

**REVIEW OF BUSINESS
DEVELOPMENT IN THE UPPER LEE
VALLEY**

**A report to the London
Development Agency
by SQW Ltd.**

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Business development in the Upper Lee Valley

Introduction

1. The London Development Agency commissioned SQW Limited to undertake review of the business conditions in the Upper Lee Valley (ULV) in order to help identify priorities for the Agency's Single Programme intervention.
2. This report summarises available business and labour market data in the 3 Upper Lee Valley boroughs of Enfield, Haringey and Waltham Forest and draws on evidence reviews contained in 2 main studies of the area conducted in the last 2 years. These sources of information – combined with a series of face to face interviews with key agencies – have been used as background to a number of recommendations for commissioning business support services consistent with the direction identified in "theme 2" of the LDA's Upper Lee Valley Area Framework.¹
3. The LDA has agreed that Urban Futures will be the Managing Agency for the programme. This note provides analytical background to help Urban Futures draw-up an Implementation Plan that will specify the range and type of services or projects it will commission on behalf of the Agency and partners.
4. The ULV area has been designated by the LDA as one of 9 priority regeneration areas for development through its Single Programme. The ULV runs from the M25 in the north to Leyton in the south, taking in a corridor of mainly industrial and commercial uses. It cuts through three local authorities – the London Boroughs of Enfield, Haringey and Waltham Forest. The interventions funded through the Single Programme are expected to focus on two differently defined areas:
 - a tight "core area" – taking in a number of strategic industrial sites – will be the primary focus for investment in land property and infrastructure
 - a broader "loose area" covering the whole of the three Boroughs which will be the focus for business and people focused initiatives – with priority given to the disadvantaged wards that have been identified by the 3 Boroughs for their Neighbourhood Renewal intervention
5. SQW has already undertaken a review of the factors leading to low levels of employment in the 3 Borough area. This shorter note describes some of the key features of business, characteristics of growth sectors and the likely business development needs of the area. The current draft Area Framework for the Upper Lee Valley identifies four main characteristics of the area:
 - strong concentration in sectors which are regarded as important to the London economy yet which have seen slow growth in employment.

¹ The report authors are Paul Convery and Jonathan Cook

- relatively low share of growth sectors in the London economy including financial and business services and creative industries
 - high proportion of small and medium sized enterprises which face constraints to growth and survival
 - gaps in business support, promotion and inward investment activities – particularly services to black and minority ethnic businesses, start-ups and access to growth finance or to supply chains.
6. In addition to these identified weaknesses, the Area Framework commits to supporting the City Growth Strategy being piloted in Haringey. The analysis supporting this strategy identifies other systemic weaknesses in the sub-regional economy and in the types of current public intervention.
7. The City Growth approach underlines the findings of other business surveys in arguing that the main barriers to attraction, retention and growth of firms tends to be "intangibles" like regulatory compliance and poor perceptions of the area re-inforced by inadequate public services, poor environmental standards and the incidence of crime. This analysis also identifies that business development is over-concentrated on start-ups and supporting indigenous business – that are small and have modest growth ambitions – and insufficiently focused on attracting inward investment
8. The range of other available evidence identifies that firms suffer from inadequate supply premises, finance, workforce and other factors of production:
- Under-capitalisation of businesses – reinforced by firms' low ambitions to grow and by indifferent or formulaic service responses by banks and other potential lenders or investors
 - Limited adoption of ICT, particularly take-up of broadband applications
 - Impact of skill shortages *and* the extent of firms locked into a low-skill equilibrium
 - Poor quality of labour supply – low basic skills and poor generic employability
 - Transport constraints, particularly road traffic congestion and west/east routes
 - Poor supply of good quality, affordable (rents and rateable values) and flexible business premises
9. The evidence also indicates that public services are poorly configured to support firms' expansion:
- Firms have limited success at securing contracts from public sector purchasers
 - Local business support services tend to be focused on small firms and are highly fragmented. These services have scope for significant improvements to quality, efficiency and co-ordination.
10. The LDA's draft consultation Area Framework recognises a number of these systemic weaknesses and emphasises the need to "secure a balanced economy" by building on current strengths and supporting new growth sectors. These are initially:

- Higher value manufacturing and green industries – particularly by supporting, knowledge transfer, R&D and innovation
 - Growth potential sectors, in particular *sports/leisure* and *creative/cultural*
11. Further analysis of the area – contained in this report – identifies 3 other sectors of scale and significance for employment and economic impact (which are also referenced in the Area Framework. In addition to public sector agencies, which accounts for more than a quarter of all jobs, these significant sectors are:
- Financial & business services – including ICT
 - Transport & logistics – which have strong locational advantages based on proximity to the M25, Stansted, the Cambridge Corridor and relatively easy access to markets in Central London and the City.
 - Retail – primarily within Town Centre locations – which is characterised by a high proportion of ethnic minority owned businesses.

Size of firms

12. The data sources also point to conclusions about the scale of business that is best suited for support. Compared with the London average, the 3 Borough area is particularly dominated by smaller firms. Employment growth amongst micro-sized firms has been reasonably healthy – matching the 5% rise seen elsewhere in London between 1998 and 2001. Growth in firms employing between 50 and 99 employees has been especially robust – registering a 21% increase and accounting for a 5,000 increase in jobs. However, firms in the scale range 11 to 49 employees have shown a decline – in marked contrast to growth seen elsewhere in London.
13. A support strategy for these size firms needs to understand – and differentiate between – the precise requirements of different sized firms.
14. Medium sized firms (employing between 50 and 250) have the greatest capacity for employment and overall economic impact and need to be encouraged to grow and stay in the area using a suite of services that:
- Improve quality, raise productivity stimulate innovation and develop continuous improvement.
 - Help meet regulatory compliance requirements – environment, health & safety, HR & recruitment.
 - Support networking – between companies and organisations to identify opportunities, stimulate joint ventures and exchange ideas.
 - Meet skill requirements particularly in sectors that are experiencing shortages.
 - Help firms to raise wage levels and increase retention of skilled staff
 - Help firms to use ICT more intensively – to respond to the increasing e-commerce expectations of suppliers and customers and competitive advantage to

be gained from automated logistics, process control and integrating inventory and accounts systems.

15. Very small firms – particularly in scale size of less than 5 employees – have quite a limited potential to grow rapidly and those that succeed often do so without any public intervention at all. The key services that these micro firms will require include:
 - Cost effective ways to improve basic operational quality standards – such as adoption of ISO 9000
 - Benefits from networking and clustering – as with medium sized companies these aspects are important to sustain and develop small firms.
 - Flexible and affordable premises
 - Access to finance
 - Mentoring and advice, basic business skills, book-keeping, accountancy, insurance and communication together with an understanding of compliance with health & safety, environment and employment legislation.
 - Application of ICT to improve basic business performance and competitiveness
16. Large private sector employers – of which the Upper Lee Valley boroughs currently have about 80 established – need to be attracted and retained in the area. These firms – which play an important role in the local economy and supply chain – are highly self-sufficient and require few local business support services. However they require attention from public authorities in order to:
 - maximise wider benefits from their presence in the local economy – through their contribution to the area’s pool of skilled labour; capacity to provide better paid more secure employment; corporate social responsibility benefits accruing to local schools, voluntary and community sector; or from the impact of mobilising their business leadership.
 - ensure their continued retention by minimising the effects of regulatory compliance, improving environmental conditions, infrastructure and premises or helping to ensure a good supply of skilled labour.

A dual strategy

17. There is a two-way strategic opportunity in the Upper Lee Valley: to simultaneously develop a future economy; and to support the present-day economy.
18. Firstly, there is a long-term strategy. This encourages inward investment and develops the target sector opportunities such as high technology and niche manufacturing, green industries, R&D and innovation – principally in medium-sized firms. This requires improvements to the physical environment, the transport infrastructure and a change in perceptions about the area. It will benefit from upskilling the labour force, promoting links with HE institutions – particularly

Middlesex – developing clusters and generally creating a culture that supports and nurtures high value-added industries.

19. Not all of the target sectors will grow rapidly. There may be site constraints in pursuing a strategy that embraces all of the target sectors. There is also the need to bear in mind the limited skill base of the area, and to make some of the sectors targeted for growth more consistent with this. Therefore, a strategy that only incorporates high skilled sectors is not sensible. Nor will it produce a decent supply of entry-level jobs which are badly required to help meet the unmet latent demand for jobs which is some 60,000 according to the analysis underpinning the "theme 1" priorities. This is why sectors such as retail, logistics, sports and leisure have been emphasised, although even here skills in short supply are also required.
20. But equally, there needs to be a range of support services that develop the indigenous firms of the current economy. Many of these firms are low ambition micro-businesses in sectors that have little growth potential, are in decline or just serve very local markets. In determining where to allocate services, business support agencies need to differentiate between firms that are simply maintaining an equilibrium of low economic activity and those firms that have stronger potential and aspiration to grow.

Interventions and services

21. The draft Area Framework identifies 5 types of intervention to support business growth:
 - Co-ordinated business development and business support activities – ensuring a high quality of service addressing identified business needs including those of black and minority ethnic businesses
 - Effective branding and promotion – promoting the Upper Lee Valley, securing inward investment and ensuring effective aftercare and retention
 - Access to growth finance – working capital, development capital through loans, equity participation and other financial instruments
 - Addressing workforce development requirements, recruitment and retention blockages
 - Encouraging competitive advantage that is specific to localities and to potential growth clusters
22. The scale of resources available through the Single Programme is relatively limited and very clear priorities will have to be established.
23. However, the Programme Plan is not simply a statement of what the LDA intends to directly fund. Instead it should consolidate the ambitions of local partners and help to guide the spending priorities of other public agencies. In drafting the implementation plan, the ULV Matrix Group and partners will need to consider a number of critical points of engagement for each of the 5 types of intervention.

1. Business support services

24. Business support services should concentrate on firms in the identified growth potential sectors and on businesses that are primarily in the scale ranges where growth is buoyant or growth is out-of-line with trends elsewhere in London. Services should:
- should enhance – and not duplicate – Business Link for London's provision
 - customised support that is clearly focused on the specific requirements of companies at a functional level – particularly ICT, sales, marketing, operations management, access to finance and investment readiness
 - concentrate the LSC's workforce development funds and mainstream budgets into the area
 - draw upon the purchasing power, networking capability and Corporate Social Responsibility assets of large companies located in the area
 - help firms benefit from public service procurement opportunities
 - identify mechanisms that efficiently serve black and minority ethnic owned businesses according to specific need
 - providing marketing, R&D and innovation support to firms with the ambition to develop new products and services

2. Inward investment and marketing

25. Services should be commissioned that encourage the location of new firms and the retention or growth of existing firms. Very few companies are attracted or retained by financial incentives such as rent grants, development loans or other types of selective assistance. These firms will primarily make location decisions based on the quality of infrastructure and environment, the regime of local regulation and development control, ease of transport access and their ability to recruit and retain a suitably skilled workforce.
26. Critical factors such as road congestion, poor transport access, physical infrastructure, perceptions of crime or a poor environment give the impression that many locations in the Upper Lee Valley are not attractive working environments and do not constitute good "quality of life" attributes.
27. Consequently, services should provide a balanced approach that *generally* improves the conditions for growth and *specifically* helps individual firms to re-locate.
28. In the latter case, the Upper Lee Valley "offer" should provide a comprehensive package of location help that will help a firm to identify a location, source premises and recruit a workforce. The precise configuration of marketing, promotion and inward investment activity for the Upper Lee Valley needs to be contained within the LDA's tiered strategy of:

- London First – recruiting firms to the wider region
- The proposed North London inward investment agency's – promoting the advantages of the sub-region

3. Finance

29. There is widely reported evidence of under-capitalisation in small and medium sized firms within the Upper Lee Valley. Despite this, very few firms recognise this as a business constraint and, according to the City Growth research, barely 1 in 10 firms have sought loan finance – either to provide working capital or to invest in premises, equipment or other assets. Even fewer firms had made any attempt to acquire equity funding. Whilst there is considerable evidence of failings amongst institutions that *supply* capital (retail banks and conventional investors), equally there is a clear case for stimulating the *demand* side too.
30. Although public policy should not encourage firms to borrow or dilute their ownership unnecessarily, many enterprises clearly would increase their scale and profitability by having access to capital and would benefit from a programme of awareness and investment readiness. Much of the reluctance to seek external capital is rooted in a cultural aversion to risk, anxiety about loan security or resistance to sharing ownership with external investors.
31. Many institutions – public and private – have entered the market to offer a wide range of semi-commercial or fully commercial investment products to small firms with uncertain funding requirements. These can range from small short-term cashflow loans to venture capital-backed seed funding for early-stage product development. Some of these financial instruments are merely re-branded versions of mainstream banking services whilst others are highly sophisticated offerings that exhibit the best characteristics of "patient capital": flexible long term placings by investors prepared to offer management advice and specialist help to their target firms.
32. However, the key obstacles reported by many investment managers that specialise in the small and micro business sector is a lack of investment readiness on the part of the companies. Primarily this manifests itself in poor financial management and business planning skills in target companies.
33. The most effective intervention for the Single Programme is therefore to ensure that business support services – particularly those provided by Business Link for London – are oriented towards identifying growth potential micro and small-sized firms that have latent capital requirements. Services should concentrate on developing plans and investment readiness in firms – particularly those with products or services in the target sectors identified by the LDA's Area Framework.

4. Labour supply and workforce development

34. Our review of “theme 1” evidence and conclusion about required services identifies a number of barriers to employment faced by individuals. Many of these are “demand-side” weaknesses reported by employers:
- lack of Basic Skills particularly English language ability
 - poor generic employability skills and the core skill requirements of entry level jobs
 - absence of recognised qualifications and work-specific skills
 - poor understanding of the labour market and of services available from intermediaries.
35. Employers particularly report that inter-personal and attitudinal problems are a major obstacle to recruitment. These employability attributes are amongst the hardest to quantify and tend to be accorded anecdotal status only. Whilst some employer reports may tend to be imprecise and over-colourful, nonetheless, the regularity with which firms cite these difficulties justifies a more intensive approach.
36. The Single Programme intervention needs to see supply of skills – and the HR and recruitment services needed to broker job entry, progression and development – as important components of this business development theme. Consequently, services should have a “dual customer” focus that understands the requirements of firms as well as the needs of individuals.

5. Clustering

37. The main sectors that may benefit from cluster effects are mainly in manufacturing (clothing, food, light engineering, furniture). Concentrations are emerging in the culture and media industries, developments based on the Business Innovation Centre and amongst logistics firms. Services will need to:
- Emphasise the benefits of clustered activity particularly within the target sectors
 - Encourage firms’ networking capability and development of supply chains, inter-firm trading and other types of sector *collaboration*
 - Facilitate technology transfer and the exploitation of intellectual capital

1 Appendix: Overview of boroughs

Introduction

- 1.1 This chapter provides an overview of the current situation in the three boroughs in the Upper Lee Valley (Enfield, Haringey and Waltham Forest). It uses data from NOMIS to examine the sectoral structure of the Upper Lee Valley boroughs with regard employment and workplaces. An indication of entrepreneurial activity is given through VAT registration and deregistration information.
- 1.2 Previous research studies are also used to help to provide a picture of the issues that businesses are facing, their strengths and weaknesses and their needs. This is done with particular reference to the “Haringey City Growth Strategy” by PACEC.

Sectoral analysis

- 1.3 The largest number of workplaces for all of the three boroughs are in real estate, renting and business services (20% of workplaces in Enfield, 22% in Haringey and 16% in Waltham Forest), and in the retail sector (14% of workplaces in Enfield, 14% in Haringey and 16% in Waltham Forest). Computing and R&D also has a large proportion of workplaces throughout the Upper Lee Valley (9% of workplaces in Enfield, 8% in Haringey and 8% in Waltham Forest). This is similar to London overall (9% of workplaces in this sector), and is greater than for Great Britain (6%). The wholesale sector and other services, which include personal services, are both large sectors in terms of workplaces (see Table 1.1). The construction sector is prevalent in Enfield (11% of workplaces) and Waltham Forest (8%).
- 1.4 When analysis is carried out by employees, we get slightly different results. The real estate, renting and business services sector and the retail sector are the largest employers. The real estate, renting and business services sector constitutes 13% of employment in Enfield, 14% in Haringey and 15% in Waltham Forest. The retail sector makes up 11% of employment in Enfield, 13% in Haringey and 12% in Waltham Forest. Education is a very large employer in the three boroughs in comparison to the number of workplaces, because education institutions tend to be large (see Table 1.2). The same is true for the health and social work sector. In contrast to this, although computing and R&D made up a large proportion of the workplaces in the three boroughs, it only constitutes 2% of employment in each of the boroughs. This is because the firms that are specifically in this sector tend to be quite small. The same is true, but to a lesser extent for other services (including personal services).

Table 1.1: Workplace analysis by borough (2001)

Industry	Enfield		Haringey		Waltham Forest		London		Great Britain	
	Number	%	Number	%	Number	%	Number	%	Number	%
Agriculture, fishing, mining and extraction	na	na	na	na	na	na	501	0%	16,058	1%
Computing, R&D	761	9%	698	8%	503	8%	31,051	9%	131,908	6%
Construction	935	11%	363	4%	637	10%	20,061	5%	192,404	9%
Education	148	2%	185	2%	143	2%	6,174	2%	55,434	3%
Electricity, gas & water	na	na	na	na	na	na	173	0%	2,458	0%
Financial intermediation	177	2%	97	1%	93	1%	11,038	3%	45,458	2%
Health & social work	389	4%	372	4%	376	6%	14,126	4%	103,548	5%
Hotels and restaurants	507	6%	467	6%	345	5%	22,757	6%	155,162	7%
Manufacturing (Chemicals)	47	1%	23	0%	30	0%	1,055	0%	12,891	1%
Manufacturing (food, beverages and tobacco)	36	0%	50	1%	30	0%	942	0%	10,583	0%
Manufacturing (machinery & equipment)	109	1%	56	1%	81	1%	3,185	1%	38,749	2%
Manufacturing (other)	222	2%	152	2%	202	3%	6,136	2%	72,431	3%
Manufacturing (textiles)	95	1%	274	3%	84	1%	2,737	1%	13,011	1%
Motor vehicle sale, repair	323	4%	187	2%	228	4%	7,618	2%	81,307	4%
Other services	785	9%	1,256	15%	579	9%	43,365	12%	203,870	9%
Printing & Publishing	145	2%	159	2%	166	3%	8,290	2%	31,501	1%
Public admin, defence	66	1%	67	1%	53	1%	2,785	1%	25,574	1%
Real estate, renting and business services	1,750	20%	1,854	22%	1,046	16%	103,895	28%	450,703	21%
Retail	1,214	14%	1,144	14%	999	16%	40,714	11%	292,480	13%
Transport, storage and telecomms	426	5%	240	3%	220	3%	14,476	4%	102,160	5%
Wholesale	749	8%	655	8%	568	9%	24,078	7%	131,021	6%
Total	8,884		8,299		6,383	100%	365,157		2,168,711	
By 6 sectors:										
Agriculture, fishing, mining and extraction	na	na	na	na	na	na	501	0%	16,058	1%
Manufacturing	654	7%	714	9%	593	9%	22,345	6%	179,166	8%
Utilities, construction and comms	1,361	15%	603	7%	857	13%	34,537	9%	294,564	14%
Distribution and leisure	3,578	40%	3,709	45%	2,719	43%	138,532	38%	863,840	40%
Finance and business services	2,688	30%	2,649	32%	1,642	26%	145,984	40%	628,069	29%
Education, health and public admin	603	7%	624	8%	572	9%	23,085	6%	184,556	9%
Source: Annual Business Inquiry (2001)										

Table 1.2: Employee analysis by borough (2001)

Industry	Enfield		Haringey		Waltham Forest		London		Great Britain	
	Number	%	Number	%	Number	%	Number	%	Number	%
Agriculture, fishing, mining and extraction	199	0%	44	0%	na	na	7,156	0%	319,107	1%
Computing, R&D	2,031	2%	1,016	2%	933	2%	136,937	3%	616,854	2%
Construction	5,719	6%	2,552	4%	3,001	5%	134,395	3%	1,148,508	5%
Education	8,983	10%	6,246	10%	6,858	12%	255,001	6%	2,129,767	8%
Electricity, gas & water	na	na	na	na	na	na	9,263	0%	138,107	1%
Financial intermediation	4,519	5%	764	1%	1,010	2%	324,435	8%	1,049,987	4%
Health & social work	10,286	11%	4,749	8%	7,242	13%	321,383	8%	2,738,296	11%
Hotels and restaurants	4,233	5%	3,730	6%	2,577	5%	277,646	7%	1,656,846	7%
Manufacturing (Chemicals)	1,095	1%	572	1%	483	1%	24,382	1%	473,841	2%
Manufacturing (food, beverages and tobacco)	1,581	2%	524	1%	838	1%	31,238	1%	458,572	2%
Manufacturing (machinery & equipment)	3,808	4%	515	1%	1,410	2%	53,123	1%	1,146,556	5%
Manufacturing (other)	2,402	3%	1,379	2%	1,667	3%	43,299	1%	962,482	4%
Manufacturing (textiles)	629	1%	1,831	3%	520	1%	15,430	0%	212,306	1%
Motor vehicle sale, repair	2,088	2%	1,067	2%	1,121	2%	52,636	1%	553,422	2%
Other services	3,735	4%	5,292	9%	3,227	6%	285,025	7%	1,330,219	5%
Printing & Publishing	734	1%	746	1%	1,271	2%	92,887	2%	349,547	1%
Public admin, defence	5,017	5%	3,897	7%	2,588	5%	203,697	5%	1,319,727	5%
Real estate, renting and business services	12,024	13%	8,643	14%	8,412	15%	863,954	22%	3,329,134	13%
Retail	10,715	11%	7,743	13%	7,018	12%	381,874	10%	2,837,432	11%
Transport, storage and telecomms	7,725	8%	4,617	8%	2,358	4%	321,623	8%	1,558,190	6%
Wholesale	5,995	6%	3,947	7%	4,200	7%	179,555	4%	1,127,498	4%
Total	93,518		59,874		56,734		4,014,939		25,456,398	
By 6 sectors:										
Agriculture, fishing, mining and extraction	199	0%	44	0%	na	na	7,156	0%	319,107	1%
Manufacturing	10,249	11%	5,567	9%	6,189	11%	260,359	6%	3,603,304	14%
Utilities, construction and comms	13,444	14%	7,169	12%	5,359	9%	456,018	11%	2,706,698	11%
Distribution and leisure	26,766	29%	21,779	36%	18,143	32%	1,176,736	29%	7,505,417	29%
Finance and business services	18,574	20%	10,423	17%	10,355	18%	1,325,326	33%	4,995,975	20%
Education, health and public admin	24,286	26%	14,892	25%	16,688	29%	780,081	19%	6,187,790	24%
Source: Annual Business Inquiry (2001)										

- 1.5 If we break this down by size of workplace, and look at historical data, we can see which size of business has been growing in numbers in recent years. The number of medium-sized firms (with 50-199 employees) has grown by 14% in the Upper Lee Valley area between 1998 and 2001. The number of firms with 10-49 employees has fallen by 3% in the same period, compared to increasing by 6% for London as a whole. The number of micro enterprises increased between 1998 and 2001 by 8% (Table 1.3). This contrasts with the picture across London as a whole where firms of all sizes grew at a broadly similar pace – with medium sized firms growing slightly faster.

Table 1.3: Workplaces growth by business size

Business Size	Upper Lee Valley			London		
	1998	2001	% Change	1998	2001	% Change
1-10	19,135	20,680	+8%	295,300	314,730	+7%
11-49	2,265	2,190	-3%	35,770	37,880	+6%
50-199	545	615	+14%	8,995	9,845	+9%
200+	130	125	-5%	2,555	2,705	+6%
Total	22,075	23,610	+7%	342,620	365,155	+7%

Source: Annual Business Inquiry 1998 and 2001 (figures to nearest 5)

- 1.6 This pattern of growth in enterprises is reflected in the scale of employment. Upper Lee Valley has a proportionately higher number of jobs in very small firms – representing 26% of all employment compared with 21% for London as a whole. Equally, the number of jobs within medium sized enterprises is also proportionately greater than the London average – representing 49% of all jobs compared with 44%. Not surprisingly, the number of jobs in large firms (200+) is significantly lower: 24% of jobs are in this size of enterprise compared with 36% elsewhere in London.

Table 1.4: Employment by business size

Business Size	Upper Lee Valley			London		
	1998	2001	% Change	1998	2001	% Change
1-10	52,900	55,700	+5%	815,200	855,000	+5%
11-49	50,900	49,200	-3%	785,600	847,900	+8%
50-199	50,900	55,700	+9%	847,900	906,400	+7%
200+	55,700	50,100	-10%	1,314,600	1,405,000	+7%
Total	210,400	210,600	0%	3,763,200	4,014,200	+7%

Source: Annual Business Inquiry 1998 and 2001 (figures to nearest 100)

- 1.7 Examining these data at a more disaggregated level shows that most jobs growth was recorded in the following two scale bands
- between 50 and 99 which increased by 21% (greater than the London average) and which was equal to over 5,000 extra jobs; this scale band accounts for 14% of all jobs.
 - less than 5 which increased by 8% (same as the London average) and was equal to 2,400 extra jobs; this scale band accounts for 16% of all jobs.
- 1.8 In the Upper Lee Valley boroughs, enterprises between these two main groups remained either static or declined slightly. Those in the scale band 5 to 10 grew fractionally (in-line with the London-wide trend) whilst the scale bands 11-24 declined by 4% (out of line with elsewhere in London which saw growth of 4%). The scale band 25-49 shrunk by 3% (significantly inconsistent with the London trend which saw growth of 12%). Between them, these scale bands account for over a third of employment in the Upper Lee Valley boroughs.
- 1.9 We can also separate the employee and workplace analysis in tables 1.1 and 1.2 by geography in terms of neighbourhood renewal wards. Using 1991 frozen wards, we get two distinct areas,

the Upper Lee Valley Neighbourhood Renewal Fund area, and the Upper Lee Valley that is not part of the Neighbourhood Renewal Fund area.

- 1.10 This reveals some significant differences between the NRF area and the non-NRF area in terms of employment and workplace structure. In the NRF area, there is a greater focus on distribution and leisure and manufacturing, whereas in the non-NRF area there is a greater proportion of workplaces and employment in financial and business services, and in education, health and public administration. To a more detailed sector level, we can see that computing and R&D is more important in the non-NRF area (9% of workplaces and 2% of employment) than in the NRF area (5% of workplaces and 1% of employment). The manufacturing of textiles (5% of workplaces and 3% of employment), wholesale (11% of workplaces and 9% of employment) and retail (17% of workplaces and 13% of employment) stand out as being more important in the NRF area than in the non-NRF area.

Table 1.5: Workplace analysis by NRF area (2001)

Industry	NRF Area		Non-NRF Area	
	Number	%	Number	%
Agriculture, fishing, mining and extraction	na	na	26	0%
Computing, R&D	290	5%	1,672	9%
Construction	337	6%	1,598	9%
Education	125	2%	351	2%
Electricity, gas & water	na	na	na	na
Financial intermediation	70	1%	297	2%
Health & social work	274	5%	863	5%
Hotels and restaurants	296	5%	1,023	6%
Manufacturing (Chemicals)	37	1%	63	0%
Manufacturing (food, beverages and tobacco)	41	1%	75	0%
Manufacturing (machinery & equipment)	77	1%	169	1%
Manufacturing (other)	215	4%	361	2%
Manufacturing (textiles)	261	5%	192	1%
Motor vehicle sale, repair	203	4%	535	3%
Other services	434	8%	2,186	12%
Printing & Publishing	128	2%	342	2%
Public admin, defence	52	1%	134	1%
Real estate, renting and business services	803	15%	3,847	21%
Retail	910	17%	2,447	13%
Transport, storage and telecomms	219	4%	667	4%
Wholesale	616	11%	1,356	7%
Total	5,388		18,204	
By 6 sectors:				
Agriculture, fishing, mining and extraction	0	0%	26	0%
Manufacturing	759	14%	1,202	7%
Utilities, construction and comms	556	10%	2,265	12%
Distribution and leisure	2,459	46%	7,547	41%
Finance and business services	1,163	22%	5,816	32%
Education, health and public admin	451	8%	1,348	7%
Source: Annual Business Inquiry (2001)				

Table 1.6: Employee analysis by NRF area (2001)

Industry	NRF Area		Non-NRF Area	
	Number	%	Number	%
Agriculture, fishing, mining and extraction	na	na	178	0%
Computing, R&D	521	1%	3,459	2%
Construction	2,733	4%	8,539	6%
Education	5,401	9%	16,686	11%
Electricity, gas & water	na	na	na	na
Financial intermediation	767	1%	5,526	4%
Health & social work	3,731	6%	18,546	12%
Hotels and restaurants	2,673	4%	7,867	5%
Manufacturing (Chemicals)	1,010	2%	1,139	1%
Manufacturing (food, beverages and tobacco)	807	1%	2,135	1%
Manufacturing (machinery & equipment)	3,437	6%	2,295	2%
Manufacturing (other)	2,599	4%	2,849	2%
Manufacturing (textiles)	1,904	3%	1,076	1%
Motor vehicle sale, repair	1,098	2%	3,178	2%
Other services	4,255	7%	7,999	5%
Printing & Publishing	1,146	2%	1,605	1%
Public admin, defence	3,856	6%	7,646	5%
Real estate, renting and business services	7,398	12%	21,681	15%
Retail	7,990	13%	17,486	12%
Transport, storage and telecomms	4,534	7%	10,167	7%
Wholesale	5,334	9%	8,808	6%
Total	61,194		148,865	
By 6 sectors:				
Agriculture, fishing, mining and extraction	na	na	178	0%
Manufacturing	10,903	18%	11,099	7%
Utilities, construction and comms	7,267	12%	18,706	13%
Distribution and leisure	21,350	35%	45,338	30%
Finance and business services	8,686	14%	30,666	21%
Education, health and public admin	12,988	21%	42,878	29%

Source: Annual Business Inquiry (2001)

- 1.11 There are no big differences in the pattern of workplaces. The key thing to note, though, is that the number of workplaces grew in the non-NRF area by 9%, but in the NRF area the change between 1998 and 2001 was only 1% (Table 1.6).

Table 1.6: Workplaces growth by business size

Business Size	NRF Area			Non-NRF Area		
	1998	2001	% Change	1998	2001	% Change
1-10	4,410	4,480	2%	14,725	16,200	10%
11-49	720	695	-4%	1,545	1,495	-3%
50-199	175	190	9%	370	430	16%
200+	35	35	3%	95	85	-7%
Total	5,340	5,395	1%	16,735	18,210	9%

Source: Annual Business Inquiry 1998 and 2001 (figures to nearest 5)

Business growth

- 1.12 The number of businesses has grown more in the boroughs of Enfield and Haringey than in Waltham Forest. Enfield has seen a growth in the number of businesses between 1999 and 2002 of 370, which represents 5.8% growth (Table 1.7). Haringey had 410 more VAT registered businesses in 2002 than in 1999 which was a growth of 6.5% (Table 1.8). In Waltham Forest, the increase was only 1.0% or 45 businesses in the same period (Table 1.9).
- 1.13 When we look at the sectors, we can see that there are differences between the boroughs. In Enfield, construction and real estate saw the largest percentage and absolute growth in the

number of businesses. In Haringey, the growing sectors were real estate, wholesale & retail and public administration.

- 1.14 In comparison to London overall, the boroughs of Enfield and Haringey have seen the number of businesses grow well in terms of percentage changes. This shows that there are encouraging signs regarding business start-ups and entrepreneurial activity in some of the Upper Lee Valley. In Waltham Forest, however, the growth in the number of businesses has been more disappointing (Table 1.10).

Table 1.7: Change in number of business in Enfield 1999-2002

Industry	1999 Stock	2002 Stock	Change	% Change
Manufacturing	650	615	-35	-5.4%
Construction	815	935	120	14.7%
Wholesale & retail	1,885	1,890	5	0.3%
Hotels & restaurants	310	305	-5	-1.6%
Transport & comms	305	335	30	9.8%
Finance	60	55	-5	-8.3%
Real Estate	1,750	1,970	220	12.6%
Public admin; other	580	615	35	6.0%
Education; health	70	75	5	7.1%
Total	6,425	6,795	370	5.8%

Source: ONS (Stocks of VAT registered businesses, figures to the nearest 5)

Table 1.8: Change in number of businesses in Haringey 1999-2002

Industry	1999	2002	Change	% Change
Manufacturing	965	920	-45	-4.7%
Construction	350	340	-10	-2.9%
Wholesale & retail	1,755	1,905	150	8.5%
Hotels & restaurants	265	165	-100	-37.7%
Transport & comms	180	185	5	2.8%
Finance	30	30	0	0.0%
Real Estate	1,755	2,055	300	17.1%
Public admin; other	940	1,040	100	10.6%
Education; health	60	70	10	16.7%
Total	6,300	6,710	410	6.5%

Source: ONS (Stocks of VAT registered businesses, figures to the nearest 5)

Table 1.9: Change in number of businesses in Waltham Forest 1999-2002

Industry	1999	2002	Change	% Change
Manufacturing	570	495	-75	-13.2%
Construction	525	520	-5	-1.0%
Wholesale & retail	1,570	1,625	55	3.5%
Hotels & restaurants	210	185	-25	-11.9%
Transport & comms	130	140	10	7.7%
Finance	15	25	10	66.7%
Real Estate	1,080	1,120	40	3.7%
Public admin; other	340	360	20	5.9%
Education; health	30	45	15	50.0%
Total	4,470	4,515	45	1.0%

Source: ONS (Stocks of VAT registered businesses, figures to the nearest 5)

Table 1.10: % Change in the number of VAT registered businesses by area 1999-2002

Industry	Enfield	Haringey	Waltham	London	Great Britain
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	Forest				
Manufacturing	-5.4%	-4.7%	-13.2%	-11.2%	-7.8%
Construction	14.7%	-2.9%	-1.0%	1.1%	-0.2%
Wholesale & retail	0.3%	8.5%	3.5%	-1.9%	-4.2%
Hotels & restaurants	-1.6%	-37.7%	-11.9%	3.2%	5.5%
Transport & comms	9.8%	2.8%	7.7%	3.2%	2.9%
Finance	-8.3%	0.0%	66.7%	-6.9%	-0.5%
Real Estate	12.6%	17.1%	3.7%	10.7%	10.6%
Public admin; other	6.0%	10.6%	5.9%	6.6%	5.6%
Education; health	7.1%	16.7%	50.0%	6.0%	6.4%
Total	5.8%	6.5%	1.0%	3.8%	2.2%

Source: ONS (using stocks of VAT registered businesses, figures to the nearest 5)

Evidence from "City Growth" – business in Haringey

- 1.15 Much of the analysis here comes from the Haringey City Growth Strategy, and so is only strictly applicable to the borough of Haringey. Nevertheless, it still has some valuable information and pointers for the rest of the Upper Lee Valley where similar conditions exist.
- 1.16 The studies carried out by PACEC identify the main sectors and clusters in Haringey from research and discussions with partners in the borough. The survey of businesses in the Haringey borough as a whole was carried out with these clusters in mind. The clusters identified are:
- general manufacture, including e.g. engineering and electrical goods;
 - general wholesale and retail, including food and durable goods;
 - food including processing related retail and catering;
 - clothing covering textiles and clothing;
 - creative industries, including design and media;
 - business and financial services;
 - ICT, including software development and computing services.
- 1.17 The firms included in the survey carried out by PACEC were predominantly owned by people of black or minority ethnic origins (57%). This proportion increased for the food sector to 77%. The sectors where ethnic minorities were least likely to own the business were business and financial services (40%) and firms in creative industries (44%).
- 1.18 The size of businesses interviewed highlights the importance of small and micro businesses to Haringey, and more widely to the Upper Lee Valley. Over four-fifths (83%) employed ten people or fewer, and a further one-tenth employed between 11 and 25 staff.
- 1.19 In terms of the age of businesses, over 80% had been in existence for five or more years. This is also reflected in the fact that 63% of firms considered themselves to be in the "mature" stage of development. This was significantly higher for firms in general wholesale/retail (75%). Under one-fifth (18%) of firms were "going for growth" and this was higher for those in business and professional services (33%). One-tenth (9%) of firms were in the "early stages of development" and this was higher for ICT firms (25%), and 7% classed themselves as "start-ups" (significantly higher for clothing firms – 12%).

1.20 The majority of firms surveyed by PACEC have their origins in the Haringey/Tottenham area (83%). Most of the remainder were from the rest of London (14%) and 3% from outside London.

Objectives and constraints of businesses

1.21 There is a sense of optimism about the future, with 51% aiming to grow moderately or rapidly. Just over one-quarter (27%) aim to consolidate or stay the same. Seventeen per cent aim to merely survive, and this is significantly higher for firms in the food industry (29%). Four per cent of firms want to grow smaller, and this is, perhaps unsurprisingly, significantly higher for firms in general manufacturing (12%).

1.22 In terms of the constraints that may prevent firms from achieving objectives, several were noted as being key:

- premises access/transport/parking was identified by 34% of firms;
- cost of premises by 19% of firms;
- increasing competition by 19% of firms;
- other costs by 18% of firms;
- lack of external business support and advice by 13% of firms;
- the environment by 12% of firms.

1.23 Firms in the food sector seemed to be most concerned about the constraints facing their business. Interestingly, a lack of marketing or sales skills was rarely identified (except by ICT firms), despite the theory that firms need more training in this area in order to improve market share and develop niche markets. Furthermore, only 3% referred to the availability of debt finance as a constraint (significantly more from businesses/professional services did identify this), and only 3% cited lack of IT skills/support as a constraint (although 18% of ICT firms mentioned this). These are also often cited as areas for improvement for small and micro businesses. For example, smaller firms do not often access mainstream sources of finance, perhaps due to lack of ambition and the desire to merely survive. Further, “Black and Minority Ethnic Business and Research, Development, Technology and Innovation among SMEs”, research carried out by Prevista, shows that there is low usage of IT amongst SMEs.

Location

1.24 The two most common problems cited regarding the premises or location used by firms are: transport/access arrangements (26% of firms) and the perceived/actual local crime rate (17% of firms). A significant number of firms in general manufacturing (14%) also cited the poor physical condition of their premises as a problem. Interestingly, significant numbers of firms from the creative/cultural industries (64%) and the clothing sector (47%) cited that there were no major problems with premises or location.

1.25 The majority of firms (86%) are set to stay in Haringey, with the remaining 14% indicating that they intended to move elsewhere. The sectors in which firms were most likely to relocate are; general manufactures (26%), business and professional services (22%), those in creative and cultural industries (17%) and firms in the food sector (17%). London was the preferred location for 64%, and 36% planned to leave the capital.

1.26 The most commonly-cited factors that would encourage firms to stay in Haringey are:

- availability of premises (48%)
- low council tax (26%)
- transport/access arrangements (26%)
- low rents (22%)
- low overall costs (22%)
- good network/business contacts (18%)
- good labour supply (13%).

1.27 Set against this, firms were also asked by PACEC as to the factors that would encourage them to leave Haringey. This highlights the major issues for Haringey as a business location. These issues need addressing if the borough is to become an attractive place to do business, and in order to encourage inward investment. The issue of crime has been cited by firms as a problem and something that would encourage them to leave the borough: 48% referred to actual crime, 35% to the perceptions of crime, 25% to the costs of security to combat crime, and 20% to the effects of crime on business. Costs are another major issue of concern for businesses: 39% referred to high council tax, 31% to high rents and 26% to high overall costs. Location itself may encourage firms to leave the borough: 38% cited high traffic congestion and 31% cited transport and access.

Clusters

1.28 Much has been made of the fact that the Upper Lee Valley has clusters of businesses in the same sector, and the fact that this should be further encouraged. Michael Porter, in a paper for the DTI on the UK's competitiveness², indicates how clusters can have a positive impact on competitiveness. Firstly, clusters are beneficial from the geographical proximity of firms, supply chains, support services and research bodies. Firms can operate with lower levels of stock due to lower response times from suppliers, and technical problems can be more quickly resolved. Secondly, innovation and productivity growth is aided through the facility to disseminate information more freely, aiding knowledge development. Thirdly, clusters promote new business formation and inward investment, further developing the cluster. There is some evidence that there is clustering in the borough of Haringey and that it promotes networking and collaborating. However, the evidence is inconclusive.

1.29 The survey carried out by PACEC asked firms the extent to which they networked and socialised with organisations. There is very little networking and socialising with training providers, universities and other organisations. Networking and socialising is most likely to occur with suppliers, competitors and other firms (Table 1.10). The sectors where networking and socialising is most common is general manufactures, creative and cultural industries, business and professional services and the ICT sector. Indeed ICT firms are the ones most likely to network with training providers, and ICT firms and creative and cultural firms are most likely to network with universities.

² Porter M.E. & Ketels C.H.M. (2003), "UK Competitiveness: moving to the next stage", DTI Economics Paper No. 3.

Table 1.10: Networking and socialising with organisations, % of firms

	Great extent	Some extent	Minimal extent	Not at all	Not sure
Network and socialise with suppliers	7	17	10	59	7
Network and socialise with competitors	6	15	12	61	7
Network and socialise with other firms	8	16	14	55	7
Network and socialise with trade associations	3	7	7	74	8
Network and socialise with training providers	2	1	4	86	7
Network and socialise with universities	1	-	3	89	7
Network and socialise with other organisations	3	5	1	82	9

Source: PACEC

1.30 A similar pattern occurs with respect to collaborating and sharing information with other firms, as shown in Table 1.11.

Table 1.11: Firms' collaboration and sharing of information, % of firms

	Great extent	Some extent	Minimal extent	Not at all	Not sure
Collaborate/Share information with suppliers	6	19	12	55	8
Collaborate/Share information with competitors	4	15	10	65	7
Collaborate/Share information with other firms	7	21	12	52	7
Collaborate/Share information with trade associations	2	11	5	75	8
Collaborate/Share information training providers	1	3	3	86	7
Collaborate/Share information with universities	1	1	2	89	6
Collaborate/Share information with other organisations	2	4	3	85	6

Source: PACEC

2 Appendix: regeneration framework

Introduction

- 2.1 This section examines the regeneration framework for the Upper Lee Valley, with particular reference to the “Upper Lee Valley Area Framework” prepared for the North London Alliance by Arup. We look at the sectors that are referred to as target sectors in the framework document, and the strategic development sites, and how they fit into the analysis carried out so far. We also examine some of the key issues to come out of the work carried out by Arup.

Target sectors

High-technology and niche manufacturing

- 2.2 The Upper Lee Valley is one of the remaining hubs of manufacturing in London despite the continuing decline in manufacturing in recent years. There are still some manufacturers who continue to invest in the area such as Coca-Cola and Visteon. On top of this, there is scope for new growth in sub-sectors such as information and communication technologies, pharmaceutical materials, biotechnology and food. Firms are unlikely to be able to compete on costs, as is demonstrated from the information in chapter one. One of the major issues cited for relocation is high costs. Instead, therefore, firms have to compete on high value-added.
- 2.3 Finegold and Soskice (1988)³ refer to a high skills, high quality equilibrium that is desirable, and that ensures that firms compete on high value-added as opposed to low cost. This also illustrates that there has to be a supply and demand equilibrium, i.e. that there has to be a sufficient supply of skills, but also a sufficient demand for skills by firms who want to compete on high value-added. Finegold (1999)⁴ develops this further with reference to the Silicon Valley. He says that high skills are not sufficient on their own, but that other factors are important e.g. environmental, cultural and structural factors that support the high performance sectors and that help people use and develop their skills. Features that Finegold refers to as been successful in fostering employees’ development and firms’ cooperation are; permanent contracts for workers and long-term relationships within and between firms.
- 2.4 In terms of having the necessary skills for hi-tech sectors (and this is relevant to other target sectors such as R&D and innovation and green industries as wells as niche manufacturing), the pattern in the UK economy has been to shift away from hard technical expertise to softer interpersonal capabilities. To move the UK, and London more specifically, towards a knowledge economy requires a change to a system of training which is geared towards the service sector.

³ Finegold, D. & Soskice, D. (1988), “The failure of training in Britain: analysis and prescription”, Oxford Review of Economic Policy, Autumn, pp21-51.

⁴ Finegold, D. (1999) “Creating self-sustaining, high skill ecosystems”, Oxford Review of Economic Policy, 15:1, pp60-81.

Research & Development and Innovation

- 2.5 Technology industries are still the fastest growing in the UK despite the recent downturn. The Valley has the potential to attract and develop activity in this sector building on the London Innovation Centre, which is London's only Science Park and at the southern end the Technopark and proposed Middlesex University campus. The Upper Lee Valley does have a concentration of workplaces in R&D and computing as shown in chapter one. These tend to be small firms.
- 2.6 The Arup report suggests making more of potential links with Middlesex University, but this strategy is unclear, primarily because the institution is not normally recognised as major research centre, although there are to be developments in this field in the near future. Links with universities such as Imperial College and University College London would be better, but there is no obvious reason (aside from possibly the Science Park) for those institutions to locate/link with the Upper Lee Valley over other London areas.

Creative and sports industries

- 2.7 There is a growing cluster of the creative and media industry in the Upper Lee Valley. The Chocolate Factory in Wood Green, Haringey, has become an established location. Other suitable sites for creative industries would be the town centres of the Upper Lee Valley, such as Walthamstow. There is potential for developing creative and media industries outside of central London due to increasing rents in the centre.
- 2.8 Sports-focused activity could be encouraged at Picketts Lock in Enfield, which is the site of the proposed High Performance Athletics Centre. There is opportunity to use this as an anchor for the attraction of other related industries and activities, thus creating a cluster.

Green industries

- 2.9 The Arup report indicates that London is one of the largest generators of recyclable material but that main re-processors are outside London. Furthermore, the Upper Lee Valley has existing strength in Green Industries but this is spread across the area. Consolidating these could create a London centre for Green Industries in the area. There are also potential spin-offs from this in terms of innovation and new technology, as high-technology solutions are sought in this area. Green Industries potentially represent a huge opportunity for the Upper Lee Valley, as green issues become more important, and with several development sites available.

Transport and logistics

- 2.10 The developments in supply chain management and sourcing and distribution activities in recent years have led to the requirement of shorter lead times for stock. The result has been and will continue to be a restructuring of the logistics industry. Stock will be held at fewer locations, and with the Upper Lee Valley already having a significant logistics hub, the area could benefit greatly.
- 2.11 Transport links are essential to logistics firms because of the demand for shorter lead and response times. The area has good transport links through the M25, M11 and North Circular, although local links, particularly east to west are still problematic. This is partly due to the difficulties to move east to west due to the physical nature of the land e.g. the reservoirs. In

order to maintain the area's attractiveness as a centre for logistics, the issue of congestion on the major routes has to be examined.

- 2.12 There are future opportunities in this area through the expected growth of Stansted, the opening of the CTRL interchange station at Stratford and the scope for establishing a North-East London sub-regional or regional hub for distributive operations by major retailers.

Retail and leisure

- 2.13 Retail is a major sector in the Upper Lee Valley and this is particularly the case for black and minority ethnic-owned businesses. There are prospects for growth in this sector.
- 2.14 There are also opportunities for growth in leisure sectors, for example through the creation of a greater evening economy through restaurant and café developments. Appropriate parts of the Upper Lee Valley could be encouraged in this area. However, there are major constraints on this, for example, the quality of the environment in town centres, and high crime levels. Simply put, in order to encourage the development of a restaurant and café culture, areas have to be improved for people to be attracted to use these leisure facilities.
- 2.15 A further factor to bear in mind is the incomes of those who live and/or work in the Upper Lee Valley. Obviously, those on higher incomes are more likely to spend more on leisure activities. The strategy of encouraging the leisure sector is consistent with making the Upper Lee Valley a more attractive place to live and work, and with a mix of high and low value-added sectors. Unfortunately, a more attractive place to live and work requires the availability of retail and leisure sectors – a “chicken and egg” problem.

Financial services and business services

- 2.16 Chapter one indicates that the financial and business services sectors are large sectors in the Upper Lee Valley. However, by comparison to the rest of London, the sectors are actually quite small and the challenge therefore may be to consolidate these sectors. Supply of suitable premises is a serious obstacle as the evidence suggests a shortage of high quality business space. There is scope, therefore, for delivering a “ladder of sites” in the Upper Lee Valley, which cater for start-up businesses, developing businesses and large employers.
- 2.17 Again, another issue is the attractiveness of areas to businesses. Businesses in the Upper Lee Valley are likely to be local in many respects, i.e. locally-owned and serving local people or local businesses. In order to attract businesses to relocate in the Upper Lee Valley requires great improvements to the physical environment, and to alleviate people's fears regarding crime. A further attraction may be "functional niches" that businesses could serve in the Upper Lee Valley, which is likely to require the development of certain clusters or niche markets in the area first.

Labour supply

- 2.18 The ability to develop the sectors outlined above is dependent upon whether there is sufficient labour supply. The sectors vary considerably in the skills of workers that are required.
- 2.19 The high-technology and niche manufacturing and R&D and innovation sectors require high levels of skills from its workers. To an extent, the same is true for creative and cultural

industries, green industries and business and financial services sectors. The major employers of low-skilled workers are the logistics sector and retail and leisure.

- 2.20 The Upper Lee Valley boroughs themselves do not really have a high skills base, with the exception of Haringey, which has 35.8% of its working age population at NVQ level 4 or above (see Table 2.1). Nevertheless, we do not know if these people possess the right skills for the targeted industries. We have already seen how the structure of the UK economy and the London economy in particular is geared towards services rather than technological, manufacturing and innovative industries. So, in order to promote some of the industries that have been targeted, labour is likely to come from outside the Upper Lee Valley area, either by relocation or by commuting. Indeed, just as two-thirds of people commute to work outside Haringey, one-half of the people working in Haringey, commute from outside.⁵

	Enfield	Haringey	Waltham Forest	London
NVQ4+	23.3%	35.8%	20.2%	30.8%
NVQ3	14.2%	9.7%	12.5%	12.2%
Trade Apprenticeships	4.6%	n/a	4.7%	4.6%
NVQ2	14.1%	7.5%	14.3%	11.7%
NVQ1	13.9%	7.8%	13.6%	10.7%
Other qualifications	14.8%	18.4%	15.1%	15.7%
No qualifications	15.1%	19.1%	19.5%	14.7%

Source: Local Area Labour Force Survey (2001)

- 2.21 Furthermore, it is not just a case of having a highly-skilled workforce, cultural, environmental and structural factors are also important in developing the ULV's more technological sectors.
- 2.22 The Upper Lee Valley has low employment rates, and potentially has a large supply of labour. It is expected that these people will have low levels of skills, and so would be suited to work in the sectors identified as requiring lower skilled workers. There is still some need for training here, though, whether it be in basic skills, job-specific training and job readiness.

Transport infrastructure

- 2.23 Businesses require good transport links in terms of access. Access is often cited as a problem by businesses in the Upper Lee Valley area. This is particularly so travelling east-west and this may be a barrier for the current or potential workforce getting to work.
- 2.24 A further key issue is the fact that many of the target sectors rely specifically on good transport links. For example, the transport and logistics, a potentially large opportunity in the area, relies heavily on good access. Though access is good on a wider view, with the M25, M11, and the mainline rail links from King's Cross and Liverpool Street, at a more localised level, access is often criticised.

⁵ Haringey City Growth Strategy

3 Appendix: Technology and innovation

Introduction

- 3.1 One of the issues mentioned in chapter one with reference to small firms was the take-up of new technology and the low levels of innovation amongst small firms. Furthermore, the use of ICT in business was recognised as being potentially low. The desire to brand London as a “knowledge economy” brings technology and innovation to the fore. The Upper Lee Valley is also strategically important as one of the few hubs of manufacturing left in London. The use of technology and innovation here to develop higher-value manufacturing is therefore of great importance.
- 3.2 Here we look at the innovativeness of small and medium-sized enterprises with the aid of research carried out by Prevista. We also examine the extent to which the Upper Lee Valley can become a hub of innovation and R&D.

Research and Development, Technology and Innovation (RDTI) within SMEs

- 3.3 Prevista carried out some research into the take-up of RDTI amongst SMEs in Objective 2 areas in London. These areas included Upper Lee (parts of Enfield and Haringey), Inner East (parts of Waltham Forest, Hackney, Newham and Tower Hamlets), West London (parts of Hammersmith and Fulham, Brent and Ealing) and Outer Thames Gateway London (parts of Greenwich, Bexley, Barking and Dagenham and Havering).

ICT

- 3.4 There is a relatively high level of ICT use amongst medium-sized firms but not amongst micro and small-sized enterprises. In Prevista’s survey, none of firms with 50-249 employees, and only 9% of firms with 10-49 employees did not use a computer at all. However, amongst micro firms (with 0-9 employees), 38% did not use a computer at all. Although more than 90% of medium sized firms say they use email and the internet, only a minority use the internet for trading purposes and more than a third of these firms fail to use stock control or electronic data interchange (EDI) systems. Less than a half of all micro-businesses use a computer for book-keeping/accountancy, email and internet, only 40% maintain customer databases and just 1 in 6 use EDI systems.
- 3.5 This suggests that there is substantial scope for encouraging greater ICT use amongst micro firms, and extending their ICT use beyond basic applications. There is also scope for encouraging greater use of more sophisticated ICT material amongst firms of all sizes, for example stock control, payroll, and Internet uses such as online selling and purchasing, advertising and marketing and sharing information.

Innovation and R&D activity

- 3.6 The Prevista survey defines four different strands of innovation:
- introducing any major new products or services,

- introducing any major modifications to existing products or services,
- introducing any major equipment,
- introducing any major changes in work methods or workforce.

3.7 In the survey, 505 SMEs (46.7% of the overall sample) answered “yes” to being involved in any of the four above activities in the past three years, and therefore may be regarded as “innovative”. When the definition is restricted to the first two of the four, then 306 SMEs (28.3%) may be regarded as innovative. The larger the firm, the more likely they are of being innovative, as shown in Table 3.1.

Table 3.1: Innovation activity by size of business

	Size			
	1-9 emps	10-49 emps	50-249 emps	All
Introduced any major new products or services	19.2%	29.1%	50.0%	22.4%
Introduced any major modifications to existing products or services	13.2%	26.1%	38.3%	16.7%
Introduced any major equipment	24.0%	31.7%	44.0%	26.3%
Introduced any major changes in working methods or workforce	18.8%	28.0%	44.9%	21.7%
N=	833	200	49	1,082

Source: GOLISBRC Objective 2 London Survey

- 3.8 Of those that can be classed as innovative firms (using the higher figure of 505 SMEs), only one-third had engaged in R&D activity in the past 12 months. This was markedly higher for larger SMEs than for micro enterprises: 54.1% of firms with 50-249 employees reported R&D activity in the past 12 months, compared with 48.2% of firms with 10-49 employees, and 26.3% of firms with less than ten employees.
- 3.9 A good measure of firms’ capacity to innovate is the number of R&D and technical staff. In the innovative firms, the average number of specialist staff is 4.7. This is higher for firms with 50-249 employees (20.0) and lower for micro enterprises (1.9).
- 3.10 External support for innovation and R&D is very low. For the 505 innovative firms, 68% had received no support in the last three years. Support was most commonly received in relation to the following areas: management training in relation to product/process development (11.8% of firms), product development (11.1%) and new plant and machinery (9.6%). External support was most likely to come from suppliers (48.2%), clients or customers (30.0%) and other group companies (24.7%). There was little external advice from specialist research organisations such as: industry operated labs (3.8%), government research labs (5.1%), private research institutes (7.3%) and universities and other higher education institutes (7.5%).
- 3.11 Prevista’s report compares the objective 2 survey data and London-wide analysis. They state four main conclusions with regard the objective 2 area:
- low levels of R&D,
 - lower levels of product/service development,
 - lower levels of R&D staff,
 - lower than average levels of engagement with external agencies, including Universities.

Discussion

- 3.12 Low levels of R&D and innovation amongst SMEs is often unsurprising. Small firms are less likely to have the required funds for R&D, and much of the expenditure on R&D is financed internally using profits. Small firms are also less likely be able to get external finance because of the lack of assets to use as security and the risk involved in a loan for something which has uncertain returns. However, you could argue that smaller firms are more likely to have innovative cultures. This is because they may be able to foster a creative environment, and not be held back by an overly bureaucratic structure.
- 3.13 Concerning, though, is the fact that there are “lower” levels of product and service development and “lower” levels of R&D staff in the objective 2 area than in London overall. This suggests that there are other factors or barriers to innovation and R&D in the objective 2 area and the Upper Lee Valley more specifically.
- 3.14 Another key point to consider is a firm’s ability to appropriate benefits from its innovation and R&D activity. Teece (1988)⁶ indicates that innovating firms are not always the “winners” of their innovations. It is often the case that imitators, customers and suppliers are alternative firms who may gain from innovations. Whether a firm benefits fully from its innovation depends on its ability to appropriate returns. In order to do this may require investing in complementary assets, or may require the ability to respond and adapt to market demands effectively. There may be an important role for the business support network in this, for example advising on how to appropriate benefits from R&D and innovation. A further way to encourage innovation is through encouraging links with other organisations including universities as a way to increase knowledge and address the gap in knowledge.

⁶ Teece, D.J. (1988), “Capturing Value from Technological Innovation: Integration, Strategic Partnering, and Licensing Decisions”, *Interfaces*, May/Jun88, Vol. 18 Issue 3

4 Appendix: Black and Minority Ethnic Businesses

Introduction

- 4.1 The Haringey City Growth Strategy identified that there is great diversity amongst businesses in the Upper Lee Valley. In the PACEC survey of Haringey businesses, 57% were owned by people of black and minority ethnic origin. The research carried out by Prevista identifies some differences between the issues and characteristics facing BME firms and those facing non-BME firms. Moreover, the work carried out by Prevista also suggests that it is unreasonable to address these differences by taking BME firms as a group. Instead, it is suggested that there should be different support structures for the different minority groups.
- 4.2 This section examines some of the important points raised with reference to BME businesses.

Results of survey into BME firms

- 4.3 Prevista's survey of firms found that retail was by far and away the most important sector for BME firms. Over half (53.5%) of BME enterprises were in this sector compared to 15.4% of non-BME firms surveyed. The next two largest sectors were personal services (17.4%) and hotels (10.4%). Professional and business services only made up 7.5% of BME enterprises compared to 23.6% of non-BME enterprises.
- 4.4 Domestic consumers were the main type of customer for more BME firms than non-BME firms (67.1% compared to 44.7%). In contrast, other businesses in industry and commerce were less important (12.1% of BME firms compared to 35.7% of non-BME firms).
- 4.5 BME firms tend to have a lower turnover than non-BME firms: 48.0% of BME firms surveyed in the Prevista report had a turnover of lower than £100,000, compared to 38.6% of non-BME firms. Similarly, 7.2% of BME firms had a turnover of over £1 million, compared to 17.3% of non-BME firms.
- 4.6 BME firms have a much greater proportion of workers who are of ethnic minority origin. The mean percentage of the workforce that are from ethnic minorities was 85.6% for BME firms, compared to 19.6% for non-BME firms.
- 4.7 The performance of BME firms tends to be worse in terms of turnover growth and profit. Only 31.7% of BME firms said that turnover had grown in the last three years, compared to 45.2% of non-BME firms. Similarly, 36.3% of BME firms said that they had not made a profit in the past two years, compared to 22.4% of non-BME firms. Set against this, though, employment growth has been slightly higher amongst BME firms: the mean percentage change in employment in the last three years was 9.9% for BME firms, and 8.6% for non-BME firms.
- 4.8 BME firms face different constraints than non-BME firms. For example, competition in markets is more commonly cited as a constraint, as are premises rents and rate and recruitment. Note also, the higher proportions of BME firms citing access to finance and the cost of finance as constraints, as shown in Table 4.1.

Table 4.1: Main constraints on BME and non-BME SMEs

	BME origin	Non-BME origin	All
Competition in markets	27.6%	19.6%	21.4%
Poor quality premises	2.5%	1.0%	1.3%
Premises high rents/rates	15.2%	8.5%	10.0%
Level of market demand	3.7%	14.9%	12.3%
High value of sterling	2.9%	1.8%	2.1%
Labour market factors (e.g. skill levels/ wage rates)	2.9%	1.8%	2.1%
Recruitment/ finding the right staff	10.3%	6.9%	7.7%
Government legislation or regulations	4.1%	9.3%	8.1%
Cash flow/ bad debt	2.5%	7.9%	6.6%
Access to finance	7.4%	2.8%	3.8%
Interest rates/ cost of finance	4.5%	0.8%	1.7%
Poor local markets	2.1%	5.6%	4.8%
Finding relevant knowledge or info	0.8%	0.1%	0.3%
Other	2.0%	3.5%	3.0%
None/ don't know	11.5%	15.5%	14.6%
N=	243	827	1,070

Source: GOLISBRC Objective 2 London Survey (2002)

- 4.9 More BME firm owners are under 30 (11.5% compared with 4.1% for non-BME firm owners). Furthermore, fewer are over 50 (21.0% compared with 41.6%). Possibly a reflection on this is the possession of qualifications of SME owners. Table 4.2 shows that fewer BME firm owners have no formal qualifications, and more have a degree or above. The need for business support amongst SMEs is underlined by the fact that only 11.4% of all SME owners have a professional qualification.

Table 4.2: Highest educational qualification of BME SMEs and non-BME SME owners

	BME firms	Non-BME firms	All
No qualifications	16.3%	21.0%	19.9%
GCSEs and A Levels	35.2%	37.8%	37.2%
Degree and above	37.9%	29.5%	31.4%
Professional qualification	10.6%	11.7%	11.4%
N=	227	762	989

Source: GOLISBRC Objective 2 London Survey (2002)

- 4.10 A significant number of SMEs of both BME and non-BME origin did not seek external advice in the 12 months before the survey (18.5% of all firms sought no advice). There are small differences for BME firms and non-BME firms in the types of people from whom advice is sought. For example, BME firms are more likely to seek advice from another business owner, and from friends and relatives, whereas non-BME firms are more likely seek advice from employees or the manager of the business. Interestingly, specialist organisations such as Business Link, bank managers and trade associations are rarely sought for external advice – although accountants often are (see Table 4.3).

Table 4.3: Main sources of advice: BME SMEs and non-BME SMEs

	BME firms	Non-BME firms	All
Accountant	19.6%	23.4%	22.5%
Another business owner	16.3%	8.7%	10.4%
Friends/relatives generally	13.3%	7.1%	8.5%
Employee or manager of this business	10.0%	15.9%	14.6%
Employee or manager of another business	4.2%	4.8%	4.7%
Bank Manager	3.3%	2.8%	2.9%
Trade Association	2.5%	3.4%	3.2%
Government Department	2.5%	0.7%	1.1%
Private Consultancy	1.7%	1.4%	1.5%
Business Link	1.7%	0.8%	1.0%
Solicitor	1.3%	1.9%	1.8%
Non-executive director	0.8%	2.2%	1.9%
Other	2.5%	2.0%	2.2%
No advice sought	16.7%	19.1%	18.5%
N=	240	829	1,069

Source: GOLISBRC Objective 2 London Survey (2002)

- 4.11 A much greater proportion of BME firms do not use a computer than non-BME firms (46.7% compared to 26.7%). This can be partly, though not entirely, explained by the predominance of retailing amongst BME firms. The lack of use of ICT by BME firms illustrates that there could be a significant technology gap in the objective 2 area amongst BME businesses.
- 4.12 An important that is highlighted in Prevista's report is that different communities have different ways of working. For example, amongst BME groups Chinese businesses are most likely to access bank finance at start-up, and African-Caribbean businesses the least likely. In terms of just seeking advice at start-up, just 6% of white-owned businesses sought external advice from banks, and 11% of BME firms did. For BME groups, this was highest for Chinese businesses (40%) followed by African-Caribbean businesses (8%). This illustrates a recommendation in the Prevista report that, as well as bridging the communications gap with BME enterprises, some effort be made to customise support to individual BME groups.