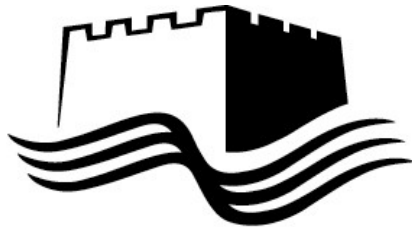


Appendix A

Report of the Scrutiny Review Working Group on Empowering Small and Medium-sized Enterprises



TOWER HAMLETS

**London Borough of Tower Hamlets
May 2011**

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Acknowledgments

The working group would like to thank all the officers and participants that embraced this review. The views and perspectives of all that were involved have been fundamental in shaping the final recommendations of this report.

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Chair's Foreword

Cllr Rachael Saunders
Scrutiny Lead, Prosperous Community

Recommendations

The working group recommendations set out the areas requiring consideration and action by the Council and the Tower Hamlets Partnership to empower Small and Medium-sized Enterprises. The recommendations cover three main areas:

1 Understanding SMEs

Recommendation 1 – That the Employment and Enterprise Team of the Council use the Local Economic Assessment and other sources of information to collate and publish a clear picture of the small and medium-sized business sector in Tower Hamlets, its interdependences with big business and other sectors, and its diversity. This should form part of the Enterprise Strategy.

Recommendation 2 – That the Employment and Enterprise Team consider the rate of business death, its impact, and how to encourage support and advice services that can support businesses to continue in the current difficult economic climate.

2 Link between large enterprises and SMEs

Recommendation 3 – That the Employment and Enterprise Team consider how we can broker relationships that benefit SMEs, taking advantage of Canary Wharf and our proximity to the city. The Council should negotiate on areas including supply chain, professional advice, provision of business mentors and access to lending for local businesses. The banks, professional services firms and others based in east London will benefit themselves if they contribute further to the building of strong local communities.

3 Roles of the Council and partners

Recommendation 4 – That the Citizen Engagement Strategy clearly identify the business community as a key stakeholder in the, and effectively engage and consult businesses, especially when a change of a policy and/or programme is introduced.

Recommendation 5 – That the Employment and Enterprise Team facilitate setting up a business forum in Tower Hamlets, to discuss borough-wide business issues, including business space, co-ordinating business support, feedback on planning and licensing, change of Council and partners' policies and programmes, such as planned road works and waste management, or regeneration proposals.

Recommendation 6 – That the Employment and Enterprise Team review and identify areas of business information support including:

- Ensuring information is widely available through the Council website and other media;
- Coordinating business advice services in the borough and ensuring that it is adequately signposted, and;

- Establishing a business advice section at all IDEA Stores to support businesses in the borough.

Recommendation 7 – That the Employment and Enterprise Team work in partnership with the Parking Services to review how parking restrictions affect local businesses, especially in Town Centres to support the borough’s economic development, especially in areas where local businesses benefit from trade that comes from outside the borough.

Recommendation 8 – That the Planning and Building Control Service of the Council closely work with developers at all stages of development, including the pre-application stage, for the effective use of space and review vacant premises in housing developments and develop planning guidance to encourage the development of spaces that can be used by light industry or other local businesses, and secure appropriate space for SMEs from new development.

Recommendation 9 – That the Mayor continue to lobby the central government and work with private companies to further develop the borough’s infrastructure, including superfast broadband and transport.

Recommendation 10 – That the Asset Management Team review its letting policy and consider letting Council properties, including currently unused ones, to small businesses on a short-term basis.

Recommendation 11 – That the Planning and Building Control Service, through the Local Development Framework Core Strategy, explore possibilities of establishing micro-scale business parks in the borough.

Recommendation 12 – That the Procurement and Corporate Programmes Service investigate how we better utilise R2P to develop our understanding of SMEs in the borough to fully implement the objectives in the corporate procurement strategy.

Introduction

1. The Department for Business Innovation and Skills (BIS) defines small enterprises as those with 0 to 49 employees, medium as 50 to 249 employees and large as 250 or more employees.¹ Employees may work full or part-time; each counts as one employee. SMEs are vital to the UK economy, in particular, for jobs and economic growth. A dynamic and growing SME sector is likely to contribute significantly to future growth and productivity. For example, new businesses enter the market and displace less efficient established businesses. SMEs also introduce innovative products and business processes.² In 2009, Small and Medium-sized Enterprises together accounted for 99.9 per cent of all enterprises in the UK, 59.8 per cent of private sector employment and 49.0 per cent of private sector turnover.³ However, due to the recent Comprehensive Spending Review, the environment for SMEs is set to become tougher. Many local government services and facilities to help small businesses and the self-employed will no longer exist or significantly decrease.⁴ The challenge the Council faces is to continue to help create jobs in the borough and to maintain a vibrant economy.
2. The Enterprise Strategy, which is currently being developed,⁵ aims to promote enterprise and entrepreneurship in Tower Hamlets to provide opportunity and social mobility. The strategy will use the findings of the Local Economic Assessment (LEA), completed in November 2010. The LEA is a thorough place-based assessment of the comparative economic strengths and weaknesses of a local authority's area. It is expected to ensure that there is a clear understanding of the conditions required for businesses to flourish in the borough and for people to take advantage of economic opportunities. The previous government believed that local authorities had a role to play in generating the potential for business growth and placed the duty of completion of an LEA through the Local Democracy, Economic Development and Construction Act 2009 (Article 69).
3. This scrutiny review aimed to consider the issue of empowering SMEs in the context of the Council's Enterprise Strategy and identify what support local SMEs receive and make recommendations to help them flourish further in the borough.
4. The review had the following objectives:
 - Develop understanding of the Enterprise Strategy and the findings of the Local Economic Assessment;

¹ 'Small and Medium-Sized Enterprise (SME) statistics for the UK and Regions, 2009, Methodology Note, Department for Business Innovation and Skills, 13 October 2010.

² *The Provision of Growth capital to UK Small and Medium Sized Enterprises*, The Stationary Office, 23 November 2009, p. 3 and 7.

³ 'Statistical press release', BIS, 13 October 2010, p. 1.

⁴ 'London's Councils and their relationship with small businesses: London Borough of Tower Hamlets: A report for the Greater London Region of the Federation of Small Businesses by the FSB's London Policy Unit', Federation of Small Businesses, December 2010.

⁵ The working group heard that the strategy would be ready for consultation in May-June 2011.

- Develop understanding of the borough's SMEs and their needs to further flourish;
 - Consider the barriers to SMEs flourishing in the borough and to find solutions;
 - Examine the role of the Council and its partners in supporting SMEs;
 - Consider how empowering SMEs can help deliver One Tower Hamlets;
 - Make recommendations on how stakeholders can help empower SMEs in the borough.
5. This report details findings from the review and lists recommendations agreed by the working group. The recommendations cover four main areas: Understanding SMEs; Link between large enterprises and SMEs; engaging businesses, and; role of the Council.

Timeframe

6. The group agreed the following timeframe for the review:

Introductory meeting (26 January 2011)

- Presentations and discussions on the Tower Hamlets Local Economic Assessment, Tower Hamlets Enterprise Strategy and Council and its partners' support to SMEs.

Public Meeting on supporting SMEs (16 February 2011)

- Discussions on SMEs' needs and barriers, and roles of the Council and the partners.

Review meeting (22 February 2011)

- Presentations and discussions on supporting SMEs through planning, and developing business accommodation for SMEs.
- Discussion on large enterprises and SMEs.

Final review meeting (15 March 2011)

- 'Procurement support for SMEs'.
- Discussion including findings from previous meetings and draft recommendations.

Background

National context

7. SMEs play a significant role in the UK economy and employment. In 2009, SMEs accounted for 99.9 per cent of all enterprises in the UK, 59.8 per cent of private sector employment and 49.0 per cent of private sector turnover.⁶ The table below shows the number and share of enterprises, employment and turnover by number of employees in the UK private sector in 2009.

		Enterprises	%	Employment (/1,000)	%	Turnover (/ £ million)	%
All enterprises		4,834,045	100	22,819	100	3,240,329	100
SMEs (0-249 employees)		4,828,160	99.9	13,639	59.7	1,588,581	49.0
With no employees	Small	3,613,975	99.3	3,942	48.2	239,559	35.7
1-9		1,019,605		3,813		444,953	
10-49		167,670		3,251		472,272	
50-249	Medium	26,910	0.6	2,633	11.5	431,797	13.3
250 or more	Large	5,885	0.1	9,179	40.2	1,651,748	51.0

Budget 2011 and 'The Plan for Growth'

8. The 2011 budget, presented by the Chancellor George Osborne on 23 March 2011, set out the Government's initiatives for economic growth. Their economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. Through the budget, they aim to rebalance the economy from unsustainable public spending towards exports and investment. They believe that the budget will support the UK's long-term economic potential and help to create new jobs.⁷

⁶ 'Statistical press release', BIS, 13 October 2010, p. 1.

⁷ <http://www.hm-treasury.gov.uk/2011budget.htm>

9. The Government published *The Plan for Growth*⁸ at Budget, which set out a package of measures to support private sector investment, enterprise and innovation. This document considers SMEs as vital to the economy and set out a range of measures that will support them (pp. 26-27). They include:

To minimise regulatory burdens on SMEs, the government will:

- Introduce a moratorium exempting micro and start-up businesses from new domestic regulation for three years from 1 April 2011;
- To help SMEs access the finance they need to grow and invest;
- The major UK banks have agreed to increase the finance available for SMEs by 15% in 2011, to £76 billion;
- The government is significantly reforming the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs), subject to state aid approval.

To reduce fixed costs for SMEs, the government will:

- Extend the current small business rate relief holiday for one year from 1 October 2011, which means that 330,000 SMEs will pay no rates for a year.

To make it easier for SMEs to access public sector procurement, the government will:

- Transparently monitor progress towards eliminating pre-qualification questionnaires for contracts below £100,000; and putting procurement opportunities on Contract Finder. The government will also monitor progress towards its aspiration of awarding 25% of government contracts to SMEs.

To make it easier for SMEs to get planning consent, the government is:

- Introducing measures to streamline the planning applications and related consents regimes, including a 12 month guarantee for the processing of all planning applications, including any appeals.

To make it easier for SMEs to start up and grow across the UK, the government will:

- Set up 21 new Enterprise Zones.

To address the specific barriers faced by SMEs in accessing apprenticeships, the government will:

- Support business consortia to set up and maintain advanced and higher apprenticeship schemes, supported by grants, creating a further 10,000 apprenticeships.

Access to finance

10. *The Plan for Growth* report outlines that many businesses are struggling to access the finance. The government found an equity gap for SMEs seeking equity finance⁹ in the range of £250,000 to £2 million. They found that the UK venture capital market significantly declined and private investors have tended to move away from SMEs and towards larger deals and more established

⁸ March 2011, http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

⁹ Equity finance is a way of raising share capital from external investors in return for handing over a share of the business. The two main providers of equity finance for private businesses are venture capitalists (also known as private equity firms) and business angels.

businesses.¹⁰ Receiving this, the government announced policies for SMEs with high growth potential seeking up to £2 million in equity finance. They are: 1) an extension of the Enterprise Capital Funds programme, which will provide up to £300 million in equity finance over the next four years, and; 2) a proposed Business Angel Co-investment Fund to unlock investment for high growth potential SMEs.¹¹

11. *The Provision of growth capital to UK small and medium sized enterprises*¹² identifies the following SME finance types:

- Bank Finance
- Grants and informal lending (from family and friends)
- Lending guarantee schemes
- Business Angels (government supported venture capital funds)

12. Bank finance is the primary form of external finance for SMEs. However, SMEs often find it inappropriate for their business and/or find it difficult to borrow money from banks. Bank loans are often usually secured against assets that can be sold to repay the lender. Therefore, for the SMEs whose assets are smaller than the finance they would like to receive, it is difficult to secure finance for their new businesses. Also, bank finance to SMEs can be relatively short term.¹³ In the current economic climate, banks' lending has decreased and loan interest rates have increased.¹⁴ These are some of the barriers to SMEs securing bank finance.

13. The Government's Enterprise Finance Guarantee, a lending guarantee scheme, helps SMEs that have no – or not enough – security to secure a commercial loan. The Guarantee provides SME lenders with a government guarantee for 75% of lenders' exposure on individual loans. It supports lending to businesses with an annual turnover of up to £25 million seeking loans of £1,000 through to £1 million and is available in most business sectors.¹⁵ The government announced that it would continue this scheme until 2014-2015, providing over £2 billion in total over the next four years.¹⁶

14. Business Angels are high net worth individuals who invest on their own, or as part of a syndicate, in high growth businesses. In addition to money, Business Angels often make their own skills, experience and contacts available to the company. They usually invest between £10,000 and £750,000 in an investment. Where larger amounts are invested in a business, this may be as part of an organised syndicate. The British Business Angels Association, supported by the Department for Business Innovation and Skills (BIS), is the trade association

¹⁰ *The Plan for Growth*, HM Treasury and Department for Business Innovative and Skills, March 2011, p. 21 and 63.

¹¹ *The Plan for Growth*, 2011, p. 66.

¹² The Stationary Office, 23 November 2009.

¹³ *The Provision of Growth capital to UK Small and Medium Sized Enterprises*, The Stationary Office, 23 November 2009, p. 8.

¹⁴ 'A huge opportunity for the British public to support small businesses', FT, 11 November 2010.

¹⁵ <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1081839421&type=RESOURCES>

¹⁶ <http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee>

dedicated to promoting, angel investing and supporting early stage investment in the UK. Angel investors represent the single largest source of early stage capital in the UK.¹⁷

Regional context

15. The Mayor of London has a duty to set out plans and policies for London on a wide range of issues, including economic development and regeneration. The following strategies – the London Plan and the Mayor’s Economic Development Strategy – have significant implications for SMEs.

The London Plan

16. The London Plan is the strategy plan setting out an integrated social, economic and environmental framework for the future development of London, looking forward 15-20 years.¹⁸ Individual London borough’s development plan documents must be in general conformity with it. The London Plan’s Policy 4.1 (Developing London’s economy) states, ‘The Mayor will work with partners to: promote and enable the continued development of a strong and increasingly diverse economy across all parts of London, ensuring the availability of sufficient and suitable workspaces in terms of type, size and cost, supporting infrastructure and suitable environments for both larger employers and small and medium sized enterprises.’

The Mayor’s Economic Development Strategy

17. One of objectives of the Mayor’s Economic Development Strategy is to ensure that London has the most competitive business environment in the world. To achieve this, the strategy writes, ‘The Mayor will encourage cost effective business support programmes for London’s businesses, and especially for SMEs and entrepreneurs’.¹⁹ The strategy recognises the SMEs’ significant contribution to the economy and mentions that the role of public sector business support is to address the barriers to the growth and success of London’s businesses, such as the ability to access loans and equity investments.

18. The Mayor believes that the role of public sector services is to complement existing support and advice arrangements, for example, from private sector companies and from other entrepreneurs through business, social and family networks. The Mayor’s Economic Development Strategy states that the public sector should only intervene where there is clear evidence that the market is not providing the most economically efficient solution.²⁰

Enterprise Zones

19. The 2011 budget announced the creation of 21 new Enterprise Zones in local enterprise partnerships across England with simplified planning rules, super-fast

¹⁷ <http://www.bbaa.org.uk/>

¹⁸ <http://www.london.gov.uk/thelondonplan/docs/londonplan08.pdf>

¹⁹ The Mayor’s Economic Development Strategy for London, May 2010, p. 33.

²⁰ Ibid.

broadband and tax breaks for businesses. In London, Royal Docks, 125 hectares of development land next to City Airport, has been given Enterprise zone status. Greater London Authority (GLA) expects that thousands of jobs will be created by this status. New businesses locating there during the term of the current Parliament will benefit from reduced rates for five years and the business rates collected from those newly established businesses in the zone will be retained by the London Enterprise Partnership for the next 25 years. The London Enterprise Partnership, created between the GLA and London boroughs and businesses in February 2011, will identify opportunities for business and economic growth, innovation, training and job creation. GLA states that 'This will create an ongoing economic development fund which can be re-invested in promoting economic growth elsewhere in the capital or set against borrowing for investment'.²¹

20. The implication of the Royal Docks Enterprise Zone, adjacent to the borough, is still unclear. Arising questions include: Will the Enterprise Zone contribute to the business growth in the borough? Will SMEs in the borough be inclined to move to the Zone? If they are willing to stay in the borough, why?

Mayoral Development Corporation

21. Localism Bill sets out proposals to provide powers for the Mayor of London to designate any area of land in Greater London as a mayoral development area and to create a Mayoral Development Corporation (MDC). An MDC's object is to secure the regeneration of its area (Clause 172, Localism Bill). The MDC can become the Local Planning Authority for the purposes of plan-making, development control and neighbourhood planning (Clause 173).²² The MDC may make arrangements for the discharge of its development control functions in whole or part, by the relevant councils (Clause 174). So, once an area becomes part of a mayoral development area, a Council that has the area within may lose its planning control power. The MDC would commence the majority of its function on 1 April 2012 and take over as local planning authority in October 2012.
22. The Mayor of London published plans that the Olympic Park Legacy Company (OPLC) will be reformed as a Mayoral Development Corporation (MDC) for consultation in February 2011. The MDC will incorporate the assets and responsibilities of the existing OPLC, as well as some of the work of other existing regeneration agencies in the area. The Mayor's proposals include a commitment that the MDC would work very closely with the four London boroughs covered by its proposed boundary, including Tower Hamlets.²³ A proposed boundary would include some part of the borough: Fish Island and

²¹ http://www.london.gov.uk/media/press_releases_mayoral/london%E2%80%99s-royal-docks-become-one-country%E2%80%99s-largest-enterprise-zones

²² GLA writes, 'The Bill proposed to give MDCs powers similar to those currently held by Urban Development Corporation relating to: infrastructure; regeneration, development and other land-related activities; acquisition of land, including by compulsory purchase; streets; the creation of businesses, subsidiaries and other companies; and offering financial assistance' at http://www.london.gov.uk/media/press_releases_mayoral/mayor-consults-development-corporation-drive-olympic-park-legacy.

²³ http://www.london.gov.uk/media/press_releases_mayoral/mayor-consults-development-corporation-drive-olympic-park-legacy

Bromley-by-Bow North (with a southern boundary at the District Line). The consultation ended on 28 April 2011.²⁴

Mayor of London's Community Infrastructure Levy (CIL)

23. The Community Infrastructure Levy, introduced under the Planning Act 2008, is a means by which Local Planning Authorities can secure top-up funding for local and sub-regional infrastructure such as roads, public transport, schools or health facilities. The Mayor of London published proposals for a new London wide Community Infrastructure Levy (CIL) on development in the capital. GLA intends to raise £300 million through CIL towards the delivery of Crossrail.²⁵ Following a consultation process, GLA's CIL will be introduced in spring 2012. CIL will be collected by the boroughs once development commences. In January 2011, the Mayor proposed three CIL charging zones: 1) Zone 1 boroughs - £50 per square metre; 2) Zone 2 boroughs (including Tower Hamlets) - £35 per square metre, and; 3) Zone 3 boroughs - £20 per square metre.²⁶

Local context

Businesses in Tower Hamlets

24. *Tower Hamlets Local Economic Assessment (LEA): Volume 2 – Economy and Enterprise* depicts the borough's economy in detail and highlights the contrast of very different scale of enterprises existing in the borough. It writes,

Effectively, two 'sub-economies' operate in Tower Hamlets. Canary Wharf and the City Fringe (together accounting for about 60% of total jobs) exhibit the specialist jobs and sectors expected of an advanced service sector economy at the centre of a global city. The rest of the Borough is considerably closer in terms of the types of jobs in East London more generally.²⁷

25. LEA identified issues around premises for SMEs, in particular, the quality of premises for small firms is low and there are only a small proportion of smaller workplaces for start-up firms. B1 units²⁸ under 100 m² form under 2% of supply and its demand is strong.

26. The majority of available SME office space under 100 m² appears to be located in the City Fringe followed by the Isle of Dogs with a lack of provision in more peripheral areas. There is demand for short term lets and more flexible workplaces by businesses in the City Fringe area in particular, but there is a restricted market for small office premises there and other parts of the borough. A 2006 Council study found a requirement for more business space aimed at the small business sector, particularly units under 100 m². The inadequate supply of

²⁴ Haringey Council is in discussions with the Mayor of London to explore establishing a MDC in the N17 area.

²⁵ This is part of funding agreement between the Mayor and ministers.

²⁶ The consultation ended in March 2011.

²⁷ Tower Hamlets Local Economic Assessment Volume 2: Economy and Enterprise, p. 22.

²⁸ Office use (not financial and professional services) as defined by Town and Country Planning Act 1990.

premises for SME firms may be forcing certain types of firms out of the borough.²⁹

27. The table below shows the numbers and percentage of units and employees in the borough.³⁰ It shows that at least 32% (units of 1-199 employees; SMEs have up to 249 employees) of the borough's workforce works for SMEs.

Size	data units		employees	
	Business units	Business units (%)	No. of employees	No. of employees (%)
1-10 employees	10,104	86	24,754	12
11-49 employees	1,186	10	26,574	13
50-199 employees	365	3	34,047	17
200 or more employees	80	1	24,207	12
500 or more	54	0 (Actual 0.5%)	93,908	46

Source: Annual Business Inquiry from 2008

Enterprise Strategy

28. The Borough's Enterprise Strategy aims to promote enterprise and entrepreneurship and to provide opportunity and social mobility. The Strategy will bring policies and initiatives together to continue the beneficial effects of the headline changes in the Tower Hamlets enterprise economy, and make them more relevant to borough residents:

- A continued convergence between the enterprise economy of Tower Hamlets and that of the rest of Central London, facilitating the development of those growth sectors (financial services and a wide range of business services) with which Tower Hamlets makes a characteristic contribution to the Central London business district;
- Such a development in growth sectors throughout Tower Hamlets, with particular reference to the borough's town centres, and;
- Effective support measures for local residents who wish to earn a living, in whole or in part, by means of entrepreneurial activity.

29. The aim of the Strategy will be achieved by the following strategic objectives:

1. A part of the Central London Economy: positioning Tower Hamlets as the borough to do business;
2. New business: supporting enterprise start-ups and growth;
3. Spreading the benefits of growth: developing a partnership with and between big businesses;
4. A changing economy: growing emerging sectors;
5. A pioneering borough: fostering an entrepreneurial and innovation culture;

²⁹ Tower Hamlets Local Economic Assessment Volume 2: Economy and Enterprise, p. 72.

³⁰ Information provided by Andy Scott, Employment and Enterprise Manager, LBTH on 6 May 2011

6. A 'place' for business: ensuring Tower Hamlets has the right spaces and places to support a diverse, thriving economy.
30. The draft Enterprise Strategy³¹ writes that the borough's cultural and creative, tourism, leisure and retail sectors have potential for significant growth.³² These sectors represent an opportunity to diversify the economy, making it more resilient and providing a greater variety of jobs at different skills levels, thus enhancing opportunities for residents.³³ It highlights the benefit of retail jobs to groups struggling to access the labour market, as '[r]etail jobs require a range of skills, but are often entry-level or suited to less skilled workers... [Retail jobs]' absence is of social and economic concern.³⁴ Under the first strategic objective, the draft strategy set a sub-objective 'Develop a sector-based approach which matches Tower Hamlets strengths to growth sectors and market opportunities'.³⁵

Local Development Framework (LDF)

31. The Local Development Framework (LDF) Core Strategy, agreed by Cabinet in September 2010, refers to SMEs. The Core Strategy is the spatial interpretation of the Community Plan and thus is one of its central delivery tools. It sets out how the borough will seek to manage physical change, including illustrating where and when growth and change will happen in the borough.³⁶ The Core Strategy (Spatial Policy: SP 06) writes, 'Encouraging and retaining the provision of units (of approximately 250sq m or less) suitable for small and medium enterprises.
32. The Core Strategy (SP01) redefines the town centre hierarchy. This hierarchy defines the uses of spaces. The town centre hierarchy is:
- a. Central and Activity Zone
 - b. Tower Hamlets Activity Area
 - c. Major Centre (Canary Wharf)
 - d. District Centre³⁷
 - e. Neighbourhood Centre³⁸
33. More detailed planning documents are now being developed as part of the LDF to deliver the Core Strategy. '*Sites and Place Making Development Plan Document*' will define town centre boundaries, local office locations and local industrial locations. Drawing town centre boundaries is significant, because what is in/out of the Town Centre affects the use of the spaces. 'Development

³¹ This draft for consultation was released on 21 April 2011.

³² 'Tower Hamlets Enterprise Strategy Draft for consultation', April 2011, p. 3.

³³ Ibid., p. 44.

³⁴ Ibid., p. 26.

³⁵ Ibid., 0. 62.

³⁶ 'LDF Core Strategy: Adoption of the plan' submitted to the Overview and Scrutiny Committee, 7 and 8 September 2010.

³⁷ New district centres are: Bromley-by-Bow and Brick Lane. District Centres contain a wide range of shops and services including doctor surgeries.

³⁸ New neighbourhood centres are: Mile End, Limehouse Station, Thomas More, Stepney Green, Devons Road, and Hackney Wick. Neighbourhood Centre contains a range of shops mainly for day-to-day use.

Management Development Plan Document' will provide detailed policies for the assessment of planning applications, including policies relating to the protection and provision of employment uses with specific regard to providing space for SMEs. 'Fish Island Area Action Plan' will manage the release of industrial land to create new employment opportunities. Fish Island, located in the south of the Olympic area, is a growth area. This plan will manage the area through ensuring support facilities in the area for increasing population and residents. The plan will include the creation of new space for creative and cultural industries; improving transport connections, and; the improvement of the quality of physical environment.³⁹

Community-led planning approaches under the Localism Bill

34. Localism Bill, published in December 2010, sets out a series of proposals with the potential to achieve a substantial shift in power away from central government and towards local people.⁴⁰ To enable local communities to influence development in their communities, the bill envisages 'reform to make the planning system more democratic and more effective'.
35. One of the bill's proposals is the introduction of 'neighbourhood planning'. The bill introduces a new right for communities to draw up a 'neighbourhood development plan'. Neighbourhood planning will allow people to come together through a local parish council or neighbourhood forum and say where they think new houses, businesses and shops should go, and what they think should look like. Local communities would also be able to grant full or outline planning permission in areas where they most want to see new homes and businesses, making it easier and quicker for development to go ahead. Provided a neighbourhood development plan is in line with national planning policy, with the Council's Local Development Framework Core Strategy, and with other legal requirements, local people will be able to vote on it in a referendum. If the plan is approved by a majority, the local authority will bring it into force.⁴¹
36. Local planning authorities will be required to provide technical advice and support as neighbourhoods draw up their plans,⁴² and the Council will need to prepare for this new task. Concern about the neighbourhood plan has been raised. For example, the bill lacks a coherent strategic planning system combined with the complexity of the neighbourhood planning system and business should be empowered to play a key role in neighbourhood planning.⁴³ It was also pointed out that the thinking of delivering power to parishes and neighbourhoods was colliding with proposals from the chancellor to promote growth through bypassing the planning system, for example, through the provision of low-tax enterprise zones.⁴⁴

³⁹ Fish Island and Bromley-by-Bow are included in the area of the proposed MDC.

⁴⁰ A plain English guide to the Localism Bill, Communities and Local Government, January 2011, p. 2.

⁴¹ CLG, 2011, *A plain English guide to the Localism Bill*, pp. 10-11.

⁴² *ibid.*, p. 11.

⁴³ House of Commons Library, 'Localism Bill: Committee Stage Report, Research paper 11/32, 12 April 2011, pp. 26-27.

⁴⁴ Guardian, 'Neighbourhood planning powers given and taken away', 6 April 2011.

The borough's Section 106 funding and Community Infrastructure Levy

37. The Council negotiates Section 106 (S106) packages from major developments to develop local environment and infrastructure.⁴⁵ S106 agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health, affordable housing, employment and training support. The agreement is based on what is necessary to ensure that the development proposal properly mitigates its impact. Matters agreed as part of a S106 must be:

- Relevant to planning
- Necessary to make the proposed development acceptable in planning terms
- Directly related to the proposed development
- Fairly and reasonably related in scale and kind to the proposed development
- Reasonable in all other respects.

38. Part of S106 funding will be replaced by the Community Infrastructure Levy (CIL) by 2014. CIL allows local authorities to ask developers to pay a levy (charge) when they build new houses, businesses or shops. The money can be used to fund a wide range of infrastructure, both maintaining infrastructure and building new infrastructure. CIL will give local authorities greater freedom in setting the rate that developers should pay in different areas. The Localism Bill will give the Government the power to require that some of the money raised goes directly to the neighbourhoods where development takes place.⁴⁶

39. CIL will be levied on most types of new development in a local authority area, so, broadening the range of developments being asked to contribute something towards local infrastructure.⁴⁷ Smaller businesses with ambitious expansions are more likely pay the levy where they do not currently. CIL is not area-restricted. The Government writes that it will ensure that resources can be used in the most effective way to support in the relevant area, which will increase flexibility to fund maintenance, operational activity and measures to promote or secure the efficient and effective use of infrastructure.⁴⁸

40. Infrastructure Delivery Plan (IDP) for the London Borough of Tower Hamlets is a key document to support and inform other decisions relating to capital investment, and how funding should be distributed from sources including CIL. IDP is a supporting document for the Core Strategy and part of the Local

⁴⁵ Section 106 (S106) of the Town and Country Planning ACT 1990 allows a local planning authority to enter into a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a Section 106 agreement.

⁴⁶ CLG, 2011, *A plain English guide to the Localism Bill*, pp. 11-12.

⁴⁷ CLG, 2011, *Localism Bill, Community Infrastructure Levy, Impact assessment*, p. 8.

⁴⁸ *Ibid.*, p. 11.

Development Framework, and covers the plan period from 2010 to 2026. IDP will be periodically reviewed and monitored.⁴⁹

41. Even after the introduction of CIL, S106 will be used for site specific mitigation measures that are required to make a development acceptable (such as a new access road) and for affordable housing provision. The Council will shortly be commencing work on establishing a CIL for the Borough. The Council is also preparing a Planning Obligations Supplementary Planning Document (SPD) which will confirm the Council's priorities for S106 agreements in the period up until the introduction of CIL.

Council's support to SMEs

Procurement

42. The Council has developed policies that help SMEs in the borough. The Corporate Procurement Strategy 2009-2011 writes 'Where possible, we will make contracting opportunities accessible to local small and medium-sized businesses, ethnic minority-owned business and the voluntary sector, and we will work with these organisations to help them to be fit to compete to do business with Tower Hamlets and other similar organisations'.⁵⁰
43. The Council works with the East London Business Place (ELBP), funded by London Development Agency, to find a supplier. The ELBP works with SMEs in 10 local east London Boroughs⁵¹ and buyers across all industry sectors to source and match local suppliers to the purchasing needs of buyers as part of regeneration efforts in the Thames Gateway.⁵²

Providing Information

44. The Council website provides useful information for businesses and includes a wide range of information and services such as business support and advice, business funding and online business rates payments.
45. The Council does not supply business loans or grants directly. The leaflet, *Business Matters: Growing Your Business in Tower Hamlets*, comprises the following bookmarked sections and includes services and information on business funding:
- Starting your business;
 - Growing your business;
 - Targeted advice for your business;
 - Protecting your business;
 - Networking / business interest groups.

Support to SMEs in the borough

⁴⁹ 'London Borough of Tower Hamlets Local Development Framework: Infrastructure Delivery Plan Final Report, September 2009', p. 6.

⁵⁰ 'Corporate Procurement Strategy 2009-2011', p. 2.

⁵¹ They are: Tower Hamlets, Hackney, Newham, Waltham Forest, Redbridge, Barking and Dagenham, Havering, Bexley, Greenwich and Lewisham.

⁵² www.clbp.co.uk

46. There are a wide range of organisations that provide support to SMEs in the borough.⁵³ The East London Small Business Centre (ELSBC), a not-for-profit support agency for small businesses, has helped all entrepreneurs in east London start-up and developed successful, sustainable businesses for over 30 years.⁵⁴ Every year, ELSBC strongly focuses on tackling worklessness within east London. It helps 300 new businesses to start up, invests in training for over 1,000 people including one-to-one advice about every step of business set-up and training courses. It also lends 2 million in funds to entrepreneurs to start-up or expand. The ELSBC's geographical focus is: Tower Hamlets, Newham, Havering, Redbridge, Barking and Dagenham and City of London.⁵⁵ One of the courses it runs is a four-day 'business planning course' for people who have been unemployed for at least a year. Its demand is high and success rates exceed its contractual target.⁵⁶
47. East London Business Alliance (ELBA) is a business-led regeneration agency comprising over 100 Canary Wharf and City member companies. ELBA acts as a channel for business skills and experience to contribute to the social regeneration of East London. ELBA facilitates companies in their community involvement programmes helping bring the time, skills and expertise of their employees to work with partners in the public, community and voluntary sectors in tackling key issues locally. ELBA works in partnership with key local stakeholders to bring the time, skills, influence and resources of the private sector to help build the capacity of local organisations and support East London's regeneration efforts.
48. Fair Finance offers a range of financial products and services designed to meet the needs of people who are financially excluded and ignored by the mainstream financial services industry. Fair Finance offers microcredit loans to help new or existing businesses that need finance for either working capital or expanding stock. They offer their services to all businesses in London boroughs. A business can borrow up to £10,000. Between 1 January 2005 and 1 November 2010, Fair Finance supplied 40 loans to businesses in Tower Hamlets, loaning a combined total of £164,700.

Support to Social Enterprises

49. Social enterprises are businesses driven by a social or environmental purpose. It is reported that almost all social enterprises (99.3%) are small to medium in size (fewer than 250 employees) in the UK.⁵⁷ The difference of social enterprises from conventional businesses is that social purpose is at the heart of all that they do, and the profits they make are reinvested towards achieving that purpose.⁵⁸

⁵³ *Business Matters: Growing your business in Tower Hamlets* (www.towerhamlets.gov.uk/businessmatters).

⁵⁴ *ELSBC Annual Review 2009*, p. 1.

⁵⁵ www.goeast.org

⁵⁶ 'Tower Hamlets Local Economic Assessment Volume 2: Economy and Enterprise, Fourth Draft', p. 84.

⁵⁷ *State of Social Enterprise Survey 2009*, Social Enterprise Coalition, p. 10.

⁵⁸ www.socialenterprise.org.uk.

50. A range of organisations offer support to social enterprises in the borough. The Bromley by Bow Centre, a community organisation in the borough established in 1984, has helped to expand social enterprise out into the community, backing local entrepreneurs to set up their own successful businesses through the Beyond the Barn programme. The Centre launches and incubates new social enterprises, and provides hands-on practical support to ensure their success in the early years of trading, including business planning, strategic, financial and marketing reviews, training and development, promotion and events, volunteering opportunities, pro-bono legal advice and small set-up grants. The programme has helped to launch 28 successful new social enterprises with a combined turnover of more than £3 million and created over 200 new jobs. 60% of the social enterprises are BME led and 20% are run by women.⁵⁹

51. Spitalfields Small Business Association (SsBA), which has tenants and properties in Brick Lane, Spelman Street, Deal Street, Princelet Street, and Hanbury Street, is one of the biggest landlords in Spitalfields. It is a community business which works to benefit the local area and help provide jobs. SsBA also provides free business advice and a wide range of activities that improve and strengthen the local economy.⁶⁰

Social Enterprise London (SEL) is a membership network with over 2,000 members. SEL provides various services to the members. They include:

- Commercial partnerships with the private sector;
- E-bulletin fortnightly, containing news, events, training, jobs and funding, contracting and tendering opportunities;
- Training programmes;
- Networking events.

52. With a 'full' membership (£50.00 + VAT per year), a member will receive a range of benefits including discounts to events, training programmes and conferences, and a two-hour session of one-to-one business advice.

⁵⁹ <http://www.bbbc.org.uk/pages/beyond-the-barn.html>

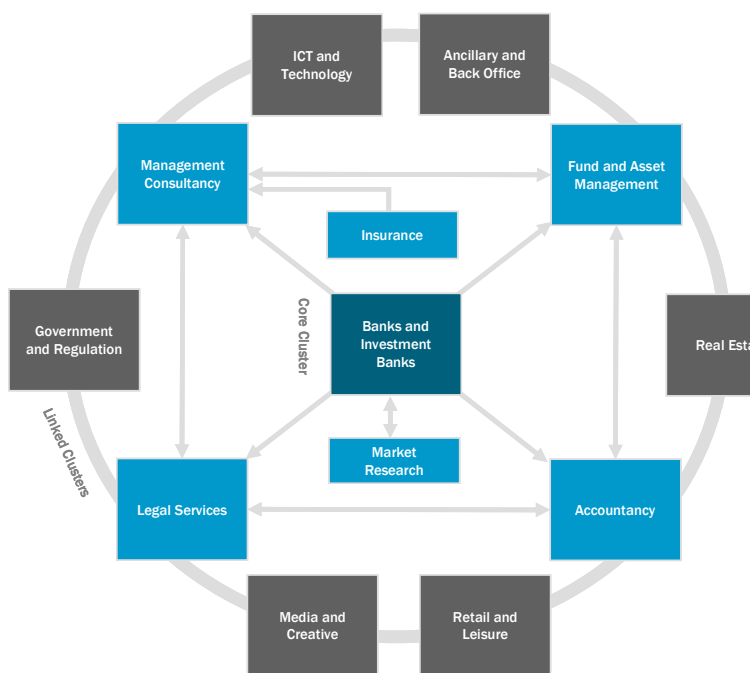
⁶⁰ http://www.ssba.info/About_Us/ssba.html

Key Findings

Understanding SMEs in the borough

53. The working group received a presentation on the context of the Tower Hamlets economy based on key findings from the Local Economic Assessment. The most striking feature of the borough's economy is its size (Tower Hamlets' GDP: \$9.7 billion – bigger than GDPs of Nicaragua, Lichtenstein, Monaco, Malta and Jersey) and a cluster of financial services, which is at the core of London's international financial and business service cluster. The concentration of financial services in the borough started taking place in the 1980s.

Figure 1: London's international financial and business services cluster



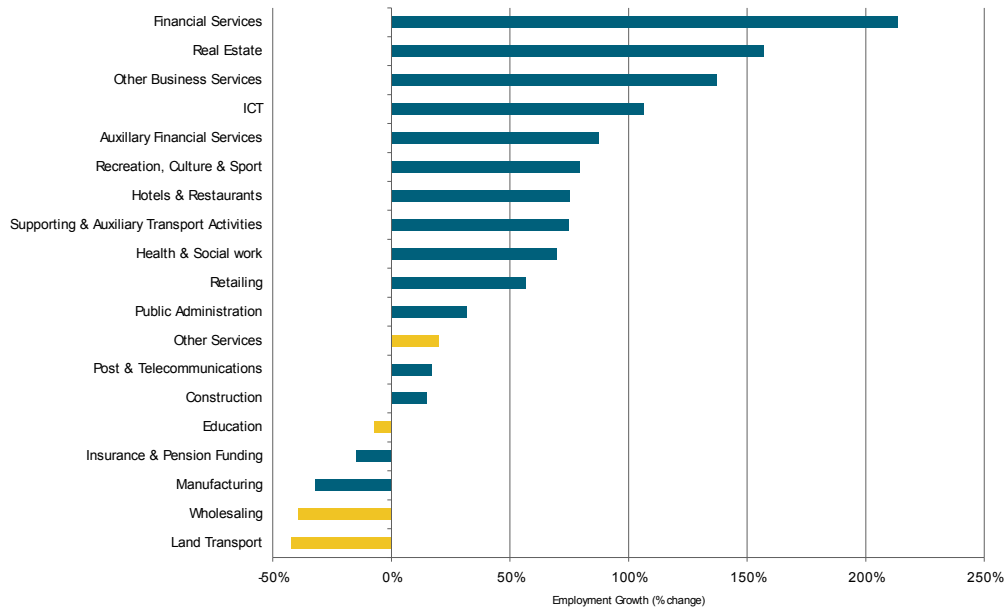
54. In the borough, 46% of employees work for large enterprises (in Canary Wharf only, 70% of employees work for large enterprises). This is larger than that of City of London (under 40%).⁶¹ The financial services have drawn other services to the borough. 55% of jobs in the borough are in the business and financial services sectors combined (Central London - 44%).⁶²

55. The borough's economy has been changing dynamically. Between 1998 and 2008, sectors that increased their employment included: financial services (200%+), Real estate (150%+), and ICT (over 100%). On the contrary, sectors including manufacture, whole sale and land transport reduced their employment in the same period (Figure 2).

⁶¹ In London, under 20% of employees work in large enterprises.

⁶² Greater London – 34%; East London – 21%.

Figure 2: Tower Hamlets Sector Employment Growth, 1998-2008



56. As Figure 3 shows, there are two concentrations of financial institutions in the borough: City Fringe (on the west border of the borough) and Canary Wharf. Non-financial businesses have spread across the borough (Figure 4).

Figure 3: Business in Tower Hamlets, 2009: Financial intermediation

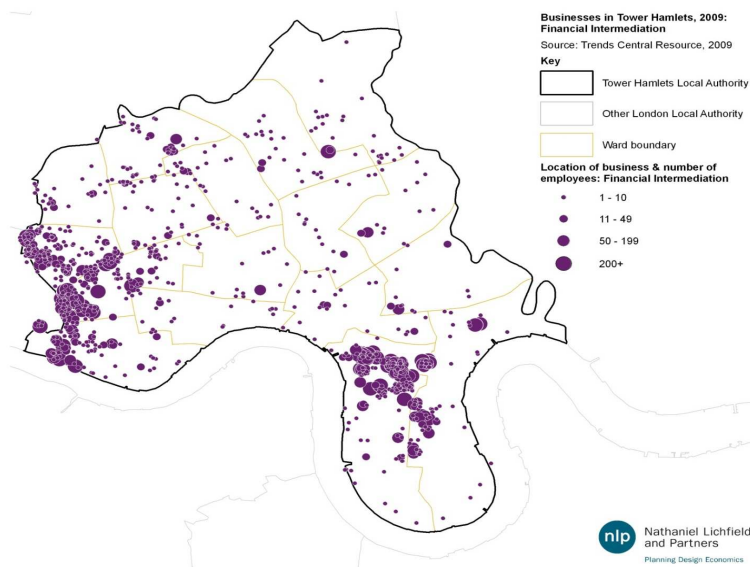
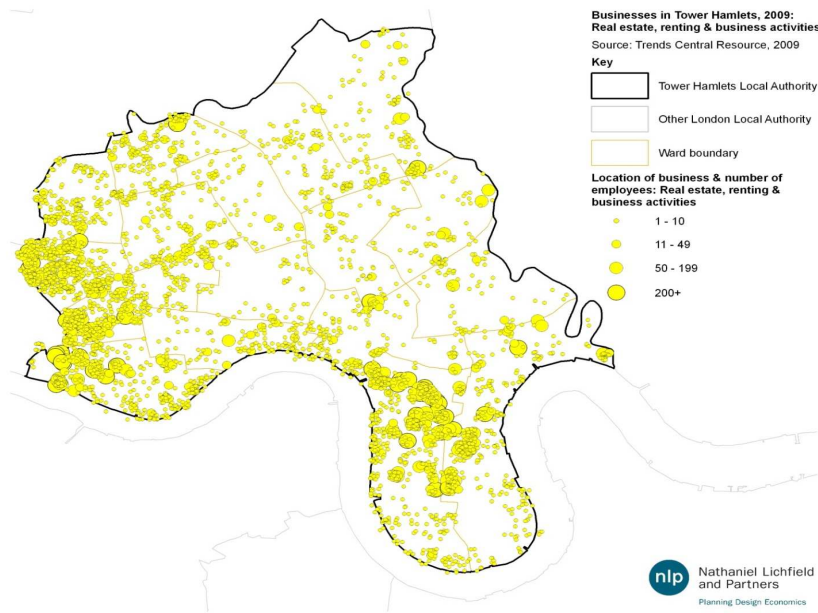
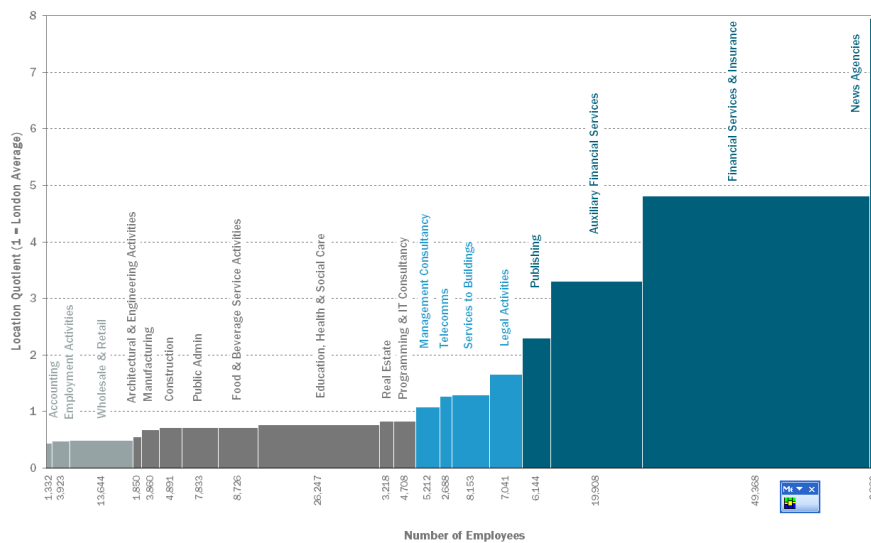


Figure 4: Business in Tower Hamlets, 2009: Real estate, renting and business activities



57. Through its vertical and horizontal axes, Figure 5 shows: 1) the relative density of businesses in different sectors compared with the London average (vertical) and; 2) the comparative employment across different sectors within the borough (horizontal). For example, there is high concentration of news agency businesses (vertical) and financial services and ancillary financial services combined offering 70,000 jobs in the borough. The education, and health and social care sector offers 26,000 jobs (horizontal). This figure also shows that ‘wholesale and retail’ and ‘food and beverage service activities’, part of growing sectors,⁶³ employ over 22,000.

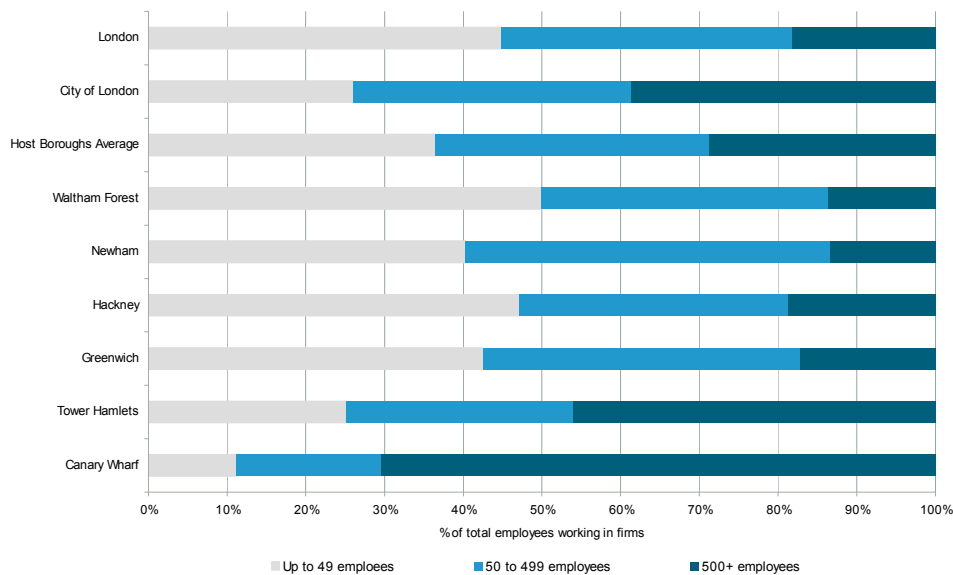
Figure 5: Sectors’ location quotient and number of employees in Tower Hamlets



⁶³ As the paragraph 31, the draft Enterprise Strategy writes that cultural and creative, tourism leisure and retail sectors have potential for significant growth.

58. Almost half (46%) employees in the borough work for very large enterprises (500 employees or more). The large enterprises include financial institutions and other businesses such as accounting, management consultancy and legal firms. 25% of the employees (51,000)⁶⁴ work for small businesses (up to 49 employees) (Figure 6).

Figure 6: Employees working in firms



59. Figure 7 shows the business birth rate of the borough is relatively high. It can be interpreted that the borough's environment is relatively favourable for small business start-ups.

Figure 7: Business Births

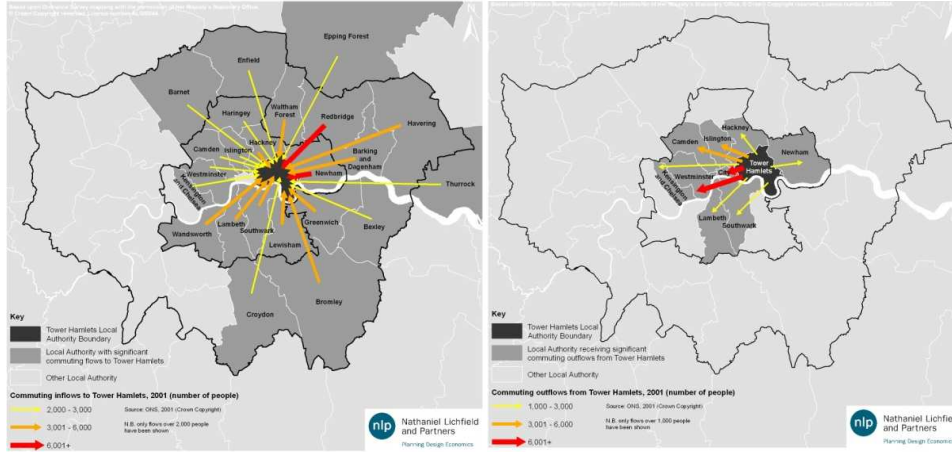
Table 6.3 Business births per 10,000 population aged 15+, 2004-08

	2004	2005	2006	2007	2008	% change 2004-08
England	61	58	54	59	56	-7.0%
Inner London	118	112	99	112	128	+8.1%
Inner London Borough - median	112	100	88	101	108	-3.7%
Tower Hamlets	111	102	93	98	116	+4.1%
Camden	155	136	128	139	152	-1.8%
Hackney	89	83	81	92	104	+17.0%
Westminster	303	264	244	276	337	+11.2%

⁶⁴ There are 203,900 employees in the borough.

60. The borough draws commuters from a wide range of areas including outside of Greater London. A large proportion of commuters from the borough work in central London, City and Westminster, in particular (Figure 8).

Figure 8: Commuting inflow and outflows



61. The employment in the borough is projected to grow over 24% in 2011-2031 (Figure 9). The working group heard that the current employment demand concentrated at high skilled jobs and that this trend would remain. The group also heard that there was a mismatch between the labour supply and demand in the borough – while there is strong high-skilled employment demand, especially, from financial services (Figure 10), the borough’s local labour market has remained lower skilled. This skills gap in the borough is filled with the inflow of labour from outside of the borough.

Figure 9: Change in employment projection, 2011-2031

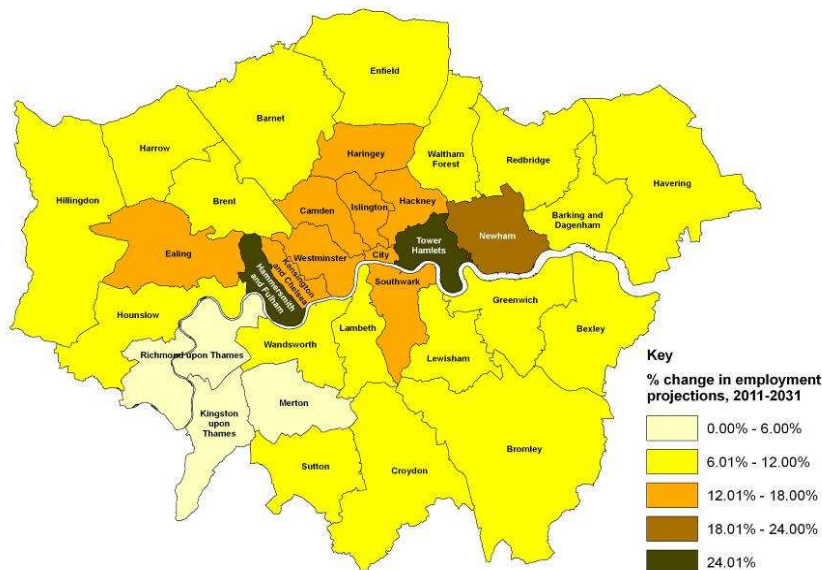
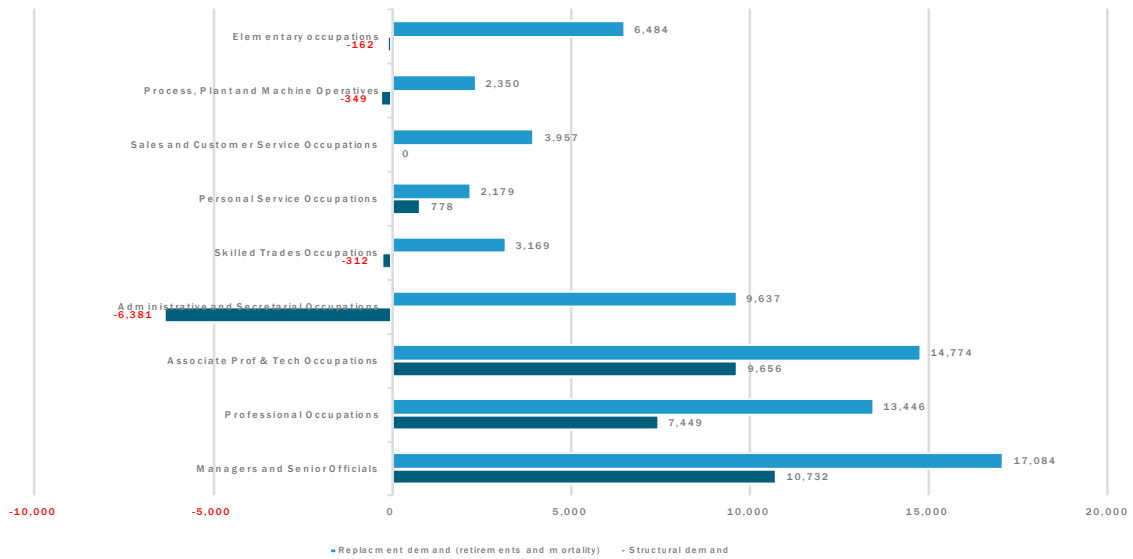


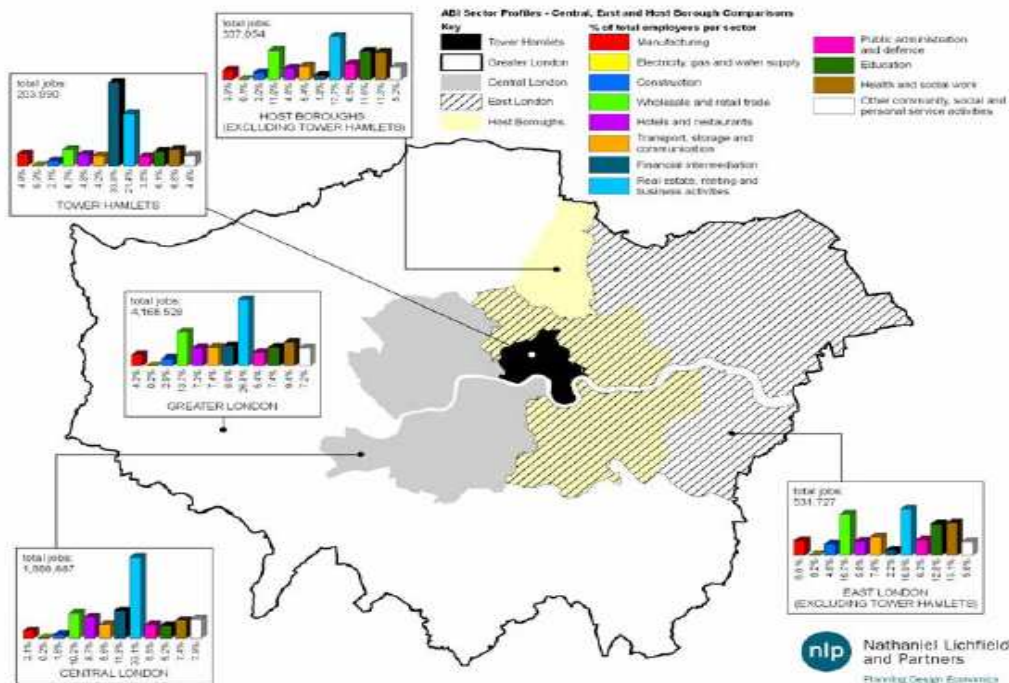
Figure 10: Employment: demand



62. Figure 11 shows the high concentration of employment in financial intermediation in the borough, which is a dominant feature of the borough's economy.

Figure 11: Economic characteristics

Figure 3.1 Central, East and Host Borough Comparisons of Employment Structure, 2008



63. The working group heard that due to the high demand for residential accommodation, the cost of land increased substantially, which squeezed SMEs out of the borough. The implication of this trend is still unclear and questions remain. For example, is the number of SMEs decreasing? Is the borough's

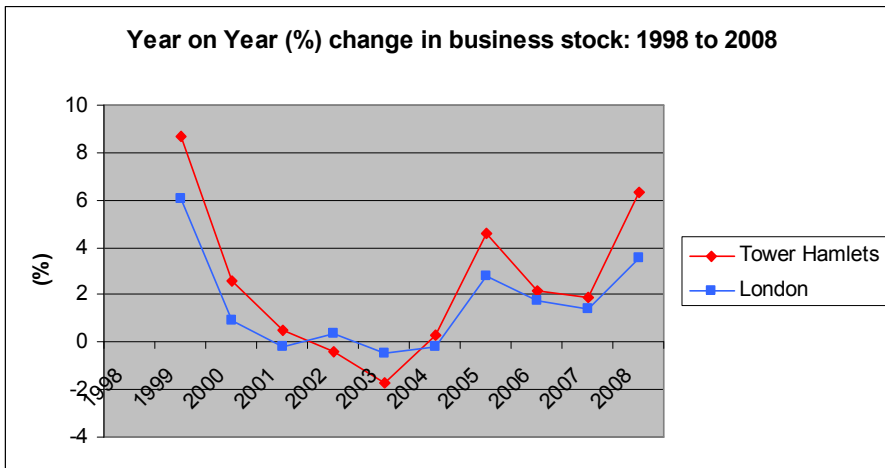
environment unfavourable to SMEs? Considering the relatively high business birth rate, does this mean that the turnover of SMEs is high in the borough?

64. The working group noted that the SME economy is dwarfed by the dominant presence of financial institutions in the borough. They commented that percentage points of non-financial sector employment in the borough was considerably smaller than that of the financial sector; however, the non-financial sector employment was still significant and might be larger than other boroughs. The group acknowledged the close connection between financial (predominantly large) and non-financial (presumably SMEs) sectors in the borough's economy. They mentioned that it was necessary to see data about SMEs in the borough.
65. Participants of the public meeting also pointed out the need for better understanding of SMEs in the borough, especially their diversity. It was mentioned that the range of SMEs is very wide (between 0 and 249 employees) and their needs are diverse. For example, the needs of micro-enterprises (5 or fewer employees) are different from enterprises with over 200 employees. BME and women businesses may have specific needs. SMEs operate in a wide range of businesses, such as hospitality and leisure, retail, creative and other high-skilled businesses. It was also stressed that we need to understand different needs between businesses and social enterprises, the majority of which could be categorised as SMEs.

Tower Hamlets Enterprise Strategy, and Council and its partners' support to SMEs

66. Andy Scott, Employment and Enterprise Manager, gave a presentation on the borough's Enterprise Strategy. The development of this strategy is based on evidence collected for the Tower Hamlets Local Economic Assessment (LEA), which was completed in December 2010. Discussions with various stakeholders informed the development of the strategy. Through the strategy, the Council aims to achieve increased economic turnover, more business volume, more local jobs, and more opportunities for social mobility. The strategy will be ready for consultation in May-June 2011. The life of the strategy will be for 5 years. Based on the Strategy, annual action plans will be prepared and a mid-term review is also planned.
67. There are approximately 11,800 businesses in the borough, accommodating 203,900 workplace employees. Between 1998 and 2008, business stock in the borough increased by 27.6% (Figure 12).

Figure 12: Year on year (%) change in business stock: 1998 to 2008



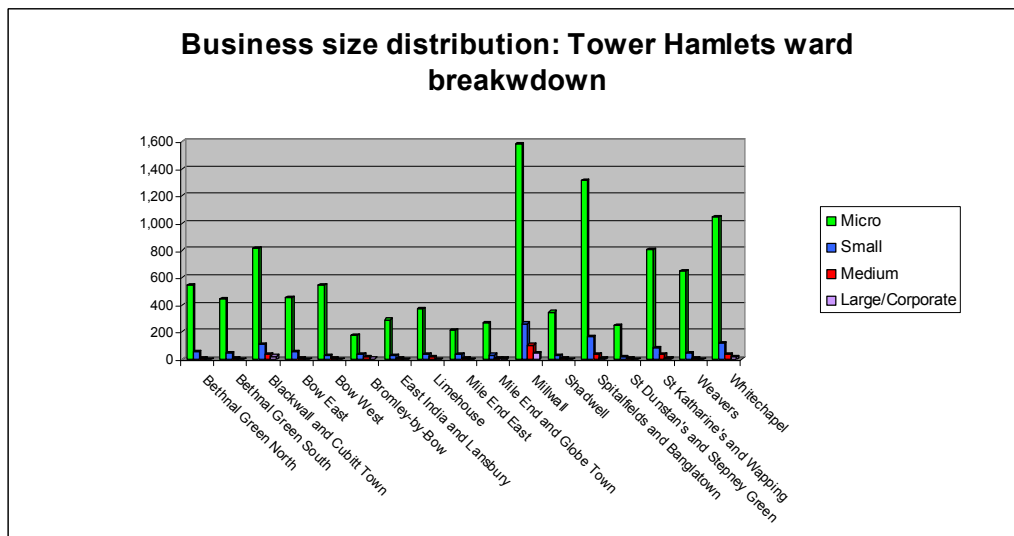
68.95.8% of businesses in Tower Hamlets are micro or small businesses (Figure 13). However, the 1.1% of large and corporate sized firms employ 58.2% of the borough's employees.

Figure 13: Enterprises in Tower Hamlets

Size of enterprises	Ratio in Tower Hamlets (%)
Micro	85.7
Small	10.1
Medium	3.1
Large	1.1

Figure 14 illustrates business size distribution at the ward level.

Figure 14: Business size distribution – Tower Hamlets ward breakdown



69. The Enterprise Strategy is being developed considering the following key facts:
1) The high business birth rates shows that Tower Hamlets is a place where entrepreneurs can and do succeed in setting up businesses. 2) The borough has the seventh highest business birth rate in London. 3) Business counts in Tower Hamlets are rising alongside steady death rates.

70. The working group heard that the strategy would aim to respond to several key questions as below, in the context of reduced public funding to this sector.⁶⁵ It was also noted that the Council and its partners needed to identify 'what they can/cannot do', for example, legally, financially and with their capacity.

- How can we ensure new micro and small businesses have the means to grow?
- How can we sustain businesses that have the capacity to expand?
- What are the key issues that businesses face?
- How can we ensure that local businesses have access to information and services
- How can we join up economic spend through supply chains?

The objectives of the Strategy are to:

- Provide the conditions for successful entrepreneurial activity;
- Sustain and support established enterprises;
- Support growth sectors in the context of Tower Hamlets as a central London economy;
- Use the Council's leadership role for the benefit of the borough's enterprise economy.

71. The strategy regards the enterprise development as a driver for economic change. Stakeholders, including the Council and partners, coordinate each other in delivery and direction of the Strategy to ensure the most impact. It also considers the lack of skills of local population, which may be barriers to self-employment.

72. The annual action plans will aim to encourage business start-ups, support fledgling businesses, support the growth of SMEs and reduce business closures. Action areas are as set out in the table below:

⁶⁵ It was noted that Business Link will be terminated by the end of March 2011.

Action Area	Items
Support for local businesses:	<ul style="list-style-type: none"> • Encouraging entrepreneurship through schools, skills and the employment agenda • Identify and utilise flexible workspace • Enhance offers for micro and home-owned businesses
Sustaining and growing our SMEs:	<ul style="list-style-type: none"> • Provide tailor-made integrated business support which is sector specific • Ensure the availability of comprehensive advice and guidance on accessing business finance
Strengthening the competitiveness of local businesses:	<ul style="list-style-type: none"> • Enabling and encouraging local procurement • Raise the capacity of local businesses to supply through procurement • Encouraging inward investment
Increasing communication:	<ul style="list-style-type: none"> • Promote business networking • Enhance access to information for businesses to provide better opportunities for success

73. Huw Morgan-Thomas, Enterprise Manager, outlined in the public meeting that the Council's role was to ensure that local businesses have best support through signposting. The Council provides neither financial nor business support directly. He also pointed out that the Council's services, including environmental and health services, supported local businesses.

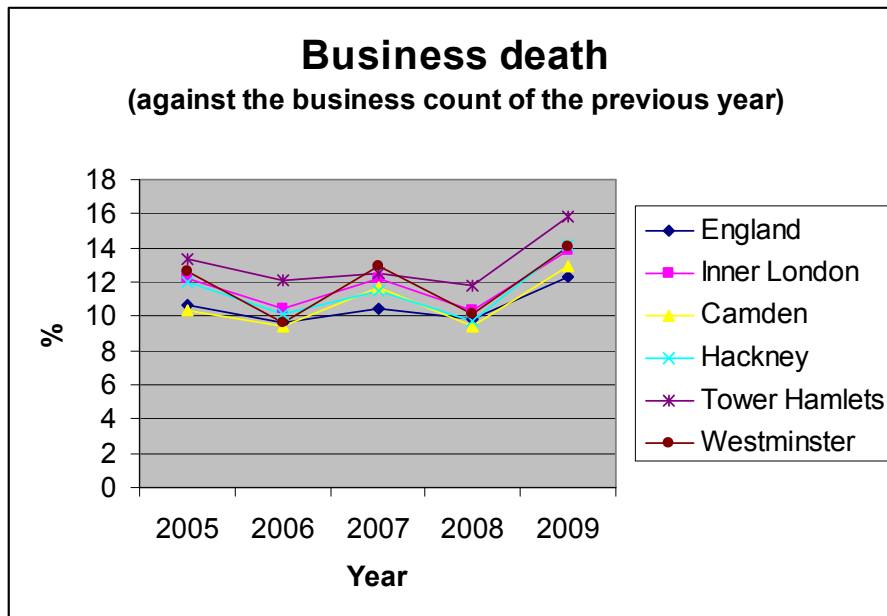
74. Public meeting participants stressed that the Council needs to understand the variety of businesses in the borough, especially retail, and food and drink sectors. They presented a strong case for the Council's recognition of retail, food and drink sectors, which contribute to the local economy. The working group noted that a one-size-fits-all approach to supporting SMEs was unlikely to be effective in achieving outcomes. It is important to understand the variety of SMEs and respond to their diverse needs, including the retail and night-time economy. Through the review process, the working group encountered the different needs and expectations between businesses and social enterprises. Since the scope of the Enterprise Strategy include social enterprises as well as businesses, the working group felt that the strategy needed to be aware of the differences of needs and common features between businesses and social enterprises.

Recommendation 1 – That the Employment and Enterprise Team of the Council use the Local Economic Assessment and other sources of information to collate and publish a clear picture of the small and medium-sized business sector in Tower Hamlets, its interdependences with big business and other sectors, and its diversity. This should form part of the Enterprise Strategy.

75. The working group noted that we needed greater understanding of the role, dynamics and reasons of business deaths in the borough, including issues of management, skills, especially lack of skills when the business falls in trouble.

76. Figure 15 shows the transfer of the business death of the borough and other selected boroughs and regions between 2005 and 2009.⁶⁶

Figure 15: Business death



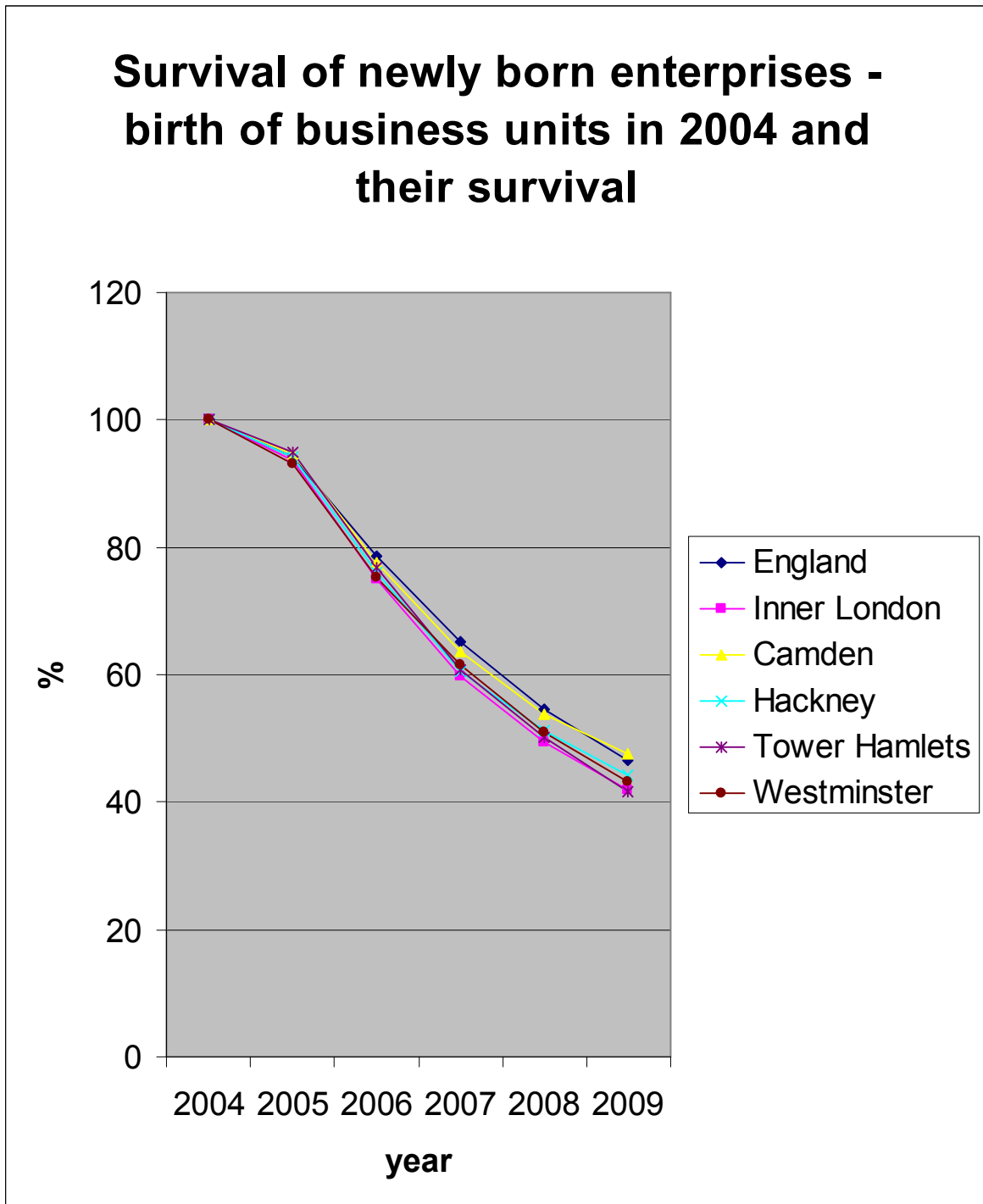
77. Figure 15 illustrates that there is a trend that the borough's business death rate is higher than inner London, and other selected London boroughs. Details of the business death, including type and age of the businesses, are unknown. Reasons for business deaths is unclear.

78. Figure 16 shows the 5-year survival rate for businesses born in 2004. London has the lowest survival rate (41.9%) by region in 2009. This graph illustrates the general trend of the survival rate. The trajectory of business survival born in 2004 in the borough was in line with that of inner London.

79. For the borough's economy, it is desired that thriving enterprises hire as many local residents as possible for a long time, which provides stability for local workforce. In this sense, the high business death rate may need to be examined closely. If business death adversely impact on the local population, that needs to be mitigated.

⁶⁶ Based on the data of the Business Demography 2009, the Office for National Statistics.

Figure 16: 5-year survival rate for business born in 2004.



Recommendation 2 – That the Employment and Enterprise Team consider the rate of business death, its impact, and how to encourage support and advice services that can support businesses to continue in the current difficult economic climate.

Link between large enterprises and SMEs

80. The most striking feature of the borough's economy is the dominant presence of the large enterprises. The working group highlighted the role of large enterprises in supporting SMEs – linking between large enterprises and SMEs in the borough. The group stressed that cooperation with partners, such as East London Business Alliance, is essential to achieve this.
81. The working group agreed that the Council's main role was to connect SMEs with other organisations and partners, including the health sector and universities. The borough's economy is in a unique position – having Canary Wharf and being adjacent to the City. The group believed that linking between large enterprises and SMEs would bring positive impact on the smaller counterparts. The following options were discussed:
- 1) Contract locally – ask large enterprises to source from local businesses;
 - 2) Professional advice/ mentoring by large enterprises;
 - 3) Promote lending to SMEs.
82. The working group agreed that the Council could promote large enterprises' sourcing from local businesses. Supply chain has been the focus of business development in east London. East London Business Place tailors supply chain brokerage to businesses' procurement systems. The group had a feeling that such effort needed to be more encouraged to help SMEs further.
83. The importance of promoting Tower Hamlets businesses was also emphasised. The group heard that the City was keen on sourcing from City Fringe, including creative and cultural industry in the area. The promotion of the borough's business may enhance their trade beyond the boundaries.
84. The working group mentioned that SMEs needed expertise.⁶⁷ Although some large enterprises have already provided professional mentoring advice for SMEs (for example, accounting and law), it appears that there are more needs of expertise for SMEs. The group noted that matching expertise between large enterprises and SMEs needed to be carefully examined, because some expertise important for large enterprises is not always necessary for SMEs. It was also mentioned that timescale and aim of mentoring needed to be clear prior to the start of mentoring.
85. The working group heard that the banks were reluctant to lend money to SMEs in the borough. In some cases, this is caused by lack of information on the SME's businesses. The group mentioned that the Council and the partners needed to contact banks to support their lending to SMEs in the borough.
86. In the public meeting, a question was raised: Small businesses have difficulties in getting funding from banks and taking out insurance. Is there a possibility that the Council could support small businesses, for example, through providing

⁶⁷ Participants of the public meeting identified 'know-how' as one of SMEs' needs. The contents of know-how include: knowledge on their markets, research, identifying target customers/market, tax management, productivity analysis, management of money flow.

references? Richard Parsons, Service Head Procurement and Corporate Programmes, responded in a report to the working group:

‘There would be no objection to providing such support as is reasonable and possible. For example, the Council would be willing to confirm to banks and insurers that a small business has been awarded a contract with the Council, and its estimated value’.⁶⁸

The group suggested that the Council examined the feasibility and effectiveness of this practice in view of implementation.

87. The group agreed that the Council’s cooperation with partners was essential to promote the link between large enterprises and SMEs as above. They also agreed that cooperation with organisations such as East London Business Alliance (ELBA) and East London Business Place would be necessary to facilitate the link.

Recommendation 3 – That the Employment and Enterprise Team consider how we can broker relationships that benefit SMEs, taking advantage of Canary Wharf and our proximity to the city. The Council should negotiate on areas including supply chain, professional advice, provision of business mentors and access to lending for local businesses. The banks, professional services firms and others based in east London will benefit themselves if they contribute further to the building of strong local communities.

88. The working group was aware of the agreement on cooperation between the borough and the London Organising Committee of the Olympic and Paralympic Games, signed by the Mayor and the Chair of the committee, Lord Coe on 15 February 2011. The agreement writes, they both ‘agree to work together to maximise the opportunities for local SMEs to benefit from the supply chain requirements of London 2012 contracts including hosting a “meet the buyer” event in Tower Hamlets in 2011 for SMEs’. The group mentioned the importance of the role of the Mayor in promoting SMEs in the borough and influencing other organisations including large enterprises.

SMEs’ needs and barriers

89. Participants of the public meeting identified SMEs’ needs and barriers:

Needs

- Know-how (e.g. knowledge on their markets, research, identifying target customers/market, tax management, productivity analysis, management of money flow)
- Contacts;
- Funding;
- Equipment;
- IT skills;

⁶⁸ See Appendix 1.

- Make businesses aware of opportunities;
- Feedback on failed bids;
- Recognising the needs of night-time economy.

Barriers to SMEs flourishing

- Lack of capacity;
- Lack of business structure;
- Lack of office space;
- Tax payment can interrupt money flow of a business;
- Over-regulation (e.g. cost of parking permits);
- Under-regulation (e.g. illegal trading);
- Lack of understanding of night-time economy by local authorities;
- Lack of (the Council's) consultation with businesses;
- Lack of the Council's response to consultation;
- Lack of communication and partnership.

90. There was discussion that some of the needs/barriers (e.g. IT skills and business structure) were necessary prior to start-up. They also pointed out that lack of know-how of business operators, especially in retail and hospitality, might affect adversely other businesses in the area. Even though there is a good business in a town centre, it is difficult for the business to flourish if it is surrounded by unattractive businesses, because it is unlikely that such a town centre attracts consumers. It was noted that we need a broader approach to tackle this problem. An example is to improve local traders' skills-set as a group, which is seen in Roman Road⁶⁹ and Bethnal Green.

91. It was also mentioned that businesses in the borough needed a variety of offers for customers in the borough, responding to the change of demography, especially the influx of wealth into some communities in the borough.

Roles of the Council and partners

Engaging businesses

92. Through the review process, there was a feeling that the Council was not conscious of businesses as a community in the borough and generally lacked communication with them. Participants of the public meeting commented that the Council's responses had taken a long time, in particular, regarding licensing and planning permission. It was also raised that a recent change of the Council's waste management policy did not consult businesses, although it would double their waste disposal cost and reduce their recycling capacity. Another example was a lack of consultation of businesses affected by road works. Usually residents affected by road works are consulted, but affected businesses are not, even though it may block customers' access to a shop, and affect the business. The group suggested that the Council needed to identify the business community as a key stakeholder and engage, consult and communicate with them,

⁶⁹ <http://www.romanroad.org/index.php>

especially when an action affects them. The group added that to engage businesses the Council could learn lessons from the Healthy Borough Programme, in terms of challenges of partnership working including defining clear target, members' ownership, and sharing achievement.

93. The group suggested that a business forum that exclusively represents businesses' voice might be beneficial for borough-wide business issues. This could include business space, co-ordinating business support, feedback on planning and licensing, change of Council and partners' policies and programmes that may affect businesses (e.g. planned road works and waste management) and regeneration proposals. Tower Hamlets does not have a chamber of commerce solely for the borough.⁷⁰ It was also stressed that there was a need for a network that connect existing fora. Such network will enable the involvement of wider businesses. The public meeting participants also suggested the forum focus on exchanging ideas/info and matching business needs.

Recommendation 4 – That the Citizen Engagement Strategy clearly identify the business community as a key stakeholder in the, and effectively engage and consult businesses, especially when a change of a policy and/or programme is introduced.

Recommendation 5 – That the Employment and Enterprise Team facilitate setting up a business forum in Tower Hamlets, to discuss borough-wide business issues, including business space, co-ordinating business support, feedback on planning and licensing, change of Council and partners' policies and programmes, such as planned road works and waste management, or regeneration proposals.

Signposting

94. The Council has provided business related information for local businesses mainly through the Council website.⁷¹ Participants of the public meeting pointed out that there was disproportionately more information on business start-ups in general, compared to other stages. However, there was a need for continuous and coordinated support through the different stages of a business. It was suggested that the Council sort out information for businesses at different stages and make it available to businesses. Participants stated that a directory of business (support) organisations would also be helpful. The Council has made available a business directory, *Business Matters*, on its website and hardcopies are available. This has been well received by users, but needs updating.

95. It was noted that there were many business-supporting organisations, but they were not coordinated. They referred to a possibility that the Council and partners took the initiative to coordinate it. The working group suggested that the Council and partners facilitate the coordination of advice services and sign-post the information.

⁷⁰ Docklands chamber of commerce includes areas beyond the borough.

⁷¹ <http://www.towerhamlets.gov.uk/lgnl/business.aspx>

96. The working group also suggested that IDEA Stores establish business sections – concentrating all business related books/collection at this section. This will make the libraries business friendly and enable local businesses to consult necessary information quickly. Currently, business related books are categorised under different sections. They also noted that business related contact point (data base/directory of business) at IDEA Stores would be helpful.

Recommendation 6 – That the Employment and Enterprise Team review and identify areas of business information support including:

- Ensuring information is widely available through the Council website and other media;
- Coordinating business advice services in the borough and ensuring that it is adequately signposted, and;
- Establishing a business advice section at all IDEA Stores to support businesses in the borough.

Parking restrictions

97. A number of stakeholders highlighted parking restrictions as a barrier to bringing in businesses and customers to the borough. The Council, through its transport policy, aims to create a cleaner, greener and more attractive borough where it is safe and easy to travel and where the environment is protected for future generations. A Parking and Enforcement Plan is in place to manage and control parking (including the needs of people with disabilities), to support economic regeneration, to reduce congestion, traffic accidents and pollution whilst supporting bus priority measures.⁷² The participants were aware of residents and businesses' sometimes conflicting demand in terms of parking. They asked whether the Council could create an innovative solution to satisfy various demands.

Recommendation 7 – That the Employment and Enterprise Team work in partnership with the Parking Services to review how parking restrictions affect local businesses, especially in Town Centres to support the borough's economic development, especially in areas where local businesses benefit from trade that comes from outside the borough.

Planning and Local Town Centres

98. David Williams, Deputy Service Head, Planning and Building Control and Michael Bell, Strategic Planning Manager, made a presentation on planning and local town centres. Planning defines and controls the uses of space, and aims to balance competing demands. Planning could both be obstacles and help for SMEs.

Use Class Order

⁷² 'Tower Hamlets Parking Service: Annual Parking Report (2008-2009)'.

99. Premises are categorised according to 'class uses' as below. A class uses are generally found in town centres. B class uses are more employment oriented. In general, a planning permission is needed when moving downwards of the same use class (e.g. A1 to A2) and change classes (e.g. from A to B). When changing from lower to upper grades (e.g. A2 to A1), no permission is needed except change from A5 to A4. Town centres have more regulations regarding space use compared to non-town centre areas, because they require more specific space use such as retailing.

Use Class Order

A1	Shops	B1a	Offices
A2	Professional services e.g. banks and estate agents	B1b	Research and development
A3	Restaurants and cafes	B1c	Light industry
A4	Pubs and drinking establishments	B2	Heavy industry
A5	Hot food takeaways	B8	Warehousing and distribution

100. Major contribution of planning is to raise ambitions of local businesses and residents and to encourage the value of land through regeneration. Planning could contribute to:

- Protecting retail function of town centres;
- Quality of public realm;
- Supporting infrastructure, e.g. public transport;
- Promoting tourism opportunities;
- Preserving and enhancing our historic environment;
- More detailed planning tools to promote SMEs in suitable locations, e.g. development briefs, Masterplans;
- Section 106 funding, town centre initiatives.

101. However, planning cannot promote/control a particular sector within a use class. For example, planning cannot differentiate between a local shop and a branch of a supermarket in a same A1 category.

102. It should be noted that the Department for Communities and Local Government released a consultation document, *Relaxation of planning rules for change of use from commercial to residential*, on 8 April 2011. One of the Government's proposed actions is to provide for the change from commercial (B use classes) to residential (C3 use class) without the need to apply for planning permission. This has implications for businesses including SMEs. In areas that have strong residential demand, like this borough, it is likely that more commercial space is turned to residential. This may result in squeezing businesses out of the areas.

Ground floors of residential blocks

103. The working group heard that there was concern about a lack of suitable office spaces for SMEs. In the public meeting, participants stated that some buildings' ground floors categorised as retail use remained vacant (e.g. Chrisp Street), although small businesses have difficulties in finding office space in the

borough. It was argued that this was because these ground floors were designated as retail space through the planning policy.⁷³

104. The officers explained that some ground floors remain vacant because there was not much incentive for developers to let out the ground floor. Most of the financial gain comes from residential part of the blocks. Developers do not have to commit themselves to let out the ground floor. They are unwilling to take a planning permission to change the use from retail to office.⁷⁴

105. The working group heard that developers did not seem to understand what is suitable for ground floor space. The group agreed that ideally, no empty space should remain in new buildings in the borough, particularly when businesses would like to use the space. It was suggested that the Council engaged developers and organisations to find out what kind of spaces local businesses needed. A business forum, suggested earlier, may be able to play this role.

106. The working group also heard that there were some successful SME unit providers in the borough, who know what kinds of units are needed. It was suggested that the Council learn from them.

Recommendation 8 – That the Planning and Building Control Service of the Council closely work with developers at all stages of development, including the pre-application stage, for the effective use of space and review vacant premises in housing developments and develop planning guidance to encourage the development of spaces that can be used by light industry or other local businesses, and secure appropriate space for SMEs from new development.

Infrastructure and businesses

107. The working group was aware that infrastructure development, such as transport and superfast broadband, would support growth and boost businesses in the area.⁷⁵ It is seen that the borough's transport connections are good and Crossrail will enhance them further. Considering the fast-moving technology and society, the working group stressed that the Council needed to continue to lobby for infrastructure development.

⁷³ For example, *the Council's Core Strategy 2025: Development Plan Document* (p. 118) writes about Chrisp Street and the area around it, one of priorities is 'to regenerate the existing centre based in and around Chrisp Street into a vibrant, thriving and multi-purpose town centre, with a mix of uses including evening and night-time use and a market'.

⁷⁴ In general, town centre premises categorized as shops cannot be changed.

⁷⁵ The government also recognizes the importance of the infrastructure in growth. The Plan for Growth (March 2011, p. 13) writes, 'improvements are needed in the infrastructure and systems that support growth. The Government has identified £200 billion of public and private infrastructure planned over the next five years, and the requirement is likely to grow beyond that to provide the power, communications and transport links to underpin a modern, low carbon economy'.

Recommendation 9 – That the Mayor continue to lobby the central government and work with private companies to further develop the borough’s infrastructure, including superfast broadband and transport.

The Council’s premises and SME accommodation

108. Toks Osibogun, Head of Valuation and Estates, gave a presentation on the Council’s Neighbourhood Shops Policy, and the premises and SME accommodation. The Neighbourhood Shops Policy covers all neighbourhood and local shops, and broader social uses such as doctors and dentists. This policy aims to provide the Council, shop tenants and local people with a clear indication as to what the Council hopes to achieve from retaining these parades.

109. He mentioned that there was the demand for small business offices with reasonable costs in the borough. The working group heard that the Council rents out 80 premises mostly to shops and community spaces. It was suggested that some of these spaces and/or unused Council properties be let to small businesses. The working group agreed that letting to small business needed to be on a short-term basis. It was also mentioned that letting needed to be through a third party.

Recommendation 10 – That the Asset Management Team review its letting policy and consider letting Council properties, including currently unused ones, to small businesses on a short-term basis.

110. The group heard that some boroughs used S106 funding to create small business parks, but there was not adequate space to develop a similar facility in the borough. The Council provides some accommodation for SMEs: the Micro Business Park on Greatorex Street specifically caters for start-up businesses and the St. Georges Town Hall has been occupied by small businesses for a long time. It was said that they were well used by businesses.

111. The working group stated that although a large business park, like many other boroughs, might be unrealistic in the borough, more micro-scale business parks, possibly using the Council’s unused premises, be a possibility. The business park can be equipped with business advice/mentoring function to support small businesses. A directory of business space to let will also be helpful.

Recommendation 11 – That the Planning and Building Control Service, through the Local Development Framework Core Strategy, explore possibilities of establishing micro-scale business parks in the borough.

Procurement

112. The Council spends almost £400 million each year on goods and services, using about 4,000 different suppliers. The expenditure with local suppliers (based in Tower Hamlets) has increased by approximately £11m (7%) over the

last three years. It is about 34% of the borough's total procurement spend.⁷⁶ However, it is not possible to keep accurate records of the amount of business conducted specifically with SMEs and BME (Black and Minority Ethnic) businesses. The Council is currently looking at how we can use R2P (see below) to record this information.

Procurement Strategy

113. The Corporate Procurement Strategy 2009-2011, agreed by Cabinet in 2009, lays down the Council's priorities and approach for achieving best value for money from our procurement. It explicitly recognises the Council's obligation to local businesses and SMEs. For example:

"We will work with our major suppliers to encourage recruitment from the local community, and to use local businesses in their supply chains."

"Where appropriate, we will make contracting opportunities accessible to local small and medium-sized businesses, ethnic minority-owned businesses and the voluntary sector, and we will work with these organisations to help them to be fit to compete to do business with Tower Hamlets and other similar organisations."

The accompanying action plan states:

"Investigate and implement ways of boosting business with suppliers – particularly SMEs and BMEs – based in the Tower Hamlets area, including working with East London Business Place."

Procurement procedures

114. The Council's Procurement Procedures, revised in 2009, are to obtain best value for money from procurement expenditure. The procurement activity is largely devolved to the Directorates, and the Procurement Service is responsible for policy and strategy, and overseeing the corporate contract programme. A Competition Board, comprising key Corporate Directors and Service Heads, sets and monitors developments.

115. The EU rules apply to the entirety of the Council's expenditure, and any policy for supporting local or small businesses must recognise the rights inherent in the EU treaty – i.e. the Council cannot show preference on the basis of geographical location and the size of an organisation. The Council is unable to implement a policy which overtly favours local or small businesses.

Support for SMEs

116. The Council's support for SMEs and local businesses is as follows:

- An alliance with East London Business Place (ELBP), including joint workshops for suppliers on how to do business with the Council, attendance and presentations at various supplier forums, and posting of all contract opportunities with ELBP;

⁷⁶ Expenditure figures for local businesses: £165 mil (2008/09); £171 mil (2009/10) and; £176 mil (2009/10 estimate).

- An annual “Buy Local” event, with an open invitation to Tower Hamlets, giving the opportunity for local business people to hear about developments in the Council’s procurement, and the chance to meet Category Managers and others involved in the procurement process;
- Use of the Council’s internal “tollgate” process for all contracts over £250K, which requires contract owners to demonstrate that they have fully considered how to attract SMEs when planning contracts. This includes issues such as packaging contracts into suitably sized “Lots”, so that they are not out of the reach of small businesses, to ensuring that the supplier selection does not set unreasonable barriers to entry for small businesses, and the use of sub-contracting opportunities in the supply chain for smaller firms. This is backed up by scrutiny at the Competition Board, which challenges contract owners over various issues, including support for SMEs;
- A requirement for all low-value opportunities (below £25,000) to be sourced exclusively locally, using the CompeteFor site;
- All advertised contract opportunities appear both in East End Life and on the Council’s web site;
- New streamlined procurement procedures and a review of tender documentation, which will have reduced red tape, simplified tendering procedures and generally make it easier to do business with the Council.
- The Council’s e-procurement solution (R2P) has achieved significant process efficiencies for the Council and its suppliers, and improved the Council’s payment performance. It also gives the Council the opportunity to identify SMEs and local suppliers moving forward, so that the Council can target them for attention.

117. In the public meeting, participants asked whether small businesses can form alliances to win procurement contracts collectively, in competition with large corporations. The paper submitted by the procurement service⁷⁷ answered:

‘There is normally no objection to small businesses forming alliances to compete for work; indeed, in some cases, such as commissioning for Children’s Care contracts, this has been positively encouraged’.

118. To another question, ‘Is there a possibility for the Council to improve its payment terms for small businesses?’ The paper responded:

‘The Council introduced R2P during 2010, which has improved our payment performance, with well over 90% of invoices now settled in less than 30 days. At the present time, there is no facility for segregating invoices from SMEs and paying them more promptly. However, R2P has now settled in, and this matter will be reviewed, to assess whether it is feasible to provide improved payment to SMEs’.

119. The working group supported the procurement policy’s consideration to equalities and other social objectives in procurement decision making. It was suggested that the Council continue to ensure equalities through procurement.

⁷⁷ Appendix

Recommendation 12 – That the Procurement and Corporate Programmes Service investigate how we better utilise R2P to develop our understanding of SMEs in the borough to fully implement the objectives in the corporate procurement strategy.

Conclusion

120. This scrutiny review aimed to consider the issue of empowering SMEs in the context of the Council's Enterprise Strategy and identify what support local SMEs receive and make recommendations to help them flourish further in the borough. The working group made recommendations based on collected evidence and stakeholders' views.
121. Through this review, the group confirmed SMEs' significant contribution to the economy through job creation and the economic growth in the borough. They acknowledged that the environment around SMEs was changing dramatically, including the changing economy and the new government policies, for example, the introduction of the Localism Bill and Enterprise Zones.
122. Above all, the group noted the dynamic economy and unique business environment in the borough – very large international enterprises and SMEs are located side-by-side. The group stressed that this unique business environment needed to be maximised for SMEs to flourish further and made recommendations to strengthen the link between large enterprises and SMEs in the areas of supply chain, professional advice and lending.
123. The group found that businesses were often missed out from consultation and engagement and the Council and partners needed to be more aware of business needs and the impact on their policies and programmes. The group also made a recommendation that the Council facilitate setting up a business forum in Tower Hamlets.
124. The group looked at a range of the Council services and made specific recommendations. The areas of the Council services include signposting, parking restrictions, planning, SME accommodation and procurement. This scrutiny review enabled the Council and partners to look across their services to create a more favourable business environment. The group believes that the recommendations will contribute to the SMEs' future success in the borough and the borough's economic growth. The group also hopes that the review and recommendations will support the development of the Enterprise Strategy.