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The Gap Years:
Enterprise and Inequality in England 2002–2006

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Executive Summary

Our analysis of enterprise in England since 2002 has found that despite substantial investment in deprived areas, the gaps between these and wealthier areas are widening.

Background

For most of the past 15 years the UK has experienced sustained economic growth. But inequalities have widened, and pockets of severe deprivation have developed, because the benefits of growth have not been equally shared.

Around 60 per cent of workless households are concentrated in just 40 districts of the UK. Many of the unemployed are unskilled males from ex-industrial areas such as Wales and parts of northern England.

Efforts to regenerate deprived areas have focused largely on increasing levels of enterprise. Whether through people starting their own businesses or newly created jobs being taken up, enterprise is seen by policy-makers as a solution to the problem of unemployment. It is also seen as a way to boost productivity and wider economic growth.

But how sure can we be that the enterprise programmes so favoured by government are making a real difference? These programmes have not been rigorously evaluated. Some may have been seen to work on their own terms, but overall they have not made a significant impact on growing inequalities. A recent report from the Public Accounts Committee, for example, found that the initial effectiveness of the New Deal relied on supporting those facing fewest barriers to employment.

This report presents the findings from research that set out to explore the relationship between enterprise and employment. We examined levels of enterprise across England and assessed whether the changes observed were associated with fewer people claiming benefits. We did this by exploring how the distribution of enterprise and claimants has changed over time between England's local authorities, and between the most deprived neighbourhoods.

The purpose of this was to see if government policy is succeeding in improving enterprise trends in deprived areas, and to assess the extent to which the benefits of any increase in enterprise are reaching those communities with the highest levels of unemployment.

We set out how key areas' shares of enterprise and benefit claimants have changed, which allows us to draw conclusions about:

- the extent to which deprived areas have grown relative to the average;
- the relationship between these increases in enterprise and any reduction in claimant rates.

We have used two units of analysis: the 20 per cent most deprived local authorities and the 20 per cent most deprived neighbourhoods. We have compared data with these two segments with statistics for the wider region and for England as a whole.

Our aim was to spell out the implications of the above for current and future economic development policy. At the start of a recession, and with increasingly limited resources at our disposal, these questions take on a new significance and urgency.

Summary of findings

1. Enterprise is becoming less equally distributed across England

- Since 2002 the most deprived boroughs as a group have seen a fall in their share of enterprise relative to England, while the share of the least deprived boroughs has risen.
- Over the same period, less than a third of the most deprived local authorities have seen an increase in their share of enterprise ***relative*** to England as a whole.
- Comparing local authority or regional enterprise data with the national picture masks how dramatic the inequalities can be at neighbourhood level, where only four per cent of deprived areas have seen an increase in their enterprise share relative to England.

2. Claimants are becoming more concentrated in deprived areas

- Since 2002 seven out of ten of the most deprived 20 per cent of local authorities have reduced their national share of claimants relative to England as a whole, and six out of ten have achieved this relative to their region.
- But again there is a different picture at neighbourhood level. The share of claimants has risen in 84 per cent of the most deprived neighbourhoods relative to their local authority.
- The most deprived neighbourhoods have increased their share of claimants relative to the local authority more often than they have reduced it.
- It is certainly the case that this may have coincided with a decrease in absolute claimants in those areas. But this was not happening at a fast enough rate to reverse relative trends.

3. Growth at the local authority level does not usually lead to growth in the most deprived areas

On the whole, the enterprise gap between the least and most deprived local authorities has widened. Even in those local authorities where the enterprise share has increased, the most deprived areas have seen falls or at best lower increases. The implication is that enterprise and employment growth in deprived areas may require more than simply growth at the local authority level.

4. Enterprise creation is only part of the solution to deprivation

- Increasing enterprise share *does* appear to be associated with decreasing claimant share in the most deprived 20 per cent of local authorities. Where share of enterprise increases, the share of claimants is more likely to decrease.
- However, there is still a significant proportion of authorities where claimants are decreasing alongside a decrease in enterprise share. This suggests that other factors are having a significant impact on claimant numbers in addition to the impact of enterprise levels.
- The factors that make it hard to increase enterprise share in the most deprived neighbourhoods may include low demand; falls in the supply of commercial and industrial land over time; and higher costs for insurance.
- The implication is that enterprise creation at the macro, regional or borough level alone is not enough to address economic inequality.

Relative change measures the change in the proportion of England's enterprises that are in certain (in this case deprived) areas and how that distribution of enterprise changes over time. The advantage of the 'change in share' methodology is that it allows us to test the equality aspect of enterprise and employment policy. See Appendix 1 for more detail.

5. Further research is required

We tried to compare the policy inputs in the years leading up to the outcomes studied in this report. Specifically we looked for details of the types of economic development programmes that had been implemented in these areas in the years prior to 2002, and the amounts of public-sector investment that these programmes had absorbed, in order to understand better the relationship between spend and effectiveness.

This proved fruitless, however, because the information we needed was not available. This situation should improve in the future with the new duty on local authorities to report on spending as part of the Sustainable Communities Act.

More research is also required on variables other than numbers of enterprise. For example, how do the size, ownership and nature of an enterprise, as well as travel to work areas, affect employment and other economic outcomes?

New policy ideas

A continuation of existing enterprise and employment policy is unlikely to reverse the trends outlined in this research. Instead, what we need are new ideas about how to use the instruments of government policy to tackle inequality. As part of this research we have tested a menu of options with economic development officers from the most deprived authorities to get their views on what is likely to help them achieve their objectives. The list this produced was far from exhaustive, and some suggestions will require further research in order to gain a fuller understanding of potential impacts.

The most popular response by far was for more emphasis on removing barriers to entering work. This was followed by greater emphasis on stimulating local demand, and policies to target more closely those that are economically inactive. These chime with the findings from the quantitative research. There was also a lot of support for use of fiscal policy as a mechanism to combat area-based disadvantage.

The results for the informal economy and sustaining local services suggest that they are not seen as important to economic development officers. A small majority of respondents thought that a focus on maintaining existing businesses, supporting networks and more joined up policies would be helpful.

The need for new measures

Current policy assumes that differences in enterprise rates are the result of ***market failure***. Interventions are therefore directed at removing the barriers to business formation and increasing the numbers of business start-ups in deprived areas.

Yet not every business start-up is beneficial to economic development, and neither is every closure detrimental. Not every type of business activity brings the same value to an area. Areas where there is a range of businesses of different types and sizes may be more resilient to economic change.

Policy discourse tends to focus on 'closing the gap' between different localities and regions. But it is still a problematic approach when setting goals for policy. This is because it rests on the 'growth model' that assumes that all areas need to continue growing.

If we are serious about creating more equal enterprise and employment outcomes then the data would suggest that policies that leave the existing structure unchanged are not likely to be effective. It is quite possible that a more radical departure is required that would involve major structural reform to create the incentives for economic growth in poor areas.

Getting the measures right is not just about understanding effectiveness and defining success. The ways in which success is measured help determine what gets prioritised and resourced. Share of enterprise and employment are therefore only part of the picture of economic well-being. They should be supplemented

> ***Market failure*** is the justification that governments use for investment in public services. In orthodox economics it describes a situation when the operation of market forces does not lead to an efficient allocation of resources. This can occur for a variety of reasons such as the nature of public goods; the presence of imperfect competition; and the tendency for prices to inadequately reflect the social costs and benefits associated with economic activity.

by other measures including the diversity and ownership of businesses, the strength and quality of local business networks, and subjective measures of satisfaction with local shops and services.

A policy fixation with things that can be readily counted has contributed to an emphasis on new businesses in measuring success. Policies to *maintain* share in deprived areas – such as ensuring land remains available – are also important, however. Such policies would result in different activities from those shaped by policies to *increase* share. This is particularly important where maintaining share is linked to essential services such as banks, post offices and grocery stores, as these can play an important role in the community irrespective of the employment they create.

Any targets to reduce the enterprise gap should be set against appropriate ***benchmarks***. Indicators used should also recognise other comparable areas and should not exceed the levels of change that have occurred in that area or others unless there are strong reasons to do so. All indicators used should also recognise that shifts in enterprise structure take place over longer periods of time than are normally associated with economic development strategies.

Benchmark(s) These are used for the comparison of similar processes across areas. The data collected for establishing a benchmark can act as a baseline and can be used for before-and-after comparison. Only by using appropriate benchmarks can issues of deadweight and displacement be understood.

Conclusions

Our analysis of enterprise in England since 2002 has found that despite substantial investment in deprived areas, the gaps between these and wealthier areas are widening. Regeneration policy focuses on enterprise share because it is assumed that an increase in share will improve employment opportunities in the local area. This is happening to some extent but the most deprived neighbourhoods are not benefiting.

Changes in enterprise share in these areas would appear to be part of complex longer-term structural trends, which are likely to be difficult to reverse. Government must begin to collect the evidence it needs to make sense of the interrelationship between various factors if local economic development and regeneration initiatives are to change people's lives. As we press ever further against environmental limits, and with public finances under considerable strain, new (and more imaginative) ideas for addressing economic inequality are required.

Introduction

Since the 1970s the UK economy has been growing at an average of over two per cent per year. The focus of macro-economic policy is largely on promoting and maintaining this growth on the understanding that the proceeds will 'trickle down', thus creating wealth for all.

But beneath this headline figure lies an altogether different story: some local economies are growing far faster than this two per cent average, while others are stagnating.[1] The policy response to this trend has been to take some of the proceeds of growth from more prosperous areas and invest them in regeneration programmes elsewhere. These programmes now account for billions of pounds of government expenditure every year.[2]

A range of different approaches have been tried, encompassing a mix of enterprise-led and physical regeneration, as well as a focus on building the capacity of communities through education and training. The theory behind most initiatives has been that enterprises create jobs directly, and that they also do so indirectly by increasing the productive capacity of local businesses through competition and local multiplier effects. Initiatives have tended to be centrally designed and delivered as part of large public programmes, such as the Single Regeneration Budget (SRB).

Studies suggest that spatial inequality in the UK continues to widen despite these programmes, and that rich and poor are becoming increasingly segregated in geographical terms.[3] The purpose of this research has been to investigate the patterns of growth and inequality in England from the perspective of enterprise and employment trends over the past four years.

It is important to note that this research was carried out during a period of sustained growth. As we enter an economic downturn these trends are likely to be further exacerbated, as public finances become more stretched.

Research aims and report structure

Economic development policy targets deprived areas, and aims essentially to equalise incomes and employment outcomes by investing in enterprise and employment programmes. Our research sought to assess the success of this policy on its own terms and has been guided by the following questions:

1. Is the drive to increase levels of enterprise succeeding?
2. Is success of this kind actually improving employment outcomes in deprived areas and communities?

What we ultimately wanted to examine was whether an emphasis on enterprise creation was actually reducing poverty and economic inequality. In practical terms, this meant focusing on how the distribution of enterprise and employment has changed over time. We chose to do this by adopting a ***change in share*** methodology, which compares the position of deprived areas relative to other areas.[4]

Change in Share: Put simply, this involves identifying appropriate geographical units, calculating their share of enterprise and employment relative to a range of benchmarks, and seeing how these shares have changed over time.

The report is divided into two sections: a summary of our findings on changes in enterprise and employment; and a discussion on alternative policies and approaches. It begins with a brief explanation of the origins and development of enterprise and employment policy in the UK. More detailed analyses and a methodological note are contained in the appendices.

The findings presented in this report are preliminary and should be seen as preparing the ground for more in-depth research. We believe that the approach taken here has the potential to make a major contribution to the evidence base related to this subject.

Enterprise and employment policy in the UK

The roots of enterprise policy are to be found in the 1970s, when it became clear that some areas were being left behind by economic growth. Since then, there has been a steady stream of public programmes aiming to 'correct' market failures in these areas and stimulate local economic development and regeneration.

What is enterprise policy?

Key programmes have included City Challenge, Enterprise Zones and the SRB. These have been supported by European structural funds which, since 1996, have included explicit provisions for community economic development under Objectives 1 and 2.

The current policy focus on raising enterprise levels in deprived areas can be traced back to the HM Treasury Policy Action Team Report (PAT3) on Enterprise and Social Inclusion. The Small Business Service – formerly at the Department of Business, Enterprise and Regulatory Reform (DBERR) – supported a wide programme of research following the PAT3 report. It was this that formed the basis for the launch of the Local Enterprise Growth Initiative (LEGI) in 2005.

The LEGI represented a new departure in some respects. It placed greater responsibility in the hands of local authorities, was well resourced and operated over a longer period of time. In 2008, however, it was collapsed with all other strands of regeneration into the Working Neighbourhoods Fund (WNF). No further rounds were announced.

The WNF is also innovative in that it will allocate non-ring-fenced funding to local authorities to spend on local priorities. However, the long-term nature of change is not necessarily allowed for because funding is contingent upon biennial reports to HM Treasury on progress against agreed performance indicators.

Previous research by **nef** has highlighted problems with measurement in relation to enterprise-led regeneration (ELR). It has found that many of the evaluations for ELR programmes are preoccupied with output or process measurement.[5] These are rarely supported by impact analysis – particularly over the medium or long term – and concentrate almost exclusively on a limited number of indicators, such as job creation and the numbers of people moving into jobs and training.

As well as disproportionate attention on outputs, ELR programme evaluations have looked largely at absolute rather than relative change, therefore equality objectives have not been routinely assessed.

The research that **nef** carried out showed that the use of such narrow criteria for ELR raised a number of concerns:

- There is a risk of over-emphasising those activities that directly increase enterprise creation and the number of business start-ups;
- There are difficulties in managing any trade-offs between employment creation and productivity;
- There is a danger that boosting enterprise rates in disadvantaged areas may become the sole objective of regeneration efforts, despite a lack of evidence that it leads to clear benefits for the residents in these areas.[6]

Although this research has not sought to link specific policies to changes in enterprise share, there has clearly been an enterprise aspect to regeneration policy since at least 1996. Without wishing to suggest that this has been consistently applied across regions or that different areas have been subject to the same types of interventions, it seems fair to assume that the general thrust of ELR policy has had a part to play in the recent fortunes of England's most deprived areas.

What is employment policy?

Employment policy has a far longer history in Britain than enterprise policy. The oil shocks of the 1970s placed the welfare state under considerable strain, particularly with the onset of stagflation (simultaneous recession and inflation). The Conservative government's subsequent supply-side reforms weakened the role of unions in wage setting, cut the levels of unemployment benefits, and shortened the duration of entitlement to benefits. By the end of the 1980s worklessness had a strong geographical dimension, and this has persisted to this day.

The thrust of policy under New Labour has continued with supply-side measures by providing new incentives and support to help people into work (combining carrots and sticks). Examples of policies instigated under Labour since 1997 include:

- The New Deal programmes, which began with the New Deal for Young People in January 1998. These have sought to provide members of targeted groups with training, guidance, and subsidised routes into work;
- The Working Family Tax Credit, introduced in April 2000. This has sought to increase in-work benefits and reduce the incentive for single parents to remain unemployed through the introduction of childcare credits.

These initiatives marked the beginning of active labour market policy in the UK. Further policy, such as the Pathways to Work pilots in 2003 and 2005, can be seen as an extension of the same approach, providing more assistance for childcare and further financial incentives to enter into employment.

Evaluating the effectiveness of these programmes is fraught with difficulties. Firstly, it is crucial that any evaluation pays close attention to issues of ***deadweight loss*** and ***additionality***. But further to this, a robust evaluation must also be structured so as to accommodate the countless changes to benefit categories that we have seen over the years.

These constitute serious hurdles, and it is no surprise that the success of Labour's labour-market reforms remains unclear. However, what we do know is that around 60 per cent of workless households are concentrated in 40 districts of the UK, and that many of these are comprised of unskilled males from ex-industrial areas such as Wales and parts of northern England.[7]

A recent report from the Public Accounts Committee has also found that the New Deal is not as successful at getting people into work as it once was, suggesting that its initial effectiveness relied on reaching out to those facing fewest barriers to employment.[8] This type of analysis is essential if we are to identify the aspects of employment policy that are to reverse trends in the spatial distribution of employment.

The government's latest policy stance is set out in a 2007 Green Paper.[9] At the heart of this is a 'jobs pledge': a promise to create a quarter of a million new job opportunities through partnerships with major private and public-sector employers. This pledge is combined with a greater emphasis on sanctioning those that do not take up work, signaling a shift towards the notorious 'Wisconsin Model' (fewer carrots, more sticks). The role of the private and voluntary sectors is set to be increased substantially to reach those farthest from the labour market through incentives for successful recruitment, as well as supported employment placements.

Deadweight: It cannot be assumed that investment leads directly to positive change without investigating this relationship further. In evaluating the outcomes and impacts of a policy, deadweight is what would have happened anyway, calculated through the use of benchmark data.

Additionality: A calculation which considers and adjusts for the role of other organisations in creating an outcome for a certain group or person.

Part 1: Enterprise and employment in England, 1999–2006

Since 1999, the enterprise gap between the most deprived neighbourhoods and their local authority areas has been widening and their share of claimants has also increased more often than it has decreased.

In this section we summarise our findings in terms of enterprise and employment shares for local authorities and the most deprived neighbourhoods. There is no definitive official benchmark, or comparator area, for measuring change in employment and enterprise. As a result, we initially looked at deprived neighbourhoods and local authorities relative to England. We then investigated changes in both relative to local authority area and region. The question of defining the correct benchmark area is an open one, and an attempt to answer it is outside of the scope of this study; however we do reflect on the implications of appropriate benchmarks for measuring inequality below.

This section begins with a separate examination of enterprise and employment indicators, and then goes on to analyse the relationship between them. As already stated, the aim here is to examine what enterprise policy as currently conceived and pursued has meant for people living in poor and economically stagnant areas.

Is enterprise policy working?

One of the stated aims of enterprise policy (and programmes such as LEGI) is to 'close the gap' between enterprise levels in different areas. On these terms, enterprise policy could be said to be working: 60 per cent of local authorities in England have seen their share of enterprise increase.[10]

But this would be to overlook a crucial point: many of the more deprived boroughs are unlikely to be among the group enjoying increased enterprise share. This is demonstrated in Figure 1 (below) where local authorities have been split into five segments – ***quintiles of deprivation*** **–** with segment 5 being the most deprived and 1 being the least. In general, the enterprise gap between local authorities and England is more likely to be widening in the more deprived local authorities.[11] When measured against the region the deprived boroughs were performing better but still fewer than half were closing their gap.

Quintiles of deprivation: These refer to each 20% segment, or quintile of England, split according to the level of deprivation experienced. This is a composite measure derived by government and includes indicators of worklessness, crime, income etc. There are clear differences between the enterprise and employment distributions for each quintile.

Figure 1: Frequency distribution of the changing enterprise share relative to England between 2002 and 2006 by quintile of deprivation

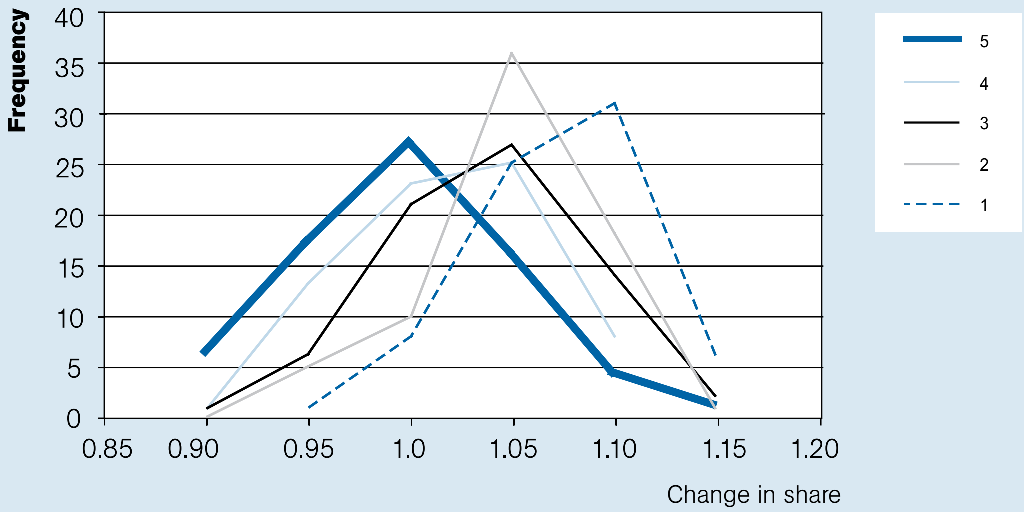
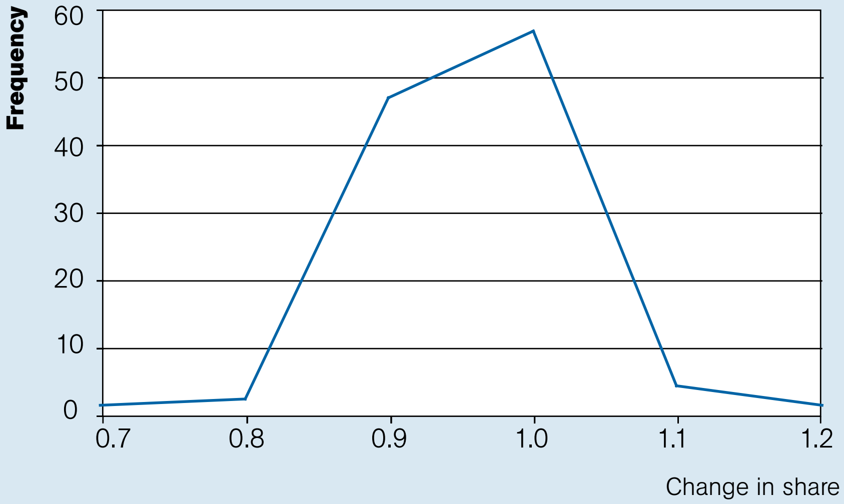


Figure 2: Frequency distribution of the changing share of enterprise in the 20% most deprived SOAs since 1999, relative to the local authority



The 20 per cent most deprived SOAs (DSOAs) are the neighbourhoods in the UK where the most intractable poverty exists. In the 2006 sub-national review of economic development DSOAs were singled out for special attention.[12] As would be expected, most of these are to be found within the most deprived local authorities. The third, fourth and fifth quintiles consist primarily (and in some cases entirely) of local authorities containing SOAs in this category (see Table 1).

Table 1: Local authorities with 20% most deprived SOAs

Quintile	5	4	3	2	1
Number of local authorities	71 (100%)	68 (97%)	61 (86%)	35 (49%)	5 (7%)

Since 1999 the enterprise gap between these areas and their local authority areas has been widening (see Figure 2). Only in four per cent of cases has the reverse trend been seen.[13]

Is employment policy working?

In general, claimants are very unequally spread across the country; two thirds of all claimants reside in the bottom two quintiles with almost half in the most deprived. Table 2 provides the figures across all five quintiles.[14]

Between 2002 and 2006, just over half of local authorities (53 per cent) saw their share of all claimants increase relative to England. Figure 3 breaks this down by quintile of deprivation.[15] In the most deprived quintile, 70 per cent of local authorities saw a fall in their share of claimants relative to England; with a similar result compared to their region (60 per cent). On the surface, this is a positive result.[16] However, when claimant shares for the DSOAs in England are taken into account it tells a different story: in the most deprived quintile, just under half of local authorities (45 per cent) saw their share increase relative to England. This is illustrated in Figure 4.

Table 2: Numbers of claimants by quintile of deprivation in 2006

Quintile	5	4	3	2	1
All claimants	1,948,905	968,555	620,340	484,805	60,600
As a % of all claimants	43%	21%	13%	11%	12%

Figure 3: The changing share of claimants relative to England between 2002 and 2006 by quintile

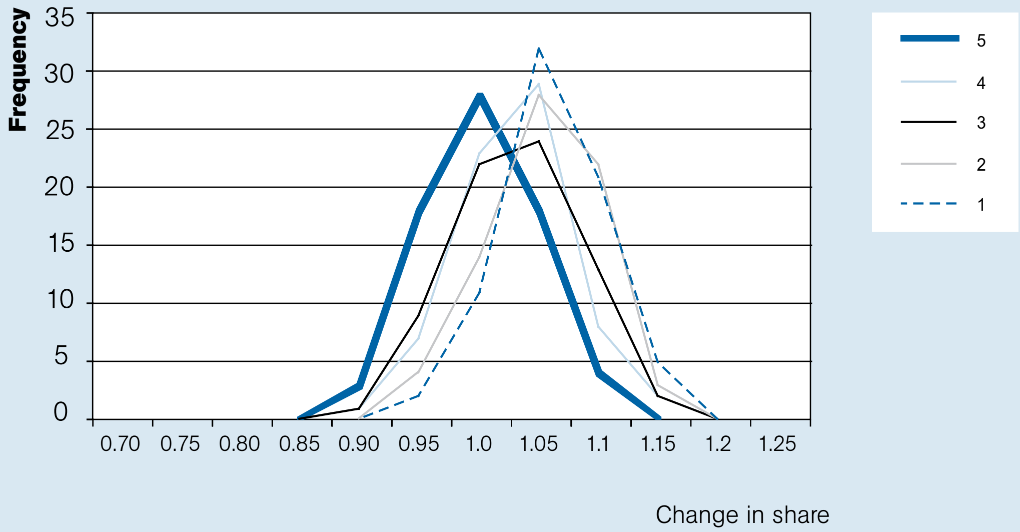
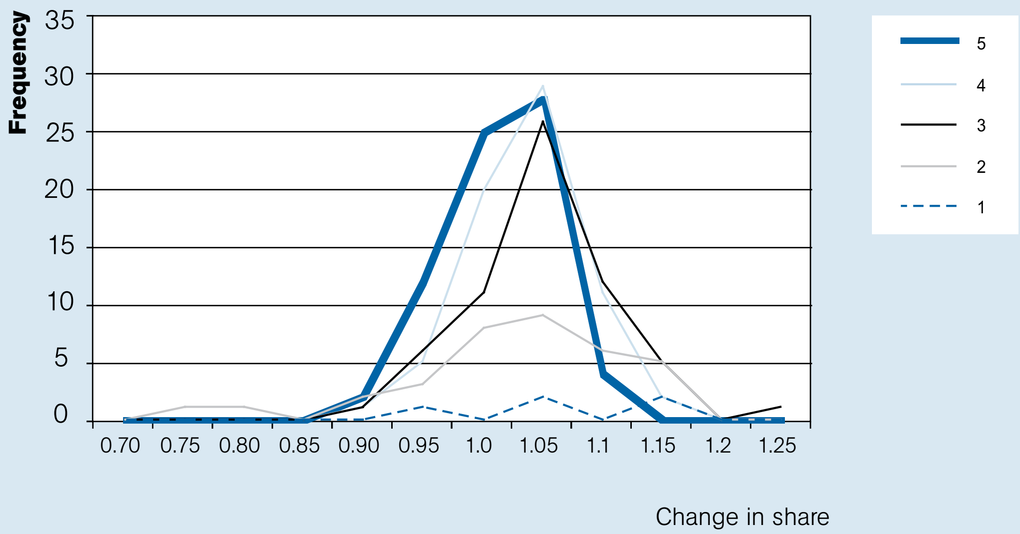


Figure 4: The changing share of claimants in the 20% most deprived SOAs relative to England between 2002 and 2006 by quintile

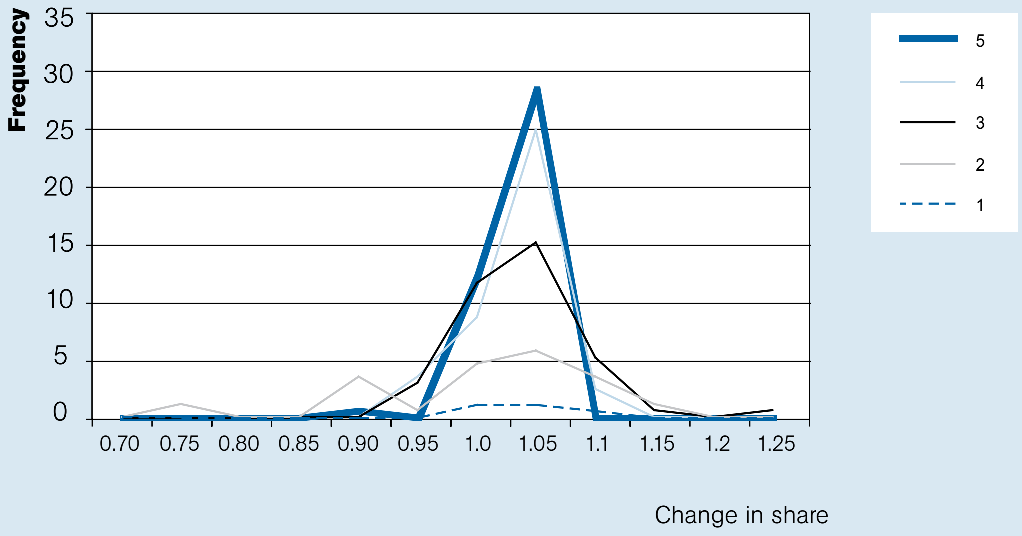


We saw a similar trend when we compared the changing share of claimants in the DSOAs *relative to the local authority* of which they are a part. Here the upward trend is quite visible (Figure 5). In fact, the share of claimants has risen in 84 per cent of the most deprived neighbourhoods relative to their local authority. This is slightly better when compared to the region, though they are still increasing share. In general, the most deprived neighbourhoods have increased their share of claimants relative to the local authority more often than they have reduced it.

It is certainly the case that this may have coincided with a decrease in absolute claimants in those areas. But this was not happening at a fast enough rate to reverse relative trends.[17] These findings also suggest that although the number of claimants is falling, the concentration of claimants in deprived areas is increasing. There are risks associated with increased concentration of deprivation: absolute poverty, poor housing, low social mobility and crime.

Overall, this reinforces the finding suggested by the previous analysis: *the most deprived neighbourhoods are falling further behind in terms of economic activity.*[18]

Figure 5: The changing share of claimants in the 20% most deprived SOAs relative to the local authority between 2002 and 2006 by quintile



Is enterprise a solution to unemployment in deprived areas?

Enterprise creation and growth are not ends in themselves; they are a means to create job opportunities, give people access to shops and services, and improve the economic well-being of communities. This section focuses on the relationship between enterprise and claimant shares, and seeks to examine how it relates to levels of deprivation in neighbourhoods and local authorities.

It is not immediately clear how declining enterprise shares in the most deprived neighbourhoods will affect economic outcomes for people living in those areas. In terms of employment, it is normally assumed to be a negative impact: less enterprise means fewer jobs. It is possible, however, for this to be offset if other surrounding areas (within the local authority) are increasing their enterprise share and generating more employment opportunities. In addition to this, it is important to consider other potential effects of a declining enterprise share at the neighbourhood level on economic outcomes other than employment, such as access to shops and services.

It is beyond the scope of this report to develop an empirically informed theory of change for the enterprise-led regeneration of deprived areas. Instead, the analysis takes place at the macro level and looks at what happens to claimant shares when enterprise shares change. Appendix 2 gives a detailed description of these results.[19]

At the local authority level, the research suggests that where there has been an increase in the enterprise share in the most deprived authorities, this has been associated with a falling share of claimants. However, there is still a significant proportion of local authorities where claimants are decreasing alongside a decrease in enterprise share. This suggests that there are other factors at work: for example, employment (rather than enterprise) policy may have been effective, or macro-level enterprise growth may have been generating employment in those boroughs.

Either way, this has not translated into improved employment opportunities at the neighbourhood level. In fact, the position of the most deprived areas has deteriorated irrespective of whether their enterprise share has increased or decreased across the borough. Even where there is a fall in the absolute number the position relative to the local authority as a whole has become worse. This suggests that it is those best placed to take up jobs – rather than those who most need them – that are accessing opportunities as they arise. The clear implication is that enterprise creation at the macro, regional, or borough level alone is not enough to address economic inequality.

Enterprise share has increased in hardly any of the deprived neighbourhoods, and has coincided with an increase in claimant share. This suggests a relationship between a weak enterprise position and increased worklessness. There may be an argument; therefore, that enterprise policy should be better targeted directly at the most deprived neighbourhoods. Even here, however, it is not certain according to this research that the benefits will necessarily reach the unemployed that live there.

Defining the right benchmarks

As outlined earlier, this research has examined the position of the most deprived parts of England relative to the rest of the country, to attempt to answer questions about the role of enterprise and employment policy in addressing inequality. This immediately raised questions as to the appropriateness of different benchmarks that might be used.

Gaps between deprived areas and England as a whole tended to be wider than the gaps between these areas and their own regions. Clearly, comparisons with England are important because nationwide equality is an important policy objective (at least implicitly). Relationships with regions will naturally be flatter but these are still useful comparators.

The biggest challenge to the appropriateness of enterprise and employment measures was highlighted by the relationship between DSOAs and their local authorities, where small areas were being absorbed within the local authority data even though their position was deteriorating against every benchmark.

Further research

Further research is required in a number of areas. Firstly, in order to understand changes in enterprise, more research is required to explore the nature of change in those 71 local authorities that make up the most deprived quintile. In particular, it is necessary to explore the policy inputs in those local authorities that have managed to increase their enterprise share. We were unable to access this type of information, as it is not readily available.

Even when we called local authorities and asked those responsible for enterprise how much they had spent on enterprise-led programmes, they were unable to tell us. This situation should improve in the future with the new duty on local authorities to report on spending as part of the Sustainable Communities Act.

Secondly, more focused applications of this general approach could be of great use. For example, it would be possible to plot changes over time in the position of local authorities that receive LEGI funding, compared to unsuccessful bidders, and to draw out links between different types of investment and positive (or negative) outcomes. It would also be useful to explore other measures of change within these macro-level trends. These could include, for example, sectoral composition of the enterprise population; types of enterprise ownership; and the size of enterprises – all of which would enhance our understanding of the relationship between enterprise levels and employment outcomes.

Finally, more research is needed into the causes of decreasing claimant shares in the most deprived quintile of local authorities. This would be particularly illuminating in those cases where the enterprise share is also decreasing.

Conclusions

Enterprise is an important part of the fabric of communities for many reasons other than the employment it provides. However, economic development policy must – if it is to tackle worklessness – be about more than trying to boost an area's share of enterprise. On the basis of this research the most deprived local authorities are actually less likely to increase their share of enterprise, particularly with England, and the situation is graver for the deprived neighbourhoods where this is not happening at all. This suggests that enterprise changes in these areas are part of longer-term structural trends which are likely to be difficult to reverse.

Part 2: Alternative approaches to economic development policy

A continuation of existing enterprise and employment policy is unlikely to reverse the trends outlined in this paper. Instead, what is required is a new set of ideas about how to use the instruments of government policy to tackle inequality.

Introduction

So far we have presented evidence of increased polarisation of enterprise and employment across England in recent times in spite of increased spending to stimulate enterprise. The reasons for this are complex. Here we discuss two aspects of this: in measuring policy have we been asking the right questions, and in turn have we in turn had the wrong set of policy ingredients? We begin by questioning the policy aims, and then touch on issues of measurement. Finally we set out a series of alternative policies.

Continuation of existing enterprise and employment policy is unlikely to reverse the trends outlined in the previous section. Instead, what is required is a new set of ideas about how to use the instruments of government policy to tackle inequality. Obviously it is beyond the scope of this report to develop an empirically informed set of alternatives for the enterprise-led regeneration of deprived areas. Nonetheless, we wanted to see if these ideas would have traction among those that would potentially be delivering them. In order to do this we interviewed economic development officers in the most deprived quintile of local authorities to test whether there was more widespread support for this type of approach.

Have we been asking the right questions?

A recent publication by **nef**[20] explains why policy has not been well served by evaluation, and it is not necessary to revisit the findings of that report in detail here. A couple of points are worth repeating, however, as they were reconfirmed by this research and are very relevant to why efforts to close enterprise and employment gaps have not succeeded.

Evaluation has traditionally focused on absolutes, such as numbers of jobs created for a given investment. We have looked at relative change instead. This has been a challenging task, but a necessary one if we are to move towards addressing the inequality agenda in economic development policy. Given how difficult it is to close the gap in terms of the number of enterprises in deprived areas and less deprived areas, other measures of change are needed. These could include, for example, changes in the diversity of enterprise measured by ownership, size, sector or markets.

One measure of change that can be used involves looking at the benefit that it is envisaged will result from a process of 'creative destruction'.[21] Not every business closure is beneficial to economic development, but neither is every closure detrimental. The second (related) measure is one of resilience. Not every type of business activity is of equal value to an area; in fact, areas which have a broader range of types and sizes of business may be more resilient to economic change.

Getting the measures right is not just about understanding effectiveness and defining success. It also determines what gets prioritised and resourced. Share of enterprise and employment are therefore only part of the picture of economic well-being. They should be supplemented by other measures – including the diversity and ownership of businesses, and subjective measures of satisfaction with local shops and services.

An output-oriented culture has contributed to an emphasis on new business creation, in part because this is easy to measure. But policies to *maintain* share in deprived areas are also important and will result in activities that are different from those prompted by policies to *increase* share. Policies to maintain share might include ensuring land remains available, tax breaks, and targeting support at existing businesses – particularly where they represent essential services.

Any targets to reduce the enterprise gap should be set against the benchmark of other comparable areas. All indicators used should also recognise that shifts in enterprise structure take place over longer periods of time than are normally associated with economic development strategies.

Local authorities could take the opportunity offered by the new Working Neighbourhoods Fund (WNF) and use it to develop a long-term vision for their communities. Central government could also give councils more breathing space so as to allow them to pursue long-term goals. This would involve recognising that some outcomes may take a generation to achieve, and developing appropriate 'distance travelled' measures.

At a fundamental level there needs to be a reassessment of the implicit theory of change within enterprise policy. Current policy assumes that differences in enterprise rates are the result of market failure and supply-side blockages – interventions are therefore directed at removing the barriers to business formation and increasing the number of business start-ups.

Policy discourse currently focuses on 'closing the gap' between different localities and regions, yet this is problematic as a policy goal. This is because it rests on the same 'growth model', which assumes that all areas need to continue growing. If we are serious about flattening growth rates across England, then the data would suggest that policies that make minor changes to the existing structure are also not likely to be effective. It is quite possible that a more radical departure is required that would involve major structural reform to create the incentives for economic growth to address inequality.

Some alternative policies

In this section we indicate nine broad approaches for consideration by policy-makers. These incorporate changes to the processes around existing policies as well as new policy areas. Some will be touched on in existing regeneration initiatives, of course; the aim of the relevant part of the research was to get a feel for where the emphasis should lie. The list is not exhaustive, and all suggestions will require further research in order to gain a fuller understanding of their potential impacts.

We begin by setting out the policy ideas/areas with a brief description, and then present the findings from the research with local authorities.

1. *Greater focus on increasing local demand*
   Policy could focus in the short term on boosting local demand. This could be achieved through public procurement, business-to-business trade, increases in local incomes or attracting non-residents to the area. This should have the consequence of reducing demand in wealthier areas.

2. *Greater use of fiscal policy*
   Fiscal policy could be used much more effectively to increase enterprise and employment in deprived areas. For example, taxation policy could be used to exempt small businesses and their employees in deprived areas from National Insurance contributions.

3. *More support for business networks*
   Enterprise policy could be more focused on providing support to the formal and informal networks that contribute to the competitiveness, innovation and survival of businesses.[22] Organisations like Chambers of Commerce could play a greater role in supporting these kinds of initiatives.

4. *Greater focus on ensuring that job creation benefits the unemployed*
   Policy-makers could review the effectiveness of existing supply side measures such as unemployment support, and start to explore ways to more directly bridge the gap between unemployed people in deprived areas and the jobs created by an increase in enterprise share. This could involve more direct subsidies to businesses and the unemployed during the early stages of employment. Essentially we need positive discrimination towards those that need jobs most, rather than a level playing field, as this wouldn't really be 'level'.

5. *More emphasis on removing barriers to moving into work*
   Employment intermediaries could supplement tapered benefits by putting more emphasis on providing intensive coaching and developing 'stepping stones' to help people move into paid employment, such as unpaid or part-time work.

6. *Joined-up policy at the local authority level*
   Local authorities could make greater use of the links between their activities and their economic development objectives. For example, land re-zoning for residential purposes may generate income for local authorities but it means that less land is available for commercial purposes. Properties in deprived areas could be let to small businesses for less than their market value, rather than being left derelict. Public procurement could also be exploited to meet socio-economic objectives.[23]

7. *More emphasis on maintaining existing enterprises*
   Given how difficult it is to increase enterprise share in very deprived areas, policy could start to shift its emphasis towards supporting existing enterprises and their related job opportunities. Activities to achieve this would vary in different contexts. It would depend on what was causing the drop in share in the first place but it could include things such as the availability of land.

8. *More emphasis on sustaining essential services*
   Businesses are about more than employment. Essential services such as banking could be prioritised. For example, policy-makers could consider measures such as the Community Reinvestment Act (CRA) in the United States, which prohibits banks from only targeting wealthy areas.[24]

9. *Greater engagement with the informal economy*
   The informal economy accounts for a significant amount of economic activity in deprived areas. Enterprise policy should recognise this, and could even start considering how parts of the informal economy might be incorporated into local economic development efforts.

For each of these policy areas we asked economic development officers to rate them on scale of 1 to 5, although not to rank them in order of importance. Table 5 illustrates the extent of the support for each.

Of the 70 economic development officers we interviewed 42 per cent responded. The most popular response by far was that more emphasis should be placed on removing barriers to entering work. This was followed by greater emphasis on local demand and policies to target more closely those that are economically inactive. There was also a lot of support for use of fiscal policy as a mechanism to combat area-based disadvantage.

The results for the informal economy and sustaining local services suggest that they are not seen as important to economic development officers. A majority of respondents thought that a focus on maintaining existing businesses, supporting networks and more joined-up policies would be helpful – though by a small margin.

Table 5: Support for policy ideas amongst economic development officers in the most deprived quintile of local authorities

	Rating					
Policy direction	1	2	3	4	5	**Response count**
1. *Increase local demand*	0.0% (0)	7.7% (2)	23.1% (6)	**38.5% (10)**	30.8% (8)	26 (36.6%)
2. *Greater use of fiscal policy*	11.1% (3)	7.4% (2)	14.8% (4)	**33.3% (9)**	33.3% (9)	27 (38.0%)
3. *More support for business networks*	3.8% (1)	11.5% (3)	26.9% (7)	26.9% (7)	23.1% (6)	26 (36.6%)
4. *Ensuring job creation benefits the unemployed*	3.8% (1)	11.5% (3)	15.4% (4)	**34.6% (9)**	**34.6% (9)**	26 (36.6%)
5. *Removing barriers to moving into work*	3.7% (1)	3.7% (1)	3.7% (1)	**51.9% (14)**	37.0% (10)	27 (38.0%)
6. *Joined-up policy at the local authority level*	3.7% (1)	7.4% (2)	25.9% (7)	**33.3% (9)**	29.6% (8)	27 (38.0%)
7. *Maintaining existing enterprises*	0.0% (0)	0.0% (0)	**46.2% (12)**	38.5% (10)	15.4% (4)	26 (36.6%)
8. *Sustaining essential services*	19.2% (5)	**30.8% (8)**	**30.8% (8)**	11.5% (3)	7.7% (2)	26 (36.6%)
9. *Engagement with the informal economy*	11.5% (3)	15.4% (4)	**50.0% (13)**	7.7% (2)	15.4% (4)	26 (36.6%)

Conclusions

This paper has used enterprise and employment as proxies for economic well-being. The purpose of this has been to generate evidence on the extent to which economic development policy is succeeding in improving the lives of people and communities in deprived areas.

On its own terms policy does not seem to be working. The most deprived areas have fewer of the nation's enterprises and more of their claimants than they did in 2002. These conditions existed at the end of an unprecedented period of growth, and are likely to be exacerbated during a downturn.

The relationship between growth, inequality and poverty needs a major rethink, particularly with the environmental pressures that we now face. This paper puts forward some possible solutions such as reducing barriers to employment and using fiscal policy to directly target those areas. It might be that even more radical policies are required, such as reducing or removing incentives for growth in the wealthiest areas. The wealthiest areas are far outstripping other parts of the country, and if left unchecked they are likely to continue to do so.

Appendix 1: Measuring macro trends over time and space: a new approach

To calculate 'enterprise shares' we have used data on the UK's business population. We have chosen a database that includes businesses below the VAT threshold because this guards against the possibility of systematically underestimating enterprise levels in poorer areas (poorer areas may have more businesses below the threshold than their wealthier counterparts).

Instead of calculating 'employment shares', we have gathered data on the number of people claiming benefits and used them to calculate 'claimant shares'. The reason for this is that reliable data on economic activity itself is not available below the local authority level. Benefit claimants not actively seeking work are therefore used as an (inverse) proxy for economic activity. For more details on our data sources, see Appendix 3.

We have chosen to focus on England and to use two different units of analysis: local authorities, which are sub-regional administrative units of government; and Super Output Areas (SOAs), which are smaller resident-based geographies within local authorities that consist of approximately 1,500 people. The latter are an important unit of analysis because they allow us to capture localised concentrations of deprivation which may otherwise be masked by figures for larger geographies. In addition to comparing changes relative to England we have also explored changes relative to the region to take account of situations where local authorities share declines relative to England but increases relative to the region.[25]

In order to bring inequality into our analysis, we have identified the most deprived areas at each of these levels. Using the Index of Multiple Deprivation, we have grouped all 354 local authorities into quintiles (the first quintile is used to designate the least deprived boroughs; the fifth to designate the most deprived). We have also identified the 20 per cent most deprived SOAs in England. Some 32,482 SOAs fall into this category, and these are spread across 240 local authorities.

The data cover:

- All local authorities in England (354), split into five quintiles of deprivation;
- The 20 per cent most deprived SOAs in England;
- Enterprise levels and claimant counts for each of these from 2002 to 2006, going further back to 1999 for enterprise levels in the 20 per cent most deprived SOAs.

Meanwhile, the analysis is based on:

- Changes in enterprise and claimant shares for different quintiles of local authorities relative to the relevant region and England;
- Changes in enterprise and claimant shares for the 20 per cent most deprived SOAs relative to the local area or England;
- The relationship between changes in enterprise and claimants in different quintiles;
- A comparison of changing claimant share and absolute numbers of claimants for the most deprived SOAs relative to the local authority and for the local authority relative to England.

The advantage of the 'change in share' methodology is that it looks at relative change in the distribution of enterprise and claimants in England over time, and

Box 1: A change in enterprise share

The share of enterprise expresses an area's level of enterprise as a percentage of that for a wider area (of which it is a part). A change in share expresses enterprise share in one time period as a percentage of that for an earlier time period.

$$\text{Change in share} = \frac{\text{No. of enterprises in neighbourhood in time 2}}{\text{No. of enterprises in local authority in time 2}} \div \frac{\text{No. of enterprises in neighbourhood in time 1}}{\text{No. of enterprises in local authority in time 1}}$$

For example:

In 2002 a neighbourhood has four enterprises and its local authority has 12 = a 33% share;

In 2006 a neighbourhood has five enterprises and its local authority has 15 = still a 33% share

Change in share is 1.00, or 100% of share in 2002

If in 2006 the neighbourhood had five enterprises but the local authority now had 20 = a 25% share

Change in share is 0.25/0.33 = 0.75, or 75% of share in 2002

therefore allows us to test the equality aspect of enterprise and employment policy. A potential disadvantage, however, is that an area's share can change for three reasons: changes in the area itself; changes in the benchmark area; or a combination of both. This means that, in some circumstances, 'real' changes in an area may not appear in its shares. For example, if an area were to increase its share of enterprise *and* bring its claimant count down, but the claimant rate for England happened to have fallen as well, then the area's claimant share might actually stay the same.

The use of SOAs as a unit of analysis also raises a potential problem. Specifically, if an area includes part of a city centre, then its level of enterprise may be high even if it is a relatively deprived area in terms of economic activity. This means that some deprived neighbourhoods may not be recognised as such in our analysis – i.e. they may not make it into the category of the 20 per cent most deprived in England. Without a smaller unit of analysis, however, there is little that can be done to address this. More fundamentally, neither of these methodological issues suggests that there is a better way to approach what we believe to be the pressing issue: the overall effectiveness of local economic development policy in addressing poverty and deprivation.

The methodology used follows the BETA Model's approach to analysing changes in enterprise.[26] The aim was to focus on the changing geographical distribution of economic activity over time. The analysis of claimants was carried out for all local authorities and for the 20 per cent most deprived SOAs. It was then repeated after deleting those units where the number of claimants at the end of the period was below a thousand.[27]

Because our analysis is based on the local authorities by quintile of deprivation, the effect of removing those with less than a thousand claimants is generally to remove local authorities in the two least deprived quintiles – meaning a very minor impact on the results for the more deprived quintiles, which are those central to our analysis.

Appendix 2 – Regional versus national benchmarks

England

Table 1 shows the relationship between local authorities by quintile of deprivation, decreasing or increasing enterprise share, and the change in share of other claimants in SOAs and the local authorities relative to England. Fifty of the 128 local authorities (39 per cent) that increased their share of enterprise relative to England also saw a decrease in their share of claimants. Conversely, 47 of the 113 (41 per cent) that saw their enterprise share fall also saw their claimant share rise. In the most deprived quintile, a similar relationship is evident: 17 of the 21 that increased their enterprise share saw a decrease in their share of claimants (81 per cent); meanwhile, 18 of the 50 that saw their enterprise share fall also saw their claimant share rise (36 per cent). On the face of it, then, increasing enterprise share *does* appear to be associated with decreasing claimant share in the most deprived quintile of local authorities.

Table 1 below supports this conclusion for both increasing and decreasing enterprise share, even after taking account of differences between absolute and relative changes in claimants. Where enterprise share decreases and claimant share increases there are a significant number of instances where claimant numbers still fall.

However the key issue is that only 21 of 71 local authorities in the most deprived quintile increased the share of enterprise, and yet there was a fall in the share of claimants in 32 of the remaining 50 local authorities where the share of enterprise decreased.

Table 2 is different from Table 1 in that it shows how the SOAs are changing compared to the local authority and not compared to England. In the most deprived quintile, whilst rising enterprise shares do appear to be associated with falling claimant shares at the local authority level (17 of 21), these do not always translate into corresponding improvements for the most deprived neighbourhoods within those local authorities (only two of 17). In fact, Table 2 reveals a marked asymmetry.

In the fifth quintile, eight of the 22 local authorities that saw their national share of claimants rise also saw an increase in the share for their DSOAs relative to the local

Table 1: Changing local authority and 20% Most Deprived SOA (DSOA) shares relative to England

		Share of Other Claimant (OC) increases in LA relative to England		Share of OC decreases in LA relative to England		
Quintile	**Share of enterprise in LA relative to England**	Share of OCs also increases in DSOAs relative to England	Share of OC decreases in DSOAs relative to England	Share of OCs also decreases in DSOAs relative to England	Share of OCs increases in DSOAs relative to England	**Total**
1	Increases	4	0	1	0	5
	Decreases	0	0	0	0	0
2	Increases	15	10	2	2	29
	Decreases	1	0	3	2	6
3	Increases	25	2	7	6	40
	Decreases	7	1	8	6	22
4	Increases	16	2	13	2	33
	Decreases	19	1	10	5	35
5	Increases	3	1	15	2	21
	Decreases	17	1	22	10	50
Total	Increases	63	15	38	12	128
	Decreases	44	3	43	23	113

Note: OC refers to 'Other Claimants' (all claimants less those on Job Seekers' Allowance)

Table 2: Changing local authority shares relative to England & changing DSOA shares relative to local authority

Quintile	Share of enterprise in LA relative to England	Share of OC increases in LA relative to England		Share of OC decreases in LA relative to England		Total
		Share of OCs also increases in DSOAs relative to LA	Share of OCs decreases in DSOAs relative to LA	Share of OCs also decreases in DSOAs relative to LA	Share of OCs increases in DSOAs relative to LA	
1	Increases	3	1	1	0	5
	Decreases	0	0	0	0	0
2	Increases	10	15	0	4	29
	Decreases	0	1	1	4	6
3	Increases	13	14	3	10	40
	Decreases	5	3	5	9	22
4	Increases	8	10	3	12	33
	Decreases	15	5	3	12	35
5	Increases	1	3	2	15	21
	Decreases	7	11	6	26	50
Total	Increases	35	43	9	41	128
	Decreases	27	20	15	51	113

area (36 per cent). However 41 of the 49 that saw their national claimant share fall also saw an increase in the share for their DSOAs relative to the local area (84 per cent). This implies that the connection between change in claimant share at the local authority and neighbourhood levels breaks down when that change is in a downward direction.

Region

Table 3 shows the same relationships as in Table 1 but this time compares the changes in SOAs and local authorities with the relevant region. In this case the 34 of 71 local authorities in the most deprived quintile increase their share of enterprise.

Table 3: Changing local authority and 20% Most Deprived SOA (DSOA) shares relative to Region

Quintile	Share of enterprise in LA relative to Region	Share of OC increases in LA relative to Region		Share of OC decreases in LA relative to Region		Total
		Share of OCs also increases in DSOAs relative to LA	Share of OCs decreases in DSOAs relative to LA	Share of OCs also decreases in DSOAs relative to LA	Share of OCs increases in DSOAs relative to LA	
1	Increases	0	1	0	1	2
	Decreases	1	0	2	0	3
2	Increases	10	2	4	3	19
	Decreases	7	2	5	2	16
3	Increases	16	5	7	7	35
	Decreases	27	8	2	9	46
4	Increases	11	1	2	11	25
	Decreases	18	3	9	13	43
5	Increases	11	2	4	17	34
	Decreases	16	0	6	15	37
Total	Increases	48	11	17	39	115
	Decreases	50	7	31	38	126

Table 4: Changing local authority shares relative to Region & changing DSOA shares relative to local authority

		Share of OC increases in LA relative to Region		Share of OC decreases in LA relative to Region		
Quintile	**Share of enterprise in LA relative to Region**	Share of OCs also increases in DSOAs relative to LA	Share of OCs decreases in DSOAs relative to LA	Share of OCs also decreases in DSOAs relative to LA	Share of OCs increases in DSOAs relative to LA	**Total**
1	Increases	0	1	0	1	2
	Decreases	0	2	0	2	4
2	Increases	9	3	5	2	19
	Decreases	2	6	1	21	30
3	Increases	13	8	9	5	35
	Decreases	6	4	11	6	27
4	Increases	7	5	8	5	25
	Decreases	17	4	16	6	43
5	Increases	7	6	15	6	34
	Decreases	12	4	15	6	37
Total	Increases	36	23	37	19	115
	Decreases	43	14	50	19	126

When compared to their regions the changes are not as significant. Only for the most deprived quintile is the relationship consistent for both England and region.

Table 4 shows the same relationships as in Table 2 but this time compares the changes in SOAs and local authorities with the relevant region.

In the fifth quintile, 19 of the 29 local authorities that saw their national share of claimants rise also saw an increase in the share for their DSOAs relative to the local area (65 per cent). On the other hand, 12 of the 42 that saw their national claimant share fall also saw an increase in the share for their DSOAs relative to the local area (28 per cent).

Table 5 shows that increasing share of enterprise has a stronger relationship with reducing claimants than decreasing enterprise share does with increasing claimants and that this is stronger in the most deprived quintile of local authorities. However it must be remembered that only a third of local authorities in the most deprived quintile have increased enterprise share, while claimant share has fallen in 70 per cent.

Table 5

	Compared to England	Compared to region
For all quintiles	%	%
Increase share of enterprise and decrease share of OCs	39	48
Decrease share of enterprise and increase share of OCs	41	45
For most deprived quintile	%	%
Increase share of enterprise and decrease share of OCs	81	61
Decrease share of enterprise and increase share of OCs	36	43

Endnotes

1 This has been acknowledged in a recent governmental review of economic development policy. See http://www.hm-treasury.gov.uk/spending_review/spend_csr07/reviews/subnational_econ_review.cfm

2 The 2007 Richard Review estimated that expenditure on business support alone was £12 billion, or two per cent of all spending. This figure comprises central government expenditure, direct support services and tax incentives. See Richard D *et al* (2007) Richard Review of Small Business and Government: Interim Report (London: UK Conservative Party). Available at http://www.conservatives.com/pdf/richardreport-interim-2007.pdf

3 See Dorling *et al* (2007) *Poverty, Wealth and Place in Britain, 1968-2005* (York: Joseph Rowntree Foundation).

4 Here we follow (and extend) the approach taken by BETA Model. For more, see their report for the Small Business Service: Haywood G and Nicholls J (2005) *Enterprise Dynamics in the 20 per cent Most Deprived Wards in England*, available at http://www.berr.gov.uk/files/file38347.pdf

5 Lawlor E and Nicholls J (2008) *Hitting the target, missing the point: how government regeneration targets fail deprived areas* (London: **nef**).

6 **nef** (2006) *Enterprise Development in Disadvantaged Areas: A background paper for discussion*, published in conjunction with the East of England Development Agency.

7 House of Commons Committee of Public Accounts (2008) *Helping people from workless households into work*, Ninth Report of Session 2007-08 (London: Stationery Office).

8 Ibid.

9 Department of Work and Pensions (2007) *Green Paper: In work, better off – next steps to full employment* (London: Crown Copyright).

10 Enterprise was measured using the BETA Model. The analysis is based on numbers of enterprises on the database in April of each year. The BETA Model is a sample of the UK enterprise population sourced from Experian's National Business Database, and includes businesses below the threshold for Value-Added Tax (VAT). The model has been populated since 1999 and includes approximately 2.4 million 'live' enterprises for April 2006.

This is less than the Small Business Service's estimate for the number of enterprises in England, which includes an estimate of self employment. But it is more than the number of enterprises on the Inter-Departmental Business Register (IDBR) – which is based on enterprises that are registered for VAT or PAYE (Pay As You Earn).

11 There are a small (13) but significant number of local authorities where change in enterprise share compared to England moves in a different direction when compared to the region. Five of these were in London and six in the north west.

12 Her Majesty's Treasury (2007) *Review of sub-national economic development and regeneration* (London: HMT).

13 Four of these were in London, and the other was Trafford (in Manchester). These figures are based on those local authorities with SOAs that: (a) qualified for inclusion in the 20 per cent most deprived category; and (b) had more than 1,000 enterprises at the end of our period (April 2007).

14 For employment analysis, claimant count data from NOMIS has been used. The numbers relate to claimants in November of each year (2002 and 2006).

Claimant count is being used as a proxy for economic inactivity in small geographies, yet only non-JSA claimants were reported in the paper, as the findings for JSA did not contradict the overall findings. JSA is different from other claimant categories because those receiving it are actively seeking work (and should thus be considered as economically active). A reduction in the numbers of people on non-JSA benefits could be taken to indicate successful regeneration insofar as it signals entry into the workforce. However, a reduction in the difference between the numbers of claimants in the most deprived and least deprived quintiles is an even stronger indication that deprivation is being tackled and employment outcomes are improving. This is because it accounts for changes in eligibility rules that could conceivably reduce the claimant count even where people's economic position is deteriorating.

15 The X-axis shows the change in claimant share relative to England between 2002 and 2006; the Y-axis shows the number of local authorities. Each plotted line represents a distribution of local authorities in a quintile of deprivation. Thus, the lines show how many local authorities in a particular quintile have seen their share of claimants increase (or decrease) relative to England.

16 In terms of claimant share, the share compared to England moved in a different direction if compared to the region in 36 per cent of local authorities. In 86 local authorities the share compared to England increased and compared to the region decreased. The reverse happened in 50 local authorities.

17 Absolutes decreased in 44 out of 49 cases where the share increased and increased in seven out of 22 where the claimant share decreased.

18 Local authorities in the most deprived quintile have, on average, reduced their share of claimants compared to local authorities in other quintiles. Although this is not the case for claimants in DSOAs, this appears to relate to a growing concentration of claimants: in over 50 per cent of instances where concentration is increasing, absolute numbers have also fallen.

19 Because of the results in section 4.2.1 above, this analysis has compared local authorities with England and then with the relevant region. Any conclusions also need to bear in mind the results for absolute numbers of claimants above.

20 Lawor, E and Nicholls, J (2008) *Op cit.*

21 The economist Joseph Schumpeter described a process of business-stock evolution in which new entrants to the population provide a strengthening effect – 'weak' firms close, 'strong' firms become fitter. For more on the implications of this process for economic development policy and measurement, see Derbyshire J and Haywood G (2007) *Schumpeterian 'Creative Destruction' and Strengthening the Business Stock Through Firm Formation*, University of Liverpool, Management School, Research Paper No. 2007/39.

22 See the Bizz Fizz approach to building networks in deprived areas: www.bizzfizz.org.uk

23 For case studies of sustainable procurement in action, visit http://www.procurementcupboard.org; cf Ryan-Collins J *et al* (2007) *Unintended Consequences: How the efficiency agenda erodes local public services, and a new public benefit model to restore them* (London: **nef**).

24 The purpose of the Community Reinvestment Act (1977) is to provide credit to under-served populations and commercial loans to small businesses in these areas. For more, see http://www.ffiec.gov/cra

25 Other benchmark areas would be possible, for example sub-region.

26 For more on the BETA Model see http://www.betamodel.com

27 The analysis of enterprise change in the 20 per cent most deprived SOAs was only calculated after removing those SOAs where the number of enterprises was less than 1,000 at the end of the period.

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Written by: Eilís Lawlor and Jeremy Nicholls

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