

the inner city



The Inner City 100

impacts and influences

nef is an independent think-and-do tank that inspires and demonstrates real economic well-being.

We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environmental and social issues. We work in partnership and put people and the planet first.



nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings. We have taken a lead in helping establish new coalitions and organisations, such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and environmental well-being.



The Inner City 100 programme has now reached the end of its fourth and final year, an opportune time to assess the full range of its impacts and achievements. Much has been achieved, but as this report illustrates, challenges remain if vibrant inner cities are to be realised across the UK.

Contents

Executive Summary	2	Business support and the need to address demand	18
Introduction	3	Young people and entrepreneurship	20
Objectives of The Inner City 100	3	Taking forward the agenda	21
Who are the Inner City 100?	4	The Inner City 100 Alumni Network	22
Impacting on inner cities	4	Centre for Enterprise	22
Contributing to the community	6	Recommendations	23
Role models and mentoring	6	Impacts	23
Reaping the benefits	6	Growth finance	23
The policy context	8	Property	24
Issues	14	Engagement of entrepreneurs in policy-making and practice	25
Growth finance: access continues to constrain growth	14	Improving entrepreneurial culture	25
Business premises: pressures threaten inner city businesses	16	Business support and structures	26
Social enterprises: the future is bright	16	Appendix 1: The Inner City 100 programme	27
Engaging entrepreneurs in policy-making and practice: a lost opportunity	17	Endnotes	28

Executive summary

The Inner City 100 programme has placed inner city business firmly on the UK's enterprise agenda. Celebrating the entrepreneurial drive, innovation and competitiveness of fast-growth inner city businesses has shattered perceptions of the UK's inner cities as no-go areas for enterprise.

nef's research has also highlighted the positive impacts these businesses have on regeneration and their role in creating strong, inclusive local economies.

The final year of The Inner City 100 as an events-led programme is an opportune moment to reflect on the achievements of the past four years and to identify the challenges that remain. Despite increased policy activity in recent years, there is still much to be done if our inner cities are to become places with real opportunities for all, and with local enterprise at their heart.

This report explores the key challenges still facing inner city business and makes a series of recommendations that would improve the climate for enterprise and encourage the positive local impacts of business. Specifically, nef recommends:

- **A UK Enterprise and Regeneration Tax Credit to encourage more firms to have an even greater positive social and economic impact on their local area.** This would reward firms in disadvantaged areas for positive activities including employing local people and buying goods and services locally.
- **Land should be held in trust in regeneration areas to create better access to property for businesses in the UK's inner cities.** Spiralling rents and property prices are forcing businesses to re-locate from inner city areas, undermining regeneration and weakening the enterprise base.
- **A national subsidised voucher scheme for growth businesses in disadvantaged areas to provide better access to appropriate business support.** This demand-led approach would help bridge current gaps in the quality and availability of provision, and promote business growth and retention.

- **Inner city businesses need to be given a more formal role in the development and implementation of strategies to support local, regional and national economic development policy.** The existing network of Inner City 100 entrepreneurs provides an excellent source of insight into what works (and what does not work) in their local economies.

nef is committed to continuing the work begun with The Inner City 100. Future possibilities include:

- **Launching an Inner City 100 Alumni network** to build on regional networks across the UK and creating a national voice for inner city enterprise.
- **Incubating a Centre for Enterprise Research** that would act as a thought-leader on maximising the impact of enterprise in disadvantaged areas. This will complement nef's current work on promoting local business, community-led enterprise development, sustainable development and rural and coastal economies.

Others must join nef to drive forward the agenda on inner city enterprise. On many issues, regional and national economic development agencies are best placed, but in some cases action is needed from central government. nef will continue to work with its partners to investigate and highlight the contributions inner city businesses make to improving their local economies and the well-being of residents.

Introduction

When **nef** (the new economics foundation) launched The Inner City 100 in 2001, the programme was part of a new wave of ideas and initiatives focusing on enterprise as a key driver of regeneration. This report explores the role that The Inner City 100 has played within this broader movement and assesses the impact it has achieved.

The effectiveness of policy designed to facilitate enterprise-led regeneration is also examined in light of evidence collected as part of The Inner City 100 programme, and related research into inner city entrepreneurship at **nef**. We have gathered evidence from key stakeholders, including policy-makers and inner city entrepreneurs. This report captures learning and evidence regarding the success and failure of inner-city regeneration policy, setting out the future challenges for policy-makers and entrepreneurs.

This report contains a number of recommendations for policy-makers including:

- A new enterprise and regeneration tax credit.
- Greater access to business premises through new land trust model.
- Greater engagement of entrepreneurs in policy-making.
- National voucher scheme for business support.

Objectives of The Inner City 100

In 2001, with backing from the Treasury, financial support from The Royal Bank of Scotland (RBS) Group, support from the *Financial Times*, and in partnership with the Initiative for the Competitive Inner City (ICIC) in the US, **nef** established The Inner City 100 programme in the UK. Although the UK programme – based on a similar US Inner City 100 begun by the ICIC in 1999 – has grown significantly since 2001 (it was originally conceived as the Inner City 25), its objectives have changed little over the past four years. The Inner City 100 programme was conceived to:

- Challenge perceptions about the economic importance of the UK's inner cities, both as locations for financial and business investment and as breeding grounds for new business ideas.
- Change traditional perceptions of inner cities as 'no go areas' for enterprise.

- Find new entrepreneurial role models in the UK's inner cities.
- Highlight the contributions that inner-city-based entrepreneurs make to their local economies and communities.
- Develop a compelling business case for the private sector, particularly mainstream finance providers, to engage with inner city businesses.

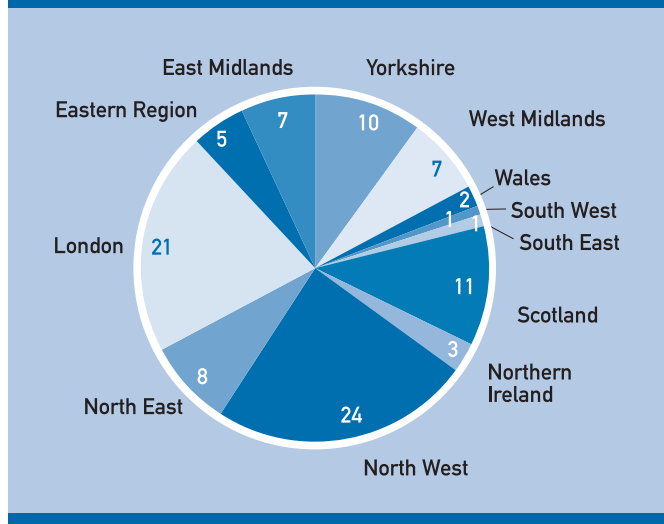
These main objectives were supported by a number of secondary themes, including increasing understanding of and thereby improving business's access to finance; access to business support services; and the roles of female and ethnic minority entrepreneurs.

A core element of The Inner City 100 programme has been to find successful businesses, social enterprises, and entrepreneurs in some of the UK's most disadvantaged communities. The annual list of the 100 fastest-growing inner city firms, first published in the *Financial Times* in 2001, celebrates fast-growth firms and their entrepreneurs. By bringing to life role models of entrepreneurship, job creation and innovation, The Inner City 100 celebrates success in the UK's inner cities (see Appendix 1 for details of Inner City 100 businesses).

The Inner City 100 is based on the principles underlying the work of Professor Michael Porter of Harvard University in the *Competitive Advantage of the Inner City* published in 1995.¹ Porter applied his work on national competitiveness to inner cities arguing that they provide four principle competitive advantages:

- Strategic location – proximity to business districts and strong transport and communication links.
- Local market demand – significant market demand for inner city firms' goods and services.
- Integrated with regional clusters – related companies in close proximity able to trade between themselves and access local markets.

Figure 1: Regional distribution of 2004 Inner City 100 winners



- Human resources – appropriately skilled workforce with potential to act entrepreneurially.

Viewing inner cities from the perspective that they offer competitive advantages for business was a break with previous approaches to economic development.

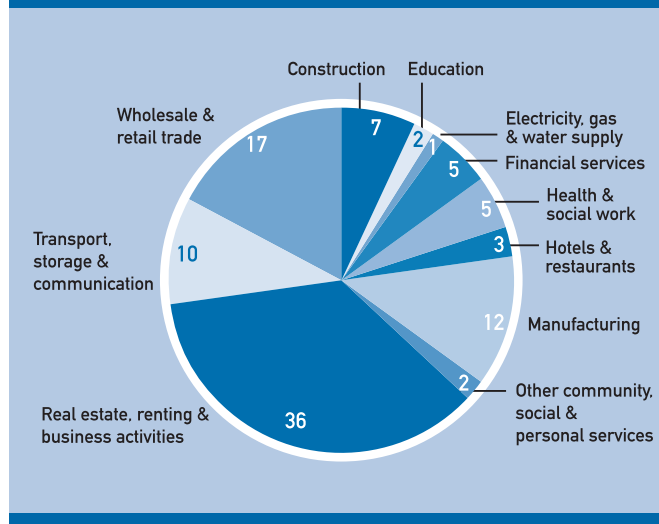
The Inner City 100 fitted into a wider shift in government policy regarding disadvantaged areas, with a focus on bridging the gap between the poorest neighbourhoods and the rest of the UK. This essentially meant breaking down poverty cycles through initiatives aimed at stimulating employment and enterprise in areas containing concentrated deprivation and limited opportunity. The UK Inner City 100 builds on Porter's work to include social enterprises and examines the positive contributions that firms make to their local areas to help tackle a range of socio-economic issues.

Who are the Inner City 100?

Inner City 100 companies defy stereotypes of businesses based in disadvantaged urban areas. The indexes over the past four years include businesses from every industry sector: from designing to data warehousing and from media to manufacturing. The 2004 Index includes a scientific camera manufacturer, a hair and beauty salon, a Highland clothes hire operation, not to mention seven fast-growth social enterprises.

In 2001, few expected to find a significant number of companies in the UK's inner cities experiencing five-year turnover growth of over 500 per cent. In the 2004 Index, the *average* five-year growth rate is over 1,000 per cent and the vast majority of firms (88 per cent) are delivering a profit. As *nef's* 2003 report, *Profit in the Inner City*, illustrates, Inner City 100 companies perform well against a range of benchmarks including the Small Business Service's (SBS) Benchmark Index.² Furthermore, the report shows that the profitability of Inner City 100 firms is not directly correlated with levels of disadvantage in an area, with firms as likely to generate significant profits in the most deprived five per cent of wards as across the entire bottom 20 per cent of wards.

Figure 2: Sector breakdown of 2004 Inner City 100 winners



Inner City 100 firms are distributed across all regions of the UK. In 2003, The Inner City 100 programme expanded to include Northern Ireland for the first time, and in 2004 there are representatives from the four nations in the UK and from every region in England. Figure 1 highlights the regional distribution of 2004 winners.

The publication of successive indexes of dynamic and innovative firms has demonstrated the strength and sustainability of the winning firms. *Competing for Change* highlights the product innovations and innovative strategies for growth that drive Inner City 100 firms.³ The 2004 Index contains equally innovative fast-growing firms.

Inner City 100 firms represent a wide range of industry sectors, with the largest number being in the broad sector categorised as Real Estate, Renting and Business Activities (see Figure 2). However, the wide sectoral distribution reflects that of previous years and underlines the diversity of successful firms based in the inner cities.

The Inner City 100 are ambitious in their growth plans and willing to consider a range of alternative strategies to build their businesses. For example, of the 100 winners in 2003, nearly 70 per cent had considered acquisitions; nearly 50 per cent had considered mergers; and over 25 per cent had formed a strategic alliance. This underlines their similarities with other fast-growth businesses and indicates that Inner City 100 entrepreneurs are exploring a wide range of strategies consistent with cutting-edge business.

Impacting on inner cities

Inner City 100 firms fuel their local economies and continue to provide very significant positive benefits for their local areas. That private sector business can create wealth and employment in deprived areas is one of the central arguments supporting a role for enterprise in regenerating the UK's inner cities. Strong though this argument may be, to date there has been insufficient measurement of firms' impacts on their local areas to inform understanding of their role in local economies.

Table 1: Average contributions of Inner City 100 firms to their local communities (all years)

	Micro	Small	Medium	Large	All firms
Local employment	£39,302	£96,299	£212,961	£956,819	£176,905
Local procurement	£113,664	£293,808	£755,520	£2,821,559	£510,708
Financial contributions	£5,858	£10,210	£12,293	£23,107	£10,206
Total	£158,824	£400,317	£980,774	£3,801,485	£697,819
Average impact as a percentage of turnover	19%	16%	10%	8%	11%



The key to understanding businesses' local impacts is a careful evaluation of their spending patterns. This spending is an essential component of the money circulating and re-circulating in a local economy and is therefore a key contributor to an area's wealth. Tracking, measuring and evaluating the positive impacts that the firms have on their local areas is central to The Inner City 100 programme.

The Local Impacts Model recently developed by **nef** with support from the London Development Agency (LDA), builds on the Impact Model created in 2002 to illustrate the contributions of Inner City 100 firms to their local areas. The Model is based on three elements:

- Firms' local employment.
- Local procurement of goods and services.
- The value of financial and non-financial contributions to the local area.

In the 2002 prototype model,⁴ firms were categorised as 'saints', 'spectators' or 'strategists' depending on the extent to which they provided benefits to their local economies. Strategists made up a significant group for whom positive impacts and business success went hand in hand. Saints also made positive contributions to their local areas but this was less positively correlated with growth. The 2002 results suggest that only 17 per cent of firms were not making significant contributions to their areas.

This approach has informed **nef**'s Local Impact Model to quantify the total impacts firms have on their local areas. This work measures firms' impacts and categorises them by firm size and industry sector. It is a highly scalable model and, therefore, it is possible for the first time to measure the impacts of all the firms in an area to determine where positive impacts are generated. This information can then be used to inform policies aimed at enterprise-led regeneration. Work with the LDA is already demonstrating the value of this approach in understanding the impacts of different industries. Ongoing work by **nef** on what drives local employment

and procurement decisions, and crucially what constrains these activities, will provide insights into the differences within and between firms.

nef's examination of firms' financial contributions to their local areas indicates the very significant impacts they are having through their employment of local people and procurement of goods and services locally. On average, Inner City 100 firms have significant numbers of employees that live locally (15 per cent within one mile) and, through paying fair wages, contribute very significant sums to their local communities. Inner City 100 firms dispel the myth that they pay low wages and do not develop their workforce. On average, the *lowest* pay within Inner City 100 firms is £5.85, which is £1 above the national minimum wage,⁵ and research conducted in 2003 indicates that they spend above the national average on staff training.

Table 1 illustrates the average contributions of Inner City 100 firms to their local areas. As the data indicates, the larger the firm, the larger the amount spent locally. However, what is interesting is that if local impacts are shown as a percentage of a firm's turnover, smaller firms have a proportionally larger impact on their local areas. That is, the smaller the firm, the greater the relative impacts. As a proportion of turnover, micro-size firms spend twice as much locally as large firms. This is particularly true where financial contributions to the community are concerned – micro firms spend 23 times as much locally (as a proportion of turnover) as large firms. While more research is needed to fully understand how firms of different sizes within sectors impact on local areas, these broad findings indicate that such research is merited.

The implications of measuring the impacts of firms are considerable for policy aimed at enterprise-led regeneration to ensure that the gains made from supporting new and existing enterprises translate into jobs and wealth creation in the area in which they are based.

“Mentoring gives you a chance to reflect on what you have done. It gives you the opportunity to stand back and recognise your achievements.”

Inner City 100 entrepreneur

Contributing to the community

Inner City 100 firms are also actively engaged in contributing to their local communities beyond the conventional economic benefits they bring. Estimates of all financial and non-financial contributions made by Inner City 100 firms to their communities in the last financial year total an incredible £7 million. Inner City 100 firms are engines of positive energy for their communities. In 2004, 79 per cent of firms are directly involved in their local communities; Figure 3 indicates some of the activities in which they participate. Ninety per cent of these firms are involved in more than one activity.

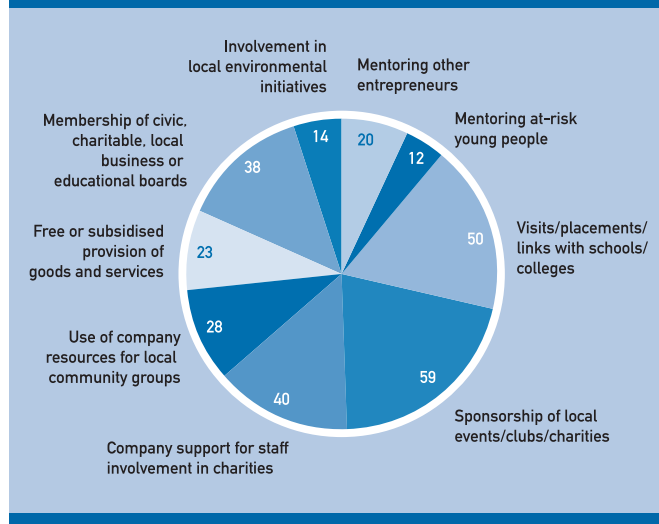
Fifty-nine firms sponsor local events, clubs and charities; 40 support staffs' involvement in charities; and 14 firms are involved in environmental initiatives. In terms of the benefits that this community involvement delivers, more than half of the firms said it builds morale within the company and enhances the company's profile; 41 per cent believe engagement in the community helps with networking; and 33 per cent said it helps with recruitment. However, regardless of what motivates this activity, it is clear that Inner City 100 firms are making significant impacts on their local areas.

Despite this positive message, initial research indicates a number of barriers to greater local procurement and employment. These include entrepreneurs' perceptions that local suppliers are not available and that potential local employees lack relevant skills. This could be a result of actual circumstances perhaps combined with poor communication and local information flows. Clearly, these issues require close investigation, but the benefits of understanding and addressing barriers to increased local impacts promise significant returns on investment for disadvantaged communities.

Role models and mentoring

One of the principal objectives of The Inner City 100 programme is to create positive role models in disadvantaged areas. These enterprising role models are essential to improving perceptions of inner cities both

**Figure 3: Community Activity of 2004
Inner City 100 winners**



within and outside these areas, and to the creation of an environment in which entrepreneurship is a realistic and desirable option, particularly for young people and for women.

The Social Exclusion Unit (SEU)⁶ argues that people living in deprived areas are less likely to encounter positive role models or mentors (mainly because there are fewer of them) through which to raise enterprise aspirations and offer support. The activities of Inner City 100 entrepreneurs indicate their central role within the UK's most disadvantaged areas. As *Entrepreneurial Mentoring* highlights, over one quarter are engaged in mentoring other entrepreneurs.⁷ Feedback from Inner City 100 entrepreneurs indicates that this is beneficial for the entrepreneurs as well as for the mentees.

Additionally, entrepreneurial mentoring should not be a one-way street for mentors or mentees. Acting as the mentee in one relationship does not preclude acting as the mentor in another. As reported in *Entrepreneurial Mentoring*, the Business Champions Scheme, run by the East Midlands Development Agency (emda), maintains a 'bank' of Business Champions, consisting of both mentors and mentees.⁸ Entrepreneurs are able to switch roles depending on their needs or what they can offer.

Reaping the benefits

Inner City 100 firms report significant benefits from winning a place on the Index ranging from additional profile and increased PR opportunities to networking and new sales. In many cases, before winning an Inner City 100 award entrepreneurs did not perceive themselves as role models or even as particularly successful. As a former senior civil servant correctly observed, "It may have come as news to the businesses themselves that, first, they were that successful, and, second, that they were part of a community of similarly successful inner city businesses."

Table 2: Impacts of The Inner City 100 programme

As a result of The Inner City 100 programme...	Totally agree/ agree (%)	Neither agree nor disagree (%)	Totally disagree/ disagree (%)
Inner city business role models have been created	50	35	15
Perceptions of the inner city as a place to do business have changed positively	64	27	9
Barriers specific to starting/ running an inner city business have declined	24	38	38
Support for inner city businesses has improved	48	33	19

**"Yes, we've
won contracts
and it has
helped
enormously."**

**Inner City 100
winner**

As part of a distinct group of highly successful firms, entrepreneurs often argue that 'opportunities for networking' are the 'best thing' about the programme. In addition, many Inner City 100 entrepreneurs particularly value sharing knowledge and experiences through the programme's Masterclasses at London Business School and the annual CEO Forum. Surveys show that many value the knowledge that their challenges are common to other entrepreneurs and, in some cases, have been successfully overcome. As one award winner noted, *"A tremendous confidence boost comes from the knowledge that the problems we face and the way in which we go about solving those problems are common amongst many growing businesses."*

In addition to the benefits already outlined, there are also direct business benefits for some winners. Recent surveys of Inner City 100 entrepreneurs found that approximately 75 per cent have experienced direct business benefits from their involvement in the programme.⁹

In some cases, new customers are gained from within the Inner City 100, and in others the programme has helped win contracts and to establish credibility within highly competitive markets and during public and private sector tender processes.

Many winners attest to their improved company profile as a result of the programme helping their business fortunes.

"Yes, our image and status has greatly improved. We're getting invited to lots of events and we're getting recognised now. Credibility for a business like ours is very important."

**Tim Timmerman, MD,
Mellors Catering Services Ltd**

Another entrepreneur talks of the trust winning the award has helped create in business relationships.

"Any recognition from an independent survey helps with clients. It takes a while to be trusted as a small business. Trust is a big thing and clients tend to trust the big competitors more when you're starting out. Some brave clients have pushed us into the market, but winning awards helps you gain trust. This is the key as it shows we can do the work."

**Mark Phillips, MD
Bluefrog Ltd**

There have also been internal benefits for winning firms. A significant number of entrepreneurs maintain that winning a place on the Index improved staff morale and proved a motivating influence across their firms.

"It [The Inner City 100 programme] has given us a fantastic advantage for a range of reasons – internally within the team it is a motivator... it has pushed the management team to be in the 100 and it has driven our growth. It's a surprising outcome, I didn't expect it. The Inner City 100 has been a very good motivator for the management team and the Board. It has also created a level of momentum within the team and among past winners."

**Dai Powell, Chief Executive,
Hackney Community Transport**

There have also been broader benefits to the disadvantaged areas in which the firms are based.

"The Inner City 100 has increased recognition of deprived areas. It has also raised the profile of employers in those areas bringing pride into the areas."

**Heather Jones, Operations Director
Jump Group Ltd**

This is an important observation and demonstrates the benefits to an area beyond the significant financial

impacts that firms deliver. Demonstrating that inner city firms combine high levels of commercial success whilst having considerable local impacts underpins arguments for public and private sector investment. Additionally, several policy-makers have pointed out that Inner City 100 entrepreneurs have proved to be an invaluable source of involvement in policy-making at national and local level, beyond the usual suspects who tend to engage in such discussions and initiatives

Finally, we asked entrepreneurs whether they agreed or disagreed with several statements relating to The Inner City 100 programme and its impacts, with a view to gaining insights into what they thought about the programme. The results are presented in Table 2.

In terms of its successes, the majority of entrepreneurs agree that The Inner City 100 programme has positively changed the perceptions of the inner city as a place to do business (the perceptions of policy-makers are explored later). Half of the entrepreneurs also agree that support for inner city businesses has improved and that role models have been created as a result of The Inner City 100 programme. The majority (74 per cent) agree that their expectations have been met by The Inner City 100 programme. However, as this report argues, there is much left to do before long-term positive change can be secured in the UK's inner cities.

The policy context

The current Labour government has focused closely on how to marry economic competitiveness and enterprise alongside promoting social inclusion. Tony Blair's first speech as Prime Minister on 2 June 1997 hinted at a new focus on inner city deprivation: *"We should engage the interest and commitment of the whole of the community to tackle the desperate need for urban regeneration."*

This early commitment to reducing social exclusion translated into policy-makers devoting attention to entrepreneurship in deprived communities across the UK. The focus on enterprise was a significant departure from earlier attempts to rejuvenate declining areas. It was part of a focus on increasing overall productivity nationally as well as securing full employment and narrowing the gap in economic wealth and growth between different areas in the UK.

Until the Plowden report of 1967, universal solutions had been applied to address problems in education, unemployment and crime, with no clear regard for spatial variations. However, the decline in the UK's traditional industries and the failure of policies in the 1980s – with their focus on physical regeneration – increased the momentum to examine disadvantaged areas, particularly inner cities, as areas of concentrated disadvantage.

Decades of economic development initiatives – often targeted at the same communities that are as deprived now as they were 50 years ago – demonstrated that regeneration required a fresh approach. Economic development has tended to focus on how much money is awarded to an area and the programmes and services that this funds. However, as **nef's** broader work has

demonstrated, regeneration funding entering disadvantaged areas often 'leaks' out of an area as money goes to firms and organisations with insufficient local employment or business networks.¹⁰ Part of successful regeneration is to encourage local enterprise in order to provide long-term benefits to the community through their local presence.

"The problem is not necessarily that too little money flows into a neighbourhood. Rather it is what consumers, public services and businesses do with that money. Too often it is spent on services with no local presence, and so immediately leaves the area."

Government's National Strategy for Neighbourhood Renewal

The Inner City 100 programme grew alongside the activity within government to understand the causes of problems within the inner cities and to devise policy to address these problems. Recognising the inadequacies of earlier regeneration attempts, the 1998 report of the Social Exclusion Unit analysed the problems facing deprived neighbourhoods¹¹ and set out two key goals:

- To bridge the gap between the poorest neighbourhoods and the rest of the economy.
- In all the poorest neighbourhoods to reduce long-term unemployment and worklessness; reduce crime; improve health; and better qualifications.

Building on these foundations and the work of Michael Porter on competitive advantage, The Inner City 100 programme sets out to tackle perceptions of disadvantaged urban areas as bereft of enterprise. Following the publication of the Social Exclusion report, the Government established a number of Policy Action Teams to investigate specific issues.¹² Policy Action Team (PAT) 3 focused on enterprise and its role in regeneration.¹³ There were three core findings:

- Not enough accessible, high quality business support.
- 'Market failures' in access to finance – not enough capital is available for projects with high returns to society.
- A weak culture of support for enterprise across the whole range of local and national institutions. Also perception that the benefits and tax system is complex and difficult to understand.

One of the core goals of PAT 3 was to draw up an action plan to encourage more successful business start-ups in poor neighbourhoods. The strategy had three key elements:

- Providing better access to business support and finance.
- Removing barriers to enterprise.
- Ensuring that the public and private sectors play their full roles in regeneration.



Recent policy approaches emphasise the importance of local enterprise in creating wealth in regeneration areas. The recently launched 'The Northern Way' is an attempt by three RDAs to promote growth and bridge the £29 billion output gap between the North and the rest of the UK. Building an entrepreneurial culture is central to this objective and a range of initiatives are planned including Enterprise in Education, programmes to attract and retain skilled workers in the North, and the Women in Enterprise Programme.

The Government's strategy to increase growth, create full employment and increase productivity is based on five key drivers – skills, enterprise, investment, competition, and innovation. Enterprise is at the heart of these efforts. Small and medium enterprises (SMEs), like those in The Inner City 100, have been identified as key drivers of innovation and productivity improvements, as set out in the joint Treasury and Department of Trade and Industry report *Enterprise Britain*.¹⁴ In addition, the Government has recognised the role that thriving small businesses play in diversifying the economic base and increasing the resilience of communities to negative economic effects.

In *Enterprise Britain*, major disparities in enterprise start-up rates and total levels of enterprise in the UK's most disadvantaged areas are highlighted. The Inner City 100 programme is profiled as one of the initiatives benefiting firms in Enterprise Areas through raising awareness of successful enterprise in less prosperous communities.¹⁵

Local economies have moved to the centre of thinking about deprived neighbourhoods and neighbourhood renewal strategy. The Government has created a number of deprivation-related Public Service Agreement (PSA) 'floor targets'.¹⁶ These include reducing the persistent gaps between regions, increasing the number of enterprises in disadvantaged communities, and increasing the employment rates of disadvantaged areas and groups. These PSA floor targets aim to create more sustainable enterprises in the 20 per cent most disadvantaged local authority wards.

City Growth Strategies (CGS) epitomise the new approach to regeneration in the UK. These place enterprise at the heart of regeneration and aim to develop co-ordinated strategies to tackle under-investment and low levels of economic activity in inner city areas. CGS are based on the ICIC, and aim to combine the efforts and resources of the public, private, and voluntary and community sectors to drive economic development and regeneration. The concentration is on developing action plans for business development and growth that can be driven at the local level. The focus on competitive advantage echoes the approach of The Inner City 100 programme.¹⁷

The Inner City 100 programme has supported CGS by demonstrating the value and contributions inner city firms make to the area. Central to the success of CGS will be the active engagement of the private sector. Inner City 100 entrepreneurs are already leading the way with involvement in local pilots.

Since the launch of The Inner City 100 programme, the low levels of enterprise in disadvantaged communities have entered mainstream policy discourse. At a local level, Local Strategic Partnerships (LSPs) are responsible for agreeing strategies to improve outcomes in the poorest neighbourhoods, which will include planning for how enterprise levels will be increased in these areas. The performance of Inner City 100 firms suggests that they are willing to be and should be at the centre of these efforts.

Shaping agendas:

The Inner City 100 programme and policy-making

The Inner City 100 programme aims to develop greater understanding of local economies to enhance entrepreneurial activity in the UK and to promote policies that will support enterprise-led regeneration. It is a 'proof of concept', showing that there are innovative fast-growth firms in the inner cities. The focus on the benefits firms bring to an area is also valuable in understanding how different firms contribute to enterprise-led regeneration in deprived areas. As a recent Office of the Deputy Prime Minister (ODPM) report concluded about current available

Examples of initiatives aimed at enterprise in disadvantaged areas¹⁸

Barriers and market failures targeted in enterprise areas	Policy measure(s) targeted at this barrier/failure
Greater difficulties in accessing finance	<ul style="list-style-type: none"> Community Investment Tax Relief. Bridges Community Development Venture Fund. Support for Community Development Finance Institutions.
Property market failures, and low levels of private sector investment	<ul style="list-style-type: none"> Stamp duty exemption. Contaminated land tax credit.
Lack of suitable business premises	<ul style="list-style-type: none"> Higher feasibility grants from the Business Incubation Fund in the 20 per cent most disadvantaged areas of England. The proposed Business Premises Renovation Allowance scheme (for 2005) would provide 100 per cent first-year capital allowances for the capital costs of renovating business premises vacant for a year or more.
Need for targeted business support and advice, and enterprise outreach to raise skills and awareness of opportunities, and to tackle cultural barriers	<ul style="list-style-type: none"> Business Links has targets on the take-up of business support in disadvantaged areas. Projects funded by the Phoenix Development Fund. Enterprise advisers for schools.
Fiscal measures to support urban regeneration, available in all areas of the UK	<ul style="list-style-type: none"> Targeted VAT reductions to encourage the renovation of existing residential properties and their conversion into multiple dwellings.
Tax incentives to invest in Venture Capital Trusts (VCTs) and through the Enterprise Investment Scheme (EIS) announced in Budget 2004	<ul style="list-style-type: none"> Raising the annual investment limit eligible for income tax relief under the EIS to £200,000. Withdrawing the ability to defer liability for capital gains tax for investments in VCTs in favour of an enhancement, of equivalent value, to the incentives to invest through income tax relief.

evidence, "... with the possible exception of the recent Inner City 100 project, there is little evidence to show the contribution of different types of enterprise to economic development and reduced social exclusion in deprived areas specifically."

Further work is needed on the local impacts of firms and survival rates of SMEs, and **nef** is taking a lead on this agenda with the LDA. Through the Local Impact Model and by examining the drivers of local employment and procurement decisions, it will be possible to implement policy that can promote local impacts and respond to entrepreneurs' needs.

The Inner City 100 programme has always aimed to put inner city enterprise on the map and capture the attention of entrepreneurs. It has also contributed to other programmes and initiatives aimed at supporting and promoting enterprise in deprived areas. As a senior civil servant at the SBS noted, "The Inner City 100... has been a reference point in formulating policy on Enterprise Areas and the Phoenix Fund." One of the most

significant areas where this happened is the programme to engage the US ICIC with the UK Government which led directly to the formation of the City Growth Strategies.

Indeed, HM Treasury believes that: "[The] Inner City 100 has achieved a tremendous shift in the perception of inner city locations, from being dead ends to operate a business, to one of opportunity, and enterprise being an essential component of renewal of deprived areas. Coverage in national news press and the stories from the entrepreneurs themselves has challenged national and local government to celebrate success and think harder about what policy levers are required."

Chancellor, Gordon Brown, believes The Inner City 100 to be an important showcase: "[The] Inner City 100... has become the premier showcase for the initiative, innovation and renewal that is a feature of so many of our inner cities today."

Business awards schemes

Black Enterprise Awards

First held in 2002, the Black Enterprise Awards recognise and reward Afro-Caribbean entrepreneurs who highlight enterprise in the black community. Details found at: www.blackenterprise.co.uk/

E-Commerce Awards

The E-Commerce Awards were launched in 1999 and run on a regional basis before a national final. Details found at: www.ecommerce-awards.co.uk/

Enterprising Solutions Awards

Launched in 1999, the annual Enterprising Solutions Awards celebrate the best social and community enterprises in the UK. Details found at: www.enterprisingsolutions.org.uk/

Ernst & Young Entrepreneur of the Year Awards

Entrepreneur of the Year Awards began in US in 1986 and now operates in over 35 countries. They were launched in the UK in 1999. Categories include: Young Entrepreneur, Master Entrepreneur, and Social Entrepreneur. Details found at: www.ey.com/global/content.nsf/UK/Entrepreneur_Of_The_Year

Fast Track

FastTrack launched the Fast Track 100 in 1997 and added three other annual league tables by 2002. Each of the Fast Track indices is published in the *Sunday Times*.

- Fast Track 100
- Tech Track 100
- Profit Track 100
- Top Track 100

Details found at: www.fasttrack.co.uk

National Business Awards

The UK's National Business Awards were launched in 2002 to engage FTSE 100 and blue chip companies with SMEs and new ventures. There are 23 awards designed to enable micro-businesses to compete with Plcs on a level playing field. Details found at: www.thenationalbusinessawards.com

The Queen's Awards for Enterprise

The Queen's Awards for Enterprise launched in 2001 recognise achievement by UK companies in three categories: International Trade, Innovation, and Sustainable Development. Details at: www.queensawards.org.uk/

Shell LiveWIRE Awards

Young Entrepreneur of the Year

This annual competition is open to entrepreneurs aged between 16 and 30 in the UK. In addition to the main awards, other categories include: Sustainable Development, Innovation and New Technology, Environmental Awareness. Details at: www.shell-livewire.org/

Upstarts Awards

The Upstarts Awards were launched in 2001 to showcase and promote social enterprises and social entrepreneurs that have innovative and sustainable solutions to social problems. Details at: www.upstarts.org.uk/

Wales Fast Growth 50

Launched in 1999, the Wales Fast Growth 50 identifies and promotes the 50 fastest growing indigenous SMEs. Details at: www.fg50.com/

The programme has also played an important part alongside other enterprise initiatives to ensure that inner city entrepreneurship is a consideration of policy-makers. Engagement with Inner City 100 entrepreneurs, for example, in responding to the 2003 Entrepreneurs' Manifesto, has helped government understand issues relating to inner city enterprise. As the Treasury notes: *"This [responding to the 2003 Inner City 100 Manifesto] and subsequent discussions have deepened central government's understanding of these issues and influenced policy decisions."*

Another civil servant noted that *"policy makers have seen the general awareness raising as useful."*

The Inner City 100 has also been useful to RDAs in connecting them with inner city entrepreneurs and, for some, its research findings have informed policy.

"The Inner City 100 influenced the LDA in setting up The Inner City Entrepreneurs' Fund. 'Piggy backing' on the research and work undertaken as part of The Inner City 100 was a major factor in deciding how the Fund has been structured."

Jody Chatterjee,
London Development Agency

The East Midlands Development Agency (emda), used the work on business impacts developed in The Inner City 100 report *Secrets of their Success* to directly influence the development of their regional responsible investment strategy.

The RBS Group, The Inner City 100 programme's lead sponsor, announced its first disclosure of lending in deprived areas at the Inner City 100 Awards of 2003. This innovation is an important step towards bank disclosure of lending in the UK and adds to intelligence regarding the banking sector's role in inner city regeneration. It is hoped that this will create momentum around bank disclosure of lending to promote lending to deprived communities as a viable commercial proposition.

Research for The Inner City 100 programme has played a role in shaping policy and initiatives by providing a voice for entrepreneurs and through detailed analysis of the firms and the issues they face. Understanding the barriers facing firms and their entrepreneurs provides valuable intelligence to formulate and shape policy.

Business competitions

When The Inner City 100 programme was launched in 2001, a number of other business competitions had recently started or were being planned in the UK. The sample of business awards schemes shown above

Table 3: National press coverage

<i>Daily Telegraph</i>	<i>The Independent</i>	<i>The Sunday</i>
<i>The Express</i>	<i>Mail on Sunday</i>	<i>Times</i>
<i>Financial Times</i>	<i>The Mirror</i>	<i>The Times</i>
<i>The Guardian</i>	<i>The Observer</i>	

Table 4: A selection of regional media coverage

<i>Birmingham Post</i>	<i>Evening Times Glasgow</i>
<i>Bristol Evening Post</i>	<i>The Herald – Glasgow</i>
<i>Coventry Evening Telegraph</i>	<i>The Journal (Newcastle)</i>
<i>Daily Post (Liverpool)</i>	<i>Leicester Mercury</i>
<i>Derby Evening Telegraph</i>	<i>Liverpool Echo</i>
<i>Eastern Daily Press</i>	<i>Manchester Evening News</i>
<i>Evening Chronicle (Newcastle)</i>	<i>Nottingham Evening Post</i>
<i>Evening Gazette (Middlesbrough)</i>	<i>Scotland on Sunday</i>
<i>Evening News (Edinburgh)</i>	<i>The Scotsman</i>
<i>The Evening Standard</i>	<i>South Wales Evening Post</i>
	<i>The Sunday Herald</i>
	<i>Yorkshire Post</i>

demonstrates the activity and context within which the programme operated.

As the list of awards on the previous page demonstrates, The Inner City 100 programme fills a gap by focusing exclusively on inner city enterprise.

The Inner City 100 programme has retained its unique focus and status, but the number of enterprise competitions continues to increase. In June 2004, Chancellor of the Exchequer, Gordon Brown, announced the annual 'Enterprising Britain' competition to find the British town or city of enterprise. The competition is intended to celebrate and recognise enterprise achievement in regions of the UK in order to champion best practice in policy-making and implementation at a local, regional and national level. To be successful, towns and cities must demonstrate a step change in supporting and promoting enterprise despite initial challenges. In addition, 2004 sees the first national award for successful entrepreneurs who have started businesses from long-term unemployment or from disadvantaged groups.

Making the news

Media coverage, both print and broadcast, has been central to The Inner City 100 programme's efforts to communicate the success of businesses in the inner cities. As a senior civil servant of the SBS noted, "*The media interest that Inner City 100 has generated has contributed significantly to our efforts to 'raise the profile' of the role of enterprise in inner cities and other under-developed communities.*"

A selection of article headlines

HOME-GROWN BUSINESS SCOOPS A NATIONAL AWARD FOR EXCELLENCE

Newcastle Chronicle & Journal Ltd

CALDEIRA ONE OF COUNTRY'S FASTEST GROWING COMPANIES

The Liverpool Daily Post & Echo

BUSINESS LIFE: GARDEN FIRM SINGLED OUT FOR PRAISE

Coventry Evening Telegraph

PRAISE FOR CITY'S NEW MEDIA FIRM

Bristol Evening Post

HONOUR FOR ETHICALLY-LED FIRM

Newcastle Chronicle & Journal

FOUR FAST-GROWING NORWICH FIRMS ARE PRAISED BY CHANCELLOR FOR HELPING TO BOOST THE CITY'S ECONOMY.

Eastern Daily press

HARRY'S AT HOME WITH A RING OF CONFIDENCE

Financial Times

One way to gain insights into the success of The Inner City 100 programme in challenging perceptions is the extent to which its messages have entered the mainstream media. The partnership with the *Financial Times* has been vital to communicating the messages of The Inner City 100 programme and to promoting the success of the winning firms. In addition, articles have appeared in the majority of daily newspapers over the past five years, as highlighted in Table 3.

There has also been extensive regional media coverage with nearly 200 articles on The Inner City 100 programme (see Table 4).

Media coverage has been one of the key benefits for the companies, helping to raise their regional profile in particular. The regional media have been incredibly responsive to the Index and enthusiastic about the prospect of covering 'local heroes' and helping to throw a positive light on their local inner city problem areas. For example, the Western Daily Express in Bristol published the following quote after the 2003 awards "*Sift is a great example of the type of dynamic ICT (information, communications, technology) companies the RDA and its partners are trying to attract to the region.*"

The scope of articles regarding The Inner City 100 programme has been broad from focusing on business premises and business finance, to examining how to promote female entrepreneurship, and comparing the UK experience with that in the US.



The media has often highlighted Inner City 100 firms as role models and identified their founders as a unique selection of entrepreneurial talent. As *The Guardian* noted in 2003 in a review of progress towards providing appropriate finance to inner city business, *"There is even an Inner City 100 group of firms which have succeeded against the odds and provide a benchmark of best practice."*

The angle of the pieces have been overwhelmingly positive and the media have often homed in on the companies that represent the essence of The Inner City 100 programme – the socially aware company; the pioneering company; the company run by an entrepreneur who achieved success against all the odds. It has often not just been the winner of the Index that has attracted media attention, but also lower ranked companies. For example, a firm pioneering a new form of social entrepreneurship or a creative company carving out a unique niche.

The following sections examine key issues and areas for Inner City enterprises and the final section recommends a series of initiatives necessary to deliver long-term improvements in the UK's inner cities.

Issues

Through engagement with almost 300 Inner City 100 entrepreneurs in the past four years and from research conducted by **nef**, a wide range of issues have been highlighted that face inner city business and undermine the potential for more successful enterprise-led regeneration.

Barriers to firms' growth that affect their impacts on their local areas, including access to finance, business support and employee skills have been investigated. Table 5 indicates the main factors limiting the growth of Inner City 100 winners over the past four years.

Growth finance: access continues to constrain growth

One of the objectives of The Inner City 100 programme is to examine the issue of finance for inner city firms. SBS continues to recognise that *"some businesses face difficulties in accessing finance, particularly if they are located in deprived areas"*.¹⁹ Evidence from Inner City 100 companies suggests that access to finance remains a major constraint to growth, closely behind recruiting staff (see Table 5). Approximately 25 per cent of entrepreneurs identified access to capital as their biggest issue in 2001 and 2003, and almost 30 per cent identified it in 2002. This year has seen a reduction to 16 per cent of firms indicating that there may have been some improvement in the past two years but this is difficult to confirm since the non-response rate in 2004 is higher than in previous years.

Where finance is highlighted by the 2004 Inner City 100 winners, issues range from difficulties in obtaining bank loans, problems with cash flow, a lack of and uncertainty surrounding grants, and decreasing margins.

Since 1997, the Government has introduced a range of grant, loan, investment, and tax instruments designed to make finance more readily available to businesses at all stages of growth. Whilst these efforts are welcome, feedback from Inner City 100 firms suggests that many of these initiatives are little known or understood. The exception appears to be the Small Firms Loan Guarantee Scheme (SFLGS) which has benefited a number of current and past Inner City 100 winners. However, at the Inner City CEO Forum of 2004, entrepreneurs noted the geographical diversity of access to the SFLGS, with banking representatives highlighting the bureaucracy involved as a barrier to their involvement. These

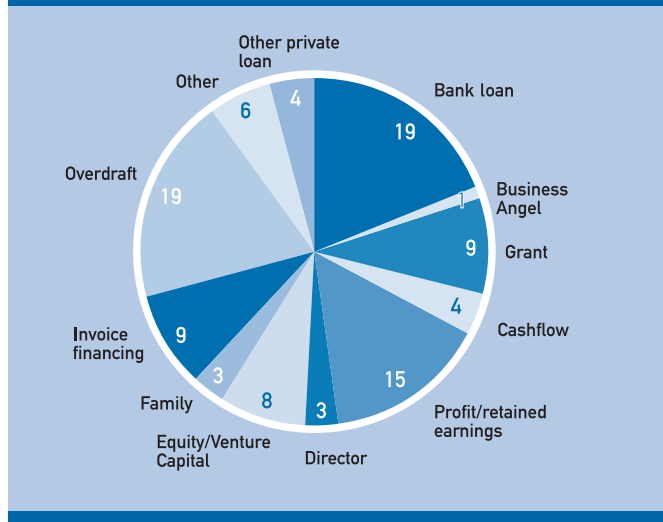
Table 5: Main factors limiting growth for Inner City 100 firms

Factors limiting growth	2004	2003	2002	2001
Access to skilled workforce	29	29	25	33
Access to capital	16	24	28	26
Lack of market demand/new customers	8	16	9	5
Space to expand	6	6	9	–
Finding strategic partners	2	7	9	4
Access to property	1	1	2	4
New product development	–	6	3	6
Access to relevant business advice	–	–	1	–
Crime	1	1	–	–
Other	11	8	9	5
No response	27	2	4	17

comments are backed up by the recently released Graham Report which argues that the objectives of the SFLGS are not well understood, that its availability is patchy, and that its administrative structure requires change.²⁰ The Graham Report and the Government's response to it are encouraging with lending limits and turnover limits to be increased and bureaucracy reduced. Raising the turnover limit to £5.6 million would mean, for example, that 72 of 2004 Inner City 100 winners would now be eligible under this Scheme (compared to the 55 that are currently eligible).

PAT 3 stated that people in disadvantaged communities often find it difficult to find capital to start or grow businesses because of a scarcity of collateral, a fragile local economy, and problems of cultural separation. This

Figure 4: Sources of growth finance for 2004 Inner City 100 winners



suggested that the banks were seen as unapproachable and disinterested. However, this would contradict opinions of Inner City 100 firms. In 2004, more than 75 per cent of winners said the service they received from their bank was good or very good. In 2003, 41 per cent of firms said the service was excellent (40 per cent in 2002), while 47 per cent said the service was satisfactory (48 per cent in 2002). However, these businesses are highly successful and generalisations about the broader business community in disadvantaged areas cannot be made.

Figure 4 indicates the importance of bank loans and overdrafts in financing growth, with retained earnings also providing an important source.

The Social Investment Taskforce, established in 2000 and chaired by Sir Ronald Cohen, is a joint-initiative between **nef**, the UK Social Investment Forum, and the Development Trusts Association. The Taskforce explored the case for social investment and financing in regeneration and community economic development arguing that entrepreneurs creating wealth for themselves and their families was crucial as was the presence of investors seeking a financial as well as social return.

"Our central conclusion is that the potential now exists to achieve a transformation of investment flows to support entrepreneurial value creation in those communities which have been most deprived of capital and management expertise."

Sir Ronald Cohen, Chair of the Social Investment Taskforce, Apax Partners

The Social Investment Task Force welcomed the foundation of the then Inner City 25 in the UK²¹ as key to the efforts to develop growth strategies in low-income, inner-city areas.²²

Of the 2004 winning firms, 9 per cent have accessed venture and equity finance.²³ This was comparable to levels of grants and invoice financing, both of which provided growth capital for 9 per cent of Inner City 100

winners. However, attitudes to venture capital reveal much about the challenges faced and entrepreneurs' attitudes to different forms of finance. Surveys of Inner City 100 winners in 2003 indicated a reluctance and, in some cases, hostility towards venture finance.

"VCs [Venture Capitalists] look at the proposition in terms of exit. We are looking to grow a company not be obsessed with when can we sell up and get out."

**Brian Seifert, MD
Direct Digital**

Although 65 per cent of Inner City 100 winners in 2003 had considered venture capital, very few had pursued it, primarily because entrepreneurs feared losing control of their firms. The comments of Horner Brother Print Group Ltd epitomise the views of many Inner City 100 firms: *"We have looked at venture capital for growth funding but are loathe to use it... our ethic is to run the business the way we run our personal finances... if we can't afford it ourselves, we can't have it."*

The situation is even more significant when you look at female Inner City 100 entrepreneurs. In 2003, of 11 women-owned businesses, none took venture capital despite 5 considering this route. The reasons cited for not wishing to use venture capital were:

- They did not want to cede control.
- They did not need it because they were cash-rich.
- They would prefer to use local funds or business angels.
- They didn't believe in venture capital and would rather use family money.

Clearly the issue of ceding control over a business is a core issue for many entrepreneurs who otherwise might benefit from some form of risk capital. Additionally, risk capital is important to prevent too much reliance on debt and to avoid a firm becoming too highly geared. It appears that there is a clear need to investigate more thoroughly the demand and needs of entrepreneurs with respect to growth capital and whether or not current supply is appropriate. In the US, there is more use of mezzanine finance which comprises elements of equity or patient capital and debt. Mezzanine finance may be structured as preferred or common stock with near equity payments as warrants, royalties, or participation payments.

For those businesses who want and are appropriate for venture capital, whether from business angels or venture capitalists, initiatives such as the Regional Venture Capital Funds aim to address a perceived equity gap. Additionally the Bridges Community Development Venture Fund is specifically targeted at firms in the 25 per cent most disadvantaged areas of England.²⁴ However, evidence from The Inner City 100 programme suggests a significant information gap regarding the availability of capital for businesses in inner city areas. Demand for finance from other initiatives, for example, the Early Growth Funds (EGF), is limited by a lack of awareness among Inner City 100 firms. In 2003, only 12 per cent were aware that EGF even existed (see Table 6).

Table 6: Inner City 100 winners' awareness of business support/ improvement initiatives

	Know	Don't know	Total
Small Firms Loan Guarantee Scheme	63	37	100
Community Development Finance Initiatives (CDFIs)	22	78	100
Early Growth Funds	12	88	100

Inevitably, some inner city firms will not be appropriate for a particular source of finance. However, the key is to ensure there are better referral systems in place from one source of finance to another. When a firm is turned down by a bank for a loan – depending on the reason – they should be advised of alternative sources. To achieve this, better co-ordination is needed between mainstream sources of growth finance and the alternative provision available.

Business premises: pressures threaten inner city businesses

Despite government efforts to improve access to suitable business premises and to enhance the environment in disadvantaged areas, barriers remain. Evidence from The Inner City 100 programme suggests that stamp duty exemption for property transactions up to £150,000 in Enterprise Areas and tax credits for clearing up contaminated sites will not address the fundamental issues surrounding business property in the UK's inner cities.

As documented in the 2003 Inner City 100 *Entrepreneurs' Manifesto*, many businesses find it impossible to expand into new premises or remain at current locations because of rocketing inner city commercial property prices and rental costs. In the *Entrepreneurs' Manifesto*, Inner City 100 entrepreneurs proposed a tax break or capital grant for inner city firms to develop current premises or acquire new business space in inner city areas. The Government's recent initiative to introduce a Business Premises Renovation Allowance in 2005 may help address current market failures in the re-utilisation of premises.²⁵ However, without government action, many businesses fear they will be forced to relocate away from inner city areas – which would be a tragedy for local employment and local economic well-being.

Pressure on inner city property stocks from residential property developers has resulted in the conversion of many business properties into luxury, centrally located, urban residencies. Businesses were finding it hard to afford the rents before the property booms and now some have been completely priced out of the market. Maryrose Monroe, MD, Johnny Loves Rosie, a former Inner City 100 winner summed up the problem: "Our space is too small and our rents are going up. There are only two businesses left in our whole building. The rest is now residential where it all used to be business."

Many of the growing inner city companies, particularly those businesses that require more space for engineering or manufacturing operations, face particular difficulties. They find that searching for new premises and finding adequate space is a long and arduous task. To maintain an economy based on a balanced distribution of sectors allowing each to be sustainable and locally focused, attention must be paid to the property needs of struggling sectors, for example, manufacturing.

"Space is a big problem. There is no industrial property. It is all being snapped up for residential developments."

**Alasdair Flint, Director,
Flint Hire and Supply in London's West End.**

The result is that some of these companies are forced to consider moving out of the inner cities, for example, to outlying business parks. If this becomes a common story for more inner city companies, there is a danger that inner city revitalisation will become unbalanced and commuting patterns reversed with urban dwellers travelling to the outskirts to work.

"There are lots of new developments coming up but at premium rates. It would be nice to see old buildings transformed but there are too many planning problems. We are trying to buy an old library to move into, but we are having planning problems. We keep battling on though. In some ways it seems easier just to go into a new office block."

**Heather Jones, Operations Director,
Jump Group Ltd**

Social enterprises: the future is bright

Social enterprises are businesses that trade with a social purpose and as alternatives to mainstream business models, social enterprises have grown in both credibility and success in recent years. The SBS Social Enterprise Unit defines these businesses as, "Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."

Inner City 100's role in demonstrating the value of the sector and increasing knowledge about these firms' strategies and barriers to future growth has been recognised in the long-term support of the Social Enterprise Unit.²⁶ One Senior civil servant commented "Inner City 100... drew attention to the fact that high performance (i.e. growth) is as possible for social enterprises as for other types of businesses."

Within The Inner City 100 companies there have been 24 unique winning entries from the social enterprise sector between 2001 and 2004. This represents almost 10 per cent of all winning firms on the Index. These firms demonstrate that it is possible to combine strong growth and commercial success whilst delivering on their primary social and environmental objectives. The success of and focus on social enterprises has helped encourage some

Table 7: Engagement of Inner City 100 firms

	Local Authority	Regional Development Agency	Local Strategic Partnership	Urban Regeneration Company	Business Link	Government Office
Engagement	15	11	13	5	9	10
Support	9	8	5	2	32	7
Both engagement & support	23	14	9	4	23	10
Neither	53	67	73	89	36	73
Total	100	100	100	100	100	100

Table 8: Inner City 100 firms' views of Government

As a result of The Inner City 100 programme...	Totally agree/ agree (%)	Neither agree nor disagree (%)	Totally disagree/ disagree (%)
Inner city entrepreneurs are more engaged with government	32	50	18
Government responded well to the <i>Entrepreneurs' Manifesto</i>	20	40	40

key players in the sector, including the Social Enterprise Unit, to consider how to support these fast-growth businesses.

Winning firms on the Index have been profiled in **nef's** reports and in the media as part of the celebrations. Their success has helped demonstrate the value and significance of the social enterprise sector and their ability to compete on the same basis as mainstream business. A senior civil servant commented *"The winners have acted as positive role models for others and have offered affirmation that social enterprise is a business model that can succeed"*.

Winning social enterprises also perceive considerable benefits.

"The Inner City 100 Index has had a dramatic impact on improving the profile and recognition of Hoxton Bibliotech throughout London as a dynamic, fast-growing social enterprise. Private companies and public sector agencies have gained a greater understanding of the nature of our business through the work of nef and The Inner City 100 Index."

**Neil Barklem, Chief Executive,
Hoxton Bibliotech (social enterprise
winner 2001, 2002 & 2003)**

Inner City 100 research has also demonstrated that the best mainstream businesses engage their employees and communities in similar ways to social enterprises.

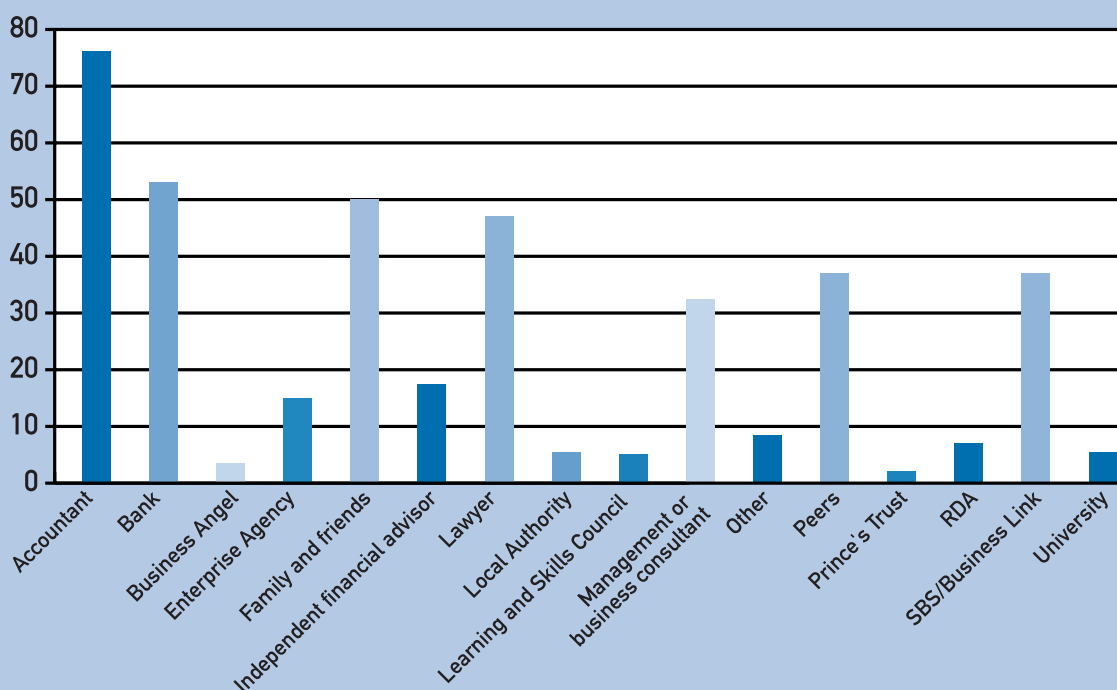
This indicates that commercial collaboration and learning between the two sectors is possible and that the boundaries between the two 'sectors' are permeable. The Social Enterprise Unit is currently exploring the relationships between social enterprise and business to find examples of successful collaboration.²⁷ One senior civil servant said *"It has provided opportunities for social enterprises to mix in the wider business community and that two-way dialogue could benefit both sides in terms of business practice as well as generate business."*

Engaging entrepreneurs in policy-making and practice: a lost opportunity

Despite the willingness of Inner City 100 entrepreneurs to become involved in regeneration initiatives, their engagement by local and regional organisations has been patchy. Table 7 illustrates the number of Inner City 100 firms that have been engaged by selected organisations central to regeneration and providing business support.

As Table 7 illustrates, less than a quarter of entrepreneurs have been engaged with and supported by their local authorities or Business Links. A considerably lower number have been engaged and supported by RDAs and Local Strategic Partnerships: 14 per cent and 9 per cent respectively. Feedback from Inner City 100 entrepreneurs indicates that their local authorities are not proactive in engaging them and, in some cases, not reactive to their problems or requests.

Figure 5: Sources of business advice²⁸



However, many entrepreneurs express a willingness to be involved in local and regional initiatives and some are acting on this. Indeed, in a recent survey of Inner City 100 entrepreneurs, several noted their involvement in high profile government initiatives including City Growth Strategies, Manchester Knowledge Capital, and Scottish Enterprise Glasgow as benefits of the programme.

The involvement of Inner City 100 entrepreneurs in government programmes and initiatives has been beneficial where it has been supported. HM Treasury believes that the proactive involvement of Inner City 100 entrepreneurs has been of considerable benefit in helping to shape enterprise policy and approaches to regenerating disadvantaged areas.

There are a variety of motivations for firms to become involved with local and regional public organisations; in some cases there are good business reasons for keeping up to date with regeneration initiatives.

"... We're trying to be a bit more imaginative. For example, if boroughs are promoting businesses in a particular area, or particular activities are encouraged, we look into it. If not, we are trying to persuade them they should be promoting this. For example, Peterborough and Leicester are trying to encourage environmental businesses to locate there."

John Faulks,
Company Secretary,
Solarcentury

However, in evaluating the four years of The Inner City 100, less than a third of entrepreneurs feel that they have become more engaged with government whether at the local, regional or national level. This is a missed

opportunity to learn from these entrepreneurs and gather their insights into the realities of running businesses in the inner cities.

In addition, 40 per cent of entrepreneurs do not feel the Government has responded well to the 2003 Inner City 100 *Entrepreneurs' Manifesto*²⁹ and 38 per cent think that barriers to starting and/or running an inner city business have not decreased over the past four years. That said, an equal amount of entrepreneurs are equivocal on this point.

Ensuring that inner city businesses are engaged in both policy-making and implementation is central to delivering the maximum benefits to a disadvantaged area. As the European Commission's Action Plan on entrepreneurship states, *"The commitment of the business community is a prerequisite for successful entrepreneurship policy."*³⁰

Promoting the benefits of engagement to business and ensuring they are communicated in a way that appeals to business will help engage them in regeneration initiatives.

Business support and the need to address demand

The overwhelming message from Inner City 100 entrepreneurs over the past four years is that there are too many programmes aimed at supporting businesses and that they do not address their needs. As the Budget Statement of March 2004 recognised, *"Small businesses can feel over-burdened by multiple demands and confused if there are too many sources of support."* Inner City 100 firms complain of the panopoly of initiatives available and express confusion over which are appropriate to meet their needs.



In the past four years, the majority of Inner City 100 winners have sought business advice at some stage in their businesses' growth. Figure 5 illustrates the sources of advice for Inner City 100 winners in 2002.

Accountants and banks are consistently popular sources of advice and were used by 76 per cent and 54 per cent of winners respectively. While SBS and Business Links were also popular in 2002 (36 per cent), other public bodies including RDAs, local authorities and enterprise agencies were not well used. Family and friends were approached by half of the winners, as were lawyers (approached by 47 per cent of winners). In 2003, the results were similar with 75 per cent of winners seeking external private advice from accountants and banks.³¹ In 2004, fewer sought external private advice (59 per cent) with the number seeking external public advice increasing slightly to 56 per cent, while those approaching personal sources decreased to 35 per cent.

These latest figures show an increasing number of firms seeking advice from external public sources such as Business Link. They suggest that the efforts made by Business Link to improve their services over the past year are slowly starting to pay off. This said, Inner City firms have consistently raised the issue that business support, particularly that offered by Business Link, is too strongly focused on start-ups at the expense of second-stage, growing and established companies.

"I have attended a few courses but none of them were geared up for established businesses. There is lots of help for start-ups and lots of courses for managers but there is a big gap in between."

**Mohan Chauhan, MD,
Scheff Foods**

At the Inner City 100 CEO Forum in 2004, many felt that resources were being wasted trying to improve start-up rates while survival rates remained poor. Many Inner City 100 winners have bemoaned the lack of specialised business development advice for companies that are beyond the start-up phase.

"...the next challenge is growing and taking the company to next level – we're in a round of raising money and trying to attract investment at the moment. We are well advised, but those sorts of courses – for various stages of business, not just startups – would be really useful."

**John Faulks, Company Secretary,
Solarcentury**

Much high level expertise in business strategy, market dynamics, and business processes resides in the private sector. Many inner city firms may be best served by leading private sector business consultants. Indeed, Inner City 100 firms already have a greater propensity to consult private sector organisations rather than the public sector. However, accessing this expertise can be expensive for inner city SMEs.

Trust in public sector business support initiatives remains low among Inner City 100 entrepreneurs. In many cases, firms that have engaged with public business support have found their experience unrewarding with insufficient business benefits. An Inner City 100 entrepreneur commented, "We met twice with Business Link but they said we would have to pay them for advice. But we just weren't sure that it was worth it. They usually just tell us things we already know and give us no answers."

Some entrepreneurs also expressed concerns that public sector support is based on political imperatives rather than their needs. Maryrose Monroe of the firm Johnny

The Inner City Entrepreneurs' Fund: a case study of demand-led business support

The success of London businesses featured in The Inner City 100 Index, along with continued support from the LDA, led to the creation of The Inner City Entrepreneurs' Fund. Launched in early 2003, the Fund finances investment in senior management training, staff training, and mentoring with grants of between £1,000 and £10,000 to growing small and medium enterprises in London's most under-resourced urban areas. The Fund consists of a total of £1 million, to be made available over a minimum period of three years.

This is a demand-led programme that has been designed in consultation with entrepreneurs to make it simple, flexible and relevant to business needs. Companies are free to choose the most appropriate service providers for their training requirements. While open to all eligible London businesses, the Fund particularly seeks to support the manufacturing sector, and to provide management opportunities for black and ethnic minority employees.

To date the Fund has provided training to approximately 200 individuals. Evaluations indicate that the programmes funded have provided added value to the firms supported: 98 per cent of employees surveyed agreed that the learning programme will help their company. Participants also found that the courses funded were useful for their current jobs, with 90 per cent indicating they would recommend the programme to others. Nilesh Goswami, Managing Director of Matrix Research & Consultancy Ltd, confirmed this assessment: *"A simple application to the Fund enabled us to develop and align the commercial acumen of our management team. We are now better positioned to build on a solid foundation and achieve the ambitious and challenging plans we have for our business."*

The Inner City Entrepreneurs' Fund will be offered in London until at least 2006. Based on highly positive feedback, replication of the Fund across the UK will be explored.

Loves Rosie believes that the problems faced by business support delivery agencies are based on their tendency to make knee jerk reactions to the political climate. *"I think the supply of support is very political. They offer something that suits policies that are being announced at the time but these are never properly thought out in the delivery."*

Inner City 100 entrepreneurs also perceive business support to be overly target-focused and therefore out of tune with firms' real needs.

"If you can help them hit their targets, then you can get what you want. Their timescales don't fit with our business timescales – they want it done too soon. They've got money to throw at us but we can't move that quickly."

**Kevan Brown, MD,
KGB Cleaning Group**

The shift of Business Links to within the remit of the RDAs may improve co-ordination and delivery of business support but only if it is accompanied by a fresh examination of business support needs. There has been insufficient focus on generating and meeting the real demand for business support. To achieve this, marketing of support requires improvement as does the support itself.

"It's impossible to know exactly what is on offer. They don't market their services very well so the message is muddled."

**Maryrose Monroe, MD,
Johnny Loves Rosie**

Part of achieving better business support is delivery in a way that recognises the way entrepreneurs' work and avoids unnecessary bureaucracy. As Brian Seifert of Direct Digital noted, *"it is not worth my time investigating*

programmes that I will either be ineligible for or that will be hopeless." Another Inner City 100 winner noted that they had not used business support at all because: *"We never had anyone who had the time or the know how to fill out those huge forms – it takes so much time."*

Evidence gathered from The Inner City 100 programme clearly suggests that the support currently available to entrepreneurs is either too complex or inappropriate. Many require support including: to plan their growth, achieve investment readiness, create a suitably skilled staff, identify opportunities and plan for their succession. This must be targeted and delivered in a way that entrepreneurs respond to and can understand. In examining future business support structures, SBS and the RDAs should respond to the conclusion that current support is 'not fit for purpose'.

The Inner City Entrepreneurs' Fund funded by the LDA and managed by **nef** demonstrates the value of a demand-led and enterprise-focused approach to supporting businesses. Through The Inner City Entrepreneurs' Fund, businesses receive funding for courses and training of their choice delivered by providers of their choice to meet a business need. A senior official from the LDA commented *"Initiatives such as The Inner City Entrepreneurs' Fund that provides a demand-led solution to business' training needs demonstrate how to support enterprise and should be replicated across the UK."*

Young people and entrepreneurship

This year sees a new emphasis in government on improving enterprise culture across the UK. With the launch of Enterprise Insight, the first Enterprise Week in November 2004, and the National Council for Graduate Entrepreneurship there is an increased focus on creating a more entrepreneurial society. This wave of activity



chimes with the European Commission's intent to launch awareness-raising campaigns across the European Union to focus on entrepreneurial role models and success stories.

Central to the enterprise culture agenda are young people. Research suggests that more people consider starting up their own business between the ages of 16 and 25 than in any other age group, but that few then establish a business.³² The new Enterprise Insight campaign is designed to stimulate enterprise among this group echoing the European Commission's aim to foster 'entrepreneurial mindsets among young people'.

Presently, the Government relies on the voluntary services and goodwill of entrepreneurs to teach and inspire schoolchildren and young people about entrepreneurship. Of the 2003 Inner City 100 winners, 57 participate in visits, placements or links to schools and colleges.³³ Interestingly, more than 80 per cent of the firms involved in entrepreneurial mentoring also participate in visits and placements with schools and colleges. As the *Entrepreneurial Mentoring* report demonstrates, Inner City 100 firms are an engine of positive energy for their communities.

In the 2003 Inner City 100 *Entrepreneurs' Manifesto*, entrepreneurs argued that they should be rewarded for providing this social benefit through tax breaks, paid expenses, or another form of 'reward' which would encourage more entrepreneurs to take part in such schemes.

Whilst the Government has not yet addressed the issue of tax breaks for entrepreneurs involved in youth mentoring, there is a new focus on transforming the learning experience for young people.³⁴ The Howard Davies report, *Enterprise and the Economy in Education*, recognises the

importance of entrepreneurial skills for both employees and employers, albeit in a little-quoted annex:

"Although there has been at times a focus on business start-up, it is increasingly recognised that it is about developing enterprising people, as having an enterprising approach is important for employees as well as people setting up their own business."

Review of Enterprise and the Economy in Education, DTI

The aim is to ensure that all young people will gain experience of work-related learning and enterprise learning and have greater choice within a more flexible school curriculum. From 2005/6, the new £60 million 'Enterprise Education Entitlement' will provide all Key Stage 4 pupils with the equivalent of five days' enterprise activity to develop enterprise capability. In addition, the Government has funded 250 Enterprise Advisers for schools in disadvantaged areas of England to work alongside head teachers in around 1,000 secondary schools to encourage enterprise practice among teachers and pupils. However, Inner City 100 entrepreneurs believe these advisers are ill-qualified and reflect a mistaken approach to policy. These entrepreneurs argue that they are best placed and willing to offer the exposure to enterprise and entrepreneurship that young people require.

Taking forward the agenda

The Inner City 100 programme has helped to place fast-growth inner city businesses from across the UK on the enterprise agenda. There have been many policy changes since The Inner City 100 programme was launched, but as Inner City 100 entrepreneurs testify, many have failed to have their desired impact at the local level. Much



remains to be done to drive forward enterprise-led regeneration and **nef** will continue to play its part. We are currently examining several proposals to build on the legacy of The Inner City 100 programme. One aspect of this is a commitment to broaden our work on enterprise in disadvantaged areas to incorporate rural and coastal areas. These areas often face different challenges from inner city areas, but the importance of enterprises in creating and retaining wealth locally is just as great.

The final year of The Inner City 100 as an events-led programme means that others must help take forward the agenda on inner city enterprise and enterprise-led regeneration.

The natural organisations to continue the benefits of The Inner City 100 programme would be the RDAs, so as to embed the expertise of entrepreneurs into policy-making as well as to find new role models in deprived areas across the regions. We suggest that RDAs, Local Strategic Partnerships and city councils in particular regions, consider setting up their own Inner City entrepreneur networks and initiatives. This issue could be discussed by the new RDA enterprise in disadvantaged areas network.

As one senior stakeholder argued, once The Inner City 100 programme no longer contains an awards programme there is a danger that the perception of "fast-growing, innovative, successful and profitable" businesses may be lost. Care must be taken to ensure that perceptions of inner cities continue to improve and that inner city enterprise continues to receive the attention of policy makers.

The Inner City 100 Alumni Network

nef is currently consulting stakeholders regarding the launch of a national Inner City 100 Alumni Network. This network would build on regional networks and the pool of Inner City 100 winners to provide a voice at the national level for inner city enterprises. Through national policy forums that engage businesses and regional and national government, The Inner City 100 Alumni Network would provide networking benefits for businesses and a unique perspective on the future of regeneration in the UK's inner cities. Demand for an Inner City 100 network has grown from entrepreneurs over the past four years and this needs to be translated into action. **nef** will consult further on this with Inner City 100 entrepreneurs and with key regional and national stakeholders.

Centre for Enterprise

nef is examining the viability of incubating a centre for research into enterprise-led regeneration. In partnership with a respected university department, the centre would take forward research on enterprise-led regeneration in the UK across a range of different types of locality from inner cities to coastal towns. **nef** will incubate the centre for 18 months before launching it as an independent institute to drive forward research and the agendas started through The Inner City 100 programme. Initial research will build on the findings from four years of The Inner City 100 programme and will commence in January 2005. We are seeking interested partners and sponsors to take this initiative forward.

Recommendations

The following recommendations are **nef's** call to action for promoting inner city regeneration. The proposed initiatives will encourage businesses as they continue to transform the UK's inner cities.

Impacts

A UK Enterprise and Regeneration Tax Credit to encourage more firms to have significant positive economic impacts should be introduced.

This approach would present clear incentives for firms in areas of disadvantage to, for example:

- Increase their local procurement.
- Help build supply chains.
- Employ local people.
- Engage in skill development.
- Encourage more mentoring of young people.

In the US, there are a range of tax credits or other incentives designed to support firms that are engaged in positive social and economic activities that benefit the local community. In Delaware, for example, a number of innovative tax credits have been implemented. These credits are available for firms that expand facilities and workforces, locate in targeted geographic areas or make efforts to improve the environment. Crucially, firms in Delaware may be eligible for selected federal tax incentives if hiring from specified pools of economically disadvantaged potential employees.³⁵ Although these are probably not the areas that a UK Enterprise and Regeneration Tax Credit should target, it illustrates the potential for creating a range of levers for further embedding the positive impacts of business activity into deprived local areas.

The social and economic return on investment for the UK Government in terms of higher employment and more vibrant local businesses translating into lower benefit take-up and increased tax take in these areas could well be significant. Our analysis to date suggests that there are significant barriers to further engagement by enterprises that could be partially overcome by innovative partnerships between business and local agencies and would be incentivised by recognition through a tax credit.

We suggest that the Treasury sets up a review of the actual and potential impacts of inner city business activities (drawing on **nef's** initial work with the LDA). Analysis of current barriers – and therefore the estimated increased activity and impact as a result of financial incentives targeted on a limited, but potentially high-impact set of activities – is required. The incentives would be similar to the approach taken with the Community Investment Tax Credit and could complement or subsume the new tax incentive to encourage business donations towards the running costs of Urban Regeneration Companies. **nef** will build upon its Local Impact Model to explore the drivers of local impacts, and examine the barriers to firms achieving greater impacts in disadvantaged areas. This will underpin the feasibility of a range of incentive and support schemes.

To complement the UK Enterprise and Regeneration Tax Credit, more research is needed into public and private sector initiatives and partnerships that engage business in positively contributing to the economic and social development of their communities. For example, by building supply chains or skill development partnerships. This will help clarify the role of different sectors in promoting positive local impacts and increase the regeneration benefits of enterprise policy. Work due to be published in 2005 by **nef** sets out practical examples of public sector initiatives and private sector actions aimed at enabling large companies to increase the local economic benefits of their activities. Many of these recommendations will be relevant to smaller companies.³⁶

Growth finance

Access to appropriate growth finance remains a key barrier to business growth despite some welcome initiatives to improve the situation. It appears that fast growth enterprises may need forms of patient or risk capital which are structured differently from standard venture capital or even business angel finance, thereby following more of a mezzanine model. In addition, entrepreneurs appear not to be aware of many sources



of equity finance which are available, even those that have been specifically targeted at companies like their own. **nef** recommends:

- A much more coherent approach to marketing and signposting businesses to sources of growth capital by public, private, and not-for-profit support agencies and finance providers. The lead should be taken by the SBS.
- Further research is undertaken into the demand for various forms of growth finance by fast-growth firms. It appears that the issue is not so much about an equity gap but a lack of understanding of different forms of finance that would address issues such as concerns about ceding control or different ratios of risk and return. Demand and supply for innovative models of mezzanine finance could be explored by, for example, the Bank of England, the Small Business Investment Taskforce, or the RDAs.

Property

Spiralling rents and property prices – particularly in regeneration areas that are ‘gentrifying’ – pose a significant barrier to Inner City 100 entrepreneurs as they grow, require larger premises, or seek to relocate. In addition to this, many buildings are being developed by residential property developers, further reducing the supply of suitable premises. Current policy has focused too much on providing incubators for start-up business without recognising the importance of affordable and flexible workspaces and business units for existing and growing businesses, social enterprises, and voluntary organisations. Businesses may move elsewhere if this issue is not addressed, reducing wealth and job creation in the areas of greatest need.

One way to support the development of affordable business premises (as well as to allow for the development of affordable housing, and other local services) is by ensuring that a certain percentage of land (say, 5–10 per cent) in regeneration areas is kept out of private ownership and passed to some form of community or public ownership. This will ensure that as an area regenerates, property, retail and environmental developments can take place which are separated from any increasing land value. This will enable existing residents, local businesses, social enterprises and the voluntary sector (in other words, the people and groups regeneration is supposed to benefit) to remain in the area rather than being priced out or forced to struggle to pay rents. The idea builds on models of Community Land Trusts in the US and Development Trusts in the UK.

nef recommends:

- Local authority planning should consider the current and future needs of indigenous businesses, as well as businesses that might move into an area. They should undertake surveys to thoroughly understand the local business profile and the availability of appropriate premises working with not-for-profit and private sector developers to address these needs. This is particularly critical in disadvantaged areas in order to support business retention. In addition, RDAs and other economic development agencies should consider directly supporting the development of workspaces for rent and sale that meet local business needs beyond incubation. We suggest that the Treasury undertakes an enquiry into community-owned land development as part of all area-based regeneration initiatives.³⁷



- Another way to address the issue of appropriate business premises is to enable unused buildings, particularly those owned by local authorities and public bodies, to be developed into affordable and flexible business premises. (Lessons can be learned from the Development Trusts Association who has a strong track record of creating multiple use organisations as a result of property development in disadvantaged areas.³⁸)

Engagement of entrepreneurs in policy-making and regeneration

Involving entrepreneurs in policy-making and regeneration promises dual benefits of improved policy formulation and delivery. Local government and RDAs, as well as regeneration partnerships, need to engage more successfully with inner city business.³⁹ Not only will this improve policy formulation and delivery, but greater communication between public and private sectors will enable issues to be raised immediately and policy to be shaped and revised in a more responsive manner.

Inner city businesses need to be given a more formal role in the creation and development of initiatives to support economic development strategies. The existing network of Inner City 100 entrepreneurs from the last four years provides a good starting point.

Improving entrepreneurial culture

There are few role models in our inner cities to support people, particularly young people, in considering enterprise or developing entrepreneurial skills that will be of personal and professional benefit. The Inner City 100 entrepreneurs show the willingness of business people to engage as mentors and role models for young people and for existing business owners. This activity needs to

be further encouraged and more entrepreneurial business leaders approached to take part in such initiatives. Particular consideration should be given to the specific needs and challenges of ethnic minority groups and women. More specifically **nef** recommends:

- All school teachers should spend at least two weeks working in a private sector entrepreneurial venture or a social enterprise. This will enable them to understand and communicate the benefits and drawbacks of setting up an enterprise in order to better support enterprise learning programmes in schools.
- Mentoring can play an important part in the lifecycle of an entrepreneur from the seed of an idea to the peak of business success. The Government and other providers/ funders of mentor schemes should consider developing a lifetime mentoring approach that begins by focusing on young budding entrepreneurs. On starting a business, entrepreneurs should be encouraged to seek mentors and have the option of continual mentoring throughout their careers. Mentors may change, but the dynamic of entrepreneurial mentoring continues.
- A UK-wide web-based access point specifically for entrepreneurial mentoring, perhaps aligned with the 'DTI For Business' website should be established. At a minimum, this should provide details of where existing programmes operate, a summary of features and benefits, contacts, funding details and links to programmes websites.⁴⁰



Business support and structures

Inner City 100 research has consistently shown that the availability and quality of business support is inappropriate for growing firms. This is detrimental to the continued growth and development of inner city firms and undermines employment growth and the health of local supply chains in disadvantaged areas. As much as a focus on start-up firms is welcomed, Inner City 100 entrepreneurs feel that the pendulum has swung too far away from the needs of existing and fast-growing businesses. **nef**'s experience with the LDA Inner City Entrepreneurs' Fund illustrates the role of tailoring support to individual business needs with minimal bureaucracy. **nef** recommends:

- The Inner City Entrepreneurs' Fund is assessed as a model that can be replicated in disadvantaged areas throughout the UK through a set of pilot initiatives by RDAs.
- To create demand, targeted marketing of defined initiatives should be undertaken to reduce the sense of confusion regarding support among entrepreneurs. The DTI has recognised that there are far too many confusing initiatives available for businesses and there is an urgent need for the SBS and the RDAs to address this when reviewing future business support arrangements.
- Business support is not sufficiently responsive to demand. Inner city firms would benefit from a choice of both public and private sector business support provision. A national voucher scheme is required that enables businesses to choose the support they need.

The SBS should consider creating this subsidised voucher scheme for growth businesses in disadvantaged areas to allow them to choose the support they need, rather than supply affordable support solely through Business Links.

- There is a clear need for peer support networks amongst fast-growing businesses both for business development and mutual learning activities. Greater research is needed into private-sector-led networks for growing business, for example, the Alchemy scheme in the North East, to understand best practice and share this among existing and potential schemes. These networks can offer a targeted and appropriate way to support the demands of growing firms and other support initiatives can link in to these initiatives.

Appendix 1: The Inner City 100 programme

The Inner City 100 programme has centred on the annual Index of the 100 fastest-growing inner city firms based in disadvantaged areas.

After an in-depth nomination and selection procedure, the Index of 100 winners is announced at the annual Award ceremony. In 2003, nearly 500 entrepreneurs, policy-makers, business-support professionals and journalists attended the event. The Chancellor, the Rt Hon. Gordon Brown MP, has delivered the keynote address at each of the awards ceremonies alongside notable contributions from Sir Fred Goodwin, Chief Executive of The Royal Bank of Scotland Group. The awards ceremony itself is an evening of celebration where the entrepreneurs take centre stage; each is considered a winner, whether first or one hundredth in the Index.

In addition to the national awards recognising fast-growth and success, there are other targeted awards that recognise achievements at the regional level and also reward special achievement. The fastest-growing firm in each region receives an award as do winners in specific categories, for example, Female Entrepreneur of the year and Social Enterprise of the year.

There is a great deal more to The Inner City 100 programme than the annual awards event. Each year, Inner City 100 winners are invited to attend Masterclasses in business development delivered by the London Business School (LBS). These LBS Masterclasses focus on sharing experiences among entrepreneurs and give the winners access to leaders in their fields on subjects like growth finance and growth management. Feedback from entrepreneurs has been consistently positive since 2001, with many enjoying this valuable and rare opportunity for reflection.

In addition to the UK Masterclasses, the US Initiative for the Inner City (ICIC) invites each of the winners to their annual Inner City 100 Awards that incorporate Masterclasses at Harvard University in Massachusetts.

In 2003, the first Inner City 100 CEO Forum was held. This is the only forum of its kind in the UK that brings fast-growth inner city businesses together with opinion

leaders, key members of the business community, and government decision-makers to debate issues around entrepreneurship in the UK's inner cities. Over 100 people registered for the second CEO Forum held in Birmingham in 2004. The Forum featured a number of workshops and plenary sessions offering thought leadership and active debate around business development activities in inner cities. Topics included sustaining enterprise culture, maximising growth potential, innovation, enterprise-led regeneration, and growth finance. In common with the awards ceremony and Masterclasses, the CEO Forum presents an opportunity to network that is highly valued by entrepreneurs.

The remaining but central strand to The Inner City 100 programme is the research that has been undertaken each year. This research builds on the unique database of information from Inner City 100 firms and from access to a pool of fast-growth entrepreneurs who are experiencing the impacts of policy at the ground level. For the past four years, we have published an annual report examining a wide range of issues from *Secrets of Their Success* in 2002, to how firms compete while delivering positive change in their communities, in *Competing for Change*, published in 2003. 'Fast Facts' provide a snapshot of the firms in each year's Index, for example, average growth rates and number of jobs created (see 2004 Awards Brochure for details).

This year saw the production of an additional briefing paper with a report on entrepreneurial mentoring published in July 2004.⁴¹ Ongoing research is quantifying the impacts that firms have on their immediate local areas to examine the significance of inner city business on their local areas. **nef** intends to build on this research in 2005.

Endnotes

- 1 Porter, M (1995) 'The Competitive Advantage of the Inner City', *Harvard Business Review*, May-June, pp.55-71.
- 2 The Benchmarking Index is a comprehensive database of international company benchmarking information. It can be used by a firm to compare its performance against key criteria and highlight the firm's strengths and weaknesses.
- 3 Taylor, J *et al* (2003) *Competing for Change* (nef, London).
- 4 As described in the Inner City 100 report *Secrets of their Success* (nef, London).
- 5 From 1 October 2004 for adult workers aged 22 and over.
- 6 Social Exclusion Unit (2004), *Jobs and Enterprise in Deprived Areas* (ODPM, London).
- 7 Davies, A and J Taylor (2004) *Entrepreneurial Mentoring: A Key to Business Success* (nef, London).
- 8 Ibid.
- 9 Awards Event November 2003 and CEO Forum September 2004. Feedback was voluntary and therefore not representative of the entire Inner City 100.
- 10 See <http://www.pluggingtheleaks.org>
- 11 Bank of England (2000) *Finance for Small Businesses in Deprived Communities* (Bank of England, London).
- 12 Social Exclusion Unit (September 1998) *Bringing Britain Together: A National Strategy for Neighbourhood Renewal* (SEU, London).
- 13 As part of the National Strategy for Neighbourhood Renewal,
- 14 HM Treasury & Small Business Service (November 2002) *Enterprise Britain: A Modern Approach to Meeting the Enterprise Challenge*, November, (HMSO, London). Published alongside the 2002 Pre-Budget Report.
- 15 Others include fast track planning approval, abolition of Stamp Duty and Community Investment Tax Relief.
- 16 'Floor target' is a generic term that was used in SR2000 to describe targets that set a minimum standard for disadvantaged groups or areas, or a narrowing of the gap between them and the rest of the country. From Neighbourhood Renewal Unit (2004) *National Deprivation-related targets*, accessed 14 October 2004, <http://www.neighbourhood.gov.uk/targets2002/targets-floor/targets2002.asp>
- 17 Taken from: Small Business Service (2004) *Welcome to City Growth!*, accessed 16 October 2004 <http://www.sbs.gov.uk/default.php?page=/citygrowth/default.php>
- 18 From: HM Treasury & Office of the Deputy Prime Minister (2003) *Productivity in the UK: 4 – The Local Dimension*, July, HMSO, London and Small Business Service (2004) *Budget Statement on 17 March 2004: A Summary of the Small Business Announcements*, accessed 18 October 2004, <http://www.sbs.gov.uk/default.php?page=/7-strategies/budget2004.php>
- 19 Small Business Service (2004) *Business Plan 2004* (DTI, London).
- 20 HM Treasury (2004) *Graham Review of the Small Firms Loan Guarantee*, Recommendations, September (HMSO, London).
- 21 Social Exclusion Unit (1998) *op cit*.
- 22 Social Investment Task Force (2000) *Enterprising Communities – Wealth Beyond Welfare*, a report to the Chancellor or the Exchequer (Social Investment Task Force, London).
- 23 This compares with 7 per cent in 2001 and in 2002. There is no data for 2003.
- 24 HM Treasury & Office of the Deputy Prime Minister (2003) *Productivity in the UK: 4 – The Local Dimension*, July (HMSO, London).
- 25 It would provide 100 per cent first-year capital allowances for the capital costs of renovating business premises in Enterprise Areas that had remained vacant for a year or more.
- 26 The DTI's Social Enterprise Unit (SEnU) joined the SBS on 1 April 2004.
- 27 See <http://www.dti.gov.uk/socialenterprise>
- 28 Data from 2002.
- 29 The Inner City 100 *Entrepreneurs' Manifesto* for 2003 is available by contacting nef.
- 30 Commission of the European Communities (2004) *Action Plan, The European Agenda for Entrepreneurship*, Com (2004) 70 Final (European Commission, Brussels).
- 31 In 2003 and 2004, winners were asked whether they had sought external private (e.g. accountant), external public (e.g. Business Link), or personal advice (e.g. friends, family).
- 32 Pre-Budget speech, 2003
- 33 In 2004, this figure was 50 per cent.
- 34 Department for Education & Skills (2003) *14-19: opportunity and excellence* (DfES Publications, Nottinghamshire).
- 35 Snelling, H.T. (2000) *Tax Credits Benefit Socially Responsible Businesses*, accessed 19 October 2004, <http://www.demep.org/ArticlesDetail.asp?ID=10026&ArticleType=Manufacturing+Matters>
- 36 See <http://www.pluggingtheleaks.org> for updates.
- 37 *Common Ground – for Mutual Home Ownership* (nef and CDS Co-operative). This report outlines the principles upon which a business focused community land trust could be based, though the focus of the report is on providing affordable housing. In short, land is held in trust minimising land costs for tenants, while the limited-equity model ensures they have a stake and sense of ownership in their property.
- 38 See <http://www.dta.org.uk>
- 39 The Social Exclusion Report *Jobs and Enterprise in Deprived Areas* states that "small businesses are represented on just 5 per cent of all LSPs" p.64.
- 40 Davies (2004) *op cit*.
- 41 Ibid.

One of the other things we do



Current priorities include international debt, transforming markets, global finance and local economic renewal



Access to finance: Access to basic financial services is a vital part of living and working in the mainstream of society. Gaps in financial service provision in Britain exclude many people and communities from fulfilling their potential. **nef** is working to change policy and pilot new financial products and services to ensure proper access to financial services for all.

Appropriate and affordable financial services should be available to all – whether it be individuals looking for a bank account, a social enterprise looking for a loan or an inner-city enterprise looking for equity. This is currently not the case. To address the gaps in financial service provision **nef** is advocating reform to develop a conducive policy environment that ensures access to affordable financial services for all, particularly the most disadvantaged.

The programme aims to stimulate and design more effective and sustainable approaches to investment for local economic development purposes, including social investment vehicles such as the Adventure Capital Fund.

We develop and pilot innovative financial products and delivery mechanisms, including the Factor Four approach to ending fuel poverty, community development credit unions and a wholesale fund for community development finance institutions in the UK.

**For more information please call
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