ESRC Secondary Data Analysis Initiative Project

Developing the Business Structure Database as a tool to support sub-national business policy analysis in the UK (ES/K00400X/1)

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Are all LEPS created equal?

- context
- the LEPs
- workplace dynamics
- job dynamics
- summing up
Context
what’s the point?

- LEPs – Local Enterprise Partnerships – were set up at the end of 2011 with responsibility for sub-national business support functions in England previously the responsibility of the (disbanded) Regional Development Agencies.

- LEPs are necessarily concerned with their **local area**: published data on the business population typically refers to firms: businesses **with HQs** in the LEP area.

- The project was designed to produce ‘workplace’ data: for business units which may be autonomous or part of a multi-workplace (multi-location) firm.

- We can then connect jobs in a LEP area with the business units in that area – so we can connect the workplace dynamics – births (openings) and deaths (closings) – job dynamics: job creation and destruction.

- The data covers ‘employer enterprises’ – businesses with employees – and only in the private sector.
ANNEX 3: THE EXTENT OF DEMAND

The best-fit line in Chart 1 suggests that there is a negative relationship between deprivation and enterprise at the local or unitary authority level. The more deprived an area, the less entrepreneurial activity appears to take place. The chart shows the DETR’s 1998 deprivation score plotted against VAT registration data (a proxy for the level of enterprise) for each of the local authorities in England, excluding the City of London and the Isles of Scilly which both have very low population levels. Use of VAT data does, however, have limitations. The lowest spatial scale at which data is available is the local authority. Deprivation is often concentrated at a much smaller scale than the local authority level, so the typical unitary authority will include both deprived and wealthy wards. Furthermore, the smallest companies, regardless of area, will not appear in the VAT data as they fall below the threshold level and informal business activity will not be registered in this data.

Chart 1
The relationship between deprivation and enterprise (1998)

Source: DTI, DETR

Bearing these caveats in mind, the negative relationship between deprivation and entrepreneurial activity appears to be clear-cut in the case of the fifty most deprived local authorities according to the DETR’s 1998 index. Chart 2 shows the distribution of these...
A.9 The economic challenge is therefore to rebuild livelihoods and restore robust local markets. Sustainable neighbourhood renewal will not happen without enterprise development, but on the other hand, enterprise development will be of only marginal relevance unless it is part of a wider neighbourhood renewal strategy designed to tackle the range of problems that disadvantaged areas face. Local and regional government and other public sector bodies have a key role to play in achieving this and this paper sets out some of the policy measures available, and illustrates the ways in which these organisations can take this agenda forward.

A.10 The importance of raising levels of enterprise and economic activity in disadvantaged areas as part of neighbourhood renewal is recognised in the high level Public Service Agreement targets agreed to by departments in the 2002 Spending Review, and also reflected in the targets set for the Regional Development Agencies.

The most relevant PSA targets are:

- the joint target for the DTI, ODPM and HM Treasury to “Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006”;
- the DTI’s target to “Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities”; and
- the ODPM target to “Promote better policy integration nationally, regionally and locally; in particular to work with departments to help them meet their PSA floor targets for neighbourhood renewal and social inclusion”.

Chart A.1: Business start-ups and deprivation in English local authorities

Note: London boroughs are not represented on this graph.
Figure 4.4: Scatterplot of number of enterprises per 1,000 residents vs. churn rate.

Churn rate = % of births + % of deaths

No. enterprises per 1,000 residents

17.5 20.0 22.5 25.0 27.5 57.5 52.5 47.5 42.5 37.5 32.5 27.5


The 'churn rate' refers to the sum of openings (or births) and closures (or deaths) of enterprises. It indicates how frequently new firms are created and how often existing enterprises close down. In fact, the number of openings and closures of enterprises accounts for a sizeable proportion of the total number of firms in most economies. The indicator reflects an area's degree of 'creative destruction', and it is of high interest for analysing, for example, the contribution of firm churning to aggregate productivity growth.
the LEPs
LEPS, some summary statistics, 2011

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LEPs jobs, 2011, decreasing order, '000 (lhs log scale) and jobs/workplace ratio (rhs log scale)
workplace dynamics
LEPs workplace births, deaths and net births, 1998–2012, ratio to opening stock

![Chart showing workplace births, deaths, and net births from 1998 to 2012, with ratios to opening stock. The chart includes bars for net births and lines for births and deaths.](image)
LEPs, workplace births and deaths, average 1998–2012, av 1998–2012 ratio to opening stock, (%)
LEPs workplace births & deaths, average 1998–2012
ratio to opening stock, (%)
LEPs workplace births & net births, average 1998–2012 ratio to opening stock, (%)
job dynamics
LEPs, job creation & destruction components, 1998–2012, ratio to opening stock, (%)
LEPs, job creation & destruction components, av 1998–2012, ratio to opening stock, (%)
LEPs, job creation & destruction, av 1998–2012
ratio to opening stock, (%)
LEPs, net and gross job creation, av 1998–2012
ratio to opening stock, (%)
LEPs, births and net job creation, av 1998–2012 ratio to opening stock, (%)

![Graph showing the relationship between birth rate and net job creation rate. The axes are labeled as follows: birth rate (%) on the x-axis and net job creation rate (%) on the y-axis. The graph includes data points and a scatter plot.]
summing up
there is a strong positive relationship between birth and death rates, but net birth rates – the change in the stock of workplaces – are hardly correlated with gross birth rates

there does appear to be a spatial pattern in births and deaths, with larger cities and LEPs close to London recording higher rates and more northerly and less populated places recording lower rates, but there is no obvious spatial pattern in net births

job creation and destruction rates are strongly positively correlated but net job creation – the change in employment – appears uncorrelated with gross job creation

there is a spatial pattern in the contribution of workplace entry and exit rates to job creation and destruction which resembles that between of birth and death rates but there is no obvious pattern in net job creation.

The key linkage which ties variation in birth and job creation together is the relative uniformity across LEPs in the ratio of jobs to workplaces
some implications for policy

- there is a reasonably clear relationship, on average, and over the longer term, between the workplace birth and death and job creation and destruction which might be used to benchmark LEP-level policy interventions and their evaluation.

- difficulty for policymakers – the principal outcome of interest: growth in jobs – is the net result of two very much larger, and opposite signed, flows: job creation and destruction.

- the RDAs had a commitment to reduce the persistent gap in growth rates between regions, but it is not yet been made clear the extent to which LEPs will be expected to play a significant role in the spatial re-balancing of the English economy: if they are, the 'spatial stickiness' in business vital rates and the associated pattern of job creation and destruction suggests caution in formulating targets.


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