

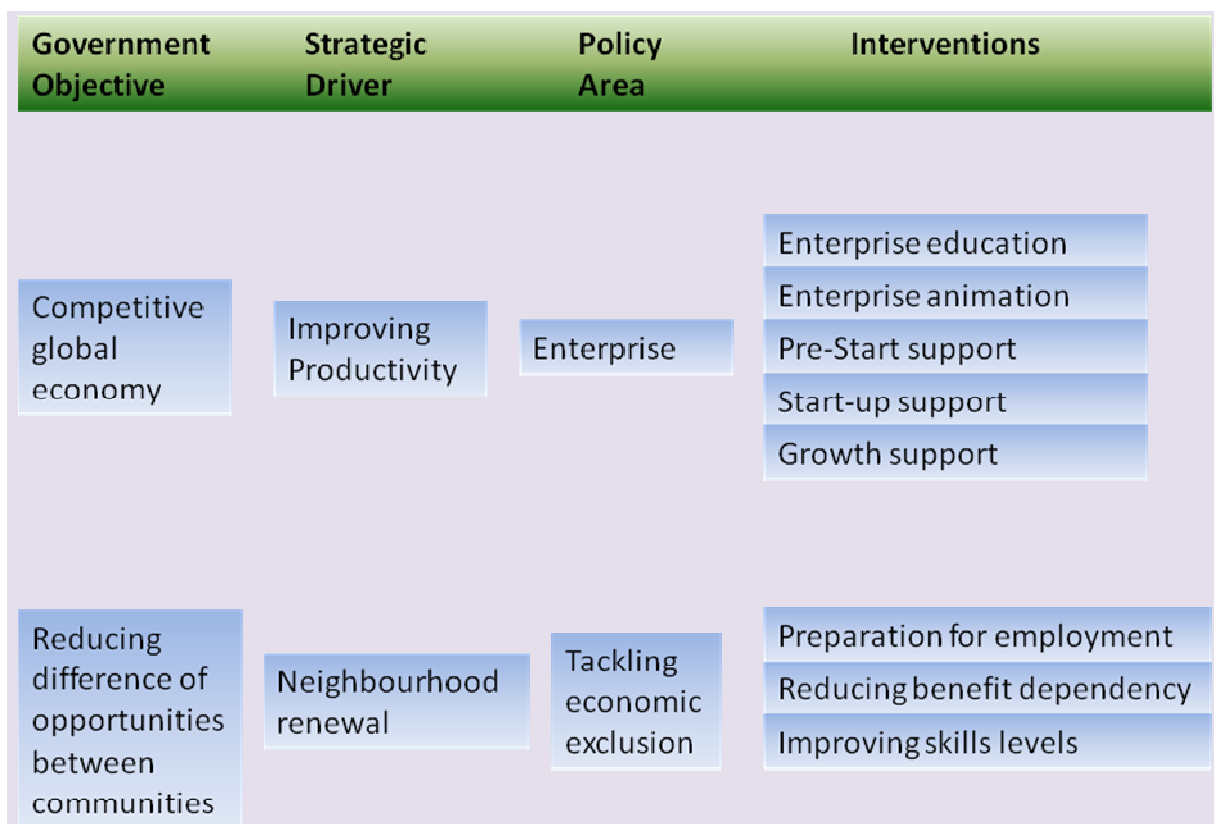
ENTERPRISE ROAD EXPERT SEMINARS
Policy paper

RAISING THE ENTERPRISE POTENTIAL OF DISADVANTAGED GROUPS
IN THE EAST OF ENGLAND

Introduction

Two key areas for Government intervention overlap to define the policy framework for funding and delivery agencies working to improve the number and quality of businesses created by people in economically disadvantaged groups. The first has an economic foundation and the second a social equity foundation.

Figure One: Policy threads for economic and equity cases



The first policy thread begins with the challenges of global competition that have become particularly acute within the last year. The second thread begins with the fundamental belief that differences in social and economic opportunities between communities are too wide and must be reduced. Both threads end with interventions designed to aid individuals and groups to move from economic dependence or low wage poverty to economic independence and improved levels of wealth. These policy threads also intertwine with those of other major government objectives, such as improving the health of the nation, reducing crime and reducing economic differences between regions, but for the purposes of this paper, we will consider them together in isolation.

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The aim of this paper is to consider how the policy framework of the above two government objectives impacts on the delivery of services to individuals in the East of England. In particular, EEDA interventions to increase the number and quality of businesses owned by people from groups normally under-represented as business-owners. Building upon the national context, the paper then addresses the way issues arising from the action learning sets discussions should help shape delivery of relevant services in the region. Three barriers to successful policy delivery emerging from the action learning sets are:

- Lack of self confidence of people in disadvantaged communities;
- Poor access to finance and contracts for third sector delivery agents;
- Lack of alignment between regional policy and local delivery.

Any discussion relating to delivery of policy must now also take account of the changing face of publicly funded business support resulting from the implementation of the Business Support Simplification Project. In future public funding will only be awarded to business support products that have been approved under this programme. Two of the products already agreed that are most relevant for these policy areas are:

- Enterprise Coaches; and
- Intensive Start-Up Support.

Both products are aimed at similar target groups although the first is targeted geographically and the second is targeted according to social groups. For both products, regional and local agencies will need to work closely together to define their coverage and to ensure delivery of these specialist local services fit with delivery of other generalised products.

The Case for Increasing Rates of Enterprise

In 2005 the Treasury identified the defining trends in global markets and trade over the next decade¹, and set out six key policy challenges these present for developed economies such as the UK in responding to globalisation. One of these (building an enterprising and flexible business sector where firms can succeed and seize the opportunities presented by a more open and competitive global economy) recognises the importance to our economy to have a thriving enterprise culture. The importance of small and medium sized enterprises (SMEs), cannot be stressed enough as they constitute all but about 6,000 of the 4.5 million enterprises in the UK. Of these, nearly 75% (3.3 million) are self employed or single-director firms, and companies employing 10 or more people represent only 5% of the total.

One of the elements of our economic performance where the UK lags behind its global competitors is productivity per head of population of working age. It is therefore a key long-term Government target to raise productivity levels and close the gap with our competitors. One of the drivers of productivity is the level of enterprising behaviour in the economy – both in terms of the rate and

¹ HMT, 2005, Globalisation and the UK: Strength and Opportunity to Meet the Economic Challenge

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vibrancy of businesses starting-up but also in the characteristics of existing businesses and their employees.

The creation of dynamic businesses is recognised as a key driver of economic prosperity. The level of entrepreneurial activity in the UK, however, is modest in comparison to some other economies. There are some who argue that all our efforts should be focused on high growth, innovative firms. However, certain groups, including women, disabled people and some minority ethnic groups, as well as certain geographical areas have a disproportionately low level of entrepreneurship. If these disparities were overcome, as well as increasing the overall rate of business creation, then entrepreneurial levels could match those of our best competitors.

In terms of public interventions, therefore, the returns on investment for bringing people into economic activity (either again or for the first time) so that they contribute to productivity levels, can be considerably higher than increasing the level of productivity of already productive people. Not only can the impact on productivity be greater, but the level of investment is offset by the positive effect on the public purse. This occurs because as an individual moves from being unproductive to productive they reduce their dependence on state benefits and gradually move to a point where they will be a net contributor through paying tax.

The case for the additionality of outputs and outcomes from public investment is also more easily made when an individual moves from economic inactivity into economic activity. This is especially true for increasing self-employment and business start-up in groups that are currently under-represented as entrepreneurs, since by definition, they are much less likely to make this leap without intervention.

The productivity case for intervention is clear and is made stronger by the social equity case. The Labour Party's commitment to social justice has been evident in its approach to a variety of policy areas and none more so than neighbourhood renewal.

Over the past twenty years, hundreds of poor neighbourhoods have seen their basic quality of life become increasingly detached from the rest of society. People living just streets apart became separated by a gulf in prosperity and opportunity.

[The Government's vision is that] within 10 to 20 years, no-one should be seriously disadvantaged by where they live. People on low incomes should not have to suffer conditions and services that are failing, and so different from what the rest of the population receives.

The vision is reflected in two long-term goals:

- In all the poorest neighbourhoods, to have common goals of lower worklessness and crime, and better health, skills, housing and physical environment.
- To narrow the gap on these measures between the most deprived neighbourhoods and the rest of the country.

(DCLG, 2001, Neighbourhood Renewal Strategy)

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In the last thirty years billions of pounds have been spent on neighbourhood renewal yet some communities still suffer decline and indeed gaps in quality of life between poorest and richest have increased. Attempts to tackle failing neighbourhoods have had some successes but are hampered by the fact that as one area is regenerated new areas go into decline and some small areas within neighbourhoods, where the inhabitants have long histories of multiple deprivation, have proved particularly difficult to change.

Early interventions in neighbourhood renewal concentrated on the physical aspects of the neighbourhood such as housing, transport infrastructure and safe spaces. Economic regeneration was seen as a necessary but separate requirement. In the last ten years, as the need for interdepartmental and interagency approaches has been stressed, tackling issues of worklessness and low skills has become integral to neighbourhood renewal strategies. The ongoing evaluation of the New Deal for Communities programme has highlighted the need for economic and physical regeneration to go hand in hand:

- there needs to be simultaneous driving forward of policies to improve the area, with initiatives designed to address person-based outcomes in areas such as education, jobs and health
- unless changes to the area and its environment are made, improving the lot of individuals is likely to accentuate the out-flow of relatively less disadvantaged individuals and households.

(DCLG, 2008, Challenges, Interventions and Change: An overview of Neighbourhood Renewal in Six New Deal for Communities areas)

In 1999, the Social Exclusion Unit's Policy Action Team 3 reported on the use of enterprise as a tool for regeneration. It concluded:

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. It helps meet the basic needs of local people, by providing vital services like shops. Perhaps most fundamental, it helps develop self-confidence and determination in local people and communities - the real drivers of regeneration in the long run. (Social Exclusion Unit, 1999, PAT 3 Report)

In the five years following the report, public funds were made available to test out this conclusion. The Phoenix Development Fund was one of the chief vehicles for this; its evaluation showed that local, specialist interventions could raise the level of self-employment and business start-up in specific communities where mainstream support services failed to have an impact². Since 1995 the Treasury and DBERR and DCLG have worked together to ensure that enterprise is one of the elements in regeneration initiatives. The introduction of the Local Enterprise Growth Initiative in 2006 and inclusion of enterprise as a key objective in the recently introduced Working Neighbourhoods Fund, both demonstrate the Government's belief in the potential of enterprise activities to play an important role in neighbourhood renewal.

² SBS, 2005 Evaluation of the Phoenix development Fund: Final Report

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Self-employment or starting a business is only ever going to be an option for a relatively small percentage of any community. Therefore, enterprise activities should always be offered within the package of wider employment and training options and should not be seen as a standalone activity. However, the potential of the best enterprise programmes is that they do not just encourage people to work for themselves, but they empower them to become more enterprising in the way they think and act in all aspects of their lives. In this way, they can become valuable assets to the community at large and valuable assets to employers if they choose not to go into business for themselves.

Enterprise for under-represented groups in East of England

The national policy drivers for increasing enterprise in groups that are under-represented as entrepreneurs are reflected in the regional economic strategy.

There are persistent disparities in rates of entrepreneurship according to ethnic background, disability, age and gender. This represents untapped potential which, once addressed, will boost the overall rate of entrepreneurship in the region.

(EEDA, 2008 Draft RES)

Two priorities relate directly to this issue:

- Priority 1: Strengthening the region's enterprise culture; and
- Priority 4: Improved enterprise performance through more effective business support services.

The evidence base shows that there are disparities in the rates of entrepreneurship between areas:

There is a marked variation in terms of new business registration across the region. In 2006, rates of new business registration ranged from a low of 26 per 10,000 adults in Tendring to over 63 in St Albans.

(EEDA, 2008, RES Evidence Base)

The RES also recognises the link between physical and economic regeneration and the need for customised solutions appropriate to the needs of specific areas:

Clearly, this is a complex question that will require interventions to support employment rates, skills, innovation, business registrations, economic structure and quality of life factors. However, there are different levels of performance relating to the geography of the East of England. There is a need to develop responses that are specific and allow each place to meet an identified role in a successful economic future.

(EEDA, 2008, Draft RES)

The approach outlined in this quote makes clear the need for sub-regional and local strategies to tackle regeneration and fits well with developments from the Review of Sub-National Economic Development and Regeneration. How EEDA works with councils and other agencies to ensure an integrated, strategic

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approach to regeneration of deprived communities across the region will be crucial to the success or failure of initiatives.

Regional and sub-regional agencies will also need to work closely together to develop business support strategies to meet the requirements of the Business Support Simplification Programme. As mentioned above this national programme is developing a range of products that will constitute the only business support services that can be funded by public agencies. It also requires regions to create an infrastructure that will encourage alignment of funding decisions to ensure services are delivered at the most appropriate geographic level, and that duplication and overlap of service delivery is minimised.

The two products already identified as most relevant for increasing enterprise in under-represented groups are local community business coaches and intensive start-up support. The shape of these products is just about to be finalised at a national level but scope still exists to decide within the region how they should be rolled out.

When considering the issues for the region, the action learning sets identified three barriers to effective delivery of enterprise activities in disadvantaged communities in East of England:

- Cost of providing support that tackles lack of self confidence as an integral element of pre-start and start-up support;
- Funding issues, and particularly access to public sector contracts, for third sector organizations that are best placed to provide services to the target groups; and
- Lack of coordination between agencies and lack of clarity in regional strategies leading to a disconnect between policies and delivery of services.

The action learning set participants, who come from a wide range of bodies and different parts of the region, recognise that there are a significant number of additional barriers that people from communities with multiple deprivations face. However, they believe that effective solutions are available and are being delivered within the region. They believe that if these solutions could be delivered in a more systematic way across the target groups a significant improvement in outcomes would ensue. The action learning sets therefore highlighted what they perceived as the failings of the system that stop effective delivery of effective services in East of England.

The first issue relates to the level of funding per client required to provide the depth and length of quality support that is going to have a long-term impact. One of the chief barriers common to people from under-represented groups is that they experience a severe lack of self-confidence in their skills, knowledge and prospects for self-employment. Working on a one to one basis to overcome this lack of confidence is costly and may take a long time to bear fruit. It also

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means that a higher percentage of clients have to be supported to provide positive enterprise outcomes. This all makes these types of interventions appear costly in relation to the generalised support supplied through the mainstream. However, if all positive outcomes (e.g. employment and training) can be counted and if the savings in benefits etc. are used to counter-balance costs then the value for money of these interventions increases dramatically.

Smaller third sector organizations, which are often the most successful in supporting the target groups, are caught in a vicious cycle. Low unit costs for support mean they have little opportunity to build capacity internally. This means they are badly placed to participate in public sector procurement opportunities either in their own right or as part of a third sector consortium. Consequently, more often than not, they are only able to act as sub-contractors for one of the larger private sector delivery agencies. The latter rarely pay their sub-contractors on the basis of full economic cost recovery and normally want them to deal with the most economically disadvantaged (and therefore expensive) groups. Recent moves in procurement by public bodies, which have resulted in few larger contracts being let, have of course exacerbated this situation.

Within the region there are four main potential sources of funding for enterprise activities, these are:

- EEDA;
- the Councils;
- the LSC;
- JobCentre Plus.

There is a perception that while all of these bodies have in principle signed up to a regional strategy (the RES), that in practice each ploughs its own furrow when it comes to commissioning delivery. Also, that some bodies are internally inconsistent in the way they implement their policies with regard the priority given to enterprise. For third sector delivery agencies this leads to

- confusion about funding opportunities;
- a lack of understanding about how they can contribute to each agency's agenda as well as the regional agenda;
- waste of valuable resource trying to keep up to date with relevant policy and funding developments; and
- wasteful competition rather than fruitful collaboration.

Greater coordination and clarity about the public sector's objectives for enterprise for under-represented groups and the joint requirements for public funding of enterprise activities in the region would bring greater efficiency and transparency to the system.

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Chance for Change

While the policy drivers for increasing enterprise in groups that are under-represented have been steady for the last few years, a new impetus for relevant bodies to work together to deliver their policies has been provided through the Review of Sub-National Economic Development and Regeneration and the Business Support Simplification Programme.

EEDA plays a crucial role both as one of the public bodies involved and as a leader of change in the region. It has regional responsibility for enterprise, business support, regeneration and equality and through its strategic and operational functions is a powerful influencer. EEDA, therefore, is in a position to ensure enterprise is given sufficient attention within regional and local economic development and regeneration strategies.

The agency has a unique opportunity to use the BSSP and the introduction of Enterprise Coaches (EC) and Intensive Start-Up Support (ISUS) as a tool to corral other bodies in an integrated approach. It can increase enterprise in priority groups and areas in a way that will deliver a simple and effective service for clients in an efficient manner delivering value for money for all agencies.

In taking this agenda forward, the agency should consider the following points emerging from the issues raised by the action learning sets.

- Funding for EC and ISUS should be based on realistic unit costs for supporting priority target groups
- All positive outcomes from EC and ISUS should be counted for assessment of value for money
- An evaluation of value for money of relevant initiatives (local and national) based on the principles of social accounting should be undertaken prior to commissioning
- Commissioning for the EC and ISUS should be based upon the needs of the clients not the convenience of the commissioning bodies
- Tenderers proposing to sub-contract delivery should be required to include proposed sub-contractors as part of bidding team and to guarantee payment of unit costs as set out in the tender
- Development training for third sector organizations and managed networking opportunities should be provided to improve their ability to bid in public procurement opportunities
- Consideration should be given to tender assessment criteria that give weight to local third sector organizations where all other factors are equal
- Public bodies funding EC and ISUS should create a joint strategy and, where possible, a joint commissioning framework
- Structures for communication between public agencies and third sector bodies should be reviewed and improved