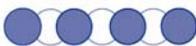


CLES Bulletin is a topical summary of an issue which has recently emerged. Its aim is to provide a pithy précis of the issue, thus creating a quick and easy to read document which directs to more detailed material, if required.

CLES Bulletin No. 33
The Local Enterprise Growth Initiative (LEGI)

CLES BULLETIN





Introduction

The Local Enterprise Growth Initiative (LEGI) was introduced in the 2005 Budget by the Chancellor Gordon Brown¹. Subsequently, a consultation document² was released by HM Treasury after the Budget announcement in March. Local Authorities and other public, private and voluntary bodies have until 8th June 2005 to respond to a list of consultation questions, which appear at the end of the document. Once the consultation is complete, the issues raised are expected to be addressed and the LEGI launched during 2006-07 to fit with the broader timetable set out by the ODPM in wider Sustainable Communities³ documents. The core aim of the LEGI is to enhance enterprise and small to medium business start-ups in deprived areas. This is in accordance with wider central government targets of increasing the overall productivity and competitiveness of the United Kingdom's economy.

Background and Context

Enterprise is one of the core drivers of the productivity of the United Kingdom's economy. At present a reasonable proportion of the working age population are either self-employed in their own gainful business, or work as part of a small business. However, there are core regional disparities in enterprise and small business start-ups both regionally and locally within the UK. These regional and local disparities not only impact on the local/regional economy but on the productivity and competitiveness of the UK as a whole. This is demonstrated by recent figures comparing the productivity of the United Kingdom to its core competitors of the USA, France and Germany. Despite the rapid growth of Small and Medium Sized Enterprises (SMEs) since the 1970s, which resulted from major industrial restructuring,

entrepreneurial growth remains moderate by international standards.

The UK Competitiveness Index⁴ produced in April 2005 highlights the falling competitiveness of the United Kingdom internationally since the Labour Government came to power in 1997, as well as core regional disparities in competitiveness across the UK. The Index highlights that in terms of the UK's productivity; entrepreneurship and business development; skills and education; economic activity and employment; research and development; and trade the UK has fallen from 9th to 17th place internationally between 1997 and 2004. At the regional level only three regions of the UK, namely London, the South-East and the East performed above the national average for competitiveness. A core central factor of these regional disparities in competitiveness and productivity is the relative lack of enterprise in certain regions and local deprived areas. For example in the North East, there were 23 business start-ups per 10,000 resident adults in 2003, compared to 62 in London and a United Kingdom average of 40⁵.

As well as regional disparities in enterprise in the UK there are also core intra-regional disparities with deprived local authorities and neighbourhoods experiencing lower levels of business start-ups and entrepreneurship than less deprived areas. A number of reasons account for these local disparities. Firstly, traditionally businesses in deprived areas have lower survival rates than elsewhere limiting the confidence of residents and making them less likely to set up new business. Secondly, residents in deprived areas have often been unable to attract the finance required to start-up new business as a result of both poor credit history with lenders and a lack of financial support from family networks. Thirdly, the high crime rates in deprived areas have often deterred individuals from setting up business, as a

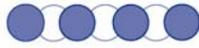
¹ A full copy of the 2005 Budget Report can be found at: http://www.hm-treasury.gov.uk/budget/budget_05/budget_report/bud_bud05_report.cfm

² HM Treasury (2005) *Enterprise and economic opportunity in deprived areas: A consultation on proposals for a Local Enterprise Growth Initiative*. HMSO, London (www.hm-treasury.gov.uk)

³ Office of the Deputy Prime Minister (2005) *Sustainable Communities: People, Places and Prosperity. A five year plan from the ODPM*. HMSO, London (www.odpm.gov.uk)

⁴ Robert Huggins Associates (2005) *The UK Competitiveness Index 2005*. This document can be purchased for £30.00 at: http://www.hugginsassociates.com/product_info.php/cPath/22/products_id/46

⁵ Source of figures: Small Business Service (2004) *Household Survey of Entrepreneurship 2003 – Full report and Executive Summary*



result of fear of crime, higher insurance premiums and security costs.

The Government's Enterprise Vision

Central government has for several years recognised the need to both increase competitiveness and productivity in certain regions and areas of the UK and that any increases in enterprise and small-business start-ups needs to be locally led. This is part of central government's wider drive for greater decision-making and democracy at the local level - enhancing the powers and importance of local government. Central to this local focus is the Government's enterprise vision; "that anybody with the talent, potential and drive to succeed in business should have the opportunity and the necessary support to do so, regardless of their background or where they live"⁶. Since 1997 the Government has focused on supporting enterprise at three levels which has culminated in the development of the LEGI in 2005:

- **NATIONALLY-** tackling certain key enterprise development issues at the national level through a strengthened Enterprise Area package, where either economies of scale are required, or where issues are common across many areas.
- **REGIONALLY-** devolving to the regional level new responsibilities for the delivery of Business Link and the Phoenix Fund, to enable an integrated approach to business support.
- **LOCALLY-** building on support through the Neighbourhood Renewal Strategy provides significant commitment to support locally appropriate plans for enterprise development through a Local Enterprise Growth Initiative.

Promoting Enterprise in Deprived Areas

The LEGI stems from government thinking about how enterprise not only contributes economically, to a deprived area, but may enhance the wider physical and community regeneration efforts. For

example, the reclamation of brownfield land and derelict buildings for use by new business can lead to a positive cycle of improvement and the future attraction of both further business and new residents, as well as increased public money for wider improvements. New enterprise can contribute to greater social cohesion and social capital in deprived communities and improve levels of trust and support between firms. In summation, enterprise can contribute to the economic development of deprived areas through:

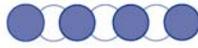
- Local productivity growth;
- Employment and income growth;
- Improved local service provision;
- Creating multiplier effects and building supply chains;
- Increasing the local tax base;
- Improving the physical environment; and
- Investing in the community and building social capital.

Deprived areas sometimes hold a number of competitive advantages and opportunities that are often not always taken. Firstly, they sometimes present a strategic location close to existing transport and communication links. Secondly, deprived areas provide an untapped market both in terms of its workforce and the limited business that already exists within the area. Thirdly, deprived areas provide the opportunity for the potential clustering of firms offering the possibility of further multiplier effects. Overall the Government's two core reasons for being committed to increasing the levels of enterprise in deprived areas can be summarised below⁷:

- **EFFICIENCY:** deprived areas often face multiple market failures that discourage or inhibit both inward investment and enterprise leading to the under-utilisation of factors of production. Correcting market failures in deprived areas can help develop the local economy and contribute to closing the enterprise gap.

⁶ HM Treasury (2005) *Enterprise and economic opportunity in deprived areas: A consultation on proposals for a Local Enterprise Growth Initiative*. HMSO, London (www.hm-treasury.gov.uk)

⁷ Sourced from: HM Treasury (2005) *Enterprise and economic opportunity in deprived areas: A consultation on proposals for a Local Enterprise Growth Initiative*. HMSO, London (www.hm-treasury.gov.uk)



- **EQUITY:** concentrations of deprivation raise deep equity concerns in terms of access to jobs, opportunities for enterprise, and wealth creation. As well as being a key driver of productivity growth, successful enterprise and business growth form part of the bedrock of local communities, contributing to economic prosperity, higher living standards and social cohesion.

Core Issues that the Local Enterprise Growth Initiative will need to address in Deprived Areas

The need for a major initiative to address enterprise in deprived areas highlights a number of institutional and demographic issues that currently exist in these areas that prevent enterprise and business development taking place of its own accord. A number of these barriers include:

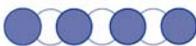
- Previous policy has not necessarily initiated wide-ranging employment benefits for the local population. Instead it has been found that people will migrate from outside the deprived area for the specialist jobs that new firms provide, meaning little tangible benefit for the local people. LEGI must be aware of this scenario.
- Individuals in deprived areas can face difficulties in securing initial investment for their business. The funding provided through LEGI may reduce this difficulty, yet LEGI needs to implement business that will be of benefit to the local economy. Linked to this SMEs in deprived areas are often perceived to have a higher credit risk.
- In deprived areas, the pool of potential entrepreneurs is more likely to contain individuals with a limited work history, therefore LEGI proposals need to identify projects that are likely to be most viable and of greatest benefit to the local economy.
- LEGI will also need to identify that the barriers to enterprise development differ between deprived areas with different communities having differing skills and needs. For example, barriers will differ between ex-coalfield areas, inner-city areas, coastal resorts and edge of town estates.

Local Enterprise Growth Initiative Funding and the Application Process

The LEGI consultation recommends that subject to confirmation in the 2006 Spending Review the LEGI will be worth £50 million in 2006-07, rising to £150 million per year by 2008-09. In terms of targeting resources, in the first phase of the initiative funding will be based on the deprived areas already covered by Neighbourhood Renewal Funding, with the government expecting to cover up to 30 local authorities across the country. The resources will be targeted to local authorities on both the basis of need in terms of level of deprivation and secondly in terms of the potential for business activity and opportunities for entrepreneurship. Local authorities wanting to bid for LEGI funds will be expected to apply to their regional Government Office who will then enter light-touch negotiations with the local authority to agree the amount of funding and the proposed targets and outcomes of the funding.

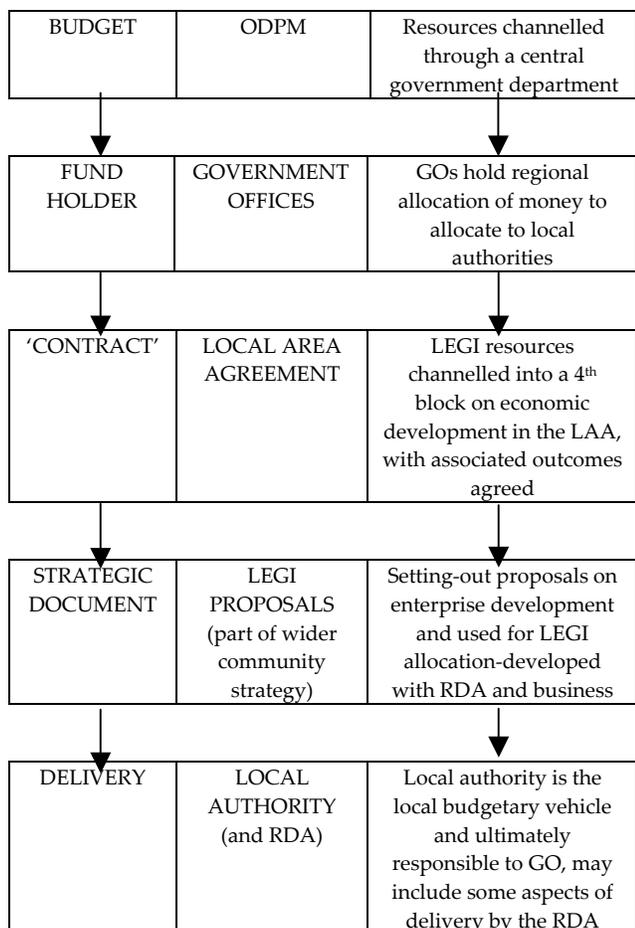
If a local authority is one of the 21 Local Area Agreement Pilots, negotiations for LEGI funding will continue to be with the Government Office, with an emphasis on determining the relevant indicators and targets required in return for resources. These funds will then form part of a dedicated fourth funding block of the Local Area Agreement together with other economic development and enterprise funding streams, to ensure the flexible and integrated use of funds to ensure beneficial local outcomes.

Funding amounts may range between different local authorities with each successful local authority expected to receive between £2million and £10million depending on the amount required by other successful local authorities in the region, with this level of funding expected to be available for a significant period of time, often between 5 and 10 years. In terms of a diagrammatic view of the LEGI process Figure 1 highlights the funding channels, funds will be allocated through before reaching the local authority and the local entrepreneur. Government proposes that ODPM controls the central operation of the LEGI with funds divided between the nine English regional Government Offices. Where local authorities are a LAA pilot



funds will be channelled through a dedicated fourth block and its associated outcomes and targets, with LEGI proposals forming part of the wider community strategy for each local authority. The local authority takes responsibility through these agreements of the LEGI funds and is ultimately responsible to the Government Office for their utilisation.

Figure 1⁸ The Institutional Mechanism of the LEGI



The Local Enterprise Growth Initiative Aims and Objectives

The LEGI is based around both a local level aim and a national level aim, as well as three core outcomes. The core aim of the initiative is that:

“The Local Enterprise Growth Initiative will provide flexible, devolved investment in our most deprived areas – determined by the Neighbourhood Renewal Fund areas – to support locally developed and owned proposals that pursue new or proven ways of stimulating economic activity and productivity through enterprise development⁹”

The three core proposed outcomes of this aim are:

- To increase total entrepreneurial activity among the population in deprived local areas;
- To support the sustainable growth – and reduce the failure rate – of locally owned business in deprived local areas; and
- To attract appropriate inward investment and franchising into deprived areas, making use of local labour resources.

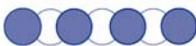
The Core Principles of the Local Enterprise Growth Initiative (LEGI)

The proposals for the LEGI are based around six core principles which are based on past experience of establishing small business and enterprise in deprived areas, research on productivity and competitiveness at both the local and national levels and consultation with local government, regional institutions and local business communities. The first principle is that of *effective targeting*, with a focus on the most deprived areas of the United Kingdom, demonstrating the Government’s commitment to improving the livelihoods of those living in the most deprived conditions and a continued emphasis on reducing the gap between the richest and poorest areas of the United Kingdom.

The second key principle concerns *effective solutions* with a goal of long-term economic development policy solutions being locally effective, effectively implemented and carrying a high amount of

⁸ Source of Figure: HM Treasury (2005) *Enterprise and economic opportunity in deprived areas: A consultation on proposals for a Local Enterprise Growth Initiative*. HMSO, London (www.hm-treasury.gov.uk)

⁹ HM Treasury (2005) *Enterprise and economic opportunity in deprived areas: A consultation on proposals for a Local Enterprise Growth Initiative*. HMSO, London (www.hm-treasury.gov.uk)



awareness amongst local populations. It should be recognised that all solutions will not be effective for all deprived areas, with different approaches needing to be taken in different areas. The third principle concerns the *significant commitment* that will be required by public bodies to see the LEGI through, as change will not occur immediately. Therefore LEGI requires significant commitment from a number of bodies including local authorities, Regional Development Agencies and Government Offices.

Similarly, the fourth principle of *strong local partnerships* highlights the need for strong partnerships between community, local and regional bodies not only for the benefit of rolling forward the LEGI, but for future programmes and projects which may be implemented in the area. Local community involvement is particularly important in the LEGI in that not only do residents get a say in the future of their neighbourhood but may also become the consumer base of any new enterprises.

The fifth principle of an *integrated approach* emphasises that the best prospects for economic development often come with the integration of initiatives, such as the LEGI, with other issues prevalent in deprived areas such as crime, health, housing and unemployment. LEGI provides the opportunity not only to ensure local enterprise growth amongst residents but also to combine this and other regeneration strategies such as the Neighbourhood Renewal Fund. The sixth principle presents the opportunity for LEGI to *provide an evaluation and monitoring base* and therefore inform information and recommendations for future policies.

Conclusion

The Local Enterprise Growth Initiative is part of a wider government commitment not only to improve levels of enterprise and business start-ups in deprived local areas but also to improve the competitiveness and productivity of the United Kingdom as a whole. The government is committed to creating sustainable communities and the LEGI is an integral part of this. The government believes that every person in the UK regardless of their

background or the community in which they live should have the chance to go as far as their talents take them, thus ensuring that enterprise is open to all. The LEGI presents the opportunity to meet this aspiration as well as increasing the responsibilities of local authorities and regional bodies.

CLES is currently producing a response to the consultation document on LEGI. Thus, please contact us with your thoughts on LEGI. Also if you should require further information on this topic please contact:

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