



Business Demography - Birth, Death and Survival of Businesses in Tower Hamlets

This paper provides analysis of ONS business demography data focusing on the formation (birth) and closure (death) of businesses as well as the survival of businesses. The information is important to get a clear picture about the changing business environment in the borough.

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SUMMARY – Key facts

- In 2012, **around 13,740 enterprises** were active in Tower Hamlets while business registrations (2,395) outnumbered the number of deaths (1,695)
- The year on year growth of the number of active businesses in Tower Hamlets has been very positive. In 2012, **growth was the fifth highest in London**, outperforming the London and UK averages.
- The overall business **survival rates in Tower Hamlets show a positive development.**
The trend suggests that local businesses are not just starting strongly, but also that many entrepreneurs are establishing firms which are sufficiently innovative to survive.

Introduction

The Office for National Statistics Business Demography data makes available information about the births, deaths and survival of businesses in the UK. The data is important to understand the local, regional and national business environment. In this paper, analysis focuses on the formation (birth) and closure (death) of businesses as well as on the survival rate of businesses.

What is the data telling us?

The business data is based on the registration of businesses on the VAT (*Value Added Tax*) and PAYE (*Pay as You Earn*) tax schemes. Collecting business data via the VAT and PAYE system ensures a high reliability of the data.¹ However, businesses below the VAT threshold are not included in this analysis.

An **active business** is defined as a business that had either turnover (based on VAT) or employment (based on PAYE) at any time during the reference period.

A **business birth** is defined as a business that was present in a given year, but did not exist in the previous two years. Births are identified by comparing the annual active business population between years.

A **business death** is defined as a business that was active in a given year, but was no longer active in the following two years. In order to provide an early estimate of deaths, an adjustment has been made to the 2009 and 2010 deaths to allow for reactivations.² These figures are provisional and subject to revision.

1 National and regional trends³

UK trends in 2012

There were approximately 2.37 million active businesses in the UK during 2012, an increase of 30,000 on 2011.

In 2012 there were 270,000 business births in the UK, i.e. new registrations; a birth rate of 11.4 per cent. This was slightly above 2011 rate of 11.2 per cent, or 261,000 births. The 2012 birth rate was the highest since 2007, when there were 281,000 births. Overall, the number of business birth in the UK increased in 2012 by 3.1 per cent.

Provisionally for 2012 there were 255,000 business deaths, i.e. business de-registrations, representing a death rate of 10.7 per cent. This was higher than the 2011 death rate of 9.8 per cent, or 230,000 business deaths. This means that in 2012 there was an 11.0 per cent increase in the number of business deaths.

¹ A business is legally required to register for VAT when its annual turnover reaches a certain threshold, but may choose to do so anyway. This threshold changes year on year, but was £79,000 as of 1 April 2013. PAYE is the system by which employers pay tax and national insurance contributions on behalf of their employees and is a legal obligation for any payments that an employee receives as a result of working for an organisation.

² These figures are provisional and subject to revision.

³ ONS (2013): Business Demography, 2012 Statistical Bulletin

Regional differences

In 2012, within the regions, London had the highest business birth rate of 14.8 per cent, followed by the North East (11.4 per cent) and the North West (11.4 per cent). The region with the highest business death rate was London at 11.7 per cent, followed by the North West region at 11.4 per cent. Northern Ireland had the lowest birth and death rates, at 7.0 per cent and 9.4 per cent respectively.

The highest number of births and deaths were seen in London, at 65,000 and 52,000 respectively. London was the region with the largest business churn rate (i.e. the highest number of births and deaths), whereas Northern Ireland traditionally has a much more stable business population.

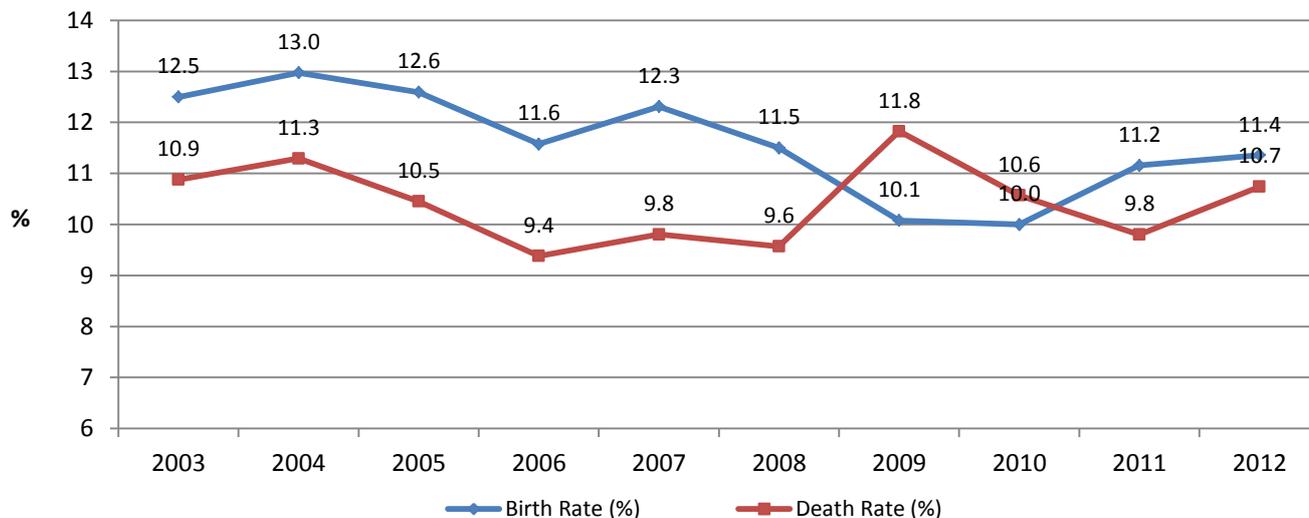
Change over time in the UK

Up until the 2007 global financial market shock and the subsequent economic downturn in 2008/09, the rate of business births per year was usually higher than the rate of business deaths. GDP grew by 3.4 per cent in 2007, before falling by 0.8 per cent in 2008 and by 5.2 per cent in 2009. The rate of business births fell in 2008 and 2009 as economic conditions deteriorated.

This is likely to reflect uncertainty around the economic outlook at that time and constrained access to finance, as the financial sector adjusted to the global shock. The death rate of businesses in the UK fell in 2008 before increasing sharply in 2009, rising above the birth rate. One factor behind this could be that a number of businesses continued to trade in the expectation that economic growth would resume quickly and that in the meantime they would benefit from lower interest rates during this period. However, GDP growth did not return until 2010, by which time some of those businesses had ceased trading.

The rate of business births once again became higher than the rate of business deaths from 2011. GDP grew by 1.2 per cent in 2011 and by 0.1 per cent in 2012, with positive quarterly growth in four of the eight quarters of these years. While GDP growth resumed, the economic outlook remained unusually uncertain, with output moving between expansion and contraction. The rising rate of business births and the falling rate of business deaths may reflect the economy's emergence from the downturn, and the usual trend between 2003 and 2007 re-asserting itself. While the rate of business deaths increased in 2012, it remained below peaks in 2004 and 2009. See Figure 1 below.

Fig. 1: Change over time of UK business Birth and Death rate in %



(Source: ONS Business Demography)

Birth and death by industrial sectors

In the UK, the highest rate of business births occurred in business administration and support, at 15.0 per cent in 2012. This was followed by professional, scientific & technical, with a birth rate of 14.4 per cent, and information & communication, with a birth rate of 13.7 per cent.

In terms of the overall number of business births, the professional, scientific & technical sectors created the highest number of businesses at 61,000. Within professional, scientific and technical, the largest contributing industry was management consultancy, with 21,000 births and 16,000 deaths.

The largest business death rate, at 13.3 per cent, was in accommodation and food services. This was followed by business administration and support services at 13.1 per cent.

In terms of the overall number of business deaths, professional, scientific & technical were the most numerous at 44,000, followed by construction at 37,000, business administration and support services at 26,000 and retail at 24,000.

Survival rates by industrial sector

The national data shows that businesses in health (56.1 per cent) and education (54.5 per cent) are more likely to survive 5 years compared to businesses in hotels & catering (37 per cent), post & telecommunications (37.3 per cent), financial (39.5 per cent) and wholesale sectors (40.5 per cent). Similar survival rates by industrial sector must be assumed for businesses in Tower Hamlets because no local data is available.

2 Tower Hamlets business demography

2.1 Active businesses, birth and death in Tower Hamlets

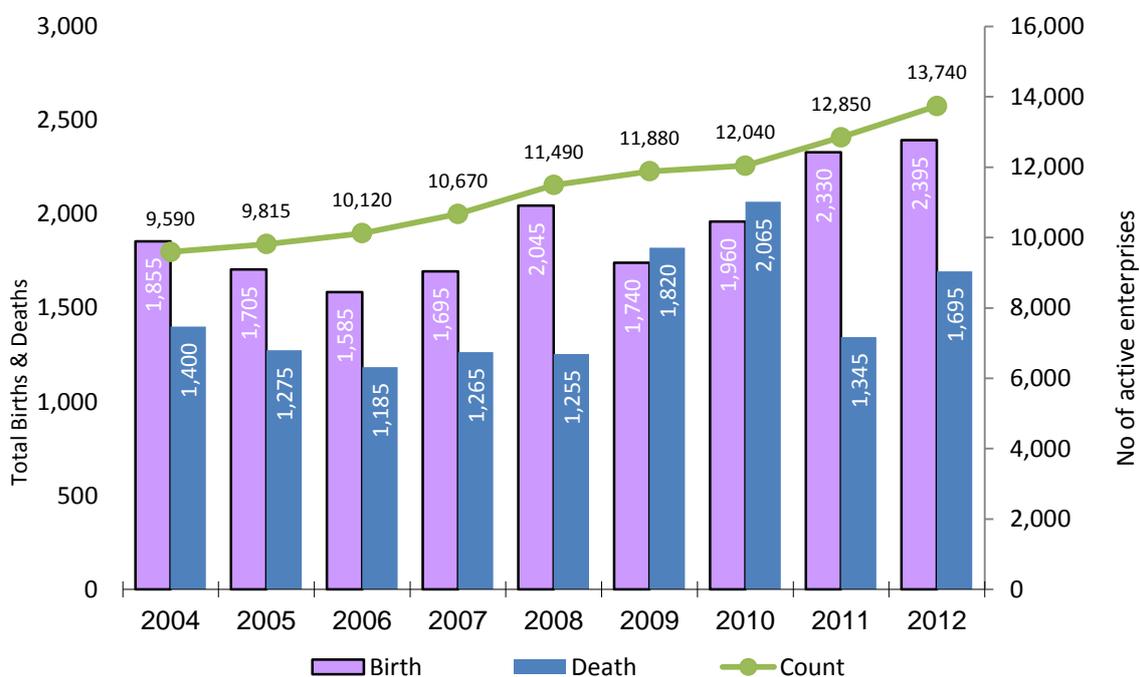
There is strong evidence that the trend of a burgeoning business environment in the borough is continuing. The number of active enterprises in the borough has increased, with growth based on new business registrations outnumbering business closures.

In 2012, around 13,740 enterprises were active in Tower Hamlets while business registrations (2,395) outnumbered the number of deaths (1,695) by around 700.

The number of new registrations increased the fourth year in a row from 1,740 in 2009 to 2,395 in 2012, reaching a new peak. While the number of business deregistration's increased too, the total number was substantially below the 2010 peak when business deregistration's were above the number of registrations.

Figures 2 and 3 below show the impact of the 2009/2010 economic downturn, with high numbers of enterprise closures and lower birth rates during that period. The chart also shows the more recent recovery with death rates dropping to a more sustainable level.

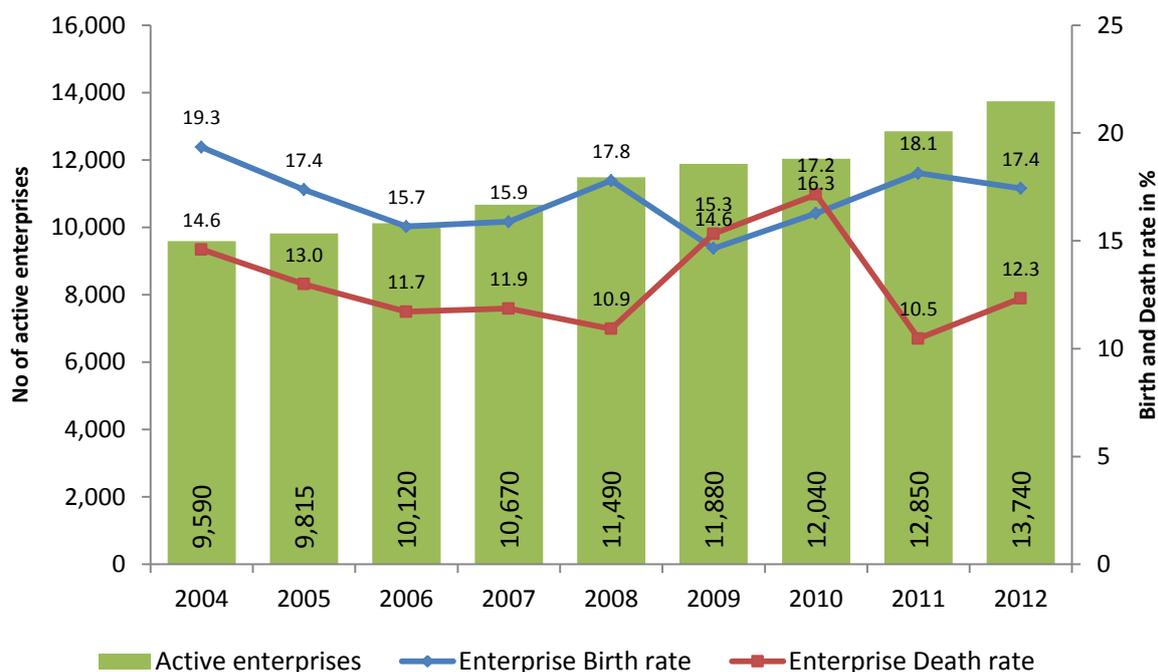
Fig. 2: Births and deaths of business in Tower Hamlets 2004 to 2012



(Source: ONS Business Demography)

Tower Hamlets Business Demography

Fig. 3: Enterprise births & deaths rates and active businesses Tower Hamlets 2004 to 2012



(Source: ONS Business Demography)

Year on year growth of active businesses

The year on year growth of the number of active businesses in Tower Hamlets has been very positive more recently. In 2012, growth reached 6.9 per cent, which was the fifth highest in London, easily outperforming the London and UK averages. See table below.

Table 1: Year on year growth of active businesses in % - Selected London boroughs

Area	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Lambeth	4.3	-3.0	1.6	3.0	8.2	4.4	0.5	-3.2	4.4	29.1
Newham	1.9	-8.5	1.1	2.4	5.5	5.3	3.8	2.2	14.3	7.7
Redbridge	-0.4	3.8	-0.5	2.5	4.1	4.1	5.2	1.8	9.1	7.3
Barking and Dagenham	1.0	-10.1	2.2	2.8	5.3	8.2	4.1	-1.3	11.3	7.0
Tower Hamlets	1.9	-5.2	2.3	3.1	5.4	7.7	3.4	1.3	6.7	6.9
Hackney	1.3	-3.6	0.6	2.6	6.1	6.0	4.3	0.4	7.7	6.8
Islington	-2.3	-4.9	1.5	-1.3	3.9	3.1	3.4	-1.0	3.8	6.4
London	0.0	-2.0	0.3	1.1	3.9	4.0	2.4	0.2	4.5	4.3
England	1.5	1.1	1.0	1.0	3.3	1.9	0.7	-1.9	2.0	1.4
United Kingdom	1.5	1.2	1.1	1.1	3.3	2.0	0.7	-1.8	1.8	1.3

(Source: ONS Business Demography)

2.2 Business churn - comparing birth and death rates

This section discusses the birth and death rates for Tower Hamlets and the London boroughs in more detail. Enterprise Birth and Death rates represent the percentage of registrations / de-registrations compared to the number of active enterprises. The figures are an indication of business churn in an area.

Business churn, including high enterprise birth rates, are more common in London boroughs than elsewhere. Churn is generally above the England and UK averages, illustrating the unique economic environment of London.

Enterprise birth rates 2012

Tower Hamlets had the fourth highest birth rate in London with 17.4 per cent, outperforming the London (14.8 per cent) and UK (11.4 per cent) averages.

The highest birth rates in London were achieved in Lambeth (28.7 per cent), Newham (20.3 per cent), Barking and Dagenham (18.4 per cent), Tower Hamlets (17.4 per cent) and Lewisham (17.2 per cent).

The lowest birth rates in 2012 were recorded in the City of London (11.3 per cent), Camden (11.9 per cent) and Bexley (12.1 per cent).

Table 2: Total Enterprise Birth and rates by London boroughs in 2012 (%)

Area	Birth rate in %	Number of birth
Lambeth	28.7	4,255
Newham	20.3	1,575
Barking and Dagenham	18.4	845
<i>Tower Hamlets</i>	<i>17.4</i>	<i>2,395</i>
Lewisham	17.2	1,415
Waltham Forest	16.8	1,385
Hackney	16.5	2,140
Greenwich	16.3	1,250
Redbridge	16.2	1,825
Hounslow	15.8	1,820
Merton	15.5	1,530
Hammersmith and Fulham	15.4	1,885
Islington	15.3	2,335
Wandsworth	15.0	2,370
Brent	14.9	1,975
<i>London</i>	<i>14.8</i>	<i>65,095</i>
Ealing	14.8	2,225
Haringey	14.5	1,500
Southwark	14.4	1,995
Enfield	14.3	1,615
Harrow	14.0	1,730
Westminster	13.9	6,915
Hillingdon	13.6	1,495
Croydon	13.6	1,765
Barnet	13.5	2,995
Kensington and Chelsea	13.4	1,685

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Havering	12.9	1,085
Richmond upon Thames	12.6	1,595
Bromley	12.4	1,670
Sutton	12.2	910
Kingston upon Thames	12.2	980
Bexley	12.1	895
Camden	11.9	3,140
<i>England</i>	<i>11.6</i>	<i>239,975</i>
<i>United Kingdom</i>	<i>11.4</i>	<i>269,565</i>
City of London	11.3	1,900

(Source: ONS Business Demography)

Enterprise death rates

In London, enterprise death rates were generally lower than birth rates, with the exception of Barnet. While the enterprise death rate in Tower Hamlets was above the London (11.7 per cent) and UK averages (10.7 per cent), the death rate was outperformed strongly by the positive birth rate.

The highest death rates in London were observed in Barnet (14.4 per cent), Redbridge (14 per cent) and Newham (13.9 per cent) while the lowest death rates were recorded in Bromley, Kensington and Chelsea, City of London and Richmond.

Table 3: Total Enterprise Death and rates by London boroughs in 2012 (%)

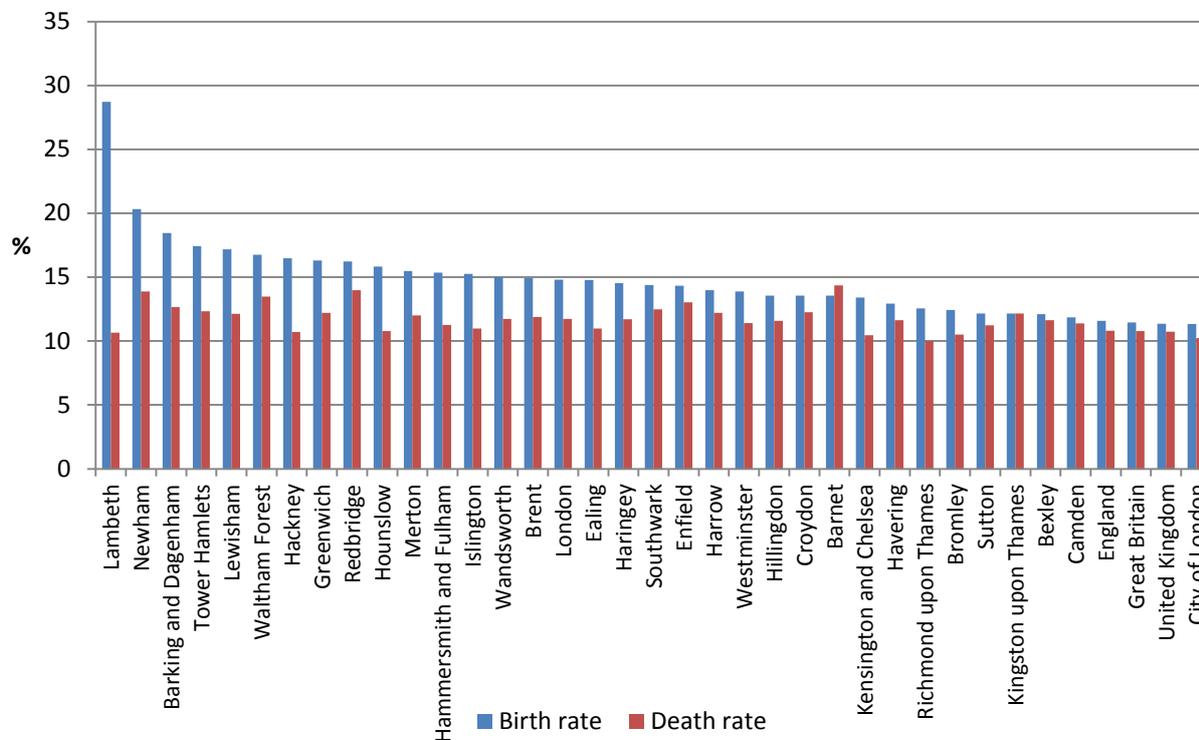
Area	Death rate in %	Number of deaths
Barnet	14.4	3,175
Redbridge	14.0	1,570
Newham	13.9	1,075
Waltham Forest	13.5	1,115
Enfield	13.0	1,470
Barking and Dagenham	12.7	580
Southwark	12.5	1,730
<i>Tower Hamlets</i>	<i>12.3</i>	<i>1,695</i>
Croydon	12.3	1,595
Harrow	12.2	1,510
Greenwich	12.2	935
Kingston upon Thames	12.2	980
Lewisham	12.1	1,000
Merton	12.0	1,185
Brent	11.9	1,570
Wandsworth	11.7	1,855
London	11.7	51,525
Haringey	11.7	1,210
Bexley	11.6	860
Havering	11.6	975
Hillingdon	11.6	1,275
Westminster	11.4	5,680
Camden	11.4	3,010
Hammersmith and Fulham	11.2	1,380
Sutton	11.2	840
Ealing	11.0	1,655
Islington	11.0	1,680
England	10.8	223,800
Hounslow	10.8	1,240
United Kingdom	10.7	254,885
Hackney	10.7	1,390
Lambeth	10.7	1,580
Bromley	10.5	1,410

(Source: ONS Business Demography)

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Figure 4 below shows that Lambeth had the highest enterprise birth rate in London, outperforming all other boroughs. The enterprise death rate was also one of the lowest in London. The highest death rate was recorded in Barnet.

Figure 4: Enterprise birth and death rate by London boroughs 2012 (%)



(Source: ONS Business Demography)

2.3 Business survival

Survival rates of businesses are an important indicator of the quality of new firms starting up in an area and of the strength of the business environment itself. Business survival data include the date of businesses registrations, and provide a percentage of how many businesses are still operating after some years.

In general, the first 4 to 5 years are the most difficult time for any business to survive. However, the first two years are also an important marker of survival, especially for independent businesses. In addition, businesses are always in danger of failing, with new risks and sources of competition emerging all the time.

However, while business data shows deregistration and registration numbers, the data cannot tell us why businesses close down. For example, some businesses will deregister because they are successful - some will be bought by another business, or a self-employed individual may choose to join another company.

In general, from the perspective of an entrepreneur investing in a new business, a longer survival rate is desirable as this implies a higher return on the initial investment. However, longer survival rates are not always ideal for the economy overall.

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High levels of business churn (i.e. high levels of both business births and deaths) can be interpreted as a favourable characteristic, as it can lead to improvements in productivity and economic growth. This is because more productive or innovative businesses displace less efficient businesses. Churn can be viewed as promoting a healthy and competitive economy, reflecting a steady process of adjustment from declining to growing industries.

In contrast, a static business environment with little entry and exit will have longer survival rates but may be less efficient and as such may be seen as a sign of undesirable stagnation. Beyond a certain point, of course, very high levels of churn or turbulence could also be seen as a sign of unhealthy instability.

How long a company stays in business is influenced by many different factors including geographic location, type of industry or activity, size and age. However, the sector of the economy has a huge effect on the odds that a company will still be trading in the future. For example, some business sectors like retail, hotels and restaurants tend to have much higher death rates than others (e.g. agriculture), so other things being equal, areas with a higher mix of these sectors are more likely to have a lower business survival rate.

The national data shows that businesses in health (56.1 per cent) and education (54.5 per cent) are more likely to survive 5 years compared to businesses in hotels & catering (37 per cent), post & telecommunications (37.3 per cent), financial (39.5 per cent) and wholesale sectors (40.5 per cent). Similar survival rates by industrial sector must be assumed for businesses in Tower Hamlets, because no local data is available. For example the relatively low 4 - 5 year survival rates can be explained by the high proportion of businesses in the hotel & restaurant, financial intermediation and pension & insurance sectors in Tower Hamlets.

One year survival – enterprise registered in 2011

The Tower Hamlets one year survival rate (94 per cent) was just above the UK average (93 per cent) and the London rate of 92 per cent.

The highest one year survival rate for businesses starting up in 2011 was registered in Wandsworth with 95.5 per cent. The lowest one year survival rate in London was in the City of London with 80 per cent. The City of London stands out because many self-employed individuals there earn more than the VAT threshold and are registered as a business. The highly competitive and transforming environment in the City of London can partly explain the low survival rates.

One year survival rate trends over time in Tower Hamlets show signs of recovery, after a downward trend in the years between 2008 and 2010. The one year survival rate dropped to as low as 81 per cent, for those businesses who started up in 2010.

Two year survival – enterprise registered in 2010

The Tower Hamlets two year survival rate (68 per cent) was just below the UK average (70 per cent) and the London rate of 72 per cent.

The highest two year survival rate for businesses starting up in 2010 was recorded in Bromley with 75.9 per cent. In comparison, only 64.7 per cent of businesses in Westminster survived more than two years when starting up in 2010, the lowest rate in London.

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Two year survival trends over time in Tower Hamlets also show signs of recovery after the downward trend in the years 2008 to 2010. The two year survival rate dropped to 66 per cent in 2008. The highest two year rate was achieved in 2006 with 79 per cent.

Three year survival – enterprise registered in 2009

The Tower Hamlets three year survival rate (56 per cent) was the same as the London rate but below the UK rate of 60 per cent.

The highest three year enterprise survival rate for businesses starting up in 2009 was recorded in Kingston upon Thames with 65.2 per cent. In comparison, only 50 per cent of businesses in Westminster and the City of London remained registered for more than three years.

The ability of businesses to survive for 3 years has improved compared to last year's lowest performance, clearly another sign of recovery after the downward trend in the years 2008 and 2009. While the three year survival rate reached a peak of 63 per cent in 2006, the current improvements are again a sign of the wider national trend of recovery.

4 year survival – enterprise registered in 2008

In Tower Hamlets, nearly 43 per cent of businesses registered in 2008 were still trading in 2012. This four year survival rate was close to the London rate (42 per cent), but below the UK rate of 49 per cent.

The highest four year enterprise survival rate for businesses starting up in 2008 was recorded in Hillingdon with 52 per cent. In comparison, only 38 per cent of businesses in the City of London registered in 2008 were still in business in 2012.

The ability of businesses to survive for longer than 4 years in Tower Hamlets has (in 2012) reached the lowest rate since 2002. This trend reflects the national and London developments, again closely linked to the economic recession and its negative impact on many businesses.

5 year survival – enterprise registered in 2007

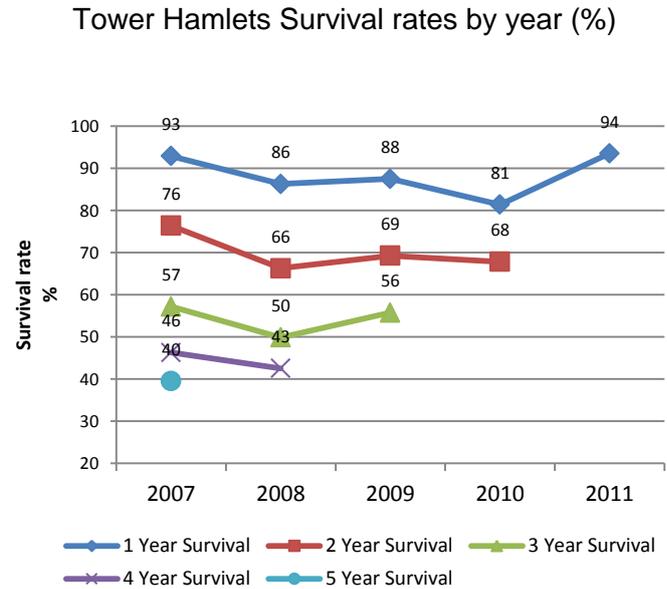
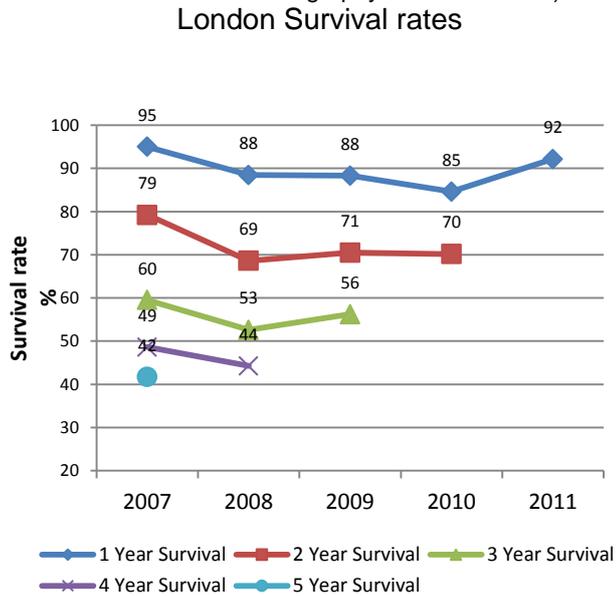
Around 40 per cent of businesses in the borough which started trading in 2007, survived for 5 years, which is below the UK average (45 per cent) but relatively close to the London rate (42 per cent).

The lowest 5 year survival rate in London was recorded in Newham and Wandsworth, at 36 per cent each. The highest 5 year survival rate (for businesses starting up in 2007) was achieved in the City of London, at 50 per cent.

The ability of businesses to survive for 5 years in Tower Hamlets has regularly been around the 40 per cent mark. While the rate dropped to 36 per cent for businesses starting up in 2002 and 2006, the economic recession impact will be evident only in the 2013 data set which will be available end of 2014.

Fig. 5 & 6: Survival rates in Tower Hamlets and London by year of business registration (%)

(Source: ONS Business Demography – Survival rates)



In summary, the overall business survival rate in Tower Hamlets shows a positive development. Trends suggest not just that local businesses are starting up strongly, but also that many entrepreneurs are establishing firms which are sufficiently innovative in the products they offer, the processes they use, and/or the markets they target, to survive the many challenges and competition which all new companies face.

Further information

This Briefing was produced by the Council's Corporate Research Unit. Research briefings provide timely and in depth analysis of data about Tower Hamlets.

Briefings can be downloaded on the LBTH Borough profile web pages.

Recent briefings include:

- Population Key facts (Research Briefing 2013-12)
- Business Structure Tower Hamlets (Research Briefing 2013-11)
- A Guide to Census Geography (Research Briefing 2013/05)
- Faith Key facts: Census 2011 (Research Briefing 2013/03)
- Language in Tower Hamlets: Census 2011 (Research Briefing 2013/02)
- Ethnicity Topic Report: Census 2011 (Research Briefing 2013/01)

Readers can contact the research team via email: CRU@towerhamlets.gov.uk

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