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**Doing Business in the
European Capital of Culture (Part I):
baseline indicators**

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Impacts 08 is a joint project of the University of Liverpool and Liverpool John Moores University
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Measuring the economic impacts of Liverpool European Capital of Culture

Baseline economic indicators and the Merseyside business base¹

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1. Introduction

This report provides baseline evidence from which to measure impacts from the European Capital of Culture (ECoC) 2008 designation. The information presented here draws on official government statistics, commercial datasets, and primary survey work undertaken at the University of Liverpool Management School. The aim is to present an initial picture of sub-regional economic performance and business structure. The report is therefore structured to focus on these specific elements as an initial starting point for future work on the programme.

2. Executive Summary

Economic figures were pulled out to explore the underlying trends in the sub-regional economy and forward projection, assuming, importantly, no additional effect from ECoC 2008. This can be used as a baseline to map the impacts of ECoC 2008. In general, these figures project an improvement in Liverpool's economy without an impact on the rest of the sub-region, reflecting targeted localised investment in the city centre.

A baseline summary of Merseyside's business sector was carried out, including a retrospective view of trends from 1999 to 2005. This used data from the Beta Model, which includes smaller enterprises often left out from VAT related data. This showed that:

- There has been a 20% increase in businesses across Merseyside from 1999 to 2005;
- Currently 81% of businesses in Merseyside are 'micro' enterprises (defined as having 10 or less employees).

Based on VAT data, evidence on formation and failure rates was provided. These suggest that:

- Relative to the UK, Merseyside has experienced an increased rate of new business start up and a decreased rate of business failure over the 10 years since 1995;
- Liverpool itself has experienced an increased rate of new business start up, but failure rates remain higher than the UK average.

¹ *Impacts08* has commissioned this project as part of an ongoing business impact assessment programme.

3. Economic Indicators

This section provides a brief overview of the post-2000 economic performance of the Liverpool and Merseyside sub-regional economies, together with forecasts of performance in the run up to the Liverpool ECoC in 2008. For the purpose of the current exercise, performance is benchmarked against that of the North West regional economy, although in subsequent research it is our intention to develop appropriate procedures that will allow us to benchmark local economic performance against both the UK economy as a whole and comparator cities as required.

Tables 1 to 3 - provided in the statistical appendices - summarise data relating to a range of key economic variables for Liverpool, Merseyside and the North West respectively. The forecasts contained in each table are generated by an accepted methodology that takes into account both current and likely future movements in the national and international economies, along with their historically observed relationship with performance at the regional and sub-regional levels. It is, however, important to note that these projections of performance between now and the arrival of 2008 represent our forecasts for the 3 regions' given current indicators. *Therefore the forecasts used here do not take into account the effects of Liverpool being the ECoC in 2008.*

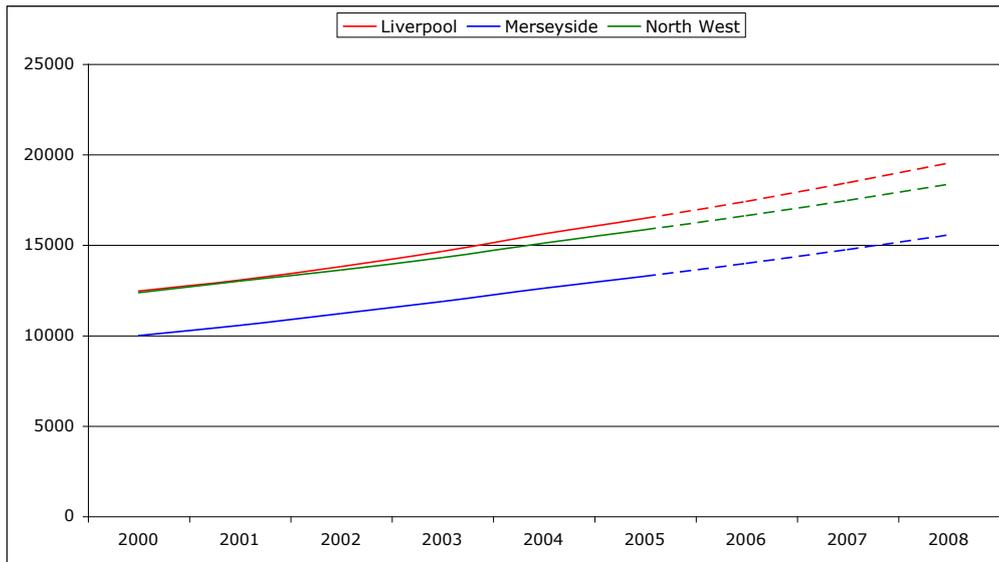
For the purpose of the current exercise we anticipate the UK economy continuing much as it is at present, with interest rates and inflation at relatively low levels and no general slowdown in UK output. To the extent to which these assumptions are borne out over the next 3 years, the forecasts reported in Tables 1 to 3 (see the statistical appendices) constitute a convenient baseline scenario that provides a set of benchmark series against which to chart actual performance. The difference between actual performance in the run-up to 2008, and during the year itself, may, at least in part, be attributable to ECoC effects. This is one of the approaches that will be pursued in our subsequent research.

Generally, the baseline scenario sees Liverpool improving its performance without Merseyside as a whole benefiting. Liverpool's output is expected to increase at a faster rate than both Merseyside and the North West, reflecting targeted localised investment. Regional price indices are produced only occasionally by the Central Statistical Office (CSO). The price index for the North West has settled at about 97.8% of the UK average. This compares to London at 109%. Whilst house price levels — a major component of this — are undoubtedly high, we see no reason to expect a meltdown as seen in the early 1990s. Thus, it seems unlikely that relative prices will change hugely.

Manufacturing employment is expected to be static within Merseyside, while for the North West region we expect to see falling levels. In all other employment sectors the baseline scenario anticipates growth within the North Western region, but less - or even no - significant growth within Merseyside and Liverpool. A detailed listing of major job gains and losses in Merseyside since January 2003 is provided in the statistical appendices.

Under the baseline scenario, we expect unemployment in all areas to follow the national trend that is for per capita unemployment to rise by 0.2–0.5 percentage points by 2008. We anticipate that economic activity will remain at current levels if there are no significant external factors working upon the economy.

Figure 1: Gross Value Added (GVA) per capita trend - actual and forecast (£s)

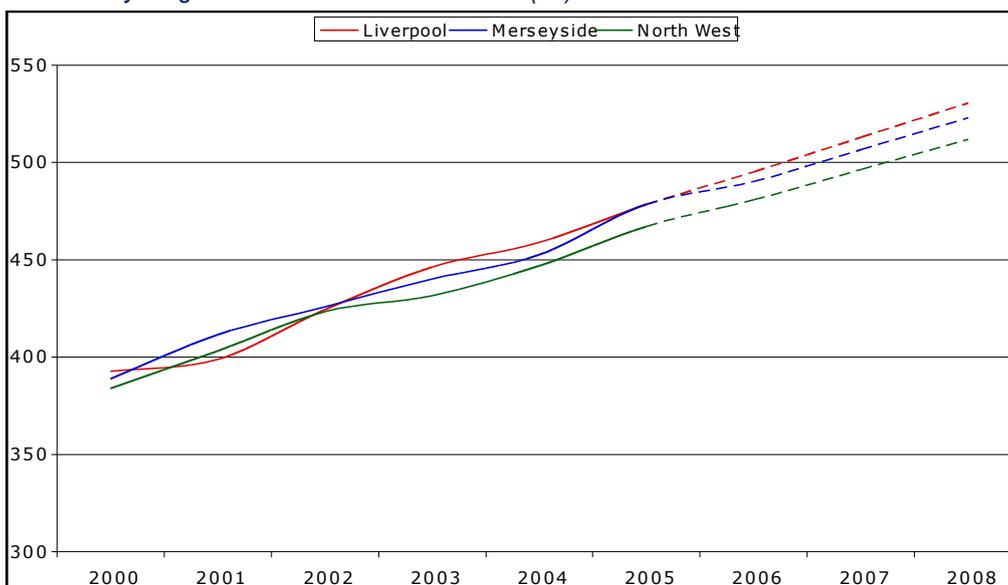


Source: see Table 1 to 3 [statistical appendices]

Figure 1 provides actual and expected Gross Value Added (GVA) per capita, comparing Liverpool, Merseyside and the North West. GVA is expected to increase in Liverpool from the 2000 figure of £12,417 to the 2008 figure of £19,489, before any calculated affect from the Capital of Culture activities. Comparing the same period, the figure for Merseyside was £9,957 during 2000 and forecast to increase to £15,526 by 2008; for the North West, the figure for 2000 was £12,336, rising up to £18,324 by 2008.

Figure 2 provides an actual and expected average gross weekly wage comparison between Liverpool, Merseyside and the North West. Current wage levels are estimated at £478 per week for both Liverpool and Merseyside. The North West figure is slightly lower at £467. By 2008, without the influence of ECoC, the gross weekly wage is forecast at £531 for Liverpool, £523 for Merseyside, and £512 for the North West.

Figure 2: Gross weekly wage trend - actual and forecast (£s)



Source: see Table 1 to 3 [statistical appendices]

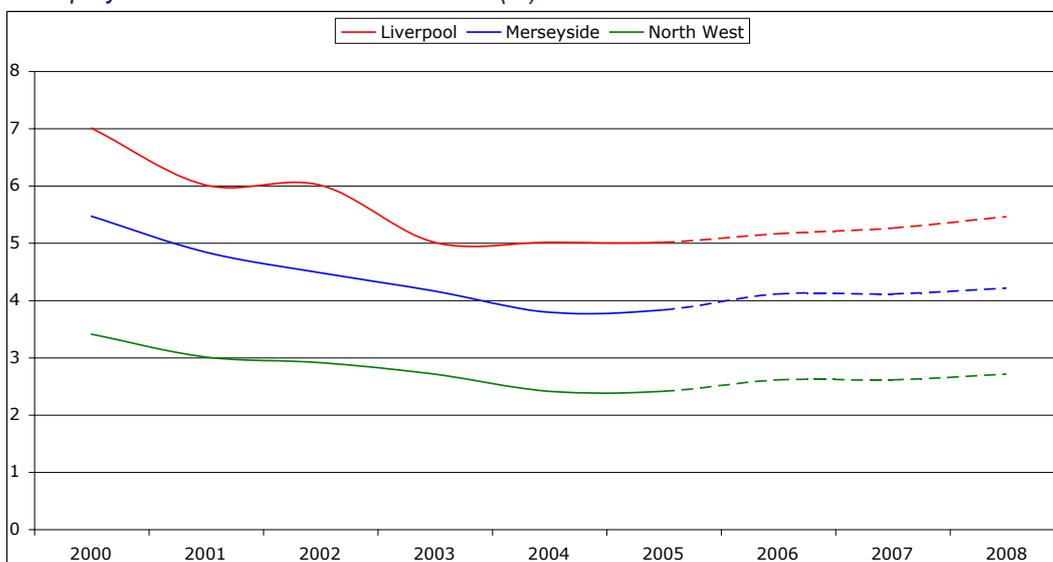
Figure 3 gives the actual and forecast rate of unemployment for Liverpool, Merseyside and the North West. This does not take into account any potential impact from ECoC. It is noticeable that in the lead up to 2008, the unemployment rate for the sub-region is - and is forecast to remain - higher than that for the North West

region overall. This is in spite of the dedicated additional level of intervention supplied through Objective 1 structural funds.

As noted, further research will track the discrepancy between actual and baseline performance for both the Liverpool and Merseyside economies, and will seek to reveal the extent to which this reflects ECoC effects. In addition, this research will investigate the extent to which the existing actual data (as distinct from the forecasts) reveal ECoC effects that have already emerged following the announcement of the award. One particular issue to be investigated concerns the effects of ECoC on the construction sector in Liverpool, which has seen a dramatic reversal in its fortunes, with employment rising by some 22 percent between 2003 and 2005 (after exhibiting a 7 percent decline between 2002 and 2003).

The three aspects of performance we highlight are used to provide a simple projected trend up to the 2008 event. Further details on economic indicators are provided in the statistical appendices.

Figure 3: Unemployment trend - actual and forecast (%)



Source: See Tables 1 to 3 [statistical appendices]

4. The Merseyside Business Base

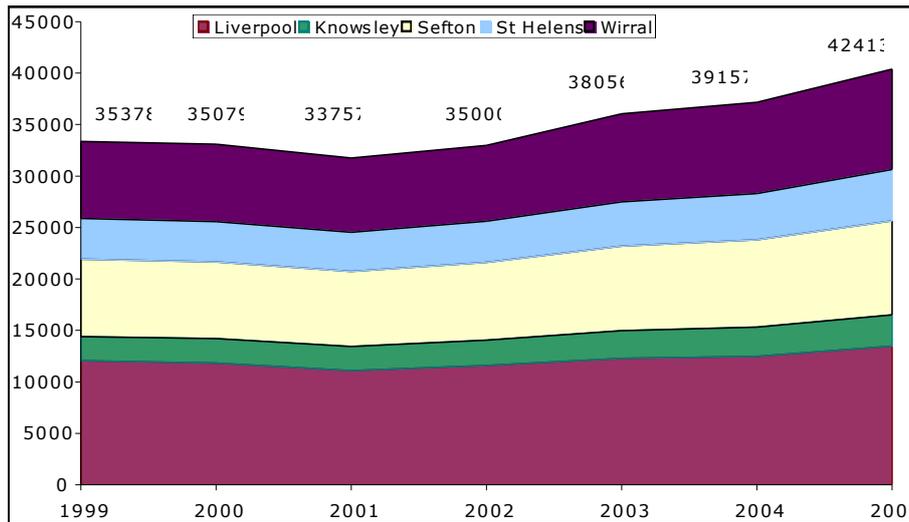
This section first looks at the structure of the Merseyside business base. A simple count of enterprises in the Merseyside sub-region, and each of the 5 districts, is provided. This is followed by data on enterprise formation.

4.1. The Size of the Merseyside Business Base

Figure 4 provides a count of enterprises in the sub-region from 1999 up to 2005. During this period the actual numbers of enterprises have risen from 35378 to 42413. These figures are provided by the Beta Model and capture an additional number over and above figures recorded through the VAT count of enterprises. The additional numbers are likely to be micro size enterprises that do not pay VAT due to the level of their turnover.²

² The VAT threshold was set at an annual turnover of £56,000 in 2004.

Figure 4: Enterprise count (1999 – 2005)



Source: See Table 4 [statistical appendices]

The Beta Model indicates 20% more enterprises in 2005 based on the 1999 count. This rate disguises the variance within the sub-region, and, according to the Beta Model data, the actual count of enterprises has increased in each district as follows: Liverpool up by 12%, Knowsley up by 29%, Sefton up by 21%, St Helens up by 27%, and Wirral up by 30%. In comparison, VAT data shows the following increase in the count of enterprises: Merseyside up by 8%, Liverpool up by 6%, Knowsley up by 18%, Sefton up by 6%, St Helens up by 13%, and Wirral up by 8%.³ By drawing on both datasets we can establish an upper and lower figure for the proportionate increase in enterprises on Merseyside. We can say that in the period 1999 to 2005, the count of Merseyside businesses increased by between 8% and 20%.

Table 1: The Merseyside business base by size of enterprise (April 2005) (%)

	1-5	6-10	11-20	21-50	51-100	101-250	250 plus
Liverpool	62.3	16.6	10.1	7.6	1.9	1.0	0.6
Knowsley	62.0	15.7	9.4	8.4	2.3	1.2	0.9
St Helens	66.7	14.1	9.3	6.9	1.7	0.9	0.3
Sefton	70.1	13.3	8.6	5.5	1.6	0.6	0.3
Wirral	69.6	14.2	8.1	5.8	1.4	0.5	0.4
Merseyside	66.4	14.9	9.1	6.7	1.7	0.8	0.5

Source: The Beta Model

81% of all enterprises in Merseyside employ 10 people or less, and, as such, can be defined as ‘micro’ enterprises, indeed, two thirds of all Merseyside enterprises have five or less employees. Table 1 gives a breakdown of the business base in Merseyside, both by district and based on the size of enterprise as of April 2005. The lowest proportion of micro enterprises is in Knowsley, with 78% of all enterprises employing 10 or less, and the highest is in Wirral with 84%. Around 10 per cent of businesses in the sub-region have between 11 and 20 employees, with a further 7% employing 21 to 50 people. This means that 97% of all businesses on Merseyside have less than 50 employees, a figure confirmed by the Annual Business Inquiry that shows 95% of all workplaces on Merseyside employing less than 50 people.⁴

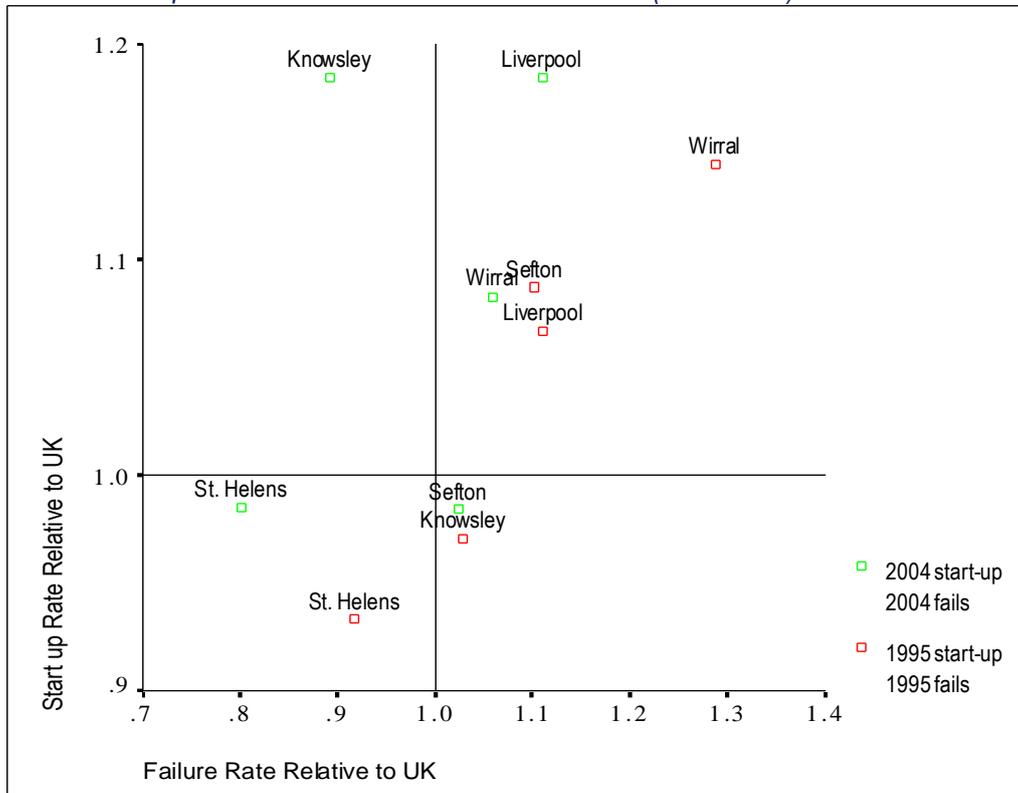
³ The VAT data counts the number of enterprises in December. Thus, the Beta Model April 1999 count is compared with the VAT December 1998 count.

⁴ The Annual Business Inquiry (ABI) provides evidence on workplace and employment structure based on size of workplace using a sampling method.

4.2. New business start-up and business failure on Merseyside

Relative to the UK, Merseyside has experienced an increased rate of new business start-up and a decreased rate of business failure over a 10 year period beginning in 1995. This statement is based on a calculation of both new businesses and business failures in respect of the existing business stock using the VAT dataset.

Figure 5: New firm start-up and firm failure rates relative to the UK (1995-2003)



Source: University of Liverpool Management School

Figure 5 compares the movement in start-up and failure in 1995 with that of 2004 for the 5 districts in Merseyside. The ideal position in the chart would be within the top left quadrant. This would indicate a better start-up rate relative to the UK, and a lower rate of business failure relative to the UK. Knowsley is the only district where this has occurred. St Helens has improved in both respects but still falls below the UK rate in new start-up rate. Liverpool has increased its rate of start-up relative to the UK although a similar rate of failure still exists. In 2004, Wirral’s new start-up rate relative to the UK was less than in 1995, although the failure rate also declined. In Sefton the failure rate has only slightly improved over the 10 year period, while the new firm start-up rate has in fact declined.

So while the number of enterprises in each district has increased, relative to the UK, Wirral and Sefton have not performed as well in the rate of start-up, although failure rates have improved across the sub-region. These figures examine business formation and deformation in the context of the local economy, indicating the degree of ‘churn’ that takes place in a particular location. An alternative way of examining new business start-ups and rates of failure is to look at numbers of new businesses and failures in respect of a population figure; this will be done in future research.⁵

⁵ Analysis using population as the denominator indicates much lower levels of new start-up within Merseyside. This method is useful in assessing propensity towards entrepreneurship in the population, while the approach used here indicates levels of local economic activity.

5. Conclusions and Future Research

The figures presented here provide a baseline from which future research can examine change in the sub-regional economy. The extent to which this change can be attributable to the ECoC 2008 designation will require careful examination. The projections made here do not take into account any impact from this designation, although current figures tend to indicate that Merseyside is already experiencing a degree of growth. However, there is a mixed picture with respect to the sub-regional economic performance compared to the UK average. Future research will allow a greater examination of the points raised, enabling further consideration of impact and attribution as the ECoC programme evolves.

5.1. Economic Indicators

Future indicators require comparison with UK performance. This will demonstrate how far the sub-region needs to improve (or not, as the case may be) to surpass national averages.

5.2. The Business Base

Impact from the ECoC programme will be valuable to the business sector if it can be evidenced that businesses across all sectors have generally been able to increase their performance. Observation of business formation may benefit from the application of alternative methods and data sets.

5.3. The Creative Industries

We will place a specific focus on the impact of ECoC 2008 upon the creative industries sector of Liverpool and Merseyside. A separate paper will be developed, outlining issues in terms of definition and data gaps. Following agreement on the approach to be adopted, commentary on (i) formation rates in this sector, (ii) potential growth areas, and (iii) geographic hotspots would benefit the evaluation; we are able to draw on both secondary and primary data to help in this process.

6. Statistical Appendices

Definitions of the indicators provided in Tables 1 to 3:

- Gross Value Added (per capita) — Headline⁶ gross value added (GVA) per head by NUTS2 area at current basic prices;
- North West Price Index
- Gross Weekly Pay (£) — Annual survey of hours and earnings - workplace analysis (Mean full time workers' weekly pay – gross);
- Sectoral Employment — Labour force survey - quarterly: 4 quarter averages:
 - Manufacturing — (Sector D)
 - Construction — (Sector F)
 - Services — (Sectors G - Q)
 - Distribution — (Sectors G, H)
 - Transport and Communications — (Sector I)
 - Banking and Finance — (Sectors J, K)
 - Public Administration — (Sectors L - N)
 - Other services — (Sector O - Q);
- Unemployment — Total claimant count;
- Unemployment (% of resident working age population) — Proportion of resident working age population estimates;
- Working Population
- Economic Inactivity — Labour force survey - quarterly: 4 quarter averages (economic inactivity rate: working-age people).

⁶ The headlineGVA series have been calculated using a 5 period moving average.

Table 1: Economic indicators - Liverpool

LIVERPOOL									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Value Added (per capita)	12417	13028	13771	14619	15584	16441	17378	18403	19489
North West Price Index	100.00	101.07	101.27	103.08	103.30	105.36	107.44	109.40	111.41
Gross Weekly Pay (£)	392.60	398.80	424.30	446.30	459.00	478.30	495.24	512.89	530.55
Sectoral Employment									
- Manufacturing	18250	16750	16500	17000	19500	19578	18560	19360	20167
- Construction	13500	12750	10500	9750	11250	11948	11752	11975	12100
- Services	132750	120750	129000	141750	139000	140839	142888	145505	147988
- Distribution	34250	28000	28250	33500	35000	32556	32556	32556	32556
- Transport and Communications	10500	8750	14250	16250	13250	14611	15194	15778	16361
- Banking and Finance	19000	22250	22750	20500	22750	24018	24784	25763	26692
- Public Administration	59250	52750	53250	63000	59250	61565	62669	64079	65416
- Other services	9750	9250	10500	9000	9000	8715	8518	8267	8029
Whole Labour Market									
- Unemployment	18999	16846	15850	14982	14256	14778	14879	15268	16003
- Unemployment (% of workforce)	7.00	6.00	6.00	5.00	5.00	5.00	5.15	5.25	5.45
- Working Population	180640	181331	180486	182412	182285	183838	181455	180651	181535
- Economic Inactivity	87750	98750	94500	81750	89500	86400	85050	83700	82350

Source: University of Liverpool Management [Nomis and ONS]

Table 2: Economic indicators - Merseyside

MERSEYSIDE									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Value Added (per capita)	9957	10531	11177	11846	12580	13247	13949	14717	15526
North West Price Index	100.00	101.07	101.27	103.08	103.30	105.36	107.44	109.40	111.41
Gross Weekly Pay (£)	388.80	411.52	425.76	440.04	452.60	478.66	490.32	506.69	523.05
Sectoral Employment									
- Manufacturing	67000	67800	68100	68400	69000	68600	69400	70700	71800
- Construction	39250	38000	40500	42000	45000	44243	45197	46151	47106
- Services	404700	409300	411500	413300	416800	414600	415500	416200	417700
- Distribution	115000	108250	117500	119250	121500	119132	119769	120407	121044
- Transport and Communications	41750	37500	49750	53000	50000	50306	51472	52639	53806
- Banking and Finance	71000	78250	73750	72250	86750	83208	85633	88058	90483
- Public Administration	179250	192500	198750	201250	207000	213257	219436	225615	231794
- Other services	33000	33250	30250	32000	34500	30840	30169	29499	28828
Whole Labour Market									
- Unemployment	44916	39719	36735	34093	31078	31309	32200	32500	32900
- Unemployment (% of resident working age population)	5.46	4.83	4.47	4.15	3.78	3.82	4.10	4.10	4.20
- Working Population	516635	516818	516343	515763	516861	514577	517100	519300	522400
- Economic Inactivity	251750	251000	250750	236250	246750	240583	238583	236583	234583

Source: University of Liverpool Management [Nomis and ONS]

Table 3: Economic indicators - North West

NORTH WEST									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Value Added (per capita)	12336	12980	13586	14269	15075	15814	16589	17435	18324
North West Price Index	100.00	101.07	101.27	103.08	103.30	105.36	107.44	109.40	111.41
Gross Weekly Pay (£)	383.82	403.17	423.34	431.58	446.82	467.24	480.78	496.40	512.02
Sectoral Employment									
- Manufacturing	586500	561750	538250	508500	473500	473556	454156	434756	415356
- Construction	206750	201750	210000	221750	221250	221854	224892	227929	230967
- Services	2134750	2192000	2204500	2276250	2342000	2363938	2408808	2453679	2498550
- Distribution	633500	615500	598500	619250	643000	633069	636544	640019	643494
- Transport and Communications	209000	210750	220250	220250	208750	223069	226811	230553	234294
- Banking and Finance	373250	384000	391000	407000	425250	433896	446492	459088	471683
- Public Administration	767000	827250	836000	851500	879500	894667	915783	936900	958017
- Other services	152250	155750	158500	178250	185500	179215	183103	186990	190878
Whole Labour Market									
- Unemployment	138964	125436	119879	113405	100857	102755	105678	106662	107975
- Unemployment (% of resident working age population)	3.40	3.00	2.90	2.70	2.40	2.40	2.60	2.60	2.70
- Working Population	2566034	2625064	2595280	2636984	2638359	2688009	2688072	2705567	2723063
- Economic Inactivity	941750	954250	969000	938500	929500	934525	930500	926475	922450

Source: University of Liverpool Management [Nomis and ONS]

Table 4: Number of enterprises in the Merseyside districts (1999-2005) (count at April, size defined by numbers employed)

		1-5	6-10	11-20	21-50	51-100	101-250	250+	Unknown	Total
Liverpool	1999	5135	1919	1172	774	226	97	48	2696	12067
	2000	5157	1945	1175	811	242	100	52	2329	11811
	2001	5254	1961	1146	868	251	102	51	1475	11108
	2002	5479	2007	1213	912	260	119	58	1529	11577
	2003	5825	2071	1245	948	255	125	64	1738	12271
	2004	5952	2057	1256	929	245	132	64	1852	12487
	2005	8316	2212	1342	1008	251	132	78	132	13471
Knowsley	1999	956	376	255	170	60	26	16	490	2349
	2000	984	397	245	187	66	25	18	461	2383
	2001	1030	398	256	195	76	27	20	332	2334
	2002	1118	418	273	214	76	35	17	341	2492
	2003	1229	434	279	223	78	38	20	410	2711
	2004	1260	430	292	254	72	34	22	450	2814
	2005	1875	476	285	254	71	36	28	24	3049
Sefton	1999	3737	1123	738	398	105	49	17	1348	7515
	2000	3717	1153	745	436	112	51	21	1224	7459
	2001	3870	1156	748	442	114	52	23	881	7286
	2002	4084	1181	750	464	120	46	23	897	7565
	2003	4491	1214	755	475	122	51	22	1064	8194
	2004	4696	1207	767	477	131	55	23	1135	8491
	2005	6336	1198	774	500	144	57	28	84	9121
St Helens	1999	1787	639	421	262	88	41	17	674	3929
	2000	1802	633	423	297	84	39	15	634	3927
	2001	1888	636	425	284	96	36	12	445	3822
	2002	1988	663	419	292	92	37	14	456	3961
	2003	2196	661	438	318	91	41	14	559	4318
	2004	2317	649	458	326	89	47	15	588	4489
	2005	3282	695	457	340	82	46	16	64	4982
Wirral	1999	3638	1144	690	414	120	52	22	1439	7519
	2000	3629	1195	722	459	136	52	23	1283	7499
	2001	3732	1176	715	458	130	58	26	911	7206
	2002	3868	1196	723	473	139	50	28	926	7403
	2003	4634	1260	765	509	139	45	33	1174	8559
	2004	4820	1251	782	524	123	48	34	1290	8872
	2005	6750	1375	785	565	140	47	37	86	9785

Source: The Beta Model