

SMEs in London's economy

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Overview

- The size of the SME presence in London's economy
- The economic situation
- Economic forecasts for the UK and London
- Some of the issues faced by SMEs
- How might we support SMEs?

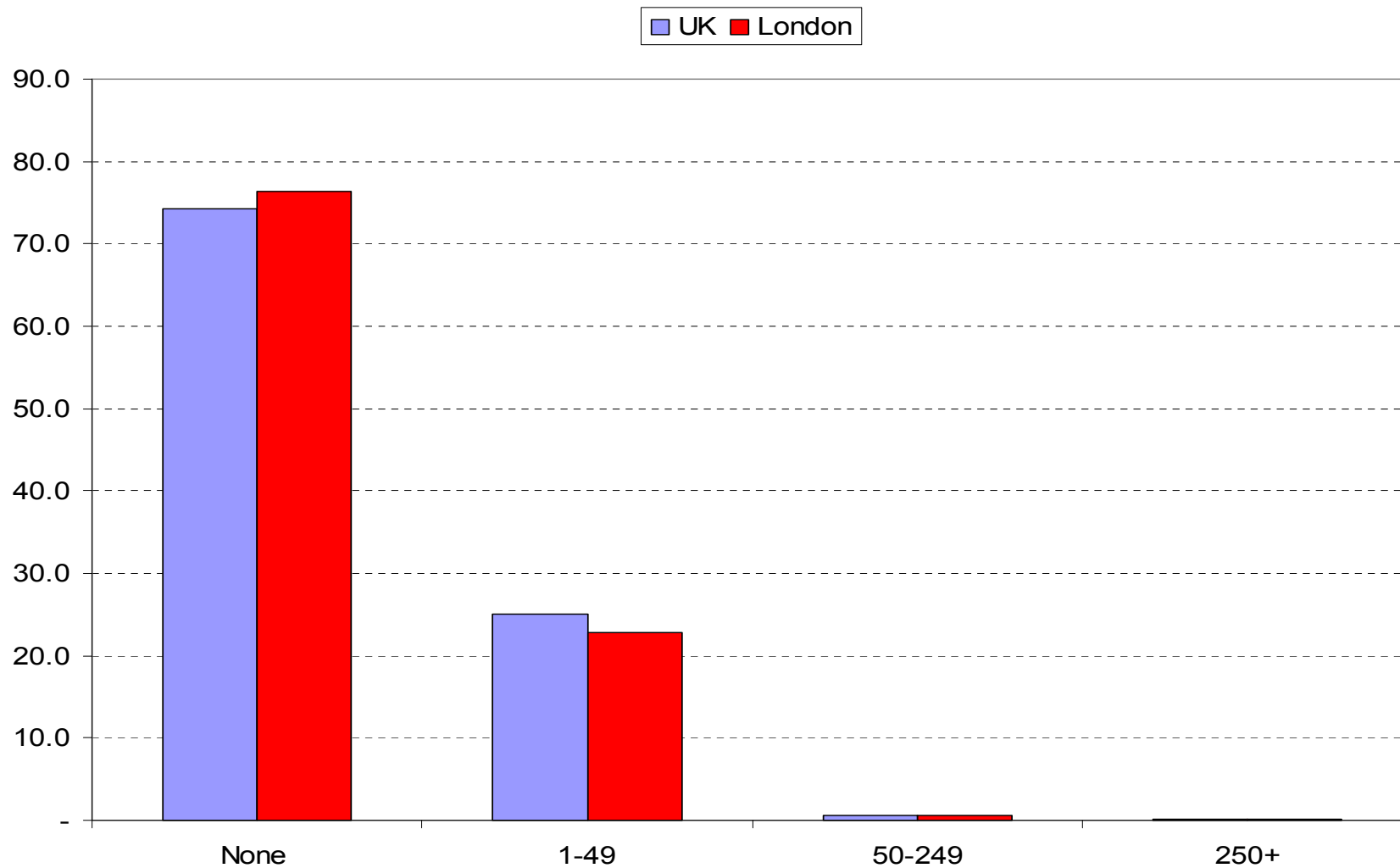
London's Business Landscape

- At the start of 2012, London had 805,085 SMEs (0-249 employees).
- SMEs make up 99.8% of all London's private sector businesses.
- Employment in SMEs represents 49.8% of all London employment (2.3 million).
- SMEs make up 47.7% of business turnover (excluding financial & insurance industry), equal to £430 billion.

	Businesses		Employment		Turnover ¹	
	Number	Share of total	Number (000s)	Share of total	Number (£ million)	Share of total
With no employees ²	615,995	76%	660	15%	49,516	5%
Micro (1 - 9 employees)	156,965	19%	578	13%	123,925	14%
Small (10 - 49 employees)	27,185	3%	520	11%	135,196	15%
Medium (50 - 249 employees)	4,940	1%	497	11%	121,186	13%
Large (250+ employees)	1,345	0.2%	2,277	50%	471,704	52%
Total	806,430	100%	4,532	100%	901,527	100%

Source: Business Population Estimates, BIS

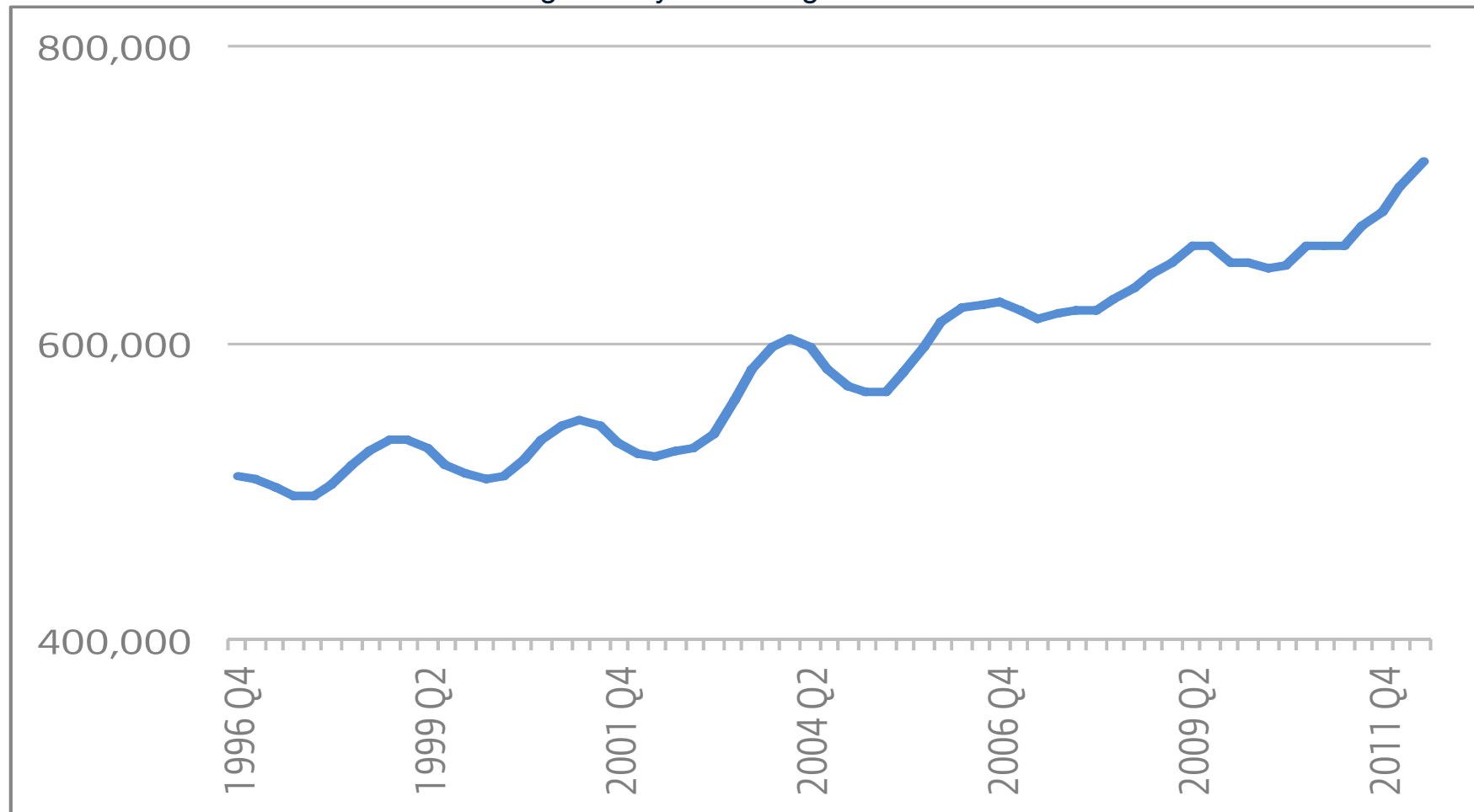
Proportion of private sector businesses by employee size



Source: Business Population Estimates, BIS

So self-employment clearly significant – and growing over time

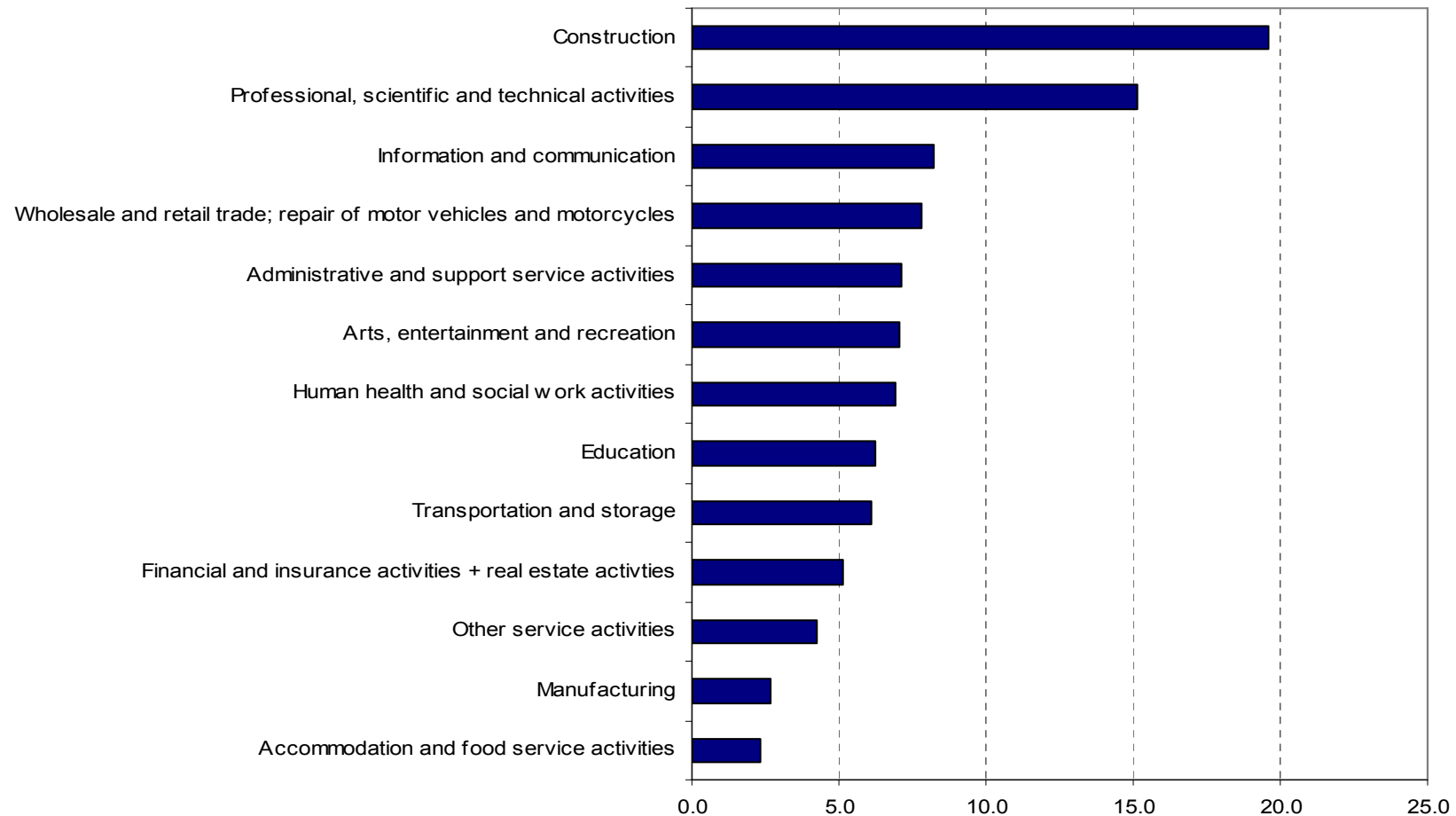
Number of *self-employment* jobs in London
Annual average from year ending Q4 1996 to Q2 2012



Source: Labour Force Survey, ONS

With the majority of self-employed in the construction sector

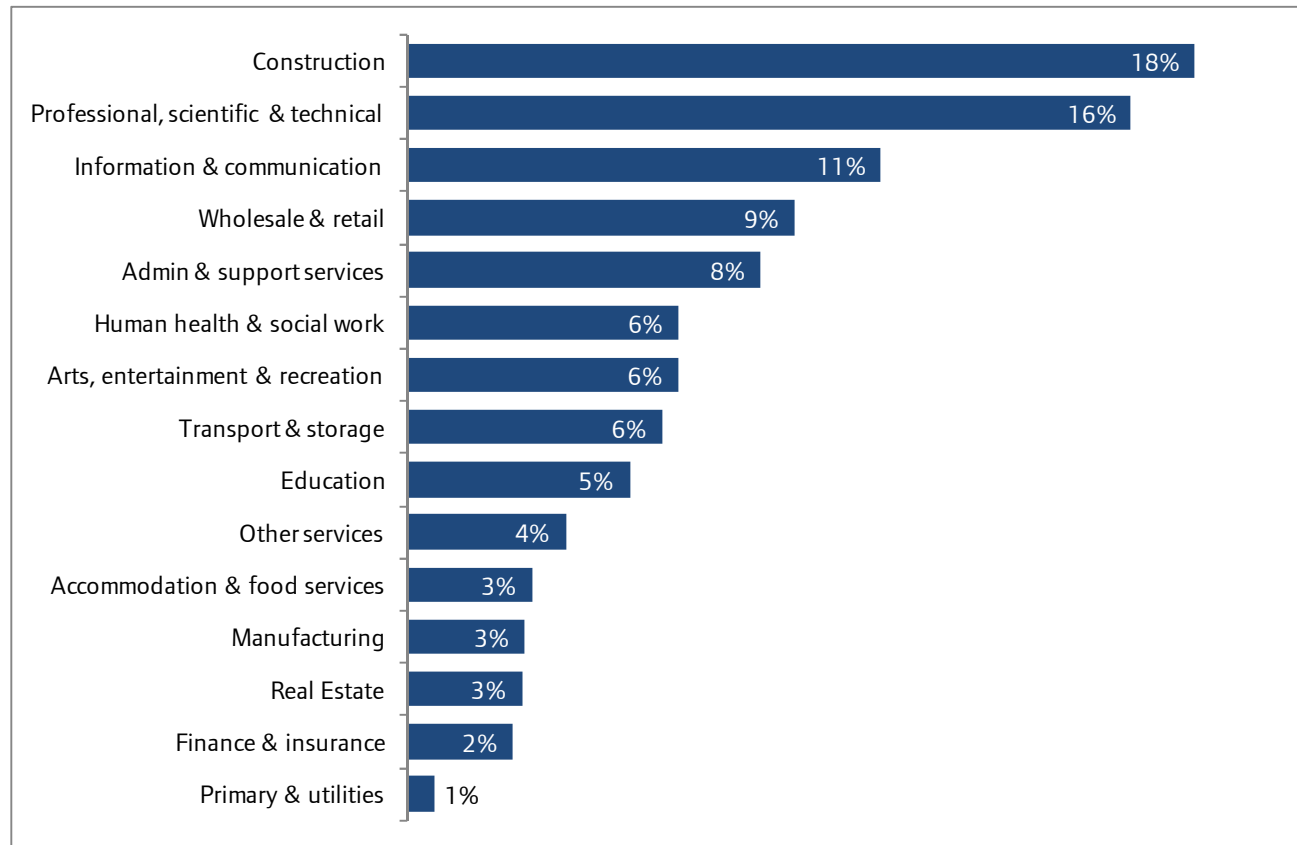
Share of *self-employment* jobs in London by sector (2012)



Source: Labour Force Survey, ONS

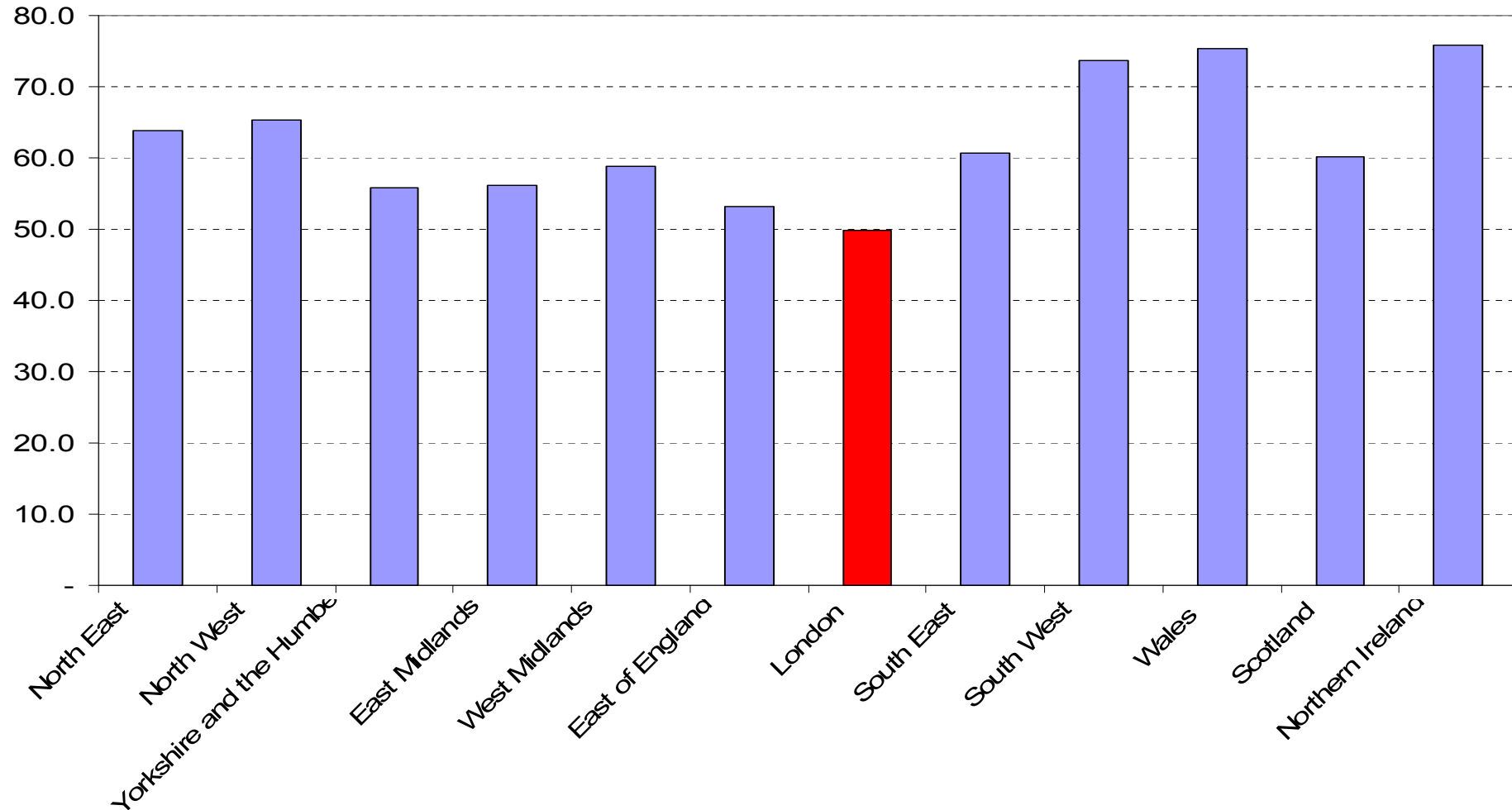
Which is similar to the position for London SMEs as a whole

SMEs in London by industry, start of 2012 (share of all London SMEs)



Source: *Business Population Estimates, BIS*

Proportion of private sector employment accounted for by SMEs



Source: Business Population Estimates, BIS

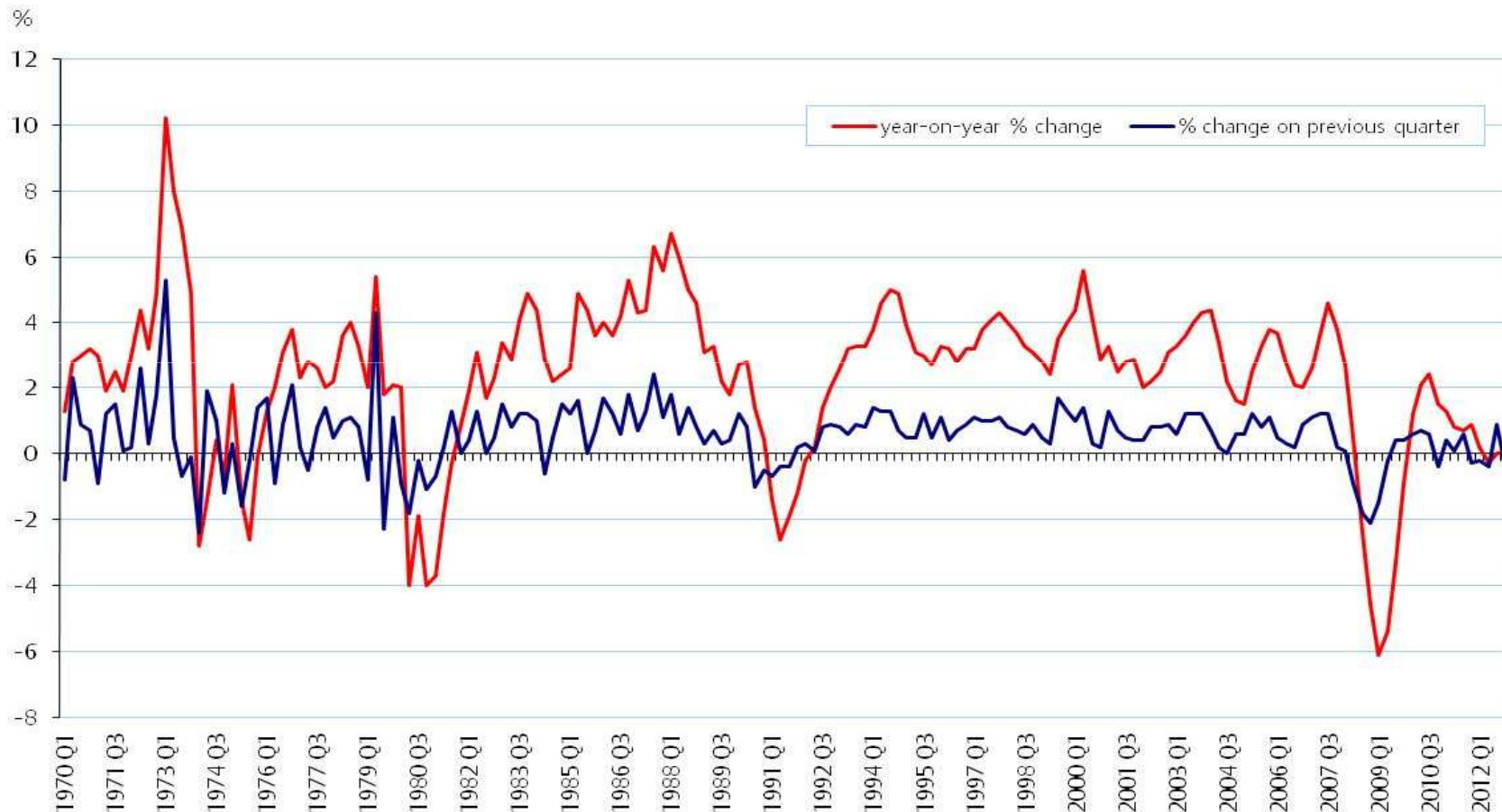
Challenging economic climate for business

- Low economic growth and household spending forecast
- Low business and consumer confidence
- Eurozone sovereign debt crises and economic growth
- Financial lending constraints

In particular the UK and London economies face a challenging start to 2013

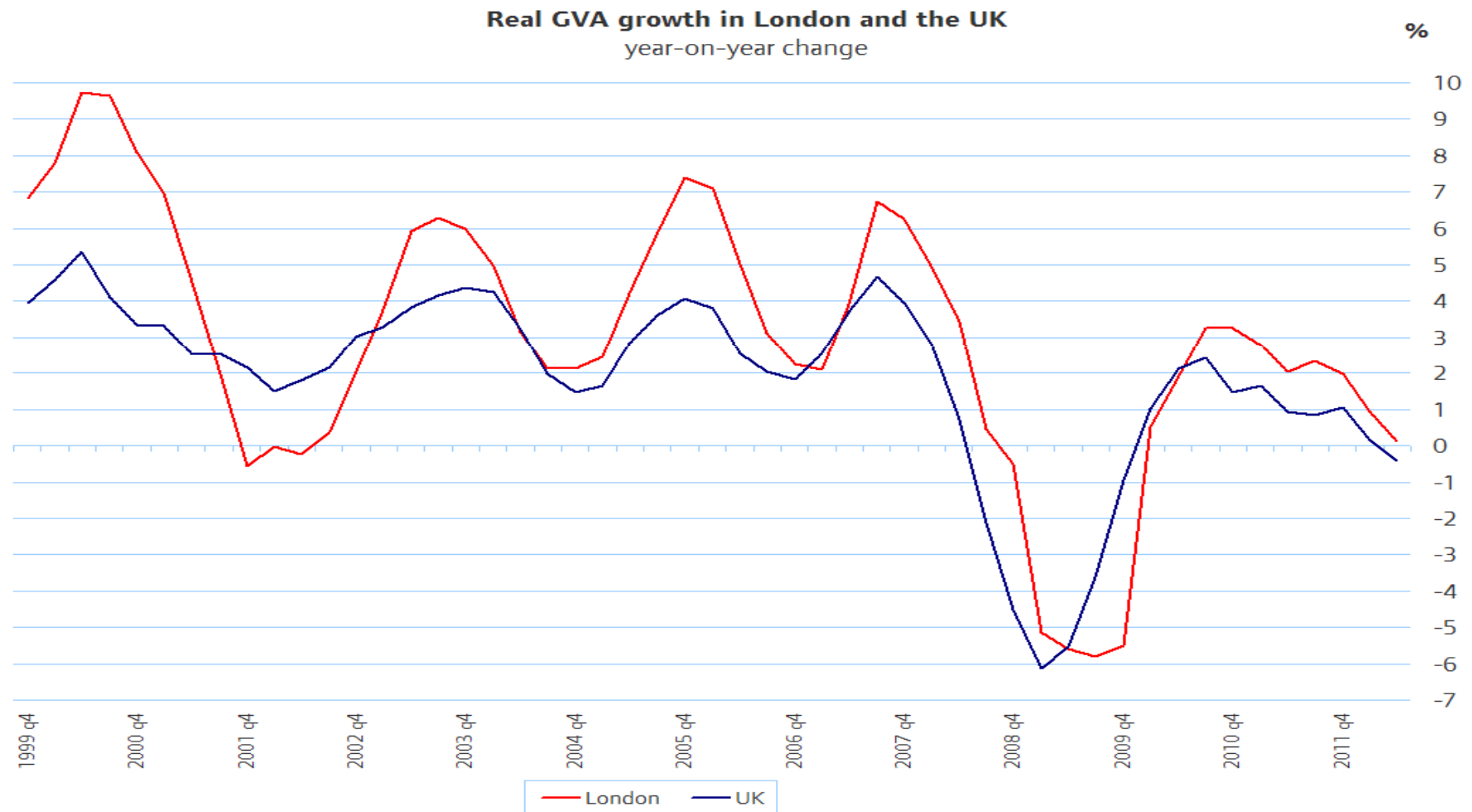
- With low or negative GDP growth in the UK
- Although the labour market is holding up extremely well all things considered
- Other advanced economies are not performing strongly
- And the latest economic forecasts for the UK and London are for slow growth

UK contracted in Q4 2012 and flat in 2012 as a whole



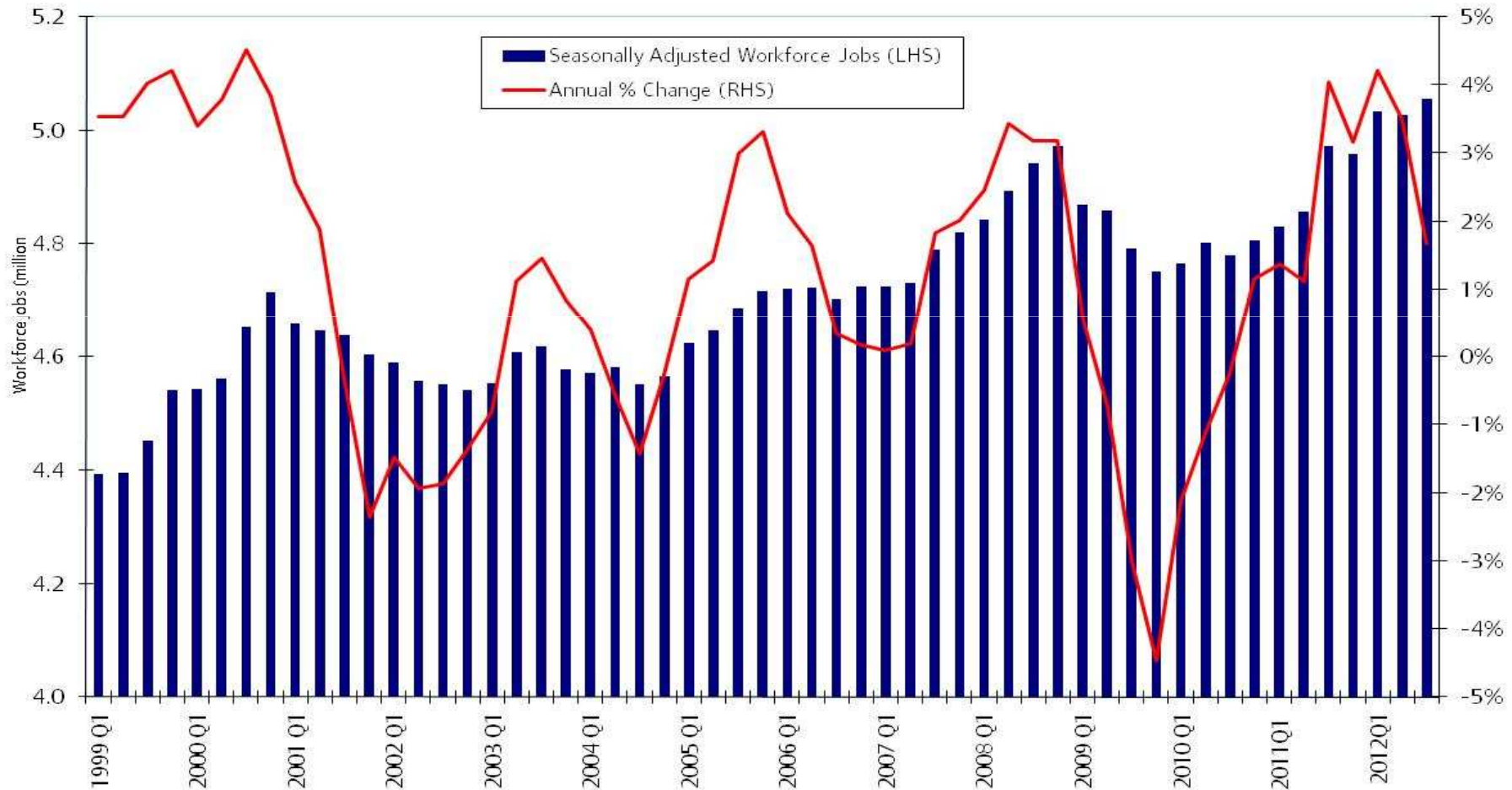
Source: ONS

London growing slightly quicker?



Source: Experian Economics

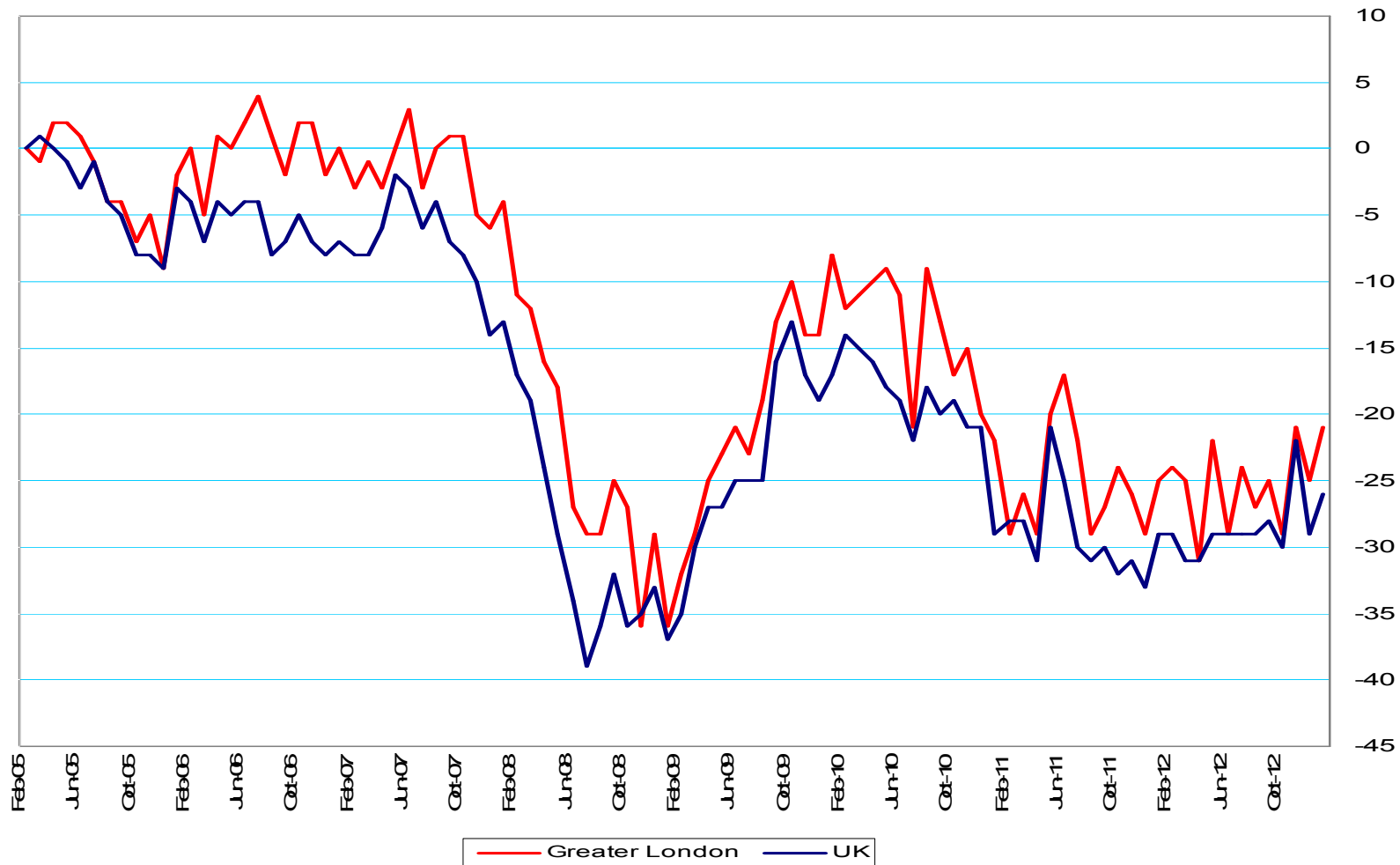
London workforce jobs rising on year



Source: ONS

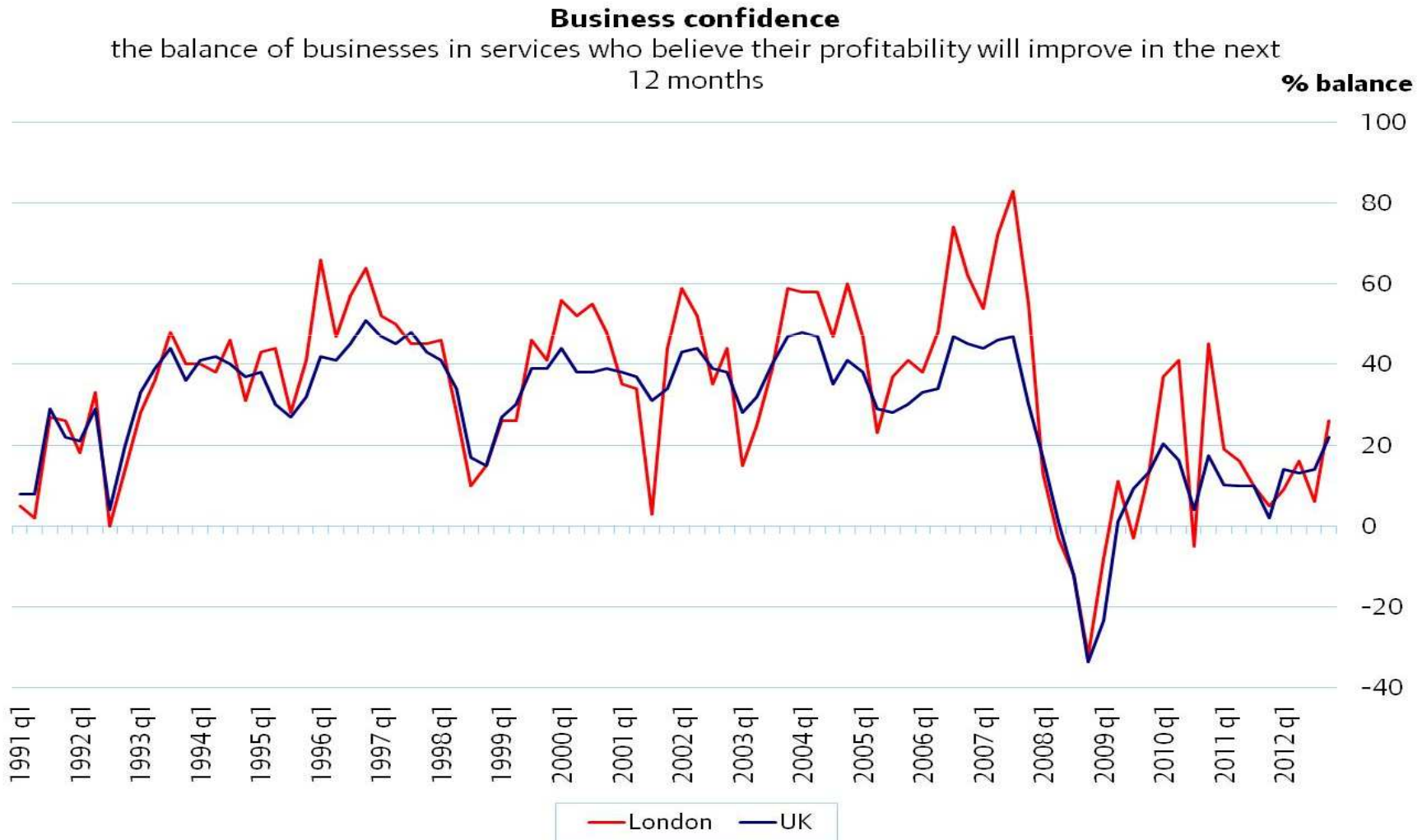
Consumer confidence is poor in the UK and in London

Consumer confidence barometer score



Source: GfK

Business confidence remains low as shown by beliefs about future profits ...

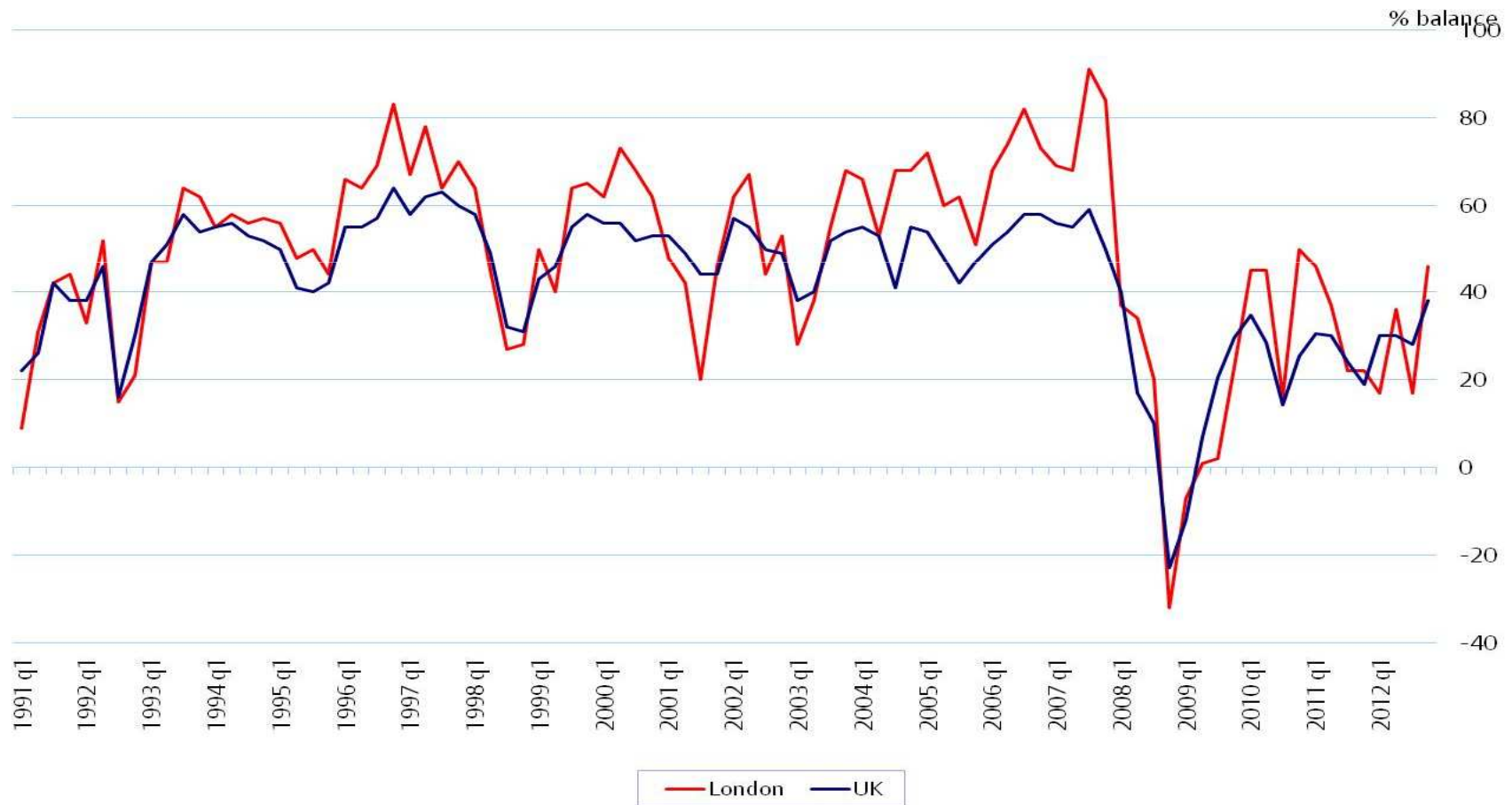


Source: BCC

... and turnover

Business confidence

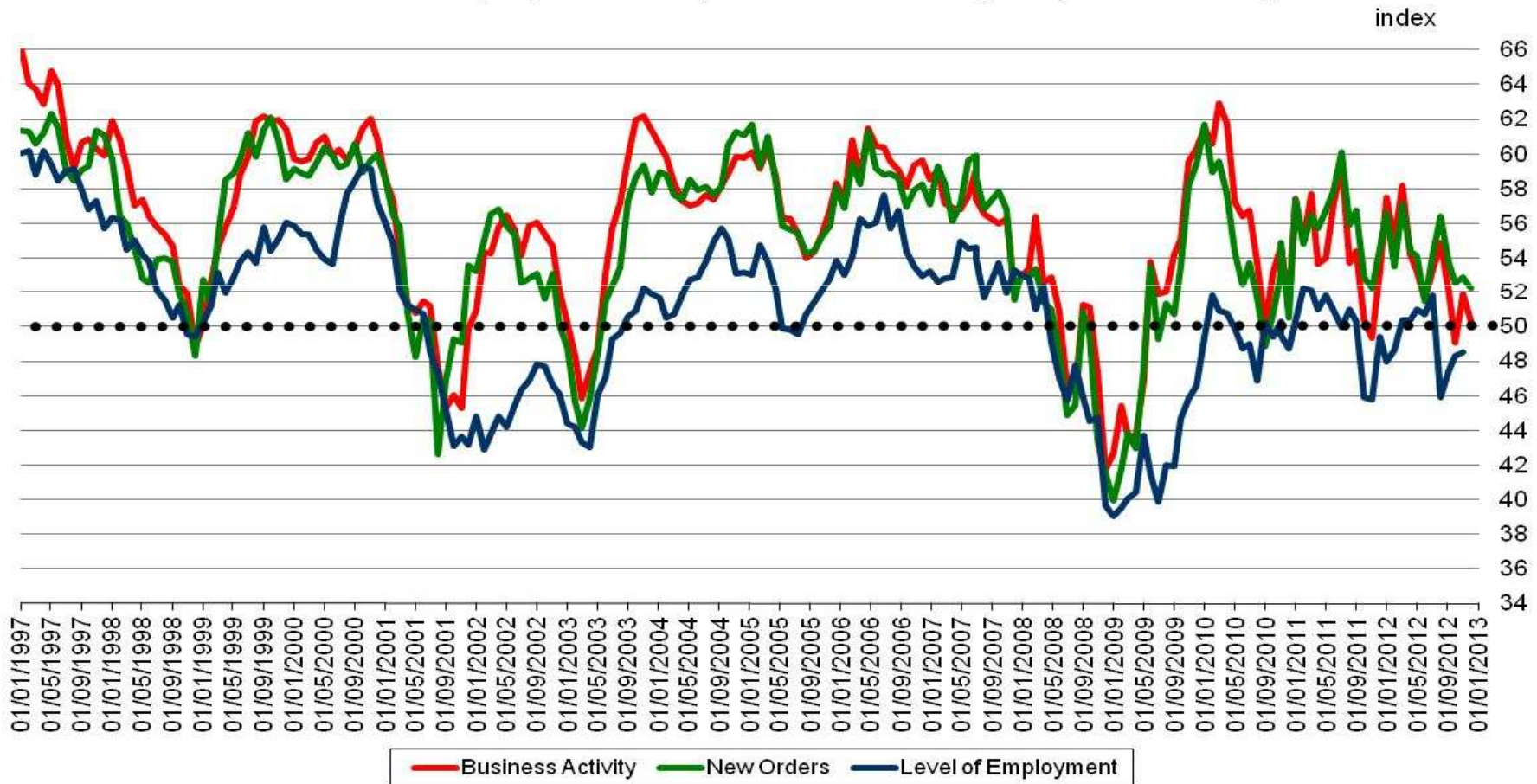
The balance of businesses in services believing turnover will improve over the next 12 months



Source: BCC

PMI survey suggests a slowdown in London

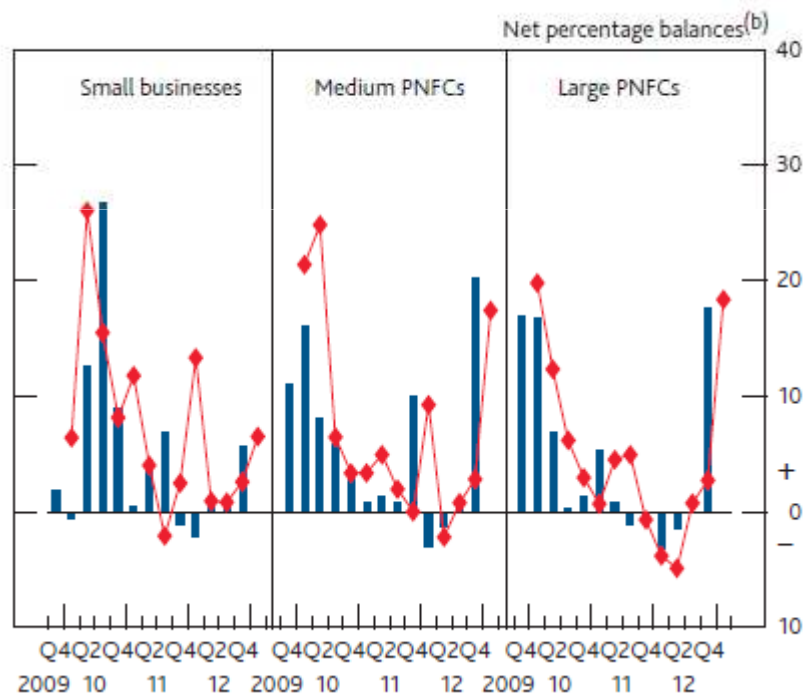
Business activity, New orders and Employment in London
seasonally adjusted index (50 indicates no change on previous month)



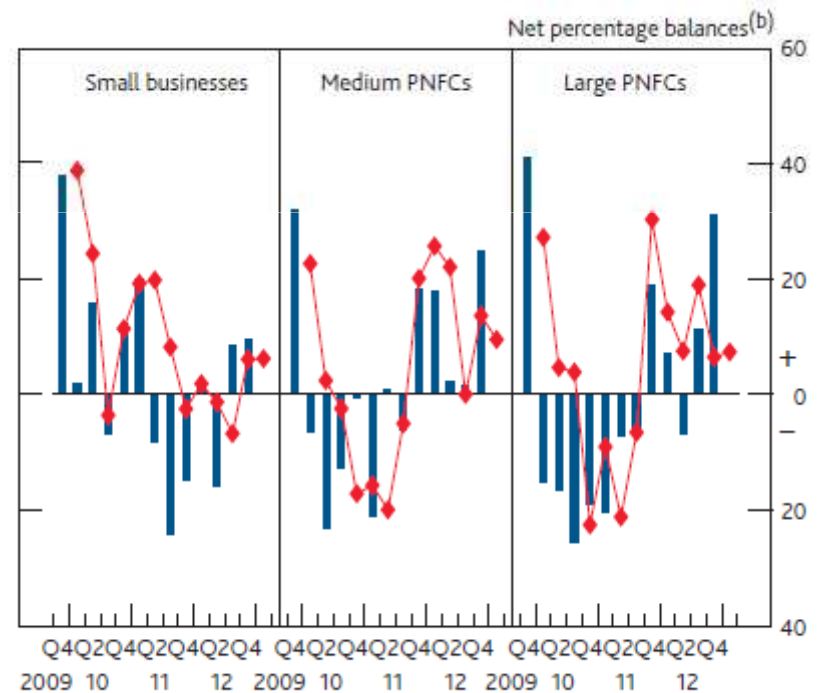
Source: Markit Economics

The lending situation to firms shows a mixed picture

Corporate credit availability by firm size



Default rates on corporate loans by firm size

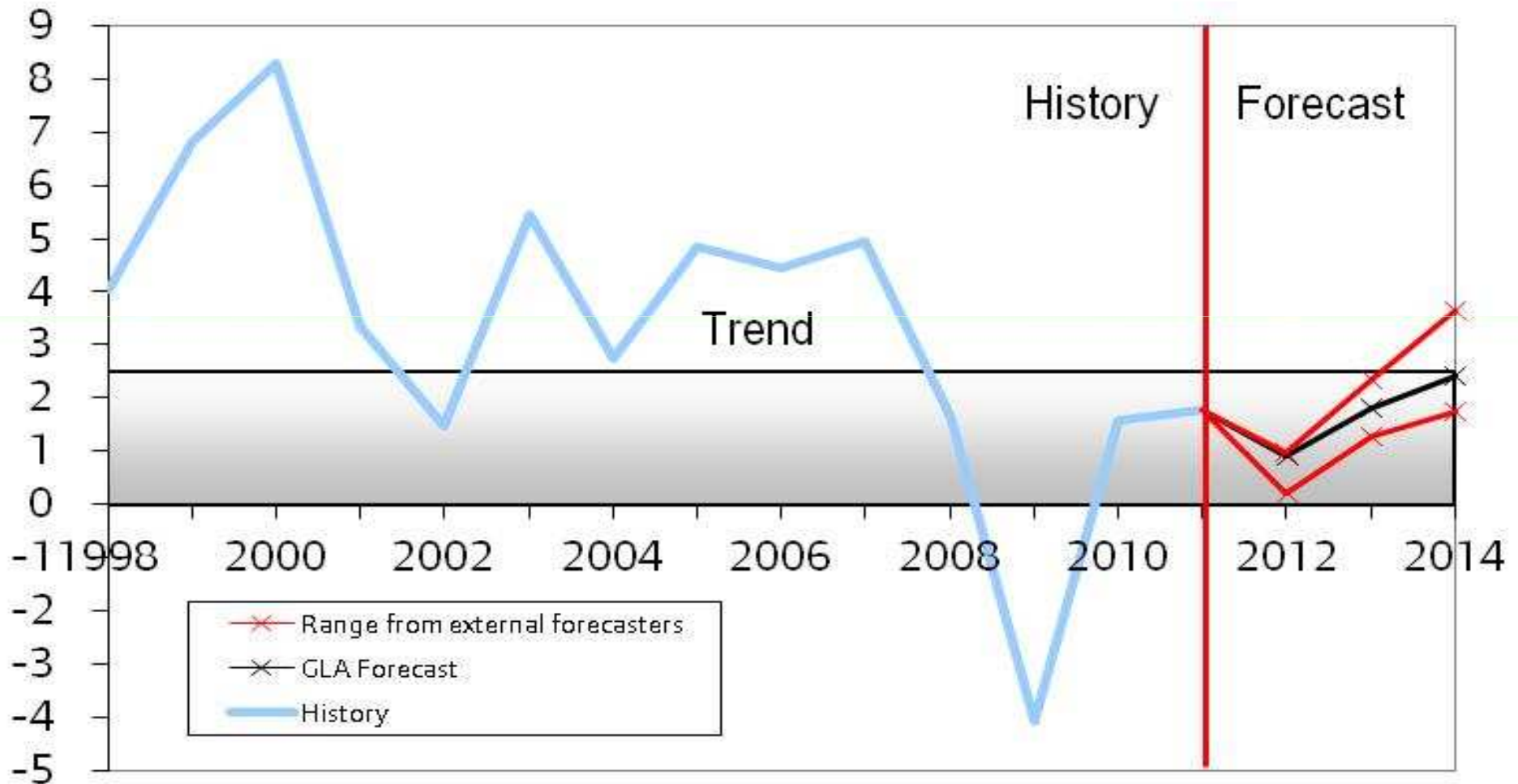


Source: Bank of England

Forecasts for the UK economy

- The **IMF** forecast in January that it expects the UK to grow by 1% in 2013 and grow by 1.9% in 2014.
- **HM Treasury Comparison of Independent Forecasts:** As at January 2013, the average of independent forecasts was for 1.0% growth for 2013.
- The **OECD**'s latest forecast published in November expected growth of 1.1% in 2013 and 1.6% in 2014.

GLA Economics' forecast for output growth in London (% change)

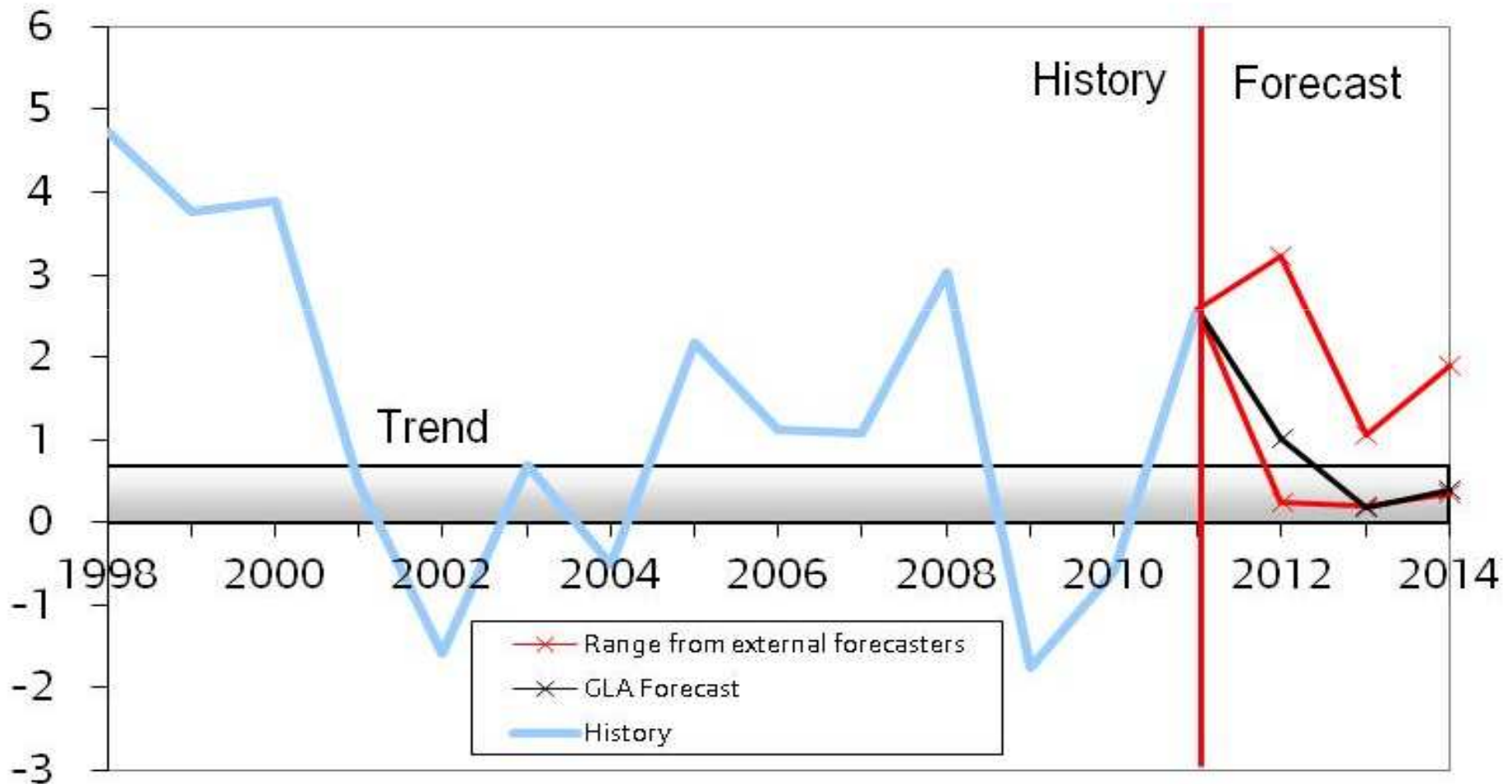


Source: GLA Economics – LEO (Nov 2012) / Experian Economics

Note: External forecasters are Cambridge Econometrics, Experian Economics, CEBR and Oxford Economics

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GLA Economics' forecast for employment growth in London (% change)



Source: GLA Economics – LEO (Nov 2012) / Experian Economics

Note: External forecasters are Cambridge Econometrics, Experian Economics, CEBR and Oxford Economics

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Risks to the economy

- Downside risks to the economy are high:
 - Eurozone sovereign debt crisis is not resolved and could still lead to disorderly large scale defaults or countries leaving the Eurozone which could lead to severe contagion in the banking and financial sectors
 - The US economy falters due to political wrangling over fiscal issues
 - Global stock markets crash due to Eurozone crisis
 - Eurozone goes into a deeper recession hitting UK and London exports
 - Lending to households and firms remains constrained or even worsens due to another credit crunch
 - Consumer and business confidence collapses
 - A possible further slowing of emerging market economies such as India and China, although recent data on China is more optimistic

Some issues of concern to SMEs

The Federation of Small Businesses believes there are six things that the government can do to improve the environment for SMEs. These are:

- Increasing the routes to finance by creating more competition in the banking sector.
- Improving cash flow by ensuring that small business are paid on time.
- Adopting a new approach to regulation and cut down the amount of red tape small firms have to plough through.
- Creating a simplified tax system for small businesses that find it complex and burdensome.
- Incentivising small firms to take on staff and so help tackle high unemployment.
- Opening up export markets so that small businesses can really begin to grow the economy

Some results from the Parliamentary Small Business Group's inquiry into entrepreneurship

- In 2012 the 'Breaking down the barriers to entrepreneurship' report was published. Its recommendations included:
- The Government should consider expanding the National Insurance Contributions (NICs) holiday scheme.
- The Government should set an example by ensuring, in so far as it is able, that all those supplying goods and services to the public sector, and especially local authorities, sign up to the Prompt Payment Code and its principles.
- The New Enterprise Allowance should be paid equivalent to job seekers allowance for up to a year with appropriate loan guarantees of up to £2000.
- Action to lessen the burden of regulation.
- The government should continue to try to simplify employment law.

Continued..

- The Government should allow Work Trials to be available to all suitable candidates on request, wherever this is practicable.
- The Government should consider the reintroduction of the Graduate Internship Scheme.
- The Government should consider how best entrepreneurial spirit can be incorporated into the school curriculum.
- Local Enterprise Partnerships (LEPs) should be fully involved in the creation and promotion of job-related training.
- Banks were urged to re-consider ways in which they support small businesses and take decisions on lending.
- The Government should immediately adopt and implement the Breendon recommendations to bolster alternative sources of finance and ensure a more diverse and innovative lending environment for small firms.
- The government should continue to try to simplify the tax system and improving exporting prospects.

Continued...

- The Government should ensure that Jobcentre Plus (and its devolved equivalents) build relationships with existing women's networks and promote mentoring as part of continuing discussions about employment for women.
- All government employment agencies should be made more aware of the opportunities provided through self-employment and new business creation and they should be especially attuned to the needs of the disabled in this respect.
- Ensuring adequate support for those who leave the armed forces with an interest in creating a small business should be a priority.
- It notes that “the impact of worthwhile initiatives is undermined by lack of awareness among the small business community, and by regular 'rebranding' exercises.”
- And the role of mentoring should be recognised as being of considerable value for those starting new businesses

So what might we do to support SMEs?

- Be clear about when the public sector should/should not intervene (ie true market failures)
- Avoid duplication with existing national government interventions (build on existing provision where necessary)
- So what areas might we want to focus on?

What does this mean for the London Enterprise Panel?

- In the absence of market failures, the market is the most efficient way of allocating resources across competing demands.
- However, market failures do exist and imply scope for government activity to improve resource allocation...
- ... as long as the benefits of intervention outweigh the costs.

Beware of duplicating existing national government provision

- In a number of areas national government has programmes and policies directed at SMEs including:
 - Business support:
 - Business Link website and helpline;
 - Mentoring (mentorsme.co.uk);
 - Growth accelerator;
 - Manufacturing Advisory Service
 - Access to finance:
 - Enterprise Finance Guarantee;
 - Business Finance Partnership;
 - UK Export Finance Schemes;
 - Business Angel Co-Investment Fund;
 - Enterprise Capital Funds.
 - Various other initiatives.

Options/areas for potential intervention

- Promote better access for SMMEs to finance and equity;
- Support SMMEs in seeking export opportunities;
- Explore affordable workspace options;
- Raise awareness of business support services and networks for SMMEs.



Questions/discussion