Rising to the Challenge

The Mayor's Economic Development Strategy

for Greater London

Response by the London Policy Unit of the Federation of Small Businesses

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Contact:
Nick Winch
London Policy Manager
Federation of Small Businesses
2 Catherine Place
London SW1E 6HF
Tel: 01635 230914
e: nick.winch@fsb.org.uk

INTRODUCTION AND CONTEXT

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Mayor's draft Economic Development Strategy *Rising to the Challenge.* In our response we are representing the views of our members who are drawn from the 700,000 small and micro-businesses in London, a sector which employs nearly two million people (over 40% of the business workforce) and which has, in recent years, created over two-thirds of all new jobs in London.

The FSB supports the proposal to integrate more closely the development of the Economic Development Strategy (EDS) with the London Plan and the Transport Strategy. We are grateful for the engagement we have had with the Mayor's office, the GLA and the LDA at an early stage in the creation of the EDS. We are, however, unconvinced that, seen in their totality, the draft EDS, Transport Strategy and London Plan create a blueprint for the economic development and growth which London needs in the years ahead.

Four key principles

In our response to the original draft in the summer of 2009, we stressed that it was important for the document to set down certain enduring principles relating to economic development which apply regardless of the economic cycle or the political situation.

A. A long-term strategy

We hope that in its final form the EDS will be a document set to shape policy beyond the current term of the Mayor – there being no merit in the adoption of a strategy which is subject to major revision every four years, particularly since many of the challenges outlined in the document need to be worked on for a matter of years rather than months. Furthermore, if the business community is to invest in the future, it needs to be sure that there is a consistency of policy direction over a long enough period to justify such investment.

B. The self-employed, the micro- and small businesses

We would emphasise the need for the EDS to address the specific needs of the self-employed and the micro-business sector. The specific needs of micro- and small businesses (MSBs) are given scant regard in the document, with reference always being made to small and medium enterprises (SMEs). As we pointed out in the previous consultation, this group includes businesses with a headcount of 250 or below.

The FSB would point out that the needs of a business employing in excess of 200 people are fundamentally different from one employing fewer than 10. For example, Tottenham Hotspur Football Club has a full-time staff of fewer than 250. Under no circumstances should they be regarded as an SME with needs and issues comparable to a printer employing three people or a ten-room hotel or a small accountancy firm.

The EDS needs to appreciate the true scale and extent of the small business sector and the realities it faces.

- There are in excess of 700,000 enterprises in London, of whom over 90% are the self-employed or micro-businesses employing fewer than 10 members of staff.[1]

- In recent years, over 66% of all newly-created jobs have emerged from self-employment or the micro-business sector.[2] With clear indications of a significant reduction in public expenditure in the short- to mid-term, the role of this sector in job creation will be even more significant.

- London has the highest rate of business failure of any region in the UK, and the high costs of operating a business in London are frequently cited as a key factor in that failure rate.[3]

- London also has, however, nearly twice the national average of people who say they anticipate starting a business in the next three years.[4]

- Recent surveys by the FSB indicate that a consistent 40% of business owners express the view that they would not now chose to open a business in London, with nearly a third saying that they have given consideration to relocating their business out of London in the past twelve months.[5]

It is therefore disappointing that the role and the needs of the self-employed, the micro- and the small business sector is so little addressed – particularly in the light of their historic role in job creation and in the part they will undoubtedly play in delivering growth in the future.

[1] ONS Annual Business Inquiry 2006; LABS 2006 and others
[2] Labour market statistics, first release April 2007
[3] Interdepartmental Business Register, ONS, and Enterprise Directorate, BERR
[4] Global Entrepreneurship Monitor UK 2008
[5] FSB members survey April 2009 and April 2008

C. The financial services sector

The EDS needs to recognise the varying sectors who contribute to the London economy. In particular, we would highlight the tendency of many Mayoral documents to refer to the Finance and Business Services sector when referring to the growth in employment been generated by it (eg A new plan for London, par. 35, Rising to the Challenge 2.3 and elsewhere).

We believe it is important to differentiate between these two sectors – and for two key reasons. The first is that any increase in employment in the financial services sector has been at best modest compared with the business services sector – indeed since "big bang" in 1986, there has been no appreciable increase in jobs in the financial services sector.

The second reason for differentiating between these sectors is that combining the financial and business services sectors contains an implicit assumption that these jobs are concentrated with the Central Activities Zone (CAZ) whereas the reality is that the business services sector is much more widely-spread throughout all parts of London.

While the financial services sector may have a role in positioning London as a global city, it is perhaps time that policy makers finally shed the notion that it is a sector likely to play a significant role in generating employment and which may even have a significantly reduced role in delivering growth. We therefore welcome the recognition of the limited role the financial services sector plays (para A.34) and the division of the financial services and business services sectors in Table 1. (It is a pity that more up to date figures have not been available to demonstrate the impact of the recession on the financial services and other sectors.)

D. Doing what is possible

At a UK level, decisions taken in Whitehall or Threadneedle Street have a major bearing on the health of London's businesses. So do decisions taken in company boardrooms in Frankfurt, Abu Dhabi or Shanghai. So do decisions taken in Brussels or on Wall Street or Pennsylvania Avenue.

There are a range of decisions and economic factors which shape the future of London's economy and over which the city or its levels of Government have no control. What the EDS has to do is to establish a framework which enables London's businesses to achieve their maximum potential regardless of the decisions taken elsewhere.

And to achieve that, it has to ensure that every possible assistance is given to MSBs – not just because of the sheer number of them and their track record in creating wealth and job opportunities, but because London's larger businesses, who also have a key role in building a successful London, depend on a strong and vibrant small business sector.

Only by addressing the needs of the self-employed and the smallest businesses in London, only by helping them survive, prosper and grow can the city hope to create the new jobs required, provide opportunities for all Londoners and tackle the social and environmental challenges London faces.

AN ANALYSIS OF LONDON'S ECONOMY

The FSB agrees that London has an inherently strong economy. Nevertheless, we are concerned that, with this strategy being produced in the midst of a severe recession, the strategy is based on one model of future economic growth. We note that the Mayor "considered a number of alternative possible approaches to the London economy over the next 20 years" (para A.4) and that all three of the economic forecast models referred to in Figure 2 (page24) had a less optimistic approach for future employment levels than the GLA Economics forecast adopted in the strategy. We believe that different employment and growth forecasts should be considered. This is particularly important when seen against the likely backdrop of significant reductions in public expenditure and potential changes in both the size and the local of the public sector.

We note the interim report Core Cities – Enabling Sustainable Economic Growth[6] which shows how other cities are planning for a range of possible situations, and we believe London should do likewise. Indeed, we also note that even the "upper case" scenario in the Core Cities report anticipates lower levels of growth than those in the London EDS.

Both the EDS and the Mayor's London Plan suffer from not having any fall back or alternative positions. This means the process of keeping the EDS under review likely to result in far more substantial changes to the strategy than might have otherwise been necessary.

[6] Core Cities – Enabling Sustainable Economic Growth: The work Foundation 2009

The strategy refers (para A.24) to London having the highest business start-up rates of any region in the UK. It is, however, a matter of regret that little heed is paid to the fact that London also has the highest level of business failure or closure[7] and we will refer to this later in this submission.

Paragraphs A.40 to A.43 identify some economic threats and weaknesses and the FSB shares the concern identified. However, there are other severe threats and weaknesses which are not adequately addressed in the strategy. Among these are the reasons which, as referred to above, result in successive FSB surveys showing that 40% of respondents say that they would not now chose to start a business in London with30% having given serious consideration to relocating their businesses out of London in the previous twelve months[8]. We propose possible measures to address these issues later in this submission.

Chapter 1 – London: world capital of business

1.1 It is clearly important for London to retain its position as the world's leading city and the FSB is keen to work with the Mayor and others to promote London as a global destination. We share the aspiration in Objective 1 (page 31) for London to be "a city that excels as a world capital of business".

1.2 However in a global economy we face global challenges, and, as recent CBI surveys have shown, there has been a decline in the number of businesses who regard London as a very good business destination[9]. In addition, we cannot assume that the emerging economies of the BRIC nations or of the third world will automatically see London as the business destination of choice. We are concerned that the various Mayoral strategies do little in practical terms to address the fact that, while London still holds the top spot in the Global Financial Centres Index, and is currently rivalled only by New York (although the threat from the Far East cannot be ignored), it is only ranked 39th in the list of the world's most liveable cities[10] and we need to look at other cities to see what they are doing to make their cities desirable places in which to live.

[7] Regional Economic Performance Indicators: BIS May 2009
[8] FSB members' surveys April 2008 and April 2009
[9] CBI London Business Survey 2009
[10] Mercer Quality of Living Global ranking 2009

1.3 This question of seeking examples of good practice from elsewhere is a matter about which the FSB has challenged the GLA for many years and we still see little evidence of a positive desire to see what can be learned from other cities or countries.

Chapter 2 – Improving London's competitiveness

2.1 For the vast majority of the 700,000 businesses in London, this is the section of the document which determines whether the Economic Development Strategy is of real benefit in terms of creating an environment in which businesses can flourish and grow.

2.2 There is much which the FSB welcomes, but we are concerned that the sentiments in Proposal 2A seem to be limited to those businesses with a "capacity for innovation". FSB research shows that small businesses in London are more likely to introduce new products or approaches[11] and the development of new ideas and new industries is clearly important. However, to assume that only innovative industries should benefit for cross-sectoral collaboration, from engagements with academic institutions and from accessible funding is not conducive to the "extraordinarily diverse" nature of London's economy, a factor which the strategy says "will help [London's] recovery from recession" (para A.33)

2.3 In 2.3, the document states that "many good and potentially profitable *ideas* fail to get off the ground..." (our italics) and refers to public sector support schemes which should be accessible. This sentiment should be expanded beyond just the scheme to support innovative businesses to include all "good and potentially profitable businesses". Indeed, it is somewhat contradictory for the Mayor to have as one of his guiding economic principles the determination "not to try to pick winners" (para A.16) while at the same time specifying innovation as an area deserving of support.

2.4 However, we greatly welcome efforts to increase the collaboration between small businesses and the HE sector. We would wish to see the strategy amplify on this issue and, given the desire to judge the efficacy of public intervention in terms of the return on investment (ROI), we would like further information of the sort of ROI which the Mayor is likely to seek.

[11] FSB Annual Survey 2009, Q32a and 32b

2.5 We would further wish to see the Mayor express his commitment to a network of new incubation centres for small businesses – possibly closely linked to HE institutions – building on the lessons learnt from good existing ones, with priority given to growth small businesses which have a team in space and a growth business plan which have already secured finance. These incubation centres (there should be at least 10 of them in London) can act as a forum for collaborative working either though clusters of similar enterprises or through those which mutual dependency.

2.6 We also strongly welcome the emphasis (para 2.10) on the need to develop entrepreneurial capabilities. The FSB has long advocated that there is a pressing need for a comprehensive business information service, providing potential entrepreneurs with a "warts and all" image of the benefits and pitfalls of starting or running a business.

2.7 We would repeat the sentiments we expressed in the first consultation on the EDS in the summer:

It is tempting to regard start-ups as a way of addressing the problems caused by redundancy and the rise in unemployment as a result of the recession, and there would be merit is the resurrection of some form of Enterprise Allowance scheme. Nevertheless, any such move towards increase start-ups needs be see seen against a background of London having a) the highest levels of business failure of any region in the UK and b) the highest number of people anticipating starting up a business in the next three years. We would draw attention to the clear recommendation from the Assembly Economic Development Committee recommendation that "there is a need to ensure there is an adequate supply of high quality business advice services which focuses on both the downsides as well as the upsides of setting up a new business"[12].

2.8 It is crucial that there is a clear distinction drawn between business information and advice on the one hand and business support on the other. The former can be delivered relatively cheaply – probably internet-based – and in conjunction with other parts of the UK. The vast majority of such business queries, frequently from pre-start-ups or fledgling businesses and fielded by organisations such as Business Link or business advice agencies are of a general nature, with only a modest regional dimension.

[12] "Credit Crunched?" Support for business start-ups in London: GLA June 2009 par 2.11

2.9 We have, in the past, advocated an enhanced role in this process for the Business and Intellectual Property Centre at the British Library and we continue to believe that the Centre could deliver the comprehensive advice and information service which business owners have historically said they need. We note the concerns expressed in some quarters about any reduction in help to pre-start and start-up businesses, but the clear view of business owners in FSB-organised focus groups and workshops, is for the majority of the available financial resources to be directed toward businesses looking for growth.

2.10 An approach which ensured that pre-start ups and fledgling businesses were given the information and advice they needed would help reduce to London business failure rate referred to earlier in our submission. A common sentiment expressed by business owners is "I wish when I started my business I knew what I know now." We should aim to ensure that every potential entrepreneur and every business owner starting out is aware of what lies ahead and is given the information and advice to face the challenges of business ownership.

2.11 This approach to business support and advice which we have outlined would also free up resources for a more comprehensive and intensive system of business support for those businesses which are established and which seek help to grow and expand. On-going services like business mentoring and more advanced training for business owners and managers should be the key priority for the resources available to support business under Proposal 2B. Again, as the Strategy notes, there are examples of good practice in other countries which the GLA should examine. We referred in our submission to the July consultation of the merits of schemes such as the Service Core of Retired Executives[13] in the United States and similar approaches should be adopted in London.

2.12 It is, however, important to recognise that a more intensive system of business support should apply to business in all sectors. In the past, too much intervention has been directed toward "high-tech, high-growth" businesses. We would welcome a more pragmatic approach.

2.13 We welcome Proposal 2C and the plan to monitor those issues which affect London's competitiveness. We referred earlier in this submission to the survey showing a significant number of businesses stating that they would not now chose to create a business in London or that they had given serious consideration to relocating out of London. We undertook some

[13] See www.score.org for more information

follow-up work to identify the key reasons and the cost of premises and staff (together with the cost of business rates) were the key issues – bearing out the findings of the European Cities Monitor survey in Table 2.

2.14 It should be noted, of course, that the European Cities Monitor is a survey of some of Europe's largest companies. Sadly, with this proposal – as elsewhere in this Chapter – the strategy sees the issue of competitiveness in terms of London's relation with other major global cities, and not in terms of London in relation to other UK cities or in terms of business in London in relation to businesses in the rest of the UK.

2.15 There is an understandably fear of major companies relocating out of London to New York, Frankfurt or Abu Dhabi. Whether they do is largely due to matters over which the GLA has no direct control. Of potentially far greater long-term significance are the many smaller businesses who are looking at relocating out of London to other parts of the UK, in part because of cost issues but also because of quality of life issues. For many, broadband technology and transport links into London mean that moving out of London is a viable option. The difference between these smaller firms relocating and larger businesses moving abroad is that the former are taking action because of issues over London and the GLA have some direct control.

2.16 Some of these issues are addressed in our submission to the draft London Plan and the Mayor's Transport Strategy but we would highlight the following as being of particular concern to small businesses:

- Affordable commercial premises – there is a need to increase the provision of good quality, affordable and flexible accommodation, able to cater for the needs of a business as it grows
- Reduced transport costs – the Mayor needs to follow up on his recognition of the transport needs of business by providing small businesses with mitigation from the impact of road charging
- Greater access to public sector procurement – small business in London have far less success in penetrating local levels of public procurement than in any other part of the UK[14]

[14] FSB Annual Survey 2010 Q14a

2.17 Action on these issues would go a considerable way to helping make London's businesses more competitive when set alongside businesses from other regions of the UK.

Chapter 3 – Transforming to a low carbon economy

3.1 The FSB fully supports the Mayor's efforts to drive London's transition to a low carbon economy. Central to this will be the need to ensure that all businesses have access to information to help them play their part. There is a clear desire by the vast majority to adopt a "green agenda" but they need to be made aware of the possibilities which exist, the environmental benefits and well as the financial implications both positive and negative. The FSB's 2009 Annual Survey showed that businesses in London are more aware of the cost savings and commercial advantages which can be derived from greater environmental awareness.[15]

3.2 In turn, there is a need to provide advice and support to firms as they adapt and change. It must therefore be recognised that small businesses may need assistance of varying kinds to help them reduce their carbon footprints. For this reason, it will be important for the small business sector to be represented on the Low Carbon Taskforce.

3.3 The strategy identifies (para 3.15) the need to encourage and subsidise the introduction of energy efficiency measurers across London's non-domestic building stock. This is particularly important in those areas where older commercial premises need to be brought up to standard to provide the good quality commercial premises which are needed by the small business sector. It will be necessary to accept that a degree of public funding will be required to draw in private sector funds and that in tackling climate change as elsewhere, businesses, like people, will best respond to a degree of "carrot" rather than by the application of "stick".

3.4 It is important to recognise that most small businesses are tenants in commercial premises rather than owner-occupiers and so there is only so much that they can do to reduce the

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[15] FSB Annual Survey 2009, Q 30 and Q.31

carbon footprint of their premises. The EDS needs, therefore, to address ways of encouraging landlords to take action.

3.5 The FSB welcomes the Proposal 3C and the creation of Low Carbon Zones, but would seek assurances that the small business sector is adequately represented on them. We also note Proposal 3D and would seek to ensure that not only was there a suitably skilled workforce to help tackle climate change, but that London also had a good supply of enterprises ready to do so. For example, the London Plan refers to the benefits of green roofs, yet there are no more than a handful of companies in London able to undertake such work.

Chapter 4 – Extending opportunity to all Londoners

4.1 The FSB broadly welcomes the thrust of Chapter 4 and the proposals contained in it.

4.2 We particularly share the concern about the lack of a suitably skilled workforce and regret that the skills needs of small enterprises are still largely not being met. FSB surveys show that the problem small businesses have in recruiting staff and accessing a suitably skilled and trained workforce is greater in London than in any other UK region[16]. Furthermore, small businesses in London have stated that they would be more likely to invest any reduction in business taxation in increased training provision for their staff.

4.3 We believe this makes it all the more important that there is much better representation of the micro- and small business sector on the London Skills and Employment Board. At present, the Board is dominated by representatives from larger employers or specific sectors, leaving the vast majority of London's 700,000 enterprises unrepresented.

4.4 In addition, more needs to be done to help train the business owner or manager to enable him or her to bring their business forward, increasing the opportunities for it to expand and help tackle London's problems of worklessness. We welcome the Mayor's drive to encourage apprenticeships and would hope to see an expansion of the provision offered by the London Apprenticeship Company.

[16] FSB Annual Survey 2009 Q36 and Q38.

4.5 We are pleased to see a recognition (para 4.20) of the merits of part-time work as a suitable destination for many Londoners. As important is the fact that, as businesses come out of recession, many are seeking alternatives to the potential risk of taking on additional full-time staff, and the use of part-time or more flexible working patters can be of great assistance.

4.6 As mentioned elsewhere, we also welcome the desire to increase links between small businesses and London's higher education institutions, but there is no doubt that there is lack of awareness by both parties of the needs and potential offerings of the other. The FSB is keen to play a part in helping to bridge the gap between business and academia.

Chapter 5 – Investing in London's future

5.1 Key to delivering the objectives not only of the EDS but of all the other Mayoral strategies is a strong, independent and thriving business sector. With over 90% of London's businesses employing fewer than 50 people, we must ensure that investment in London helps that sector prosper and grow. This means the historic focus on investing in central London and the CAZ must be broadened to include all parts of London. In our response to the Mayor's Transport Strategy, we address the need for additional investment in transport projects in outer London, and the provision of suitable infrastructure in all parts of the city cannot be ignored.

5.2 The FSB fears, however, that the Strategy is in danger of becoming "all things to all men." For example, Proposal 5A refers to the untapped potential of outer London and seeks to remove barriers to outer London fulfilling its potential, stating that "more should be done to support the outer London economy" (para 5.13). At the same time, Proposal 5B talks about the need to "ensure that investment sustains and increases central London's ability to be competitive..."

5.3 At a time where a significant squeeze on the public purse is inevitable, the FSB believes that the Strategy needs to be more specific in identifying priorities. It may be possible only to finance certain objectives in the strategy and there needs to be a clearer indication of which the Mayor sees as most important. Our view is that the focus should be on assisting those businesses who are most likely to create new jobs and opportunities. On past form, that has been the micro- and small business sector and they, together with the self-employed, should be the keep targets for assistance under the Economic Development Strategy