Croydon Local Enterprise Growth Initiative
Baseline, Targets & Monitoring Performance

Summary report on the Baseline and Performance Indicators study by LEPU

November 2006

Background

Croydon Strategic Partnership was successful in the first round of the Local Enterprise Growth Initiative (LEGI) in gaining substantial funding for developing small business and entrepreneurship in the borough, with a particular focus on New Addington-Fieldway and North West Croydon. The successful £20.3 million programme is for an initial 3 years and following the government's comprehensive spending review next year could be extend to 10 years.

A considerable amount of desk-based research was carried out to support the Croydon bid, as well as consultations with 500 local businesses and stakeholders. For the bid, we were able to draw on existing research and reports and illustrate the needs, barriers and market failures that are evident in the borough. But we were aware of the gaps in local data that are needed to build and develop a targeted programme. The LEGI Bid states that the following will be established:

Specific Evaluation Framework based on agreed performance indicators and outcome based targets.

The baseline study was commissioned to fulfill this requirement, and to establish a comprehensive set of performance indicators that would frame current project development priorities and future evaluation of the Croydon LEGI programme. This stage of work was allocated a limited budget and it was expected that regular primary surveys might also need to be commissioned to gather detailed local data.

The Local Economy Policy Unit (LEPU) at London South Bank University was appointed to conduct the baseline work. LEPU has been established for more than 20 years and has a long track record in SRB and other regeneration programme evaluation. This report is a summary of LEPU's key findings.

Key Target Groups

LEGI has three main outcomes and objectives:

- Outcome 1 - to increase the entrepreneurial potential of key target groups

- Outcome 2 - to support and sustain new and existing businesses, and reduce their failure rate

- Outcome 3 - to attract inward investment and franchising into target areas, making use of local labour.

The situation in Croydon is that while the town centre and office district is generally prosperous overall performance across the borough is weakened by disadvantages and barriers faced in wards with higher deprivation. These barriers disproportionately affect black and minority ethnic (BME) communities, women, young unemployed people, and other groups such as lone parents and people with disabilities. Employment rates tend to be lower for all of these groups but the LEGI programme recognises that they can be a source of new and vibrant enterprise, as a route to work and income.

Nationally and regionally, various surveys and studies have highlighted the particular social and economic contexts faced by these target groups, and what their motivations are for starting a business. The Small Business Service (SBS) has run a bi-annual household survey on entrepreneurship that has underpinned much of LEGI thinking, while the LDA has also conducted focused studies recently. Key messages concerning each group are:

- **BME Communities** – People from Black and Asian communities, though there are many differences between groups, are generally more enterprising than on average. But while motivation is high, barriers can be greater and many ideas don't get the financial or other support to establish as growing businesses. With the BME population being younger, enterprise can also be more creative, innovative and skilled. However, in Asian communities in particular, many firms are family businesses and young people are less likely to want to inherit the family firm but pursue their own aims.

- **Women** – There is an ever growing interest in women-led business, as company boardrooms become more balanced and employment and pay rates converge with those of men. Again, barriers are greater and a combination of fear of failure, undervaluing of skills, and weaker personal business networks are all noted as being significant for women entrepreneurs.

- **Lone Parents** – Starting and business can be a more flexible way for lone parents to get back to work, particularly if run from the home. The SBS survey of entreprenuers has found above-average interest among lone parents.

- **Young unemployed** – Those aged 16-24 represent an important group for the LEGI programme (being the business-owners in their mid-thirties in 10 years time). Interest is also high in being your own boss, but the reality is that young people can lack the financial security and credit rating to sustain a business. It is also recognised (by young people themselves) that education and skills for business should come first.

- **Disabled people** – Enterprise can also be a flexible and innovative option for people with disabilities, though it should be recognised that the type of disability may influence the nature of business. Enterprise activity tends to be below-average suggesting that employee roles can be preferred.

The purpose of this review is to highlight that new enterprise in an area can come from a variety of sources, and for different reasons. It is recognised in particular that many start a firm (or are self-employed) out of ***necessity*** as they can face disadvantage and exclusion from mainstream employment. On the other hand – and including within more deprived areas – businesses are more likely to be owned by those with higher qualifications and better access to markets, finance and start-up capital. These ***opportunity*** entrepreneurs are driven by and able to seek market advantage. New enterprise by key target groups has to tackle two key questions: Is enterprise a more viable route than mainstream employment? Is the business aimed at clear market demand or just out of necessity?

Understanding Indicators

The LEPU study reviewed a wide range of performance indicators that are adopted at national, regional and local levels. DTI and other central departments have public service agreement (PSA) targets that cascade down to funding programmes; the LDA has outcome and outputs targets under which it will fund projects; national LEGI guidance suggests key performance indicators; while Local Area Agreements (LAA) include specific Block 4 targets for enterprise, which LEGI is expected to boost in funded boroughs.

These performance indicators (PIs) might be used to measure performance of the LEGI programme: a mapping in the LEPU report (Annex 2) shows how the longer list of PIs in the draft Croydon LEGI Delivery Strategy match up to those noted above. The key PIs are the eight that are included in the Croydon LAA Block 4 schedule, and by which LEGI performance will be assessed:

- LAA1 - Increase the number of people considering going into business
- LAA2 - Increase Enterprise in the Neighbourhood Renewal Areas
- LAA3 - New businesses created and demonstrating growth after 12 months
- LAA4 - Self-employment rate as % of economically active
- LAA5 - Net increase in VAT registrations
- LAA6 - No of businesses assisted to improve their performance
- LAA7 - No of small businesses whose productivity has improved
- LAA8 - No of businesses attracted to Croydon.

In the draft Delivery Strategy, the first five LAA targets above come under Outcome 1, on new start-ups; the next two (6 and 7) relate to Outcome 2 on existing SMEs; while the eighth LAA target supports Outcome 3 on inward investment.

However, it is important to distinguish between a target that is a measurable outcome or *impact* across the whole area (whether Croydon or LEGI wards), and one that measures specific programme interventions and outputs. The LEGI programme will contribute to the former type (outcomes) alongside other public or private actions; the latter (outputs) can be directly attributed to LEGI and should be specified in provider delivery contracts, and monitored accordingly. Future evaluation will want to know what the *net additional* benefit of LEGI has been.

Start-up enterprise is given greatest attention in LEGI (although existing SMEs and inward investment should not be overlooked). The sequence of statuses (and actions) that LEGI clients will go through to arrive at a sustained new business is shown below.

There is therefore a progression from 'people considering' enterprise, to a percentage of whom will be engaged via outreach work, to a smaller number participating in pre-start support, of which only some will commit to starting a business, and finally to some becoming successful sustained businesses. LEGI will therefore work with a baseline target audience of people thinking about enterprise (and will seek to enhance this base). The baseline estimates by LEPU also assume this progressive link between indicators and targets.

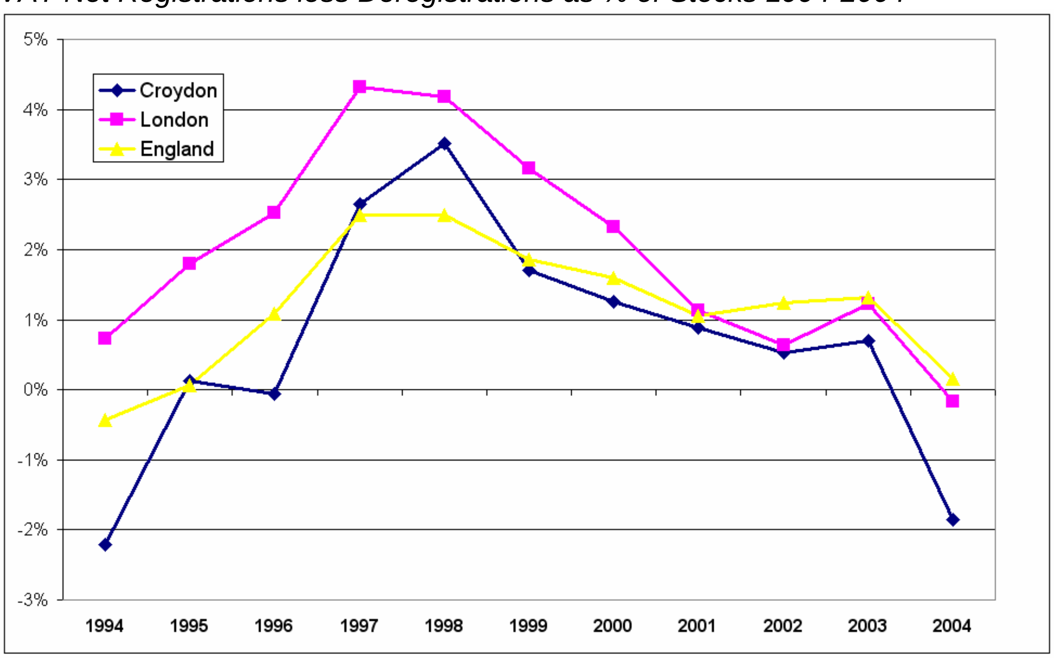
Baseline Estimates and Targets

Provisional estimates for LEGI baselines and targets were made in the LEGI bid document and draft Delivery Strategy, and in the Croydon Local Area Agreement (LAA). Through a detailed assessment of various statistical sources the LEPU study has clarified - *and in some cases revised* - these estimates so that they are more consistent with national/regional definitions of targets. It has also established clear baseline 'populations' for total number of enterprises and number of adult residents in Croydon and LEGI wards as of 2006.

However, at this stage, precise local data in some cases is still unavailable and the LEPU methodology has been, where necessary, to make reasoned local estimates based on local structure and wider trends. A key recommendation from the study is therefore to commission local surveys and other data collection to produce fully robust evidence (see below).

The context of LEGI support being awarded to Croydon is that the comparative position of enterprise has been weakening rapidly in recent years. There has been a general downturn, as the chart below shows, and Croydon recently had more firms closing than opening in one year (although trends can fluctuate) – and lags regional and national trends.

VAT Net Registrations less Deregistrations as % of Stocks 1994-2004



Source: VAT registrations data (ONS)

The baseline population estimates for 2006 made by LEPU based on a projection of trends are as follows:

	NA-Fieldway	NW Croydon	LEGI Area	Croydon
Working-age (16-64) population	12,600	120,580	133,180	220,000
VAT enterprises 2006	200	3,640	3,840	8,650
Sub-VAT enterprises 2006	40	730	770	1,730
Self-employed 2006	930	10,860	11,790	22,600
Total Enterprises	1,160	15,240	16,400	32,980

An important section of the total enterprise base is firms that fall beneath the annual turnover level for VAT registration (currently £60,000). This section has been estimated for Croydon based on LDA survey evidence, although the total of around 1,700 may still be modest and not include informal businesses in the 'grey economy'. (A key task for LEGI outreach will be to identify non-mainstream firms and promote their formal registration).

Using these baselines as the starting point, LEPU has calculated what realistic targets for Croydon or the LEGI area should be. These might be achieved over the 3-year programme or the longer 10 years if confirmed and are summarised in the table overleaf. The key conclusions for each of the eight LAA targets are as follows:

- **LAA1** – the provisional bid/LAA estimate did not capture all local people considering or thinking about enterprise, which this indicator is to measure. Croydon is estimated to be 12% of adult residents, and 15% (London average) should be the target. The LEGI target to reach this is 750 more 'thinkers' and should be monitored via a local residents/entrepreneurs survey with reference to the latest SBS Entrepreneurs Survey.

  The definition and method set out in the report (p.31) is consistent with SBS/DTI indicators and provides Croydon LEGI with a measure of total 'population' of potential entrepreneurs from which start-up activity can be drawn. LEGI is to promote enterprise awareness/interest and the programme should aim to be increasing this demand 'population'. The initial LAA estimate of 2500-5000 is far too low in terms of a starting point for developing enterprise, hence our advice is that the definition set out in the baseline report be adopted.

  However, **there was a miscalculation in the 'uplift' figures** in the report and these have been corrected (highlighted in red, p.31 and 38). The London rate 'uplift' should be 5790, i.e. more than twice the 2500 increase in the original LAA. This target may be monitored via resident surveys, LEGI/partner event feedback forms, neighbourhood consultation (of all working-age adults, not just those actively looking for business support).

  The target increase implies that LEGI promotional activities would need to result in almost 200 more adults every month (across Croydon borough) stating that they have 'considered going into business' over 30 months of delivery. This might be too challenging, such that half this growth rate (hence, 2500 or 80 per month more – half way towards the London average, in 3 years) might be more realistic. Croydon LEGI need to decide what target to adopt

- **LAA2** – this was not estimated in the bid/LAA and LEPU estimates a baseline of 470 new VAT registrations in LEGI wards (35 per 10,000 residents) which should increase to the national rate of 53 per 10,000. This represents an extra 240 new registrations *per year* by programme-end and can be monitored from official VAT-registrations data and LEGI partner/provider evidence.

  It should be noted that the 'increase' in enterprise refers to new VAT registrations data, which are expressed as a ratio 'per 10,000 adults'. The 'uplift' to the London average (see p.38) would present a 114% target increase, which over 3 years might be a challenge. However, the 50% increase estimated in the Croydon LEGI bid document is in line with an 'uplift' to the England average and this might therefore want to be adopted by the programme as its target. In real terms it would mean an increase in new VAT registrations of around 240, every year, or a steady increase over the 30 months of 8 more per month.

  LEGI project monitoring data might track the rate of increase in above-VAT-threshold starts, before official VAT data become available. All baseline figures are correct.

- **LAA3** – the bid/LAA estimates were reasonably realistic and confirmed by the LEPU study, with slight downward adjustment to a base of 170 new firms created and demonstrating growth and target of 220 (an increase of 50 over the programme). Local partner/provider claims data will be needed to monitor this indicator (as per recent LDA guidance).

  It was agreed that the 170 total 'New businesses created and demonstrating growth after 12 months' calculated in the baseline was in line with the '200' in the original LAA (although what the 200 represented was not clear). The 170, for Croydon borough, is derived from 8 per 10,000 adults (which equals 43 total VAT registration starts x 89% 12-month survival rate x 20% of firms having employment growth). The London 'uplift' is based on 14 per 10,000 for London, while England 'uplift' is based on 10 per 10,000. If the LEGI programme set a 50% improvement target then this would be around half way between England and London average rates.

  As the new start registration is looking to be increased by 50% in anycase, this more specific measure would be met as long as survival rates and employment-growth-firm rates are both at least maintained (hence, the latter two rates could be monitored via project feedback)). All baseline figures in estimation calculations are correct.

- **LAA4** – self-employment rates are straightforward and the LEPU study updated the baseline (to 12.5% of economically active residents), with a suggested target of 14.7% (the current London average). This represents a more challenging increase of an extra 490 people self-employed over the programme (which can be measured via the official Annual Population Survey).

  It was agreed that the new self-employment baseline for Croydon should be 12.5% (n.b. the previous 11% could well have been for % of all adults or working-age, rather than of 'economically active' – the normal measure used).

However, **there was a miscalculation in the 'uplift' figures**: the correct figures are a 3890 increase to reach the London rate of 14.7% (25990 self-employed in Croydon), and an actual decline of 707 to be in line with the England average (12.1%). Either a full residents survey or feedback forms across different public LEGI events (though much less reliable) might track progress in self-employed status in the borough.

- **LAA5** – this bid/LAA estimate was also approximately correct, although the low base implied a larger target increase than necessary. LEPU calculated a base trend of 53 net change in VAT business stocks (0.66% increase per year). An increase to 109 net increase per year target reaches the national trend, i.e. a doubling of the rate over the programme. Annual official VAT registrations data also can monitor this.

  Some care is needed with this indicator as the target will be for an increase in an 'increase in VAT business stocks'. This figure also relates to new VAT start rates, but will be net of deregistrations. The original LAA estimate was not clear as there was no % (or actual) stock growth figure for the baseline year, but the 0.21% to 0.75% was of the right magnitude. The baseline report shows that the trend for Croydon has been 0.66% or 53 net increase in stocks per year – much lower than national (1.18% per year) and regional (1.99% per year) trends. The LEGI target adopted might be at least doubling the current trend and reaching the England growth rate of 1.18% (requiring 42 more net stocks, to an annual total of 95 net, increases per year) – this is similar to the original target of 109. All figures in the baseline trend projections are correct.

- **LAA6** – the proportion of existing firms receiving assistance over the year was under-estimated in the bid/LAA as it only included partner evidence and not all types of support. Local and regional (LDA) surveys point to around 25% of Croydon firms using support (8250 firms) and this should increase to the regional average of 30%, or an increase of 640 over the LEGI lifetime. This can be monitored via a local business monitoring survey, claims returns from partners/providers, and checked against the London Annual Business Survey (LABS).

  It was not clear what the original LAA figures represented, although the target increase of 67% over 3 years was steep. The baseline report estimates a 20% 'uplift' (or 1650 more businesses being supported). All estimate figures are correct.

- **LAA7** – the indicator on change in small business productivity could not be estimated in the bid/LAA and the LEPU study also found this problematic as there is no official definition or data source (and would be very difficult to monitor). It is therefore being suggested that a 'business confidence' measure could replace this indicator.

  This has been changed.

- **LAA8** – the bid/LAA estimate of 10 new investments in Croydon per year was close to the London First Centre record of 8 investments in Croydon, found by the LEPU study. However, both estimates would seem to focus on foreign direct investments (FDI) and not capture all relocations from within the UK. The London rate for FDIs is 37 per 10,000 existing firms. The LEGI target could be closer to this, but the emphasis is expected to be on larger investments that provide significant new local employment.

LEGI LAA Targets						LEPU Baseline Report						
LAA Indicator	**Base-line (ex LEGI)**	**06/07**	**07/08**	**08/09**	***3-yr % chng***	**PI definition**	**Base - LEGI area**	**Base - Croy-don**	**Uplift to London rate**	***London uplift % on base***	**Uplift to England rate**	***Engl'nd uplift % on base***
LAA1 (Croydon target) - Increase the number of people considering going into business	2500 (1% of w/age popn)	3000	4000	5000 (2% of w/age popn)	*+2500 (+100%)*	Number of people considering going into business (% of working-age population)	n/a	27,210 (12% of w/age popn)	33,000 (15% of w/age popn)	*+5790 (+21%)*	24200 (11% of w/age popn)	*-3010 (-11%)*
LAA2 (LEGI area target) - Increase Enterprise in the Neighbourhood Renewal Areas	To be estab.	To be estab.	To be estab.	To be estab.	To be estab.	More enterprise in disadvantaged communities (VAT registrations per 10,000 resident adults)	35 per 10,000 adults (470 total reg.)	n/a	75 per 10,000 adults (1007 total reg.)	*+537 (+114%)*	53 per 10,000 (712 total reg.)	*+242 (+51%)*
LAA3 (Croydon target) - New businesses created and demonstrating growth after 12 months	200	220	250	300	50%	New businesses created and demonstrating growth after 12 months (new VAT registrations per 10,000 x 1 year survival rate x % employment growth firms)	n/a	8 per 10,000 adults (170 total)	14 per 10,000 adults (300 total)	*+130 (+76%)*	10 per 10,000 adults (220 total)	*+50 (+29%)*
LAA4 (Croydon target) - Self-employment rate as % of economically active	11.0%	11.0% (220 starts)	11.3% (225 starts)	11.4% (280 starts)	3.6%	Self-employment rate as % of economically active	n/a	12.5% (22100 total)	14.7% (25990 total)	*+3890 (+18%)*	12.1% (21393 total)	*-707 (-3%)*
LAA5 (Croydon target) – Net increase in VAT registrations	7475 stock (2005)	15 growth (0.21%)	52 growth (0.50%)	109 growth (0.75%)	0.75%	% change in VAT-registered start of years stocks on previous year	n/a	0.66% (av. 53 increase per year 1994-05)	1.99% (160 per year)	*+107 per year (+202%)*	1.18% (95 per year)	*+42 per year (+179%)*
LAA6 (Croydon target) - No of businesses assisted to improve their performance	1500	1750	2000	2500	67%	No of businesses assisted to improve their performance (%	n/a	8250 (25%)	9890 (30%)	*+1650 (+20%)*	9890 (30%)	*+1650 (+20%)*

LEGI LAA Targets						LEPU Baseline Report						
LAA Indicator	**Base-line (ex LEGI)**	**06/07**	**07/08**	**08/09**	***3-yr % chng***	**PI definition**	**Base - LEGI area**	**Base - Croy-don**	**Uplift to London rate**	***London uplift % on base***	**Uplift to England rate**	***Engl'nd uplift % on base***
						used support per year)						
LAA7 (Croydon target) - No of small businesses whose productivity has improved	To be estab.	To be estab.	To be estab.	To be estab.	To be estab.	An improvement in the overall productivity of small firms (annual % SMEs vs. all firms)	to be est. from ASHE/ IDBR	to be est. from ASHE/ IDBR	to be est. from ASHE/ IDBR	to be est. from ASHE/ IDBR	to be est. from ASHE/ IDBR	to be est. from ASHE/ IDBR
LAA8 (Croydon target) – No of businesses attracted to Croydon	10 per year	12 per year	15 per year	15 per year	50%	Businesses investments attracted to Croydon, making use of local labour (per 10,000 VAT enterprises)	n/a	9 per 10,000 (8 per total year)	37 per 10,000 (33 total per year)	*+25 total (+313%)*	n/a	n/a

The targets estimated here are based on the analysis conducted by LEPU. However, it will be for the LEGI programme to decide on what target it can commit to over a 3- or 10-year programme. This in turn might depend on the realistic local delivery capacity.

Further Research and Next Steps

As a result of their extensive review of local, regional and national data sources, LEPU propose that some further research is conducted in Croydon that would greatly strengthen both the baseline stituation and gather vital evidence for developing a LEGI programme that can address specific local needs and barriers. Two specific local surveys would also monitor progress annually to support interim and final evaluation studies. The LEPU study has gone some way in identifying the specification needed for further research and surveys, such that study budgets can be managed efficiently.

Residents/Entrepreneurs Survey (annual)

This survey would be specifically designed to assess the needs of target and other hard-to-reach groups that might be interested in enterprise. It would be people- (rather than business-) based in order to capture entrepreneurialism at all stages (as in the Total Entrepreneurial Activity definition by Global Enterprise Monitor/London Business School). The survey sample would concentrate in the LEGI wards but would need a comparison 'control' sample also. The survey would:

- Provide quantitative and qualitative local evidence gathering
- Better understanding of target group contexts, needs and barriers
- Assess enterprise (Outcome 1) progression among local people
- Monitor LAA targets by target area and group
- Run select SBS Entrepreneur Survey questions locally

Business Monitoring Survey (annual)

There is a definite need for better surveying of local businesses and LEGI presents an opportunity to lead on this, ideally with some support from local public and private partners. The monitoring survey can run key questions (e.g. in LDA or SBS surveys) at the very local level as well as be designed to fill data gaps in the LEGI performance indicators on an annual basis. Telephone surveying would be viable in this case and a control-sample of non-Croydon respondents can be included to test relative performance, location image etc. This survey would:

- Monitor local business satisfaction, confidence, opinions
- Monitor LAA targets for existing (SME) firms
- Run select SBS/LDA annual business questions locally
- Benchmark local business with a non-Croydon sample

LEGI Knowledge Observatory

In the Croydon LEGI bid it was proposed that a unit may be established that holds research, statistics and other evidence for the benefit of programme managers, project developers, and monitoring and evaluation. The LEPU study has collated an extensive library of document sources electronically and a CD-Rom of these can be held by the Knowledge Observatory.

The Observatory, possible under the advice and guidance of an expert steering group, can in future identify new research that might be commissioned to enhance the body of knowledge on local enterprise. The LEPU baseline report has suggested two initial studies of particular importance in strengthening targeted interventions and a standing agreement with partners on collecting local data:

- Investment and Location Study – strengthen Outcome 3, development opportunities, supply-chain/clusters
- Enterprise Sector Dynamics Study – qualitative research; unpack contexts, sources, motivations for enterprise locally; focus on target groups.
- Partner/Provider Monitoring Data – project specifications, quarterly collection, start-up/business database, tracking.

These may be developed further from the start of 2007. It is acknowledged that further baseline and LEGI development research should seek to report findings by March/April 2007 in order to inform Year 1 evaluation and Year 2 onwards delivery planning.

Next Steps

Based on the LEPU report and subsequent discussions the next steps for the evidence and evaluation framework to be taken forward are as follows:

1. **LEGI Research and Evaluation Steering Group** – the LEGI programme seeks to work effectively with local strategic partners and experts in the field. It will also need to liaise closely with the national LEGI framework (consultants Meridian Pure have been appointed), although as Croydon is a leading bid it may have as much to contribute as it receives from the national process. A shortlist of invited public, private and research sector representatives could be convened as an experts steering group that can support and guide Croydon LEGI's research and evaluation function.

2. **Set up Knowledge Observatory documents resource** – as noted above, the LEPU baseline has started the process but an on-going agreement to share local research and evidence on enterprise should be sought. This should include access to primary survey data for further analysis (including LDA LABS data).

3. **Liaise with other LEGI (R1/R2) over joint-funded surveys** – Croydon is already liaising with its London and other Round 1 partners. LEGI Round 2 programmes will be known in December and it would be logical to share survey and other research costs where possible via agreement. Sharing of lessons and good practice can also be encouraged.

4. **Approach private/business match-fund for surveys** – the Croydon LEGI is business led and the private sector should be kept fully engaged in gaining better understanding of enterprise development in the local area. Private business groups could be approached to sponsor the surveys proposed.

5. **Specify all key indicators in partner/provider monitoring returns** – the LEGI programme is currently issuing delivery project specifications and the LEPU baseline report has identified what types of claims and monitoring data will be required from

partners. This should be a structured and rigorous process of data collection, through agreement.

6. **Liaise with all (non-LEGI) providers on collating key enterprise data** - it needs to be acknowledged that the Croydon LEGI programme represents only a proportion of all enterprise development activity that goes on across the borough – whether public or private sector. However, the boosted Local Area Agreement (LAA) targets for which the LEGI programme is responsible are mostly for the whole are. LEGI therefore has a major incentive to better-understand the extent of non-LEGI support activity. By having information sharing agreements with business associations, colleges, universities, community and trust initiatives etc the LEGI programme can both try to account for all change and avoid possible duplication of effort.