



centreforcities 
**Small Business
Outlook 2013**

Small and medium sized businesses are essential to the success of our cities and for the UK's economic prospects

 SMEs
 Large Businesses

99%

of businesses in cities are small or medium sized

47%

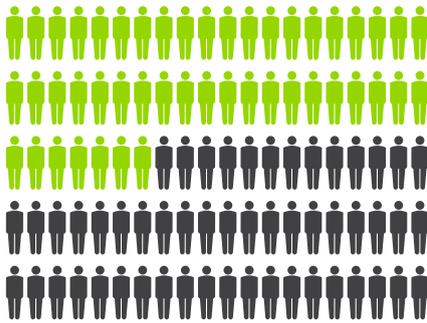
of private sector jobs in cities are provided by SMEs

And they are playing an increasingly important role...

Between 2005 and 2012

37% increase

14% increase



“Centre for Cities are an important contributor of high quality analysis which furthers the debate around Cities policy. All the evidence suggests that cities drive economic growth and that British cities have hitherto lagged behind their continental equivalents in performing in that role. I am particularly pleased to see that this Business Outlook focuses on the crucial role that SMEs play in supporting growth, jobs and innovation. Providing SMEs with the right environment to unleash their potential will be a crucial factor in achieving local growth aspirations across the country.”

Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills

“Small and medium sized businesses are essential to drive growth in Britain’s cities. They are the lifeblood of our urban economies, accounting for nearly half of private sector jobs. It is essential that we provide the support necessary to help them thrive.

This report highlights some of the challenges small and medium sized business face in different cities. The government is determined to address those challenges by empowering cities at a local level. City Deals and Local Enterprise Partnerships are a key part of that. The government wants local businesses and civic leaders to work together to drive growth in their cities. That is why we announced in the Budget that Local Enterprise Partnerships will be invited to negotiate Local Growth Deals which will see major powers passed down from Westminster to the cities. I want to see small business play a prominent part in these deals.”

Rt Hon Greg Clark MP, Financial Secretary to the Treasury

“I welcome Centre for Cities’ Small Business Outlook 2013, which examines how two of the most important drivers of growth in our economy, small firms and cities, interact.

We want to see more people starting, leading and working in business by expanding entrepreneurship so it is in the hearts of the many, rather than the hands of a few. This is a crucial element of the new economy we want to build, and a key driver of social mobility.

This report shines a light on the drivers of small business growth across cities, highlighting the importance of flexibility to address the particular challenges which small firms face.”

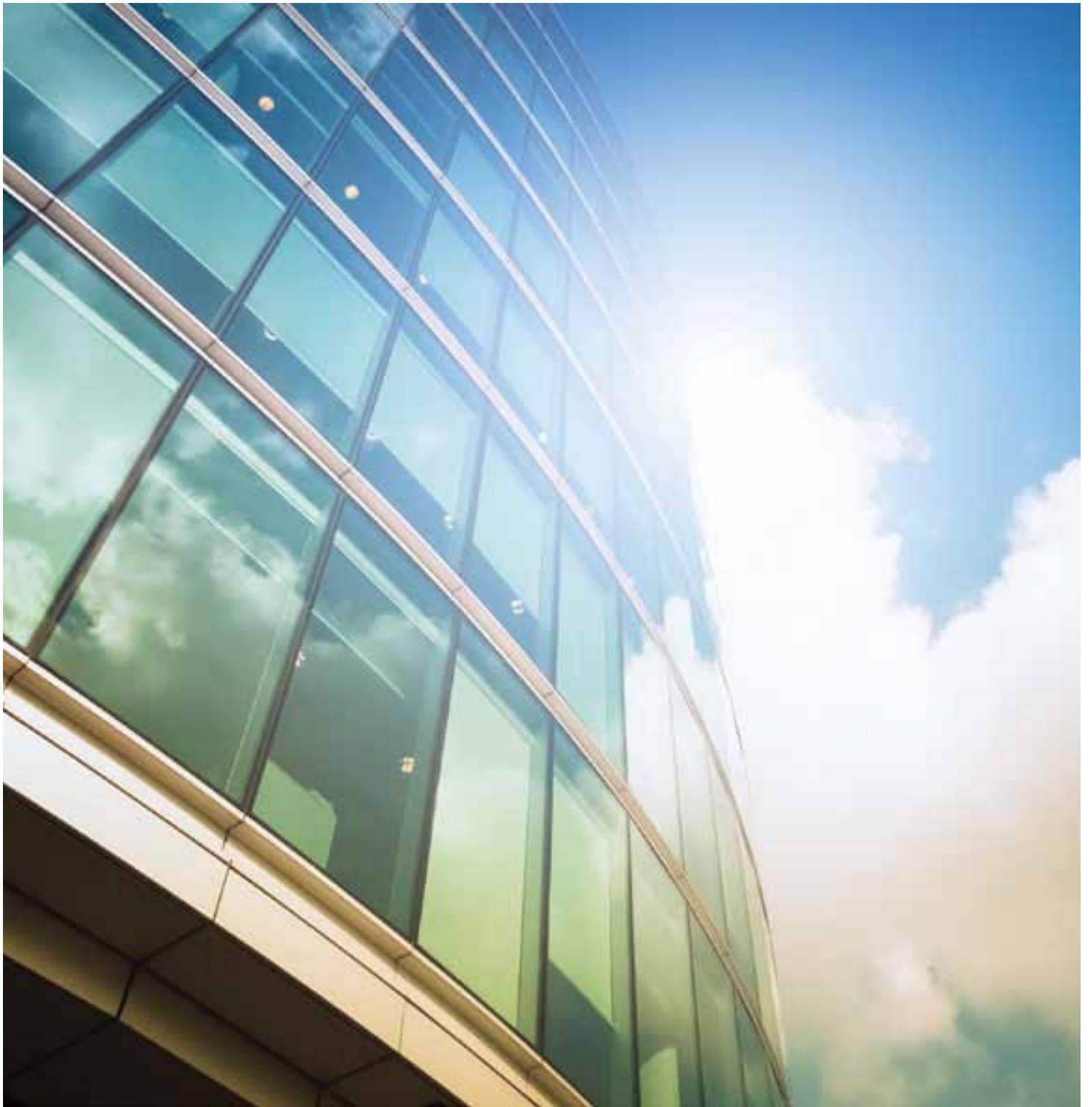
Chuka Umunna, Shadow Secretary of State for Business, Innovation and Skills

“Zurich is delighted to be working with Centre for Cities on the Small Business Outlook.

The risks, challenges and opportunities for small businesses are changing at a fast pace and cities are taking an increasingly prominent role in helping them meet these head on.

This report can bring real value to all those looking to share our ambition of ensuring a resilient and successful small business community in the UK.”

Richard Coleman, Director, SME, Zurich Insurance plc



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Executive Summary

National and local economies both depend on the success of small and medium-sized enterprises (SMEs). SMEs make up at least 99 per cent of businesses in UK cities, and their resilience and adaptability mean they have become more important over the last decade.

Between 2005 and 2012, the number of city-based SMEs increased by 37 per cent, compared to a 14 per cent increase in the number of large firms. Yet SMEs in different cities vary enormously in their ability to generate jobs and value.

Internal and external factors affect the resilience and growth of individual SMEs. Performance is largely down to how a business is managed and run. But external factors relating to sector or the business environment – including consumer demand, workforce capacity and skills, access to suitable business premises, physical and digital connectivity, and access to finance – can also have a significant impact on how SMEs perform.

For national and local policy to be effective in supporting SMEs across the country, a deeper understanding of how and why SME performance varies is needed.

Small Business Outlook 2013 examines the geography of SME performance and the factors that determine it. It finds that SMEs in the weakest economies have been affected most, reinforcing existing geographic divides.

London and cities in the South East tend to have the highest levels of entrepreneurship, SME density and growth. There is no clear North-South divide, however, with Aberdeen and Warrington amongst the top performing cities and Luton having amongst the lowest SME growth rates nationally.

The report also highlights several factors that determine variations in SME performance across UK cities:

- **Sectors:** Some sectors, and the businesses within them, have been more affected by globalisation, technology and changing consumer habits than others. As a consequence, whilst high growth SMEs can be found in all sectors, SME performance at city level varies depending on individual cities' sectoral profile.

- **Demand:** Ultimately, the conditions in the wider business environment determine the performance of SMEs. But levels of demand for goods and services in local economies have an important bearing on the growth prospects of existing and new SMEs.
- **Skills:** Cities with a more highly skilled workforce tend to be more entrepreneurial and to have more SMEs growing than shrinking. Shortages in workers with higher level skills impact on the ability of larger SMEs in particular to expand and create new jobs.

Reflecting the varied nature of SME performance across UK cities, other external factors, such as high costs of living and poor connectivity, can be significant barriers to growth in some cities but not in others. This underpins the need for any support for SMEs to be tailored to the specific needs of SMEs in different cities.

Key policy recommendations

It is important that national government recognises the geographical dimension to SME success and failure, and that every city and Local Enterprise Partnership (LEP) understands the nature of its SME base, where its comparative advantage lies and the barriers that SMEs face. All cities need to tailor support to the specific needs of their SME base.

- **Enable cities to respond:** National government should build on City Deals and Heseltine to devolve more funding and powers around skills, transport, housing and business support.
- **Improve the local business environment:** Cities and LEPs should focus on improving the

local business environment. Indirect approaches to enterprise policy, including education and training provision, transport connections and improvements to the planning system, can have a strong bearing on SME resilience and performance.

- **Reduce dependency on local markets:** LEPs should work with the UKTI to support SMEs to diversify their customer base beyond the local market. National and local government also need to support SME growth through improved public sector procurement processes.
- **Improve access to business support:** The Government needs to simplify business support infrastructure to improve SMEs' access to support. LEPs should consider establishing Business Growth Hubs to help SMEs navigate and access support available.
- **Work in partnership:** LEPs should work in partnership with other local organisations, including business representative organisations, universities and JobCentre Plus.



01

Small Business Outlook 2013: Recession, Recovery & Policy

Small Business Outlook 2013: Recession, Recovery & Policy

Small and medium-sized enterprises (SMEs) are vital to the UK's economic recovery. Not only do SMEs account for more than 99 per cent of all firms in the UK and account for 49 per cent of total private sector turnover in the UK.¹ They can also be some of the most dynamic, resilient and adaptable firms, and grow into large innovative and highly successful firms such as Google or Facebook.

Cities offer entrepreneurs ideal environments in which to start and grow successful businesses, providing access to skilled workers, markets and suppliers. Small and medium-sized enterprises (SMEs)² have also played an increasingly important role in city economies over the last decade. Between 2005 and 2012, there has been a 37 per cent increase in the number of city-based SMEs, compared to a 14 per cent increase in the number of large firms.³ They now account for 47 per cent of private sector employment in UK cities.⁴ Over 55 per cent of SMEs in the knowledge-intensive service sectors (accountancy, legal, IT and design companies, for example) – and 60 per cent of employment in SMEs within all knowledge-intensive sectors (including

high tech manufacturing) – are based in cities.⁵ Moreover, recent studies have shown that most high growth companies, which accounted for half of new jobs created by existing firms between 2002 and 2008, are SMEs⁶ and are based in cities.⁷

But SMEs across the country were hit hard by the recession. Fewer businesses were started up and more have closed following the financial crisis in 2008. For those that survived, many businesses have had to lay workers off or halt their expansion.

Because of their importance as sources of jobs, wealth and innovation, and because they are often more likely to be exposed to economic downturns and market failures, SMEs are often the focus of public policy. The Government's Plan for Growth, which aims to make the UK "one of the best places in Europe to start, finance and grow a business," was followed up with several key announcements in the Autumn Statement 2012, which focused on supporting SMEs by: reducing Corporation Tax; extending the doubling of Small Business Rate Relief; and providing a new export finance

1. Department for Business Innovation and Skills (2012) Business population estimates for the UK and regions 2012

2. There is no universally accepted definition of an SME. The most commonly used definition is based on the number of employees at an individual firm. Based on this definition a business with fewer than 10 employees is classified as a 'micro' business; businesses with 10 to 49 employees are classified as 'small'; and businesses with 50 to 249 employees are classified as 'medium'.

3. Business Demography, 2013

4. ONS Business Structure Database, 2013. Note figure excludes some very small businesses i.e. self-employed.

5. ONS Business Structure Database, 2013

6. NESTA (2010) *The Vital Six Percent*, London: NESTA

7. Business Structure Database, 2013



facility. UKTI has committed to doubling its SME client base to 50,000 by 2015 with the aim of significantly increasing the number of SMEs exporting.

The Government also introduced the Employment Allowance, which aims to make the National Insurance (NI) system less onerous for small businesses by giving them up to £2,000 off NI contributions. Most recently, in the 2013 Budget, the Chancellor announced the extension of the Funding for Lending scheme, initially introduced in July 2012 to boost lending to households and businesses.⁸ The Chancellor also confirmed that a new business bank, aimed at supporting access to finance for businesses under a single organisation, will be operational in 2014.⁹

Whilst the policy focus on SMEs is welcome, for national and local policy to be effective, a deeper understanding of

how the SME base of different cities has performed over the last decade is required, in order to ensure that policy can be calibrated to the different needs of different cities and the SMEs that operate in them.

Small Business Outlook 2013 aims to further our understanding of how and why SME performance varies across UK cities. The survival and growth of SMEs is dependent on their levels of resilience – in other words, their ability to adapt well in the face of adversity. Resilience is thought to be related to a number of factors that are internal and external to the firm.¹⁰ Small Business Outlook focuses on how the external business environment in different cities impacts on SME performance and resilience, in order to help inform what policy makers at the national and local level can do to reduce risk and support SME growth.

8. Further information available at <http://www.bankofengland.co.uk/publications/pages/news/2012/067.aspx>

9. Further information available at <https://www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business-6/supporting-pages/getting-banks-lending>

10. De Jorge Moreno J, Laborda Castillo L, De Zuani Masere E (2007) 'Influence of entrepreneur type, region and sector effects on business self-confidence: Empirical evidence from Argentine firms', *Entrepreneurship and Regional Development*, Vol 19, pp 25-48



02

SME Performance & Resilience Across UK Cities

SME Performance & Resilience Across UK Cities

This section assesses SMEs in different UK cities on a range of performance measures. It compares the overall size of the SME base and how this is affected by levels of entrepreneurship, and then tracks the growth of individual SMEs on a city-by-city basis.

The size of the SME base

The economic well-being of cities – and the people that live or work in them – is largely dependent on the strength of the SME base; for example, the higher the density of SMEs, the lower unemployment is.¹²

Cities in the Greater South East, including London, tend to have the highest rates of business density (Figure 1).¹³ Elsewhere in the UK, Aberdeen and Warrington also have high levels of business density. In contrast business density is comparatively low in cities in the North East. To illustrate the contrasts across UK cities, Aldershot had 390 SMEs per 10,000 population in 2011, compared to 170 SMEs per 10,000 population in Sunderland.

Box 1:

The use of Primary Urban Areas (PUAs)

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.

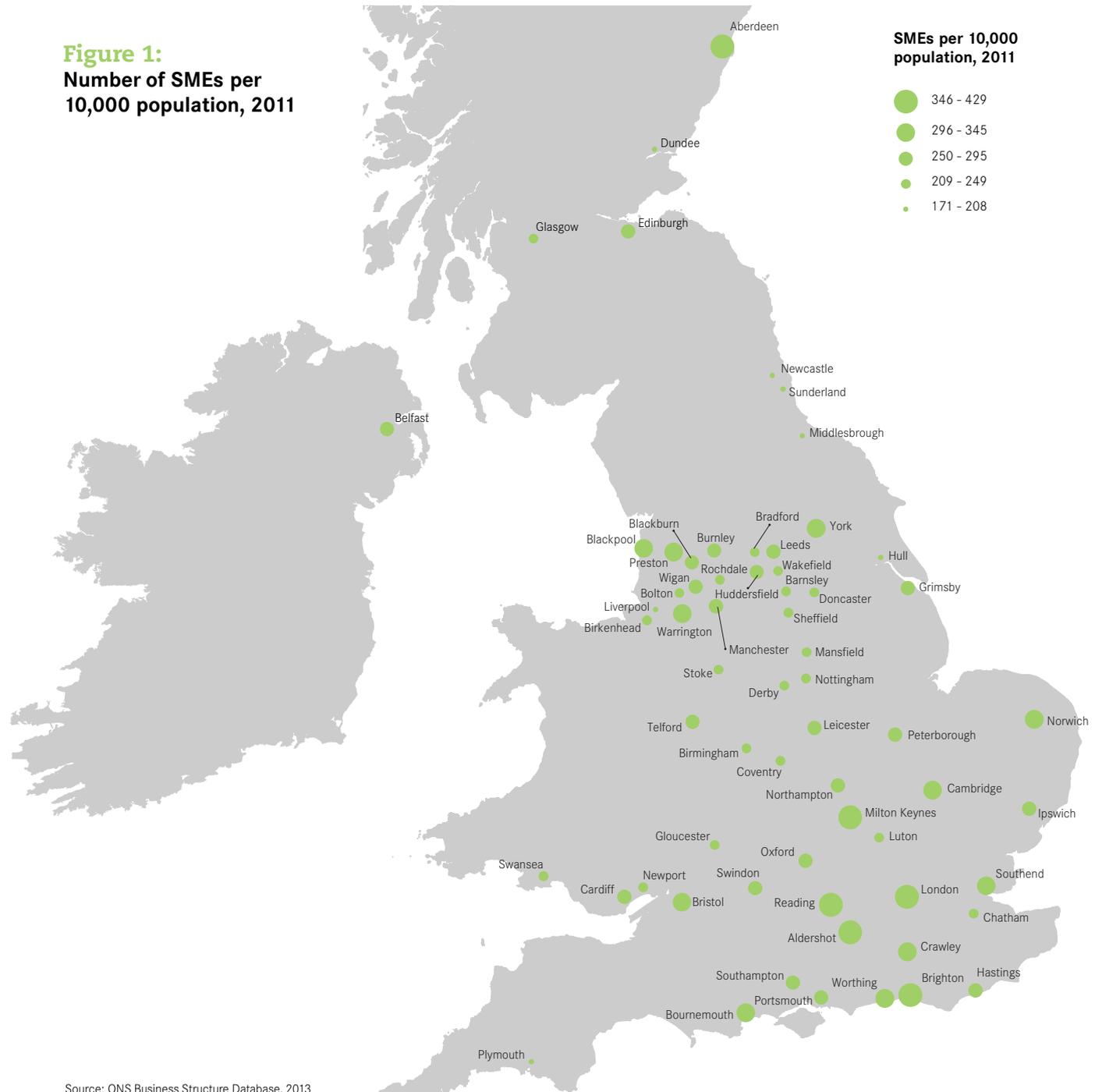
A PUA is the city-level definition used in the Department for Communities and Local Government's State of the Cities Report. It is useful as a consistent measure to compare cities across the country and we have used it since the first edition of *Cities Outlook* in 2008.¹¹

11. For more details on Primary Urban Areas go to <http://www.centreforcities.org/puas>

12. Source: ONS, 2013; Claimant count, 2013

13. The ONS Business Structure Database is constructed from annual snapshots of the Interdepartmental Business Register. Enterprises that are not registered for VAT and who do not operate a PAYE scheme will not be included on the Register. While it includes businesses from all parts of the economy, it will exclude some very small businesses (self-employed, no employees, those without employees and low turnover). It is estimated, however, to provide coverage of nearly 99 per cent of economic activity. Further information available at <http://www.ons.gov.uk/ons/about-ons/who-we-are/services/unpublished-data/business-data/idbr/index.html>

Figure 1:
Number of SMEs per
10,000 population, 2011



Source: ONS Business Structure Database, 2013

Levels of entrepreneurship

New businesses are an important source of new jobs but levels of entrepreneurship vary widely across UK cities. Start-ups are an important source of new employment. Despite many remaining small, start-ups help to create a more competitive and dynamic business environment, and account disproportionately for productivity growth in an economy.¹⁴

Cities with the highest number of business starts tend to have the highest density of SMEs.¹⁵ New business starts account for 12 per cent of the total business base on average in UK cities.¹⁶ London has the highest start-up rate, 1.7 times the national average with 72.5 business starts per 10,000 population in 2011. Cities surrounding London such as Aldershot and Reading also tend to have high business start-up rates. In contrast, the cities in the North East – Middlesbrough, Newcastle and Sunderland – have among the lowest rates of business start-up.

The recession saw a large fall in business starts across UK cities. While there was an increase in self-employment, this did not translate into an increase in business start-ups over the course of the recession. Between 2008 and 2011, the number of business starts per 10,000 population fell by 14 per cent on average in UK cities, by 13 per cent across the UK as a whole and in 54 of the UK's 64 cities.

Combined with an increase in business closures, the fall in start-ups led to a fall in the density of SMEs across many UK cities. With the exception of small increases in SME density in Birkenhead and Oxford, all cities saw a fall in the number of SMEs relative to population size between 2008 and 2011. Blackpool,

Bournemouth and Swindon saw the largest falls in SME density between 2008 and 2011. In a small number of cities (Aberdeen and Crawley, for example) SME density fell as a result of growth in stock of SMEs not keeping pace with population growth.

It is important to note that differences in rates of entrepreneurship between cities are persistent over time and need to be tackled through long-term strategy and investment. Cities with the highest business start-up rates prior to the recession in 2007 tended to have the highest start-up rates in 2011 (Figure 2). Some of the most entrepreneurial cities pre-recession have also seen the highest increases in new businesses between 2007 and 2011. Reading saw a 7 per cent increase in the number of new businesses, London saw an increase of 6 per cent and Edinburgh saw an increase of 2 per cent. In contrast, Belfast and Sunderland have low business start-up rates relative to other UK cities and have seen significant falls over the course of the recession.

Growth rates

Growth rates of existing SMEs vary enormously across UK cities. Tracking individual firm growth over a three year period from 2008 to 2011,¹⁷ it is evident that there are huge variations in the geographies of high and low growth firms.

Across all cities, more SMEs expanded their workforces during this period than reduced them. More than 2.5 times more SMEs were expanding in Aberdeen than contracting. This ratio drops to 1.3 in Belfast and 1.6 in Blackpool. Across all SMEs, the general pattern of expanding businesses relative to contracting ones highlights strong performance among cities in the South East, Scotland, parts of the North West, Newcastle and Plymouth.

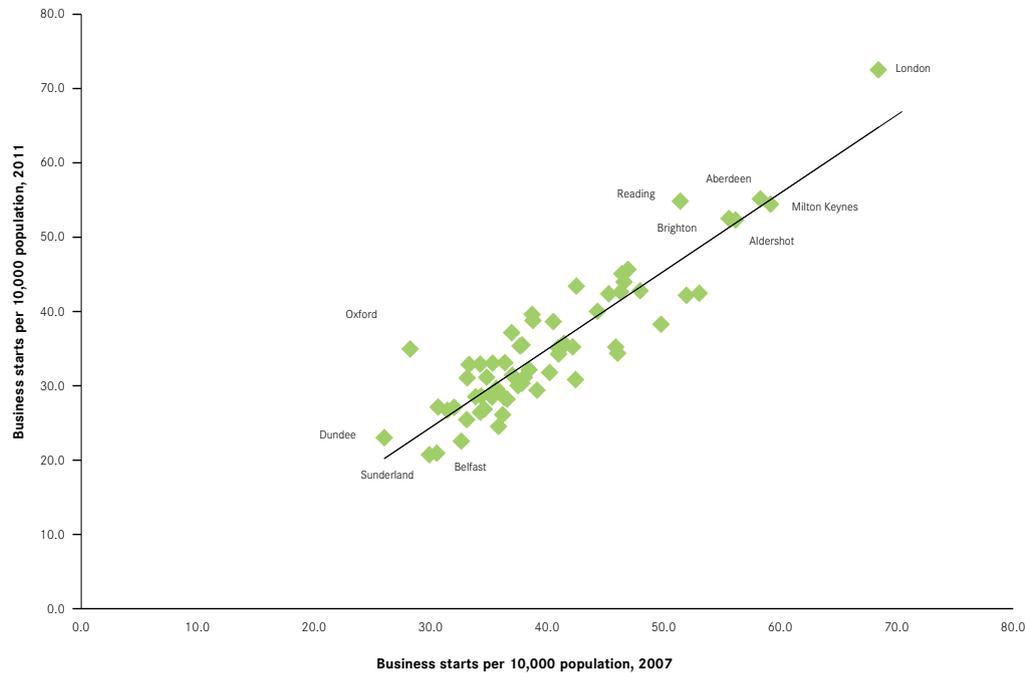
14. Barnes MJ, Haskel J & Maliranta M (2001) *OECD Firm-Level Study: Notes on the Decomposition of Labour Productivity Growth*, mimeo.

15. New business starts explain 80 per cent of the variation in SME density across UK cities.

16. Business demography, ONS, 2011

17. See www.centreforcities.org/businessoutlook13 for a methodological note

Figure 2:
New business starts, 2007 and 2011



Source: Business Demography, 2013

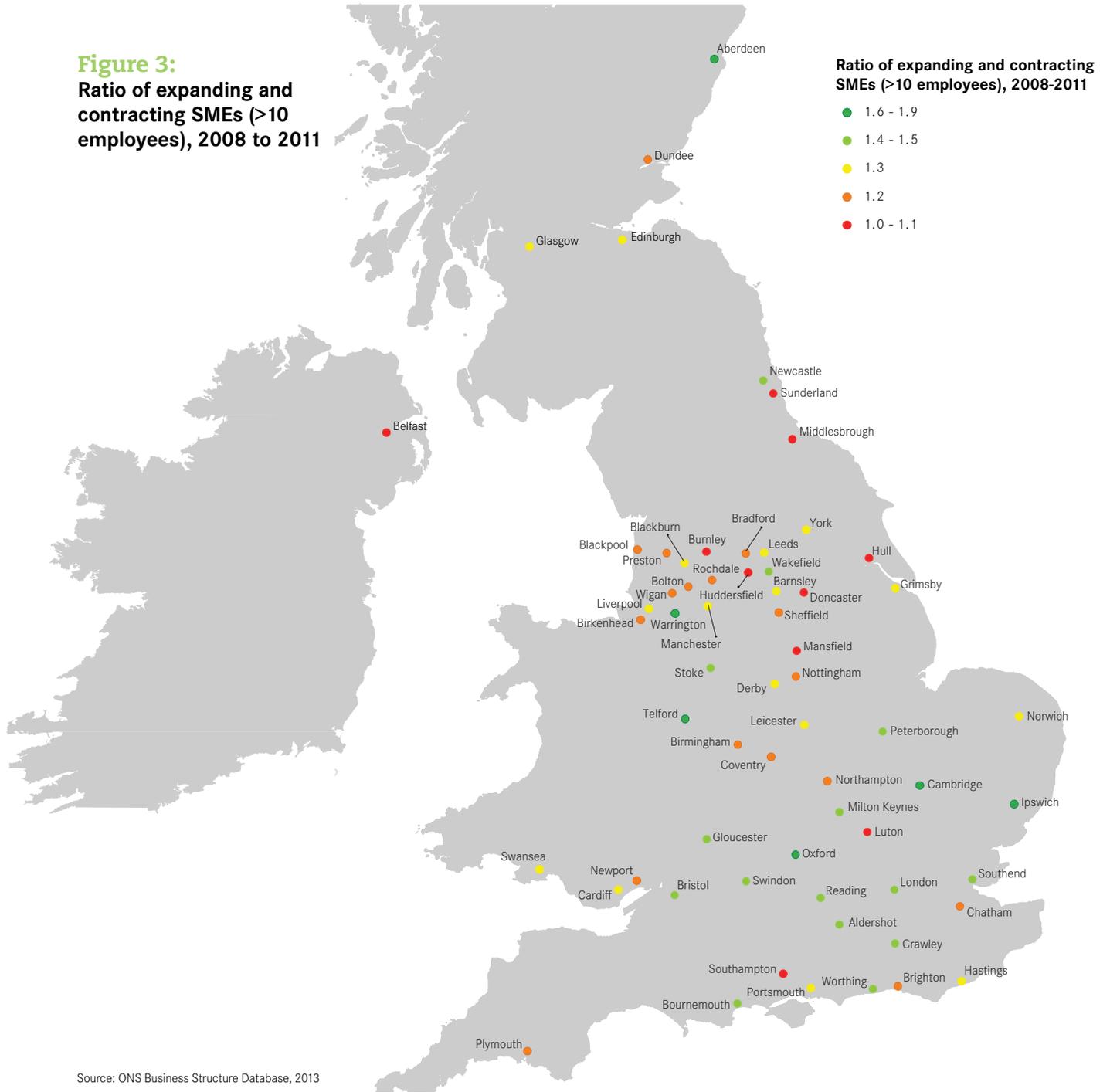
In some cities the majority of SME growth was driven by micro firms as opposed to larger SMEs, which means that fewer jobs were being created overall. For example, the relatively high proportion of expanding firms in Plymouth was driven predominantly by micro firms (less than 10 employees). The number of jobs created by expanding SMEs in the city was relatively low compared to other cities as a result.

Figure 3 shows the ratio between expanding and contracting SMEs with 10 or more employees at the start

of the period in 2008. Strong performing cities tend to be more confined to the Greater South East. But there is no clear North-South divide, with Northern cities such as Newcastle and Warrington, together with Midlands cities such as Telford, also doing well. The ratio of expanding to contracting SMEs (greater than 10 employees) is lower in Luton and Southampton than in many Northern cities.

The geography of high and low growth firms follows a similar pattern. Cities such as Aberdeen, London and Oxford had the highest concentration of SMEs growing by

Figure 3:
Ratio of expanding and contracting SMEs (>10 employees), 2008 to 2011



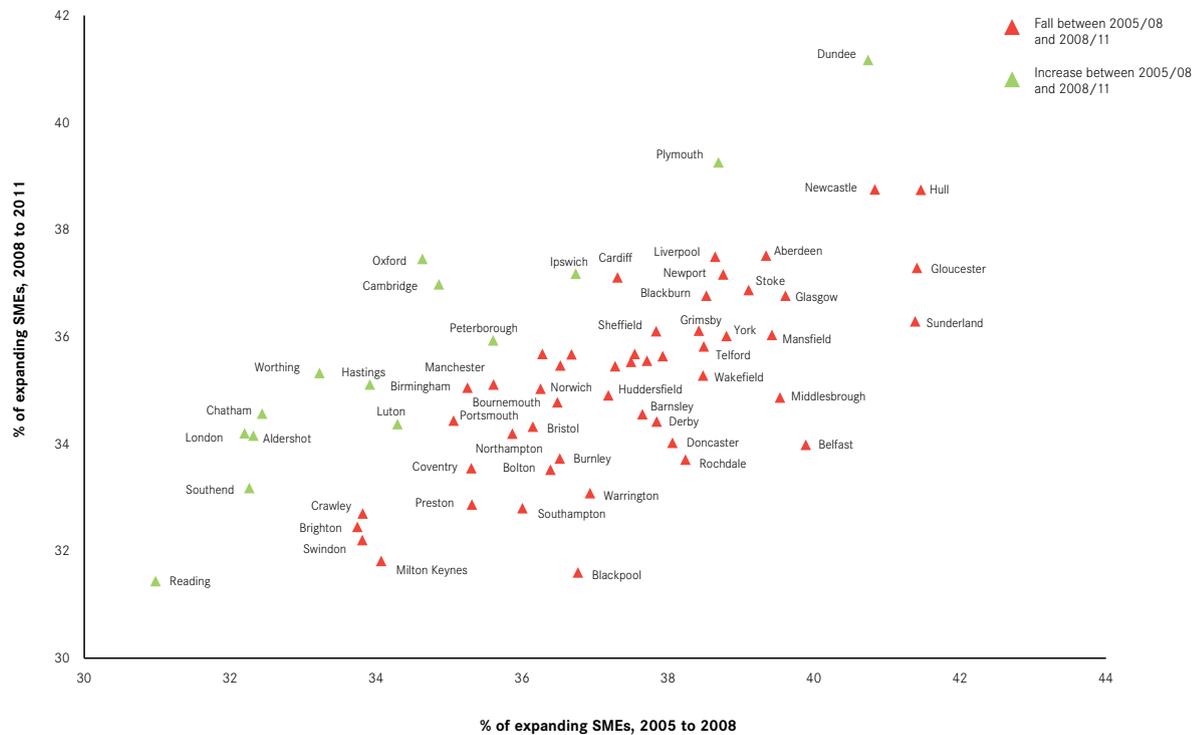
Source: ONS Business Structure Database, 2013

more than 50 per cent.¹⁸ In contrast, more than a fifth of SMEs in Belfast saw their employment base shrink by more than 20 per cent.

The impact of the recession on SME growth is evident across the country. Figure 4 shows that 50 out of 64 UK cities saw a fall in the number of SMEs expanding

between 2008 and 2011, compared to the three years prior. The largest falls over the two periods were among SMEs in Belfast and Blackpool (6 and 5 per cent respectively). Overall, there were larger falls in the proportion of SMEs expanding in cities in the North. Several cities, such as Dundee, Oxford, Peterborough and Southend, bucked wider trends and saw an increase in the proportion of SMEs expanding.

Figure 4:
Proportion of SMEs expanding, 2005-2008 and 2008-2011 (all SMEs)



Source: ONS Business Structure Database, 2013

18. 'High growth firms' are defined as SMEs expanding their employment base by more than 50 per cent. Rates of growth can be skewed by micro firms increasing their employment base by 1 or 2 employees; as a result we also calculate growth rates among businesses with 10 or more employees.



Nearly all cities (59 out of 64 cities) saw a fall in the proportion of larger SMEs expanding between 2005/08 and 2008/11, leading to a substantial fall in employment growth. The slowdown in growth among larger SMEs was most significant in Brighton, Burnley and Newport. There was more than a 12 percentage point fall in the number of SMEs with more than 10 employees expanding in these three cities between 2005/08 and 2008/11. In contrast, Worthing saw the largest increase (1.8 percentage points) in larger SMEs expanding over the same time period.

Figure 5 shows that, in some cities, the overall increase in the proportion of SMEs expanding was driven by micro businesses. For example, Chatham, Hastings and Oxford each saw an overall increase in the number of SMEs expanding, but a fall in expansion among larger SMEs.

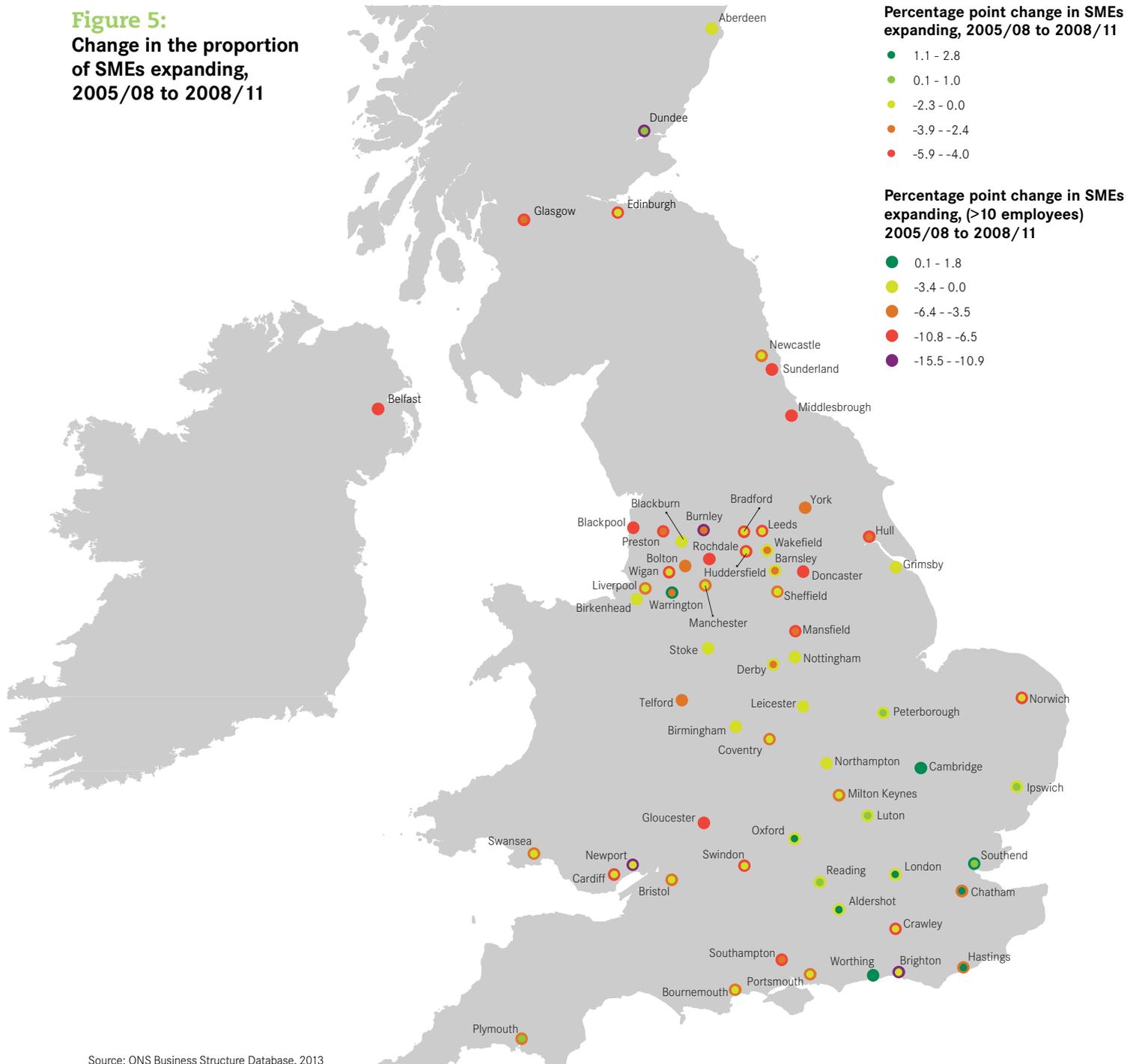
The pattern of variation of SME performance across the UK's cities is stark but relatively stable.

There are stark differences between cities when it comes to SME performance. London and cities in the South East tend to have the highest levels of entrepreneurship, SME density and growth. Yet this is not about a North-South divide, with Aberdeen and Warrington amongst the top performing cities and Luton having amongst the lowest SME growth rates nationally.

To some extent the differences highlight the importance and enduring influence of economic and social history: low levels of entrepreneurship in some cities are likely to relate to a historic reliance on large employers, for example.¹⁹ The most recent recession has mostly reinforced these patterns; those cities that had low rates of entrepreneurship and SME growth before the recession tended to do worse during the recession and continue to struggle in the current period of low growth.

19. Clayton N and Mandair R (2012) *Cities Outlook 1901*, London: Centre for Cities; Swinney P & Smith R (2012) *Open for Business: The shape of business, enterprise and entrepreneurship across UK cities*, London: Centre for Cities; Glaeser E et al (2012) *Entrepreneurship and Urban Growth: An Empirical Assessment with historical mines*, NBER Working Paper No. 18333

Figure 5:
Change in the proportion
of SMEs expanding,
2005/08 to 2008/11



Source: ONS Business Structure Database, 2013



03

Understanding SME Performance

Understanding SME Performance

SMEs' resilience and growth potential are affected by the actions of owners, managers, employees, as well as the actions of external actors (actual and prospective customers, suppliers, competitors, government and others).²⁰ Thus the barriers and enablers to SME growth can be internal to individual firms or external (Box 2). The health of local, national and global economies has an important bearing on SME performance, as does the industry in which a firm operates. It is estimated that 30 to 38 per cent of business failures are due to external factors.

This section focuses on the external factors relating to individual city economies that help explain the variation in SME performance across the UK cities outlined in the previous section. These factors are:

- **Sectoral profile:** globalisation and technology have driven significant changes in the sectoral profile of the UK economy. As a consequence, SME performance at city level varies depending on individual cities' sectoral profile.

- **Local demand:** Conditions in the wider business environment determine the performance of the SME base to varying extents. Levels of demand for goods and services in local economies appear to have a strong bearing on SME growth.
- **Skills:** Skills and workforce capacity are also important determinants of SME performance at city level.

Other factors, such as high costs of living and poor connectivity, can act as significant barriers to growth in individual cities, but do not appear to be common determinants of growth. These factors are explored in further detail in the final section of this report.

20. Kitching J *et al* (2012) *Adapting to a Fragile Recovery: SME Responses to Recession and Post-Recession Performance*, London: Small Business Research Centre Kingston University

Box 2: A framework for understanding SME risk

Firm (internal)

- Factors specific to an individual firm (operational management) - internal
- Requires firm level intervention

Industry (external)

- Industry in which a business is operating
- Requires firm level intervention

Economy (external)

- Economy in which a business is located (local and national)
- Represents ~ 25 per cent of risks to business

Source: Adapted from Everett and Watson, 1998

Firm-specific risks relate to the individual strategies taken by owner-managers. Management practices and the behavioural traits of entrepreneurs and decision makers are important. Strategies taken to address operational-level risks, such as flooding or criminal damage, may involve risk mitigation (making buildings more flood-resistant or hiring security, for example) and insuring against the risk. Recent research²¹ has shown that SME owner-managers have responded to changes brought about by the 2008 financial crisis in two very different ways: cost-cutting and growth-related. Cost-cutting approaches include downsizing

the workforce, reducing products, reducing stock, and freezing pay. Growth-related approaches include offering new or improved products, competing on price, and acquiring other firms.

Industry-related risks are external to individual firms but common to firms within a particular industry. Industry-related risks may stem from a regulatory change, industry-specific barriers, changes in input costs, demand conditions, and innovations in technology that induce or enable alterations in industry structure. Carbon pricing is likely to have a disproportionate impact on energy-intensive industries, for example.²²

Economy-wide risks relate to the wider environment in which an SME operates or trades.

Figure 6 shows that the current economic climate is considered the most significant barrier to growth by nearly 40 per cent of SMEs in the UK; up from 16 per cent in 2007/08. Amongst small businesses, the economy or the recession was also identified as the single biggest obstacle to achieving business objectives by 60 per cent of respondents (FSB, 2012).

In addition to wider macro-economic conditions, local factors also impact on the performance of SMEs, even when national and industry specific developments are controlled for.²³

Local factors that are important for the formation of new firms and the growth of existing SMEs include the level and the development of local demand; availability and price of necessary resources such as workforce, floorspace and venture capital; spatial proximity to customers and to other establishments in the same industry; and the innovation capacity of the local area.²⁴

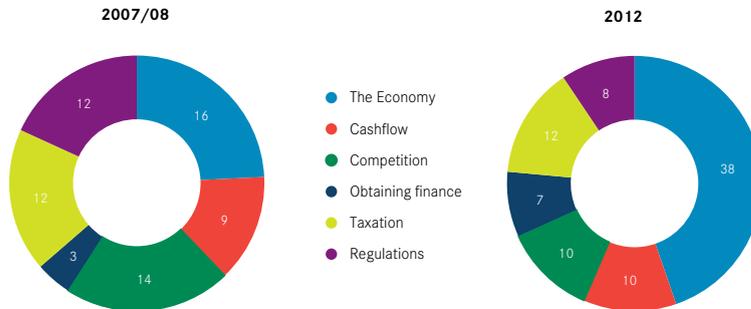
21. Price *et al* (2012) 'SME Perceptions of and Responses to the Recession', Final manuscript submitted to *Journal of Small Business and Enterprise Development*, February 2013 (due for publication in Volume 20, Issue 2)

22. The Government launched a scheme in 2011 to compensate energy-intensive companies for indirect costs of energy and climate change policies. Further information available at <https://www.gov.uk/energy-intensive-industries-compensation-for-carbon-leakage>

23. Fritsch M *et al* (2006) 'The Effect of Industry, Region and Time on New Business Survival - A Multi-Dimensional Analysis', *Review of Industrial Organization*, 28, 285-306

24. Fritsch M & Falck O (2003) *New Firm Formation by Industry over Space and Time: A Multi-Level Analysis*, Berlin: German Institute for Economic Research

Figure 6
Barriers to SME growth, 2007/08 and 2012



Source: Annual Small Business Survey, 2013

The sectoral make-up of a city's SME base has a bearing on its overall performance

SMEs across all sectors contribute to economic growth in cities.

Although sector affects SME performance overall, the data shows that high and low growth firms are found in all sectors and individual cities have different competitive advantages (Figure 7). With the exception of real estate and construction, more than half of larger SMEs²⁵ across all sectors grew their employment base between 2008 and 2011.

SME performance during the recession has not been as strong in cities with large distribution,

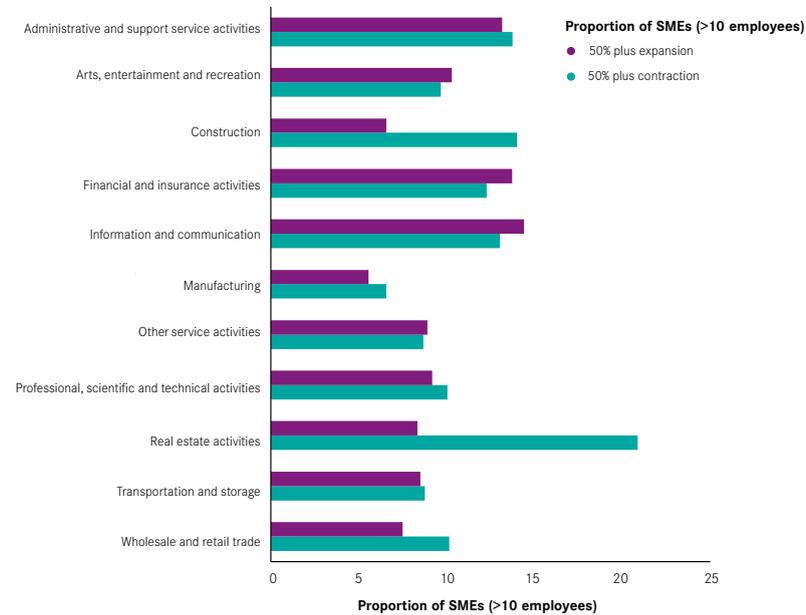
construction or manufacturing sectors. SMEs in the distribution sector (wholesale and retail) have been particularly affected by falls in consumer spending. Cities such as Doncaster and Luton, with a higher proportion of employment in these sectors at the start of the recession, tended to see a higher proportion of SMEs contracting between 2008 and 2011, relative to those expanding.

Following broader national trends, cities saw a relatively large fall in employment among SMEs in the construction sector. Aggregate employment in SMEs in the sector fell by 12 per cent on average across cities, but some cities such as Dundee and Grimsby saw falls in employment of more than 20 per cent.



25. More than 10 employees in 2008

Figure 7:
High and low growth SMEs by broad sector, 2008 to 2011



Source: ONS Business Structure Database, 2013

Manufacturing saw some of the largest job losses during the recession and employment in manufacturing SMEs fell by 14 per cent on average across cities. Rates of contraction were more than 40 per cent in some cities such as Ipswich and Oxford. Aberdeen, Luton, Hastings and Swansea were the only cities to see a small increase in employment among SMEs in the sector.

SME performance was stronger in cities with concentrations of employment in knowledge-intensive services. SMEs were more likely to have expanded in cities with large knowledge-intensive service sectors. The overall size of the SME base relative to a city's population was also larger and levels of entrepreneurialism were higher. There is a particularly strong positive relationship between the size of the

information and communication sector in a city and SME performance. Cities with a large concentration of SME employment in the professional, scientific and technical sectors were also more likely to see stronger SME performance.

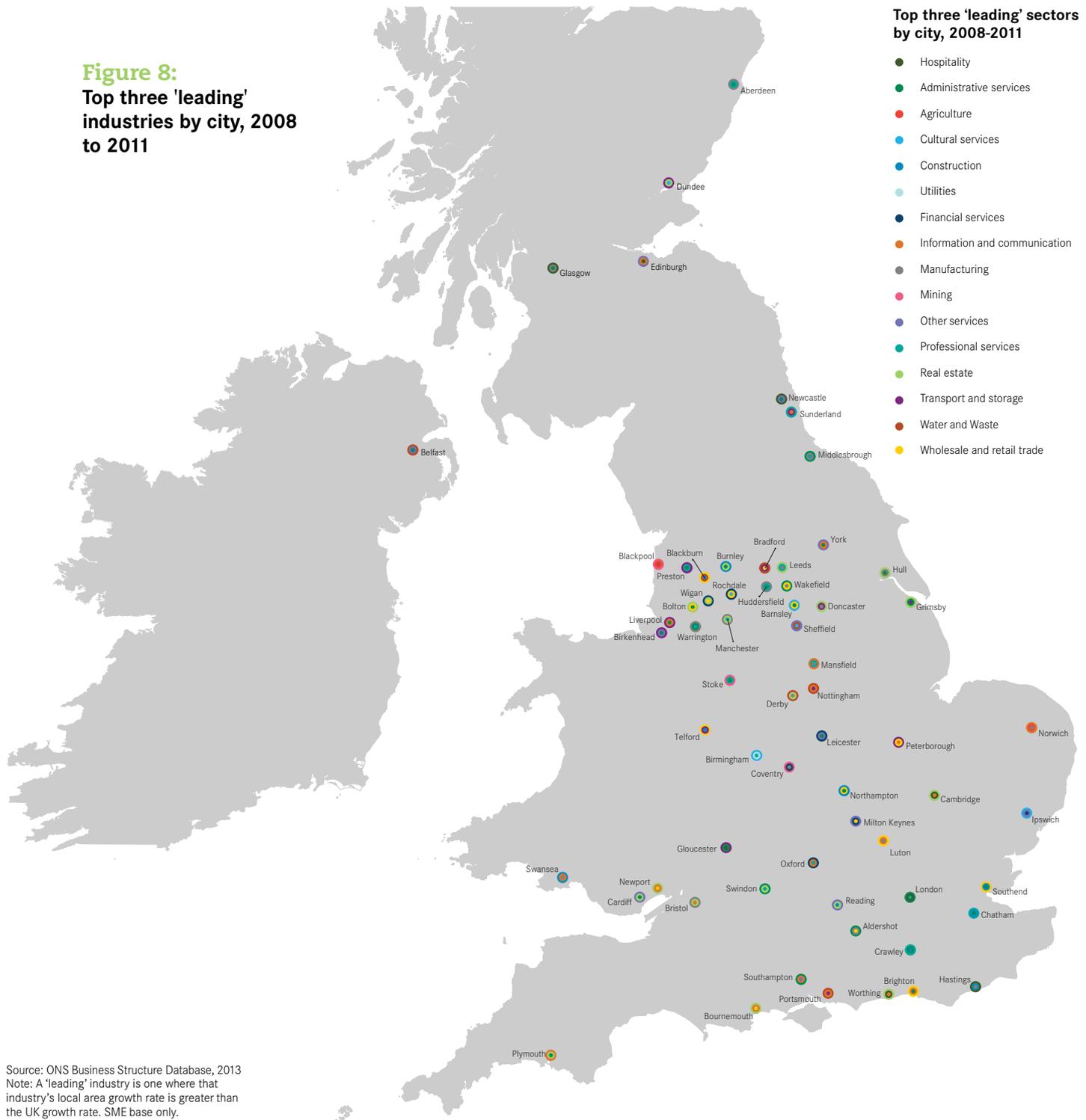
A high proportion of SMEs in cities in the Greater South East operate in the private knowledge-intensive services (KIS) sector: over 40 per cent of SMEs in London and Reading are in the private KIS sector. A relatively high proportion of SMEs in strong economy cities such as Bristol, Cardiff and Edinburgh are also knowledge-intensive businesses. In contrast, less than a fifth of SMEs in weak city economies such as Mansfield, Telford and Wakefield operate in the private KIS sectors. Given the knowledge-intensive services are predicted to continue to see high growth in the UK, these broad trends suggest that cities with higher concentrations of KIS firms are more likely to see SME growth in the future.

But there are a range of exceptions to these trends – we need to analyse SME performance on a city-by-city basis. SMEs in different industries are more (or less) competitive in different cities compared to national

Figure 8:
Top three 'leading' industries by city, 2008-2011

Top three 'leading' sectors by city, 2008-2011

- Hospitality
- Administrative services
- Agriculture
- Cultural services
- Construction
- Utilities
- Financial services
- Information and communication
- Manufacturing
- Mining
- Other services
- Professional services
- Real estate
- Transport and storage
- Water and Waste
- Wholesale and retail trade



Source: ONS Business Structure Database, 2013
 Note: A 'leading' industry is one where that industry's local area growth rate is greater than the UK growth rate. SME base only.

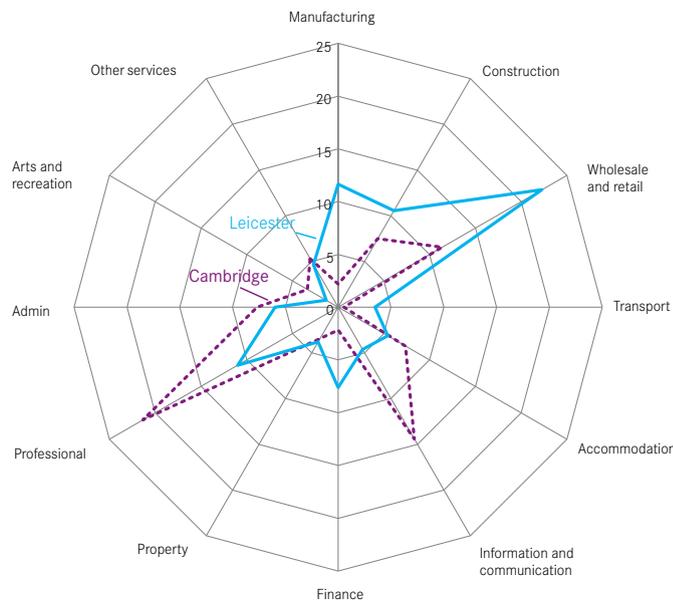
averages.²⁶ There is a wide range of sectors bucking national and city economy-wide trends (Figure 8). Cities like Derby and Doncaster have relatively competitive manufacturing SME bases, while Blackburn and Crawley have relatively competitive construction sectors. Professional services is a 'leading' sector in both Birmingham and London, and Bristol and Cambridge have particular strengths in the digital sector.

The contrast between the SME bases in Cambridge and Leicester (Figure 9) illustrate the extent to which sectoral profiles can vary across cities. The SME base in Cambridge is more skewed towards professional and computer-related services, while Leicester has a higher concentration of businesses in distribution and manufacturing.

As a result, the external business environment will impact on

the SME base in different cities in different ways. For example, digital companies are likely to demand faster broadband speeds than average businesses. So while Cambridge has good coverage of superfast broadband relative to other cities, connections may need to be improved further in order to support the continued growth of the city's cluster of digital SMEs. On the other hand, SMEs in the manufacturing and logistics sectors are likely to be more negatively affected by transport and congestion costs, and site availability.

Figure 9:
Contrast between SME sector profiles in Cambridge and Leicester, 2011



Source: ONS Business Structure Database, 2013

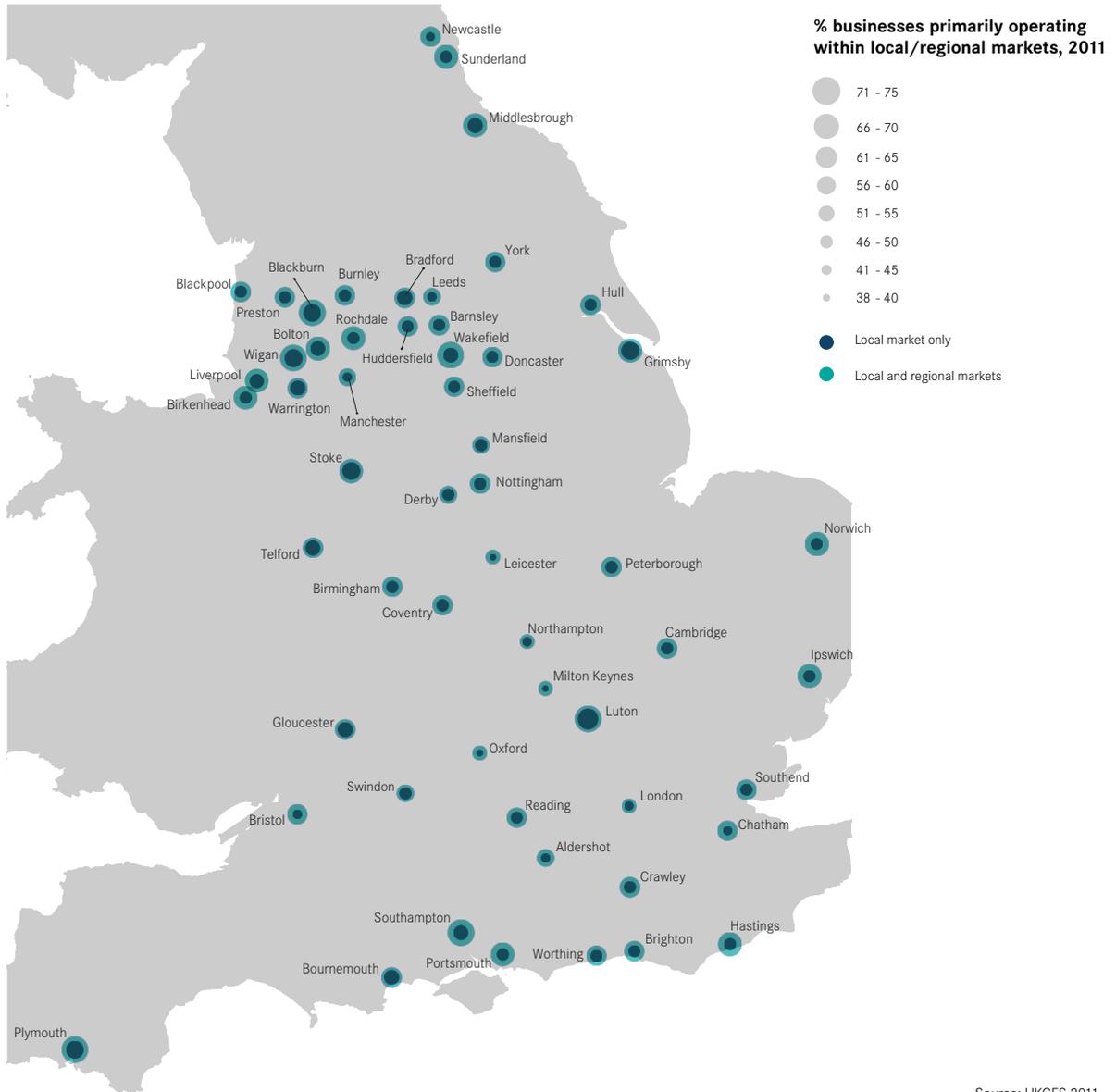
26. Shift share analysis is a method of identifying comparative advantage in particular cities by estimating the proportion of job growth that can be attributed to national trends or factors unique to individual cities.

27. UKCES, 2011. Note that the UKCES Employer Survey includes all firms but SMEs account for 99 per cent of respondents.

Levels of demand in city economies impact on SME growth

Levels of demand in a local economy have an important bearing on the growth prospects of SMEs. On average, 45 per cent of firms in cities operate primarily within the local market and 60 per cent within the regional market.²⁷ Firms in London, the Core Cities and cities within the South East tend to be less reliant on local demand, with a higher proportion of firms operating in international markets. In other cities, such as Blackburn and Luton, up to 75 per cent of firms operate primarily within the local or regional market (Figure 10). As a result, SMEs' performance will be

Figure 10:
Businesses primarily operating within local or regional markets, 2011



affected by changes in local demand to varying extents.

There is a strong relationship between the buoyancy of the local economy and levels of entrepreneurship within a city.

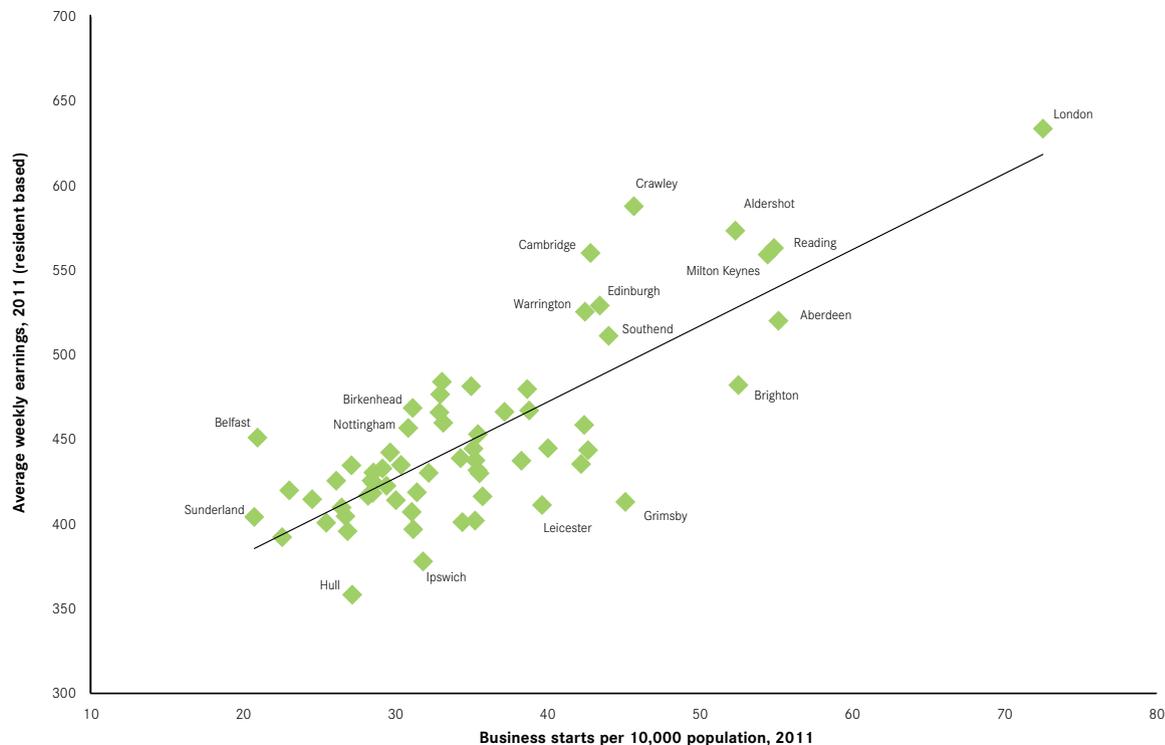
Cities with higher average wages

tend to have a higher number of business start-ups and a larger SME base overall (Figure 11). While high rates of entrepreneurial activity are likely to drive up wages in local economies, evidence also suggests that high wages lead to higher levels of consumption and local economies

that provide more business opportunities for SMEs.²⁸

Since the recession real wages have declined across nearly all cities, but the spatial pattern of these changes suggests that some cities have seen larger falls in demand than others.

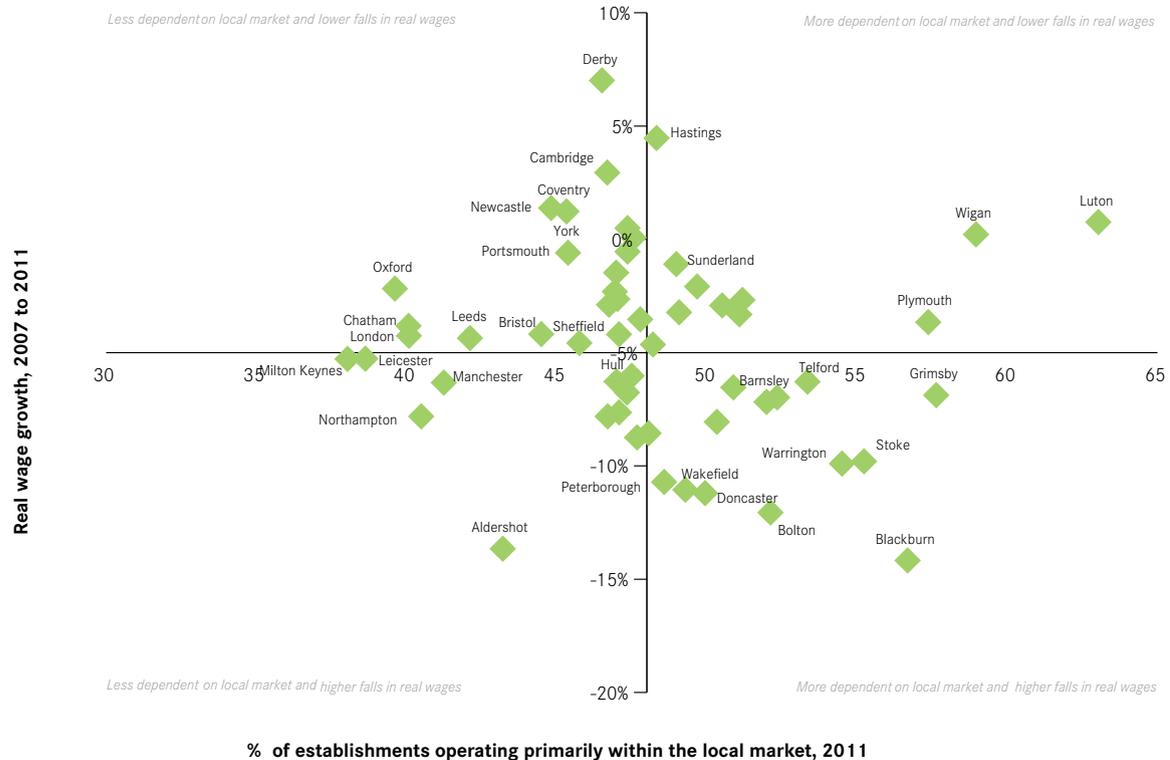
Figure 11:
City wages and new business formation, 2011



Source: Annual Population Survey and Business Demography, 2013

28. Ni P (2011) *Global Competitive Report – 2011*, Cheltenham: Edward Elgar Publishing

Figure 12:
Proportion of firms primarily operating in local markets compared with real wage growth across cities, 2011 and 2007 to 2011



Source: UKCES, 2011; Annual Survey of Hours and Earnings, 2011

In a recession which has affected different places in quite different ways, some cities have seen sharp falls of up to 15 per cent in real wages. This is likely to have knock-on impacts on levels and patterns of consumption. Figure 12 compares the proportion of firms within a city

economy that are primarily locally-facing with falls in real wages, in order to gauge how vulnerable the SME base is likely to be in terms of its future growth prospects.

SMEs in cities such as Blackburn, Bolton and Stoke – all weaker

economies hit harder by recession – are particularly vulnerable to falling demand within the local economy. A relatively high proportion of SMEs in these three cities rely primarily on demand in the local economy and have all seen large falls in real wages over the course of the

recession and in the aftermath. In contrast, cities such as Leeds and Oxford were hit less hard during the recession meaning that levels of local demand are likely to have stayed relatively high as a consequence. SMEs in these cities also operate within more diverse markets and are less dependent on changes in local demand. For example, over a fifth of SMEs in Oxford operate primarily in international markets. The diversity of their customer base makes them more resilient in the face of changes in local demand.

Public sector job losses and welfare cuts will also have a disproportionate impact on the SME base in certain cities, primarily those with weaker private sector economies.

Estimates²⁹ based on the Office for Budget Responsibility's (OBR) recent announcements that predicted public sector job losses would reach 1 million by 2018 suggest that some cities could lose up to 8 per cent of the total jobs currently within their local economy. In the cities most affected, such as Newport and Swansea, this will have significant implications for SMEs, as it is likely to lead to significant reductions in local spending if the private sector is unable to plug the gap.

Cities are also likely to see a fall in spending as a result of cuts to welfare provision. Our previous analysis³⁰ showed that Birkenhead, Blackburn, Liverpool and Rochdale may see cuts of more than £190 per capita by 2014/15. Other cities where fewer residents are dependent on welfare, such as York and Oxford, may see cuts of less than £100 per capita.

Whilst the effects of the cuts will be different in different cities, they will have knock-on implications for those SMEs dependent on their local markets. It is important that policy makers support locally dependent SMEs in these cities to diversify their customer base and reach out to wider markets in order to avoid spiralling decline.

Access to human capital is a key determinant of SME growth and rates of entrepreneurship

Shortages in the supply of workers with higher level qualifications impacts on the ability of larger SMEs in particular to expand and create new jobs. Skills are a key determinant of SME performance both at the national level and across UK cities, as they affect firms'

ability to respond to changes in the economy. A positive relationship can be observed between the supply of graduate workers and rates of expansion among SMEs with more than 10 employees between 2008 and 2011. There is also a significant positive relationship between the proportion of SMEs contracting in different cities and the proportion of workers with no formal qualifications (Figure 13).

Cities with a more highly skilled workforce also tend to be more entrepreneurial:

the variation in business start-ups across cities can partly be explained by the variation in the proportion of graduates within a local economy. Graduate wages are likely to push up levels of local demand thus helping to create a business environment more conducive to successful SMEs.

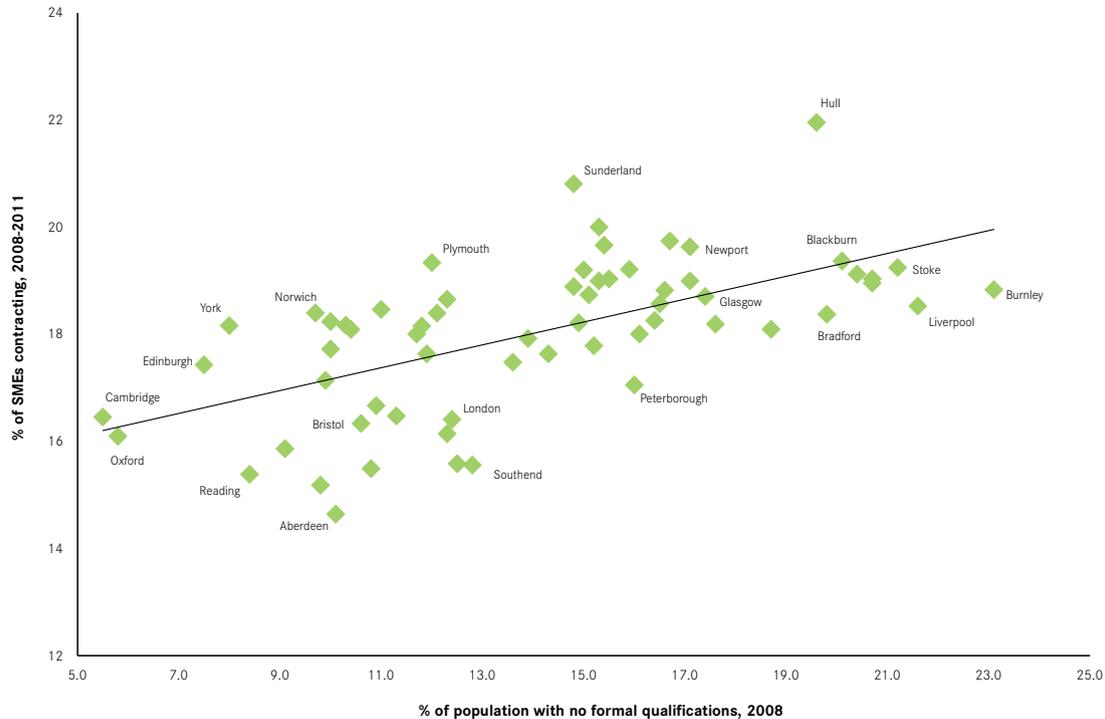
Studies have also shown that people with high levels of formal qualifications are more likely to establish new businesses. And while managerial skills cannot be accurately measured just through the academic qualification framework, studies have shown that higher levels of qualifications amongst managers and staff boost innovation.³¹ London has the highest proportion of high

29. *Cities Outlook 2011* examined the potential impact of deficit reduction on different UK city economies. These estimates were based on the Office for Budget Responsibility's (OBR) prediction that 490,000 jobs would be lost from the public sector. These figures have been updated to reflect the OBR's current estimate that 1 million jobs will be lost by the end of 2018.

30. Centre for Cities (2011) *Cities Outlook 2011*, London: Centre for Cities

31. Albaladejo M & Romijn H (2001) *Determinants of Innovation Capability in Small UK Firms: An Empirical Analysis*, QEH Working Papers

Figure 13:
SME growth and skills, 2008 and 2008-2011



Source: ONS Business Structure Database, 2013; Annual Population Survey, 2013

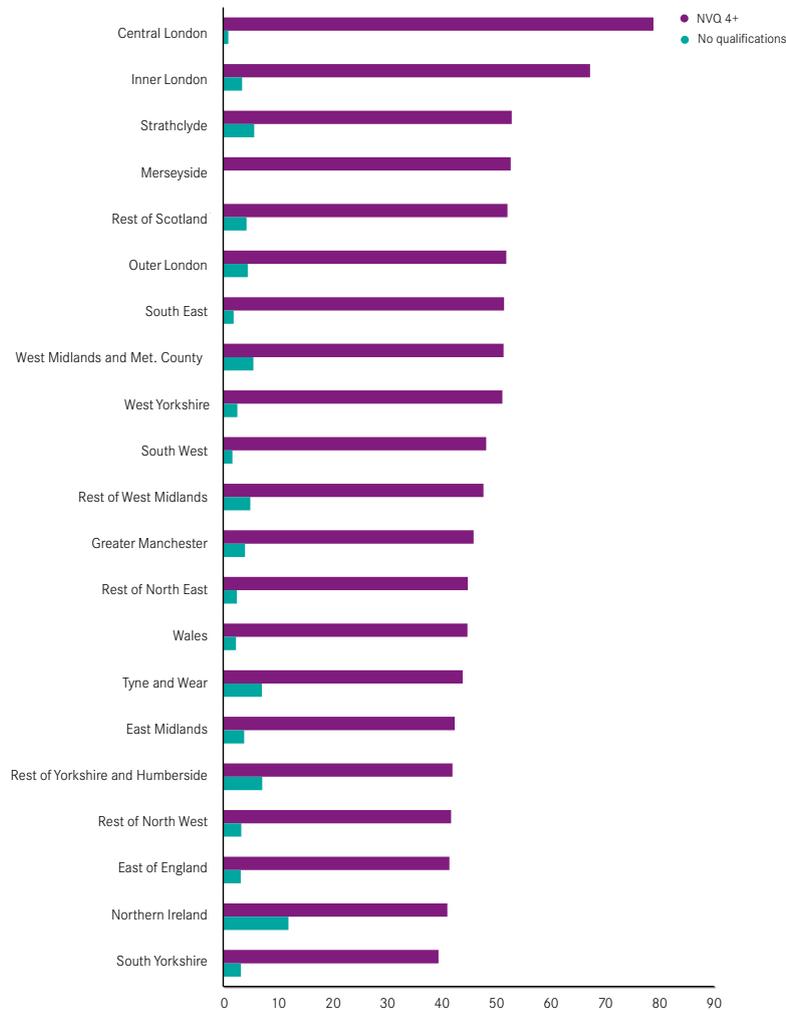
skilled managers, with more than 67 per cent qualified to graduate level and above (Figure 14). The proportion of managers with graduate level qualifications in Inner London is nearly twice the proportion in Northern Ireland.

Workforce capacity is also affected by the ability of cities and SMEs to attract and train workers. Job-related training is an important source of skills development amongst the existing workforce.³² Yet access to training

also appears to be much lower in cities with weak economies than in more buoyant economies. As a large proportion of learning takes place in work, the overall skills of the workforce will also be affected by long term unemployment.

32. Swinney P & Clayton N (2011) *Learning Curve: Schooling and Skills for Future Jobs* London: Centre for Cities

Figure 14:
Proportion of managers with NVQ4+ qualifications



Source: Quarterly Labour Force Survey, July to September 2012

All cities need to encourage and support SMEs to continually invest in education and training to ensure companies are not constrained by skills gaps. Surveys suggest that high performing SMEs are more likely to report skills gaps, and thus a high incidence of skills gaps may be reflective of the high demand for skills rather than the skills profile of a city.³³

Other barriers to SME growth – access to finance

While only 39 per cent of SMEs use external finance,³⁴ the number of SMEs that consider access to external finance a barrier to growth has risen from 3 per cent in 2007/08 to 8 per cent in 2012.³⁵ Bank finance remains the primary source of external finance for SMEs, but lending to them has continued to fall over 2010 and 2011.³⁶ This has been driven in part by falling demand for finance from SMEs, and by a decline in approval rates, as SMEs are regarded a greater investment risk than larger firms.³⁷

Entrepreneurs and small business owners in cities with weaker economies may be considered higher risk by lenders, making it more difficult to obtain external finance. Banks measure lending

33. UKCES (2011) *UK Commission's Employer Skills Survey 2011: UK Results*, London: UKCES

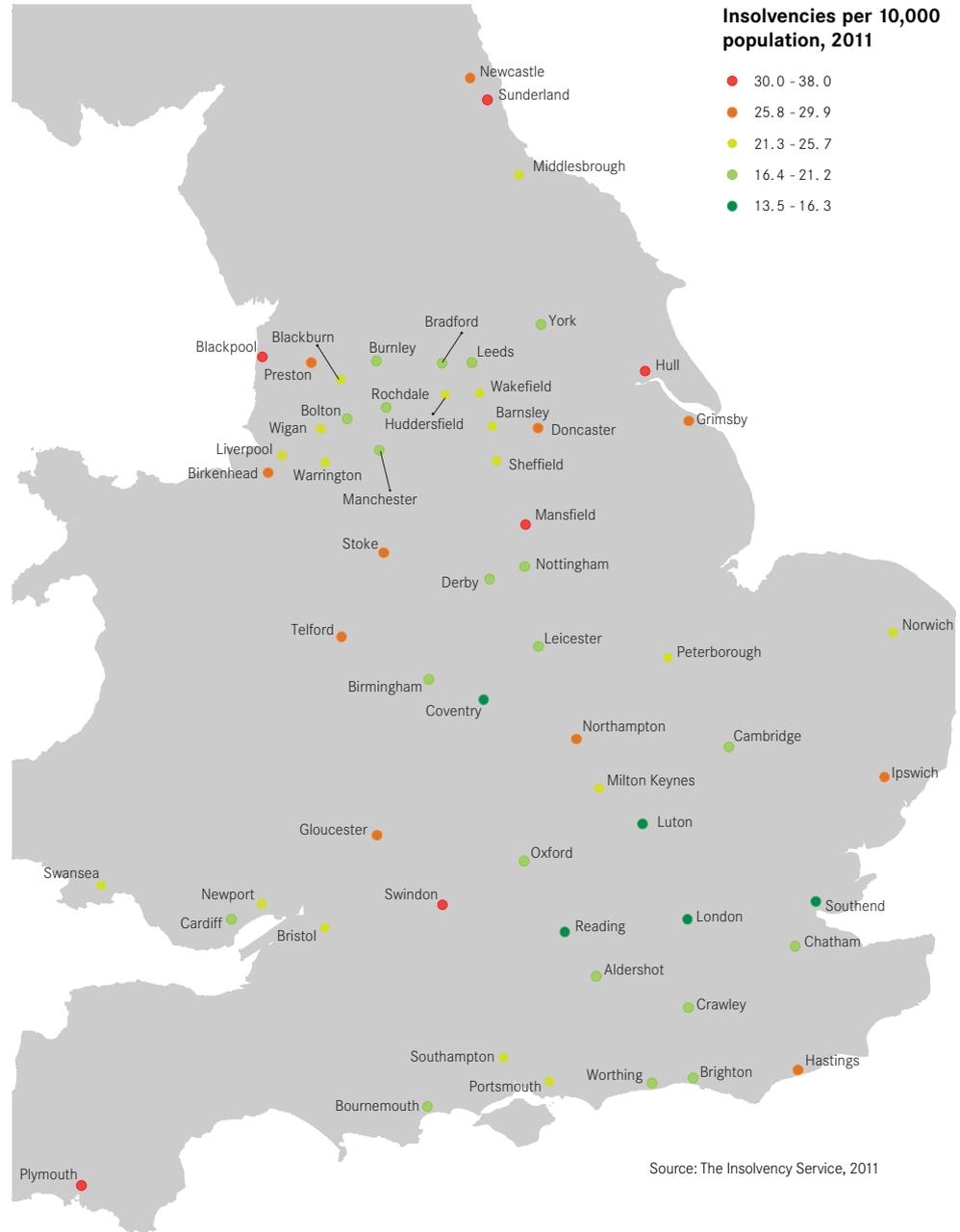
34. BDRC (2013) *SME Finance Monitor Q1 2013: The uncertainty of demand*

35. Annual Small Business Survey, 2013

36. Bank of England (2012) *Trends in Lending*, London: Bank of England

37. National Institute for Economic and Social Research (2013) *Evaluating changes in bank lending to SMEs over 2001-12: Ongoing tight credit conditions?*, London: NIESR

Figure 15:
Individual insolvencies per 10,000 population, 2011



Source: The Insolvency Service, 2011

risk using a wide range of factors, including credit ratings and collateral. Individuals in cities with weaker economies are more likely to have filed for insolvency³⁸ (Figure 15) which will have a direct effect on credit ratings.

Raising funds internally, as many SMEs have had to resort to given reductions in bank lending,³⁹ is less likely to be a viable option for SMEs in cities with weaker economies such as Hull and Blackburn. Falling house prices are also likely to affect entrepreneurs' and business-owners' ability to secure asset-backed loans.⁴⁰ The recession has had an uneven impact on housing markets across UK cities; average house prices fell by 13 per cent in Bolton and Newport between 2007 and 2013 compared to increases of more than 20 per cent in London and Oxford.⁴¹

The policy implications of varying access to finance based on where you live are not clear. SME financing issues are not merely a supply side issue. The ability of firms in deprived areas may be related to a wider range of factors as opposed to the supply of finance, including:

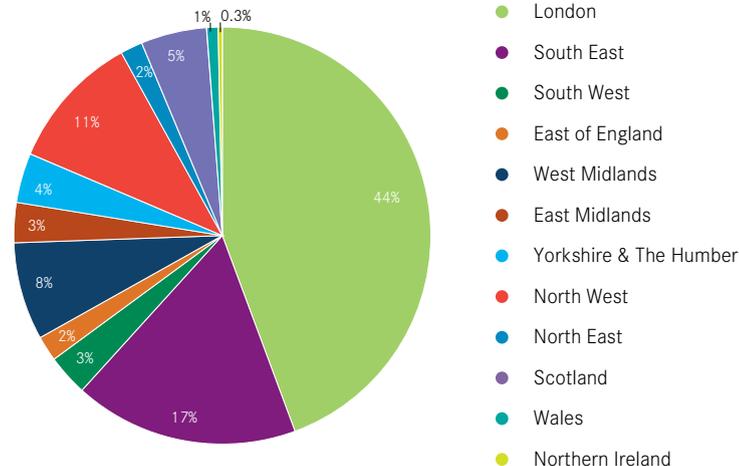
- The "age and experience of the entrepreneur

- The extent to which they have received good quality business support and advice
- Their ability to recruit and retain key staff
- The extent to which they may be dependent on fragile local markets in deprived areas, or
- Other less business-related factors, such as the incidence of crime.⁴²

Differences in lending patterns may also reflect differences in demand from entrepreneurs and business owners.

Differences in the geographical distribution of private equity finance are more marked. Venture capital funding only accounts for a small proportion of business finance, yet it is an important source of finance for early-stage, high growth firms.⁴³ London and the South East have historically dominated the investment markets and in 2012 the

Figure 16:
Regional share of venture capital funding, 2012



Source: BVCA, 2013

38. Includes Bankruptcy Orders, Debt Relief Orders and Individual Voluntary Arrangements

39. Price *et al* (2011) 'SME Perceptions of and Responses to the Recession', Final manuscript submitted to *Journal of Small Business and Enterprise Development*, February 2013 (due for publication in Volume 20, Issue 2)

40. Fraser S (2012) *The impact of the financial crisis on bank lending to SMEs*

41. Department for Communities and Local Government

42. Bank of England (2003) *Finance for Small Firms – A Tenth Report*, London: Bank of England

43. Department for Business Innovation and Skills (2012) *SME Access to External Finance*, BIS Economics Paper No. 16

two regions accounted for 62 per cent of total venture capital funding in the UK (Figure 16). To some extent this reflects the size of the business base in different regions but this does not mean venture capital is not important in other regions. While the total share of venture capital invested in the North East is just 2 per cent, the value of investment per firm is the highest in the country.

The gap in access to private equity finance continues to be filled by publicly-backed funds designed to support SME growth.

There was a huge increase in such funds over 2009 and 2011; a total of £1.6 billion was committed to 70 funds including evergreen funds.⁴⁴ This includes £550 million committed to the four JEREMIE holding funds (a European Commission initiative to

finance SMEs)⁴⁵ in Wales, Yorkshire and the Humber, the North East and the North West. A total of almost £1 billion was committed to regionally constrained funds over this period, which accounts for nearly a third of total investment in those four regions between 2009 and 2011.⁴⁶ Many of these funds have (or will shortly) come to an end and SMEs outside London and the South East could find it significantly more difficult to access private equity and venture capital funding in future.⁴⁷

Barriers to SME growth vary in their significance across UK cities

Evidence relating to the barriers to SME growth in four UK cities – Bristol, Glasgow, Leeds and Newcastle – highlights the extent to which barriers

to SME growth vary at city level (Figure 17).

Bristol currently has one of the highest proportions of graduates in the country, reflecting the fact that it is an attractive place to live and work for high skilled workers. The city must continue to respond to the skills demands of high performing firms to ensure they can continue to expand. By contrast the skills profile of Newcastle shows a labour market in transition. There has been a significant rise in the number of graduates living in the city, yet despite progress, the proportion of residents qualified to at least degree level remains low compared to other large cities.

Each of these factors is explored in further detail in the final section of the report.

Figure 17:
Summary of the barriers to SME growth in four UK cities

	Workforce capacity/ skills	Connectivity (digital and physical)		Affordability	Crime	Red tape (speed of planning decisions)
Bristol	●	●	●	●	●	●
Glasgow*	●	●	●	●	●	●
Leeds	●	●	●	●	●	●
Newcastle	●	●	●	●	●	●

*Comparable data missing for congestion, crime and speed of planning decisions.

44. Capital for Enterprise (2012) Overview of publicly backed venture capital and loan funds in the UK, Capital for Enterprise: Sheffield available from <http://www.capitalforenterprise.gov.uk/files/Overview%20of%20publicly%20backed%20venture%20capital%20and%20loan%20funds%20in%20the%20UK%20final.pdf>

45. The initiative was developed by the European Commission (EC) and the European Investment Fund (EIF), which is part of the European Investment Bank (EIB) Group. For further details see http://www.eif.org/what_we_do/jeremie/index.htm

46. British Venture Capital Association, 2013

47. Interview





04

Improving Performance - Building Resilience: Policy Responses

Improving Performance - Building Resilience: Policy Responses

All SMEs have been affected by the recession, but SMEs in some cities have been less resilient than others, with SMEs in the weakest urban economies affected the most. Given the importance of SMEs to the economic recovery of UK cities and the country, it is vital that policy makers understand and, where appropriate, address the barriers faced by entrepreneurs to starting up and growing businesses, both in the short and longer term.

SME performance is affected by many different factors, including:

- **Sectors:** global economic changes have affected sectors in different ways, although high growth SMEs can be found in all sectors meaning that cities should not try to second guess the market.
- **Strength of the local, national and global economy:** Ultimately, most businesses do better when there is growth in the national economy, but levels of demand in local economies are also important, as 45 per cent of businesses on average are primarily dependent on their local market. A number of cities across the UK where SMEs are

dependent upon the local market, and where growth rates are lower than the national average, are particularly vulnerable to the disproportionate impact that public sector cuts and on-going economic stagnation is likely to have on levels of demand in the local economy.

- **Skills and workforce capacity are key determinants of SME performance at a city level:** cities with higher level skills are more likely to be able to adapt to economic change. Nationally, access to finance is also cited as a major obstacle to growth by a growing number of SMEs and evidence suggests that it is a particular issue in less affluent cities.

Recommendations

It is important that every city and Local Enterprise Partnership (LEP) understands the nature of its SME base, where local comparative advantage lies and the barriers that new entrepreneurs and existing businesses face. All cities need to tailor support to the specific needs of their SME base. Many of the factors affecting SME performance

are also intrinsically interlinked and, as a consequence, policy makers should not look at any one factor in isolation, nor should they only focus on short term factors as place-based differences in entrepreneurship that have persisted over the long term.

Enabling cities to respond

National government should build on City Deals and the Heseltine Review and devolve more funding and powers around skills, transport, housing and business support. This would help cities provide more tailored support to address the distinctive set of barriers to SME growth in the local economy.

Improving the local business environment

Cities and LEPs should focus on improving the ease of doing business within their cities. Many of the barriers faced by SMEs relate to the external business environment. As a result, indirect approaches to enterprise policy, including strengthening transport connections and improvements to the planning system, can have a strong bearing on SME resilience and performance.

To improve the quality and relevance of training, LEPs should continue to build networks between education and training providers and local SMEs to align skills provision with business needs. All cities, including high performing ones, need to ensure that provision meets the demands of local businesses so they are able to access the skills they need.





Reducing dependence on local markets

The government needs to continue to support SMEs to diversify their customer base beyond the local market. While some businesses inherently rely on local customers for sales (for example, newsagents, corner shops), others are tied into local business supply chains. These SMEs could benefit from government support to help them access other markets across the UK and internationally. UKTI should work with LEPs in order to respond to the National Challenge, a UKTI-led initiative, to encourage more SMEs to export.

National and local policy makers also need to support SME growth through improved public sector procurement processes. Cities should focus on improving the way they tender work for smaller businesses, to ensure that they have an opportunity to apply for public sector tenders. This needs to be balanced with the need for the public sector to get value for money for the taxpayer – levelling the playing field for small firms is different to biasing

the selection process towards local businesses. SMEs should be given the chance to bid for parts of the larger contracts, and local partners should ensure businesses are aware of contract opportunities. Local partners may want to consider creating a portal for contracts (e.g. CompeteFor) and support SMEs to bid for them.⁴⁸

Improving access to business support

The Government needs to simplify business support infrastructure to improve SMEs' access to support.

There are currently 900 local and national, public and private, support schemes in the UK, but the current offer is not well structured. The complexity of the system means that SMEs are often either unaware of the support available, or are unable to access it.⁴⁹

At a national level, more than 10 government departments and non-governmental bodies are in charge of delivering different schemes. Departments need to coordinate across government to develop a more coherent system, reduce

48. Swinney P & Smith R (2012) *Open for Business: The shape of business, enterprise and entrepreneurship across UK cities*, London: Centre for Cities

49. Centre for Cities (2013) *Support for growing businesses* London: Centre for Cities



duplication and increase efficiency, working with LEPs and business representatives to consider how that information can best be disseminated.

LEPs should consider establishing Business Growth Hubs to help SMEs navigate and access support available. Following the move to Business Link online and the abolishment of Regional Development Agencies (RDAs), direct business ‘advice’ became the responsibility of LEPs and Jobcentre Plus. There are often numerous local initiatives aimed at supporting entrepreneurs and businesses. By establishing Business Growth Hubs, local areas could knit these various initiatives together and provide a single point of access for SMEs, so that the whole becomes greater, more efficient and more effective than the sum of its parts.

As part of a wider business support strategy, LEPs should review how best to support access to finance amongst local SMEs. This is likely to involve a combination of overcoming information sharing barriers by

offering financial management training and support, as well as identifying ways of improving the quality of propositions to financiers. LEPs should also follow developments around post-2015 JEREMIE funding, which has been instrumental in plugging the gap in private equity finance in Northern Europe.

Working in partnership

LEPs should work in partnership with other local organisations, including business representative organisations, Further Education (FE) colleges, universities and JobCentre Plus, to support local SMEs. FE colleges and universities play a role in developing the skills of SME workforces through providing pre- and on-the-job training and graduate placements/recruitment. LEPs can help widen the pool of skilled labour available to SMEs by working with FE colleges, universities and businesses to increase the number of student and graduate internships and placements available.



05

SME Monitor: The Latest Data

SME Monitor: The Latest Data

Overview

This section highlights the divergent nature of economic activity in cities across the UK; it draws on a range of datasets to provide a detailed analysis of risks faced by SMEs in cities across the UK by estimating:

1. **SME performance**
2. **Consumers, workers and skills**
3. **Affordability**
4. **Red tape**
5. **Connectivity and access**
6. **Crime and natural disaster**
7. **Local demand**

Each indicator provides different insights into cities' performance. Many indicators interact with one another—for example high skills mean workers demand high wages. Understanding those interactions and how they can compound or mitigate risks in various ways will be important for using this data to better understand the risks and opportunities facing businesses in cities across the UK.

SME performance

There is significant variation in the performance of SMEs across UK cities. This matters because SMEs create jobs and value, and are critical to the economic prosperity of cities. The overall stock of businesses relative to the size of the population, business start-ups and growth of existing SMEs are good indicators of the strength and resilience of the SME base in different cities.

SME density

SME density (the number of SMEs per 10,000 population) is a good indicator of the strength of the SME base in city economies. Cities with low SME densities are far more likely to have high claimant rates. The relationship between SME density and unemployment highlights the important role that SMEs play in providing jobs in cities.

- **London has the highest number of SMEs per 10,000 population.** There are nearly 40 more SMEs

per 10,000 population in London than in Aldershot, which has the second highest SME density.

- **The gap between the top and bottom cities highlights the extent to which SME density varies across UK cities.** SME density is 2.5 times higher in London compared to Sunderland.
- **SME density has fallen in the majority of cities between 2008 and 2011** as business starts have decreased and closures have increased as a result of the recession. Changes in SME density are affected by population change as well as changes in business stock.
- **The relative performance of UK cities with regards to SME density has remained stable over the course of the recession.** There has been little movement among cities with the lowest levels of SME density.



Table 1:
SME Density

Rank	City	SMEs per 10,000 population, 2008	SMEs per 10,000 population, 2011	Change per 10,000 population, 2008-2011 (%)	Change per 10,000 population, 2008-2011
10 cities with the highest concentration of SMEs					
1	London	454.1	428.8	-5.6	-25.2
2	Aldershot	410.7	391.1	-4.8	-19.5
3	Brighton	415.4	382.0	-8.0	-33.4
4	Reading	382.2	380.5	-0.4	-1.6
5	Aberdeen	389.1	374.0	-3.9	-15.1
6	Milton Keynes	393.3	362.3	-7.9	-31.0
7	Cambridge	366.4	344.6	-6.0	-21.8
8	Crawley	350.2	341.4	-2.5	-8.8
9	Warrington	379.4	337.1	-11.2	-42.3
10	Bournemouth	380.9	330.0	-13.4	-50.9
10 cities with the lowest concentration of SMEs					
55	Birkenhead	244.3	220.6	-9.7	-23.8
56	Doncaster	247.7	218.0	-12.0	-29.8
57	Mansfield	247.4	216.7	-12.4	-30.6
58	Newcastle	220.8	208.1	-5.7	-12.7
59	Hull	218.8	204.1	-6.7	-14.7
60	Liverpool	227.0	203.8	-10.2	-23.1
61	Plymouth	212.3	198.3	-6.6	-14.0
62	Middlesbrough	204.1	196.7	-3.7	-7.5
63	Dundee	201.6	191.1	-5.2	-10.5
64	Sunderland	186.5	170.9	-8.4	-15.6
United Kingdom		337.5	327.7	-2.9	-9.8

Source: ONS 2013, Business Structure Database, 2008 and 2011 data; Mid-year population estimates, 2008 and 2011 data.



Business starts

- New businesses are an important source of new jobs and account for 12 per cent of the total business base on average in UK cities. As a result, levels of SME density follow a similar pattern to business start-up rates.
- London is the most entrepreneurial city in the UK with more than 72 new businesses per 10,000 population in 2008 and 2011.
- **Cities with the highest business start-ups are found across the country. Outside of London and the South East, business start-ups are particularly high in Aberdeen and Grimsby.**
- The number of new businesses has fallen across the UK between 2008 and 2011. **11 cities have bucked national trends and saw a growth in the number of business start-ups over the course of the recession.**
- Aberdeen experienced the largest growth in business start-ups with an increase of more than 10 new businesses per 10,000 population.

Table 2:
Business Starts

Rank	City	Business starts per 10,000 population, 2008	Business starts per 10,000 population, 2011	Change per 10,000 population, 2008-2011
10 cities with the highest start-up rate				
1	London	73.3	72.5	-0.8
2	Aberdeen	44.4	55.1	10.7
3	Reading	50.1	54.8	4.7
4	Milton Keynes	59.0	54.4	-4.6
5	Brighton	49.6	52.5	2.9
6	Aldershot	54.0	52.3	-1.7
7	Crawley	47.2	45.6	-1.5
8	Grimsby	70.6	45.1	-25.5
9	Southend	45.1	44.0	-1.1
10	Edinburgh	39.1	43.4	4.3
10 cities with the lowest start-up rate				
55	Stoke	29.9	26.8	-3.0
56	Plymouth	27.0	26.7	-0.3
57	Doncaster	31.6	26.4	-5.2
58	Barnsley	30.6	26.1	-4.6
59	Wakefield	29.1	25.4	-3.7
60	Swansea	31.3	24.5	-6.8
61	Dundee	22.8	23.0	0.2
62	Mansfield	30.2	22.5	-7.6
63	Belfast	33.9	20.9	-13.0
64	Sunderland	22.1	20.7	-1.4
United Kingdom		43.6	41.3	-2.2

Source: ONS 2013, Business Demography, 2008 and 2011 data.

SME growth

SMEs account for more than 99 per cent of the business base in UK cities.

Expansion

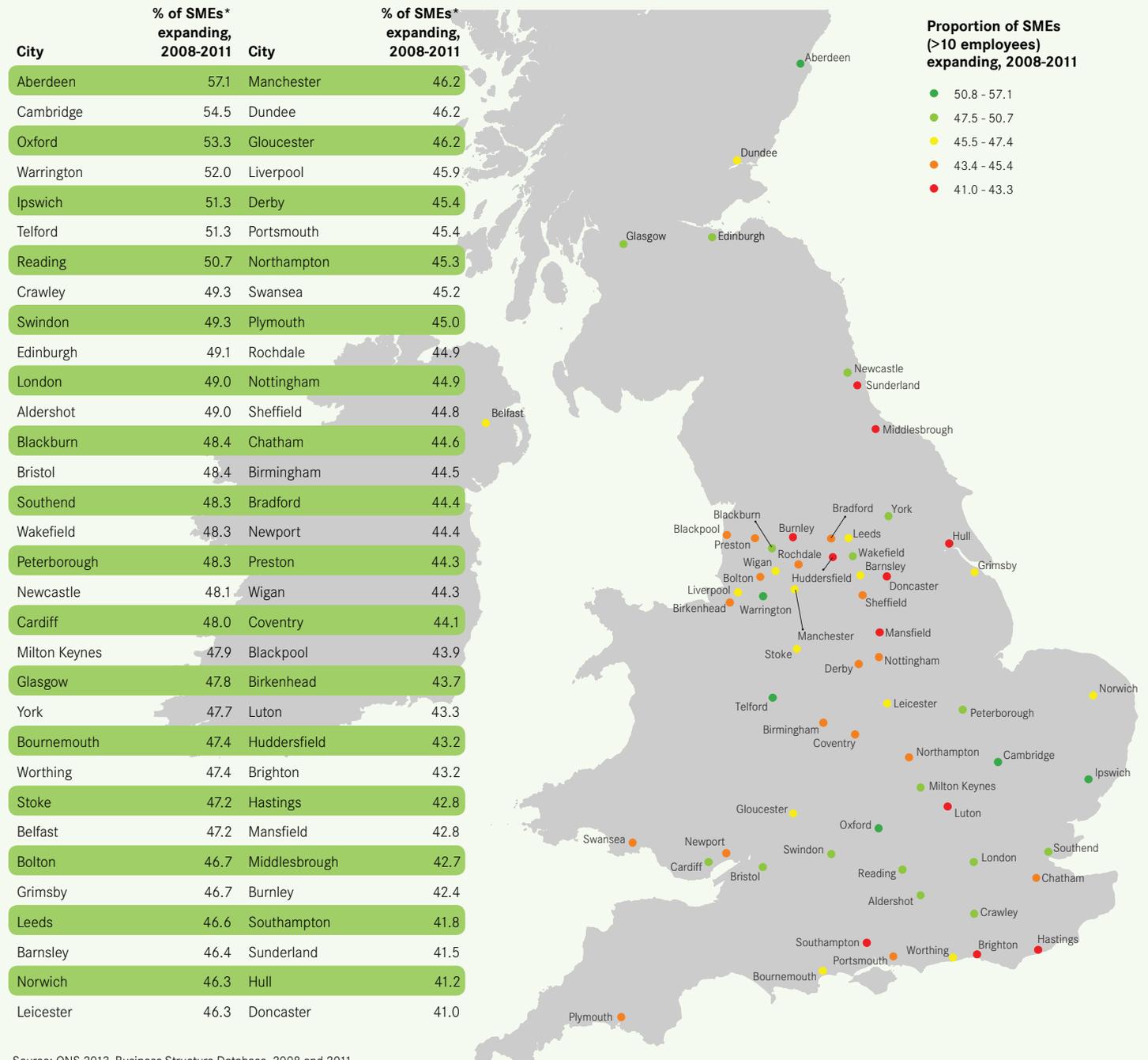
- All cities experienced a higher proportion of SMEs (those with more than 10 employees in 2008) growing rather than shrinking before, during and after the recession.
- The proportion of SMEs expanding between 2008 and 2011 in Aberdeen was almost 10 percentage points higher than the national average.
- **With the exception of Edinburgh, smaller cities tended to have the highest proportion of SMEs expanding between 2008 and 2011.** More than 50 per cent of SMEs in Cambridge and Oxford were expanding over the course of the recession.
- **Cities with relatively low rates of SME expansion can be found in the North and South.** Southampton, Hastings and Brighton – all coastal cities in the South – have among the lowest numbers of SMEs expanding relative to the size of the SME base.
- **Cities with a high proportion of expanding SMEs before the recession tended to sustain this and see less of a reduction in firms expanding during the recession. As a result, cities with the highest SME expansion rates prior to the recession still had the highest SME expansion rates in 2011.**

- Worthing, Warrington and Cambridge experienced an increase in the proportion of SMEs expanding over the course of the recession.
- Five cities – Newport, Brighton, Burnley, Dundee and Glasgow – saw a fall of more than 10 per cent in the number of SMEs expanding between 2008 and 2011.

Contraction

- Spatial patterns of expanding and contracting SMEs broadly mirror each other: cities with higher rates of SMEs expanding tend to have lower rates of SMEs contracting.
- **Employment in individual SMEs appears to be more stable in some cities than others. Relatively low rates of expansion in Hastings are accompanied by relatively low rates of contraction, for example. This may reflect a relatively small SME base and, as a consequence, low levels of competition.**
- A high proportion of SMEs contracted in Belfast and Burnley between 2008 and 2011. The two cities were hit hard by the recession and saw the largest increases in the proportion of SMEs contracting between the two three-year periods.

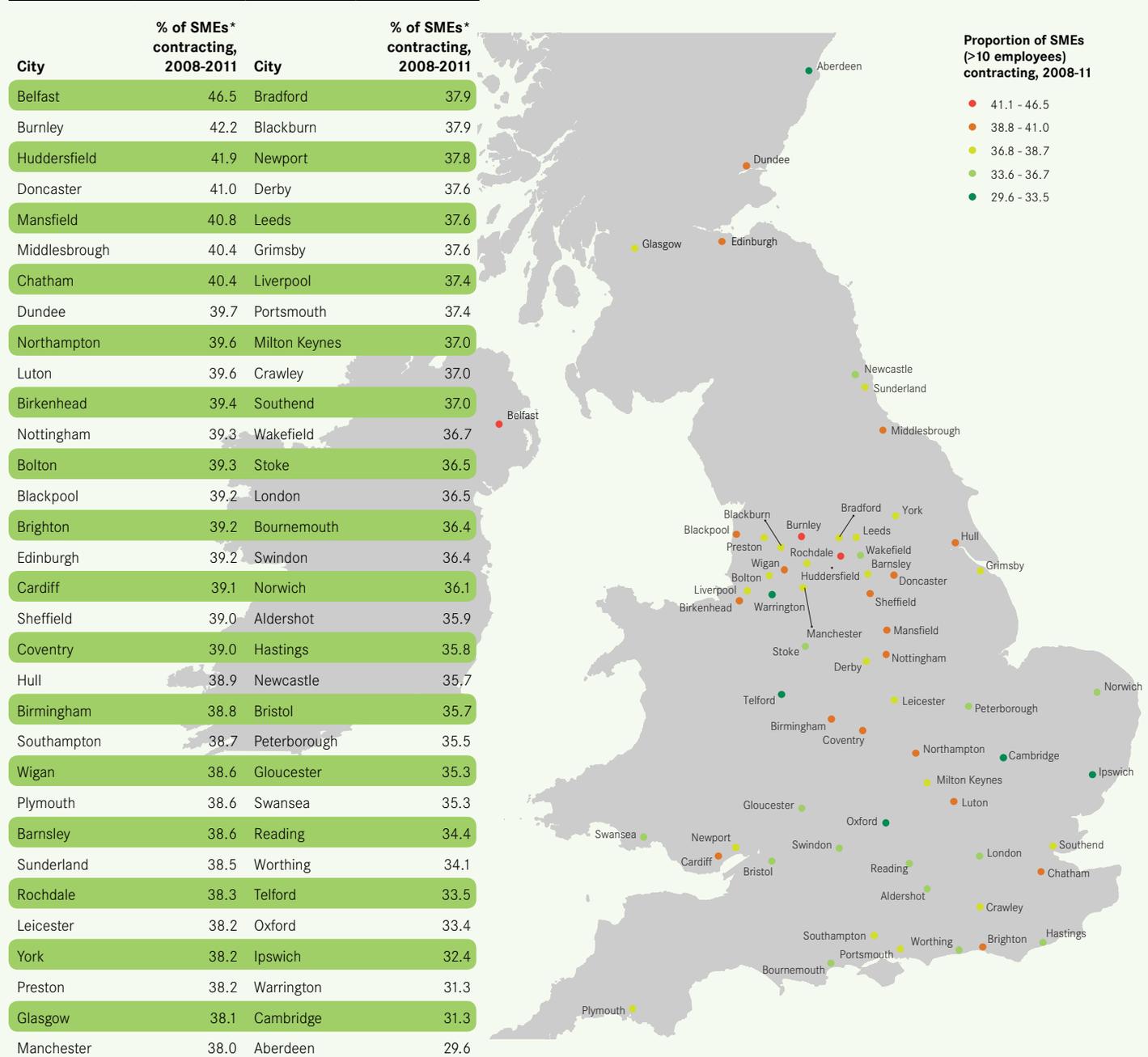
Figure 18:
SME Expansion



Source: ONS 2013, Business Structure Database, 2008 and 2011 data.

*Firms with more than 10 employees

Figure 19:
SME Contraction



Source: ONS 2013, Business Structure Database, 2008 and 2011 data
*Firms with more than 10 employees

Workforce capacity and skills

People are the heart of businesses; labour market conditions are one of the most important enabling factors of success within a local economy.

Population growth

Population growth is important for economic growth, widening the pool of skills and customers accessible to firms. A shrinking labour force will constrain the supply of labour and skills in a city economy, and a growing economy will attract migrants. As a result, population growth can both reflect and affect the health of a city's economy. A growing population base is also likely to increase demand for local products and services, encouraging more locally-trading SMEs to be established. In general, cities with higher population growth have higher levels of SME density and rates of business start-ups.

- **Smaller cities in the south tend to have the highest population growth rates.** Milton Keynes, Peterborough and Swindon were the fastest growing cities between 2001 and 2011 with an annual growth rate of 1.5 per cent or higher.
- **London remains one of the fastest growing cities in the country.** Absolute population growth in the Capital is by far the largest in the country. Between 2001 and 2011, growth in London equalled that of the next 20 cities with the highest absolute growth.
- **Only two cities, Burnley and Sunderland, saw a decline in their population between 2001 and 2011.**



Table 3:
Population growth

Rank	City	Average annual growth rate, 2001-2011 (%)	Population, 2001	Population, 2011	Change, 2001-2011
10 fastest-growing cities by population					
1	Milton Keynes	1.58	212,700	248,800	36,100
2	Peterborough	1.55	157,400	183,600	26,200
3	Swindon	1.51	180,100	209,200	29,100
4	Ipswich	1.30	117,200	133,400	16,200
5	Cambridge	1.21	109,900	123,900	14,000
6	Oxford	1.15	135,500	151,900	16,400
7	Leicester	1.13	429,000	480,000	51,000
8	Cardiff	1.10	310,100	346,100	36,000
9	London	1.05	8,542,100	9,480,600	938,500
10	Bradford	1.05	470,800	522,500	51,700
10 slowest-growing cities by population					
55	Rochdale	0.25	206,400	211,700	5,300
56	Liverpool	0.23	769,900	787,600	17,700
57	Birkenhead	0.15	315,000	319,800	4,800
58	Blackpool	0.13	321,400	325,600	4,200
59	Glasgow	0.12	1,042,600	1,055,000	12,400
60	Dundee	0.10	145,500	147,000	1,500
61	Grimsby	0.10	158,000	159,600	1,600
62	Middlesbrough	0.02	464,200	465,200	1,000
63	Burnley	-0.13	178,800	176,500	-2,300
64	Sunderland	-0.32	284,600	275,500	-9,100
United Kingdom		0.67	59,113,500	63,181,763	4,068,263

Sources: ONS, 2013. 2011 Census: Usual resident population by five-year age group and sex, local authorities in the United Kingdom. NOMIS 2013, Mid-year population estimates, 2001-2011 data.

Educational attainment

Educational attainment is an important measure of the flow of skills into the labour market. Low educational achievement at GCSE level is associated with less successful education and labour market outcomes later on in life.⁵⁰ It may also mean that SMEs in cities with low levels of attainment have difficulty accessing the skills they need in the future.

- Nine cities saw less than 50 per cent of pupils gain 5+ A*-C grades including Maths and English in 2011.
- Warrington and Preston in the North West had the highest rates of educational attainment amongst the 56 English cities, with under two thirds of pupils gaining 5+ A*-C grades including Maths and English.
- **There is still a large gap in attainment rates across the country. The gap between Warrington and Hull, the best and worst performing cities, is nearly 20 percentage points.**

Table 4:
Educational attainment

Rank	City	Proportion of pupils gaining 5+ A*-C GCSEs inc. Maths and English, 2010/11 (%)
10 cities with the highest proportion		
1	Warrington	64.8
2	Preston	64.4
3	Southend	62.5
4	London	62.3
5	York	62.2
6	Birkenhead	61.8
7	Reading	61.7
8	Cambridge	60.5
9	Huddersfield	59.5
10	Crawley	59.4
10 cities with the lowest proportion		
47	Portsmouth	51.4
48	Hastings	49.5
49	Burnley	49.5
50	Peterborough	49.4
51	Bradford	49.0
52	Northampton	48.9
53	Ipswich	48.8
54	Oxford	47.7
55	Barnsley	46.0
56	Hull	45.7
	England	58.4

Sources: Department for Education 2013, GCSE and Equivalent Results in England, 2010/11 data.

Qualification levels

Cities with a more highly skilled workforce tend to have stronger performing SME bases. SMEs' inability to recruit highly skilled staff can be a serious constraint on their capacity to adapt and expand.⁵¹

High qualifications

- **There is a 42 percentage point gap between the cities with the highest and lowest proportions of graduates.** The proportion of graduates in Oxford is 3.5 times higher than Mansfield's.
- Half of the cities with the highest proportion of highly skilled workers are major university cities, suggesting there is a positive relationship between having strong higher education organisations and attracting skilled workers.
- **Seven of the cities with the highest proportion of graduates, also rank in the top 10 cities with the highest rates of SME expansion, or in the top 10 cities with the highest rate of business start-ups.** Aberdeen, Edinburgh and Reading rank in the top 10 on both measures.
- Five of the cities in the bottom 10 cities with the lowest proportion of graduates rank in the bottom 10 cities for business starts. The majority of cities in the bottom 10 have below average start-up rates.
- While the proportion of graduates has been steadily increasing across the UK, less than a fifth of workers have graduate level qualifications in five UK cities in 2011.

No qualifications

- **All 10 cities with the highest proportion of residents with no formal qualifications experienced a higher than average proportion of SMEs (including micro firms) contracting between 2008 and 2011.**
- The proportion of residents with no formal qualifications ranges from just over 2 per cent in Worthing to nearly 20 per cent in Belfast.
- With the exception of York, all the cities with the lowest levels of workers with no formal qualifications are located in the South. In contrast, cities with the highest concentration of workers with no formal qualifications tend to be concentrated in the Midlands and the North.
- Luton has the second highest proportion of residents with no formal qualifications. The city is also one of only two cities in the South to rank in the top 10 cities with the highest proportion of contracting SMEs.
- **On average, the proportion of residents in cities with no formal qualifications fell by 2.8 per cent between 2008 and 2011.** This is likely to be part of the on-going trend of higher skills attainment in the UK. It may also reflect workers who have been made redundant during the recession undertaking education and training up-skilling while job opportunities are scarcer.

51. British Chambers of Commerce (2011) *Skills for business: more to learn?* London: British Chambers of Commerce

Table 5:
High qualifications

Rank	City	Working age population with NVQ4 & above, 2011 (%)
10 cities with the highest percentage of high qualifications		
1	Oxford	58.7
2	Cambridge	52.2
3	Edinburgh	51.2
4	London	44.8
5	Brighton	44.3
6	Aberdeen	43.5
7	York	40.8
8	Glasgow	40.3
9	Reading	39.1
10	Cardiff	38.9
10 cities with the lowest percentage of high qualifications		
55	Peterborough	21.1
56	Chatham	20.8
57	Barnsley	20.5
58	Stoke	20.3
59	Doncaster	20.1
60	Ipswich	19.8
61	Southend	19.6
62	Wakefield	18.9
63	Grimsby	18.9
64	Mansfield	17.1
	United Kingdom	32.7

Sources: NOMIS 2013, Annual Population Survey, resident analysis, 2011 data. Department for Trade and Investment (DETI) 2013. District Council Area Statistics for Belfast, 2011 data..

Table 6:
No qualifications

Rank	City	Working age population with no formal qualifications, 2011 (%)
10 cities with lowest percentage of low qualifications		
1	Worthing	2.4
2	Crawley	6.6
3	York	6.8
4	Brighton	6.8
5	Cambridge	7.1
6	Plymouth	7.4
7	Reading	7.4
8	Bournemouth	7.5
9	Gloucester	7.7
10	Oxford	7.8
10 cities with highest percentage of low qualifications		
55	Birmingham	15.9
56	Rochdale	15.9
57	Northampton	15.9
58	Leicester	16.0
59	Bradford	16.0
60	Liverpool	16.6
61	Coventry	16.6
62	Blackburn	17.7
63	Luton	17.9
64	Belfast	19.8
	United Kingdom	10.9

Sources: NOMIS 2013, Annual Population Survey, residents analysis, 2011 data. Department for Trade and Investment (DETI) 2013. District Council Area Statistics for Belfast, 2011 data.



Skills gaps

It is not just about having skilled workers; businesses need workers with the right skills. Employers in the UK face a widening mismatch between the skills of their workforce and the skills they need to achieve strong growth.⁵²

Measuring the skills gap – the difference between the skills needed on the job and those possessed by employees – is essential to understand the challenges SMEs are facing to promote economic growth.

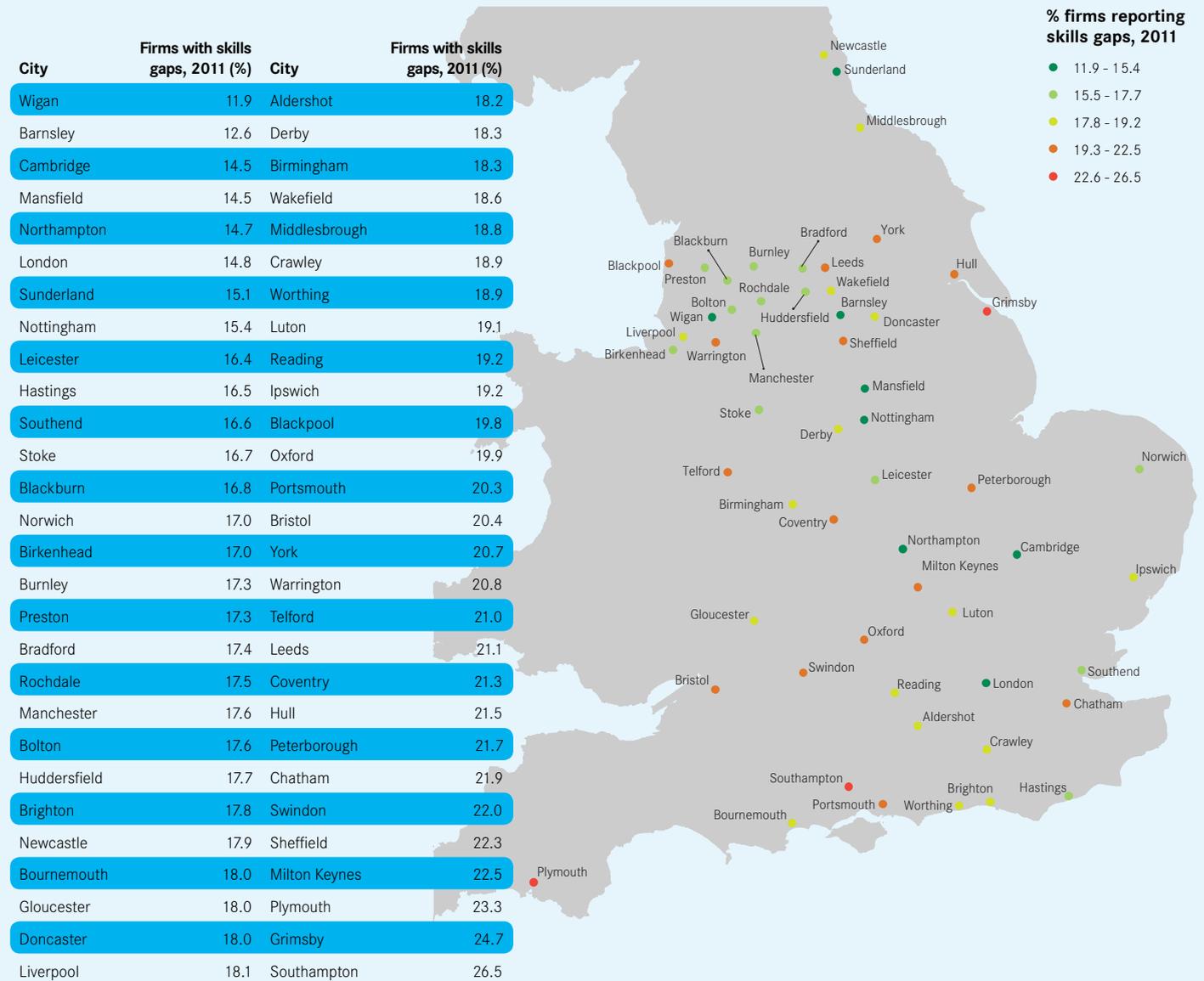
- **More than 10 per cent of firms in all cities report skills gaps and 16 out of 56 cities have more than 20 per cent of firms reporting skills gaps.**

- Wigan, Barnsley and Cambridge had the lowest skills gaps. Firms in Southampton and Grimsby were most likely to report skills gaps.
- Some of the cities with more than 20 per cent of firms reporting skills gaps also have high performing SME bases. Surveys suggest that high performing SMEs are more likely to report skills gaps⁵³ and thus a high incidence of skills gaps may be reflective of the high demand for skills rather than the skills profile of a city.

52. PwC (2013) *CEO survey: The talent challenge report*. London: PwC

53. UK Commission for Employment and Skills (2011) *Employer's Skills Survey 2011*, UKCES: London

Figure 20:
Skills gaps



Source: Employer Skills Survey 2012, Table 66: Incidence of skills gaps by occupation, 2011 data.

Affordability

Cost, both levels and fluctuations, affect businesses' health and profitability. High costs can be a sign of low supply of inputs (such as skilled labour or suitable premises) or a sign of high demand, meaning there is greater competition for inputs. High prices are a signal that supply (of business premises or housing, for example) is not keeping pace with demand. Thus, understanding costs to businesses, employees and customers sheds light onto the profitability of SMEs.

Cost of business premises

After staff costs, property and premises are often the largest cost to businesses. For SMEs, the costs of premises can be a particularly high proportion of total costs. As building rents and loans are fixed costs and often long term, they present greater financial risks during slumps in the economy.

Data on the average rateable value of office space serves as a good indicator of the costs of commercial property in cities. Those cities that have particularly high office rents may need to increase the supply of business premises to ensure costs do not become prohibitive to entrepreneurs and existing businesses trying to expand.

Office space in the UK is in general prohibitively expensive due to planning; business space in Birmingham is more expensive than New York.⁵⁴

- Cities with higher concentrations of SMEs also have higher rateable values for office space, reflecting competition for space, as well as the higher quality of office space developed in stronger SME economies.
- **Office property in London (£268 per square metre) is almost five times more expensive than office property in Hull (£54 per square metre).**



54. Cheshire P & Hilber C (2008) *Office Space Supply Restrictions in Britain: The Political Economy of Market Revenge*, London: LSE

**Table 7:
Rateable values**

Rank	City	Rateable value per square metre of office space (£), 2012
10 cities with the highest rateable value		
1	London	268
2	Cambridge	169
3	Crawley	151
4	Leeds	149
5	Bristol	137
6	Oxford	128
7	Brighton	123
8	York	118
9	Birmingham	118
10	Cardiff	117
10 cities with the lowest rateable value		
50	Birkenhead	70
51	Blackpool	70
52	Middlesbrough	68
53	Bradford	67
54	Stoke	67
55	Burnley	65
56	Hastings	63
57	Leicester	62
58	Grimsby	58
59	Hull	54
England and Wales		152

Source: Valuation Office Agency 2013, Local Rating Lists, Total rateable values and average rateable values by administrative area for England and Wales, 2012 data

General Cost of Living

Cost of living measures demonstrate several issues at work within a local economy:

- Prices of consumable goods, affecting consumer demand and wages demanded.
- The price of inputs for businesses.
- Prices of substitutes for SME goods and services: for example, higher housing prices reduces disposable income.
- The price businesses can charge while remaining competitive.

Understanding cost of living is important for understanding the local economy. However, disentangling the implications and interpretations of the costs of living is more difficult. The indicators discussed below try to tease out some of the causes and effects of variation in cost of living and what they mean for SMEs.

Regional price index

The regional relative price index (RPI) provides a comparison of a region's price level relative to the national price level (UK=100). Those regions with a price level above 100 are relatively more expensive than the UK average, while the converse is true for those regions with a Relative Regional Consumer Price Level of less than 100.

Regional price levels will affect businesses in varying ways. It means their costs may be higher, but they can also charge higher prices. Regional price levels affect local demand; higher prices may mean consumers have less money for goods.

- London and the South East are the most expensive regions.
- Regions in the North are relatively less expensive than the rest of the country.

Figure 21:
Price level relative to the national average (UK=100)



Source: ONS 2013, UK Relative Regional Consumer Price levels for Goods and Services, 2010 data.

Housing affordability

Housing affordability compares house prices relative to wages. This is important, because in less affordable places, residents are likely to have less disposable income to spend on local services and goods. High affordability ratios may also create upward wage pressure on firms. High affordability ratios are a sign that house building is not keeping pace with demand.

- Cities with higher house prices tend to have higher levels of SME density and fewer SMEs contracting. This is likely to mean that higher house prices (and lower affordability) are symptoms of stronger economies, as expanding firms attract higher skilled workers or can pay higher wages that puts more pressure on housing prices.
- **Oxford and London, cities with strong SME performance, are the least affordable cities in the country. This may impact on their ability to attract workers in the future.**

Table 8:
Housing affordability

Rank	City	Affordability ratio, 2011
10 cities with the highest affordability ratio		
1	Oxford	14.3
2	London	12.4
3	Bournemouth	11.0
4	Cambridge	10.9
5	Brighton	10.6
6	Crawley	9.6
7	Reading	9.4
8	Aldershot	9.1
9	Worthing	8.8
10	Bristol	8.6
10 cities with the lowest affordability ratio		
54	Liverpool	5.6
55	Rochdale	5.6
56	Dundee	5.6
57	Grimsby	5.6
58	Stoke	5.6
59	Wigan	5.5
60	Barnsley	5.3
61	Blackburn	5.3
62	Hull	5.3
63	Burnley	4.8
Great Britain		8.8

Sources: Department for Communities and Local Government (DCLG) 2012, Mean house prices, 2011 data. Scottish Neighbourhood Statistics 2012, Mean house prices, 2011 data.

Red Tape

Red tape poses a cost to business. It may impact on the time it takes an entrepreneur to start a business or existing businesses' ability to expand and take on new staff and customers.

Speed of planning decisions

Speed of planning decisions is one form of red tape that can act as a barrier to entrepreneurs and existing businesses. This indicator measures the speed of decisions made by cities according to the type of development (major and minor). For major developments a decision is considered fast when the decision was made within 13 weeks, whereas for minor developments, fast implies decisions made within 8 weeks.

- The speed of planning decisions varies widely across the country. The difference between Coventry (highest proportion of fast decisions) and Southampton (lowest) is 61 percentage points.
- Six cities (Huddersfield, Hull, Southampton, Portsmouth, Derby and Cambridge) rank amongst the lowest performing cities in terms of the time taken to make major *and* minor decisions.



Table 9:
Speed of planning decisions

Rank	City	Fast major decisions (%)	Fast minor decisions (%)	Weighted Average of fast decisions made (%)
10 cities with the highest percentage of fast planning decisions				
1	Coventry	100	98	98
2	Plymouth	83	88	87
3	Hastings	65	87	86
4	Grimsby	68	86	85
5	Luton	70	85	84
6	Peterborough	62	86	84
7	Northampton	72	85	83
8	Barnsley	78	84	83
9	Aldershot	87	82	83
10	Wigan	61	85	83
10 cities with the lowest percentage of fast planning decisions				
47	Blackpool	46	64	62
48	Gloucester	65	60	61
49	Hull	41	62	60
50	Crawley	46	59	58
51	Telford	61	56	57
52	Derby	33	58	56
53	Huddersfield	44	53	52
54	Portsmouth	37	51	50
55	Cambridge	30	42	41
56	Southampton	41	36	37
England		57	69	68

Source: Department for Communities and Local Government (DCLG) 2013, Live tables on planning application statistics. Table P132: District planning authorities - Planning decisions, by development type, speed of decision and authority, 2012 data.

Connectivity

Connectivity, both physical and digital, facilitates SME access to customers, workers and suppliers within the UK and internationally. Connectivity is also important in supporting SMEs to access knowledge and adopt ideas from elsewhere, which enables them to improve products and services, as well as business processes, and increase their productivity,

Digital connectivity

Broadband is a key component of modern business infrastructure. Speedy internet connections help businesses operate efficiently and allow technologically-intensive businesses to expand their operations. According to the Federation of Small Businesses' (FSB) Voice of Small Business' Survey Panel (April 2012) about one in four small businesses are dissatisfied with their internet access and the speed of connection is a concern for the majority of them.

- Superfast broadband (SFBB) is mainly concentrated in urban areas in the UK due to

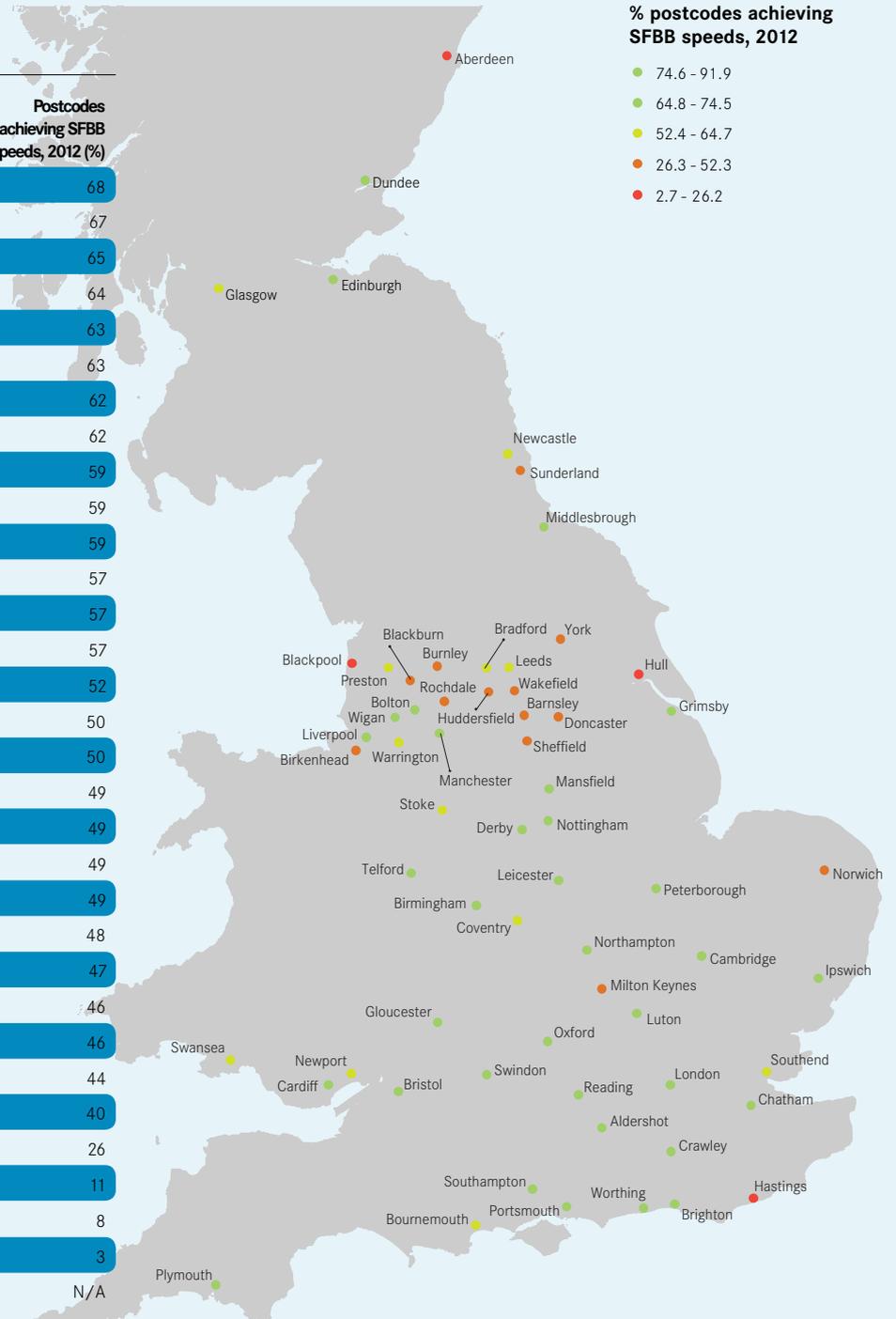
higher population density. Yet access to SFBB (30Mbit/s) is highly variable across UK cities.

- There is an 89 percentage point difference between Luton, where 92 per cent of postcodes achieve the SFBB speed, and Hull, where only 3 per cent of postcodes achieve SFBB speed.
- Smaller cities tend to have higher SFBB penetration rates. Cambridge and Grimsby, two of the smallest cities in the UK, have SFBB penetration rates of over 80 per cent. Newcastle, one of the Core Cities, has a SFBB penetration rate of less than 60 per cent.
- **Low penetration rates may be a particular concern to cities with large concentrations of SMEs in the information and communications sector.** Milton Keynes stands out as a city with a relatively high concentration of SMEs in the sector, yet the city ranks in the bottom 20 cities with the lowest rates of SFBB penetration.



Figure 21:
Broadband

City	Postcodes achieving SFBB speeds, 2012 (%)	City	Postcodes achieving SFBB speeds, 2012 (%)
Luton	92	Southampton	68
Cambridge	85	Telford	67
Grimsby	83	Leeds	65
Oxford	82	Bradford	64
Aldershot	81	Preston	63
Dundee	81	Bournemouth	63
Derby	80	Warrington	62
Cardiff	80	Swansea	62
Gloucester	79	Newcastle	59
Plymouth	79	Newport	59
Portsmouth	79	Glasgow	59
Middlesbrough	79	Coventry	57
Northampton	78	Southend	57
Nottingham	77	Stoke	57
Brighton	77	Milton Keynes	52
Bristol	77	Sunderland	50
Birmingham	76	Burnley	50
Ipswich	74	Barnsley	49
Leicester	74	Norwich	49
Crawley	74	Rochdale	49
Mansfield	73	Huddersfield	49
Worthing	73	York	48
Edinburgh	72	Blackburn	47
Peterborough	72	Sheffield	46
Wigan	72	Birkenhead	46
London	71	Wakefield	44
Reading	71	Doncaster	40
Bolton	71	Blackpool	26
Chatham	70	Aberdeen	11
Manchester	70	Hastings	8
Swindon	70	Hull	3
Liverpool	69	Belfast	N/A



Source: Ofcom 2012, Broadband data, postcode level. Postcode data are allocated to PUAs. Data are based on a snap shot of data provided by the largest fixed broadband providers in the UK for the period of June to July 2012.

Congestion

Almost three in four SMEs say their car or van is crucial for their business operation.⁵⁵ According to the FSB Voice of Small Business' Survey Panel (April 2012), around six in 10 SMEs are negatively impacted by traffic congestion and the state of repair of roads.

Congestion can impact on SMEs in a number of ways. It may increase costs of production, reduce access to customers or employers may need to pay workers higher wages to compensate for longer commuting times. Reducing travel times by 10 per cent can increase economic productivity by between 0.4 per cent and 1.1 per cent.⁵⁶

- Using average speeds as a proxy for congestion, it is evident that it poses a much bigger challenge in some cities compared to others. Travel times are more than twice as slow in Nottingham compared to Telford.
- **Smaller cities appear to suffer from less congestion** (including four of the smallest cities in the UK), and cities with lowest average speed are mainly medium and large size cities, including two of the largest – London and Manchester.

**Table 10:
Congestion**

Rank	City	Average minutes per mile, 2011/12
10 cities with the quickest 1 mile travel time		
1	Telford	1.5
2	Peterborough	1.6
3	Milton Keynes	1.8
4	Norwich	1.9
5	Oxford	1.9
6	Cambridge	1.9
7	Crawley	1.9
8	Worthing	1.9
9	Ipswich	1.9
10	Northampton	2.0
10 cities with the slowest 1 mile travel time		
47	Southend	3.2
48	Blackpool	3.2
49	Portsmouth	3.4
50	Southampton	3.4
51	Brighton	3.4
52	Manchester	3.5
53	Leicester	3.5
54	Hull	3.6
55	London	3.6
56	Nottingham	3.6
	England	2.4

Source: Department for Transport (DfT) 2012, Congestion & Reliability Statistics, 2011/12 data.

55. Federation of Small Business (2011) *Small business and Infrastructure survey report* London: Federation of Small Businesses

56. Cabinet Office (2009) *The future of urban transport* London: Cabinet Office

Crime and natural disaster

Crime adds costs to a business and increases insurance risk. It could also deter economic activity as businesses choose not to set up or expand in cities with high crime rates. Natural disaster, most likely in the form of flooding in the UK, potentially has a similar impact.

Criminal offences

Safety and security matters for businesses' success. Crime against businesses increases costs as does the protection and insurance against it. The statistics below represent total criminal offences per 10,000 residents for all crimes including burglary, fraud and forgery, and violent crime among others.

- **From the period 2004/05 to 2010/11, all cities saw criminal offence rates fall.** Birkenhead saw the biggest fall, with its rate falling by nearly half.
- More than half of English cities – 32 of 56 – saw falls in their crime rates greater than the English average.
- During 2010/11, Cambridge had double the number of criminal offences (per 10,000 population) compared to Birkenhead.
- During 2010 and 2011, seven cities had more than 2,000 criminal offences per 10,000 population.

Flood Risk

The intensity and frequency of floods and droughts are forecast to further increase due to changing climatic conditions. In March 2013 Lord Chris Smith, the Environment Agency Chairman, warned that “2012 was an extraordinary year and it serves as a warning for the country that we face a future in which there are likely to be more and more extreme weather events.”⁵⁷

The *UK Climate Impacts Programme* warns that a “flood can be catastrophic for an SME if premises are flooded, access cut off or property damaged. Flooding also affects a much greater number of businesses in less dramatic but important ways, such as if transport or electricity are cut off or there are changes in customer behaviour or requirements.”⁵⁸

- The percentage of non-residential properties under significant risk of flooding is highest in Hull and Wakefield.
- Liverpool, Newcastle and Birmingham (three of the largest cities) are amongst the cities with the lowest risk of flooding.
- Four cities (Luton, Worthing, Liverpool and Brighton) have less than 1 per cent of their non-residential premises with risk of flooding, while 10 cities have more than 10 per cent of their non-residential properties with significant risk of flooding.

57. The Observer, Saturday 2 March 2013 available from <http://www.ukcip.org.uk/wordpress/wp-content/CLARA/Flooding-factsheet.pdf>.

58. UKCIP, July 2011, *Climate Change, flood risk & preparing your business* available from <http://www.ukcip.org.uk/wordpress/wp-content/CLARA/Flooding-factsheet.pdf>

Table 11:
Crime

Rank	City	Criminal offences per 10,000 population, 2004 and 2005	Criminal offences per 10,000 population, 2010 and 2011	Change, 2004/05-2010/11 (%)
10 cities with the highest fall in criminal offences				
1	Birkenhead	1,956	998	-49
2	Grimsby	4,156	2,193	-47
3	York	2,771	1,500	-46
4	Newcastle	2,346	1,293	-45
5	Nottingham	3,323	1,856	-44
6	Hull	4,204	2,354	-44
7	Gloucester	3,215	1,801	-44
8	Bolton	2,634	1,513	-43
9	Luton	2,798	1,638	-41
10	Wakefield	2,681	1,582	-41
10 cities with the lowest fall in criminal offences				
47	Southampton	2,650	1,959	-26
48	Worthing	1,921	1,426	-26
49	Crawley	1,970	1,463	-26
50	Aldershot	1,617	1,202	-26
51	Reading	2,231	1,662	-26
52	Doncaster	2,417	1,845	-24
53	Swindon	1,912	1,494	-22
54	Ipswich	2,544	2,043	-20
55	Oxford	2,997	2,456	-18
56	Milton Keynes	2,360	2,004	-15
	England	2,307	1,597	-31

Source: Data.gov.uk 2013, Recorded crime data at local authority level 2004, 2005, 2010 and 2011 data.



Table 12:
Flood risk

Rank	City	Non-residential properties under significant risk of flooding, 2012 (%)
10 cities with low risk of flooding		
1	Luton	0.2
2	Worthing	0.3
3	Liverpool	0.6
4	Brighton	0.9
5	Newcastle	1.0
6	Mansfield	1.0
7	Coventry	1.1
8	Birmingham	1.1
9	Blackburn	1.2
10	Bolton	1.3
10 cities with high risk of flooding		
50	Southampton	11.4
51	Southend	14.0
52	Warrington	14.1
53	Oxford	15.5
54	Swansea	16.5
55	Huddersfield	16.7
56	Derby	16.7
57	Wakefield	18.1
58	Newport	18.4
59	Hull	24.7
England and Wales		9.3

Source: Environment Agency 2012, 2012 data.

Local demand

Between 40 and 60 per cent of SMEs operate primarily within their local market.⁵⁹ As a consequence, local demand for goods and services is important to the success of businesses. In the UK, cities that have lower wages also tend to have a lower proportion of business start-ups and a higher proportion of SMEs contracting. Falling wages and rising unemployment are likely to impact on demand and SMEs dependent on the local market.

Cities with higher wages will have more residents with higher incomes to buy from local businesses; however, cost of living and house prices can mitigate the effect of higher wages in an area if they are high as well.

Average wages

- **All but three cities – Cambridge, Derby and Hastings – have experienced a decline in real wages since the onset of the recession as a result of a weaker economy and relatively high inflation.**
- Most of the cities with lower growth rates are located in the North. One reason this could be happening is higher levels of unemployment in the North are driving wages down. Also, the lower cost of living and housing prices keep upward pressures on wages at bay.



59. UKCES, 2011

Table 13:
Average wages (2012 prices)

Rank	City	Weekly earnings, 2007 (£)	Weekly earnings, 2012 (£)	Real growth rate 2007-2012 (%)
10 cities with the highest earnings growth rate				
1	Derby	452	471	1.0
2	Hastings	387	394	0.4
3	Cambridge	573	574	0.0
4	Glasgow	489	482	-0.3
5	Newcastle	443	437	-0.3
6	Coventry	457	450	-0.4
7	Luton	448	439	-0.5
8	Crawley	626	612	-0.6
9	Wigan	478	466	-0.6
10	Brighton	516	502	-0.7
10 cities with the lowest earnings growth rate				
54	Rochdale	497	442	-2.9
55	Swindon	532	472	-2.9
56	Stoke	445	390	-3.2
57	Warrington	566	496	-3.2
58	Peterborough	496	431	-3.5
59	Wakefield	464	402	-3.5
60	Doncaster	474	409	-3.6
61	Bolton	496	425	-3.8
62	Aldershot	646	543	-4.3
63	Blackburn	447	374	-4.4
	United Kingdom	531	490	-2.0

Source: NOMIS 2013, Annual survey of hours and earnings (ASHE), resident analysis, 2007 and 2012 data.

Vulnerability to change in local demand

Cities where most SMEs rely on local customers are particularly sensitive to changes in local demand. This index includes several measures to indicate the strength of city economies (unemployment and average wages) and the potential impact of public sector spending cuts (public sector job losses and welfare cuts). These measures are weighted by the proportion of firms dependent on local markets.

- Cities in the three Northern regions (North West, North East and Yorkshire) tend to be more vulnerable to changes in local demand. Firms in cities such as Blackburn, Hull and Liverpool have a higher than average proportion of firms reliant on local customers. These cities have relatively low wages, high unemployment and are likely to be disproportionately impacted by public sector spending cuts. This will have knock-on impacts on demand for goods and services and, as a result, impact on locally-facing SMEs.
- By contrast, cities such as Cambridge, Crawley and Reading have strong economies with high wages and low unemployment, and SMEs that are more likely to operate in national and international markets.
- This is not about a North-South divide. SMEs in economically strong northern cities such as Leeds, Warrington and York are likely to be less affected than southern cities such as Hastings and Plymouth.



Table 14:
Vulnerability to changes in local demand

Rank	City	Index score	Firms operating primarily within the local market, 2011 (%)	Estimated public sector job losses by end 2018 as a proportion of all jobs (%)	Estimated welfare cuts per capita by 2014/15 (£)	Average weekly earnings, 2012 (£)	Claimant count rate, 2013
Most vulnerable							
1	Hull	-1.54	47.0	-5.0	-149	361	8.3
2	Liverpool	-1.46	52.3	-5.4	-192	424	5.7
3	Blackburn	-1.34	56.7	-4.9	-192	374	4.3
4	Sunderland	-1.25	49.7	-5.7	-172	411	5.4
5	Middlesbrough	-1.25	51.2	-5.5	-155	415	6.5
6	Rochdale	-1.14	48.1	-5.3	-194	442	5.3
7	Barnsley	-1.00	52.0	-5.0	-181	434	5.2
8	Doncaster	-0.94	49.9	-5.0	-166	409	5.3
9	Bradford	-0.92	50.5	-4.8	-162	419	5.9
10	Birmingham	-0.74	47.0	-4.5	-161	443	6.3
Least vulnerable							
47	Warrington	0.78	54.5	-3.1	-144	496	3.5
48	Oxford	0.93	39.6	-4.1	-99	495	2.1
49	Swindon	0.94	47.7	-2.3	-135	472	3.3
50	Bournemouth	0.96	51.1	-3.5	-114	457	2.5
51	London	0.98	40.1	-2.9	-162	627	3.6
52	York	1.12	45.4	-4.3	-85	486	2.1
53	Aldershot	1.50	43.2	-2.5	-121	543	1.9
54	Reading	1.76	47.3	-2.9	-116	594	2.1
55	Crawley	1.86	47.4	-2.6	-125	612	2.1
56	Cambridge	1.91	46.7	-2.8	-103	574	1.7

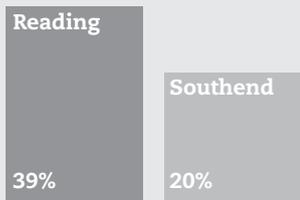
Source: UKCES, 2011; ONS 2010, Civil Service Employment, NOMIS 2010, Business Register and Employment Survey, 2012, 2010 data, LGA 2010, Quarterly Public Sector Employment Survey, Scottish Government 2010, Public Sector Employment, HM Treasury 2010, Comprehensive Spending Review, London: HM Treasury, own calculations; Cities Outlook 2011; Annual Survey of Hours and Earnings, 2013; Claimant Count, 2013.

Small businesses are all different, but cities can help them thrive if...



They invest in skills: when there are more highly skilled people around, there is a higher concentration of small businesses.

% High skilled workers

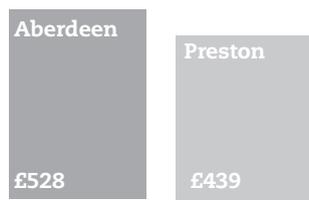


SME Concentration*

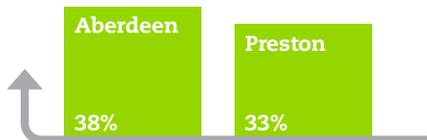


They are attractive places to live: small businesses need customers to grow, and high wages in particular can mean high local demand.

Weekly earnings

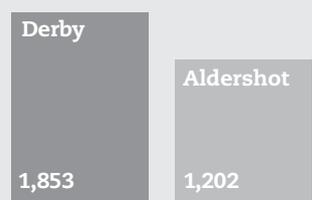


+ SME expansion rate



They tackle some of the issues, such as crime or poor quality broadband, that can be a cost to business and cause businesses to shrink.

Crime rates*



- SME contraction rate



*per 10,000 pop



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