

## Helping SMEs to thrive

November 2017

### Executive Summary

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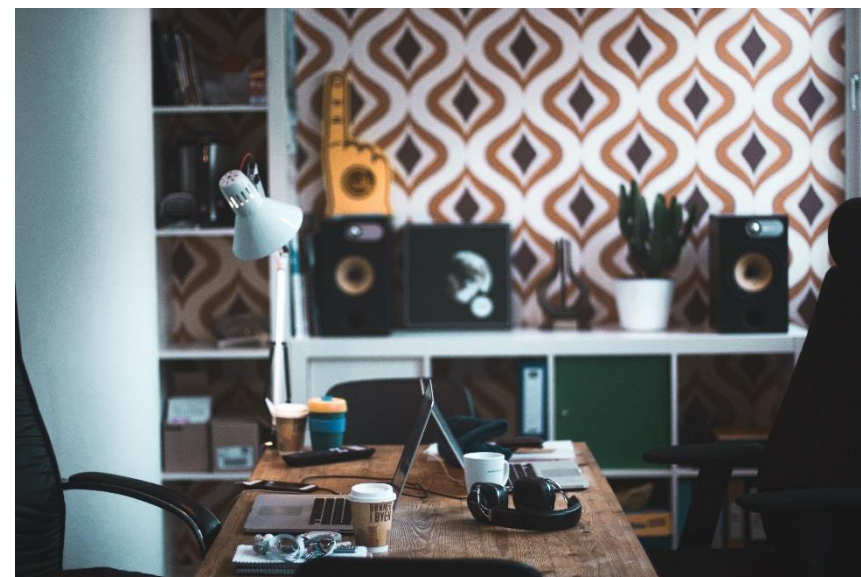
Providing targeted support to SMEs will be integral to the continued success of the London economy. SMEs make up over 99 per cent of all businesses in London.<sup>1</sup> Their number have increased by almost one third in the last six years (+29 per cent), and now account for over one million (1,010,100) businesses.<sup>2</sup>

SMEs are an important driving force in the London economy's success story.

They account for 99.8 per cent of all businesses in the capital, generate around half (48 per cent) of all business turnover, which equates to over £500 million,<sup>3</sup> and sustain approximately 52 per cent of all employment.<sup>4</sup>

The Mayor's draft Economic Development Strategy, expected in December, will need to provide a package of support for SMEs built around:

1. Ensuring the right sort of affordable workspace is available for start-ups and for SMEs looking to expand
2. Maximising the number of SMEs to stay in the capital, which stimulates a competitive environment, uniquely characteristic of London



3. Incorporating the voice of micro and small businesses into economic and planning policy
4. Further developing the Growth Hub to provide SMEs with more structured and targeted support, including access to quality, well signposted information, established support and mentoring networks, and simpler access to financing.

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### The challenges facing SMEs in London

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New SME businesses are drawn to the capital because London offers strong national and international connections, good transport links and the dynamic ecosystem of a competitive business environment. Nearly 20 per cent of active businesses in London are new businesses. This is the highest business birth rate of all regions, and is some four percentage points ahead of East Midlands, the next highest region (14 per cent).<sup>5</sup>

However, London also has the highest rate (10 per cent) of all regions for business failures.<sup>6</sup> The low survival rates are partly a product of the competitive environment London generates, with more businesses in

the same space competing for success. But they are also symptomatic of the raft of other challenges they face, such as high rent and business rates costs, and the lack of availability of affordable business accommodation.

In short, the capital experiences high levels of churn, as new businesses establish themselves, thrive and expand, and in the process sometimes choose to migrate out of the capital. This dynamic environment, while challenging, can be viewed as indicative of the healthy innovation and entrepreneurial spirit for which London is renowned.

The Mayor's draft Economic Development Strategy (EDS) must include commitments to support this vital part of the London economy. In this report, we highlight four key areas we wish to see addressed in the draft EDS.

### Proposals to maximise affordable workspace

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The pressure on affordable workspace supply in London is increasing. Sixteen per cent of industrial land was lost over the period 2001-2015.<sup>7</sup> If this trend continues, industrial land stock in London could fall by 33 per cent by 2041.<sup>8</sup> The relaxation of planning rules has also contributed to the decline, especially of traditional office space and particularly in outer London, where almost one fifth of workspace could be lost to residential dwellings.<sup>9</sup>

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Overall, demand for more traditional industrial sites is being replaced by a need for different types of space. Although demand for general and light industrial land is projected to decline by 167 hectares between 2016 and 2041, alongside declines in waste and utilities demand, demand for warehouse space is projected to increase by 280 hectares over the same period. In addition, many boroughs have very low industrial land vacancy rates, including Ealing and Brent.<sup>10</sup>

The London Plan therefore states that “whilst availability of workspaces that are both suitable and affordable is a key concern for SMEs, in overall terms there is currently sufficient market provision, though there will be particular locations with significant constraints that need addressing, and it will be important to ensure that there continues to be sufficient capacity into the future.”<sup>11</sup> On the committee’s visit to Pullens Yards in Southwark we learnt about the need for industrial “making” space in inner London as well as space for businesses run from laptops. Currently, the Yards house a wide range of businesses including fine artists and sculptors, web designers, furniture makers and restorers, writers and publishers, graphic artists and architects.

The loss of workspace in London in some areas is exacerbated by permitted development rights (PDR) which make it easier for developers to convert offices to residential use. Relaxation of the rules for PDR from May 2013 were made permanent in October 2015. Research by the GLA shows that prior approval to convert over 1.47 million square metres of office space to residential units has been given since 2013. In total, this space could have accommodated nearly 94,000 jobs.<sup>12</sup> Further pressure

on industrial land is likely to come from the extension of PDR that will allow a change of use from light industrial to residential without planning permission. These rights will be for a temporary period of three years, starting from 1 October 2017.<sup>13</sup> As the GLA notes, “the new PDR legislation could potentially worsen the supply shortfall in certain areas, when the tightening supply of light industrial units in London is already forcing businesses to move outside of the city.”<sup>14</sup>

Competition for remaining workspace has therefore intensified. This adds to already considerable challenges faced by SMEs. Higher rents and rates and significant increases in lease costs, can push workspace affordability beyond the grasp of most micro and small businesses.

**“The challenge we have in terms of space and things like rates and rents is that if I determined tomorrow that I wanted to grow the company and go back to the bums-on-seats model, I functionally could not afford it because the rates would cripple me. I am forced into a halfway house of operating out of workspaces until I get to scale where I can then move into a space, but I will possibly have to reduce the number of people I am working with. It is a bit of a cycle and we are not seeing the growth that we need because of that stuck middle place.”**

*Natalie Campbell, Chief Executive, A Very Good Company*

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Affordability, particularly in central London, is therefore increasingly a key concern for SMEs.

Meanwhile, the market for flexible workspace in London has grown in recent years. Flexible or co-working models can help combat the high cost of workspace, particularly for start-ups and micro businesses. They allow for shared space and resources offered to firms on a flexible basis. We heard how models such as those adopted by Wimbletech Community Interest Company in Merton are helping to alleviate the high premises overheads, including rent, lease and business rates costs, these businesses would struggle to meet by themselves.<sup>15</sup>

David Fletcher, Chief Executive, Wimbletech Community Interest Company shared his experience of how by working with organisations such as local authorities they could make smarter use of existing under-used spaces in, for example, libraries. He said, “Within two to three weeks, we had opened the space. We had a whole manner of different people [in there]. What is beautiful is we have someone in there who is a nanny agent ...[so] anybody who is in there doing other stuff might have kids [and they can use those services]. You get this beautiful ecosystem and you get that curation of a network in that immediate space.”

We also heard how businesses need workspaces that are well-connected. Aside from the need for workspace that is of the right size to suit the business need, it must be easy to reach, and close to other infrastructure such as childcare providers. According to the Department for Business, Innovation and Skills (now the Department for Business,

Energy & Industrial Strategy), in 2014, 20 per cent of single-person businesses were owned and run by women.<sup>16</sup> A further 18 per cent of UK smaller firms that are employers were majority-led by women.<sup>17</sup>

Businesses will also need the option of larger workspace as they grow. Businesses looking to expand their operations need affordable space that they can grow into, whether it be to expand the workforce, store increased stock or increase production. Recent research by the GLA shows a limited supply of these accelerator-type spaces.<sup>18</sup>

As the Mayor looks to develop the evidence base for the new London Plan, further research is needed to determine the extent of the demand for workspace in outer London boroughs. GLA research shows that availability of workspace in outer London, particularly for start-ups and for businesses looking to grow, is considerably less than in inner London. The extent to which it is, or should be, a concern needs to be clarified. According to the GLA research, this will depend on whether there is latent demand from small businesses not being realised, which can be difficult to prove until the space has been built.<sup>19</sup> The Mayor commits in the London Plan to promoting “a rigorous, evidence based approach to reconcile demand and supply of industrial land”<sup>20</sup>, but there is a lack of clarity as to what that means in practice.

Better alignment of local planning policy and local business early on to minimise the displacement of businesses following new or re-development is key to ensure we keep our SMEs embedded in local communities. An example of where this could have worked better can be seen in the new Hackney Wick mixed use development. The work

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spaces remain mostly unused by the local artist population, for whom they were intended, because of their high costs. We also heard that workspaces designed as part of the redevelopment in Elephant and Castle seemed more suited to occupancy by large corporations, with units being predominantly geared to retail, rather than to the existing SME population largely featuring micro and small businesses with very specific needs.

### Recommendation

The Mayor's forthcoming Economic Development Strategy should set out a range of options to support the needs of SMEs. Further research will be needed to determine:

- a) The viability for replicating the flexible workspace model across London as a means of using available space more smartly, and reducing business overheads, for micro and start-up businesses, in particular.
- b) The extent of the demand for workspace in outer London boroughs.

This research could usefully be led by the Mayor, through the London Economic Action Partnership.

## A better understanding of why some SMEs leave London

In recent years, the number of businesses leaving London has increased year on year.<sup>21</sup> Currently, more businesses leave than come into the capital. There is a positive perspective to be drawn from this trend of outward migration, in recognising that London acts as a base for entrepreneurial innovation and competition. Ben Johnson, senior adviser to the Mayor, argued that "London does to an extent act as a national incubator for businesses. It is far more likely that a business is started up in London and then migrates elsewhere..." As some businesses grow and require more space they may look to invest in, and contribute to, local economies elsewhere in the UK, and internationally.

Part of the reason is likely to be the very high costs SMEs face to operate in London. According to the Institute for Public Policy Research (IPPR), rents for new, prime-located grade A office space<sup>22</sup> have risen by up to 70 per cent in the West End, and 35 per cent in the City of London, since mid-2009. Business owners now face costs of £70 per square foot in Soho and £50 per square foot per annum in the Silicon Roundabout area, before business rates and service charges: these figures are higher for businesses looking for short leases or smaller spaces.<sup>23</sup> IPPR say: "Increasing rents make the conventional office market unviable for small and growing businesses, as well as for charities and artists, but also present a viability challenge for providers of open workspace – leading



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to reductions in the services they can provide, or in some cases, closure.”<sup>24</sup>

The steep rise in business rates is a further pressure on the viability of SME businesses. Businesses across London face increases averaging 20 per cent, and at their highest, 45 per cent.<sup>25</sup> Recent survey findings indicate that almost one fifth of businesses (18 per cent) will have to consider relocating further away from London within the next five years, and just over a quarter (27 per cent) will look to shut their business over the same period.<sup>26</sup>

Local authorities have a role to play in reducing some of the burden of high costs SMEs can face. Offering an incentive on business rates as part of a good practice charter is one approach. In Croydon, SMEs that have signed up to the Council’s Good Employer Scheme can benefit from a one off discretionary grant to reduce their business rates bill.<sup>27</sup>

Lack of access to working capital is the biggest barrier to SME well-being. According to the London Business Survey 2014, one in five SMEs were unsuccessful in their attempts to access finance, and one in three was only partially successful.<sup>28</sup>

The increasing trend for outward migration creates some cause for concern. It can potentially lead to a loss of jobs, the loss of skills and knowledge built up over several years, and have a negative knock-on effect to supply chains. Existing research provides some insight on the size and types of businesses leaving the capital and their end

destination. But there is little analysis around whether it is by choice, and what is driving that choice.

Research is needed to understand which types of business are leaving London and why, and the impact on local communities as the business moves on. Such research would help identify how London can better meet the needs of SME businesses and support them to make the right choice for their development (not necessarily about growth but about sustainability). This research could usefully be led by the Mayor, through the London Economic Action Partnership, with analysis of the findings feeding into the development of a standard framework of support for SMEs.

### Recommendation

The Committee recommends that the Mayor commission research to:

- a) better understand which types of business are leaving London and assess the impact on the local communities where businesses have moved on; and
- b) identify how London can better meet the needs of businesses and support them to make the right choice for their development.

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### Incorporating the voices of micro and small businesses into economic and planning policy

Smaller businesses and the contribution they bring to communities are undervalued. The committee heard that the SME sector, particularly micro and small businesses, can find themselves the subjects of local regeneration and development, but may be locked out of the conversations that lead to fruition of the plans. Some can feel that they are often consulted at the end stages of the planning process when little or no influence can be achieved.

**“More needs to be done on these advisory boards to understand these micro economies and perhaps invite more representation into GLA governance.”**

*Dr Patria Roman, Chair Latin Elephant*

The Mayor must embed the key principle of opportunity and economic fairness for all, as set out in his vision document [‘A City for all Londoners’](#). The diverse mix of businesses both in type and size is particularly characteristic of the London economy. The SME sector covers a broad spectrum of businesses. The challenges and needs of so-called micro-businesses can differ considerably to those SME businesses that employ large numbers of people. This can mean that the voice of smaller business is lost in conversations to develop policy and practice.

The committee commends the appointment of Simon Pitkeathley as champion for SMEs, but considers the Mayor could go further and allow for specific representation of micro and smaller businesses on Mayoral advisory boards, such as the Business Advisory Board, to help ensure that their voices are better heard.

Local authorities may also need to reconsider how they engage and consult with micro businesses on planning and regeneration plans. The emphasis on large scale development to attract bigger business is understandable as a way of creating economic momentum in an area but we heard from some SMEs that local planning decisions that support larger developments and retail type businesses means that the types of commercial units on offer post-development are not suitable for SME uses.

There are examples of where some boroughs are actively using planning policy to support the creation of spaces to supports the arts and culture. For example, the London Borough of Wandsworth has introduced a provision in its Planning Obligations Supplementary Planning Document stating that any scheme providing over 100 dwellings has “to enhance the range of arts and cultural opportunities in the area by creating a robust Culture Action Plan”.<sup>29</sup>

#### Recommendation

The Mayor’s Economic Development Strategy should bring together examples of innovative uses of planning policy by local authorities to create new workspaces for SME uses, to encourage the sharing of best practice.

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### Better targeted support so SMEs can thrive in the London economy

While a wealth of business information advice exists, SMEs struggle to access it. The London Growth Hub, managed by the London Economic Action Partnership (LEAP) and launched in November 2016, aims to provide business information and support through a single digital platform. It currently details information on over 400 support schemes, and upcoming support events across London. However, the committee heard that volume is not the issue; there is lack of awareness of what information and support is available, where, and how to access it. SMEs need uncomplicated, user-friendly, instant access to support and advice.

**“You have lots of ‘wantrepreneurs’ and not many real, well-informed entrepreneurs. There is lots to be done in terms of centralised allocation and dissemination of information about the value of good business modelling. That is why good entrepreneurs can start up, stay up and grow up.”**

*David Fletcher, Chief Executive, Wimbletech*

Existing support for SMEs could be better signposted. This deficiency is recognised at national level and the need for better signposting was highlighted in the Government’s draft industrial strategy, published in

January 2017. The Growth Hub goes some way to addressing the issue for London SMEs. The Hub caters for businesses at varying stages of their development, from start-up through to established medium-sized businesses looking to grow their operations. The focus now needs to be on raising levels of awareness across SMEs.

Support through networks and mentoring programmes must be encouraged. Businesses benefit greatly from structured peer review and support, aside from the natural evolution of support that can occur as a business grows. There is scope for the LEAP to facilitate work to look at ways to link less-experienced businesses owners with more established and experienced business colleagues.

#### Recommendation

The London Growth Hub must remain a priority for the Deputy Mayor for Business. However greater clarity is needed as to how it relates to other support programmes supported by European funding, including London & Partners’ Business Growth Programme, which are at risk of duplicating the Growth Hub.



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### Recommendations

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#### Recommendation 1

The Mayor's forthcoming Economic Development Strategy should set out a range of options to support the needs of SMEs. Further research will be needed to determine:

- a) the viability for replicating the flexible workspace model across London as a means of using available space more smartly, and reducing business overheads, for micro and start-up businesses, in particular.
- b) the extent of the demand for workspace in outer London boroughs.

This research could usefully be led by the Mayor, through the London Economic Action Partnership.

#### Recommendation 2

The Committee recommends that the Mayor commission research to:

- a) better understand which types of business are leaving London and why and assess the impact on the local communities where businesses have moved on
- b) identify how London can better meet the needs of businesses and support them to make the right choice for their development

#### Recommendation 3

The Mayor's Economic Development Strategy should bring together examples of innovative uses of planning policy by local authorities to create new workspaces for SME uses, to encourage the sharing of best practice.

#### Recommendation 4

The London Growth Hub must remain a priority for the Deputy Mayor for Business. However greater clarity is needed as to how it relates to other support programmes supported by European funding, including London & Partners' Business Growth Programme, which are at risk of duplicating the Growth Hub.

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### About the Economy Committee



During the 2016/17 Assembly year when the investigation was carried out, the membership of the Committee was: Fiona Twycross AM (Chair), Kemi Badenoch AM (Deputy Chairman), Shaun Bailey AM, Andrew Dismore AM, Joanne McCartney AM, and Caroline Russell AM

The Economy Committee scrutinises the work of the Mayor and investigates issues of interest to the public relating to economic and social development, wealth creation, the arts, sports and tourism in London.

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For further information about the work of the Economy Committee, and to see our current investigations, visit [our website](#).

### About the London Assembly

The London Assembly holds the Mayor and Mayoral advisers to account by publicly examining policies and programmes through committee meetings, plenary sessions, site visits and investigations.

As well as examining the Mayor's actions and decisions, Assembly Members act as champions for Londoners by investigating issues that are important to the capital.

Assembly investigations are carried out by cross-party committees which cover vital areas like transport, policing, housing and planning, the economy, health and the environment. The Assembly can press for changes to national, Mayoral or local policy.

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### References

<sup>1</sup> [Business Population Estimates 2016 \(BIS 2016\)](#)

<sup>2</sup> [Business Population Estimates 2016 \(BIS 2016\)](#) regional time series - based on data to 2016. The number of SMEs has grown from 717,300 in 2010. UK level data show that employment across the sector has dipped slightly from 84.7% to 82.7%.

<sup>3</sup> [Business Population Estimates 2016 \(BIS 2016\)](#)

<sup>4</sup> [Business Population Estimates 2016 \(BIS 2016\)](#)

<sup>5</sup> [ONS Business demography, UK: 2015](#)

<sup>6</sup> [ONS Business demography, UK: 2015](#) New business registrations are referred to as business births and the birth rate is calculated using the number of births as a proportion of the active businesses. An active business is defined as a business with either turnover or employment at any time during the reference period.

<sup>7</sup> [Economic Evidence Base for London, Greater London Authority, November 2016](#)

<sup>8</sup> Industrial Land and Economy Study, as referenced, in the GLA Economic Evidence Base 2016.

<sup>9</sup> London Development Database, includes data provided by London boroughs to June 2016

<sup>10</sup> London Industrial Land Demand Study, GLA, June 2017, page 214

<sup>11</sup> London Plan paragraph 4.8

<sup>12</sup> Mayor's press release, 3 June 2016

<sup>13</sup> Town and Country Planning (General Permitted Development) (England) (Amendment) Order 2016

<sup>14</sup> London Industrial Land Demand Study, GLA, June 2017, page 70

<sup>15</sup> Wembletech transform under-utilised public spaces into affordable accessible co-working hubs for entrepreneurs, startups and small businesses.

<sup>16</sup> Department for Business, Innovation and Skills, Small Business Survey – Businesses with no employees, March 2015

<sup>17</sup> Department for Business, Innovation and Skills, Small Business Survey – SME employers, March 2015. 'Majority-led' is defined as controlled by a single woman or having a management team comprised of a majority of women.

<sup>18</sup> [Economic Evidence Base for London, Greater London Authority, November 2016](#)

<sup>19</sup> [Economic Evidence Base for London, Greater London Authority, November 2016](#)

<sup>20</sup> [Policy 4.4, Managing industrial land and premises, paragraph 4.19](#)

<sup>21</sup> The Changing Spatial nature of Business and Employment in London, Greater London Authority, February 2016

<sup>22</sup> A Grade A building as defined by the Building Owners and Managers Association has, 'high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence'.

<sup>23</sup> [Start me up: The value of workspaces for small business, entrepreneurs and artists in London](#), IPPR, December 2016

<sup>24</sup> Ibid

<sup>25</sup> [Analysis](#) by Federation of Small Businesses, February 2017

<sup>26</sup> Federation of Small Businesses, February 2017

<sup>27</sup> London Borough of Croydon, [Good Employer Scheme](#).

<sup>28</sup> The Economy Committee is undertaking a dedicated piece of work looking at the role of alternative financial models, such as community banking, in unlocking SME access to finance and financial support, with a report expected in January 2018.

<sup>29</sup> C.f. The Regeneration Committee's report "Creative Tensions", March 2017