



# Enterprise Strategy: *Executive Summary and Introduction*

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# Enterprise Strategy: *Executive Summary and Introduction*

## Executive Summary

Enterprise benefits Tower Hamlets in many ways. It offers employment and brings wealth into the borough, some of which is spent locally, supporting retail and recreational areas, and making public spaces more vibrant.

However, it is vital that residents can make the most of the opportunities enterprise brings and, in a borough where deprivation is still pronounced, it is right that the Council and partners work together to make this potential for further improvements to everyone's quality of life a reality. When these elements work together, the virtuous cycle established benefits both residents and businesses.

As such, the Enterprise Strategy fits closely with the aims of the Core Strategy and Prosperous Communities. The aim of the Enterprise Strategy is to *encourage and support enterprise and entrepreneurial activity to increase opportunity, prosperity and mobility in Tower Hamlets.*

Tower Hamlets has a strong base on which to build, including its strategic location and a positive economic outlook. It has experienced very rapid employment growth and is functionally part of the central London economy. The profound shift to financial services creates additional jobs in associated sectors and this business cluster will continue to be vital to the development of the borough. Residents in Tower Hamlets are enterprising and it is a dynamic environment for new and existing businesses.

Alongside growth, there is also transition. Traditional sectors are in decline, whilst others such as tourism, creative and knowledge-based industries offer exciting possibilities for renewed growth and diversification. As a result, some types of business and enterprise sectors therefore deserve particular encouragement and support so that the advantages of enterprise increasingly complement the wellbeing of the borough's population. It should also be noted that some businesses, including social enterprises, tend to have a local focus in terms of the markets they serve and the people they employ. The Strategy seeks to identify some of the differences between businesses as well as the partners and support services, most notably advice and finance, that all have a stake in success.

Tower Hamlets faces a number of challenges with regards to strengthening its economy to provide a fertile ground for enterprise from which residents can benefit. These can be grouped as:

*Economy and employment issues* – despite the many jobs which exist in Tower Hamlets, residents struggle to access them and employers report skills gaps. Without qualifications and training, combined with work experience, businesses and residents alike lose out. There is also a lower rate of male self-employment in Tower Hamlets than elsewhere. Addressing these issues stands to increase the opportunities for local people to access local jobs. This supports the Employment Strategy's aim of increasing employment.

*Resource issues* – despite the hard work of support agencies within and beyond the borough, high demand for these services results in gaps in provision. It is also unclear whether the right kinds of funding are available to businesses when they need them, which is a particular issue for smaller businesses and start ups. Efficiently co-ordinating and resourcing the agencies which can help with training, capacity building, access to suppliers (particularly in Canary Wharf and the City Fringe) and finance will support

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further growth and diversity in the economy where local people can play a greater role as entrepreneurs and employers.

*Spatial issues* – the supply of smaller office premises is low and Tower Hamlets has many minor town centres which could be made more attractive to community facing and other local enterprises. The Council can influence this through its planning and development powers. Improving the physical infrastructure and providing more B1 units, better retail environments, and clearer town centres, connected by even better transport, will foster business growth. This can bring further jobs into the reach of residents at the same time as providing goods and services which people want in town centres which are more welcoming.

Ongoing success is not guaranteed and will not come without effort from all stakeholders in the local economy. Based on the aim and in response to the challenges, three objectives are proposed. These are to:

1. **Support the establishment, growth and development of SMEs.** This includes working with large business and the public sector in terms of procurement and corporate social responsibility for SMEs and social enterprise. Support services and access to finance are also areas to strengthen here.
2. **Provide an environment that supports a thriving and diverse economic base.** This is physical – relating to business premises and better town centres – but is also about encouraging innovation and an entrepreneurial spirit, so that businesses continue to thrive, with Tower Hamlets' residents in strong positions.
3. **Support the borough's enterprise economy by communicating local needs and wishes** to influence a variety of audiences. By making it easier for Tower Hamlets' enterprises to voice their strengths and concerns, the Council and partners can both influence policy and promote the borough as a destination and location for enterprise.

Active work on all of these fronts will indeed *encourage and support enterprise and entrepreneurial activity to increase opportunity, prosperity and mobility in Tower Hamlets*. This Strategy, its objectives, and the first accompanying action plan – which will be updated annually – set the stage for accomplishing this. The Council looks forward to working with partners, including the businesses themselves as well as support agencies and the people of Tower Hamlets, to fulfil the aim.

## 1. Introduction

### 1.1 Strategic Context

The Enterprise Strategy fits within the context of the vision for “Prosperous Communities”, as set out in the Council’s Community Plan:

“We aim to create a Tower Hamlets in which everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential. At the heart of this theme is a focus on combating social exclusion, reducing poverty and improving the life chances of all residents.”

The Community Plan has a fundamental influence on all Council strategies which can affect the chance for residents to have “the aspiration and opportunity to achieve their full potential”.

This Enterprise Strategy has been written to complement other Council strategies. Specifically, it sits as a companion to the borough Employment Strategy, in recognition of the synergy and overlap between workforce and economy.

The aim of the Enterprise Strategy is to:

*encourage and support enterprise and entrepreneurial activity to increase opportunity, prosperity and mobility in Tower Hamlets*

The Enterprise Strategy provides the basis for intervention and the proposed direction for achieving the chosen objectives. This will require work on the part of the Council by, with and for local enterprises, in conjunction with other stakeholders in the borough.

### 1.2 Why Enterprise is Important

Enterprise is important to Tower Hamlets in a number of respects:

- **Enterprise creates opportunities for employment** – enterprises provide jobs which local residents can apply for (although it should be noted that less than a third (31%) of working residents work in the borough, with the rest working outside it).<sup>1</sup> The degree to which job opportunities are available and open to local residents contributes to the well being of residents and communities, as well as the achievement of other borough goals, including reducing child poverty. This Enterprise Strategy concentrates on the demand side of employment for local residents.
- **Enterprise is a means for residents to create wealth** – many Tower Hamlets residents earn a living by owning a business or being self-employed. The borough is an entrepreneurial place, and generations of residents have relied on their entrepreneurial activity as a means of social mobility.
- **Enterprise fuels local economic activity** – the local economy is composed of individual enterprises, which can to a greater or lesser extent support other local enterprises and local communities. Such support can be through normal commercial activity, or through specific initiatives, such as Corporate Social Responsibility policies and social enterprise. The Strategy suggests how such support can best be focused.

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<sup>1</sup> Source: Annual Population Survey 2008

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- **Enterprise improves the local environment** – businesses animate and invest in spaces for offices and retail, supporting the creation of sustainable neighbourhoods which people want to live near and visit.

The key question this Strategy seeks to address is what the Council and its partners can effectively do to support the local enterprise economy to both achieve its growth potential and foster new opportunities through business for borough residents. While growth forecasts for the borough have generally been positive, they are not inevitable and the Council wishes to ensure that the potential opportunity that growth represents is turned into real improvements for the borough's businesses and residents.

This is partly a matter of how initiatives can make a difference, and partly about how the transformation can be accomplished when resources are very limited. The objectives and the action plan proposed are designed to show how this can be done.

## **1.3 The Cost of Not Taking Action**

While the Tower Hamlets economy has experienced some of the highest employment growth in Europe in the last decade, it remains a deprived borough, with the second lowest working age employment rate in London at 59.4%<sup>2</sup> (roughly 10 percentage points behind the London average of 70.2%). With low employment comes economic exclusion. Whilst the 2010 Indices of Deprivation (IMD) show that Tower Hamlets has moved up from being the second most deprived borough in the country, its rank of seventh in 2010 (the third most deprived borough in London) shows that there is a long way to go. While more than a tenth of working residents earn over £100k p.a., compared to 2% for London as a whole, some 47% of residents are on benefits. This is a dramatic demonstration of the contrasts evident in one of the world's most diverse urban environments.

These challenges cannot be solved by any one strategy. But by ensuring a fertile ground for enterprises within the borough, new employment opportunities will arise which borough residents may be able to capitalise on, benefitting the individuals but also their families and communities. In particular many of the groups most excluded from the workplace, such as those with families or disabilities, are those which would most benefit from local employment. Removing barriers to new business starts in particular is likely to be of real benefit to borough residents in the future. This Enterprise Strategy therefore seeks to encourage a diverse, sustainable local enterprise economy, where borough residents can gain employment and take part in entrepreneurial activity, whether through self employment or by setting up a business.

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<sup>2</sup> 97,800 residents - Annual Population Survey, ONS. Nov 2010

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## 1.4 Principles

Both the Strategy itself and individual initiatives stemming from it are underpinned by the following four principles.

1. **Partnership Working and Stakeholder Participation** – the Council will work with strategic and delivery partners to achieve its aim, as well as providing ample opportunities for those affected by the Strategy and action plans to help shape them.
2. **Data and Evidence** – as the basis for ensuring that actions have a strong likelihood of having a positive impact through enterprise on borough residents and businesses.
3. **Equalities and Diversity** – in recognition of the diversity of Tower Hamlets' population and business base. This includes ensuring substantial benefit for the diverse groups which make up Tower Hamlets' population and supporting any group which, in terms of business support or involvement in the wider business community, is disadvantaged compared with the others.
4. **Sustainable Development** – policies and programmes will seek to support economic, social and environmental goals simultaneously taking into account the needs of current and future generations.

These are applied in the Enterprise Strategy specifically to the establishment and/or growth of local enterprises.

## 1.5 Contents of This Strategy

This Strategy examines the main features of the borough's enterprise economy and how it is changing. This is followed by an analysis of the different types of businesses and enterprise stakeholders in Tower Hamlets. The shortcomings of the present enterprise economy from the point of view of local residents are presented, as is what the Council and partners can do to improve the situation.

Lastly, strategic objectives and proposed outcomes are set out showing what the Council and its partners will do to promote a positive enterprise environment and economy for the benefit of both resident and businesses.

### Key messages

Enterprise has the potential to benefit the borough in a variety of ways, including creating employment, creating wealth and revenue within the borough, and making the physical environment more attractive. This strategy is about how the Council and partners can encourage further enterprise growth, particularly in sectors of the borough economy that will more directly benefit borough residents. As such, it fits with the borough's aspirations as expressed in the Core Strategy and the work on Prosperous Communities.

## 2. What is happening in the Tower Hamlets enterprise economy

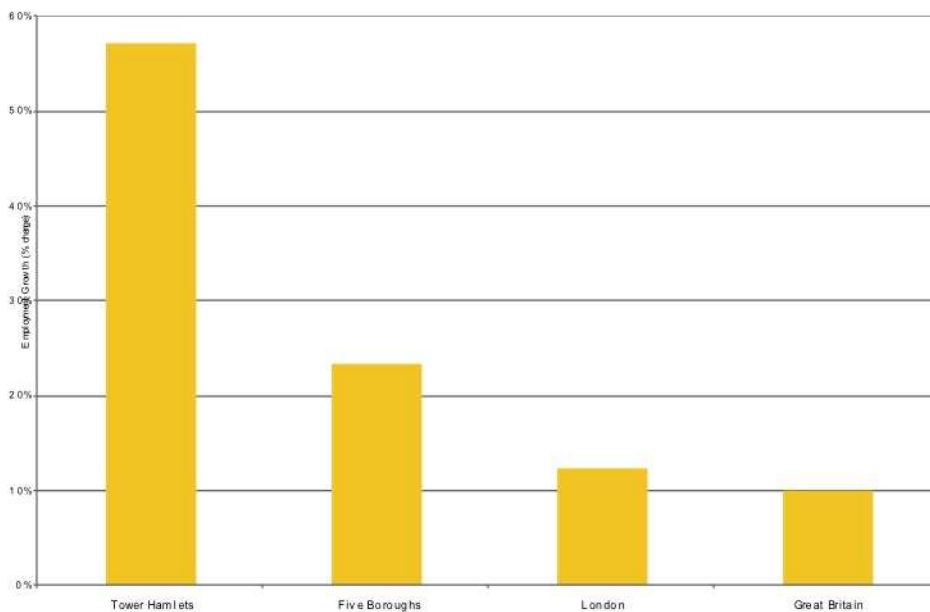
Tower Hamlets has a thriving economy worth some £6bn per annum that provides almost 1.4 jobs for every working-age resident of the borough. The enterprise economy is in many ways the borough's most significant strength and its growth has brought rapid and permanent change to the face of the borough, physically, economically and socially. Since the decline of the docks, Tower Hamlets has come to occupy a strategic location as development in London shifts eastwards. The Tower Hamlets Local Economic Assessment (LEA), produced last year, contained a full analysis of the enterprise economy, and forms the basis of this description of current trends.

### 2.1 The Rate of Change

Tower Hamlets has experienced phenomenal economic growth in recent decades. In the decade to 2008 employment in the borough grew by around 75,000 jobs, or almost 60%, some four times the rate for the wider London region. Although the borough's population has also grown, by 45,000 since 2001, employment growth has far outpaced that of the population as a whole.

With over 200,000 jobs within the borough, Tower Hamlets is now home to 5% of London's employment. There are almost three jobs for every two residents of working age in the borough: if all residents of working age were to be employed in Tower Hamlets, there would still be 60,000 jobs to fill, giving Tower Hamlets the fifth highest job density in London.

Figure 2.1 - Total Employment Change, 1998-2008



(Source: ABI)



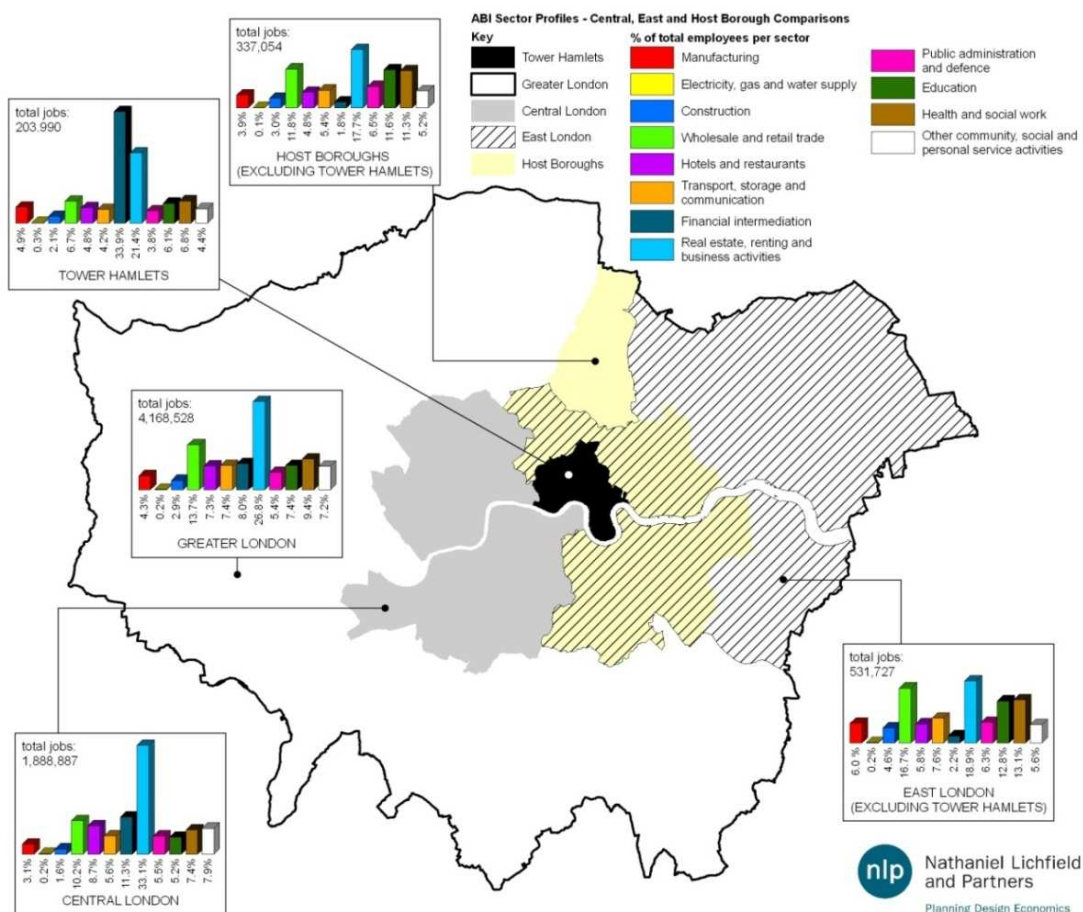
# Enterprise Strategy: What's Happening

As can be seen above, the borough's employment growth in recent years has far outpaced that of the Five Host Boroughs, the capital average, and that of the UK as a whole. This growth has been driven by the two dominant sectors in the borough's economy: financial services employment has more than trebled over the decade and real estate and business services have more than doubled. That employment within the borough is projected to grow by another 25-50% in the coming decades is also largely down to the continued success of these sectors.

## 2.2 A Central London Economy

Tower Hamlets sits physically and economically on the boundary between the City of London and the rest of East London. Like the City and the rest of the Central London Business District, the borough's economy has come to be dominated by financial and business services. These sectors provide around half of borough employment, in line with other Central London boroughs. This is in marked contrast to the rest of East London, including the other host boroughs, which are compared in the figure below.

Figure 2.2 - Central, East and Host Borough Comparisons of Employment Structure, 2008



(Source: ABI / NLP Analysis)

Strikingly, Tower Hamlets has over 200,000 jobs compared to approximately 337,000 for all of the other host boroughs combined. Furthermore, the composition of jobs is

# Enterprise Strategy: *What's Happening*

markedly different. Financial intermediation, followed by real estate, renting and business activities, dominates.

Employment within the borough is characterised by a high degree of in- and out-commuting, with 70% of working residents travelling outside of the borough to work, and 85% of jobs in the borough filled by those living elsewhere. This high level of commuting exchange is typical of other Central London boroughs and stands in marked contrast to the rest of East London.

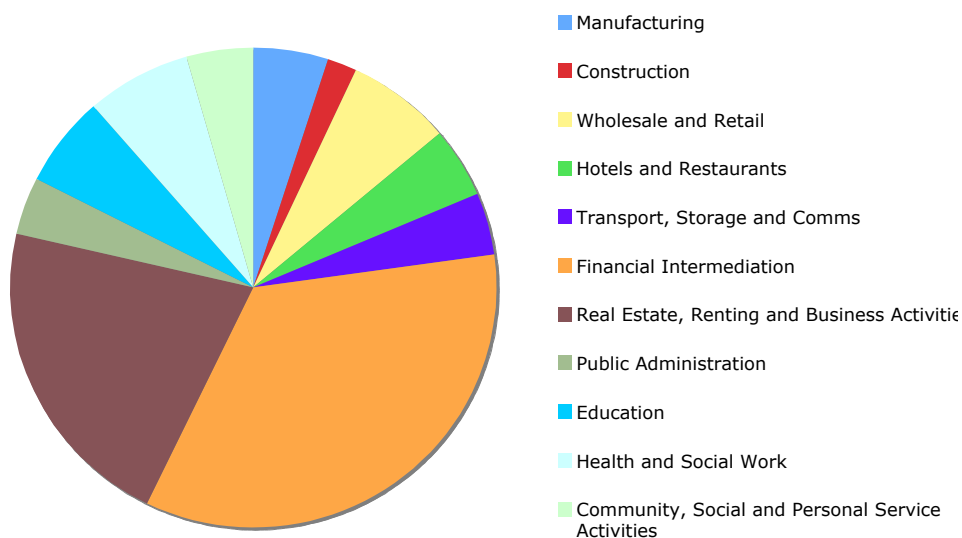
Although much has been made in recent years of Tower Hamlets' place within the five Host Boroughs and wider East London, economically the borough is functionally part of the Central London Business District, as the above characteristics demonstrate. New developments, such as the expansion of Canary Wharf to Wood Wharf and the two Crossrail stations being built in the borough, will only serve to increase this distinction.

These changes are undoubtedly good for the borough economy but are moderated by the risk that borough residents will be ill-placed to make the most of this opportunity. With only 15% of working age residents currently working in the borough, there is much work to be done to help residents capitalise on the growth and prosperity on their doorsteps.

## 2.3 Growth of Financial Services, Decline of traditional Sectors

Two geographical areas dominate enterprise in the borough, together providing 60% of employment – Canary Wharf and the Tower Hamlets City Fringe. The rise of Canary Wharf since the 1980s has acted as the prime engine of employment growth, providing a current total of 80,000 jobs, two-fifths of the borough's employment. Alongside this, there has been a significant development and intensification in the Tower Hamlets City Fringe, especially in Spitalfields and Aldgate: this area now provides some 15% of the borough's jobs. In both these areas this growth has largely been dominated by Financial and Business Services which, as the chart below indicates, now dominate employment in the borough.

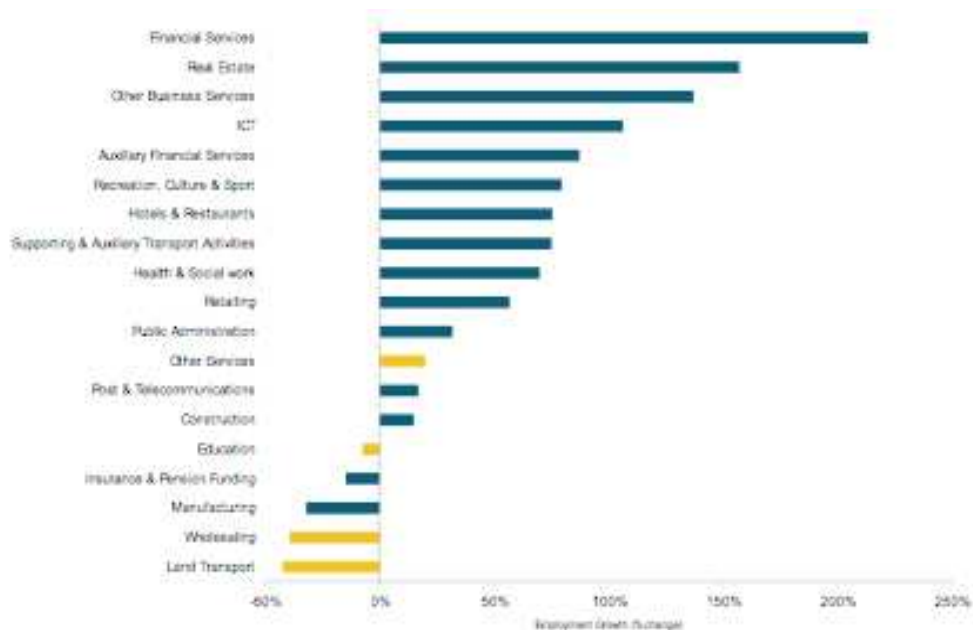
Figure 2.3 - Enterprise Sectors in Tower Hamlets by no. of Employees



## Enterprise Strategy: *What's Happening*

Financial services and business services together amount to 55% of Tower Hamlets' employment. This can be compared with an equivalent figure of 45% for Central London and around 20% for the other Host Boroughs and the rest of East London. Figure 2.3 shows the growth and contraction of job numbers in each sector over the period 1998-2008. Blue bars indicate a rate of change above the London average, whereas yellow bars mean below average change.

Figure 2.4 - Tower Hamlets Sector Employment Growth, 1998-2008



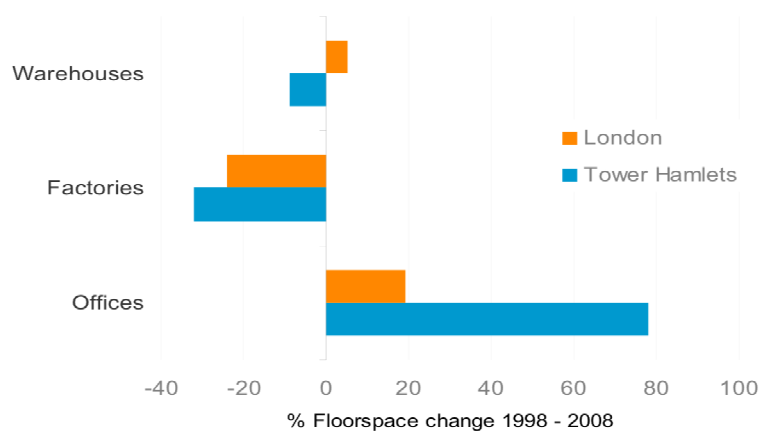
Source: Annual Business Inquiry/NLP analysis

Note: Blue bars indicate rate of change above London average, yellow below.

While the growth of financial services, real estate and other business services can be largely attributed to the transformation at Docklands, the significant growth in other sectors shows the underlying strength of the borough economy, with most sectors not only growing in the period, but growing faster than the London average. More 'traditional' sectors of the economy, such as manufacturing, wholesaling and land transport have experienced significant decline, although the 40+% decline in land transport employment is less than that experienced by London as a whole. The shifts from industries requiring significant warehouse and factory space towards knowledge-based economic activity also have physical implications, as changes in employment patterns are reflected in land use.

# Enterprise Strategy: *What's Happening*

Figure 2.5 – Tower Hamlets Employment Space Change, 1998–2008



Source: NOMIS/VOA

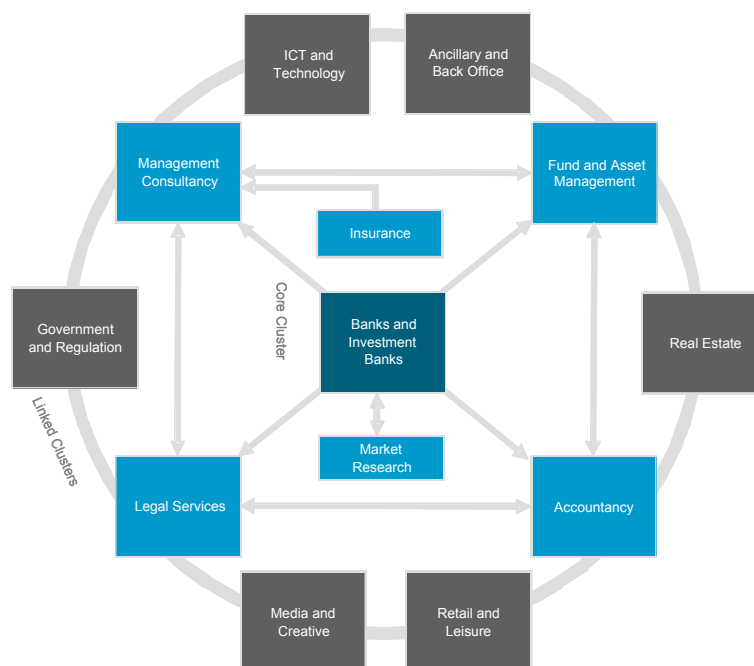
As the figure above shows, employment space change within the borough has been far more dramatic than in London as a whole, with significant decline in the number of warehouses and factories and a marked increase in office floor space. It is no exaggeration to say that the face of the borough has been transformed by the clearance of industrial space and the rise of office towers in the last 20 years.

## 2.4 Financial Business Service Clustering

Although financial services and related firms are by far the biggest employers within Tower Hamlets, they should not be considered as isolated islands of employment: there is significant evidence that the concentration of financial services firms within the borough attracts other forms of employment. This “cluster affect” is indicated by the diagram below.

# Enterprise Strategy: What's Happening

Figure 2.6 - Composition of London Financial Service Cluster and Supporting Industries



Source: NLP adapted from PMSU (2004)

Each bank or insurance firm is linked to and supported by firms providing auxiliary financial, accountancy, legal and management services, with these firms in turn supported by others which enable them to function, including real estate, IT, media and creative firms. All these firms together can be linked less formally to the wider economy, directly or indirectly, through businesses and their employees spending money on goods and services such as shops, cafés, restaurants, bars, cleaning firms, catering, and other suppliers. Analysis from the LEA suggests that each job in a 'tier 1' bank or insurance firm directly supports almost one additional job in the immediate tiers below, and more in the wider economy.

It is this cluster effect that is the strongest argument for continuing to encourage the attraction of high-level financial institutions to the borough, as each bank or insurance institution acts as a multiplier for support businesses. Thanks to this effect, the financial services sector is driving a transformation of the borough in three distinct areas:

- in **economy**, with the exceptional GDP growth experienced by the borough being largely attributable to the sector;
- in the **physical environment**, with increased development and marked changes to the volume and types of commercial space available in the borough; and
- in **jobs**, with 40,000 banking and insurance jobs supporting 20,000 jobs in tier 2 and 15,000 in tier 3.

The importance of these large firms spending money locally should not be underestimated. Every pound spent within the borough is an opportunity for local enterprise and entrepreneurialism, which in turn supports a myriad of small and

medium enterprises, fuelled by both employee and corporate spending. It is this breadth and diversity which has the greatest potential to benefit borough residents.

### 2.5 Other Sectors of Growth

The dominance of financial services in Canary Wharf powers the borough economy but can also skew perceptions of other sectors. Proportionally, the borough is under-represented in sectors that typically make up the Central and East London economies, such as retail, tourism and 'other' services. Two key emerging sectors in the borough are tourism and leisure and creative services, both of which have significant potential for future growth. Taken together, they represent more evidence of the transition to a knowledge-based economy, which should prove more sustainable in the long term. It is also hoped that this more diverse economy will provide greater opportunities for local people through access to a variety of jobs at a range of skill levels.

#### Tourism, retail and Leisure

London is a global destination for tourists and the visitor economy was worth £14.2bn in 2007, accounting for 5.8% of London's economy. Tower Hamlets has a world-class tourism destination in the Tower of London, and the borough plays a reasonably significant role within the capital, with the 7th largest tourism economy within London – worth £454m per annum<sup>3</sup>. While the proportion of tourism-related activities (which includes parts of the service sector) in Tower Hamlets (4.6%) is lower than the Host Borough average (6.3%), the sector employs some 7,300 people.

Developing the tourism, retail and leisure sector involves a number of considerations, but it is clear that many core components are present, and simply require stitching together as part of a more coherent and communicable offer. There are real strengths in terms of:

- *Heritage* – Whitechapel Art Gallery, the Ragged School Museum in Mile End, the V&A Museum of Childhood in Bethnal Green, and the Museum of Docklands
- *Shopping* – high street and luxury brands at Canary Wharf, boutiques at Whitechapel and Brick Lane, and popular markets including Spitalfields, Columbia Road and Petticoat Lane
- *Cuisine and culture* – Curry Capital 2012 is one current initiative, capitalising on the distinctiveness and city-wide reputation of Brick Lane as a culinary destination

Focused marketing to sell the borough's attractions and uniqueness could help foster significant growth in this sector.

#### Creative industries

The designation 'cultural and creative industries' cuts across usual sectors to include many businesses which trade in intellectual property, such as advertising, architecture, arts, crafts, design, media, music, performing arts, publishing and software. The creative industries sector now accounts for about 25,000 jobs in the borough and represent a second plank in the transition of Tower Hamlets towards a modern knowledge-based, high-skilled economy.

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<sup>3</sup> (according to 2006 GLA figures)

## Enterprise Strategy: *What's Happening*

Even excluding the design, craft, arts and antiques sub-sectors, the creative industries sector accounted for approximately 13.7% of local jobs in 2002, meaning that they contributed more to local employment than the education, health & social care sectors combined. Creative industries in Tower Hamlets have grown rapidly in the last few years and at a faster rate than average for London.

### **Social Enterprises**

Another growing category of business with significant potential in Tower Hamlets is social enterprise. Social enterprises are businesses that specifically aim to solve social and environmental problems; they tend to be focused on areas the market has avoided and to employ local people and distribute profits locally.

Available information – mainly anecdotal – suggests a substantial social enterprise presence in Tower Hamlets. There are significant examples of social enterprises in Tower Hamlets, some of which have a national profile. For instance, Tower Hamlets is home to the School for Social Entrepreneurs (SSE), itself a social enterprise, which offers training to those who are seeking to develop businesses with social benefit. Beyond the Barn, an initiative of the Bromley by Bow Centre, has incubated and launched 28 successful social enterprises since 2005, creating over 200 new jobs. While social enterprise may not be a large sector in terms of the number of enterprises, it is strategically important because of the opportunities it can create for local people. Socially focused businesses are more likely to be aligned to the needs of their communities and therefore have great potential to help achieve the aims of this Strategy. This mechanism is particularly timely for meeting social and economic objectives simultaneously, at a time when resources are limited and the economy is struggling.

The shift in focus towards social enterprise is a national trend. Since Tower Hamlets already has some strengths in this area, it makes sense for the borough and partners to look for ways to support this growth and development. Finance will help local social enterprises grow and scale, and access to it is as vital as for any business. The local context of financial and business support in Tower Hamlets gives the borough a competitive edge in this area. For instance, current work by East London Small Business Centre with community development finance institutions could be complemented by collaboration with larger financial partners. The banks have already made some positive steps in this regard, with the support of JP Morgan for Big Society Capital being notable. The potential is to do more with less, for the benefit of enterprise and residents.

### **2.6 An Enterprising Economy**

People in Tower Hamlets start businesses. The borough has the seventh highest number of business births within London and the tenth highest number of business deaths, consistently in line with Inner London averages. Despite a national downward trend from 2004 to 2008, Tower Hamlets is more enterprising in 2008 than it was in 2004. While business deaths in the borough in 2009 increased faster than in London as a whole (by 45% compared to 35%), the rate of business births remained higher than the London average. These figures suggest that, even in challenging times, the borough economy is vibrant and enterprising.

Levels of business starts within the borough are particularly high among the Black, Asian and Minority Ethnic (BAME) communities. The 2009 National Employer Skills Survey (NESS) shows that at least half the owners of, or partners in, Tower Hamlets businesses are BAME.

## Enterprise Strategy: *What's Happening*

On a more cautionary note, self-employment figures for the borough are lower than the London average, and this is especially true for men, where the gap is 3.1 percentage points. For every percentage point that Tower Hamlets moves closer to the London average, this would represent approximately 800 jobs. However, it should be noted that while nationally self-employment tends to be low skilled, within Tower Hamlets it is people with higher levels of skills and incomes that take this route.

Overall, then, Tower Hamlets residents start businesses, and those businesses operate across a full range of sectors, sizes and turnovers. While the number of self-employed people within the borough may be below the national average, the income and skill levels of those who are self-employed is far higher than average, meaning that self-employed residents are much more likely to be working in business services than lower skilled occupations. BAME enterprises are a particular source of vitality and the population is young<sup>4</sup> and increasingly well educated in the borough. There is clear potential in Tower Hamlets and harnessing all of these factors will support a competitive local economy and stimulate economic and employment growth.

### Key conclusions

Enterprise is strong in Tower Hamlets and the economic picture is broadly positive. There has been a major and long-term shift towards financial services. Financial services help to fuel a cluster of other businesses, buying in services and supplies and spending money locally, including through their employees. This in turn creates opportunities for a broad range of business services. Functionally, Tower Hamlets is now part of the central London economy.

These changes bring some tensions, as traditional sectors continue to decline, but new opportunities exist. Besides financial and business services, tourism, creative industries and knowledge-based industries are growth sectors which are not directly part of the financial and business services cluster and offer greater diversity. Tower Hamlets has a higher than average level of business starts, indicating that there are enterprising local people.

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<sup>4</sup> 64.5% of borough residents are aged from 16-49, compared to the London average of 54.8%, or the national figure of 47% (ONS, Resident Population Estimates by Broad Age Band for the period June 2009)



## 3. Who's who in relation to Enterprise

### 3.1 Stakeholders and Contributors to the Tower Hamlets Enterprise Economy

Enterprise within Tower Hamlets is not homogenous. Although the economic context of Tower Hamlets is shared by all organisations in the borough, how it affects them can be very different. The businesses that work within the borough cover a broad spread of sectors, range in size from sole traders to large multinationals and require different means of support and accommodation by the borough in order to thrive. Understanding the differences between types of enterprises can help the Council and partners to shape appropriate responses.

Similarly, there are a variety of other organisations that are stakeholders in the Tower Hamlets enterprise economy, from banks and enterprise support agencies to higher educational institutions and the third sector. All of these bodies have a stake in a successful Tower Hamlets and a role to play in supporting borough businesses. This section is intended as a framework for understanding the diversity of the current enterprise economy; it describes the roles and activities of enterprises, support organisations and of the Council with regards to the borough enterprise economy.

### 3.2 Types of enterprise

The table below suggests four main types of enterprise which are found in the borough, which are grouped together by characteristics such as size and market to help analysis, including the Council's relationship with them. It should be noted that these categories are imperfect generalisations, designed primarily to help shape appropriate policies, and that there is some overlap between them. Categories attempt to combine the markets served, the perception of Tower Hamlets, and engagement needs by the Council and support agencies.

# Enterprise Strategy: *Who's Who*

Table 3.1: Categories of business in the Tower Hamlets economy

Categories of businesses	Market served	Why enterprises are located within Tower Hamlets
<b>Global financial services:</b> big banks and other global financial services	Worldwide	Suitable locations in Canary Wharf and the City Fringe – these types of business require central locations in major world cities
<b>Business services enterprises:</b> businesses which tend to cluster with the financial businesses – for example legal firms, data processing businesses, and businesses whose profitability largely depends on a central London location – for example, accountants, branding agencies and architects	Enterprises across London and the UK, but especially those in Canary Wharf and the City Fringe	Within easy reach of clients in the City, the City Fringe and Canary Wharf, Tower Hamlets is seen as a central London location, and commercial rent levels are somewhat lower than other parts of central London
<b>Local community-facing enterprises:</b> businesses which directly provide goods and/or services to Tower Hamlets residents	Local residents	To be accessible to residents and communities within the borough – mostly located in town centres. Also includes many social enterprises.
<b>Traditional sectors: surviving businesses from prominent sectors of traditional importance in the Tower Hamlets enterprise economy</b>	<b>Local, regional and sometimes international markets</b>	<b>Often surviving businesses from old enterprise clusters in Tower Hamlets: for example clothing/fashion and storage; or sectors such as construction, attracted by continual development in the borough.</b>

Each of these four business categories will now be considered in turn:

## Global financial services

Thanks to the development of Canary Wharf, Tower Hamlets acts as a significant extension to the financial hub of the City of London, and has consequently attracted a high number of multinational financial institutions. These businesses have worldwide markets and often highly specialised requirements, drawing staff from all over the world. In terms of advocacy and support, it is highly unlikely that the Council could provide effective support in safeguarding the competitive position of these businesses. Nonetheless, the Council's role as regulator is important, at least as far as planning is concerned. Here the principle should be to "do no harm", and, within

the planning strategic framework, to support the continued presence of banking and finance in Tower Hamlets.

Considering the vital role that banks and financial institutions play in the borough's enterprise economy, with the important clustering effect described in chapter 2, there is an important role the Council can play in representing the interests of these institutions to national Government. The views of the management of these businesses, along with all other local business views, should be sought to ensure that the Council is acting effectively as representative of the local enterprise economy in policy formation at different levels, with the London Mayor's economic development policies being particularly significant.

This Enterprise Strategy is concerned with the kind of benefit which local enterprises can provide, as much as the benefit which they can receive. Global financial businesses have a vital role as a potential supporter of local businesses. Their buying power for goods and services is comparable only to the Council and other large public agencies, and indeed this is one reason why business service enterprises are increasingly located in Tower Hamlets. Through Corporate Social Responsibility (CSR) programmes, these large businesses can also take part in community-support activities such as encouraging their employees to act as business mentors. In this sense, it is hoped that global financial businesses can collaborate with the Council to provide effective support to the local enterprise economy.

Another significant role that these enterprises can play in the borough economy is as employers of local residents. Although global financial businesses draw their workforce from a large area, the sheer number of employment opportunities provided by these businesses means that every effort should be made by the Council to encourage them to take on local people, and for the Council to support local residents in becoming ready to take on such employment. This is primarily dealt with in the Employment Strategy.

### **Business services enterprises**

The business services sector is a highly significant part of the Tower Hamlets economy, with by far the largest number of enterprises and the second highest number of jobs in the borough. Although the category is a somewhat all-encompassing designation, there are several common characteristics of many of these businesses, which are useful to draw out here.

Within Tower Hamlets there are a range of business services enterprises that are attracted to the borough, either as part of the 'cluster effect' around the banks and financial intermediation businesses, or due to the borough's location as part of the Central London Business District, or both. They provide a wide variety of different business activities: professional services, accountancy, advertising, recruitment, ICT, real estate, graphic design, and data businesses, to name but a few. These are businesses that have significant London-wide scope, but are drawn to the borough in part by the proximity of potential clients in Canary Wharf, the City Fringe and the City itself. Businesses in this category vary in size, but are much more likely to be Small- to Medium- sized Enterprises (SMEs) than those in the previous category.

Thanks to the diverse nature of these businesses, growth within this category will lead to employment opportunities for local people that are much wider in scope than those provided by global businesses alone. Understanding and representing these sectors is therefore of particular importance given their increasing presence in Tower

Hamlets and the benefits which they can provide for local residents. Specifically, the Council can take a supporting role for businesses in these sectors by:

- encouraging the increased development of a local procurement network in which businesses can engage as both purchasers and suppliers;
- working to ensure a sufficient supply of flexible workspace for new and growing small businesses;
- supporting the Government's Tech City proposals as a way of developing a concentration of new businesses and networks in Tower Hamlets; and
- coordinating business advice and support services.

## Local community-facing enterprises

Although a significant body of businesses relate primarily to finance and business services, there remains a substantial proportion of enterprises that are based within Tower Hamlets because they provide services specifically to borough residents. This category consists primarily of retail firms, but will also include professions which support these businesses, such as small accountancy and legal firms, as well as services for residents, for example, mechanics and residential estate agents.

Of all the categories used here, this one is in some ways of most direct use to local residents, providing a wide range of entry-level jobs along with necessities for purchase. Mostly SMEs, these businesses can benefit significantly from good business support services, and, since many are located in high streets, they benefit from Council policies specifically targeted at town centres. Successful support for such businesses will in turn support economically successful town centres, and therefore help achieve Town Centre Spatial Strategy objectives.

Certain businesses in this category – the restaurants in Brick Lane, the shops in Bethnal Green Road and the Columbia Road flower market, for example – now draw people from all over London and are gaining a reputation as destinations for tourists. It is hoped that the Olympic and Paralympic Games will bring an increased focus on the East End which these businesses will be able to capitalise on.

## Businesses in traditional sectors

Historically Tower Hamlets has been a largely industrial region, with the docks, warehouses and factories along the Thames and River Lea acting as the borough's most significant employer. While there has been a pronounced transition away from these heavier industries within the last 50 years, there are still significant employers within the borough from these more traditional sectors. Storage, wholesale and distribution businesses were particularly prominent at a time when the docks operated in the borough, and the borough has also had a long association with clothing manufacture and fashion, linked to cloth import from the docks, and the exclusion of certain preparation processes from the City of London in past centuries.

The defining characteristics of these businesses are a combination of historical location and, often, a requirement for a large footprint. Most of these enterprises do not specifically serve borough residents and businesses although some, like construction firms, sit within this category and are attracted by the continued high levels of development within the borough.

Businesses within this category provide somewhere in the region of 10% of employment within the borough, and are therefore significant to the future of the borough economy. However, the dense nature of Tower Hamlets, combined with a shift to higher value economic activities, means that land values are high and set to

# Enterprise Strategy: *Who's Who*

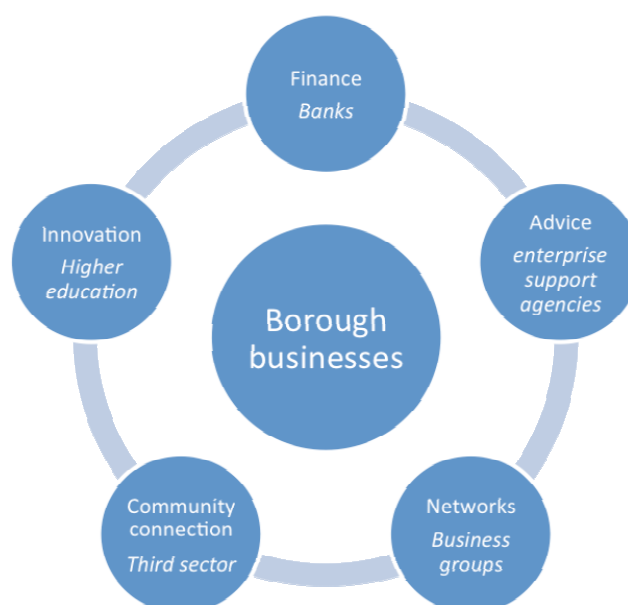
increase, which suggests that many of these firms will find it increasingly hard to remain competitive within the borough.

While the Council values and desires to support all employers within the borough, there is a recognition that many traditional sectors are experiencing significant transition, which may include a need to relocate to areas with less financial pressure. The Council and its partners need to strike a balance between supporting significant local businesses and recognising that a prosperous future for the borough needs to recognise long-term changes in the nature of the economy and land use.

## 3.3 Creating an environment for enterprise to prosper

This Strategy is shaped by an understanding that some agencies including the public and third sectors have an important role to play in supporting enterprise and reinforcing its benefits for local people. The following types of organisation all have a role to play in creating a supportive environment for businesses within the borough. (*Note: the words in italics in the diagram are examples of organisations in each category.*)

Fig 3.1 - The Business Support Environment



### Enterprise Support Agencies

Enterprise support agencies operate at a variety of levels, including national, regional and local bodies. They are a valuable to enterprises at various stages of the business cycle, providing information, guidance, networking and sometimes avenues to financing.

At the sub-regional level, there are two main enterprise support agencies operating within East London. These are:

- **The East London Small Business Centre (ELBSC):** based in Brick Lane, this is the oldest surviving business support agency in the UK. It facilitates 300 new businesses starts, trains 1,000 people, and lends £2 million in funds to entrepreneurs each year across five east London boroughs: Tower Hamlets, Newham, Havering, Redbridge, and Barking and Dagenham.

- **East London Business Place (ELBP)** is a supply chain development programme allied to a contract brokerage service led by Canary Wharf Group plc and supported by the East London Business Alliance (ELBA). It provides a free matching and sourcing service, connecting buyers and suppliers to maximise local business benefit from new developments and commercial precincts in east London. In particular, ELBP has, since 2008, helped Tower Hamlets based SMEs secure almost £38m of business and has helped more than 350 Tower Hamlets SMEs reach 'Fit-to-Supply' status through flexible 1-2-1 and one-to-many support activities.

ELBA, which operates across the sub-region, also runs a number of projects that are relevant to the local enterprise economy – notably in providing networking opportunities for local businesses and in facilitating a transfer of skills to social enterprises.

There are also capable support services based within the borough. Non-statutory provision locally comprises small and medium sized third sector business support agencies, such as Account 3, the Bromley by Bow Centre (particularly for social enterprises), the Spitalfields Small Business Association and the Cultural Industries Development Agency, and the Tower Hamlets Cooperative Development Agency, to name but a few. These bodies have a significant role to play within the borough, although some are vulnerable to reductions funding.

## Business Networking Groups

Business Networking Groups help the borough to put forward a strong enterprise voice and contribute to a better understanding of the support needs of businesses in different stages of the enterprise lifecycle. Some have a tighter local focus, such as Brick Lane Business Association or Docklands Business Club, whereas others like Business Junction cross borough boundaries. Linking businesses together provides opportunities for learning and collaboration, and cross-sector groups can help develop the borough internal market and even foster new areas of business.

## The Third Sector

The third sector in Tower Hamlets is well established and has particular advantages in the delivery of certain types of services, including those which seek to promote enterprise among hard to reach groups. Many third sector organisations are committed to encouraging enterprise starts among residents as a means of overcoming poverty and deprivation. And many third sector organisations themselves are interested in adopting social enterprise models to help their service users and diversify their incomes. Some of these could be in a position to offer services to businesses and public sector agencies in Tower Hamlets. While it is acknowledged that there can be an element of caution in interactions between the private and third sectors, there are many significant opportunities for cooperation which would benefit the aims of both.

## Higher Education Institutions

The borough's higher education institutions have a critical role to play in driving a knowledge and innovation based enterprise economy in Tower Hamlets, through the generation of ideas and the provision of a skilled, highly-qualified workforce. There are two universities in Tower Hamlets: the whole of Queen Mary, University of

London, and part of London Metropolitan University. Both universities have seen a significant increase in research grants and private contracts in recent years, with research at Queen Mary now worth over £60m a year.

In terms of enterprise development, knowledge transfer and innovations hubs, the Higher Education institutions have a very important role to play in fostering innovation among businesses and in the commercialisation of research. Among other business related activities, Queen Mary has three main initiatives which seek to engage with business in support of the knowledge economy. These are:

- **Queen Mary Innovation** – provides a range of support to businesses including research collaborations, technology licensing, graduate placements and spin-out activities.
- **QUEDOS: Enterprise and Development Opportunities** – offers professional development courses and opportunities for networking and engagement with likeminded individuals and businesses
- **ImpactQM** – a knowledge transfer project aimed at creating a new generation of science and technology graduates, who are as at home in the world of business and enterprise as they are in science and technology

While much of Queen Mary Innovation work over the next few years will be focused on biotechnology applications, a growing body of knowledge and innovation is in the interests of the whole borough economy, and links between borough businesses and higher education institutions should be encouraged.

## Banks

Aside from being businesses in their own right, banks are vital to the functioning of business, as the basis for transactions and a source of finance. Banks provide local businesses with a useful source of enterprise advice, and may offer additional services to support businesses, as a means of helping their customers grow. As a home to many significant multinational financial institutions, Tower Hamlets has the opportunity to attract significant inward investment from the financial sector. Models of finance with social and community aspects should also be encouraged.

## 3.4 The role of the council

While the vast majority of businesses within Tower Hamlets operate largely independently of the Council, there are a number of functions the Council provide that influence the local enterprise economy. Some of these are more or less specific to the Council as a public, democratically accountable body with statutory responsibilities, whereas others are shared with other agencies. In all cases, the Council can discharge all these functions in a way which supports, or discourages, business activity.

The Council's main functions with regard to enterprise are:

1. **Representational:** representing the local enterprise economy in public policy formation
2. **Procurement:** ensuring that the Council as customer of goods and services acts in a way supportive of local enterprise and sets an example which other organisations are encouraged to emulate.
3. **Regulatory:** using its regulatory responsibilities in a way which supports the local enterprise economy. Especially important is the Council's role as

## Enterprise Strategy: *Who's Who*

planner and building regulator. The Council's planning strategies are of fundamental importance to how the enterprise economy develops.

4. **Information provider:** providing information that is of use to local entrepreneurs and businesses, and to businesses which may relocate to the borough. Through its Enterprise Team, the Council is also in a good position to collect information about potential means of support for local enterprises, and to decide how this information is used and publicised for the benefit of Tower Hamlets enterprises.
5. **Partnership work:** facilitating joint working between agencies to provide practical support to local enterprise, and ensuring that joint working leads to effective results.
6. **Asset provider and manager:** using physical assets such as office accommodation to support local business development. Letting out surplus office space or arranging for office facilities for start up businesses is one way to provide a good setting for business.

Overall, therefore, the Council can bring significant additional resources to bear in order to implement the Strategy. This includes negotiations with developers in order for them to provide flexible workspaces for SMEs; ensuring the Council's procurement strategy maximises opportunities for local businesses; or enhancing the quality of the borough's town centres and markets.

### Key messages

There are different types of business which have different characteristics and therefore require different responses from an enterprise strategy. Four types of business are outlined. Within Tower Hamlets there are also services which exist to support enterprise, for instance through providing finance and advice, and this includes a particular role for the Council. Generally speaking, the borough and partners have a greater role to play in supporting enterprises which are more locally focused in terms of the markets they serve and/or the people they employ.



## 4. Challenges

Whilst there is much vitality in Tower Hamlets' economy, there are significant challenges to its ongoing success and diversity, and residents' involvement in it. This section sets out five problems facing the borough's enterprise economy which also affect residents and need to be addressed by this strategy. These five, considered in turn below, are:

1. The skills gap between residents and borough businesses
2. Relatively low rate of self employment
3. Limited resources for business
4. Underperforming town centres
5. Lack of suitable workspace for small businesses

The Council and partners need to understand and respond to these issues for the benefit of borough businesses, both new and established, as well as local residents.

### 4.1 The Skills Gap – Residents and Borough Businesses

As noted above, Tower Hamlets has the fifth highest job density in London but the majority of jobs are filled by people from outside the borough. Although this large net inflow of workers is unsurprising given the scale of economic development in the borough, it is of concern that many residents remain excluded from the benefits of economic change and growth.

#### Skills, qualifications and the struggle to compete

This local employment gap reflects a mismatch between residents' skills and the jobs available in the borough<sup>5</sup>. Although barriers to work tend to be multiple and complex, skills are a key predictor. A quarter of borough residents – twice the London average – have no qualifications and over 40% of these are not in work. In contrast, a third of residents are qualified to degree level or above, which is consistent with the London average. With fewer residents at intermediate skill levels than is typical for London, there is thus a polarisation of skill levels within the borough. Borough residents at lower skills levels are significantly less likely to be in employment than the London average.

A similar polarisation exists in the borough's jobs market. There are high numbers of entry-level jobs and a relatively high number of extremely well paid jobs, but opportunities for progression between these are limited. The borough's Employment Strategy explicitly aims to increase the employment rate in Tower Hamlets so that it converges with the London average. Plans are in place to help with the supply side of labour, but the demand side of enterprise can also be part of the solution.

#### Business needs a broad spectrum of skills

The borough's low skills level also impacts businesses. Residents' exclusion from the labour market limits their spending power, which in turn reduces further the potential for growth and employment of those businesses that serve a local market.

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<sup>5</sup> The Employment Strategy provides a much fuller treatment of this point.

## Enterprise Strategy: *Challenges*

More broadly, businesses require a diverse range of skills to meet positions at different levels. This varies depending on the sector, but it is clear that a lack of basic skills in the local labour market is limiting the capacity of smaller businesses, in particular, to access the skills they require. In a survey conducted as part of the LEA, about a fifth of businesses reported recruitment difficulties, with the common barriers being identified including language, a lack of basic skills, and shortage of higher-skilled workers. Whilst, by extension, many businesses do not struggle to recruit, there are nonetheless clear indications that the skills gap impairs the business environment and disadvantages residents.

These findings are reinforced by the 2009 National Employer Skills Survey for England. This reported that, where employers in Tower Hamlets do have difficulties filling vacancies, nearly all (95%) state that this is because of skill shortages rather than other reasons. This compares with the London average of 86% and 76% across England. Again, the principal issues identified were language barriers, a lack of basic skills, and a shortage of higher-qualified workers. This suggests that in addition to the difficulties of firms in attracting individuals with very specific skills, there is a more fundamental issue in the middle of the labour market, where jobs which would typically be filled by local residents are not being filled, due to the lack of basic and intermediate skills among the resident population.

### **The role of the Enterprise strategy**

The evidence above presents two related issues:

- the borough's skills gap, with a high proportion of local residents lacking even basic skills
- the predominance of job opportunities that are either at entry level or require a very high level of skills – with relatively little in between.

Tackling both these issues will have benefits for both businesses and residents. The Employment strategy suggests how the Council and its partners can improve residents' access to jobs by raising their skills levels. The challenge for this Strategy is to support enterprise, encourage growth and support a diverse, sustainable business base that generates employment within the borough and that local people can access.

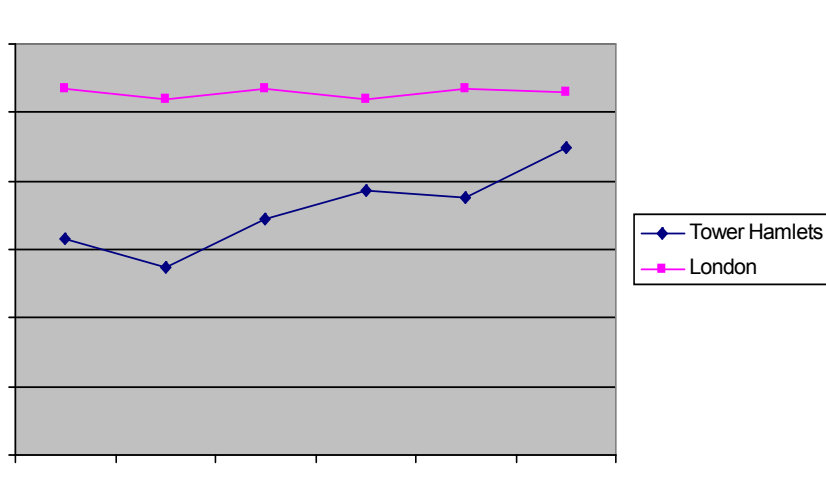
## 4.2 Relatively Low Rate of Self-employment

Self-employment should be treated with some caution as an indicator of entrepreneurialism. The LEA makes a distinction between “enterprising individuals” who start self-employed and grow a company, and the many people who become self-employed simply because it is their best option when they fail to find a conventional job. The former category may go on to generate jobs and wealth and therefore create a wider economic benefit. The latter, the LEA argues, may add relatively little in terms of wealth creation to the wider economy, but in ceasing to receive benefits and starting to pay taxes, there is a clear social value and cost savings for the state. This is of particular relevance for Tower Hamlets, where unemployment rates are relatively high.

### Self-employment in Tower Hamlets: strengths and weaknesses

Currently, self-employment rates in Tower Hamlets are lower than the London average. In 2010 9% of the working age population in the borough, or 16,400 people, were self-employed, compared with 10.6% across London<sup>6</sup>. But as figure 3.1 shows, this represents a significant increase in the borough over the last five years – the equivalent figure for Tower Hamlets in 2006 was 5.5% – in a period when the London rate has remained stable.

Figure 4.1 – Percentage of working-age population who are self employed



A much larger gap exists between the male self-employment rate for the borough and that for London as a whole. In 2010 11.5% of men aged 16-64 were self-employed in the borough (10,900 people), as against 14.6% across London. The male self-employment rate has also risen more slowly than the whole borough working age population: between 2006 and 2010, while the borough rate grew by nearly two thirds the increase in the male rate was only 40%.

By contrast the female self-employment rate in the borough was in 2010 almost the same as for London (6.4% in Tower Hamlets against 6.5% in London). The rate has

<sup>6</sup> All self employment data from ONS Annual Population Survey, for 2010 unless specified.

## Enterprise Strategy: *Challenges*

increased rapidly over the last five years, more than doubling from 2.7% in 2006. Interestingly, the figures for women *in employment* who are self-employed (as distinct from a percentage of the wider 16-64 population) are rather higher in Tower Hamlets, at 13.4%, than the London-wide figure of 11.2%.

The picture painted by the evidence is therefore mixed. On the one hand, self-employment appears to be underperforming in Tower Hamlets, in terms of its contribution to the borough's enterprise economy and specifically in its contribution to employment. For example, the above data suggests that had the 2010 self-employment rate in Tower Hamlets matched the London-wide level, an additional 2,900 people would have been self-employed. On the other, there has been a significant increase in self-employment rates in the borough in recent years, particularly among women, and female self-employment rates are relatively strong.

### **The role of the Enterprise strategy**

The evidence suggests some clear strengths and weaknesses in relation to self-employment in the Tower Hamlets. The challenge is for the Council and business support agencies to target provision in a way that tackles the identified weaknesses while building on the strengths. This should aim to maximise the contribution in tackling unemployment, but also to ensure support for entrepreneurs to make the transition from self-employed sole trader to a larger business. This will require some more detailed analysis in order to build a fuller picture of the factors underlying this data– as well as variations between different groups, for example by gender and ethnicity.

## 4.3 Limited Resources for Business

Businesses can benefit from a wide range of support and resources at different points in their lifetime. This can include start-up, working and development capital, expert advice and mentoring, premises to operate from, legal and accountancy services, access to different supply chains, protection for their ideas and opportunities to scale up the scope of their activities. Advice and guidance are also important, especially in terms of regulations, accessing new markets and employment issues. These needs are of particular relevance to entrepreneurs, start-ups, SMEs and businesses seeking investment.

Enterprise support services are available at national, regional and local level. Although the quality of enterprise services is sometimes very good, the coverage of services available is patchy, and the situation is getting worse.

### Reducing enterprise support

The national and London-wide picture is one of a general retrenchment of publicly-funded business support at a time of financial stringency. The Department of Business, Innovation and Skills (BIS) is in the process of streamlining the provision of Enterprise and Business Support services. Business Link is moving to a web- and telephone- based resource, at a time when support agencies in the borough have stressed the importance of face-to-face contact.

As with national provision, recent funding cuts have also adversely affected ELSBC and ELBP, forcing them to re-examine their roles and functions. Furthermore, despite the presence of capable support services based in the borough<sup>7</sup>, many from the third sector, have come under strain as a result of public sector cuts and increased competition for funding.

### Restricted finance for business

A significant barrier to new business opportunities within the borough continues to be the perceived restriction on business finance, especially for small businesses.

In principle, a large range of institutions could provide finance of different sorts for enterprise in Tower Hamlets. Commercial banks are one source, but in spite of pressure on banks from the government and the Bank of England, credit is still reported as being a major challenge for smaller businesses and start-ups. Other lenders include community development finance institutions (CDFIs) such as credit unions and microfinance, and equity investors.

There have also been sources of community funding within the borough, including a social venture capital fund and microfinance arrangement implemented by Planet Finance in 2008. More recently, the East London Small Business Centre and the GLA-funded Gateway to Finance project have made £500k available in loans to Tower Hamlets businesses. Whilst these are positive initiatives, they are not likely to be sufficient to meet demand from local business.

Tower Hamlets residents can also face particular difficulties in accessing start-up finance. High levels of economic exclusion mean that residents have low levels of income and assets, and can struggle to access debt finance through traditional

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<sup>7</sup> such as Account 3, the Bromley by Bow Centre (particularly for social enterprises), the Spitalfields Small Business Association and the Cultural Industries Development Agency

## Enterprise Strategy: *Challenges*

means. Informal sources, primarily friends and family, may provide an alternative means of finance and it has been suggested that this is particularly prevalent among the Black and Minority Ethnic communities. But this option will not be available to everyone. Making finance available in sufficient quantity on suitable terms, combined with advice to help entrepreneurs deploy it well, could significantly improve the environment for new and existing businesses. Conversely, the absence or weakness of these factors is a significant source of concern.

### **The role of the Enterprise strategy**

Business support provision is under increasing threat, owing to funding reductions and uncertainty about future funding. It cannot be assumed that comprehensive, publicly funded business support services will continue to be available at a national or London-wide level. And while sub-regionally there are clearly valuable initiatives and critical partners, these services have finite resources and are probably not sufficient to fully meet local needs.

In addition, there are signs that the sources of finance for enterprise in Tower Hamlets may be limited, and constraining business operation and expansion. Work needs to be done to fully understand the current picture and plan accordingly.

Consequently, it is more important than ever to ensure that the scale and nature of business requirements – in terms of both support and access to finance – are clearly understood, so that scarce resources can be targeted in the most efficient way to fill gaps in provision and avoid duplication. This Strategy can help to provide a framework for the coordination between the Council and local and sub-regional providers that such an approach will require.

## 4.4 Underperforming Town Centres

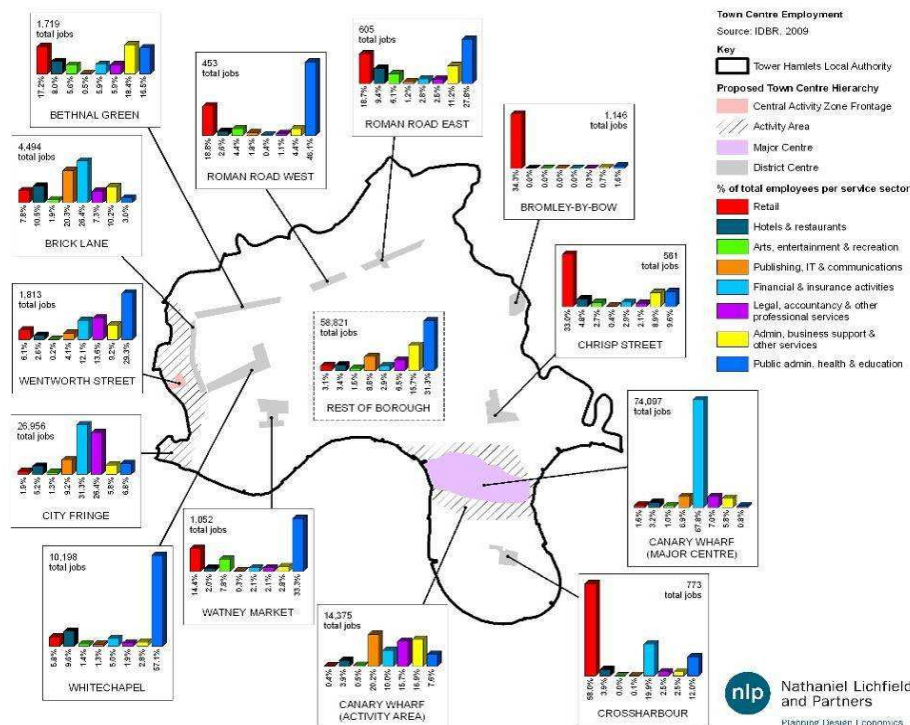
Tower Hamlets' town centres have a significant contribution to make to the borough's economic development and regeneration. Typical town centre uses, particularly in the retail sector, can be more resilient to economic downturns, and generate flexible local jobs that are appropriate for a range of skills levels. Town centres could also provide smaller office space, which is in short supply in the borough.

### Achieving critical mass?

Historically, rapid industrialisation in East London led to the absorption of the small hamlets to the east of the City, explaining why there is a distinct lack of definable quality town centres in the borough. This history, combined with the post-war slum clearances and construction of social housing estates, has meant that the borough has remained fragmented, with few town centres achieving critical mass.

As a consequence, the borough has a very limited provision of retail and smaller office space. This, in turn, makes Tower Hamlets a less attractive location for new, growing or relocating enterprises. It also means that spending in the local economy generated by increased population levels is not being capitalised upon and job creation is not optimised.

Figure 4.2 – Town Centre Employment by Service Sector



Source: IDBR, 2009 / NLP analysis

This point is borne out by evidence in the LEA, which demonstrates the variation in economic performance between the borough's town centres (see fig 4.2 above). Jobs in the borough are highly concentrated in just two locations, with around 75,000 jobs located in Canary Wharf major centre and 27,000 in the City Fringe. By contrast, the borough's nine district centres combined provide about 21,000 jobs – less than a third of the number in Canary Wharf. Of those, almost 70% are in two district centres

## Enterprise Strategy: *Challenges*

in the west of the borough, Whitechapel and Brick Lane. Whitechapel in particular has potential for regeneration, and with the recent opening of the East London Line and Crossrail to come, it is likely to experience an increased flow of people. The opportunity this creates is significant, especially combined with the move of the Royal London to the new hospital and the ensuing opportunity for regeneration in the area. Ensuring that development is appropriate to the needs of smaller business, residents and in-commuters, as well as larger enterprises is fundamental to the area succeeding as a town centre.

### **The role of the Enterprise strategy**

Town centres are vital in making opportunities in the local enterprise economy accessible to local people. But while Canary Wharf is home to the UK's second largest business district, as well as a major shopping centre, other local town centres face particular challenges. Improving the performance of the borough's town centres has the potential to retain more spending locally, support a more diverse economy in Tower Hamlets, and increase the number and range of jobs available to residents.

The Town Centre Spatial Strategy sets out a vision for the development of the borough's town centres over the next 15 years. There are two key ways in which the Enterprise Strategy can support the delivery of this vision, and help bring about the revitalisation of the borough's town centres – and in turn support a healthier and more diverse enterprise economy in Tower Hamlets.

The first, as part of the Council's role in coordinating business support services, is to ensure that provision meets the needs of existing town centre businesses – particularly in sectors such as retail, which provide a range of jobs for local people. The second is in encouraging a wider range of businesses, particularly SMEs, to locate in the borough's town centres and thereby to reinforce local town centre economies. This is partly about promoting the development of smaller office space in these locations, which is discussed in the next section.



## 4.5 Lack of Suitable Workspace for Small Businesses

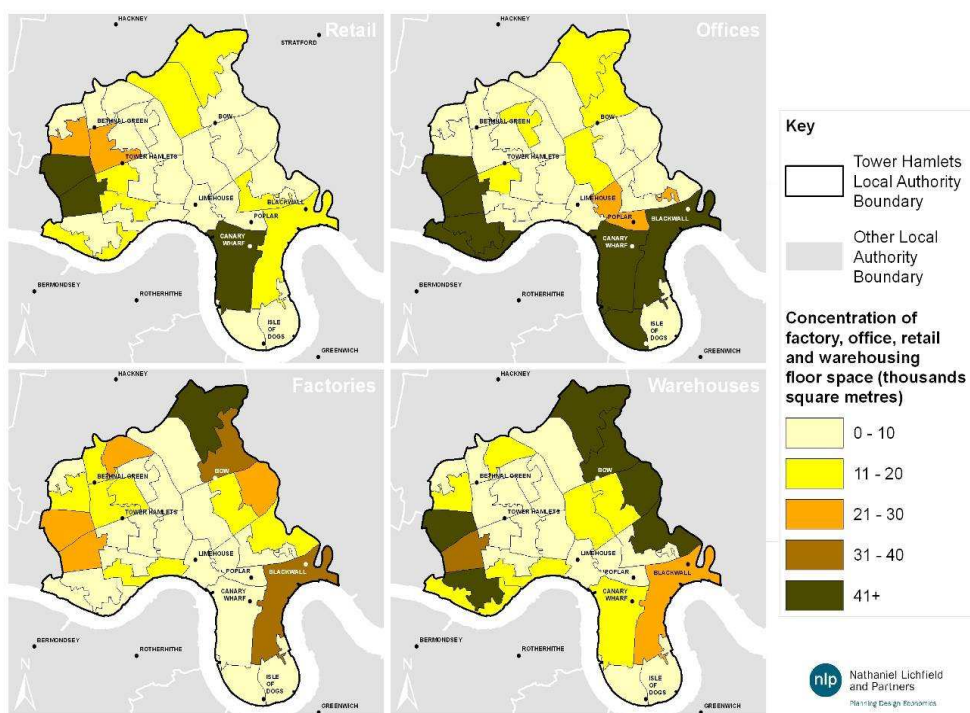
Tower Hamlets, at only 8 square miles, is a small, densely populated area that experiences significant demand for space use, and consequently high land values. These pressures have resulted in significant high-density development and competition between uses for available land. The pattern of high-density development within the borough, characterised by residential and commercial towers, leaves little appropriate or affordable space for smaller businesses.

### Changing employment spaces

With an 80% growth in office floorspace and a marked reduction in factories and warehouses within the borough (see section on “What’s happening”, above), the demand from higher value uses is likely to see this pattern of land use change continue for the foreseeable future.

Figure 4.3 (below) shows that different types of commercial floorspace are spatially concentrated. Retail and commercial is dominant around Canary Wharf and the City Fringe, with what factory and warehouse space remains being clustered at the Eastern edge of the borough.

Figure 4.3 – Spatial Distribution of Commercial Floorspace, by Ward



Source: Valuation Office Agency/NLP analysis

This concentration of retail and office space in relatively few parts of the borough limits the distribution of SMEs and start-ups and may mean that the borough is failing to maximise its local employment potential. At the same time, the decline of factory and warehouse space is likely to free up spaces for alternative uses and the borough needs to factor in the demand for commercial space, rather than focusing solely on housing and large floorplate offices.

## Demand for flexible premises

Both the quality and quantity of premises for small firms and start-ups within the borough is low. Canary Wharf and the City Fringe are amongst London's major office markets, where the available premises meet the requirement of larger firms. The rest of the borough does not pick up this slack and the provision of appropriate smaller office spaces is highly limited.

The business survey undertaken for the LEA identified premises, along with good public transport links and proximity to customers, as the most important factors for doing business within Tower Hamlets. Current sites and premises were generally viewed as "fit for purpose", although more affordable business premises were identified as one of two factors that would enhance business prospects in the borough. Most demand was indicated in the survey for premises up to 1,000m<sup>2</sup>.

In terms of smaller spaces, the LEA shows that although there is strong demand for B1<sup>8</sup> units under 100m<sup>2</sup>, they currently form under 2% of supply. The majority of available office space under 100m<sup>2</sup> appears to be located in the City Fringe, which attracts smaller businesses, followed by the Isle of Dogs, with a lack of provision in the rest of the borough. Suitable flexible and affordable workspace is therefore required in all parts of the borough, including the Central Area.

A significant minority (20%) of future growth in the borough is anticipated to be in micro or small enterprises (with small enterprises employing up to 49 people). If future supply of employment spaces continues recent trends, there will be a significant over-focus on large floorplate office developments, with limited provision of suitable workspace for micro and small enterprises. Meanwhile, trend data<sup>9</sup> shows that SMEs' requirements for space will be higher in 2020 than in 2010. This includes growth linked to the financial and business services cluster<sup>10</sup> and reflects the increasing importance of smaller businesses in the Tower Hamlets enterprise economy. Tower Hamlets SMEs have a propensity to higher year-on-year growth (source: NOMIS) than equivalent enterprises in London as a whole, emphasising the need for flexibility in the provision of business space.

In the absence of intervention small businesses in growth sectors may be forced out of Tower Hamlets to seek more suitable premises elsewhere. There is thus a need to safeguard and provide appropriate premises for SMEs through the planning system.

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<sup>8</sup> B1 classification includes non-financial service offices, light industrial and R&D functions, for spaces up to 235m<sup>2</sup>.

<sup>9</sup> Five Host Boroughs Strategic Regeneration Framework – Economic Model: Baseline Report (Oxford Economics, March 2010) – "Baseline Report"

<sup>10</sup> The additional employees in these two sectors employed in micro and small businesses will require almost 23% of additional office space in future years.

## **The role of the Enterprise strategy**

There is a shortage of supply of workspace for SMEs in Tower Hamlets, which risks pushing business start-ups and growing businesses out of the borough. These enterprises are vital for the strength of the local enterprise economy and could provide substantial employment opportunities to local people. Overcoming problems in the supply and availability of workspace suitable for small businesses is a crucial point for this Strategy.

Not only would a supply of flexible workspace support small and growing businesses, but, as discussed above, if such workspaces were to be situated in parts of Tower Hamlets other than Canary Wharf and the City Fringe, they could support the commercial viability of town centres in the borough. This Strategy can help to address this issue by promoting the development of appropriate workspace, particularly in town centres.

## 5. Objectives

### Summary

This section sets out detailed priorities for intervention to address the issues identified in the Problems section. Each of the strategic objectives here is based on the analysis shown in the previous chapters and are focused on meeting the overall aim of this Enterprise Strategy, which is to:

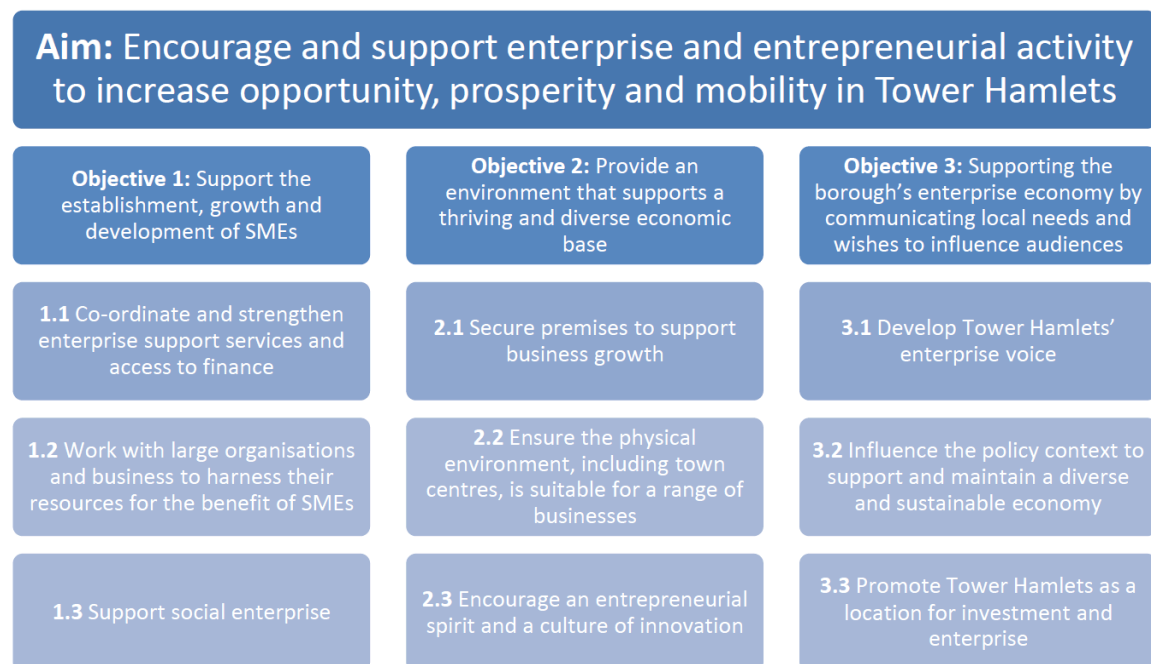
**Encourage and support enterprise and entrepreneurial activity to increase opportunity, prosperity and mobility in Tower Hamlets.**

Meeting this aim is a priority for both the Council and its partners, and will be achieved through the following three objectives:

- 1 Support the establishment, growth and development of SMEs
- 2 Provide an environment that supports a thriving and diverse economic base
- 3 Support the borough's enterprise economy by communicating local needs and wishes to influence a variety of audiences

Intermediate objectives have been developed for each objective to show how each objective is to be achieved, as shown in the diagram below. These are explained in the following sections.

Figure 5.1 – Outline of Aim and Objectives



Actions will be assigned to each objective as part of the annual Enterprise Action Plan, which is provided as a separate document.

# Enterprise Strategy: Objectives

## Objective 1: Support the establishment, growth and development of Small and Medium Enterprises

The success of the Tower Hamlets economy is rooted in the success of individual borough businesses. This strategic objective will help ensure that Small and Medium Enterprises (SMEs) can capitalise on the opportunities provided by the wider economy. Providing access to information and finance for borough entrepreneurs, especially those whose work has a clear social benefit, will also strengthen new and existing enterprises, which in turn add to the diversity of businesses in Tower Hamlets. Their growth prospects will be further enhanced by encouraging local procurement (as well as local labour on the part of developers) and recognising and encouraging the Corporate Social Responsibility activities of larger businesses.

<b>Problems met</b>	<ul style="list-style-type: none"> <li>• Limited resources for business, including support services and funding</li> <li>• Low levels of self employment</li> </ul>
<b>Role of the Council</b>	<ul style="list-style-type: none"> <li>• <b>Procure locally</b>, including through the Supply Tower Hamlets programme and its broader procurement policies</li> <li>• <b>Support local enterprises'</b> access to private and public supply chains</li> <li>• <b>Provide and promote information</b> to business owners who potentially wish to open or relocate a business in Tower Hamlets</li> <li>• <b>Ensure that regulatory services are helpful</b></li> <li>• <b>Facilitate joint working between agencies</b> to provide practical support</li> <li>• <b>Broker relationships</b> with business support services</li> </ul>
<b>Principal benefits</b>	<ul style="list-style-type: none"> <li>• Supported SMEs and social enterprises have better growth prospects. This will make the local economy more resilient and sustainable.</li> <li>• Local businesses are more likely to employ local labour and, where local sub contractors are appointed, they spend more in the local economy.</li> <li>• The amount of travel involved within the borough is reduced, increasing the overall sustainability of operations and physical development. Appointing suitable local sub-contractors can provide organisations with operational advantages, as well as contributing to the objectives of the Community Plan.</li> <li>• A range of support services can help firms to establish themselves in the borough, grow and innovate, which in turn will create jobs.</li> </ul>

## Intermediate objectives:

### **1.1 Co-ordinate and strengthen enterprise support services and access to finance**

It is critical that businesses have information about and access to the right mix of support services. This requires attention to:

- Build supply chain capacity so that local businesses can supply through procurement processes.
- Develop and maintain an effective network of business support agencies to strengthen and co-ordinate provision – this may include mapping out the range of services on offer and signposting new or existing businesses to support agencies. This will not only help businesses access the services they need more efficiently, it will also help to shine a light on gaps or overlaps in the provision of key enterprise support services.
- Improve access to advice on debt, equity and new forms of finance, particularly for groups who may be excluded from traditional forms of finance– the current economic climate is challenging, but there are still options available which will help new and existing businesses to grow and develop.

The contribution of local support services<sup>11</sup> will be critical to the achieving this strategic objective. Establishing a pilot network group to provide peer support for start-ups will be an early task within this strategic objective.

### **1.2 Work with large organisations and business to harness their resources for the benefit of SMEs**

Large organisations in the private and public sectors are in an influential position when it comes to awarding contracts, so encouraging them to procure locally, including from social enterprises, is a valuable means of recycling money within the local economy. With an increasing global focus on sustainable development and local sourcing of goods and services where economical, as well as Corporate Social Responsibility (CSR) policies, there is a good opportunity to enhance links between the borough's many large firms, the Council and other public sector agencies, with the plethora of smaller enterprises. Under this intermediate objective, the actions are to:

- *Establish relations with major corporate bodies* to identify and develop opportunities for mentoring, collaboration and partnership working with the borough's large businesses.
- *Ensure that the Council procures locally* within the regulatory framework. The Council's Procurement Strategy refers to the need to ensure that the Council's social objectives – including support for local businesses - are promoted through its procurement, and states that 36% of the Council's annual expenditure on goods

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<sup>11</sup> Including the East London Small Business Centre, the East London Business Alliance, East London Business Place, Account3, Spitalfields Small Business Association, CIDA, the Bromley-by-Bow Centre and Tower Hamlets Cooperative Development Agency

and services is contracted with businesses located in Tower Hamlets<sup>12</sup>. The Council wants to build on this strong base.

- *Ensure that developers in Tower Hamlets commit to procuring locally.* For all major developments, the Council will seek to secure 20% of the total value of contracts for goods and services during the construction phase to be procured from firms located within the Borough. This should be achieved within competition law, and in cooperation with Council nominated organisations such as Construction Line and ELBP.
- *Maximise supply chain and contracting opportunities for Tower Hamlets SMEs* arising from the large public and private sector organisations in the borough.

### **1.3 Support social enterprise**

As local businesses which tend to distribute their profits locally and reinvest them to achieve social objectives, social enterprises are particularly important. Under this measure, the Enterprise Team will:

- Map funding sources beyond the mainstream, including microfinance, CDFIs, and Big Society Capital. In future, this may include exploring the potential for links with Canary Wharf and the City Fringe.
- Ensure that business support services meet the specific needs of social enterprises, including legal structures and transparency, with particular reference to social enterprises which support the employment and entrepreneurial aspirations of residents in hard-to-reach groups
- Target social enterprises for procurement support activity

The Council also wishes to encourage existing initiatives, such as the work of the East London Small Business Centre in conjunction with the Community Development Finance Association, identifying capital to underpin local business loans.

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<sup>12</sup> Corporate Procurement Strategy 2009 – 2011

## OBJECTIVE 2: Provide an environment that supports a thriving and diverse economic base

Suitable premises – particularly for smaller business – in desirable locations, which includes Tower Hamlets’ town centres, are crucial to making the physical environment attractive to businesses. In addition, since businesses want capable people, fostering an entrepreneurial culture will help local residents achieve increasing success in making a living through employment, regardless of whether they set up their own business. And innovation, particularly through Tower Hamlets’ universities, creates an environment where new possibilities offer potential commercial returns. The combination of these factors will make for a diverse and thriving business context, connected to the boroughs students and long-term residents.

<b>Problems met</b>	<ul style="list-style-type: none"> <li>• Underperforming town centres</li> <li>• Lack of suitable workspace for small businesses</li> <li>• Skills gap between residents and borough businesses</li> <li>• Relatively low rate of self-employment</li> </ul>
<b>Role of the Council</b>	<ul style="list-style-type: none"> <li>• <b>Provide information relevant for local businesses</b> - Collecting feedback from local enterprises can help develop services which businesses themselves see as a priority.</li> <li>• <b>Utilise regulatory services</b> – especially licensing, food safety and environmental health – in a helpful manner to small businesses and start-ups.</li> <li>• <b>Use physical assets</b> (eg office accommodation) to support local enterprises, especially where they starting out</li> <li>• <b>Work through planning policy</b> to foster appropriate spaces and places for businesses</li> </ul>
<b>Principal benefits</b>	<ul style="list-style-type: none"> <li>• Providing suitable premises for the significant minority of enterprises with less than 50 employees will ensure that they are attracted to and remain in the borough.</li> <li>• An improved enterprise infrastructure strengthens local economic activity, which in turn creates more vibrant and attractive places, to the benefit of local residents</li> <li>• Residents of Tower Hamlets will be more likely to start businesses and will learn transferable skills from their exposure to enterprise</li> </ul>



## **Intermediate objectives:**

### ***2.1 Secure premises to support business growth***

While much recent growth in enterprises has concentrated on large companies with very large floorplate requirements, 20% of future growth is anticipated to be in micro or small enterprises (up to 49 people). Enterprises which would otherwise be located in Tower Hamlets will be forced to move from the borough if suitable workplaces are not available. Accordingly, the Council will use the planning process to secure the provision of flexible workspace within commercial developments, to mitigate the loss of such space through the development process, and to support new and existing SMEs in the borough

### ***2.2 Ensure the physical environment, including town centres, is suitable for a range of businesses***

Many of Tower Hamlets' town centres lack the scale and vitality to perform their role adequately for the communities and enterprises they support. This risks significant local spend being diverted from the local economy. The Council will:

- Ensure that enterprise considerations are at the heart of town centre regeneration, including at Whitechapel. It has an excellent transport infrastructure and could develop as an even stronger district centre with a diverse local economy
- Help to implement the Town Centre Spatial Strategy by encouraging initiatives which will develop the local enterprise economy. There may also be potential to use the Street Markets Strategy to improve the quality of the borough's markets, thus contributing to the vitality of town centre environments.
- work to better coordinate investment in town centres and to support the development of town centres with a balanced mix of uses;

### ***2.3 Encourage an entrepreneurial spirit and a culture of innovation***

Developing a culture of innovation is a key goal for this Strategy.

- Work with schools to encourage understanding and experience of entrepreneurship among young people. This could involve support for Your Enterprise initiatives.
- Work with higher education institutions to identify commercial opportunities linked to their academic expertise. This could lead to knowledge transfer, the establishment of new networks and support for spin-out companies.

There is also an important role for partner agencies and business groups here, as well as charities such as the Prince's Trust.

## Objective 3: Supporting the borough's enterprise economy by communicating local needs and wishes to influence a variety of audiences

Tower Hamlets is a great location for enterprise, as evidenced by the rapid development of Canary Wharf and the City Fringe, but it is one location in a competitive national and international context. A combination of active promotion of the borough's benefits, rigorous campaigning to ensure that these are maintained and improved, and active listening to stay abreast of the opinions of local businesses will ensure that the borough remains an attractive and competitive enterprise destination for generations to come.

<b>Problems met</b>	<ul style="list-style-type: none"> <li>Limited resources for business, including support services and funding</li> </ul>
<b>Role of the Council</b>	<ul style="list-style-type: none"> <li><b>Represent the enterprise interests of the borough</b></li> <li><b>Compete aggressively</b> for available public sector investment</li> <li><b>Influence policies</b> which affect enterprise at a London wide and national level</li> <li><b>Facilitate an entrepreneurial culture across sectors</b> – sharing experience of involvement in enterprise activity, however small in scale, can help people become more effective employees and citizens as well as business owners</li> </ul>
<b>Principal benefits</b>	<ul style="list-style-type: none"> <li>Success in achieving these aims will demonstrate that Tower Hamlets is an excellent place for business in London.</li> <li>Links between borough businesses will help develop a vibrant and inter-dependent local economy.</li> <li>A coordinated 'voice' for the borough increases the likelihood of attracting funding, capital projects and positive legislative changes.</li> </ul>

## Intermediate objectives

### **3.1 Develop Tower Hamlets' enterprise voice**

A key step in representing the interests of enterprise will be to develop the clarity of the borough's local enterprise 'voice'. The borough's business successes need to be championed and requirements articulated. The Council will:

- *Set up a pan Tower Hamlets business forum to represent the views of SMEs*
- *Ensure that the voice of local business is heard by government at local, regional and national levels*
- *Ensure that the Council's planning and regulatory functions take into account the needs of local enterprises*

### **3.2 Influence the policy context to support and maintain a diverse and sustainable economy**

The Council and its partners have an important role to play in promoting the borough, protecting its interests, influencing nationally and regionally and in ensuring that the policy framework supports borough business and enterprise. The Council will work closely with businesses, business groups, and with sub-regional partners to achieve the maximum positive impact of national policy changes. Actions and work streams will cover:

- *Research into the ownership of local enterprises and patterns of self employment across the equalities strands*, including issues identified within the Strategy such as variations in levels of self-employment between men and women. Research should examine their relative degrees of success, income and trends of growth or contraction
- *Position Tower Hamlets to take advantage of policy changes*, working with its partners to enhance the borough's lobbying capability and promote the borough's interests to ensure that Tower Hamlets has a strong voice in new and emerging structures and initiatives such as the pan-London Enterprise Partnership, the Host Boroughs' Strategic Regeneration Framework driving the convergence agenda, and the Government's proposed Tech City initiative in east London.
- *Compete aggressively for available public sector investment* - competition for public investment is likely to be fierce in coming years and the Council will need to work with partners to target funding and aggressively make the case for investment in the borough at regional national and European levels.

The Council and its partners have an important role to play in bringing partners together to maximise investment in enterprise support services in the borough.

### **3.3 Promote Tower Hamlets as a location for investment and enterprise**

It is important that opportunities for marketing and destination branding, including the established Curry Capital 2012 brand, are maintained and built upon, in order to support existing SMEs, maintain the borough's existing strengths as a location of choice for

## Enterprise Strategy: *Objectives*

financial and business services, and encourage diversification through investment from growth sectors such as creative and knowledge-based industries. Promoting Tower Hamlets as a location for inward investment, tourism and leisure, particularly in the run-up to the Olympics, will involve work with businesses and partners to provide a more focused approach to destination marketing. Initially, the Council will:

- *Develop a marketing plan to promote the borough* in line with the intermediate objective, highlighting its enterprise successes and its suitability for growth sectors

## Glossary

CDFIs	Community Development Finance Institutions
CSR	Corporate Social Responsibility
ELBA	East London Business Alliance
ELBP	East London Business Place
ELSBC	East London Small Business Centre
JSA	Jobseekers' Allowance
LDA	London Development Agency
LEP	Local Enterprise Partnership
SMEs	Small and Medium Enterprises
TCSS	Town Centre Spatial Strategy

