

Small and medium sized enterprises (SMEs) are important to the UK economy.

More and more SMEs are in fast-growing 'new work' sectors

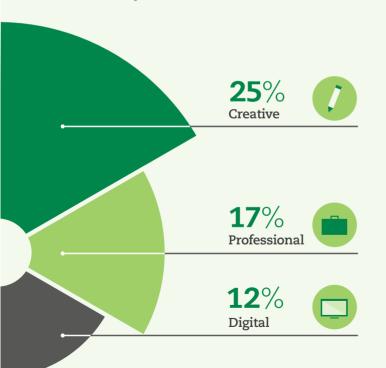
such as Professional Services, Creative and Digital.

## The total number of SMEs in 'New Work' sectors increased in the UK by

**17**%

UK between 2008-2014

This is made up of:

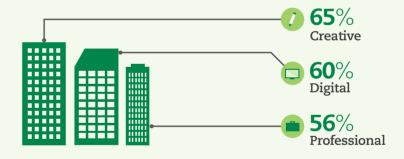


## 'New Work' SMEs support businesses and jobs in other sectors too

These include bars, resturants, retail and other similar business activity in a city



#### These industries are more likely to be in cities



## because certain conditions support them to thrive:







High skills International trade links

Broadband infrastructure

All cities should support the growth of 'New Work' SMEs by supporting high skills, improving the city's broadband and supporting international trade links.

#### **Contents**

	Y	١

<b>Executive</b>	Summary
------------------	---------

5

## 01

#### The economic and policy context

9

## 02

#### Cities, Small Businesses and new work

**17** 

## 03

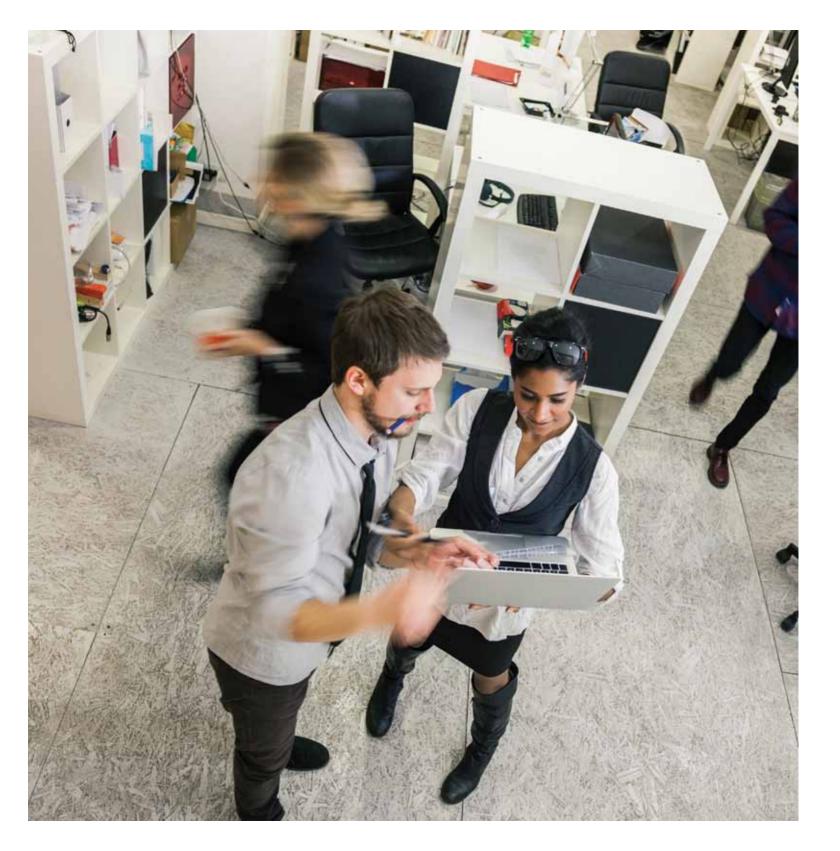
#### **Data monitor: Small Business Performance**

**31** 

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## **Executive Summary**

Small Business Outlook

## **Executive Summary**

For countries like the UK, changes in innovation and technology have increased the importance of particular industries and particular places. These changes have created thousands of new jobs and businesses, from developers and programmers in tech startups to designers and global branding companies. Small and medium-sized businesses (SMEs) in professional services, digital and the creative industries (referred to throughout as 'new work') are becoming increasingly important - both in terms of employment and output. Employment in these 'new work' industries increased at over four times the average between 2009 and 2013. Output from the digital sector increased more than seven-fold (657 per cent) between 1990 and 2013 and by 286 per cent in the professional services and 196 per cent in the creative sector. These firms are overwhelmingly city-based, but they concentrate in some cities more than others.

This year's Small Business Outlook looks at where in the UK 'new work' SMEs are concentrated, how their performance varies and why. Mapping SMEs in these industries enables us to build a better understanding of how city economies vary across the UK and the conditions that 'new work' sectors thrive in. The aim is not to encourage policymakers to try and replicate existing clusters, but to support them to take informed decisions to create, protect and foster conditions for growth that are relevant and appropriate for their place.

'New work' SMEs are not randomly or evenly distributed. They are much more highly concentrated in some cities than others, as they benefit from access to wide pools of talent and specialised expertise and from being in close proximity to other highly innovative businesses. In Aberdeen, Reading and Cambridge more than one in two SMEs operate in the professional, digital or creative industries. This compares to just one in five in cities such as Burnley, Doncaster and Grimsby.

'New work' SMEs create opportunities for firms operating in other industries. Cities that have a high proportion of SME employment in digital industries or professional services have also tended to see an increase in employment overall. This echoes Moretti's

findings in the US that for every job created in high tech industries, five jobs are created in other industries. Cities with high concentrations of these firms tend to be more productive and highly entrepreneurial with strong private job growth overall.

The shift towards 'new work' has created and reinforced the uneven economic geography in the UK, with SMEs in these highly innovative, productive sectors concentrating in cities predominantly in the South.

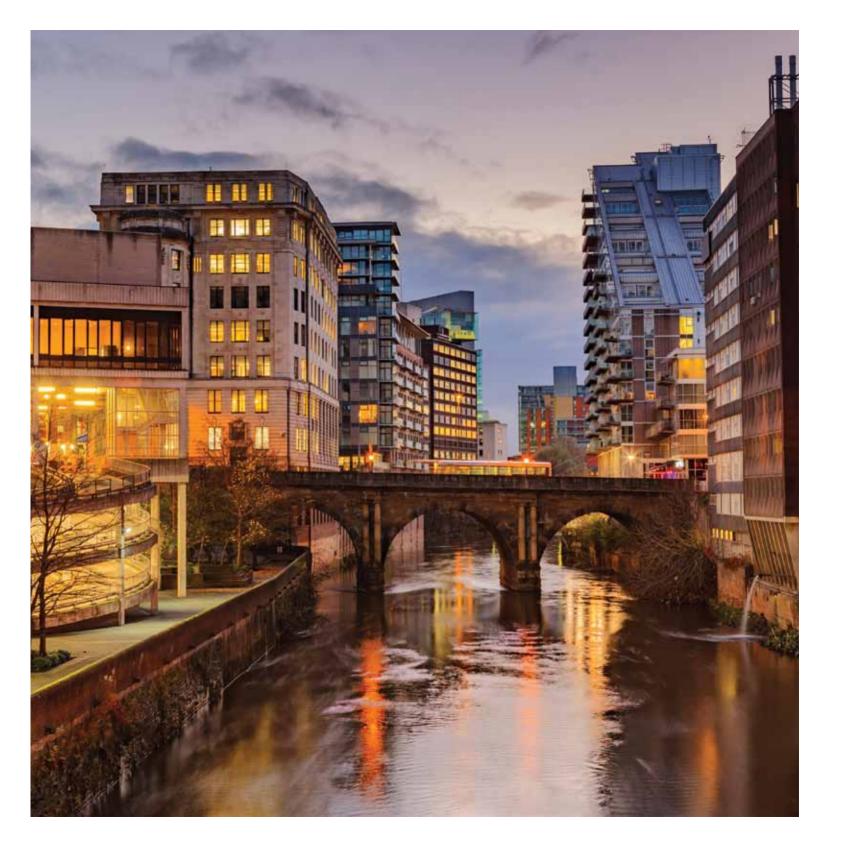
Both government and cities prioritise 'new work' industries in their economic strategies, but the geography of these industries is often ignored. National government needs to recognise the significance of place when making policy decisions, and cities themselves need to be realistic about the nature of their local business base and what they can do to support businesses to innovate.

The map of 'new work' SMEs provides an indication of the types of conditions these SMEs look for and thrive in. Cities with high concentrations of 'new work' SMEs tend to be highly skilled, as well as digitally and globally connected. SMEs in these sectors also benefit from being in dense urban locations. The creative industries in particular concentrate in densely populated city centres.

Cities with high concentrations of 'new work' SMEs must ensure they are able to maintain and grow their highly innovative SME base by being open to new residents and businesses. This means providing new housing to keep pace with demand as well as managing some of the other consequences of growth such as rising congestion and a supply of appropriate and affordable office space.

Other cities should not seek to be successful by replicating successful places such as Cambridge's 'Silicon Fen' or London's 'Tech City'; successful clusters grow organically through the decisions of firms and individuals and the interactions between them. Instead cities should focus on the broader characteristics of these types of firms, what influences their location decisions and business interactions, and respond accordingly, adapting to the particular circumstances of their local economy.







# The economic and policy context

## Small Business Outlook 2015: the economic and policy context

#### Introduction

Fundamental shifts have taken place in the global economy over the last 30 years. Innovation and technology have created thousands of new jobs and businesses, from developers and programmers in tech startups to designers and global branding companies. As these types of jobs and companies, which are highly skilled and knowledge-intensive, continue to drive growth, the geography of the UK economy and its small and medium sized businesses (SMEs) base will continue to change.

This year's Small Business Outlook looks at this shift towards 'new work' and what it means for SMEs across the UK's 64 cities. It explores where 'new work SMEs' are locating and why, and examines the wider impacts these firms have on their city economies. Crucially, it aims to build understanding of why SMEs in the professional services, creative and digital industries ('new work' sectors) locate in particular places, and what this means for cities seeking to transform themselves into hubs for innovative, thriving small businesses.

#### The shift towards 'new work'

Over the past few decades, there has been a notable shift in the UK economy towards the most innovative, knowledge-intensive industries.Knowledge-intensive services¹ now make up 34 per cent of UK output and 29 per cent of total employment.² Within these sectors, growth has been particularly significant among the professional services, creative and digital sectors. Between 2009 and 2013, employment in these 'new work' industries increased at over four times the economy as a whole. Over the last four years employment in creative firms grew by 4.9 per cent, in digital firms by 3.2 per cent and in professional services firms by 12 per cent compared with overall growth of 2 per cent.

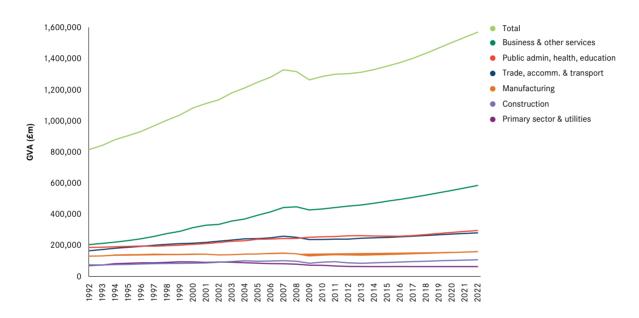
Between 2009 and 2013, output from the 'new work' sectors increased by one and a half times the rate of the economy as a whole.<sup>3</sup> Output from the digital sector increased more than seven-fold (657 per cent) between 1990 and 2013 and by 286 per cent in the professional services and 196 per cent in the creative sector. Growth

<sup>1.</sup> Knowledge-intensive services include transport, publishing and broadcasting activities, telecommunications, IT and information services, finance and insurance, professional services (including legal and accounting activities, head office activities, management consultancy, architectural activities, advertising and market research), and cultural and creative activities.

<sup>2.</sup> BIS (2015) Growth Dashboard

<sup>3.</sup> Source: Gross Value Added at current basic prices by industry, United Kingdom National Accounts, ONS 2015

Figure 1:
Output by broad sector (£m)



Source: UKCES, Working Futures 2012-22

across most manufacturing sectors - with the exception of pharmaceutical and aerospace - has been more subdued, increasing by over 39 per cent between 1990 and 2013.<sup>4</sup>

Using broader industry definitions, 'new work' industries make up over half (51 per cent) of the country's exported services by value.<sup>5</sup>

The shift in the UK economy towards 'new work' is set to continue. While it is notoriously difficult to precisely

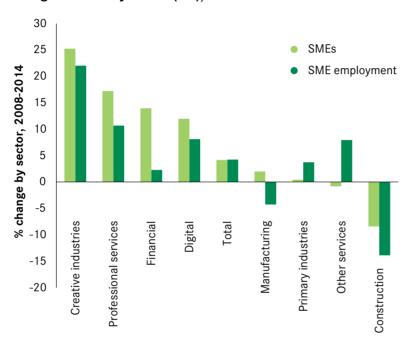
forecast where future growth will come from, longer term economic trends suggest that knowledge-intensive services are likely to see the strongest output and employment growth in the medium to longer term (Figure 1). The shift towards high skill, white collar jobs, including managers and professionals, is also predicted to be ongoing.

<sup>4.</sup> Between 1990 and 2013, output from the pharmaceuticals sector increased by 175 per cent and by 79.6 per cent in aerospace between 1997 and 2013. Source: National Accounts, ONS, 2015; Industry of Production, ONS, 2014.

<sup>5.</sup> ONS 2015, Traded Services, Sections J Information and communication, M professional, scientific & technical activities, R&S Arts, entertainment & recreation & other service activities made up 51 per cent of exported services in 2013.

<sup>6.</sup> UKCES (2014) Working Futures

Figure 2: Change in SMEs by sector (UK), 2008-2014



Source: Business Structure Database, 2015. Note: excludes business and employment growth where size has exceeded the '249 employees' maximum. Primary industries include agriculture, mining and quarrying.

## SMEs and economic growth

SMEs, particularly those in the most innovative sectors, are important drivers of employment. Between 2011 and 2014, 29 per cent of SMEs expanded the size of their workforce; this is an increase from

26 per cent between 2008 and 2011. The average number of jobs created by individual SMEs also increased from 4.9 between 2008 and 2011 to 5.4 between 2011 and 2014.

SMEs are also an increasingly important driver of output growth. Between 2009 and 2013, Gross Value Added (GVA) grew at twice

the rate of large businesses (25 per cent compared to 12 per cent).<sup>7</sup> The latest data indicates that SMEs are now at least as productive as large businesses.<sup>8</sup>

## The shifting profile of SMEs

The shift towards 'new work' in the UK economy is reflected in the changing profile of SMEs.

Among the UK SME base, there has been a shift away from the primary industries, manufacturing, construction and lower value services, towards knowledge-intensive services, including creative industries, professional services and digital. More than a third (34 per cent) of SMEs now operate in 'new work' industries; an increase from 31 per cent in 2008 (Figure 2).

'New work' SMEs in the creative industries, professional services and digital sectors saw the largest increases in employment between 2008 and 2011. Changes in SME employment follow a slightly different pattern across other industries, however:

<sup>7.</sup> Source: Annual Business Survey, 2015 and Interdepartmental Business Register, 2015

1

- In financial services there has been a growth in the number of SMEs (14 per cent increase) but they have remained small, with employment only increasing by 2.3 per cent.
- In manufacturing, there has been a small increase in the number of SMEs but SME employment in manufacturing has fallen.
- In construction, both the number of SMEs and SME employment fell between 2008 and 2014.

#### Policy and the economic importance of 'new work' sectors

The Government and cities recognise the economic importance of these 'new work' sectors. The 2010-2015 Coalition Government identified 11 key sectors as part of its Industrial Strategy 'that will benefit from long-term strategic partnership and where this can make the most difference to the economy'. Among them, 'professional services' and 'digital' are highlighted as two sectors that have exhibited strong economic growth and where there is the potential to exploit growing domestic and global demand. The Department for Business, Innovation and Skills (BIS) continues to monitor the performance of the 11 sectors as part of its 'Growth Dashboard'.

More recently, the Government has re-prioritised policies on the basis of their potential to boost productivity growth. Policies are set out within a framework built around two pillars: 1) encouraging long-term investment and 2) promoting a dynamic economy that encourages innovation and efficient resource allocation.

At the local level, nearly every city and Local Enterprise Partnership (LEP) economic strategy highlights the 'new work' industries – or at least one sub sector – as being a source of comparative advantage within their local economy. For example, our previous research has found that 70 per cent of English cities identified the creative industries as one of their priority sectors. Put simply, not every city can have a world leading cluster in the same few industries.

#### Box 1:

#### Defining 'new work' SMEs

- Creative industries includes the publishing, production and broadcasting of literature and media services such as design, PR and advertising agencies, library and museum activities, artistic education and creation.
- Digital includes software and computer consultancy, programming and the reproduction of sound, video and information technology media. Certain news media activities and the manufacturing and wholesale of computer related equipment.
- Professional services include legal, accounting, administrative and management consultancy work, as well as scientific research and development and other professional activities.

Full definitions are available online: www.centreforcities.org/sme-outlook-15

#### The significance of place

While the focus on 'new work' sectors is welcome, there are two significant barriers to making the most of the growth in 'new work' SMEs. First, national government policy often underplays the significance of place as a factor in driving growth in these industries. Second, cities can overplay the existing economic importance of certain sectors, including 'new work' sectors, within their local economies.

Cities are likely to play an ever more important role as the economy continues to shift towards 'new work'. Businesses in these sectors tend to concentrate in cities: in 2014, 58 per cent of 'new work' SMEs were located in one of the 64 largest urban areas in the UK.

But there is also huge variation between cities, with higher concentrations of 'new work' SMEs in some compared to others.

This report aims to build greater understanding of the geography of 'new work', the connections between SMEs operating in these industries and the wider economy of cities, and what this means for policy by exploring the conditions that these industries need to thrive. The focus on particular sectors is not intended to encourage cities to seek to replicate clusters or to 'pick winners'. Instead the aim is to further the evidence base in order to support policymakers to take informed decisions to create, protect and foster conditions for growth in different cities.

#### Box 2:

#### The use of Primary Urban Areas

The analysis undertaken in Small Business Outlook compares cities' Primary Urban Areas (PUAs) – a measure of the built-up areas of a city, rather than individual local authority districts.

A PUA is the city-level definition used in the Department for Communities and Local Government's State of the Cities Report. It is useful as a consistent measure to compare cities across the country and we have used it since the first edition of Cities Outlook in 2008.

It is worth noting that, as is the case with almost every definition of geographic units, PUAs are imperfect and fit some areas better than others. Hull and Cambridge PUAs, for example, are slightly under-bounded. Some cities with substantial populations, such as Colchester,

never made it into the PUA definition. And Manchester PUA is smaller than Greater Manchester, which also includes Rochdale, Bolton and Wigan PUAs.

PUA data only exists for English cities; for Welsh and Scottish cities we have used local authority data with the exception of tightly-bounded Glasgow, where we have defined the city as an aggregate of five Local Authorities: Glasgow City, West Dunbartonshire, East Dunbartonshire, East Renfrewshire and Renfrewshire. Belfast is defined as the aggregate of Belfast City, Carrickfergus, Castlereagh, Lisburn, Newtownabbey and North Down.

Note: The definition of Birkenhead throughout this report is Wirral Local Authority only. The 2009 reorganisation of local government combined Ellesmere Port & Neston with three other local authorities into Cheshire West and Chester, and many of the statistics used here are now reported for Cheshire West and Chester only.

### **Box 3:** Self-employment

Businesses with no employees (or sole traders) will only feature in our statistics if they are registered for VAT. Businesses with no employees accounted for 76 per cent (3.97 million) of all private sector businesses, 17 per cent of private sector employment and 7 per cent of private sector turnover at the start of 2014.<sup>10</sup> An estimated 70 per cent of these sole traders (2.76 million) were unregistered at the start of 2015.

These figures are only estimations, however, as the relevant surveys record self-employment in different ways. The Labour Force Survey (LFS) and Censuses record all self-employment and do not delineate between registered and non-registered businesses, while the Inter-Departmental Business Register (IDBR) (the basis for the Business Structure Database) does not capture any unregistered businesses with no employees.

'New work' SMEs are more likely to be operating as sole traders: 16 per cent of workers in professional services and 13 per cent in digital are self-employed or freelance (with no employees) compared to a 10 per cent average. 11 For the reasons outlined above, however, it is not possible to identify which of these will be registered – and included in the IDBR. As a result of the incompatibility of different datasets, unregistered sole traders are excluded from the analysis.







# Cities, small businesses and 'new work'

### Cities, small businesses and 'new work'

## Where are 'new work' SMEs most likely to locate?

'New work' SMEs tend to locate in cities. Nearly 60 per cent of these SMEs are based in cities and on average, 40 per cent of SMEs in cities are 'new work' SMEs compared to 34 per cent in non-urban locations. Yet there is substantial variation between cities (Figure 3).

Aberdeen, Reading, Cambridge, London and Oxford have the highest average concentrations of 'new work' SMEs. In these five cities, around half of SMEs are in either the professional, digital or creative industries. This compares to just one in five in cities such as Burnley, Doncaster and Grimsby.

There are more 'new work' SMEs in the UK's largest cities, although this is to be expected given there are more SMEs overall (Figure 4). London accounts for 20 per cent of all SMEs but 29 per cent of those in 'new work' sectors

'New work' SMEs are, however, under-represented in some of the UK's largest cities outside the capital. Just four of the 10 Core Cities – Bristol, Cardiff, Leeds and Manchester – have a higher concentration of SMEs in these sectors than the national average. While Birmingham has a high number of 'new work' SMEs – 2.4 per cent of all 'new work' SMEs in the UK, the second highest share of any city outside London – it does well only because it has so many SMEs. If you look at the proportion of SMEs in 'new work' sectors in Birmingham, it is only 30 per cent, compared to an average of 34 per cent nationally. Sheffield has one of the lowest concentrations with just 29 per cent of its SMEs in these highly innovative, highly productive sectors.

'New work' SMEs tend to be more heavily concentrated in cities in the South, with the exceptions being Aberdeen, Edinburgh and Warrington. Coastal towns and cities outside the Greater South East tend to have fewer 'new work' SMEs relative to their total SME base. Brighton is the exception where 46 per cent of SMEs are 'new work' SMEs.

Figure 3: Proportion of 'new work' SMEs, 2014

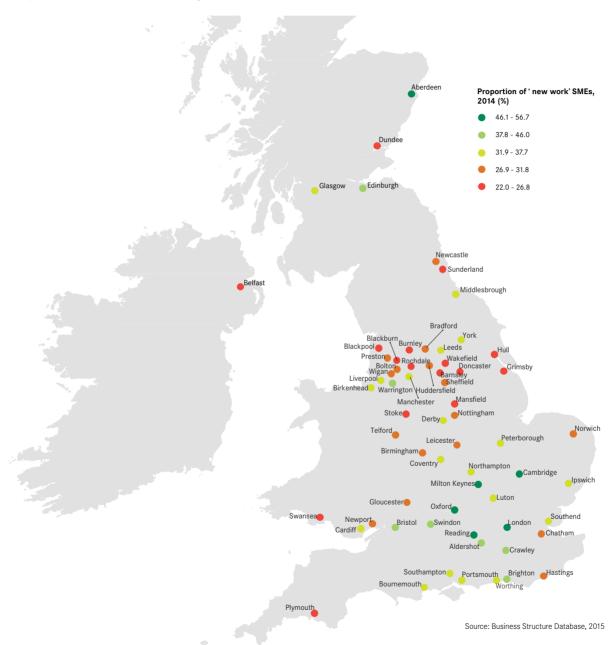
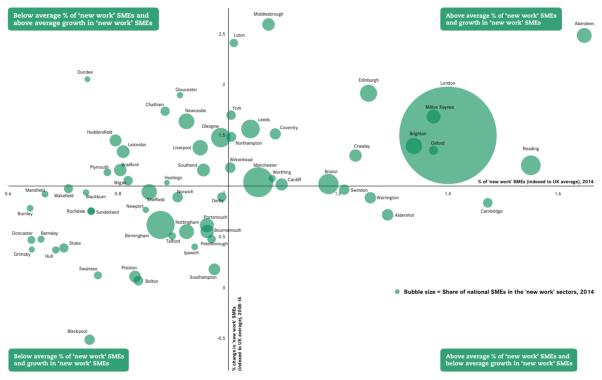


Figure 4: Concentration and change in number of 'new work' SMEs (relative to national average), 2014 and 2008-14



Source: Business Structure Database, 2015

SMEs in each of the individual 'new work' sectors tend to follow similar geographies. For example, breaking the 'new work' industries down into the three sub sectors (professional services, creative and digital sectors), eight cities rank in the top 20 with the highest concentration of SMEs across all three sub-sectors. In total, 17 cities were in the top 20 for at least two sub sectors. While following a broadly similar geographic pattern, the

creative industries are slightly more dispersed compared to digital and professional services. Belfast, Sheffield and Hastings, for example – cities with relatively low concentrations of 'new work' SMEs overall – rank in the top 20 cities with the highest concentrations of SMEs in the creative industries (see the Data Monitor chapter for further detail).

The geography of 'new work' SMEs in the UK is self-reinforcing. Cities with the highest proportion of 'new work' SMEs in 2008 continued to have the highest proportion in 2014, and cities which have seen an increase in one 'new work' sector tend to have seen an increase in other 'new work' sectors. For example, cities that have seen large increases in SMEs in either the digital or creative industries tend to have also seen large increases in SMEs in professional services. This implies two things: firstly that SMEs in these industries benefit from similar economic conditions, and secondly that they benefit from being in close proximity to firms in related industries (Box 4).

'New work' SMEs benefit from proximity to other firms through shared inputs and infrastructure, labour pooling, and most importantly the exchange and diffusion of ideas driven by face-to-face interaction. The density offered by urban environments facilitates these spillovers by easing the flow of information, which supports innovation and boosts productivity. Workers in 'new work' sectors are more likely to move locally from firm to firm, share knowledge about products and create connections between firms.<sup>12</sup> Proximity to clients is particularly important to businesses in these sectors as they provide highly specialised products and services which require a lot of client interaction to develop.

The gap between cities is also widening. Cities such as Aberdeen and Reading, with high proportions of 'new work' SMEs in 2008, have seen among the highest growth rates of SMEs in these industries. On the other hand, cities with smaller proportions of 'new work' SMEs, such as Bolton and Preston, saw a far smaller increase in these SMEs, and Blackpool saw a fall.

#### Box 4:

### Why do 'new work' SMEs benefit from clustering together?

There are two main types of spillovers that 'new work' SMEs benefit from when locating in the same city as other 'new work' SMEs.

- Intra-industry spillovers the view developed by Marshall<sup>13</sup> that the proximity of firms within a particular industry affects how well knowledge and ideas travel leading to higher levels of productivity and innovation within those industries. Companies operate more productively in sourcing inputs; accessing information, technology and institutions; coordinating with related companies; and measuring and motivating improvement. <sup>14</sup> This view emphasises the importance of specialisation.
- Inter-industry spillovers the view developed by Jacobs<sup>15</sup> that firms benefit from proximity to firms in different industries.

  Diversity within a city economy encourages spillovers between individuals and companies with different perspectives leading to higher levels of productivity and innovation. SMEs also benefit from improved access to a labour pool with transferable skills. The potential for these spillovers increase with the size and diversity of a city's economy.

<sup>12.</sup> Eriksson, R and Lindgren, U (2009) Localized mobility clusters: impacts of labour market externalities on firm performance. Journal of Economic Geography, 9 (1): 33 - 53

<sup>13.</sup> Marshall, A (1890), Principles of Economics, London: Macmillan

<sup>14.</sup> Porter, M (1998) Clusters and the new economics of competition, Harvard Business Review

<sup>15.</sup> Jacobs, J (1969) The Economy of Cities, New York: Random House

Small Business Outlook

There are some exceptions, however, most notably in successful cities such as Cambridge, Aldershot, Warrington and Swindon (Figure 4). Despite above average proportions of 'new work' SMEs, these cities have not seen growth in these sectors since the recession. This could imply broader infrastructure constraints on growth in these cities, for example a lack of affordable housing, although this has not seemed to hamper Aberdeen, Oxford or Reading in the same way. These are issues that these cities may wish to investigate in more detail.

## How does the performance of 'new work' SMEs vary between cities?

'New work' SMEs are more likely to be growing (and taking on new employees) in cities with high concentrations of these firms. In Aberdeen, for example, the city with the highest concentration of 'new work' SMEs, there were more than two expanding 'new work' SMEs for every one that was contracting (2:1) between

2011 and 2014. Of the 64 largest UK cities, average employment created by expanding 'new work' SMEs was also highest in Aberdeen. In Blackpool and Grimsby by contrast, where there are far fewer 'new work' SMEs as a proportion of the cities' total SME base, the ratio of expanding to contracting 'new work' SMEs was close to 1:1. And Belfast was the only city where more 'new work' SMEs contracted than expanded.

Leeds was one of the strongest performers among the big cities in terms of the average number of jobs created by expanding 'new work' SMEs between 2011 and 2014, with an average of nine jobs created. In London, expanding 'new work' SMEs increased their workforce by an average of seven employees. Given the scale of the capital, this means that one in three jobs created by existing 'new work' SMEs in the UK between 2011 and 2014 were in London. By contrast, Birmingham was one of the weakest performers with expanding 'new work' SMEs creating an average of five jobs between 2011 and 2014.





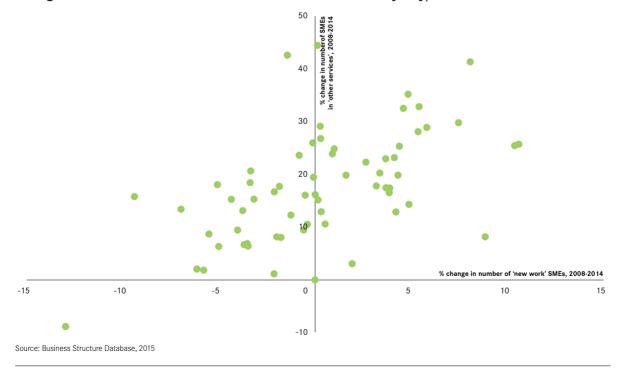
## Do 'new work' SMEs have an impact on the wider city economy?

Cities which have seen an increase in the number of 'new work' SMEs tend to have seen an increase in SMEs in other service industries. Five of the cities ranking in the top 10 for the highest increases in 'new work' SMEs also rank in the top 10 for the highest growth in 'other services', while four of the 10 weakest performers were in the bottom 10 for both categories (Figure 5). Cities that have a high proportion of SME employment in digital

industries or professional services tend to also have seen an increase in employment overall. This relationship is negative for cities with a high proportion of employment in construction, manufacturing and lower value services.

Cities' growth is now based on their ability to create conditions that encourage knowledge to be created and shared. The importance of a wide base of SMEs has been highlighted as a critical factor in this process, reflecting the fact that knowledge-intensive economies benefit from relationships between firms of related but varied industries that look to reinvent and innovate.<sup>16</sup>

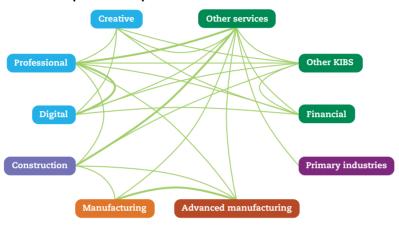
Figure 5: Change in the 'new work' SMEs and 'other services' SMEs by city, 2008-2014



<sup>15. &#</sup>x27;Other services' include accommodation and food service activities, retail and real estate.

<sup>16.</sup> Glaeser E et al (2012) Entrepreneurship and Urban Growth: An Empirical Assessment with historical mines, NBER Working Paper No. 18333

Figure 6: Relationship between performance of SMEs in different sectors



Source: Business Structure Database, 2015. Thickness of line indicates strength of correlation.

Cities which have strengths in these sectors not only benefit from the growth of these industries, but from improved productivity in other firms - in other words, having a successful neighbour increases a business's productivity regardless of their industry.<sup>17</sup> Moretti found that for every job created in US high tech industries, five jobs are created in other industries (two professional jobs and three in non-professional occupations).18 This is much higher than the manufacturing sector where the multiplier is estimated to be 1.6. Lee also finds that an increase in firms in the creative industries boosts wages in other industries in UK urban areas,

although he finds less employment impacts.<sup>19</sup>

These findings are further corroborated by the links between the performance of individual SMEs in different industries (Figure 6). The performance of individual SMEs is closely linked with their proximity to other SMEs in related industries. Cities which have a high proportion of SMEs that are expanding in the digital and creative industries tend to have more SMEs expanding in professional services, for example.

These inter-industry spillovers also operate over the wider city economy. SMEs in other industries,

such as financial services, 'other services' and construction, also benefit from their proximity to these successful SMEs. Cities which have higher rates of expanding firms in the 'new work' industries tend to have higher rates of growing firms overall.

Cities with a high proportion of 'new work' SMEs tend to be more productive and highly innovative, as measured by GVA per worker and patents respectively (Table 1). They also tend to have high earnings, low unemployment and a high business density. These relationships are negative for cities with a high proportion of SMEs and employment in SMEs operating in the advanced manufacturing, other manufacturing, construction and lower value services.

Cities with high concentrations of 'new work' SMEs are more likely to have performed well over the longer term. Five of the top 10 cities with the highest proportion of 'new work' SMEs are in the top 10 for overall jobs growth in the last 10 years. Cities which have seen an increase in the number of 'new work' SMEs also saw high and increasing productivity and earnings over the same period.

<sup>17.</sup> Shutters et al. (2015) Constrained pathways to a creative urban economy, Martin Prosperity Institute research paper

<sup>18.</sup> Tech City (2015) Tech Nation; The City UK (2014) Driving Economic growth creating sustainable jobs

<sup>19.</sup> Lee, N (2014) The creative industries and urban economic growth in the UK. Environment and Planning A

25

Table 1:
Relative economic performance of cities with high concentrations of 'new work' SMEs

		More innovative	Larger private	Higher business	Lower	
	More productive	(patents)	sector growth	density	unemployment	Higher earnings
Digital	✓	✓	✓	✓	✓	✓
Creative	✓		✓	✓	✓	✓
Professional	✓		✓	✓	✓	✓
services						

Source: Business Structure Database, 2015; Centre for Cities, 2015

Table 2: Characteristics of cities with high concentrations of SMEs in 'new work' industries

	Highly skilled	Digitally		Dense urban
	labour force	connected	Global in outlook	centres
Digital	✓	✓	✓	
Creative	✓		✓	✓
Professional			✓	
services				

Source: Business Structure Database, 2015; Centre for Cities, 2015

### Why are some cities more attractive to 'new work' SMEs than others?

A skilled labour pool, critical mass of related firms and the proximity to networks of clients and competitors were found to be key factors in recent studies evaluating the location decisions for 'new work' industry start-ups<sup>20</sup> and clusters.<sup>21</sup>

Further work by City Initiatives for Technology, Innovation and Entrepreneurship (CITIE) assessed cities based on

how they supported innovation and entrepreneurship.<sup>22</sup> There were three key elements: the openness of the city to new ideas and new businesses; whether a city's infrastructure is optimised for high-growth businesses; and whether the city builds innovation into its own activities.

Our research also shows that cities with a concentration in each of the 'new work' industries tended to share many of the same characteristics (Table 2).

<sup>20.</sup> Compass Techcrunch (2015) Global Startup Ecosystem Ranking

<sup>21.</sup> NESTA (2010) Creative Clusters and Innovation

<sup>22.</sup> CITIE (2015) 2015 CITIE results

#### Highly skilled and innovative

Cities which have a concentration of 'new work' SMEs tend to have stronger skills profiles, with more graduates and fewer residents with no qualifications. For example Reading has the second highest proportion of 'new work' SMEs (53 per cent) and the seventh highest proportion of graduate residents (43 per cent), whereas Stoke has the fifth smallest share of 'new work' SMEs and the fourth highest proportion of residents with no formal qualifications.

For cities like Reading this is something of a virtuous cycle, businesses in 'new work' sectors locate where there are large pools of talent to hire from, then these businesses attract further graduates to the city. Firms in digital and financial industries, for example, reported that their location decisions were primarily based on the availability of skilled staff.<sup>23</sup> Highly skilled workers are attracted not only to job opportunities on offer, but the career ladders available by having a thick market of related firms.<sup>24</sup>

Similarly, cities with a higher proportion of 'new work' SMEs such as creative firms are also likely to

have high-quality universities.<sup>25</sup> This might be influenced by London's large higher education and creative sectors, but is also reflected in a tendency of SMEs in these industries to work closely with universities.<sup>26</sup>

#### Global in outlook

'New work' SMEs are more likely to operate in international markets, rather than rely on local markets. For example, 32 per cent of SMEs in Cambridge trade internationally and 51 per cent of SMEs in the city are in 'new work' sectors, whereas 54 per cent of SMEs in Grimsby rely on local markets and only 22 per cent of SMEs in the city are in the 'new work' sectors. SMEs that trade internationally tend to increase their productivity and the productivity of a city.<sup>27</sup> This is evident in the relationships at city level between concentrations of 'new work' SMEs, international trade and productivity.

Such SMEs not only benefit from broader market opportunities, they are also more likely to pursue other growth-related strategies, investing in innovation and workforce development for example.<sup>28</sup> Cities' connectivity is due to functional linkages of firms rather than geography alone, therefore the



<sup>23.</sup> Tech City, 2015 Tech Nation. The City UK 2014, Driving Economic growth creating sustainable jobs.

<sup>24.</sup> Champion T, Coombes M & Gordon I, (2013) How Far Do England's Second-Order Cities Emulate London as Human-Capital 'Escalators'? SERC Discussion Paper 132

<sup>25.</sup> As measured by universities with a high REF rating within a 45 minute drive of the city centre. Source: Research Excellence Framework, 2014

<sup>26.</sup> Virani, T (2014) Mechanisms of collaboration between creative small, medium and micro-sized enterprises and higher education institutions: reflections on the Creativeworks London Creative Voucher Scheme

<sup>27.</sup> National Bureau of Economic Research (2015) Comparative advantage of cities

<sup>28.</sup> Centre for Cities (2014) Small Business Outlook 2014

industries and practices of a city's firms is crucial to their global outlook.<sup>29</sup>

#### Digitally connected

Cities with a high proportion of SMEs in the digital sector tend to have wide coverage of superfast broadband. For example, 86 per cent of postcodes in Brighton have access to Super-Fast Broadband and 12 per cent of SMEs are in the digital sector whereas just 57 per cent of postcodes in Barnsley have this digital connectivity and just 5.1 per cent of SMEs are in the digital sectors. The digital sector is the only sector in which there is a clear relationship and reflects the importance of this infrastructure to these businesses. Tech City UK's recent survey of digital firms also found that digital firms consider access to broadband as a key factor for location decisions.30

The What Works Centre for Local Economic Growth reviewed the impact of broadband investment<sup>31</sup> and found the impacts on productivity and employment can be positive for SMEs – especially in cities – and for specific industries, including the digital sector.

## City centres accommodating of sole traders and small businesses

Our research finds that 'new work' SMEs, and particularly creative industries, tend to be in cities with relatively more jobs in the city centre (as opposed to other areas of the city). This may be linked to the location preferences identified for the creative industries<sup>32</sup> or possibly the impact the sector has on the attractiveness of city centre locations to other businesses. This would suggest that strong city centres are important firstly to encourage ideas exchange and secondly for a city economy to

benefit from the spillovers that result from this activity.<sup>33</sup>

Tech City's survey found that firms in six 'digital clusters' identified access to social networks as the key bexnefit of their location. Our research shows that four of these six cities have concentrations of digital firms in the top 10, suggesting that network benefits are greatest where there is a higher density of firms in these 'new work' industries.

Many businesses operating in the creative and digital industries are sole traders or employ a small number of staff. Qualitative research for this paper revealed that 'new work' SMEs often prefer smaller, more flexible premises, which may be more prevalent in city centres.<sup>34</sup> Increasingly flexible work places such as Duke Studios in Leeds or the Engine Shed in Bristol are allowing for co-location, lower overheads and the capacity for businesses to grow quickly.



<sup>29.</sup> Brookings Institute (2013) The 10 Traits of Globally Fluent Metro Areas

<sup>30.</sup> Tech City UK (2015) Powering the Digital Economy 31. What Works Centre (2015) Broadband Evidence Survey

<sup>32.</sup> Liu (2015) Creative Industries and Urban Spatial Structure.

<sup>33.</sup> Manhattan's advertising industry the greatest benefits for firms was when proximity was less than 750 metres, while other research finds that these agglomeration effects are strongest over distances of less than one mile.

<sup>34.</sup> Interviews

#### **Policy implications**

Shifts in the nature of the UK and global economy over the last three decades, which have been reinforced by the recession and through the recovery, have created an inherently uneven economic map with 'new work' SMEs concentrating predominantly in cities in the South.

Cities, with high concentrations of 'new work' SMEs, must ensure that they are able to maintain and grow their highly innovative SME base by being open to new residents and businesses. This means providing new housing and services to keep pace with demand<sup>35</sup> as well as managing some of the other consequences of growth such as rising congestion. It also means ensuring that the supply of skills keeps pace with demand. The UK Commission for Employment and Skills (UKCES) identified for example that digital and creative firms have reported persistent skills shortages for highly qualified professional staff.<sup>36</sup>

Cities with a lower concentration of 'new work' SMEs should not seek to replicate Cambridge's 'Silicon Fen' or London's 'Tech City'. Successful clusters grow organically through the decisions of firms and individuals and the interactions between them rather than as a result of government policy interventions.<sup>37</sup> Similarly the role of the creative industries in regenerating city centres needs to be seen in the context of broader local conditions rather than publicly funded 'creative quarters'. Cities should instead focus on the broader characteristics of these types of firms and what influences their location decisions – and respond accordingly. As Glaeser puts it, "most creative people like what most well-off people like – namely affordable and good quality housing, schools and transport".<sup>38</sup>

All cities should seek to support growth among SMEs in highly skilled, innovative sectors by ensuring that:

- SMEs are able to access skills and knowledge Cities can improve the skills levels of their labour force by better matching their skills provision with business needs. For example, Sheffield, Leeds and Manchester have used their city deals to develop tailored local skills policies to match the delivery of skills with local business demands in these core cities. 39 Cities can also encourage knowledge exchange between 'new work' SMEs and universities by targeting specific barriers to collaborations between partners. 40
- SMEs have access to high performing digital infrastructure Cities can lobby providers and attempt to encourage more competition between them by making them aware of the market opportunities. They can also work with businesses to encourage the uptake of broadband. DCMS' SuperConnected Cities Programme provides vouchers to SMEs in partner cities to cover connection costs for superfast broadband, cities could usefully support this project by offering targeted business support.
- SMEs are supported to trade internationally
  - National schemes such as the UK Trade and Investment's (UKTI) Centres of Excellence<sup>41</sup> for creative, digital and other industries aim to open these markets to UK businesses in specific cities with strengths in specific industries. Cities can work with UKTI where appropriate to maximize the impact of these interventions. It is also important for cities to emphasise and value diversity in the economy by supporting firms across different

<sup>35.</sup> Centre for Cities (2014) Delivering Change: Building homes where we need them.

<sup>36.</sup> UKCES (2012) Sector Skills Insights: Digital and Creative

<sup>37.</sup> LLAKES (2014) Research Paper 48: Rethinking industrial policy design in the UK.

<sup>38.</sup> Glaeser, E (2004) Review of Richard Florida's The Rise of the Creative Class

<sup>39.</sup> Centre for Cities (2015) City Deals and Skills

<sup>40.</sup> Centre for Cities (2014) Delivering Change: How Cities can support links between Universities and High Growth Firms

<sup>41.</sup> DCMS (2014) UK Creative Industries - International Strategy

industries to trade and encouraging international inward investment, opening the city to more knowledge sources.

• Provide suitable premises for sole traders and expanding small businesses – policymakers can respond to the needs of 'new work' SMEs in the type of office space they plan for and provide. While many of the most successful examples of these incubators and hubs are cofounded or led by private sector industry leaders and entrepreneurs,<sup>42</sup> local authorities can support these with funding or softer measures through planning and sharing information.

Central government should support cities to address the challenges faced by local SMEs by ensuring that meaningful deals are signed with the largest cities. Cities need more powers to be able to respond to the needs of SMEs. As this report has set out, different cities have very different industrial make ups and priorities. The UK is however highly centralised, therefore cities – even those with relatively more powers such as London and Manchester – are typically limited in their abilities to innovate, raise or spend funds in a tailored way to meet local conditions. This is now changing, and against the backdrop of the Northern Powerhouse and the city devolution deals some of the UK's largest cities are negotiating greater powers and responsibilities for economic development roles that affect their areas.





## Data Monitor: Small Business Performance

### Data Monitor: Small Business Performance

#### Overview

There is significant variation in the performance of SMEs across UK cities. This matters because SMEs are critical generators of jobs and output, impacting on the performance of individual cities and the national economy as a whole.

This section takes a detailed look at SME performance across UK cities:<sup>43</sup>

- 1. SME density
- 2. Business starts
- 3. SME expansion
- 4. High-growth firms
- 5. SME contraction
- 6. SME closures
- 7. 'New work' industries

#### **SME Density**

SME density (number of SMEs per 10,000 population) provides a useful indicator of a city's economic success. Cities with a high SME density are usually strong economic performers: out of the top 10 cities for SME density, seven had the highest rate of productivity (GVA per worker in 2013).

- SME density is increasing at a higher rate in cities than elsewhere: SME density increased by 9.5 per cent in cities between 2011 and 2014, compared to just 6 per cent nationally.
- Medium-sized cities in the South East tend to have the highest SME density: with the exception of London and Bristol, no large city ranked in the top 10 for SME density and seven of the top 10 cities are located in the South East.
- London had the highest SME density in 2014 with 437 SMEs per 10,000 residents. This is 33 per cent higher than the national average, and 2.8 times higher than Sunderland, the city with the lowest SME density.
- Aberdeen saw the highest increase in SME density between 2011 and 2014, followed by Northampton, London, Middlesbrough and

Swindon. In addition to experiencing the greatest increases in density, Aberdeen and London ranked in the top 10 cities for SME density, both in 2011 and 2014.

 Only three cities – Belfast, Mansfield and Blackpool – experienced a decrease in SME density. While Mansfield also had one of the lowest concentrations of SMEs in 2011, Belfast and Blackpool had an average proportion of SMEs per 10,000 inhabitants (ranking 31st and 19th respectively).

#### Variation by size

- Almost 90 per cent of city SMEs in 2014 were micro firms (0-9 employees), 8.9 per cent were small firms (10 to 49 employees) and 1.5 per cent were medium-sized (50 to 249 employees). Between 2011 and 2014 the number of small firms increased by 14.2 per cent, medium-sized firms by 12.2 per cent and the number of micro firms by 8 per cent.
- Southend had the highest proportion of micro firms (92 per cent), while Aberdeen had the highest proportion of medium-sized firms (2.9 per cent).



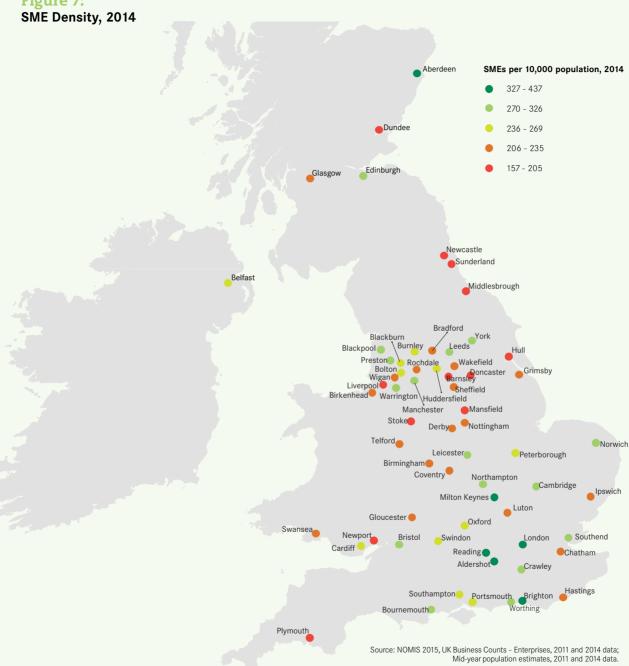
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Table 3: SME Density, 2014

Rank	City	SMEs per 10,000 population, 2014	SMEs per 10,000 population, 2011	Change per 10,000 population, 2011-2014 (%)	Change per 10,000 population, 2011-2014
10 cit	ies with the highest den	sity of SMEs			
1	London	436.9	383.7	13.9	53.2
2	Reading	373.3	346.5	7.7	26.8
3	Brighton	370.0	344.3	7.5	25.7
4	Aldershot	368.7	351.7	4.8	17.0
5	Aberdeen	360.7	312.4	15.5	48.3
6	Milton Keynes	356.3	326.7	9.0	29.6
7	Crawley	325.7	308.9	5.4	16.8
8	Southend	318.5	293.3	8.6	25.3
9	Bristol	311.2	287.0	8.4	24.2
10	Cambridge	310.9	295.8	5.1	15.1
10 cit	ies with the lowest dens	ity of SMEs			
55	Newport	203.3	197.5	2.9	5.8
56	Stoke	202.6	201.3	0.7	1.3
57	Middlesbrough	196.7	173.4	13.4	23.3
58	Newcastle	196.6	182.2	7.9	14.4
59	Liverpool	192.7	175.9	9.6	16.9
60	Mansfield	191.8	193.4	-0.9	-1.7
61	Plymouth	183.2	170.3	7.6	12.9
62	Hull	182.8	178.1	2.6	4.7
63	Dundee	180.0	164.4	9.5	15.6
64	Sunderland	157.5	149.5	5.3	8.0
	United Kingdom	327.8	309.3	6.0	18.5
	City Average	302.5	276.3	9.5	26.3

Source: NOMIS 2015, UK Business Counts - Enterprises, 2011 and 2014 data; Mid-year population estimates, 2011 and 2014 data.

Figure 7:



#### **Business starts**

New businesses are not only a signal of economic dynamism, but they can also be an important source of job creation.

- New businesses were more likely to start in cities than elsewhere: in 2013 there were on average 60 business starts per 10,000 population in cities compared with the national average of 54.
- Among the top 10 cities for business starts, seven are located in the Greater South East.
- The rate of business starts in London was 1.4 times greater than in Milton Keynes, the second highest city for business starts, and 1.8 times more than in the whole country.
- All of the UK's 64 largest cities had a higher number of business starts in 2013 than in 2011.
   The number of business starts in cities increased

- by 35.3 per cent, slightly higher than the national average of 30.9 per cent.
- Northampton experienced the highest growth in business starts between 2011 and 2013, with a 67 per cent increase over this period. The city went from ranking 10th to third highest in terms of business starts per 10,000 population.
- Although London had the highest rate of business starts, the rate grew less than the city average (31.8 per cent in the capital compared to 35.3 per cent in cities) between 2011 and 2013, but more than the national average (30.9 per cent).
- Among the 10 cities with the lowest start-up rates, three of them – Sunderland, Dundee and Mansfield – still experienced some of the highest increases over the past three years (57.4, 52.7 and 47.7 per cent respectively).

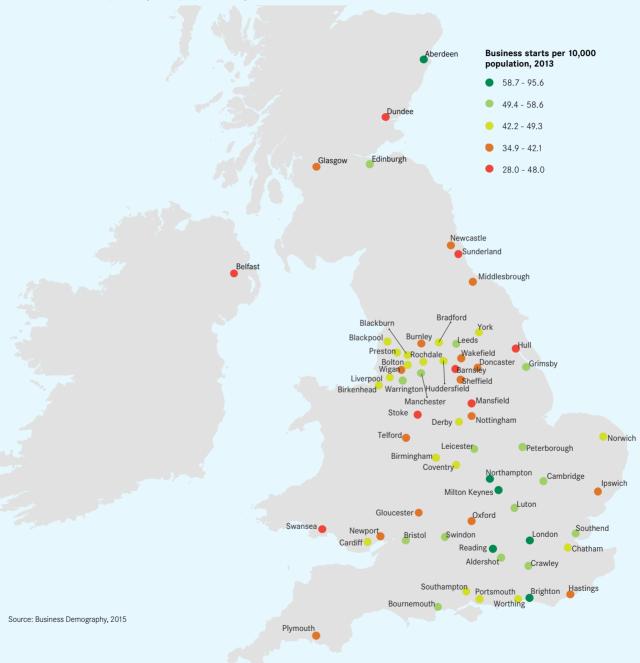


Table 4: Business Starts, 2013

Rank	City	Business starts per 10,000 population, 2013	Business starts per 10,000 population, 2011	Business starts change, 2011-2013 (%)	Change per 10,000 population, 2011-2013
10 citi	ies with the highest	start-up rate			
1	London	95.6	72.5	31.8	23.
2	Milton Keynes	67.7	54.4	24.3	13.
3	Northampton	66.7	40.0	66.7	26.
4	Brighton	66.4	52.5	26.4	13.
5	Reading	63.9	54.8	16.5	9.
6	Aberdeen	63.6	54.6	16.5	9.
7	Manchester	58.6	42.6	37.5	16.
8	Southend	58.3	44.0	32.5	14.
9	Aldershot	58.3	52.3	11.4	6.
10	Crawley	56.4	45.6	23.6	10.
10 citi	ies with the lowest s	tart-up rate			
55	Sheffield	38.1	28.4	34.1	9.
56	Telford	38.0	28.2	34.8	9.
57	Stoke	34.8	26.8	29.5	7.
58	Dundee	34.8	22.8	52.7	12.
59	Hull	34.5	27.1	27.3	7.
60	Swansea	34.3	24.5	40.1	9.
61	Mansfield	33.3	22.5	47.7	10.
62	Barnsley	32.9	26.1	26.0	6.
63	Sunderland	32.6	20.7	57.4	11.
64	Belfast	28.0	20.5	36.8	7.
	United Kingdom	54.0	41.3	30.9	12.
	City Average	60.1	44.4	35.3	15.

 $Source: ONS\ 2015, Business\ Demography,\ 2011\ and\ 2013\ data; NOMIS\ 2015, Mid-year\ population\ estimates,\ 2011\ and\ 2013\ data.$ 

Figure 8: Business starts per 10,000 population, 2013



## **SME Expansion**

SMEs account for 60 per cent of employment in the country. Between 2011 and 2014, SMEs generated 2.1 million new jobs, with a net job growth of 1.1 million. More than half of these new jobs were located in the 64 largest cities in the country.

#### Overview

- SMEs in cities were more likely to expand than elsewhere: between 2011 and 2014, 30.5 per cent of city-based SMEs expanded (i.e. increased the size of their workforce), compared to 27.4 per cent of SMEs based in non-urban locations.
- Hull had the highest percentage of SMEs expanding between 2011 and 2014, 35.5 per cent of SMEs increased the size of their workforce. In comparison, 21.9 per cent of SMEs in Belfast expanded over the same period. However, expanding SMEs in Hull were not high job creators: Hull SMEs ranked 41st in terms of total jobs created between 2011 and 2014.

- Among expanding SMEs, those located in cities tended to generate more jobs – 6 jobs per expanding firm. Expanding SMEs based outside of the 64 largest cities only created 4.6 jobs each. Both these figures are slightly higher than in 2008-11, when each expanding SME created 5.6 jobs in cities and 4.2 jobs elsewhere.
- Expanding SMEs in Ipswich created the largest number of jobs (13.2 jobs per expanding SME between 2011 and 2014), three and a half times more than expanding SMEs in Hastings (3.7 jobs per expanding SME).
- Between 2008-11 and 2011-14, the proportion of expanding SMEs increased from 26.1 per cent to 28.9 per cent and from 27.2 per cent to 30.5 per cent in cities alone. Every city except Belfast had a higher proportion of expanding SMEs in 2011-14 than it had in 2008-11. In Sunderland, the share of expanding SMEs increased from 27.1 to 34.3 per cent making it the largest change among the 64 cities.



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Table 5: SME expansion, 2011-14

Rank	City	Average employment created per SME expanding, 2011-2014	SMEs expanding, 2011-14 (%)	SMEs expanding, 2008-11 (%)	Change of SMEs expanding, 2008-11 to 2011-14
10 cit	ies with highest numl	ber of jobs created per expanding S	SME		
1	Ipswich	13.2	29.9	27.9	2.1
2	Aberdeen	10.9	31.0	29.6	1.4
3	Peterborough	7.2	31.6	28.0	3.6
4	Warrington	7.1	29.8	25.3	4.5
5	Derby	6.7	30.8	26.2	4.7
6	London	6.7	29.8	27.6	2.2
7	Newport	6.6	29.4	28.8	0.6
8	Leeds	6.5	30.9	27.8	3.2
9	Wakefield	6.4	31.5	27.1	4.4
10	Newcastle	6.4	33.5	29.8	3.8
10 cit	ies with lowest numb	er of jobs created per expanding S	ME		
55	Huddersfield	4.6	31.1	26.4	4.7
56	Worthing	4.6	27.7	27.2	0.5
57	Grimsby	4.5	30.8	27.7	3.1
58	Plymouth	4.4	33.4	30.4	3.1
59	Birkenhead	4.2	34.3	27.2	7.1
60	Wigan	4.2	31.0	27.4	3.6
61	Blackpool	4.2	28.7	23.5	5.3
62	Southend	3.8	28.4	25.8	2.7
63	Chatham	3.8	29.1	27.3	1.8
64	Hastings	3.8	30.7	27.6	3.1
	United Kingdom	5.3	28.9	26.1	2.8
	City Average	6.0	30.5	27.2	3.2

Source: Business Structure Database, 2015, 2008, 2011 and 2014 data

Figure 9: Average number of jobs created, 2011-2014

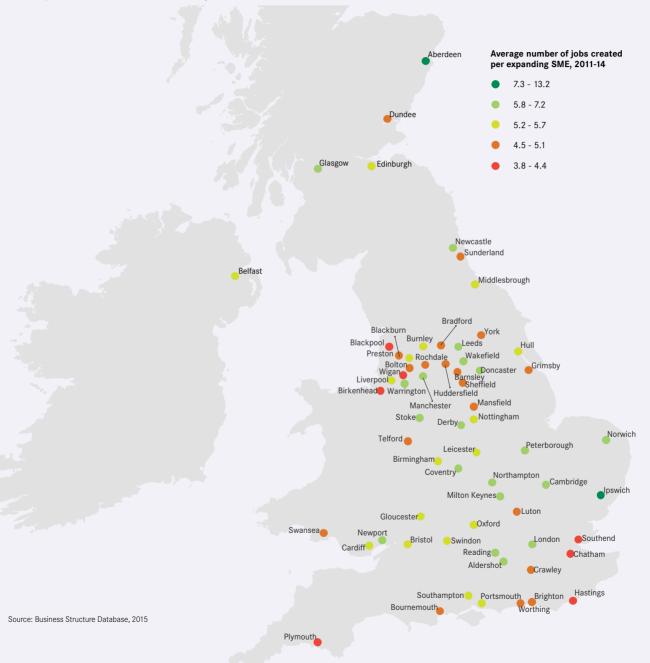
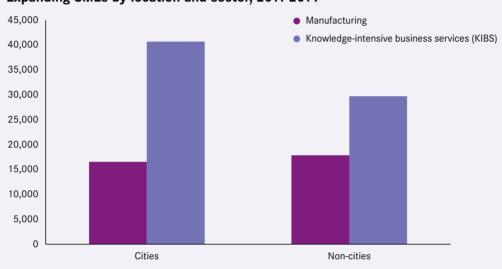


Figure 10: Expanding SMEs by location and sector, 2011-2014



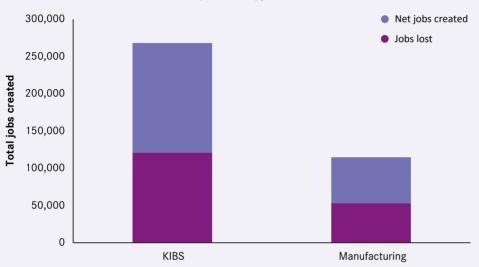
Source: Business Structure Database, 2015

# Variation by sector and size

- Micro businesses (0-9 employees) accounted for almost 88 per cent of the urban SME population and created 52 per cent of new SME jobs in the UK. In Ipswich, micro businesses created 80.3 per cent of all new SME jobs between 2011 and 2014, while at the other end of the range, micro businesses based in Peterborough only contributed to 34.7 per cent of SME job creation.
- Small businesses (10-49 employees) represented 10.2 per cent of the SME population in cities in 2014 and created 28 per cent of SME jobs between 2011 and 2014. Among these, 40.3 per cent expanded between 2011 and 2014 (similar to the UK wide figure of 39.3 per cent). Aberdeen

- had the highest proportion of expanding small businesses (46.5 per cent) whereas Dundee had the lowest (30.7 per cent).
- Medium-sized businesses (50-249 employees)
  accounted for just 2 per cent of the urban SME
  population, but 46.2 per cent of these expanded
  over the last three years. Each expanding mediumsized SME created about 43 jobs on average in
  cities.
- There are a similar number of expanding manufacturing SMEs in cities and non-cities, but there are many more expanding knowledgeintensive business services (KIBS) SMEs in cities. Expanding SMEs in cities were more likely to be in KIBS sectors than in manufacturing

Figure 11: Net SME jobs created in cities by industry, 2011-2014



Source: Business Structure Database, 2015

sectors: 20.3 per cent of expanding SMEs were in KIBS, and 8.3 per cent were in manufacturing. Whilst for the UK as a whole, KIBS firms represented 14.3 per cent of expanding SMEs, and manufacturing firms 8.6 per cent.

- There was however significant variation between cities. In Edinburgh, there were more than seven times as many expanding firms in KIBS sectors as in manufacturing. Conversely in Hull, the number of expanding manufacturing firms was 1.7 times higher than KIBS firms.
- The average expanding KIBS SME created fewer jobs than a manufacturing SME. Over the 2011-14 period, each expanding SME operating in

KIBS created on average 6.6 jobs in cities, while manufacturing firms created 6.9 jobs.

- However, taking job losses into account, KIBS firms created almost twice as many net jobs in the UK as manufacturing firms, and 2.3 more net jobs in cities.
- Expanding manufacturing firms created about the same proportion of jobs in cities than they did outside of cities (6.9 jobs compared with 6.2 jobs outside cities), but expanding KIBS firms added far more jobs in cities than outside of cities (6.2 jobs in cities compared with 4.5 jobs outside of cities)

# High-growth SMEs44

High-growth SMEs are more likely to be located in cities. Between 2011 and 2014, six out of 10 high-growth SMEs (firms with more than 10 employees expanding their workforce by more than 50 per cent) were located in cities. Among urban SMEs with more than 10 employees, 11.8 per cent expanded the size of their workforce by more than half between 2011 and 2014. Whereas outside of the 64 largest cities, just 9.8 per cent of SMEs experienced such high growth.

#### **Overview**

- Warrington had the highest proportion (15.8 per cent) of high-growth firms between 2011 and 2014, followed by Reading (14 per cent) and Swindon (13.8 per cent).
- In contrast, Belfast had the lowest proportion of high-growth SMEs, followed by Plymouth and Ipswich (6.2, 6.8 and 8.1 per cent respectively).
- London however had by far the largest number of high-growth SMEs, with a share of 39.5 per cent of high-growth firms located there. Birmingham, the second highest share, had almost seven times fewer high-growth firms than London.

• 57 out of 64 cities had a higher proportion of high-growth SMEs between 2011-14 than between 2008-11. Warrington, Hastings and Blackpool saw the largest increases in their proportion of high-growth SMEs (6.9, 5.4 and 5.2 percentage points growth respectively), while Oxford, Belfast and Aberdeen experienced the highest falls (-1.8, -1.8 and -1.1 percentage points fall respectively). Despite this relative fall, Oxford and Aberdeen both still rank in the top 10 cities with the highest proportion of high-growth SMEs.

### Variation by sector

- KIBS firms were more likely to be high-growth than manufacturing firms: in cities, about 13 per cent of KIBS firms were high-growth (12.1 per cent nationwide), while 9.5 per cent of manufacturing firms increased their workforce by more than 50 per cent (9.1 per cent nationwide). High-growth KIBS represented a fifth of the total number of high-growth firms overall, significantly higher than manufacturing firms (12 per cent).
- The average high-growth KIBS firm created 51 jobs in cities, compared to 37 jobs created by high-growth manufacturing firms.

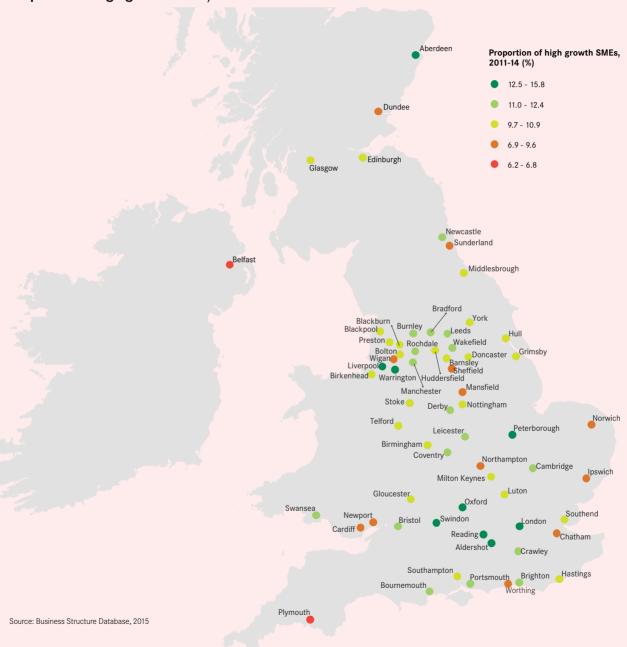


Table 6: High-growth SMEs, 2011-2014

Rank	City	High-growth SMEs, 2011-14 (%)	High-growth SMEs, 2008-11 (%)	Change of high-growth SMEs 2008-11 to 2011-14
10 citi	ies with highest propor	tion of SMEs expanding		
1	Warrington	15.8	8.9	6.9
2	Reading	14.0	10.8	3.
3	Swindon	13.8	9.9	3.
ŀ	Aldershot	13.7	13.3	0.
5	London	13.6	12.5	1.
5	Aberdeen	13.5	14.6	-1.
7	Peterborough	13.4	9.8	3.
3	Oxford	13.3	15.1	-1.
)	Liverpool	13.1	8.9	4.
0	Leeds	12.4	8.6	3.
10 citi	ies with lowest proport	ion of SMEs expanding		
55	Wigan	9.0	7.6	1.
6	Sunderland	8.9	6.1	2.
7	Newport	8.9	8.0	0.
8	Dundee	8.8	5.8	3.
9	Sheffield	8.6	7.6	1.
0	Cardiff	8.5	8.4	0.
1	Worthing	8.3	7.5	0.
2	Ipswich	8.1	6.8	1.
3	Plymouth	6.8	7.3	-0.
4	Belfast	6.2	8.0	-1.
	United Kingdom	10.8	9.0	1.
	City Average	11.8	9.7	2.

Source: ONS 2015, Business Structure Database, 2008, 2011 and 2014 data. SMEs with more than 10 employees only.

Figure 12:
Proportion of high growth SMEs, 2011-14



#### **SME Contraction**

About 20 per cent of the UK's SMEs reduced the size of their workforce between 2011 and 2014, a similar rate to 2008-2011 (when 19 per cent contracted). Although this is less than the number of SMEs expanding (28.8 per cent), SME contraction still resulted in almost one million job losses between 2011 and 2014.

#### Overview

- Almost 20 per cent of city-based SMEs reduced the size of their workforce between 2011 and 2014, in line with national and non-city averages (19.7 and 19.4 per cent respectively)
- Among the 64 largest cities, Belfast had the highest percentage of contracting SMEs (24.4 per cent), followed by Hull (23.4 per cent) and Blackpool (22.6 per cent)
- Each contracting SME in cities shed four jobs on average. This is higher than the national average of 3.6 jobs lost per contracting SME. The highest

level of employment loss per contracting firm was in Luton, with five job losses per contracting firm. In contrast, contracting SMEs in Worthing lost 2.8 jobs on average.

- Aberdeen, Birkenhead and Leicester had the highest ratios of expanding firms relative to contracting firms. Conversely, Norwich, Blackpool and Belfast had the lowest ratios, meaning the number of expanding SMEs was only slightly higher (or even lower in Belfast) than the number of contracting SMEs.
- 30 cities saw an increase in their proportion of SMEs contracting between 2008/11 and 2011/14. Cambridge, Aldershot and Worthing experienced the highest increases in SMEs contracting relative to their total SME population, while Swansea, Sunderland and Belfast saw the largest falls in SMEs contracting.





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Table 7: SME contraction, 2011-2014

Rank	City	Average employment loss per SME contracting, 2011-2014	SMEs contracting, 2011-14 (%)	SMEs contracting, 2008-11 (%)	Change in SMEs contracting, 2008-11 to 2011-14
10 cit	ies with lowest numb	er of jobs loss per contracting SM	E		
1	Worthing	-2.8	19.5	17.1	2.4
2	Bolton	-2.9	20.6	21.5	-0.8
3	Blackpool	-3.0	22.6	21.3	1.3
4	Southend	-3.0	19.1	17.3	1.8
5	Huddersfield	-3.0	20.2	21.5	-1.3
6	Birkenhead	-3.0	19.1	19.9	-0.8
7	Ipswich	-3.0	21.5	20.6	0.9
8	Crawley	-3.1	18.7	17.9	0.8
9	Swansea	-3.1	19.2	21.6	-2.5
10	Bournemouth	-3.1	20.3	19.9	0.4
10 cit	ies with highest num	ber of jobs loss per contracting SM	ΛΕ		
55	Liverpool	-4.3	22.4	21.0	1.4
56	Leeds	-4.4	21.0	20.2	0.8
57	Edinburgh	-4.4	19.1	19.5	-0.4
58	London	-4.4	19.3	18.1	1.2
59	Oxford	-4.5	19.5	18.0	1.4
60	Northampton	-4.7	19.6	19.9	-0.4
61	Glasgow	-4.7	19.5	20.6	-1.1
62	Middlesbrough	-4.7	20.2	21.1	-0.9
63	Aberdeen	-4.8	16.7	16.5	0.2
64	Luton	-5.1	20.0	21.2	-1.2
	United Kingdom	-3.6	19.7	19.0	0.7
	City Average	-4.0	19.9	19.6	0.3

Source: ONS 2015, Business Structure Database, 2008, 2011 and 2014 data.

Figure 13: Average job losses per contracting SME, 2011-14

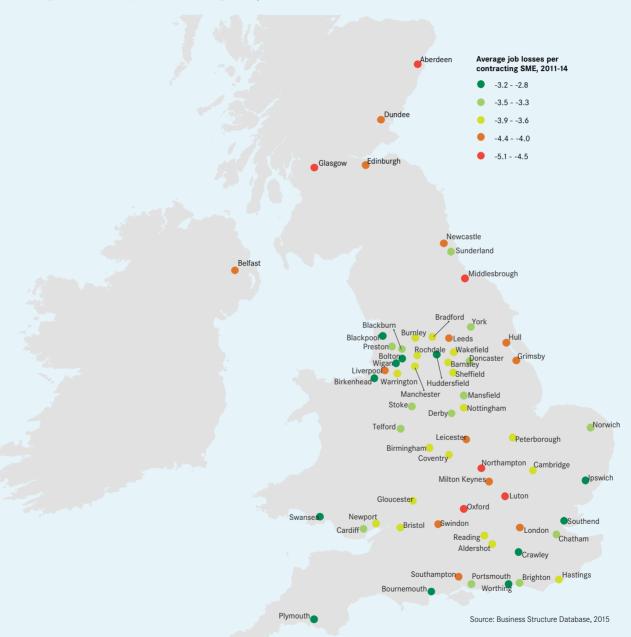
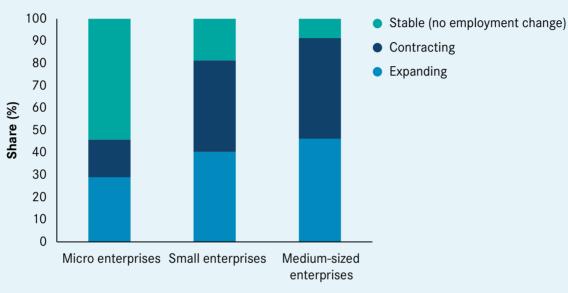


Figure 14: SME growth in cities by size, 2011-2014



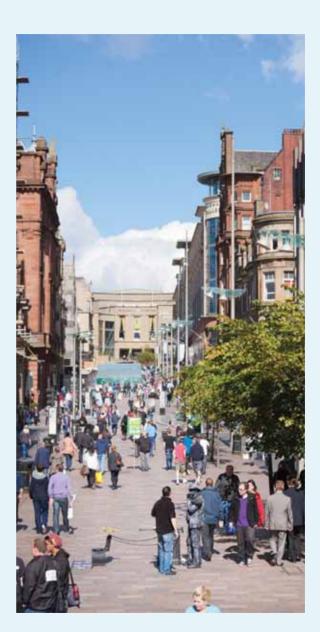
Source: Business Structure Database, 2015

# Variation by size and sector

- Looking at SME size, micro-businesses (0-9 employees) had the lowest percentage of contraction: 16.9 per cent of micro businesses in cities contracted. The range in proportion of contracting micro-businesses is relatively small between cities, ranging from 12.9 per cent in Aberdeen to 19.9 per cent in Blackpool. Micro-businesses represented 31.6 per cent of jobs lost from SME contracting.
- 41.1 per cent of the total small business (10-49 employees) population in cities contracted.
   In Belfast, 52.8 per cent of small businesses

- reduced the size of their workforce, compared to 36.5 per cent in Huddersfield. Overall, small businesses were responsible for the highest proportion of jobs lost in contracting SMEs (35.6 per cent).
- 61 per cent of medium-sized (50 to 249 employees) businesses in Hastings contracted between 2011 and 2014. This is higher than the cities average (45.1 per cent) and almost twice as much as in Worthing, where 32 per cent of medium-sized businesses contracted. Medium-sized SMEs represented 32.8 per cent of the total jobs lost between 2011 and 2014.

- Contracting KIBS firms lost fewer jobs than manufacturing firms. In cities, each contracting KIBS SME lost 4.1 jobs on average between 2011 and 2014, against 4.8 jobs lost per contracting manufacturing SME. In both industries, there were about 2.2 times more jobs created than lost.
- KIBS firms in Luton, Oxford and Middlesbrough generated the highest number of job losses relative to the number of contracting firms (8.1, 5.7 and 5.1 jobs lost per contracting firm respectively). However in Oxford and Middlesbrough the number of jobs created by KIBS firms outweighed the jobs lost.
- Manufacturing firms in Milton Keynes, Grimsby and Swindon accounted for the highest number of job losses per contracting firm (respectively 10, 7.7 and 7.4 jobs lost per firm contracting).
   Only manufacturing firms in Grimsby created more jobs than they generated losses.
- KIBS firms in London were highly job destructive (4.6 jobs lost per contracting firm, higher than the city average of 4.1 jobs), but this was dwarfed by the number of jobs they created (seven jobs per expanding firm).



#### Closures

Between 2011 and 2014, just over half (52 per cent) of SME closures were in cities. 14.2 per cent of city-based firms operating in 2011 had closed by 2014, compared to 13.4 per cent at the national level.

- The range of closure rates is relatively small: Belfast aside, they ranged from 11.8 to 15.6 per cent, with 43 cities having a closure rate between 12 and 14 per cent.
- SMEs located in Glasgow were the most likely to close, with a rate of 15.6 per cent, followed by London and Newport (15.3 per cent).
- While London had the second highest closure rate, it also had the highest number of business birth in the country in 2013. This illustrates the fast-paced 'churn' taking place in the city.
- Rate of closures were lowest in Belfast, where only 4.6 per cent of the SMEs operating in 2011 had closed by 2014.

**Table 8:** SME closures, 2011-2014

Rank	City	Business closures, 2011-2014 (%)
10 citie	es with the highest closure rates	
1	Glasgow	15.6
2	London	15.3
3	Newport	15.3
4	Bolton	15.0
5	Southend	15.0
6	Birkenhead	14.9
7	Luton	14.8
8	Grimsby	14.7
9	Plymouth	14.7
10	Manchester	14.6
10 citie	es with the lowest closure rates	
55	Aberdeen	12.5
56	Blackburn	12.3
57	Hull	12.1
58	Wakefield	12.1
59	Burnley	11.9
60	Norwich	11.9
61	Oxford	11.8
62	York	11.8
63	Cambridge	11.8
64	Belfast	4.6
	United Kingdom	13.4
	City Average	14.2

Source: ONS 2015, Business Structure Database, 2011 and 2014 data. SMEs operating in 2011 that had closed by 2014.

#### 'New Work' Industries

## **Digital SMEs**

- Southern cities tend to have the highest number
   of digital SMEs relative to their total SME base
   (proportion), with the exception in the top
   10 being Edinburgh and Coventry. Reading,
   Milton Keynes and Cambridge have the highest
   concentrations with more than one in six SMEs in
   these successful city economies operating in the
   digital sector.
- The proportion of businesses in Reading, Brighton and Milton Keynes is large enough for them to rank in the top 10 for their share of total UK digital SMEs, despite being smaller cities with fewer SMEs in general.
- London has only the tenth highest proportion of SMEs, but given its size is home to 30 per cent of digital SMEs – by far the largest share.
- Cities with the largest increase in digital SMEs were Plymouth and Gloucester. These cities both saw a rise of over 40 per cent between 2011 and 14. However both remain in the bottom 20 cities

for the share of digital SMEs overall, although Plymouth's employment growth in the digital sector was ranked 11th.

- Doncaster, Hull, Middlesbrough and Sunderland were four of the five cities with the lowest growth in digital firms – although Sunderland saw the fifth largest employment growth in digital SMEs. These cities all perform relatively weakly in overall measures of jobs, business and population change over the last 10 years.
- Cities with the highest proportion of digital SMEs also have the highest proportions of SME jobs in the digital sector. However it is London's digital SMEs that employ the highest number of people, about eight times higher than Manchester and 10 times higher than Birmingham.
- Employment in the digital sector increased the most in Belfast, Gloucester and Aberdeen. In Gloucester the number of jobs in digital SMEs increased by more than 30 per cent. London still ranks in the top quarter of cities for growth in employment, with digital SMEs employing 17 per cent more workers than in 2011.



Table 9: Digital SMEs, 2011-2014

Rank	Cities	Proportion of SMEs in high- tech and digital, 2014	Proportion of SMEs in high- tech and digital, 2011	Change in number of SMEs in high-tech and digital, 2011- 2014
10 citi	ies with highest proportion	on of SMEs in high-tech and digital		
1	Reading	20.5	19.2	19.6
2	Milton Keynes	18.1	16.8	23.4
3	Cambridge	15.5	14.7	16.4
1	Swindon	15.4	14.5	20.9
5	Aldershot	13.2	13.2	5.8
<u> </u>	Brighton	12.2	11.5	19.6
7	Edinburgh	11.9	10.7	27.1
3	Crawley	11.9	11.4	14.0
)	Coventry	11.2	9.4	38.4
0	London	11.2	10.7	23.0
10 citi	ies with lowest proportion	n of SMEs in high-tech and digital		
55	Blackburn	5.5	5.5	10.1
6	Sunderland	5.5	5.6	6.7
57	Belfast <sup>45</sup>	5.3	-	
58	Aberdeen	5.2	5.3	25.6
59	Barnsley	5.1	5.0	10.7
60	Burnley	5.1	5.0	8.8
51	Hull	5.0	5.1	4.7
52	Middlesbrough	4.7	5.0	7.9
53	Doncaster	4.4	4.4	5.7
54	Grimsby	3.6	3.1	22.5
	UK	8.0	7.6	15.2
	City Average	9.5	8.9	20.4

Source: ONS 2015, Business Structure Database, 2011 and 2014 data.

<sup>45. 2011</sup> data for Belfast are missing

#### **Creative SMEs**

- Creative SMEs are generally under-represented in cities outside London and the South in terms of both proportion and share of the UK's creative SMEs.
- The capital alone is home to 41 per cent of the UK's creative SMEs. But Brighton has the highest proportion of SMEs in the creative industries relative to the size of the city's total SME base (concentration), with one in eight SMEs operating in the sector. London has the second highest concentration.
- Generally, larger cities have a higher proportion (as well as share) of creative SMEs than other cities. Hastings has the sixth largest proportion of creative SMEs in the country, despite a below average proportion of 'new work' overall. In contrast, Mansfield has the lowest proportion, with less than two per cent of SMEs operating in the creative industries.

- Burnley had the largest percentage increase (36.9) in creative firms between 2011 and 2014, however this was from a small base and it remains in the bottom five cities in 2014. Liverpool is ranked fourth for change over this period – the only large city in the top five. It is now the city with the 28th largest proportion of creative firms.
- Gloucester, Newport, Blackpool and Stoke all lost creative firms. Cambridge had the fifth lowest change, although this was a four per cent increase. It also retains the fourth highest proportion of creative firms.
- About 10 per cent of the SME workforce in London is employed by a firm operating in the creative sector. In Cambridge, Brighton and Oxford, creative SMEs employ more than 6 per cent of the SME workforce. In total seven cities have more than 5 per cent of their SME workforce working in creative industries.



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Table 10: Creative SMEs, 2011-2014

Rank	Cities	Proportion of SMEs in creative industries, 2014	Proportion of SMEs in creative industries, 2011	Change in number of SMEs in creative industries, 2011-2014
10 cit	ies with highest propor	tion of SMEs in creative industries		
1	Brighton	12.4	11.7	20.2
2	London	11.0	10.9	18.7
3	Oxford	9.8	9.9	11.5
4	Cambridge	8.3	8.8	4.1
5	Bristol	7.1	6.6	21.6
6	Hastings	6.9	6.1	22.9
7	Cardiff	6.8	6.9	12.3
8	Edinburgh	6.8	6.7	16.5
9	Glasgow	5.7	5.6	12.5
10	Worthing	5.7	4.9	25.5
10 cit	ies with lowest proport	ion of SMEs in creative industries		
55	Newport	2.6	2.8	-4.6
56	Wigan	2.5	2.3	19.9
57	Wakefield	2.5	2.3	18.1
58	Doncaster	2.4	2.5	5.1
59	Hull	2.4	2.3	15.0
60	Blackburn	2.4	2.5	6.7
61	Burnley	2.4	1.9	36.9
62	Stoke	2.3	2.4	-1.0
63	Grimsby	2.2	1.7	34.8
64	Mansfield	1.9	1.7	13.8
	UK	5.5	5.2	15. <i>7</i>
	City Average	7.1	6.8	18.8

Source: ONS 2015, Business Structure Database, 2011 and 2014 data.

## **Professional services SMEs**

- The Greater South East is home to seven of the 10 cities with the highest proportion of professional services relative to total SMEs (concentration), but the top three - Aberdeen, Middlesbrough and Warrington - were all outside of this area. Barnsley and Burnley have the lowest concentration of professional services; Hastings is the only city in the South East to rank in the bottom 10.
- Aberdeen saw the largest increase in professional services SMEs. Coventry and Middlesbrough are the other cities in the top three, both of which are medium sized cities.
- Preston had a much smaller increase in professional services than any other city, although this was still positive, with a six per cent increase.
- Aberdeen had the highest share of workers in professional services, with more than 30 per cent of its SME workforce employed by professional services SMEs. The other cities in the top three were Oxford and Warrington with about 24.5 per cent each. At the other end of the spectrum, 11 per cent of Mansfield's workforce were employed by professional services SMEs.
- Six cities Aldershot, Cambridge, Crawley, Edinburgh, London and Oxford - rank in the top 15 cities for all three of the New Work sectors digital, creative and professional services



Table 11:
Professional services SMEs, 2011-2014

Rank	Cities	Proportion of SMEs in professional services, 2014	Proportion of SMEs in professional services, 2011	Change in number of SMEs in professional services, 2011- 2014
10 cit	ies with highest proportion	on of SMEs in professional services		
1	Aberdeen	48.7	41.3	36.0
2	Middlesbrough	29.3	25.1	34.7
3	Warrington	29.1	27.3	17.9
4	Reading	28.1	26.4	19.3
5	Cambridge	26.9	25.9	14.3
6	Oxford	26.8	25.2	19.5
7	Aldershot	26.1	24.4	13.7
8	London	26.0	24.5	25.2
9	Crawley	25.1	23.9	15.9
10	Milton Keynes	24.8	23.3	22.2
<b>10 cit</b>	ies with lowest proportio Wakefield	n of SMEs in professional services	14.3	22.
56	Hastings	16.0	14.6	18.0
57	Dundee	16.0	14.3	25.4
58	Blackpool	15.9	14.3	13.1
59	Stoke	15.3	13.6	17.0
60	Doncaster	15.3	13.8	18.6
61	Mansfield	14.8	12.0	27.
	Belfast <sup>46</sup>	14.7	-	
62	Durales	14.5	13.7	12.7
62 63	Burnley			
63	Barnsley	14.1	13.2	14.5
	*	14.1 20.8	13.2 19.0	14.5

Source. Ons 2015, business structure Database, 2011 and 20

<sup>46. 2011</sup> data for Belfast are missing

'New Work' SMEs such as those in the Creative, Digital and Professional sectors benefit city economies.

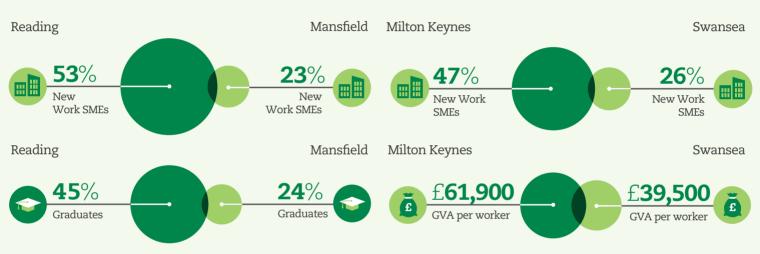
But they do better in some cities more than others.

# Cities with more 'New Work' SMEs tend to have more highly skilled residents

SMEs in Professional, Digital or Creative industries vs Graduate residents

# Cities with more 'New Work' SMEs tend to have a higher GVA per worker

GVA per worker vs firms in New Work Industries



# Cities with more 'New Work' SMEs are also more likely to have SMEs trading internationally

Firms that operate in international markets vs firms in New Work Industries







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