for example, have extremely low levels of business activity. They may not be able to sustain large-scale demand-side interventions, due to their scale or distance from major urban cores. Here, interventions should focus on finding a suitable role as part of a wider, perhaps city-regional, economy.
- Boosting business activity will be most promising in BDAs that have clear and identifiable market failures. Places like Doncaster, for example – which has scope to develop its labour and property markets, and is well-located with good connections to other major markets.

So, not all BDAs will merit the same degree or type of intervention. Some may not need to intervene very much at all. Some may not have sufficient assets to justify the promotion of major new business activity. But a significant number of BDAs will be able to sustain an increase in business activity. This report is about these areas.

For these BDAs, more needs to be done to increase the demand for labour and investment. Supply-side measures such as benefit reform,

welfare to work and workforce development have all made a real difference. But areas such as Doncaster and Sunderland are still suffering from significant demand-side deficiencies. In other words, they lack jobs and investment.

So, more needs to be done to promote business activity in those BDAs that have identifiable and reversible market failures. Stimulating business activity in these areas will have a greater effect than elsewhere.

This report makes the case in principle for further new government interventions in BDAs. We do not prescribe specific interventions for specific areas. We recommend that the following principles should be followed when considering whether to boost business activity in BDAs.

Interventions to boost business activity in business-deprived areas:

Key principles

- **Intervene only where market failures exist.** Each BDA needs to identify and understand its own market failures, before any government intervention to boost business activity. Interventions should be proportionate to the degree of evidenced market failure, and tailored to local labour markets. More start-ups is not the answer for all areas.
- **Improve local market intelligence.** One of the biggest market failures is the lack of local market data. BDAs should gather and share more high quality economic information, for example on their strengths and weaknesses. This would help make interventions more effective. It would also enhance local capacity, create more market certainty and support programme evaluations. Previous efforts such as City Growth are a useful starting point.
- **Intervene at the right spatial scale.** BDAs do not operate in isolation, but are part of wider economic areas such as travel-to-work areas. Interventions should be directed where market failures exist. Ward-level Enterprise Areas are far too small, and not well-recognised – they should be shut down.
- **Intervene on the demand-side as well as supply-side.** The Government's approach to deprived areas has been mainly supply-side. In many parts of the country, this will be enough. But in BDAs which are part of larger, low-performing economies, the Government should look at the scope for more demand-side interventions to stimulate business activity.
- **Focus less on start-ups, more on employment.** Enterprise policy in deprived areas has focused too much on start-ups. Start-ups are a necessary part of any vibrant economy, but they do not generate many jobs. The recent broader focus on inward investment and franchises is welcome.

- **Rationalise business support and make it more demand-led.** Current publicly-funded business support is supply-led, with far too many different providers and schemes. Business support should be more demand-led, targeted more at businesses themselves – perhaps through a voucher system. RDAs should explore this as part of the CSR.
- **Incentivise private sector investment.** New incentives are needed to revive the property markets in BDAs. Further research is required to identify how such interventions should be designed and implemented to maximise value for money. We will explore this with the British Property Federation and others.

In conclusion, this report has identified the need for business-led regeneration to focus on deprived areas with low rates of business activity. It argues that those business-deprived areas with specific market failures could sustain an increase in business activity. To date, Government policies to promote business activity in deprived areas have not been very successful. The principles set out above will help frame a new approach to business-led regeneration.

annex 1: indices of deprivation rankings of NRF recipients (2000)

The 88 districts below qualified for NRF on the basis of their ranking on the following indicators of the Indices of Deprivation 2000. Though only the 88 most deprived are presented below, the rankings are England-wide, so a rank of 1 indicates the most deprived district in England, whilst a rank of 354 indicates the least deprived district in England. The lowest 50 ranks on each indicator is included in this group, as are seven additional districts, in grey, that qualified based on earlier deprivation measures.

NRF District	Rank of employment scale	Rank of income scale	Rank of average of ward scores	Rank of average of ward ranks	Extent rank	Local concentration rank
Allerdale	127	160	98	112	82	50
Ashfield	106	112	55	31	80	96
Barking and Dagenham	75	64	47	24	74	109
Barnsley	21	41	19	16	29	32
Barrow-in-Furness	102	164	24	23	22	29
Birmingham	1	1	23	43	37	15
Blackburn with Darwen	71	59	10	26	15	16
Blackpool	62	70	31	32	44	34
Bolsover	152	176	30	20	41	44
Bolton	39	28	65	78	43	23
Bradford	6	5	33	64	42	17
Brent	32	33	68	58	78	60
Brighton and Hove	35	50	95	94	110	92
Bristol, City of	13	13	94	116	83	71
Burnley	119	114	46	49	62	21
Camden	44	51	54	56	34	56
Coventry	27	20	67	75	50	51
Croydon	45	38	164	174	156	159
Derby	52	48	84	104	65	39
Derwentside	107	117	45	41	52	45
Doncaster	12	19	36	38	16	62

NRF District	Rank of employment scale	Rank of income scale	Rank of average of ward scores	Rank of average of ward ranks	Extent rank	Local concentration rank
Dudley	47	34	129	142	120	112
Ealing	38	39	107	101	141	133
Easington	65	96	7	4	6	8
Enfield	53	45	106	119	95	93
Gateshead	36	49	41	46	32	37
Great Yarmouth	118	124	43	52	35	5
Greenwich	46	42	44	48	47	63
Hackney	18	17	4	2	1	20
Halton	66	81	16	18	13	38
Hammersmith and Fulham	67	74	77	68	99	77
Haringey	25	26	20	37	28	27
Hartlepool	79	95	8	10	11	10
Hastings	124	127	35	27	51	48
Hyndburn	142	145	51	45	53	35
Islington	33	43	11	8	9	81
Kensington and Chelsea	91	110	171	202	101	95
Kerrier	134	140	59	55	49	98
Kingston upon Hull, City of	15	11	13	14	17	12
Kirklees	19	8	85	93	92	90
Knowsley	28	36	2	6	5	3
Lambeth	17	21	42	21	79	87
Leeds	4	4	114	146	71	78
Leicester	23	12	28	35	18	36
Lewisham	29	31	53	30	76	89
Lincoln	133	136	61	47	158	146
Liverpool	2	2	3	5	7	2
Luton	81	68	91	91	88	91
Manchester	3	3	6	7	4	4
Mansfield	96	113	37	29	33	59
Middlesbrough	56	58	9	44	8	1
Newcastle upon Tyne	10	18	26	59	24	6
Newham	20	7	5	3	3	24
North Tyneside	50	53	69	71	55	40
Nottingham	14	10	12	12	14	22
Oldham	48	37	38	61	39	18
Pendle	144	135	50	66	30	19

NRF District	Rank of employment scale	Rank of income scale	Rank of average of ward scores	Rank of average of ward ranks	Extent rank	Local concentration rank
Penwith	176	181	49	25	63	79
Plymouth	37	46	81	84	86	86
Portsmouth	80	71	119	121	117	108
Preston	85	86	70	95	46	46
Redcar and Cleveland	61	75	32	50	23	7
Rochdale	41	40	25	42	31	13
Rotherham	30	32	48	34	60	31
Salford	31	29	21	28	27	30
Sandwell	24	9	17	11	19	52
Sedgefield	103	129	52	39	68	70
Sefton	16	27	74	85	45	43
Sheffield	5	6	60	92	48	14
South Tyneside	51	55	15	13	10	54
Southampton	64	60	89	76	125	139
Southwark	22	23	14	9	12	49
St. Helens	43	61	40	36	38	42
Stockton-on-Tees	57	62	75	111	40	26
Stoke-on-Trent	26	35	34	22	54	85
Sunderland	8	15	18	15	26	25
Tameside	49	47	57	40	102	74
Tower Hamlets	34	16	1	1	2	11
Wakefield	11	22	58	62	64	72
Walsall	42	25	39	54	20	33
Waltham Forest	54	44	62	53	72	105
Wandsworth	55	56	148	137	158	165
Wansbeck	141	198	27	17	36	47
Wear Valley	154	177	22	19	21	28
Westminster	63	72	136	141	98	110
Wigan	9	30	63	57	85	66
Wirral	7	14	56	70	57	9
Wolverhampton	40	24	29	33	25	41

annex 2: deprived areas and business activity

In order to assess which deprived districts might most be in need of business-based intervention, we have devised an example of a possible tool to evaluate business deprivation. Among the deprived districts below, we have listed their performance and national rankings on four indicators, all measured per 1,000 working-age adults:

- ABI-based businesses
- VAT-registered businesses
- ABI-based jobs
- New VAT registrations

A ranking of '1' is the lowest performing district in England, a rank of 354 is the highest performing district in England. For the deprived districts below, we've created a weighted sum of the rankings on all four indicators, and then sorted by this sum. The weights are assigned as follows:

Variable	Weight
ABI-based businesses per working age adults	.225
VAT-registered businesses per 1000 working age adults	.225
ABI-based jobs per working age adult	.45
New VAT registrations per working age adult	.1

The districts at the top of the list have the lowest weighted sum of indicators – showing a serious lag in business activity, or 'business-deprivation.' Those at the bottom have the highest sums of indicators showing that, amongst the deprived districts, these have the lowest lags in business activity using the indicators selected.

We do not suggest that these indicators are the only ones to be considered – as enterprise and business activity are difficult to measure, a fuller application with many more indicators would likely be necessary for further distinctions – especially at the margins if policy were applied. We further do not assert that rankings are the best cut-off criteria. Like criticisms of the Indices of Deprivation, we recognise that these rankings do not account for the scale of difference in performance between ranks (i.e.: whether or not the level of performance between rank 1 and rank 10 varies a lot or a little). But, like the Indices of Deprivation, we see this method as our best insight into the combined performance on these indicators.

Rank	Area	Region	Working Age Adults	ABI businesses	Rank	VAT Businesses	Rank	ABI Jobs	Rank	VAT New Registrations	Rank	Weighted Sum of Ranks
1	Easington*	NORTH EAST	59,800	28.08	2	18.56	3	434.78	3	1.67	2	2.68
2	Wansbeck	NORTH EAST	39,900	29.75	4	17.92	2	501.25	15	1.88	7	8.80
3	Redcar and Cleveland	NORTH EAST	89,200	35.13	12	20.35	7	493.27	13	1.79	4	10.53
4	South Tyneside*	NORTH EAST	96,500	32.34	5	18.81	4	507.77	19	1.81	5	11.08
5	Derwentside*	NORTH EAST	55,100	35.97	14	26.13	26	471.87	9	2.36	10	14.05
6	Lewisham	LONDON	173,800	36.78	16	23.76	18	437.28	4	3.48	67	16.15
7	Bolsover*	EAST MIDLANDS	45,500	34.64	10	29.23	41	461.54	7	2.64	19	16.53
8	Newham	LONDON	162,400	34.77	11	20.41	8	486.45	11	3.54	73	16.53
9	Barrow-in-Furness	NORTH WEST	46,000	36.96	17	22.83	14	543.48	28	1.52	1	19.68
10	Knowsley	NORTH WEST	96,600	28.03	1	16.41	1	569.36	43	1.76	3	20.10
11	St Helens*	NORTH WEST	115,000	37.41	18	24.13	19	539.13	25	2.57	17	21.28
12	Barking and Dagenham*	LONDON	103,500	33.92	8	21.06	10	550.72	34	3.57	76	26.95
13	North Tyneside	NORTH EAST	121,800	37.59	19	22.91	15	566.50	41	2.63	18	27.90
14	Wirral	NORTH WEST	198,000	40.22	29	25.96	24	565.66	40	3.08	35	33.43
15	Sedgefield*	NORTH EAST	56,700	36.54	15	26.81	29	582.01	49	2.47	15	33.45
16	Wigan	NORTH WEST	200,200	43.52	41	28.80	38	539.46	26	3.17	42	33.68
17	Sunderland	NORTH EAST	187,600	34.37	9	20.66	9	623.67	77	2.08	8	39.50
18	Rotherham	YORKSHIRE & THE HUMBER	159,800	38.08	21	27.53	31	594.49	59	2.78	25	40.75
19	Waltham Forest	LONDON	150,100	43.09	39	31.38	59	493.00	12	4.33	148	42.25
20	Barnsley	YORKSHIRE & THE HUMBER	140,600	39.42	27	29.73	48	583.21	51	3.17	41	43.93
21	Hartlepool	NORTH EAST	57,200	35.31	13	21.50	11	629.37	88	1.84	6	45.60
22	Greenwich	LONDON	142,500	41.10	30	26.46	27	589.47	55	3.72	87	46.28
23	Stockton on Tees	NORTH EAST	119,300	39.38	26	25.27	22	628.67	87	2.64	20	51.95
24	Wear Valley*	NORTH EAST	39,100	45.40	53	36.06	89	562.66	38	2.94	30	52.05
25	Tameside	NORTH WEST	138,100	45.58	56	32.22	64	564.81	39	3.77	90	53.55
26	Doncaster	YORKSHIRE & THE HUMBER	183,800	41.72	31	28.29	34	631.12	91	2.86	29	58.48
27	Ashfield*	EAST MIDLANDS	71,400	38.81	24	27.52	30	644.26	102	2.80	26	60.65
28	Hyndburn	NORTH WEST	51,300	46.90	66	32.65	67	623.78	79	3.41	60	71.48
29	Rochdale	NORTH WEST	132,200	47.37	71	31.85	62	627.84	85	3.14	38	71.98
30	Oldham	NORTH WEST	140,000	43.66	42	31.46	60	635.71	93	3.54	72	72.00
31	Mansfield*	EAST MIDLANDS	63,700	42.95	38	28.18	33	659.34	116	3.22	45	72.68
32	Wakefield	YORKSHIRE & THE HUMBER	204,900	47.06	69	29.87	50	644.22	101	3.15	39	76.13
33	Kerrier	SOUTH WEST	58,300	46.95	67	47.34	183	548.89	32	3.43	61	76.75
34	Halton	NORTH WEST	78,700	39.24	25	24.71	20	711.56	161	2.73	23	84.88
35	Sefton	NORTH WEST	176,100	58.23	176	29.67	45	624.65	80	2.98	33	89.03
36	Enfield	LONDON	182,800	48.53	78	35.50	86	618.16	71	4.92	203	89.15
37	Haringey	LONDON	155,200	53.64	128	39.40	116	476.80	10	6.25	300	89.40
38	Middlesbrough	NORTH EAST	92,000	37.99	20	19.18	5	739.13	187	2.45	14	91.18
39	Pendle	NORTH WEST	56,000	47.05	68	37.68	101	642.86	100	4.02	111	94.13
40	Plymouth	SOUTH WEST	158,500	38.47	23	23.56	17	757.10	204	2.40	13	102.10
41	Burnley	NORTH WEST	57,000	44.11	46	29.74	49	719.30	170	3.25	48	102.68
42	Liverpool	NORTH WEST	294,000	42.21	35	26.05	25	744.90	191	3.06	34	102.85
43	Luton	EAST	122,300	48.82	82	30.46	52	703.19	151	3.35	54	103.50
44	Hastings*	SOUTH EAST	52,500	51.33	105	33.62	72	666.67	126	3.71	85	105.03
45	Gateshead	NORTH EAST	123,900	46.35	60	25.10	21	742.53	188	2.78	24	105.23
46	Kingston upon Hull	YORKSHIRE & THE HUMBER	163,400	46.32	59	25.34	23	771.11	213	2.54	16	115.90

Rank	Area	Region	Working Age Adults	ABI businesses	Rank	VAT Businesses	Rank	ABI Jobs	Rank	VAT New Registrations	Rank	Weighted Sum of Ranks
47	Walsall	WEST MIDLANDS	161,900	49.78	93	35.45	85	710.32	158	3.37	55	116.65
48	Lambeth	LONDON	195,200	46.87	65	31.38	58	717.21	168	4.33	147	117.98
49	Kirklees	YORKSHIRE & THE HUMBER	251,400	50.92	99	39.64	121	680.19	135	3.94	104	120.65
50	Stoke on Trent	WEST MIDLANDS	157,200	45.20	52	28.78	37	776.08	220	2.96	31	122.13
51	Dudley	WEST MIDLANDS	197,000	52.66	118	37.87	105	700.51	147	3.73	88	125.13
52	Allerdale	NORTH WEST	60,000	57.83	170	52.00	226	616.67	69	3.25	50	125.15
53	Sheffield	YORKSHIRE & THE HUMBER	336,900	46.15	58	32.37	65	756.90	203	3.50	68	125.83
54	Coventry*	WEST MIDLANDS	196,700	42.03	34	27.86	32	803.25	240	3.10	37	126.55
55	Bradford*	YORKSHIRE & THE HUMBER	296,200	48.99	85	35.28	82	732.61	180	3.68	83	126.88
56	Sandwell	WEST MIDLANDS	180,100	48.84	83	32.12	63	749.58	197	3.44	62	127.70
57	Bolton	NORTH WEST	168,000	48.59	79	37.14	96	720.24	172	4.02	112	127.98
58	Derby City	EAST MIDLANDS	148,700	45.47	55	28.41	35	813.72	247	3.67	82	139.60
59	Ealing	LONDON	212,700	59.05	186	42.55	145	630.00	89	5.62	265	141.03
60	Croydon*	LONDON	223,100	53.89	130	37.52	100	717.17	167	4.30	143	141.20
61	Great Yarmouth*	EAST	56,300	57.53	166	41.39	134	710.48	159	3.46	65	145.55
62	Blackburn with Darwen	NORTH WEST	87,100	48.08	75	34.67	77	780.71	228	4.31	145	151.30
63	Penwith	SOUTH WEST	38,700	59.22	189	52.33	227	620.16	74	5.56	256	152.50
64	Blackpool	NORTH WEST	89,700	52.69	119	33.56	71	791.53	231	3.40	59	152.60
65	Southampton	SOUTH EAST	147,400	49.06	86	31.38	57	834.46	260	3.60	78	156.98
66	Wolverhampton	WEST MIDLANDS	152,400	46.51	62	41.21	132	761.15	208	5.09	214	158.65
67	Wandsworth	LONDON	198,800	65.46	251	43.96	158	638.83	95	6.01	283	163.08
68	Brent	LONDON	185,000	62.71	222	44.65	164	659.46	117	6.35	305	170.00
69	Birmingham	WEST MIDLANDS	625,300	51.35	106	35.28	81	838.00	262	4.13	125	172.48
70	Newcastle-upon-Tyne	NORTH EAST	177,800	47.20	70	28.85	39	984.25	323	3.09	36	173.48
71	Salford	NORTH WEST	141,300	50.75	98	33.93	73	856.33	276	4.07	117	174.38
72	Portsmouth	SOUTH EAST	124,900	49.35	90	28.46	36	960.77	312	3.80	93	178.05
73	Lincoln	EAST MIDLANDS	55,600	55.43	146	29.05	40	971.22	315	2.97	32	186.80
74	Leeds	YORKSHIRE & THE HUMBER	468,800	54.52	137	37.99	107	923.63	303	4.18	131	204.35
75	Hackney	LONDON	139,000	64.12	238	46.12	171	733.81	184	8.31	345	209.33
76	Nottingham	EAST MIDLANDS	180,300	55.72	150	33.36	69	1059.35	339	3.91	103	212.13
77	Leicester City	EAST MIDLANDS	186,300	56.94	163	39.61	120	966.18	313	4.75	187	223.23
78	Brighton and Hove	SOUTH EAST	168,700	66.36	255	46.32	173	823.95	253	6.05	285	238.65
79	Preston	NORTH WEST	86,400	59.22	188	43.98	159	1006.94	330	4.63	175	244.08
80	Manchester	NORTH WEST	281,900	59.23	190	41.56	136	1120.96	342	5.16	219	249.15
81	Southwark	LONDON	177,100	60.90	209	40.46	127	1027.67	333	6.21	297	255.15
82	Bristol	SOUTH WEST	261,800	66.86	260	42.38	143	1023.68	332	4.89	199	259.98
83	Tower Hamlets	LONDON	135,300	76.16	311	49.41	203	1123.43	343	8.09	342	304.20
84	Hammersmith & Fulham	LONDON	121,400	89.69	339	61.41	277	988.47	325	8.36	346	319.45
85	Islington	LONDON	128,700	100.94	348	77.58	334	1344.21	351	10.61	350	346.40
86	Kensington and Chelsea	LONDON	112,900	126.06	350	79.45	338	1302.04	349	10.85	351	346.95
87	Camden	LONDON	143,800	165.12	352	128.89	352	2023.64	352	15.40	352	352.00
88	Westminster, City of	LONDON	146,700	315.67	353	248.30	353	4199.05	353	35.62	353	353.00

Data Source: VAT registration data: from SBS; ABI data: from ONS, NOMIS; Jobs data: place-based estimate from NOMIS, including employees (from ABI), self-employment jobs (from LFS), government-supported trainees (from DfES and DWP), and HM forces (from MoD). Working-age adults estimated as residents age 15-65 by district, from NOMIS mid-year estimates. All data is for 2000, and is presented below per 1,000 working age adults.

* Indicates recipient of round 1 LEGI funding

annex 3: deprived districts with above-average growth in VAT-registered business, and growth rates of jobs (1999-2004)

This Annex lists all of the deprived districts that experienced above-average growth in VAT-registered businesses over 1999-2004. Forty-four fall into this category, and of these, 20 experienced below-average growth in jobs (shown in grey). This table illustrates how growth in quantity of businesses does not always equal growth in quantity of jobs.

District	Region	Growth rate of VAT-registered businesses	Growth rate of jobs
ENGLAND AVERAGE		**0.0753**	**0.0549**
Kingston upon Hull	YORKSHIRE AND THE HUMBER	0.0758	0.1814
Pendle	NORTH WEST	0.0764	0.0743
Sandwell	WEST MIDLANDS	0.0822	-0.0464
Derby City	EAST MIDLANDS	0.0822	-0.0235
Wirral	NORTH WEST	0.0825	-0.0157
Luton	EAST	0.0834	0.1471
Rotherham	YORKSHIRE AND THE HUMBER	0.0856	0.3125
Wansbeck	NORTH EAST	0.0857	-0.0773
Brighton and Hove	SOUTH EAST	0.0896	0.0616
Doncaster	YORKSHIRE AND THE HUMBER	0.0923	0.1337
Hastings	SOUTH EAST	0.0925	0.0679
Enfield	LONDON	0.0955	-0.0183
Derwentside	NORTH EAST	0.0996	0.1297
Burnley	NORTH WEST	0.1006	-0.0006

District	Region	Growth rate of VAT-registered businesses	Growth rate of jobs
Bolsover	EAST MIDLANDS	0.1038	0.1643
Salford	NORTH WEST	0.1043	0.0649
Haringey	LONDON	0.1043	0.0524
Wakefield	YORKSHIRE AND THE HUMBER	0.1047	0.1691
North Tyneside	NORTH EAST	0.1052	0.0656
St Helens	NORTH WEST	0.1075	0.0718
Coventry	WEST MIDLANDS	0.1097	-0.0235
Sedgefield	NORTH EAST	0.1111	-0.0220
Easington	NORTH EAST	0.1116	0.1260
Lincoln	EAST MIDLANDS	0.1160	0.0307
Penwith	SOUTH WEST	0.1206	0.1971
Westminster, City of	LONDON	0.1224	-0.0393
Mansfield	EAST MIDLANDS	0.1243	0.1746
Greenwich	LONDON	0.1270	0.0264
Kensington and Chelsea	LONDON	0.1300	-0.1099
Portsmouth	SOUTH EAST	0.1354	0.0655
Halton	NORTH WEST	0.1365	0.0768
Ealing	LONDON	0.1369	-0.0014
Ashfield	EAST MIDLANDS	0.1380	0.0542
Lewisham	LONDON	0.1409	0.0646
Gateshead	NORTH EAST	0.1410	0.0405
Knowsley	NORTH WEST	0.1461	0.2457
Wandsworth	LONDON	0.1493	0.0011
Hammersmith and Fulham	LONDON	0.1494	0.1316
Lambeth	LONDON	0.1762	0.1394
Newham	LONDON	0.1944	0.0202
Tower Hamlets	LONDON	0.2038	0.2673
Barking and Dagenham	LONDON	0.2071	-0.1519
Hackney	LONDON	0.2087	-0.0464
Southwark	LONDON	0.2104	-0.0052

Source: VAT registered stock measured by SBS, jobs estimated by NOMIS, ABI.

annex 4: deprived districts with below average growth in VAT-registered businesses, and jobs growth rates (1999-2004)

This Annex lists all of the deprived districts that experienced below-average growth in VAT-registered businesses over 1999-2004. Forty-four fall into this category, and of these, 19 experienced above-average growth in jobs (shown in grey). This table illustrates how growth in quantity of jobs does not always come from growth in quantity of businesses.

District	Region	Growth rate of VAT-registered businesses	Growth rate of jobs
ENGLAND AVERAGE		**0.0753**	**0.0549**
Manchester	NORTH WEST	-0.04381	0.109978
Wolverhampton	WEST MIDLANDS	-0.03107	-0.03733
Blackpool	NORTH WEST	-0.01669	-0.01902
Barrow-in-Furness	NORTH WEST	-0.01435	0.184073
Southampton	SOUTH EAST	-0.01173	0.05552
Hartlepool	NORTH EAST	0	0.020705
Great Yarmouth	EAST	0.004283	0.112534
Walsall	WEST MIDLANDS	0.018341	-0.0312
Preston	NORTH WEST	0.018717	0.168348
Newcastle upon Tyne	NORTH EAST	0.019569	0.081261
Kerrier	SOUTH WEST	0.023897	0.243436
Birmingham	WEST MIDLANDS	0.024829	0.020384
Stoke on Trent	WEST MIDLANDS	0.02954	-0.06273
Bradford	YORKSHIRE AND THE HUMBER	0.032834	-0.01277

District	Region	Growth rate of VAT-registered businesses	Growth rate of jobs
Bolton	NORTH WEST	0.033118	-0.0296
Nottingham	EAST MIDLANDS	0.033642	0.04981
Stockton on Tees	NORTH EAST	0.034826	0.066336
Leeds	YORKSHIRE AND THE HUMBER	0.034999	0.072146
Redcar and Cleveland	NORTH EAST	0.036415	0.004041
Bristol	SOUTH WEST	0.036496	-0.01311
Allerdale	NORTH WEST	0.036741	0.091871
Islington	LONDON	0.037245	0.081572
Sunderland	NORTH EAST	0.039012	0.018888
Tameside	NORTH WEST	0.04195	0.093983
Liverpool	NORTH WEST	0.046619	0.05856
Rochdale	NORTH WEST	0.04947	0.073433
Kirklees	YORKSHIRE AND THE HUMBER	0.050051	0.020331
Croydon	LONDON	0.051002	-0.04989
Camden	LONDON	0.051758	-0.0065
Sheffield	YORKSHIRE AND THE HUMBER	0.052827	0.124037
Middlesbrough	NORTH EAST	0.054286	-0.00452
Blackburn with Darwen	NORTH WEST	0.056013	0.060342
South Tyneside	NORTH EAST	0.061972	-0.082
Brent	LONDON	0.062772	-0.00579
Wigan	NORTH WEST	0.065084	0.054192
Hyndburn	NORTH WEST	0.065089	-0.01709
Sefton	NORTH WEST	0.065175	0.070967
Barnsley	YORKSHIRE AND THE HUMBER	0.066095	0.078795
Leicester City	EAST MIDLANDS	0.0674	0.032182
Dudley	WEST MIDLANDS	0.070211	-0.03554
Plymouth	SOUTH WEST	0.071719	0.054169
Waltham Forest	LONDON	0.073224	-0.05802
Oldham	NORTH WEST	0.073479	0.020818
Wear Valley	NORTH EAST	0.075269	0.07657

Source: VAT registered stock measured by SBS, jobs estimated by NOMIS, ABI.

annex 5: data annex

This Annex elaborates on the analysis presented in Chapter 3, regarding the relationship between deprivation and enterprise as measured on various indicators.

The regional aspect

For each indicator, the levels of business activity in districts of deprivation are compared with levels of business activity in districts nationally and regionally. Comparing levels of business activity in deprived districts with all the districts across the country risks producing misleading results if business activity is strongly influenced by separate regional factors.

For example, the North East has fewer businesses than the South East – and that is not, in and of itself, a problem.[18] The North East has inexpensive land and labour and a relative strength in manufacturing (among other sectors), whilst the South East has a relative strength in services and finance.[19] Manufacturing firms gain from economies of scale and efficiently form fewer, larger businesses than, for example, most parts of the services sector. So having fewer *businesses* in the North East doesn't necessarily mean fewer *employees*, or less enterprising business activity than the South East.[20] Indeed, economies in places like the North East, when leveraging their assets and performing well, will not have the same industry structure as thriving economies in the South East – their natural assets are different, and their economic structures will be, too.

For example, if we rank all of England's districts by quantity of businesses per population, we would expect to see many districts from the North at the bottom, and those from the South at the top. This measure may say more about the industrial structure of the areas than relative enterprise performance. So we've also assessed enterprise in deprived areas relative to their respective regions, as most districts within a region contain, generally, similar assets and industry structures (or are at least more consistent than all districts across England). This seems a more realistic angle on which to ascertain which districts are lagging on enterprise indicators.

New VAT registrations

Levels of new VAT registrations have been a preoccupation of the Government who have argued that there is a strong negative relationship between start-up rates and

18 In the North East there are 40 businesses per 1000 people of working age whereas in the South East there are 67 (ABI figures, 2000).

19 Regional sectoral breakdowns are available in Figure 2.1 in the previous chapter.

20 On average, every firm in the North East employs 15 people, as compares with just 10 in the South East. It follows that for the same number of jobs, there would be fewer businesses in the North East.

deprivation. Tables A.1 and A.2 provide some evidence of this relationship.

But it is also clear that the relationship is not straightforward. A majority of deprived districts have below-average levels of new VAT registrations. But 39 per cent of the deprived districts have average or above performance (Q3-Q5) within their region. Eleven are even among England's top-ranked in terms of new VAT-registered business.

However, the count of new VAT registrations is a far from perfect measure of new business formation. Most new businesses will have an annual turnover below the VAT threshold (currently £61,000) and therefore not have to register. New businesses in exempt sectors would not have to register either. Additionally, multiple locations of the same company are only registered once – at the address of registration – so new openings of an already-registered company would not be counted as additional. It is estimated that less than half of all businesses are VAT registered (ODPM, 2003a).

Furthermore, examining new business rate formation is a poor measure of overall business activity. In recent years policy-makers have shifted their focus from start-ups, increasingly emphasising the need to increase all activity, e.g. encouraging the growth of existing businesses and inward investment (HMT *et al*, 2005). This makes an examination of business stock levels more relevant.

Table A.1. NRF Districts by new VAT registrations per working age adult by national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest new VAT levels	46	52.3
2	18	20.5
3	8	9.1
4	5	5.7
5 – highest new VAT levels	11	12.5
TOTAL	**88**	**100.1**

Quintiles established by ranking English districts by new VAT-registrations per working age adult. Q1 contains the lowest ranked 20 per cent in England; Q5 contains the highest ranked 20 per cent in England. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

Table A.2. NRF Districts by new VAT registrations per working age adult by regional quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest new VAT levels	35	39.8
2	19	21.6
3	17	19.3
4	11	12.5
5 – highest new VAT levels	6	6.8
TOTAL	**88**	**100**

Quintiles established by ranking English districts in each region by new VAT-registrations per working age adult. Q1 contains the lowest ranked 20 per cent in each region; Q5 contains the highest ranked 20 per cent in each region. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates.

Table A.3. NRF Districts by stock of VAT-registered business per working age adult national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest VAT levels	51	58
2	21	23.9
3	9	10.2
4	3	3.4
5 – highest VAT levels	4	4.5
TOTAL	**88**	**100**

Quintiles established by ranking English districts by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent, through Q5 containing the highest ranked 20 per cent. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates.

Stock of VAT registered companies

Stock of VAT-registered companies is another oft-cited Government indicator of business performance. Despite the limitations addressed above, this indicator is examined on the left:

Table A.3 shows that deprived districts are likely to have low numbers of VAT- registered companies. Regional factors (such as distinct sectoral mixes) may distort these results, and this 'noise' is reduced in Table A.4 from which a different picture emerges. It is clear that some deprived districts have a relatively high number of VAT registered companies. Annexes 3 and 4 show that deprived districts feature amongst the districts with the slowest and fastest growth of VAT registrations.

Table A.4. NRF Districts by stock of VAT-registered business per working age adult regional quintile

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest VAT levels	34	38.6
2	27	30.7
3	15	17.0
4	7	8.0
5 – highest VAT levels	5	5.7
TOTAL	**88**	**100.2**

Quintiles established by ranking English districts in each region by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent in each region; Q5 contains the highest ranked 20 per cent in each region. Data Source: VAT registration data: from SBS, year 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

ABI-estimated business stock

A better estimate of the number of businesses within a certain area can be achieved through examining the ABI-estimated business stock. ABI data is vulnerable to sampling limitations, but provides a more accurate picture of local business levels, particularly because it accounts for multiple locations.

Like the previous evidence, Tables A.5 and A.6 indicate that many deprived areas have low levels of businesses, compared to the region and England as a whole. But, again, these figures do not provide a straightforward relationship between deprivation and business performance. Many deprived areas have low levels of business stock. However, it is also clear that not all deprived areas have low numbers of businesses. A small but significant number of deprived districts contain a very high number of businesses.

Job levels

One further measure should be considered: job levels give an indication of the size of companies and numbers of employees. Especially given what we know about the regional variance in number of employees per business, counting the number of jobs, as well as number of businesses, is key to exploring the link between levels of business activity and deprivation. We assess jobs data, rather than employment data, meaning we assess how many jobs are present in the deprived district, regardless of where the employees reside. This data will go to show which areas suffer from a dearth of employment and which have relatively high levels of jobs, but local residents seem disconnected to those opportunities.

Table A.5. NRF Districts by ABI-estimated business stock per working age adult national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest business levels	48	54.5
2	18	20.1
3	11	12.5
4	5	5.7
5 – highest business levels	6	6.8
TOTAL	**88**	**99.6**

Quintiles established by ranking English districts by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent, through Q5 containing the highest ranked 20 per cent in each region. Data Source: ABI, NOMIS, 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

Table A.6. NRF Districts by ABI-estimated business stock per working age adult regional quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest business levels	33	37.5
2	23	26.1
3	14	15.9
4	12	13.6
5 – highest business levels	6	6.8
TOTAL	**88**	**99.9**

Quintiles established by ranking English districts in each region by start of year stock of VAT-registered businesses per working age adult. Q1 contains the lowest ranked 20 per cent in each region, through Q5 containing the highest ranked 20 per cent in each region. Data Source: ABI, NOMIS, 2000. Working age adults estimated as all residents age 15-64 by district, from NOMIS (ONS) mid-year estimates. Percentages do not sum to 100 per cent due to rounding.

Table A.7. NRF Districts by jobs per working age adult national quintile, 2000

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest job levels	27	30.7
2	18	20.5
3	17	19.3
4	10	11.4
5 – highest job levels	16	18.2
TOTAL	**88**	**100.1**

Quintiles established by ranking English districts by jobs per working age adult. Q1 contains the lowest ranked 20per cent, Q5 contains the highest ranked 20 per cent. Data Source: Jobs data: place-based estimate from NOMIS, including employees (from ABI), self-employment jobs (from LFS), government-supported trainees (from DfES and DWP), and HM forces (from MoD). Residents age 15-64 by district, from NOMIS mid-year estimates. Because of rounding, percentages do not add up to 100 per cent.

Table A.8. (Also Table 3.1) NRF Districts by jobs per working age adult regional quintiles

Quintile	Number of NRF 2000 Districts	Percentage of NRF Districts
1 – lowest job levels	18	20.5
2	21	23.9
3	20	22.7
4	15	17.0
5 – highest job levels	14	15.9
TOTAL	**88**	**100**

Quintiles established by ranking the districts in each region by jobs per working age adult. Q1 contains the lowest ranked 20 per cent in each region, Q5 contains the highest ranked 20 per cent in each region. Data Source: Jobs data: place-based estimate from NOMIS, including employees (from ABI), self-employment jobs (from LFS), government-supported trainees (from DfES and DWP), and HM forces (from MoD). Residents age 15-64 by district, from NOMIS.

Table A.7 shows that, in comparison with national averages, there is only a small over-representation of districts with low job levels amongst the 88 deprived areas. Correspondingly, these areas are under-represented amongst the number with districts with high job levels. Yet there are a significant number of deprived areas with job levels that are amongst the highest in England.

Furthermore, when the regional trends are netted out (Table A.8), we see that the distribution of deprived districts is only slightly different than the distribution of the rest of the country (where, by definition, each quintile contains 20 per cent of all the districts in England). Particularly by this indication, there is no correlation between low job levels and deprivation.

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glossary

ABI	Annual Business Inquiry
BDA	Business-deprived area
BID	Business Improvement District
CDFI	Community Development Finance Institutions
CITR	Community Investment Tax Relief
CSR	Comprehensive Spending Review
DCLG	Department for Communities and Local Government
DfES	Department for Education and Skills
DWP	Department for Work and Pensions
DTI	Department of Trade and Industry
EA	Enterprise Area
EZ	Enterprise Zone
GIDA	Review of government interventions in deprived areas
HMT	HM Treasury
ID	Indices of Deprivation
LEGI	Local Enterprise Growth Initiative
LSC	Learning and Skills Council
NDC	New Deal for Communities
NRF	Neighbourhood Renewal Fund
ODPM	Office of the Deputy Prime Minister
ONS	Office of National Statistics
RDA	Regional Development Agency
RSA	Regional Selective Assistance
SBS	Small Business Service

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