

executive summary

- Boosting enterprise in deprived areas has been a recurring goal of government policy, aimed at kick-starting local economies and alleviating deprivation. The Local Enterprise Growth Initiative (LEGI) is the latest example. But enterprise programmes have had disappointing results in deprived areas, and been poorly targeted. The Comprehensive Spending Review is now looking to rationalise and improve economic development and regeneration schemes. This report will contribute to that process.
- *City Markets* looks at deprived areas according to their levels of business activity. It focuses on a group of 30 *business-deprived* areas – those Neighbourhood Renewal Fund (NRF) districts that have very low levels of business activity. Most are in the North-East (e.g. Sunderland) and the North-West (e.g. Oldham). Five are in London (e.g. Newham). Separately, a minority of deprived areas have relatively high levels of business activity (e.g. Preston, Leeds and Camden).
- Business-led regeneration should focus on business-deprived areas, but should intervene with care. Government should subsidise business activity only where

specific market failures exist (e.g. lack of local market information, limited access to finance), in proportion to those market failures and in line with local labour markets and other conditions.

- Most business-deprived areas have significant market failures, and should be able to sustain increased business activity. But some, for example in London, have less need for more business activity, because their residents are already well-connected to wider labour markets.

Key recommendations for business-deprived areas (BDAs):

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

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

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