

UK cities: Do they mean business?

Paul Swinney, January 2010

Cities either have the knack of creating new firms or they don't. Those cities that do tend to be in the south east, while those in the north do not.

The table below highlights the contrast between cities with the highest and lowest new business formation rates.

There are two striking stories that come out of this table. Firstly, rates of entrepreneurship differ across UK cities. The majority of cities with the highest levels of entrepreneurship are in the south east of England while the cities with the lowest levels are mostly in the north of England. Almost all of these cities have a history of heavy industry, while the bottom nine have all been large ports at one time or another.

And secondly, the number of new businesses formed in each city every year has remained fairly static. Cities such as Plymouth and Dundee that showed low levels of entrepreneurship in 1994 continued to do so in 2007, the latest year for which we have data.

This suggests that there is something inherent in these cities which means that their residents are unlikely to start up a business. Likewise the levels of enterprise in the top performing cities are very stable. There is something about the structure of these city economies that has consistently enabled its residents to set up their own business.

So why are some cities generating more businesses than others? Most cities in the top and bottom ten share similar economic legacies and geographies. Milton Keynes, for example, is a new town that doesn't have a legacy of major heavy industry. It has good connections to London and its location in the UK has made it an attractive place for distribution firms to set up. According to Cities Outlook it had the strongest employment growth out of all UK cities between 2006 and 2008.

Sunderland, on the other hand, has a strong industrial legacy. Its economy was once dominated by two large industries in coal mining and ship building. Both industries were characterised by large employers. Although these industries have disappeared from the city, the economy continues to be dominated by large employers - the Nissan car factory and the public sector.

Our figures suggest that policy makers' attempts to increase enterprise over this period have been pretty ineffective. Two decades of Labour and Tory policy has attempted to use enterprise as a tool to provide employment opportunities in deprived areas. Initiatives have included helping increase access to credit and venture capital investment for example, as well as addressing the fundamentals that create a fertile ground for enterprise. Yet the data shows that business start-up rates in cities have remained stable despite repeated and concerted efforts by successive governments and ministers to close the entrepreneurship gap.

What's clear is that employment growth in some cities has been over reliant on the public sector over the last decade. This raises questions about the prospects for these cities in a public spending squeeze. Private sector jobs growth is required to offset this threat, and increased entrepreneurship could support this.

In recent months we've seen politicians again turn their attention to enterprise policy as the UK comes out of recession. "First and foremost we need to foster a new climate for enterprise in Britain" Lord Mandelson has said. "The recovery cannot be driven by consumer debt or public spending. It will be driven by private sector investment and private enterprise."

This has been echoed by David Cameron. "We are going to get out of this recession by trading our way out, by business deciding to employ people to create wealth, to go after new markets, to export" he said. The Conservatives will support this with "...the ambition of making this [the UK] one of the fastest places in the world to start up a new business."

But despite the political rhetoric, none of the main parties have offered much in the way of new policies to support entrepreneurship. And they can't talk about enterprise without addressing the entrepreneurial gap between cities. Given the ineffectiveness of enterprise policy in boosting business start ups to date, they should address the following questions as a starting point - Why are some cities less entrepreneurial than others? And what is the way forward for cities that are not inherently 'entrepreneurial'?

As we emerge from recession and with a public spending squeeze looming, more private sector jobs will be required to help city economies back to growth. What's not yet clear is how UK cities should generate them. Difficult questions lie ahead – should policies be focused on encouraging business start ups zero in on the most enterprising cities like Milton Keynes? Or can future enterprise policy genuinely help develop an entrepreneurship culture in cities like Sunderland, with currently low numbers of business start ups?

We'll be addressing these questions in our forthcoming Agenda for Growth work.



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Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

t **020 7803 4300**
www.centreforcities.org

VAT registrations: per 10,000 population

Cities with the highest average VAT registrations (1994-2007)

City*	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
London	44.0	42.9	44.2	49.1	50.9	48.2	47.9	44.0	43.3	46.8	45.9	45.3	45.4	53.3	46.5
Milton Keynes	39.9	37.2	36.9	43.6	42.1	39.4	37.2	36.9	38.4	39.2	43.0	40.0	39.1	49.5	40.2
Brighton	33.0	33.3	36.9	43.2	42.4	37.6	38.1	36.0	36.9	41.7	37.1	38.1	36.6	40.0	37.9
Aldershot	36.4	33.3	35.7	44.0	38.2	40.1	37.6	33.6	36.5	38.5	37.3	36.8	38.3	41.4	37.7
Reading	36.1	35.7	36.3	41.7	39.0	37.3	37.7	33.7	38.1	37.8	35.9	35.3	34.9	43.0	37.3
Crawley	37.4	31.5	34.2	37.4	37.3	35.4	31.0	31.0	33.2	34.1	33.0	31.6	31.1	37.0	34.0
Bournemouth	32.1	30.8	31.6	34.4	34.0	33.4	35.9	33.3	33.9	37.4	32.1	33.0	35.4	36.9	33.9
Southend	29.3	31.0	30.9	36.4	36.1	32.5	36.6	33.3	35.6	35.3	32.6	34.9	30.2	33.8	33.5
Cambridge	32.2	29.7	30.1	34.2	32.1	28.7	34.6	30.0	31.6	29.9	28.3	30.9	25.9	32.5	30.8
Bristol	30.0	27.8	29.9	32.6	33.6	30.9	30.1	28.2	30.5	30.7	28.8	29.7	29.3	36.2	30.6

Cities with the lowest average VAT registrations (1994-2007)

City*	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
Doncaster	17.6	17.0	16.4	17.3	18.9	17.6	18.3	18.3	17.9	20.9	20.6	19.5	20.5	22.5	18.8
Birkenhead	18.1	16.9	18.4	19.9	17.6	17.8	18.0	17.5	17.8	19.9	19.2	18.9	18.7	24.1	18.8
Belfast	16.5	19.1	17.2	18.0	17.9	17.4	17.6	18.2	18.0	18.9	19.2	20.1	20.1	19.3	18.4
Liverpool	15.6	17.1	16.4	18.0	17.6	16.9	17.6	16.8	17.2	20.4	20.3	19.5	19.5	22.6	18.3
Plymouth	18.4	15.4	18.0	17.9	16.1	17.4	16.3	15.6	18.8	19.9	19.9	18.1	19.5	21.9	18.1
Newcastle	17.5	16.2	15.8	16.6	15.5	16.8	17.2	16.5	18.4	20.4	18.5	19.1	18.5	22.8	17.8
Dundee	16.4	14.4	17.4	16.8	18.4	16.2	18.8	15.8	16.0	17.8	19.0	18.3	16.2	19.3	17.2
Hull	16.1	14.7	16.1	16.2	15.2	15.0	16.1	17.0	18.0	19.1	19.2	17.9	18.1	19.8	17.0
Sunderland	15.1	13.8	14.5	14.3	15.4	15.1	14.0	15.3	16.4	16.3	15.6	15.1	16.6	17.5	15.4
Middlesbrough	15.8	12.8	13.8	13.1	14.0	14.0	14.8	14.2	13.7	17.3	14.0	16.2	15.6	23.3	15.2

*Data is for Primary Urban Areas (PUA) – a measure of the ‘built-up’ area of a city, rather than individual local authority districts.

Note: VAT registration data acts as an indicator only of business start up activity as not all new firms survive to long enough to get themselves into a position to VAT register. Key emphasis here is on the potential for new businesses to create jobs. Firms that do not VAT register are not likely to be high job creators.

Data is now available for total business births, but it only goes back as far as 2004.

Source: Nomis 2009