



UK Entrepreneurs Index

Uncovering the hotspots of entrepreneurial activity in the UK

A report for Kleinwort Hambros

November 2017

Contents

Introduction and methodology	4
UK Entrepreneurs Index – results	10
Analysis by indicator	13
Contact	20

This report has been produced by Cebr, an independent economics and business research consultancy established in 1993, providing forecasts and advice to City institutions, Government departments, local authorities and numerous blue chip companies throughout Europe.

Cebr is not licensed in the conduct of investment business as defined in the Financial Services and Markets Act 2000. Any client considering a specific investment should consult their own broker or other investment adviser. Any views on investments expressed by Cebr, or on behalf of Cebr, are intended to be generic only. Cebr accepts no liability for any specific investment decision which must be at the investor's own risk.

Whilst every effort has been made to ensure the accuracy of the material in this report, neither the authors nor Cebr will be liable for any loss or damages incurred through the use of this report or associated materials.

Executive Summary

Kleinwort Hambros has commissioned Cebr to create an index that captures the entrepreneurial hot spots in the UK.

Based on a number of relevant sub-indicators the Kleinwort Hambros / Cebr Entrepreneur Index highlights which local authorities and cities are best suited for start-ups and entrepreneurs. We consider both actual start-up activity, as measured by the number of business births and the survival rate after three years, as well as factors conducive to business activity. These factors include employment density, productivity, the average educational level of the labour force and broadband speed. Furthermore, we consider which areas benefit most from Government support.

The scores of these sub-indicators are corrected for outliers and then normalised, meaning the best scoring local authority (LA) or city is assigned a score of 100% and the worst performing district receives a score of 0% with the remaining districts distributed along this spectrum.

Apart from the headline results, this report also delivers an analysis by indicator, showing which districts performed best in start-up activity, business conditions, economic conditions and Government support.

Key findings from the research are:

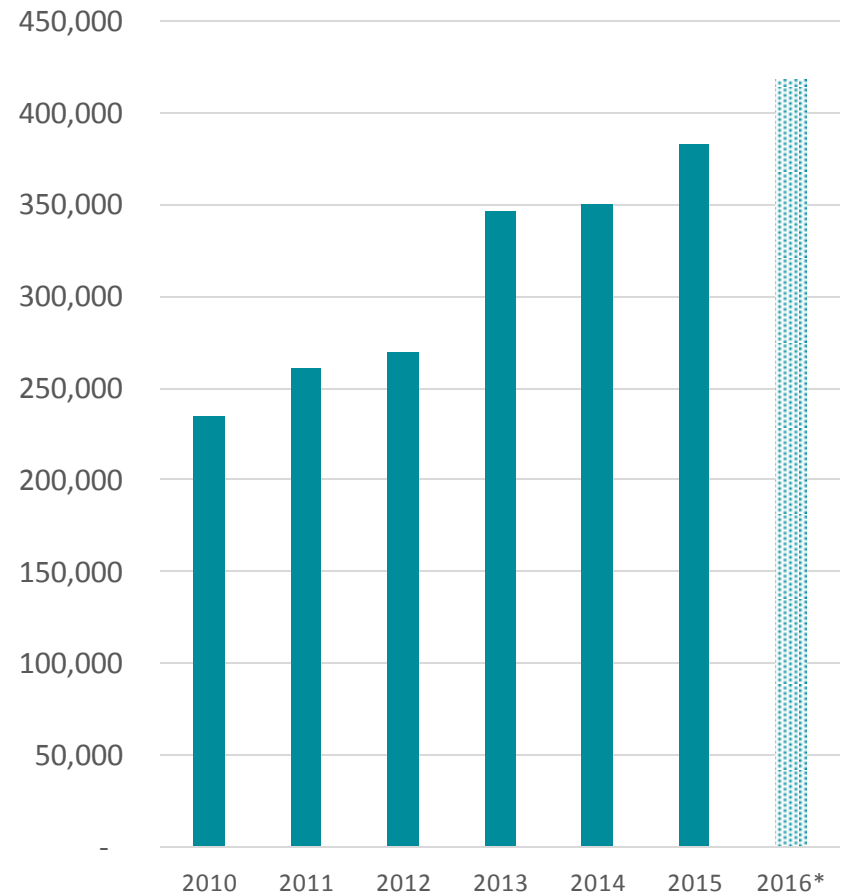
- Start-ups and entrepreneurial activity are an important pillar of the UK economy. Their increasing importance is mirrored in a surging number of newly created businesses which has risen from 235,000 in 2010 to 419,000 in 2016.
- Islington is the most attractive borough for entrepreneurs scoring in the top 3 for the 'start-up activity' and 'business conditions' indicators.
- Edinburgh is a close runner-up, benefitting from a high score for government support and a robust performance across the other indicators.
- With Manchester and Leeds among the top 25 cities, the 'Northern Powerhouse' is well represented in the UK Entrepreneurs Index. Both cities are well established business hubs in their respective regions and benefit from a young and dynamic workforce.
- A number of London boroughs can be found towards the top of the index ranking due to the high productivity, employment density and entrepreneurial activity in the capital. This is not true for all boroughs, however. Barking and Dagenham or Havering for example can be found towards the middle of the table.

Introduction and methodology
UK Entrepreneurs Index – Results
Analysis by indicator

The role of entrepreneurs in the UK economy

- Entrepreneurs form an increasingly vital part of the UK economy – between 2010 and 2016, we estimate that the number of business births in the UK has risen by 78% to almost 420,000.
- They are the primary drivers of innovation across industries and help bringing new technologies and business models to the consumer.
- From Facebook to Apple or Google, many of today's largest tech companies have started out as a small start up in a garage somewhere.
- Founding a business is a high-risk / high-reward pursuit. Competition is tough and it takes dedication and hard work to convince clients of the benefits of the service or product offered. Many start-ups don't grow very old and are terminated within a few years. Nevertheless, a substantial number of businesses do survive and enrich the corporate landscape in the UK.
- This report looks at those local authorities and districts in the country in which start-ups and entrepreneurs are thriving.
- The UK entrepreneurs index measures start-up activity as well as business and economic conditions on a number of indicators. The results of each indicator form the basis for our ranking of the best places for entrepreneurs in the UK.
- The following slide shows how the individual indicators come together to form the UK Entrepreneurs Index.

Number of enterprise births in the UK



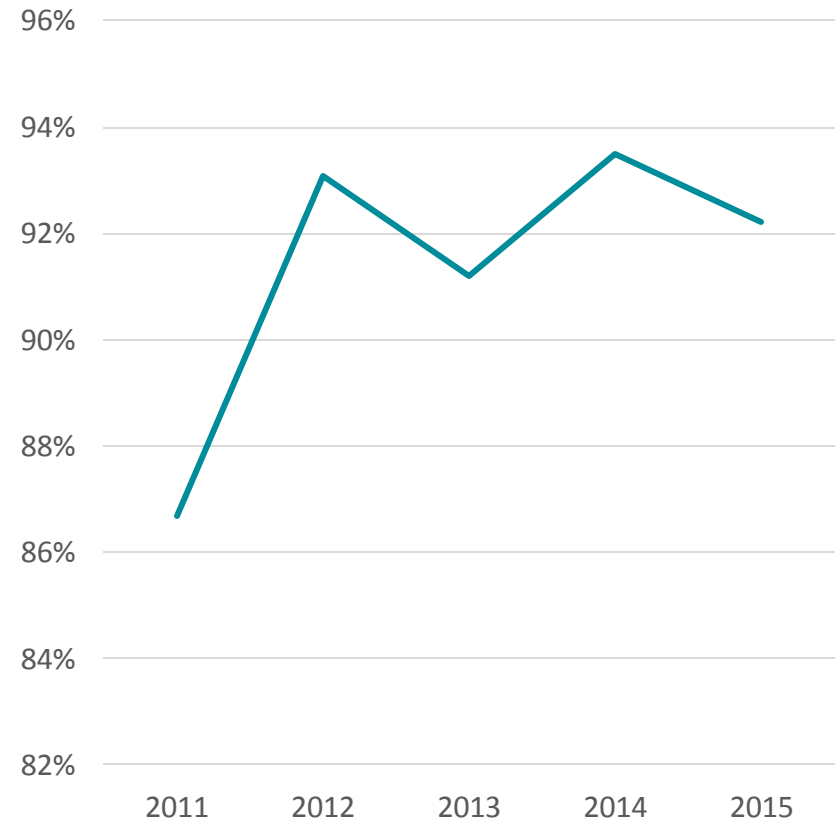
*Based on Cebr projections

Source: ONS, Cebr analysis

Entrepreneurial Success has become more likely in recent years

- Not only has the number of businesses increased in the UK, also the survival rate, i.e. the share of businesses still in operation after one year, has improved.
- This is shown in the graph to the right. In 2011, around 87% of businesses founded in the UK in 2010 were still in operation.
- This share improved significantly in 2012, when more than 93% of businesses founded a year earlier had survived. After dipping to 91% in 2013 the survival rose in the following year to 93.5% with the latest reading showing the average survival rate at 92%.
- Despite the volatility, the data show a clear improvement in survival rates over the years. This is likely due to a number of factors:
- The economy recovery after the financial crisis was picking up speed from 2012 on. A more benign macroeconomic climate is conducive for business success as consumer spending and business investment increase.
- To support the economic recovery, the Bank of England cut interest rates to record low levels. This decreased the cost of borrowing further and was intended to make credit lines available for the private sector. Both access to finance and credit costs are strong indicators for the success of start-ups.

One year survival rate of newly born businesses, UK

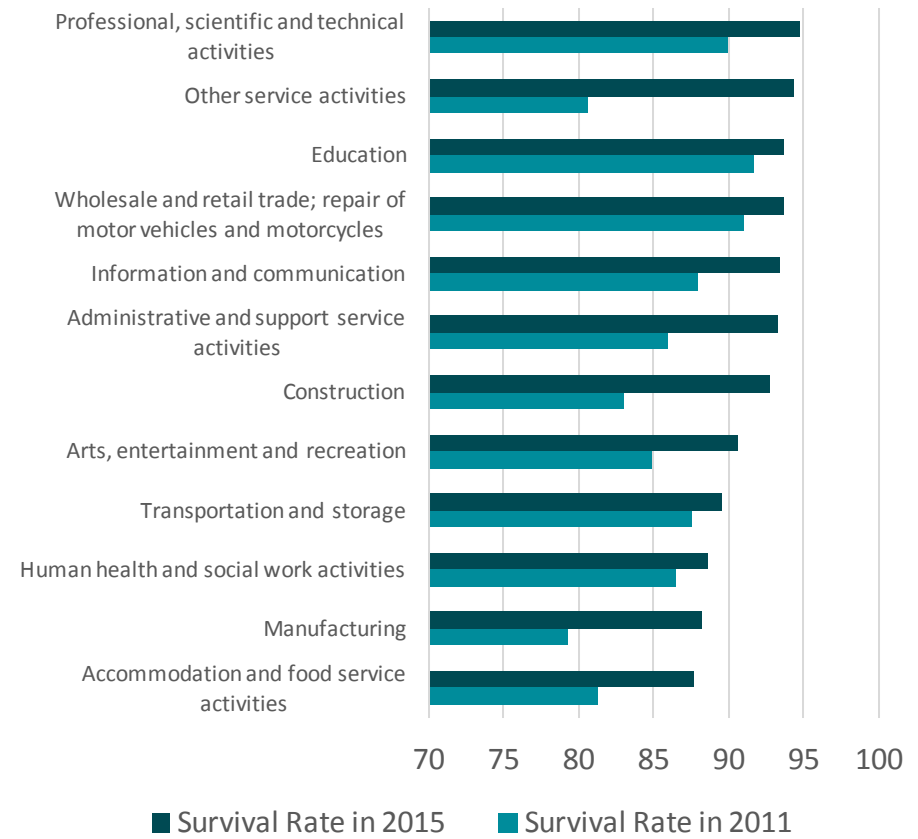


Source: ONS, Cebr analysis

Start-ups in professional, scientific and technical activities most likely to survive

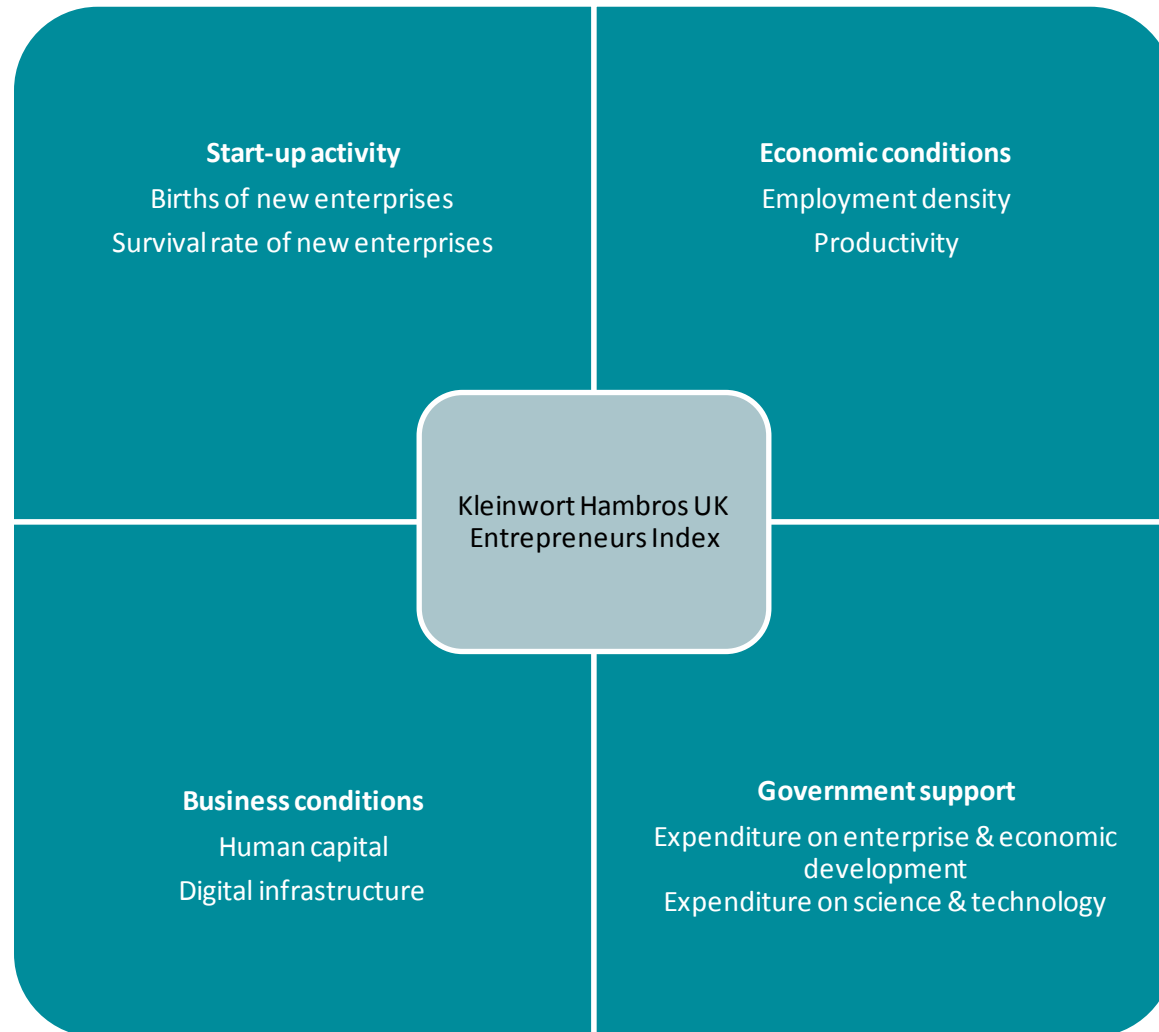
- A industry breakdown of survival rates shows that businesses in the professional, scientific and technical activities are the ones most likely to survive their first year in business. Almost 95% of businesses founded in this industry in 2014 were still in operation in 2015.
- Other service activities follow on second place with a survival rate of 94%. This category includes shops offering hairdressing, washing and (dry-) cleaning, and other personal services.
- Administrative and support service activities and information and communication are also high on the list of industries with the highest survival rates. Restaurants, which fall into the accommodation and food services industry, find themselves towards the bottom, suggesting that fierce competition and slim margins in this industry make it is more difficult to stay in business.

One year survival rates of newly born businesses by industry, UK



Source: ONS, Cebr Analysis

The Kleinwort Hambros / Cebr UK Entrepreneurs Index



Explaining the indicators

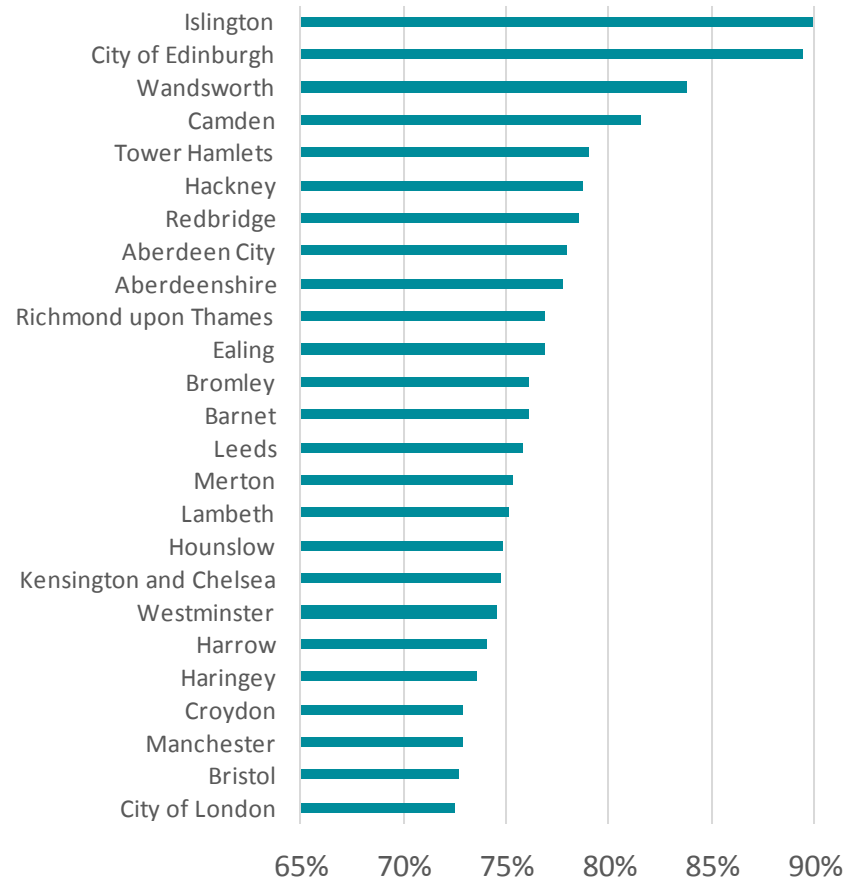
- **Start-up activity:** This indicator examines the number of business births as well as survival rates after three years. The inclusion of these measures ensures that we capture not only those areas where a lot of businesses are created but also those that are conducive to the success of young businesses throughout the challenging first few years. As start-up activity is one of the most important factors, showing what is ‘happening on the ground’, we have assigned the two sub-indicators twice the weight of the other sub-indicators considered in the final index.
- **Economic conditions:** Beneficial economic conditions help a business thrive. Employment density, which is calculated as the number of employees divided by the resident population in a given, area reflects the depth of the labour market. A strong performance on this indicator implies a high rate of economic and likely a broader range of talent that entrepreneurs can hire when looking to expand their business. The second sub-indicator considered is productivity, expressed as economic output per employee. A better productivity score suggests that employees in the area work in high value-added industries.
- **Business conditions:** This indicator reflects how business conditions for an individual enterprise vary across the country. We use the share of the workforce with educational levels of NVQ4 or higher as a proxy for human capital. A well trained and educated workforce is an important input factor for any start-up meaning that areas that boast a large, well educated labour force have an advantage when attracting entrepreneurs. The second sub-indicator measures broadband download speeds. Hardly any company can afford to neglect the digital side of business and a fast broadband connection is one of the prerequisites for many young and growing businesses.
- **Government support:** Finally, the index acknowledges the role that Government support plays in fostering a successful start-up culture. The two sub-indicators measure identifiable expenditure on enterprise & economic development as well as on science & technology. As these figures are only available on a regional level, values have been assigned to local authorities based on their population weight.

Introduction and methodology
UK Entrepreneurs Index – Results
Analysis by indicator

London and Edinburgh most attractive for entrepreneurs

- The graph to the right shows the 25 most attractive districts for entrepreneurs in the UK. Scores for each of the four main indicators, start-up activity, economic conditions, business conditions and Government support are normalised and range from a low of 0% to a maximum of 100% for the best performing district.
- Islington takes the top spot with a score of 90%. It scores highly for all four indicators, especially for business conditions where Islington achieves a perfect score thanks to high educational levels of the workforce and fast internet. But also in the important start-up activity category, Islington is among the top three national districts and boroughs.
- Second place goes to the City of Edinburgh. While Edinburgh does not come out on top for any single indicator, it scores highly across the field, especially for Government support where it ranks third.
- The top 10 is completed by a number of London boroughs as well as Aberdeen City and Aberdeenshire in Scotland. Leeds is the highest scoring city in Yorkshire and the Humber ranking 14th. It benefits from a 5th place for start-up activity, driven by a very high number of enterprise births.

UK Entrepreneurs Index, final index score



Source: ONS, Nomis, BRES, Which, Cebr analysis

Leeds and Manchester are the highest scoring cities in Yorkshire and the North West

- While London boroughs and Scotland dominate the top spots in the ranking of final index scores, it is also interesting to analyse which cities and districts score the highest within their respective region.
- The table to the right compares the highest scoring city for each region (excluding London and Scotland).
- Manchester represents the first entry for the North West. With Manchester and Leeds among the top 25 districts, the 'Northern Powerhouse' is well represented in the UK Entrepreneurs Index. Both cities benefit from a young and dynamic workforce as their universities attract students from all over the UK and overseas.
- Bristol and Brighton are the first entries for the South West and South East, with only a slim margin separating their index scores. Like in the Northern cities, these university towns benefit from the entrepreneurial activity brought about by a young and dynamic labour force and graduates from their universities.
- Birmingham, the UK's second biggest city scores the highest among districts and cities in the West Midlands with an index score of 69%.
- Hertsmere in the East of England, Cardiff and Northampton follow behind scoring between 62% and 63%.
- Stockton-on-Tees and Belfast conclude the table of the highest ranking regional cities and districts.

UK Entrepreneurs Index, final index score, selected cities

City and Region	Index Score	Rank
Leeds (Yorkshire and the Humber)	76%	14
Manchester (North West)	73%	23
Bristol (South West)	73%	24
Brighton (South East)	72%	27
Birmingham (West Midlands)	69%	37
Hertsmere (Hertfordshire, East of England)	63%	54
Cardiff (Wales)	63%	59
Northampton (East Midlands)	62%	63
Stockton-on-Tees (North East)	54%	103
Belfast (Northern Ireland)	52%	122

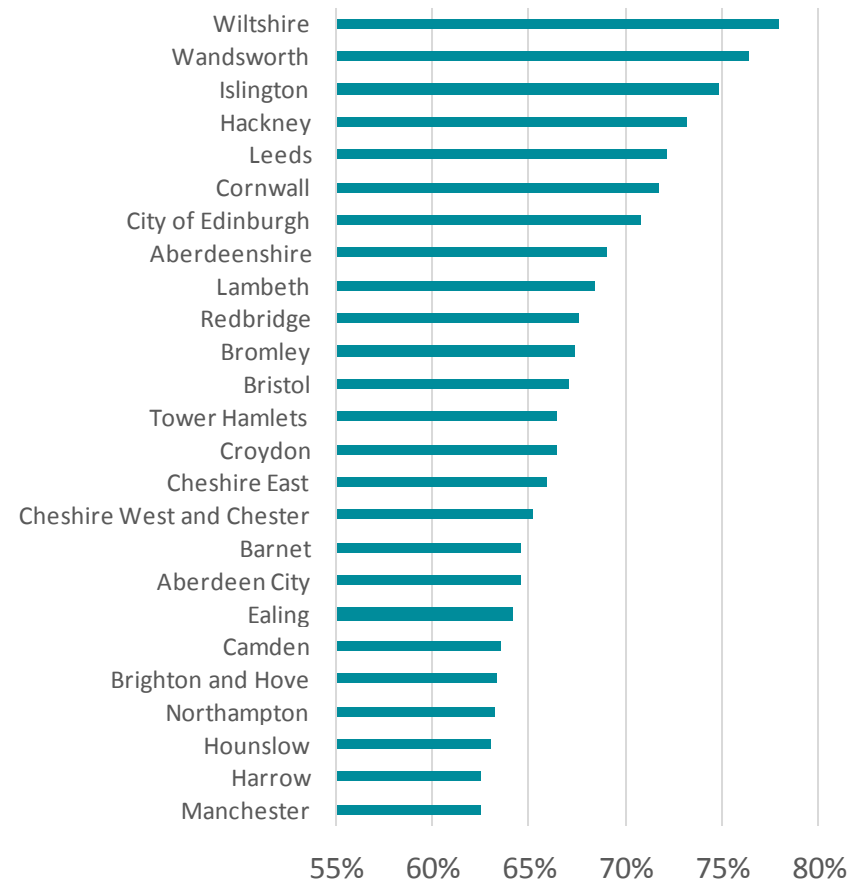
Source: ONS, Nomis, BRES, Which, Cebr analysis

Introduction and methodology
UK Entrepreneurs Index – Results
Analysis by indicator

Wiltshire tops ranking for the start-up activity score

- Following the analysis of the overall results we now turn to the four indicators which make up the Entrepreneurs Index.
- Beginning with start-up activity, we see that Wiltshire in the South West leads the table ahead of the London boroughs of Wandsworth, Islington and Hackney.
- Located between Oxford, Bristol, Reading and Southampton, Wiltshire benefits from geographic proximity to a number of leading universities.
- Local businesses further benefit from the Wiltshire Business Hub, an extensive network that gives advice and support to entrepreneurs¹ increasing their chances for success.
- Islington and Hackney are boroughs which have heavily benefitted from what Cebr has dubbed, the Flat White Economy (FWE)² – the host of digital and creative industries originally starting out in London’s EC1V postal district that have changed the face of East London profoundly over the past years. New businesses can now benefit from the paths set out by the pioneering digital start-ups of the FWE, such as Transferwise, a company founded near the Old Street roundabout a mere six years ago and now valued at over \$1billion.
- Leeds, Cornwall and Edinburgh also enter the top ranks.

UK Entrepreneurs Index: Start-up activity score



1: <http://www.wiltshirebusinesshub.co.uk>

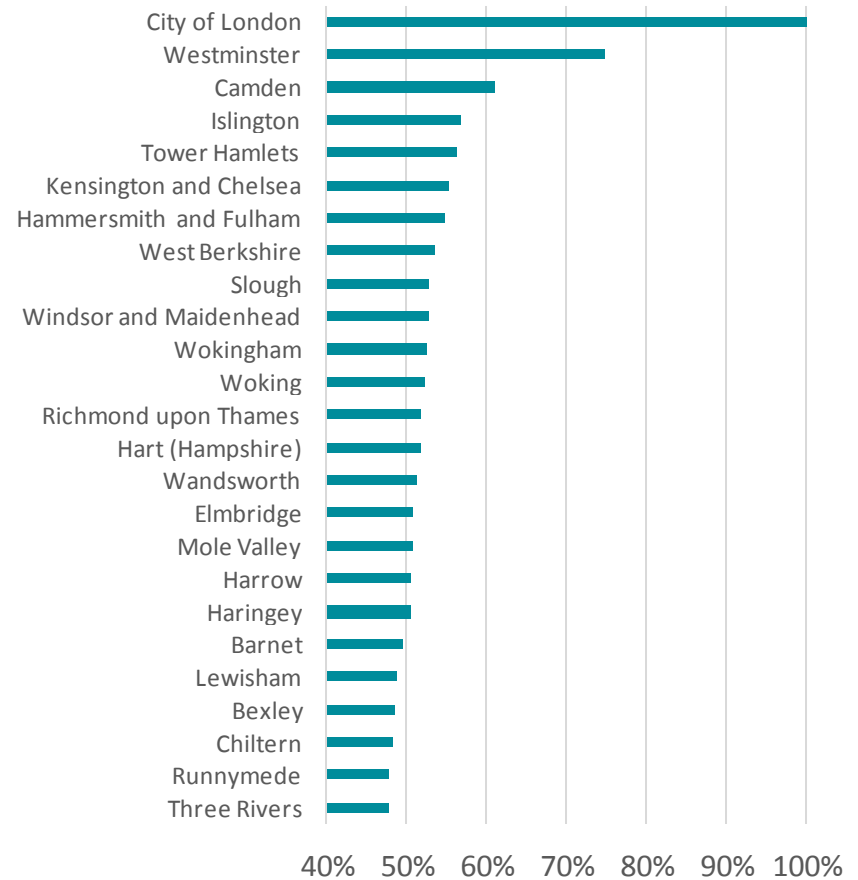
2: <https://cebr.com/reports/flat-white-economy-driving-london/>

Source: ONS, Cebr analysis

London boroughs dominate ranking of economic conditions

- The ranking of the districts with the best economic conditions is clearly dominated by London boroughs, with the City of London, Westminster and Camden taking the top three spots. Given that the economic conditions score is based on employment density and productivity, this is hardly surprising. London is one of the most important employment hot spots in the country and contributes more than a fifth of total UK Gross Value Added (GVA).¹
- The City of London is a particular case as its employment figures surpass its resident population by a multiple, which leads to a very high score for employment density. Furthermore, due to the concentration of financial services jobs, productivity (i.e. average output per worker) is very high in the City. Despite our corrections for outliers this heaves the Squaremile into the top spot.
- Westminster and Camden also score highly on the productivity sub-indicator.
- West Berkshire and Slough are the first non-London entries in the ranking boasting high productivity scores.
- High levels of productivity and a high employment density imply that start-ups can easily tap into a large pool of skilled workers – an essential input for any small business looking to grow. A high employment density would further suggest that substantial network effects, and economies of scale can be exploited by entrepreneurs.

UK Entrepreneurs Index: Economic conditions score



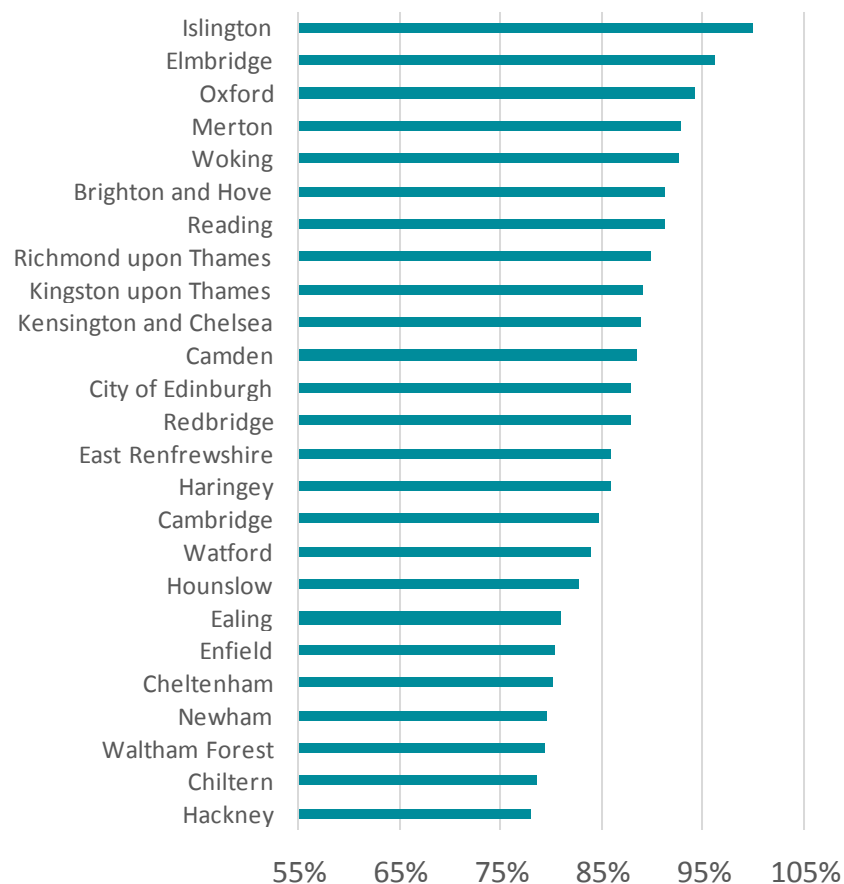
1: ONS – Regional GVA (income approach) UK: 1997-2015

Source: ONS, Nomis, BRES, Cebr analysis

University cities and London boroughs benefit from highly skilled labour force

- London boroughs and districts in the South East are prominently featured in the ranking of the top districts for business conditions. This sub-indicator consists of the scores for broadband speed and the level of education of the labour force.
- Both of these sub-indicators measure important factors for firms to consider when deciding on the location of their business.
- Islington, Elmbridge and Oxford take the top three spots, each benefitting from a high share of the labour force that holds at least NVQ4 levels or higher.
- Unsurprisingly, Cambridge is also represented in the top 25 ranking due to its well educated labour force, which makes up for an average score for its broadband speed.
- Woking has one of the best broadband scores out of all districts examined, as do Brighton and Hove and Reading.
- Edinburgh and East Renfrewshire are the first districts from Scotland to enter the ranking and also the first from outside London and the South East.

UK Entrepreneurs Index: Business conditions score

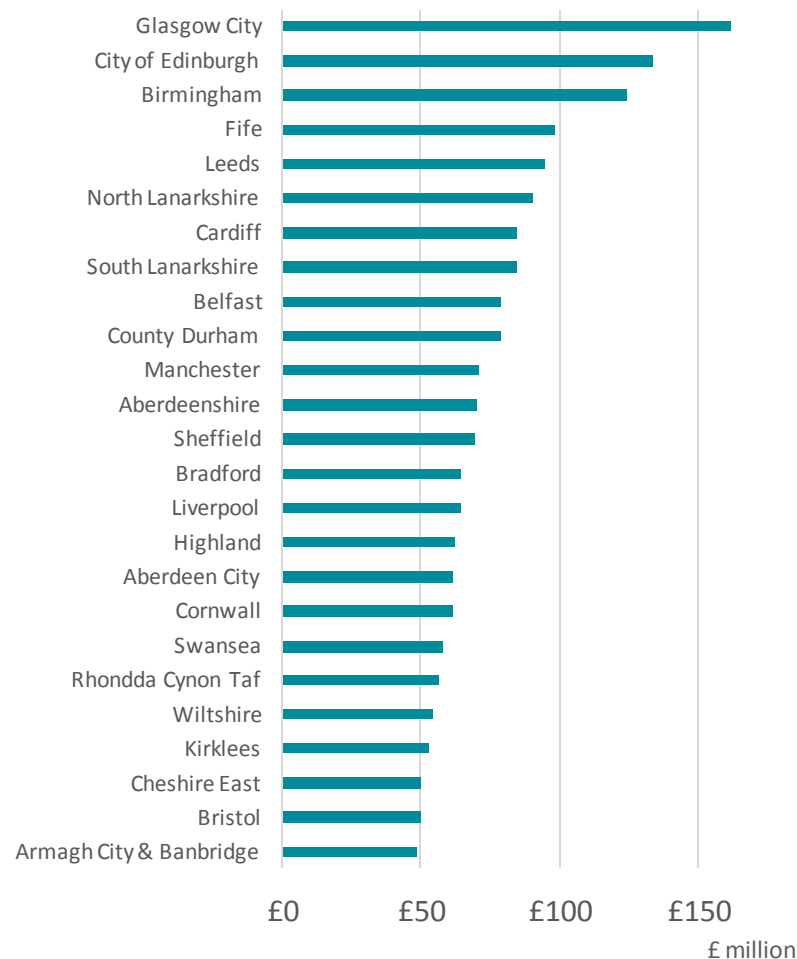


Source: ONS, Nomis, BRES, Which, Cebr analysis

Edinburgh and Glasgow lead the table of Government support received

- Ultimately, we take a look at Government support. This is measured by combining identifiable Government expenditure on enterprise & economic development and science & technology. These regional sums are then distributed among the districts and cities using population weights to reflect the fact that we would expect most Government support to be targeted at those areas where most people live and work.
- The graph to the right presents the raw scores in pound terms rather than the outlier corrected index score. It shows that many Scottish cities and districts can be found towards the top of the table. According to ONS data, Scotland receives the largest share of Government expenditure on the selected topics with over £1.4 billion awarded in 2014-15, largely driven by almost £1 billion received for enterprise and economic development.
- We estimate that Glasgow and Edinburgh received £162 million and £133 million respectively in Government expenditure on enterprise & development and science & technology.
- Birmingham ranks third – due to its large population the city attracts a substantial share of the Government spending for the West Midlands.
- By the same reasoning, Leeds – the UK’s third most populous city – attracts a large share of Government spending which benefits Yorkshire. Cardiff and Belfast, both among the top ten recipients of Government support, are similarly important for their respective nations.

UK Entrepreneurs Index: Sum of Government expenditure on enterprise & economic development and science & technology, in £ million

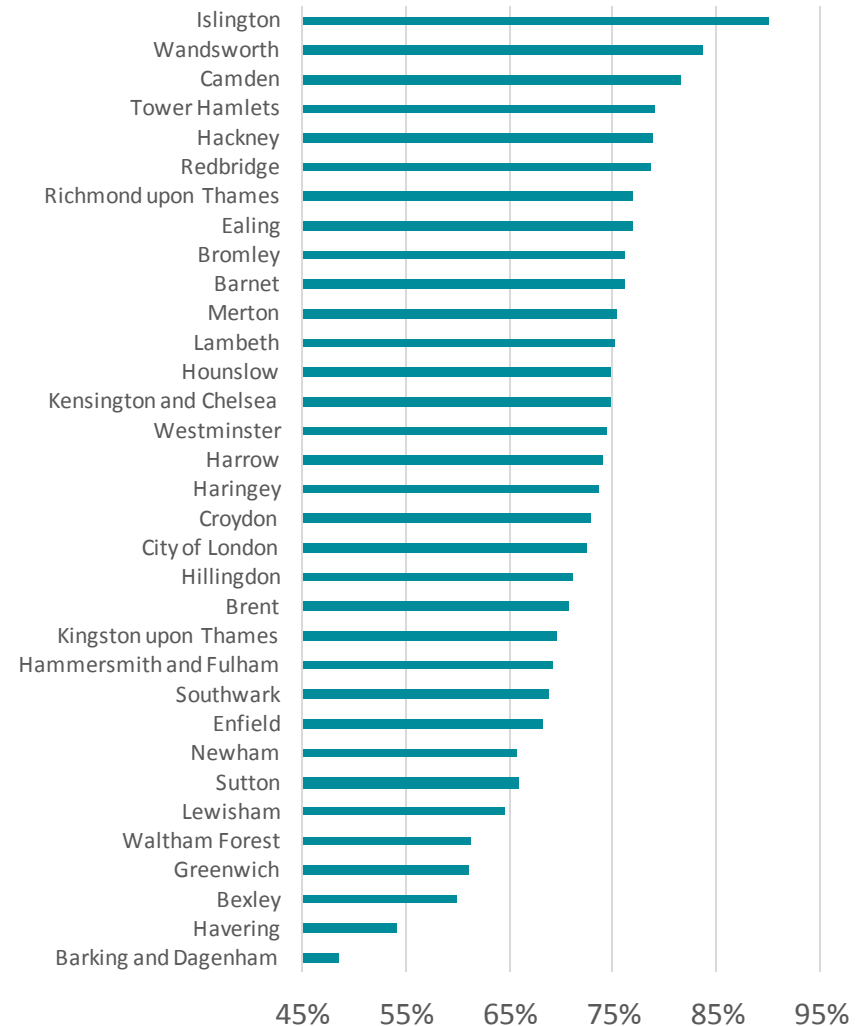


Source: ONS, Nomis, BRES, Which, Cebr analysis

Businesses in digital and creative industries boost East London

- In the graph to the right we've combined all London boroughs to compare their performance.
- As seen in the overall index results, a number of London boroughs score very highly on the Entrepreneurs Index, led by Islington due to its strong performance in Business Conditions and Start-up activity. Islington borough comprises the areas around Old Street roundabout and parts of Shoreditch which are known for their thriving start-up scene, especially in the digital and creative sectors. While commercial rents have been rising in these areas, they are still considered as very desirable for new businesses.
- With Tower Hamlets, Hackney and Redbridge a number of other East London boroughs can be found towards the top that are likely to benefit from start-ups moving further away from central London to economise on office rents.
- However, not all London boroughs perform that well. Havering and Barking and Dagenham perform much worse, scoring around the 50% mark. Less dynamic local economies and less favourable business conditions are likely to factor in.

UK Entrepreneurs Index, London boroughs, final index score

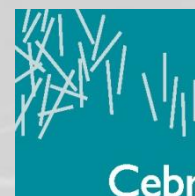


Source: ONS, Cebr analysis

Cambridge and Berkshire

Cambridge: Cambridge and the surrounding councils of East and South Cambridgeshire are famous for being clusters of innovation. The so-called Silicon Fen is home to a large number of businesses working in the fields of software, electronics and biotechnology. Cambridge University, one of the world's leading higher educational institutions, guarantees a steady supply of highly motivated and excellently trained graduates. Two thirds of the labour force in Cambridge have NVQ4 qualifications or higher, ranking it in third place nationally. The presence of leading technology companies and potential network effects make Cambridge a prime candidate for entrepreneurs. In East Cambridgeshire, 66% of businesses are still in operation three years after birth, which is clearly above the national average. The high degree of specialization in Cambridge is a major advantage for any aspiring entrepreneur in biotech, technology or software engineering. However, start-ups in other sectors might find it harder to get their foot into the door. In the consumer and retail sector, Cambridge lags behind other regions. The city could benefit from fostering business growth on a broader scale, supporting also entrepreneurs who are not directly linked to a high-tech sector. The close links between many research institutions, businesses and Cambridge University are likely to foster more start-up growth in the already strong high-tech sectors. These sectors will play an important role in the future as digitalisation and automation, commonly referred to as “industry 4.0”, change the economy in profound ways.

Berkshire: West Berkshire score among the top councils in terms of productivity, i.e. economic output per worker. The council, together with neighbouring Slough, ranks behind a number of London boroughs but ahead of Westminster. A high employment density means that firms can choose from a large pool of qualified workers. The greater Thames Valley boasts great infrastructure with links to the UK's largest airports as well as proximity to world-leading universities and the London. As such, the area is home for major international businesses such as Vodafone, which has its UK headquarters in Newbury. As a more rural council, West Berkshire is unlikely to benefit from the same agglomeration effects as urban centres. Nevertheless, the area boasts several success stories such as the one of Roc technologies, a business and technology service provider, founded in 2011 in Newbury, which has seen rapid growth over the last years.



Contact

For enquiries on this research please contact:

Kay Neufeld, *Senior Economist*

+44 (0) 20 7324 2841, kneufeld@cebr.com

Nina Skero, *Head of Macroeconomics*

+44 (0) 20 7324 2876 nskero@cebr.com