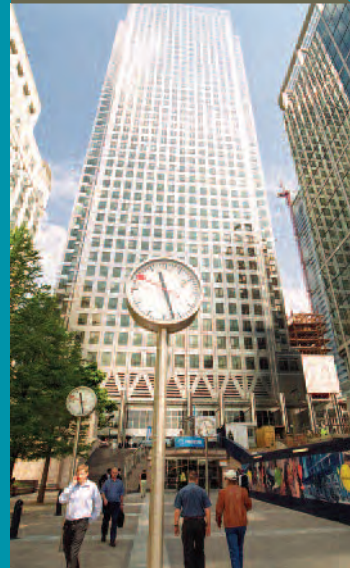


Tower Hamlets  
Local Economic Assessment

**Volume 2: Economy and Enterprise**







Nathaniel Lichfield  
and Partners

Planning Design Economics

**Tower Hamlets Local  
Economic  
Assessment**

Volume 2:  
Economy and  
Enterprise

London Borough of  
Tower Hamlets

FINAL

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November 2010

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## 1.0 Executive Summary

- 1.1 This document forms Volume 2 of the Tower Hamlets Local Economic Assessment (LEA), focusing on the themes of economy and enterprise. It reviews background data to define how the borough's economy relates to the London economy more widely, its structure and growth (both in the past and forecasts for the future), and assesses the borough's overall productivity and competitiveness. This volume also reports the findings of a survey of local businesses commissioned as part of the LEA process. Based on this analysis, it identifies key issues for further consideration, but does not seek to make specific policy recommendations.

### Tower Hamlets' Economy in a London Context

- 1.2 Tower Hamlets has seen exceptional economic and employment growth over the last twenty years. With 200,000 jobs it is now home to 5% of London's employment, in a borough that constitutes just over 1% of the capital's land area. Within East London, Tower Hamlets represents some 30% of total employment across the area.
- 1.3 There are 3 jobs in Tower Hamlets for every 2 residents of working age in the borough – an “excess” of 60,000. Indeed, Tower Hamlets has the fifth highest “job density” in London, with only the central London boroughs of the City, Westminster, Camden and Islington ahead.
- 1.4 These jobs are concentrated in two areas that provide together 60% of the borough's employment. The development of Canary Wharf since the 1980s has acted as the prime engine of employment growth, giving rise to a current total of 80,000 jobs, constituting some two-fifths of the borough's employment total. There has also been significant development and intensification in Tower Hamlet's City Fringe especially in Spitalfields and Aldgate: this area now provides some 15% of the borough's jobs.
- 1.5 The borough's job density ratio indicates that there is a large net inflow of people resident outside the borough to fill local employment opportunities. The degree of specialisation within the Tower Hamlets economy, with a concentration of employment in the financial services sector, has the effect of increasing demand for people resident outside the borough. A third of those commuting in are employed in financial services enterprises. Indeed only 15% of jobs in the boroughs are taken by local residents – 85% are filled by those travelling in from across all quarters of London, and from other parts of the South-East.
- 1.6 Only one-third of working residents are employed in the borough with the majority commuting outside, mainly to central London: A quarter of residents work in the City, and a sixth in Westminster. Aside from financial services

where there is a major net inflow, the imbalance between inflows and outflows is most notable for the business services sector with many more residents travelling out of the borough (to the City and wider City Fringe) than travelling in. In terms of occupational level there is a similar profile for in and out commuters. This level of commuting exchange is typical for a Central London borough. It also strongly suggests that Tower Hamlets is predominantly a part of the central London labour market.

- 1.7 The development of Canary Wharf and the City Fringe has acted as both cause and effect in London's strengthened role, alongside New York, as one of the world's two pre-eminent global financial centres. Canary Wharf, with its particular concentration of globally-oriented banking activity and other financial institutions, has, functionally, become a part of London's Central Business District.
- 1.8 There has been a general shift to service and knowledge-based industries across the capital and the wider UK economy but growth in Canary Wharf and the City Fringe has exerted a more intense and considerable effect on the economic make up of the borough. Financial Services dominate economic activity in Canary Wharf and account for almost two-thirds of employment there, with business services a distant second, providing a sixth of the jobs. In Tower Hamlets' City Fringe a quarter of jobs are also in financial services but almost two-fifths are in business services.
- 1.9 These concentrations and specialisms in turn dominate the overall economic character of the borough: A third of all employment in Tower Hamlets is in financial services – this is the highest in London outside of the City itself - and three times higher than for Central London as a whole. In contrast this sector barely registers in the other Host Boroughs, or in the rest of East London. Business Services account for a further fifth of the economy by employment. Taking these two sectors together, they amount to 55% of Tower Hamlets' economy. This can be compared with an equivalent figure of 45% for Central London and around 20% for the other Host Boroughs and the rest of East London.
- 1.10 Its concentration of financial and business services mean that Tower Hamlets plays a significant role within the London economy, contributing to London's wider clusters in financial and business services. There is an additional clustering effect within the borough with "support" industries – accountancy, legal services and management consultancy – drawn not only to Canary Wharf and the City Fringe but also more widely into the west and south of the borough. In turn, other businesses based on both business and personal consumption – including real estate, retail and leisure activities – are clustered in the borough but with a more even distribution across it with the potential to offer economic and employment opportunity more widely.
- 1.11 The nature of the office accommodation in Canary Wharf – with large floorplate offices – has tended to attract large financial and consultancy operations, with smaller firms favouring the City and its fringe. Over 70% of employment in Canary Wharf is in businesses with 500 or more employees, and for the

borough as a whole this equates to 50%, with a further quarter in firms of over 50 staff. This make up is close to that of the City of London, but markedly different to that of the other Host Boroughs, or of London as a whole.

- 1.12 Business births and deaths are an indicator of the dynamism and enterprise of the economy as they suggest that competitive, productive businesses remain while the less competitive ones fail, resulting in a progressively stronger stock of businesses within the borough. In these respects Tower Hamlets performs in line with the Inner London mean, ahead of the other Host Boroughs, (including its nearest competitor, Hackney) but behind other City Fringe boroughs such as Camden. Within London it has the seventh highest rate of business births (relative to population) and the tenth highest business deaths; business survival rates are also consistent with the Inner London average.

### Economic Structure and Activity

- 1.13 The prominence of financial and business services sectors within Tower Hamlets means that the relative size of other sectors is diminished but these still account for 40% of employment – some 80,000 jobs - and will be critical to the resilience of the borough’s economy and the diversity of employment opportunity it provides.
- 1.14 Manufacturing has declined markedly over the decade to 2008 but still provides 10,000 jobs, which is twice the number in Hackney which has the next highest level among the Host Boroughs. Newspaper publishing accounts for half this sector.
- 1.15 Public sector employment – spanning public administration, education, and health and social work – provides a sixth of the borough’s jobs. Within education, a third of jobs are in higher education; in health and social work 40% of employment is hospital-based. Collectively the public sector has grown by two-fifths over the past 10 years but now faces a period of acute retrenchment.
- 1.16 Employment in the Hotels and Restaurants sector has increased by over 75% over the decade, driven by growth in Canary Wharf and the City Fringe, and provides close to 10,000 jobs across the borough.
- 1.17 Wholesale and Retail activities provide 7% of employment (almost 14,000 jobs) in the borough which in absolute terms is larger than for the other Host Boroughs.
- 1.18 Construction provides just 2% of total employment (4,300 jobs) but has expanded by 20% over the past decade.
- 1.19 “Creative Industries” (which cuts across a number of standard industry sectors) are a significant source of employment in the borough, providing 25,000 jobs with a broad distribution, albeit with some concentration in the City Fringe.
- 1.20 Over the last decade Tower Hamlets has been the fastest growing part of the Host Borough sub-region with employment growth of nearly 60%, almost three

times the average for the Host Boroughs; London as a whole grew by just 13%. But this growth has been driven by the two dominant sectors in the borough's economy: financial services employment has more than trebled over the decade and real estate and business services have more than doubled. If these sectors are excluded, the borough's job growth has been considerably more modest and in some sectors employment has declined, including transport (down by two-fifths) and in manufacturing by over a third) which has contracted at a faster rate than for London as a whole.

## Future Economic Prospects

- 1.21 After over a decade of uninterrupted economic growth, the UK economy is now emerging from the longest and deepest recession for a generation. A key uncertainty over prospects in the short-term relates to the strength and sustainability of domestic private sector demand, particularly as a compensation for the planned cuts in public expenditure and jobs, and the potential for increased exports.
- 1.22 During the recession the London economy performed better than expected and relatively better than the UK as a whole. Despite the unprecedented and focused nature of the financial crisis from which the recession stemmed, there was a relatively limited retrenchment in employment in financial and business services, either in London or in Tower Hamlets.
- 1.23 The immediate prospects for economic recovery remain uncertain and will be contingent on an improvement in world trade. London is expected to return to growth more strongly than the country as a whole.
- 1.24 Financial services are one of the UK's major export sectors, but are susceptible to global trends and competition, and potentially a new system of regulation and taxation. Canary Wharf has a high degree of specialisation, both in financial services but also within this sector in relation to banking, where structural reform is currently being contemplated.
- 1.25 The borough's relative dependence on financial and business services will mean that the pace of recovery in the immediate term is likely to be modest, with business services returning to growth in 2010 (but at a lower speed than before) and financial services not rebounding with any substantial effect until 2014.
- 1.26 In the public sector, significant cuts are expected over the next four years; in other sectors, continued decline in manufacturing and wholesale and distribution activities are projected. Some short term stimulus may, however, be obtained from construction and consumption-related activities associated with the 2012 Olympics.
- 1.27 In the medium-term, forecasts are much more positive with a range of forecasters predicting future employment growth in the borough of between 25% and 50% over the next twenty years. The expansion of Canary Wharf at Wood Wharf combined with higher levels of housing delivery will provide the



greatest stimuli to growth. However, resident-based employment is only anticipated to increase by 19% (on the lower projection of 25%) – so, the borough’s employment opportunities are forecast to grow more quickly than the ability of local residents to access them.

## Business Needs

- 1.28 A key input to the LEA process was the commissioning of a business survey to understand current and future business needs in the Borough. A 25% sample (750 businesses) of the 2010 Experian Business Database for Tower Hamlets was used as the basis for a telephone survey, sampled to include a range of business types, sizes and locations within the borough.
- 1.29 Amongst respondents, workforce levels have proved reasonably resilient during the course of the recession. More generally, about a fifth of business reported experiencing recruitment difficulties, with the common barriers being identified including language, a lack of basic skills, and shortage of higher-skilled workers.
- 1.30 Good public transport links, proximity to customers and premises are perceived as the most important factors for doing business within Tower Hamlets. Current sites and premises were generally viewed as “fit for purpose”, and the majority of respondents seeking to relocate would prefer to remain within the borough.
- 1.31 Respondents report strong local linkages in terms of a significant proportion (about 50%) of customers being based within the borough, but suppliers are more widely dispersed (only 25% are located locally).
- 1.32 Respondents appear reasonably optimistic about future growth prospects in terms of increasing turnover, but are more cautious about increasing workforce levels. More affordable business premises and improved environmental quality were identified as the main factors that would enhance business prospects in the borough.



## 2.0 Introduction

2.1 The London Borough of Tower Hamlets (LBTH) contracted with Nathaniel Lichfield and Partners (NLP) and The Mackinnon Partnership in May 2010 to develop a Local Economic Assessment (LEA) for the Borough. It has been prepared in association with Navigant Consulting and LBTH.

2.2 This document forms part of the LEA, and provides analysis on the issues of Economy and Enterprise.

2.3 Volume 1 has provided an overview of the broader Tower Hamlets “story of place” and outline of key LEA messages, while volumes 3 and 4 consider worklessness and skills and the role of places and people respectively. This volume considers the fundamental building blocks of the Tower Hamlets economy and the factors that shape it both now and in the future. This part of the LEA therefore focuses upon a number of different components as follows:

- an overview of macroeconomic drivers and the positioning of the borough’s economy;
- the growth and structure of the economy;
- the underlying drivers of productivity and competitiveness; and
- the needs of the borough’s businesses.

## Structure of the LEA

2.4 This report (Volume 2) forms part of a suite of documents prepared as part of the Tower Hamlets LEA. These are:

Volume 1: The Story of Place	A narrative overview of Tower Hamlets economy, history and prospects, and a summary of the findings of the Local Economic Assessment.
Volume 2: Economy and Enterprise	Describing the structure and drivers of the local economy, enterprise and innovation, including the outputs of a survey of business needs;
Volume 3: Employment and Skills	Analysis, forming the Worklessness Assessment, which assesses drivers of employment and worklessness including skills;
Volume 4: People and Places	This document considers the ‘place’ drivers of the local economy, including transportation, town centres, housing, land use and

	buildings, alongside other factors including the natural and historic environment;
Volume 5: Equalities Impact Assessment	Prepared in accordance with the Council's methodology;
Volume 6: Appendices	Provides other supporting information, including more detailed findings of the business survey.

- 2.5 The Council's brief for developing the LEA defines a series of key outputs:
- inform and strengthen the evidence base for the Community Plan, Local Development Framework and Local Area Agreement;
  - provide evidence for emerging enterprise and economic development strategies;
  - improve understanding of how economic development can support regeneration priorities;
  - consider the borough's "strategic fit" with sub-regional markets and functional economic areas;
  - identify the comparative strengths and weaknesses, challenges and opportunities of the borough's economy;
  - provide a spatial understanding of the borough's economy;
  - provide a better understanding of how other services such as health, education and crime can influence economic development;
  - consider the impact of the low carbon economy, and how the local economy will be impacted by the transition to the low carbon economy;
  - provide a shared evidence base to support wider sub-regional economic development activity.
- 2.6 In developing this assessment, account has been taken of statutory guidance from the Department for Communities and Local Government (CLG) and advice prepared by PAS/I&DeA on undertaking Local Economic Assessments.
- 2.7 The remainder of this document (Volume 2: Economy and Enterprise) is structured as follows:
- Section 3.0 – The Tower Hamlets' Economy in a London Context;
  - Section 4.0 – Economic Growth and Change;
  - Section 5.0 – Future Economic Prospects;
  - Section 6.0 – Productivity and Competitiveness; and
  - Section 7.0 – Business Needs.

## Data Availability and Consistency

- 2.8 The analysis in this report is based on data supplied by Tower Hamlets Council or its partners, as well as other publicly available datasets such as the Office of National Statistics (ONS). The report must be construed in the context of the constraints relating to the quality of any input data relied upon (including whether any verification of that data was undertaken).
- 2.9 To allow different types of analysis to be undertaken to gain a comprehensive understanding of the borough's economy and business base, a number of different datasets have been combined. These include:
- Annual Business Inquiry (2003 and 2007 SIC definitions);
  - Interdepartmental Business Register (IDBR);
  - Experian Business Database for Tower Hamlets; and
  - Trends Central Resource (TCR) database produced by Trends Business Research.
- 2.10 However, it is important to note that each of these datasets are prepared on a different basis and are available for different time periods and geographies, each with their own specific limitations and varying degrees of statistical confidence. This means that data may not be consistent or directly comparable across the different parts of the analysis, and so should be treated with caution.

3.0

## The Tower Hamlets' Economy in a London Context

3.1

This section provides a strategic overview of the Tower Hamlets' economy in terms of the structure of the Tower Hamlets' economy and its relationship to London's wider economic geography, in terms of:

- 1 Economic positioning in terms of Central London and the Central Business District, and East London and the Olympic 'Host Boroughs' area;
- 2 Functional economic linkages as measured by commuting flows and labour exchange; and
- 3 A review of the Borough's contribution to London's financial services cluster.

### Economic Positioning

3.2

Almost 5% of London's total employment is concentrated in Tower Hamlets, a borough covering just 1.2% of Greater London's land area. The borough also accounts for some 30% of all jobs in East London, and is the largest borough in this area in employment terms.

3.3

Comparing the employment base of Tower Hamlets with other parts of London, it is clear that the Borough's overall mix and representation of sectors is much closer to the characteristics of Central London than to the other host boroughs or East London as a whole (Figure 3.1).

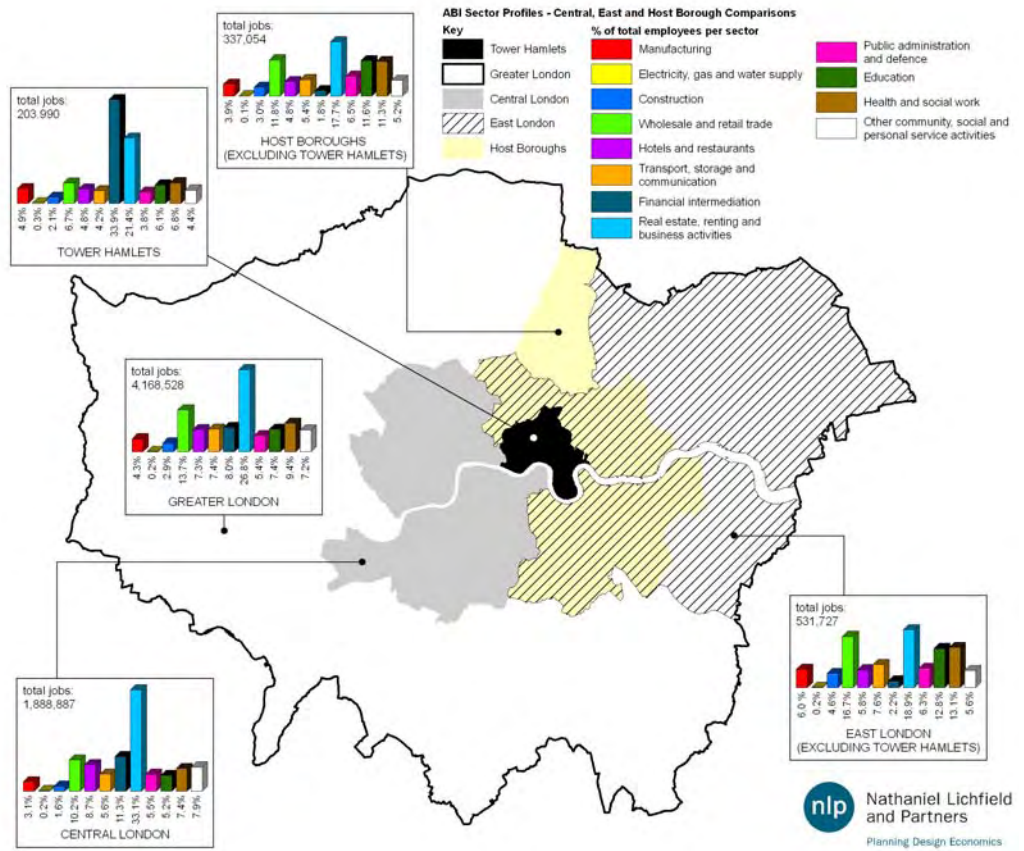
3.4

Financial services is by far the largest sector in Tower Hamlets (about a third of all jobs), closely followed by real estate and business services. Financial services barely register in the other Host Boroughs and rest of East London, and although real estate and business services are more prominent in other parts of East London, the proportion is still lower than for Tower Hamlets. Employment in public services in Tower Hamlets is also a much smaller proportion overall (more typical of Central London and Greater London), but features more considerably in the other Host Boroughs and East London.

3.5

Tower Hamlets does, however, retain some important East London characteristics, for example the proportion of manufacturing employment in the Borough sits between the Central and East London average.

Figure 3.1 Central, East and Host Borough Comparisons of Employment Structure, 2008

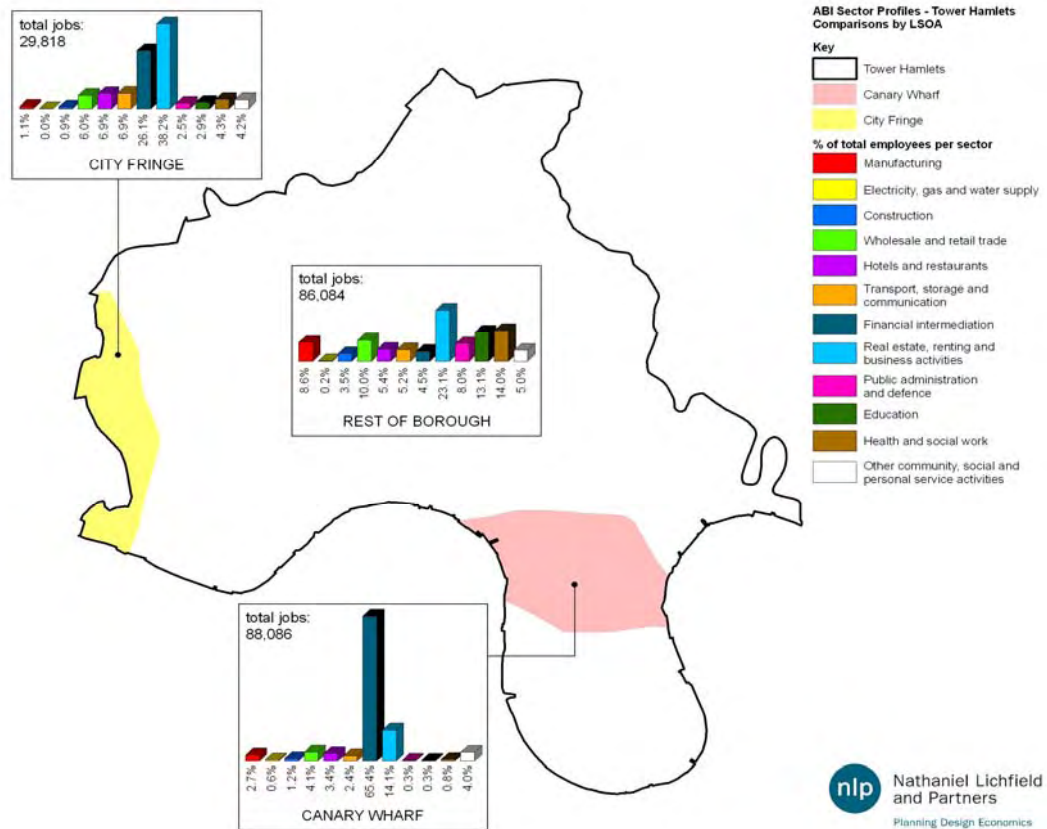


Source: Annual Business Inquiry / NLP analysis

Note: Central London includes Camden, City of London, Islington, Kensington and Chelsea, Lambeth, Southwark, Wandsworth and Westminster; East London includes Barking and Dagenham, Bexley, Greenwich, Hackney, Havering, Lewisham, Newham and Redbridge; Host Boroughs includes Greenwich, Hackney, Newham and Waltham Forest

- 3.6 However, considering Tower Hamlets in more detail, it is apparent that two very different 'sub-economies' exist within the borough (Figure 3.2).
- 3.7 Almost 60% of employment is concentrated within the City Fringe (15%) and Canary Wharf (42%) areas alone. Employment in these locations is strongly concentrated in financial and business services. However, the rest of the Borough is more typical of the profile of other Host Boroughs or East London as a whole, with a stronger emphasis on manufacturing, wholesaling and retail (although this sector is also important in the City Fringe), public administration, education and health.

Figure 3.2 City Fringe, Canary Wharf and Rest of Borough Employment Structure, 2008



Source: Annual Business Inquiry / NLP analysis

Note: Definitions based on Tower Hamlets Core Strategy areas, using best fit of Super Output Areas

## Functional Economic Linkages

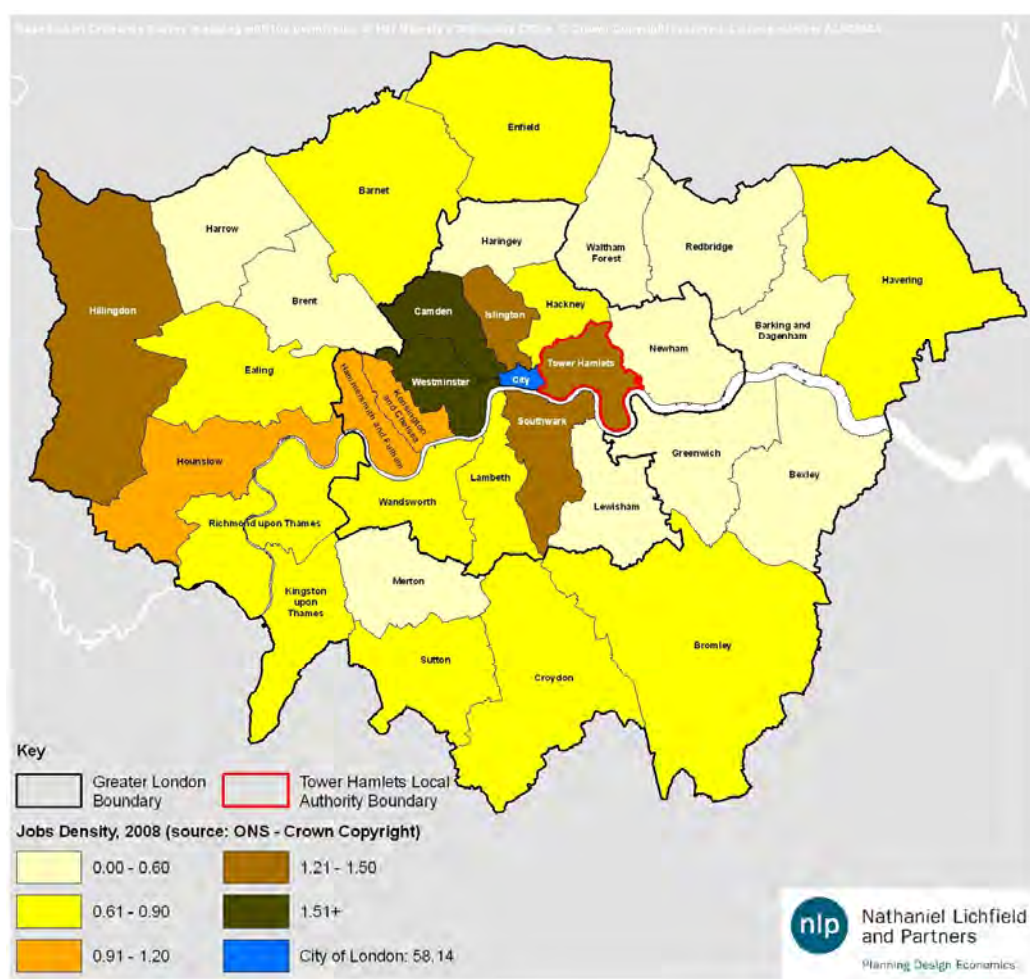
- 3.8 There is increasing recognition of the need to undertake economic analysis at the spatial level at which economic markets operate – referred to as ‘functional economic market areas’ (FEMAs).<sup>1</sup> At one level, this correlates to labour (commuting) flows.
- 3.9 Tower Hamlets is net importer of labour from a wide catchment area across London and the South East. At a basic level, it reflects that the borough provides a greater number of workplace jobs than it does resident working-age employees. Taken together, it means that the borough has a job density of 1.4, the fifth highest in London after City of London, Westminster, Camden and Islington (Figure 3.3).<sup>2</sup>

<sup>1</sup> *Functional Economic Market Areas: an economic note*, CLG, February 2010

<sup>2</sup> The numbers of jobs per resident of working age (16-59/64). A job density of 1.0 would mean that there is one job for every resident of working age.



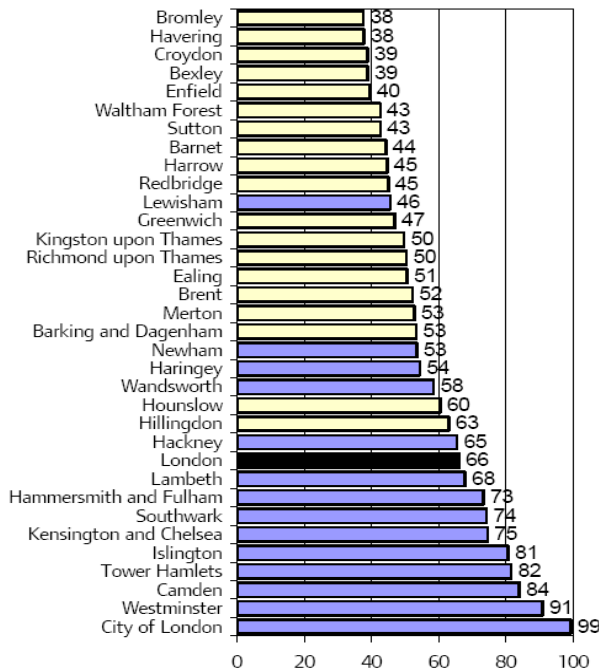
Figure 3.3 Jobs Density, 2008



Source: ONS / NLP analysis

- 3.10 Based on the 2001 Census, about 18% of workplace jobs in Tower Hamlets are filled by local residents. More recent commuting data can be sourced from the Annual Population Survey (APS), but this is compiled on a different basis and is not directly comparable to the 2001 Census data. However, this confirms that a similar proportion (about 15%) of the Borough's jobs were filled by local residents in 2008.
- 3.11 The implication is that about 82% of workplace jobs within the Borough were filled by in-commuters in 2001. As Figure 3.4 illustrates, this was the fourth highest proportion of all London boroughs, and higher than the London average of 66%. It was however broadly comparable to other city fringe boroughs such as Camden and Islington.
- 3.12 The largest sources of in-commuters to Tower Hamlets include Newham (7% of commuters), Redbridge (5%), Hackney (4%), Havering (4%) and Waltham Forest (4%) (Figure 3.5). The 2008 APS data indicates that Bromley is also an important source of in-commuters.

Figure 3.4 Proportion of Workplace Jobs filled by In-commuters

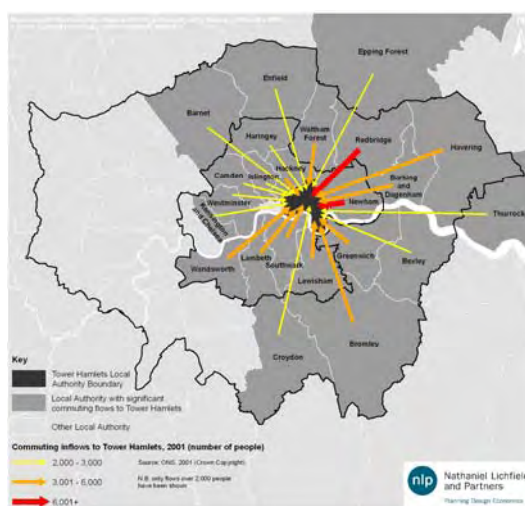


Source: 2001 Census / GLA analysis Note: Inner London boroughs shown in blue

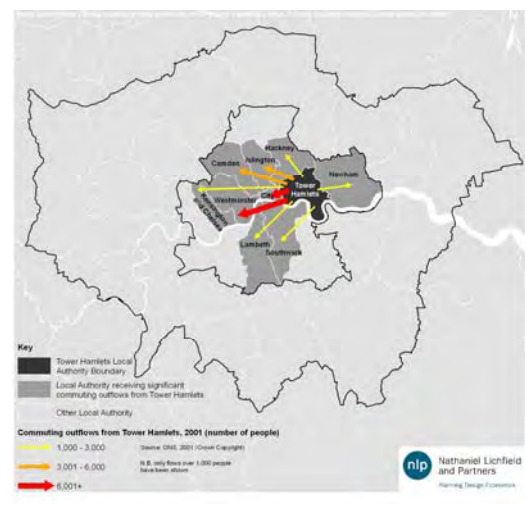
3.13

At the same time, Tower Hamlets exports resident labour to adjoining London boroughs. While about a third of working residents (31%) work in the borough, Figure 3.4 indicates that the next most common workplaces for residents are the City of London (25%), Westminster (13%) and Southwark (7%). It emphasises that for a significant proportion of residents, employment opportunities outside of Tower Hamlets are more important than locally.

Figure 3.5 Tower Hamlets Commuting Flows



Commuting Inflows

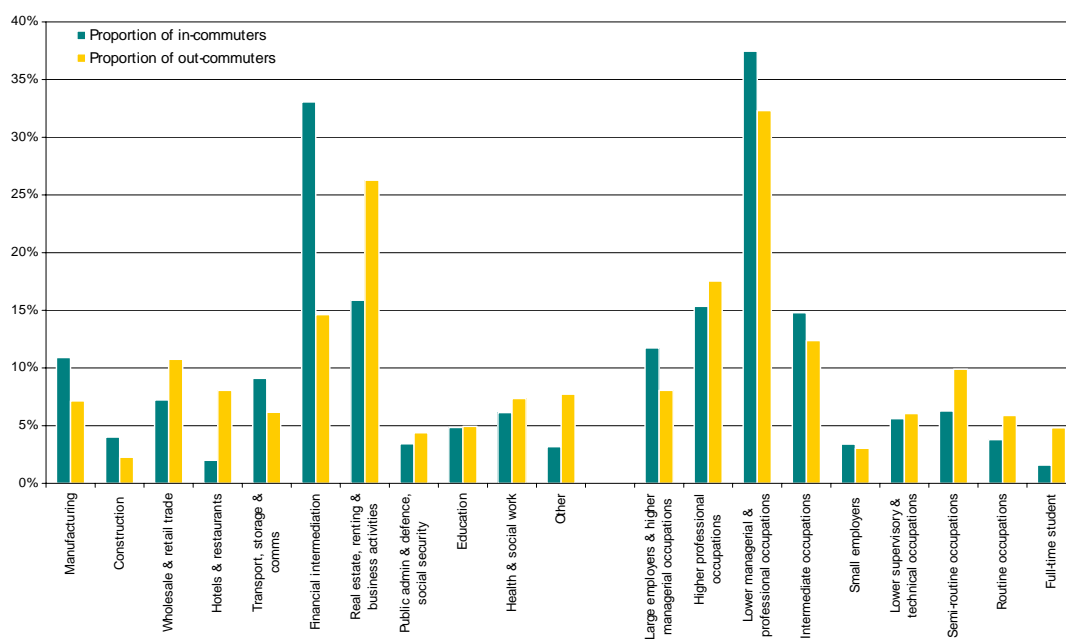


Commuting Outflows

Source: 2001 Census / NLP analysis

- 3.14 This level of commuting exchange is typical in Central London boroughs, although there is also an important difference in the structure of resident and workplace employment, which determines which types of workers commute. Figure 3.6 illustrates the relative proportions of in- and out-commuters by sector and occupation group based on data from the 2001 Census (the latest available data).

Figure 3.6 Commuting Flows by Industry and Occupation Group, 2001



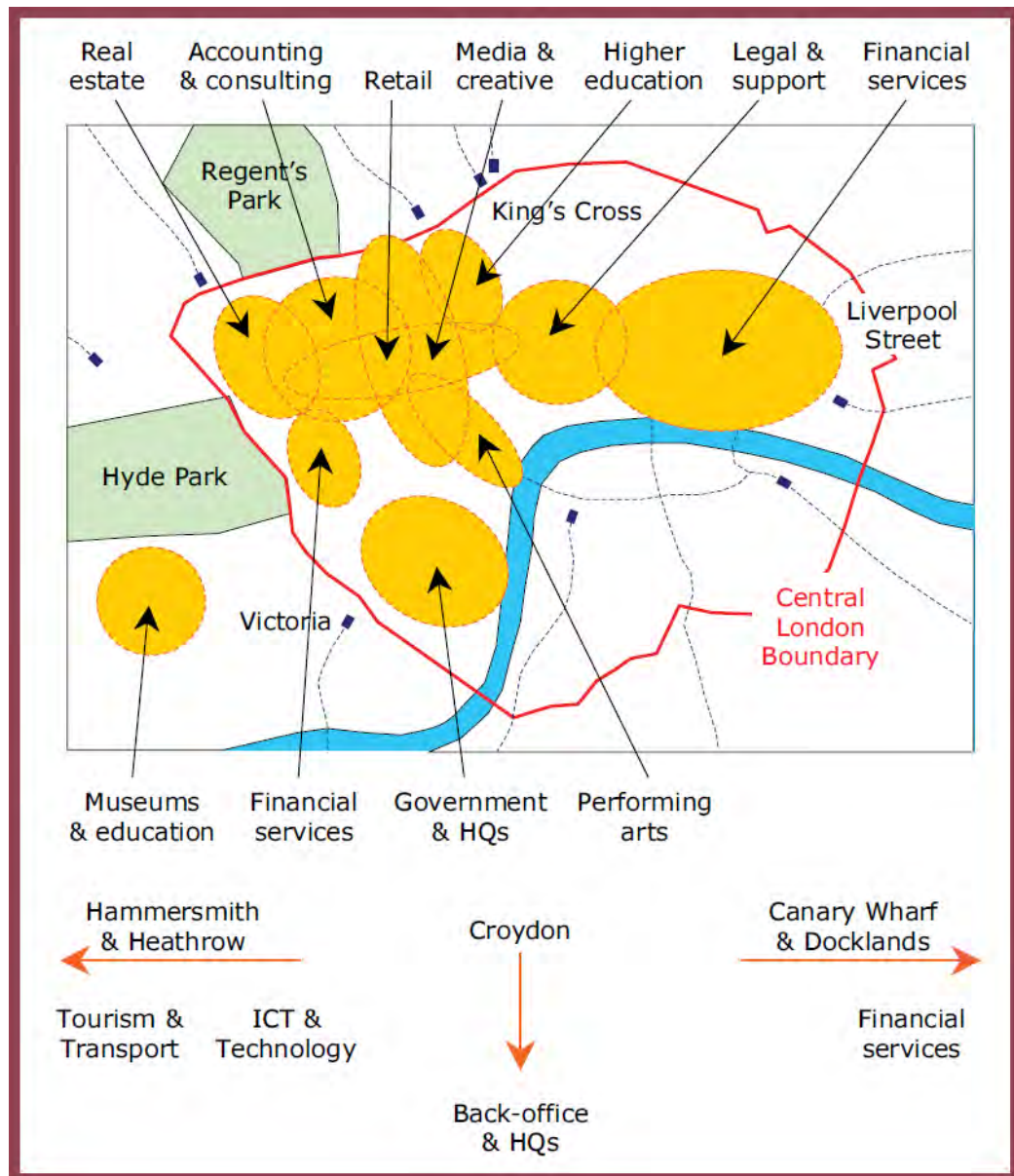
Source: 2001 Census / NLP analysis

- 3.15 This emphasises the high proportion of in-commuters in financial services (about a third of all in-commuters), and to a lesser extent real estate and business services, and in professional and managerial occupations (about two-thirds of all in-commuters). These are, however, relatively mobile groups of workers, and Tower Hamlets (at that time) was also exporting workers in these sectors and activities. In terms of out-commuting, retail, hotels and restaurants are sectors where the borough exports a higher proportion of residents relative to in-commuters, as is the case in terms of routine occupations groups and students.
- 3.16 It should be noted that this data relates to a snap-shot in time nearly a decade ago, and much has changed in terms of the residential base of Tower Hamlets in the meantime. However, it serves to emphasise that, as a general rule, the borough tends to import higher-qualified staff in some 'high-value' sectors from a wide catchment (perhaps inevitably given the specialist nature of the work), and tends to export less-qualified labour in 'lower-value' sectors to work in the surrounding boroughs.

## Central London Business District

3.17

Canary Wharf is functionally a part of London's Central Business District (CBD) which is home to many of the Capital's core activities and businesses – encompassing the leading retail and creative quarters as well as financial, legal, and other business services. One and a half million people are employed across the area – one-third of London's total, with half of these in finance and business services. The concentration and critical mass of activities and functions is mutually reinforcing producing an “agglomeration” effect with like and linked businesses securing competitive advantage through location within the District. The intensification of business activity has also led over the last twenty years to an out-growth of such activities into City Fringe areas, including into the Western zone of Tower Hamlets.

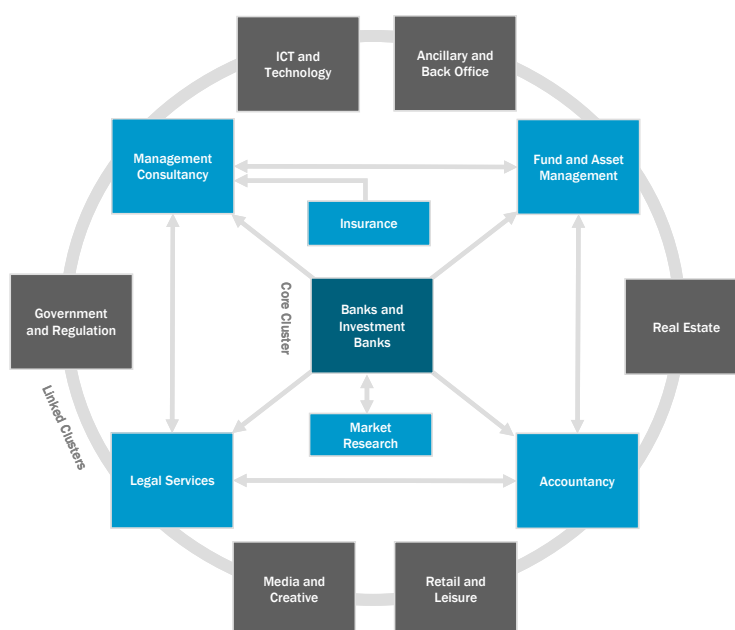


- 3.18 The economic geography of the CBD has distinct areas of concentration, from the retail and cultural offer of the West End, to the prevalence of legal practices in Holborn and the concentration of globally-oriented financial services including major international bank headquarters at Canary Wharf. Indeed financial services account for two-thirds of employment at Canary Wharf followed, at some distance, by business services which provides a sixth of jobs. In Tower Hamlets' City Fringe, the relationship is reversed with two-fifths of employment in business services and a quarter in financial services.

## Clustering Effects

- 3.19 The borough's role as a major focus for financial and business services, in both absolute and relative terms, means that Tower Hamlets has an important relationship with London's wider clustering effect in this sector. Banks and investment banks sit at the centre of a cluster which supports a range of business services, real estate and other consumption activities.
- 3.20 These large financial institutions are supported by a wide range of specialist inputs which, increasingly, have become out-sourced as the sector has grown and evolved, as illustrated in Figure 3.7. These include lawyers, accountants, management consultants, brokers, insurers and other providers of specialised financial services. These firms often derive large benefits from co-locating with their clients in order to enhance tacit knowledge transfer and market visibility.
- 3.21 In turn, a wide variety of consumption activities have clustered around the location of these firms in order to take advantage of the high levels of disposable wealth which are being generated. These include retail, leisure and real estate activities.

Figure 3.7 London's international financial and business services cluster

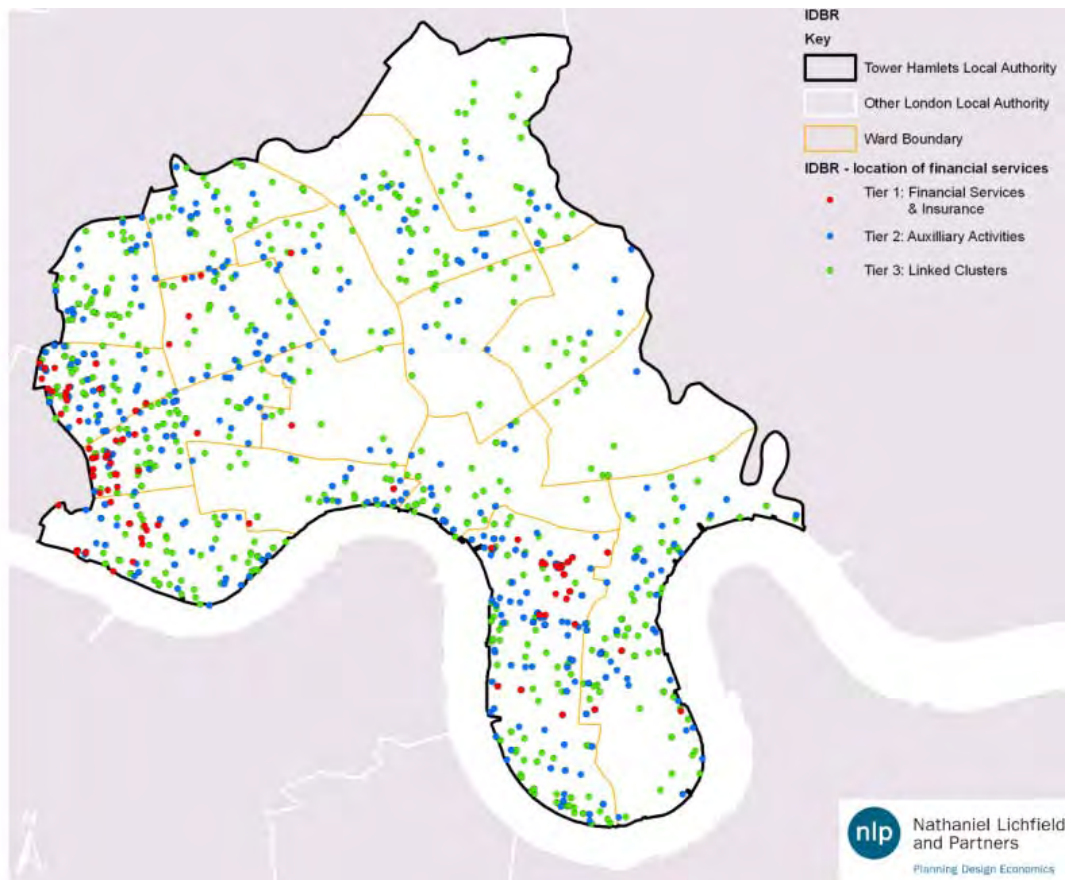


Source: NLP adapted from PMSU (2004)



- 3.22 The scale and distribution of this cluster in Tower Hamlets can be plotted through the use of IDBR business data, with different business types classified by SIC code sector groupings (Figure 3.8).
- 3.23 This indicates that ‘tier 1’ financial services (banks and insurance) are grouped around Canary Wharf and the City Fringe, and account for about 40,000 jobs in total. Beneath this, ‘tier 2’ activities (auxiliary financial services, accountancy and legal) make up a further 20,000 jobs, while ‘tier 3’ linked clusters (including real estate, IT, media and creative) total about 15,000 jobs. The tier 2 and 3 sectors are more evenly distributed across the Borough.

Figure 3.8 Distribution of financial and business services cluster



Source: IDBR; NLP analysis

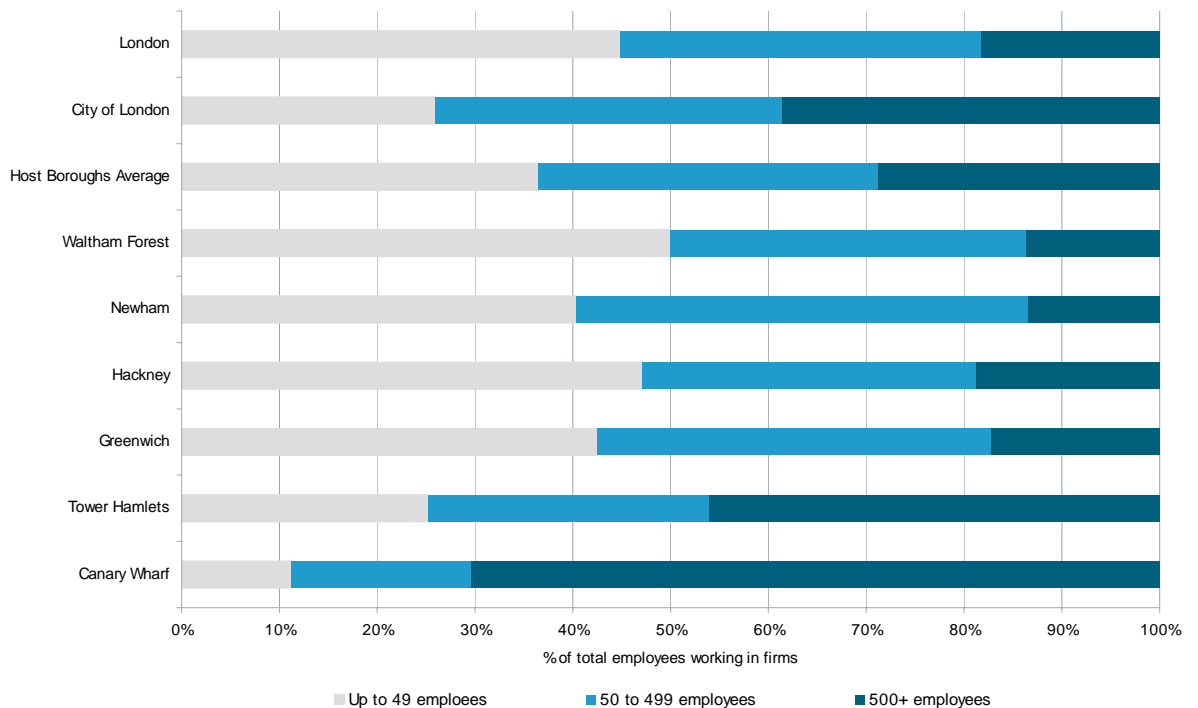
- 3.24 While Tower Hamlets has been successful at attracting large financial operations, other business services clusters have remained in the City and West End. Canary Wharf plays a complementary role to other parts of the London Business services cluster.
- 3.25 The large floorplate offices at Canary Wharf have attracted the larger wholesale financial operations, primarily international investment banks, whilst more niche operations such as hedge funds have remained in the West End. This can be demonstrated by the fact that over 70% of employees at Canary Wharf work for firms with over 500 employees – far higher than in London as a whole which stands at around 25%, and significantly higher than the City of

London which stands at just under 40%. Within the City of London, the business base has far more medium and small businesses, whereas Canary Wharf has relatively few of these (Figure 3.9).

3.26

The effect of this is to skew the proportions of different business size categories within Tower Hamlets. Overall, some 46% of the borough’s businesses employ over 500 employees, compared to 29% for the Host Boroughs as a whole. While 25% of businesses in Tower Hamlets employ up to 49 employees, this proportion is lower than the Host Boroughs average of 36%.

Figure 3.9 Proportion of Total Employees by Size of Firm, 2008



Source: Annual Business Inquiry, 2008

3.27

The ability to take large amounts of floorspace (and often entire buildings) at Canary Wharf has resulted in a mix of major banks including Morgan Stanley, Citigroup, Barclays, Credit Suisse, HSBC and Bank of America. There are also a number of large companies outside of the banking sector including The Daily Telegraph, Reuters, Daily Mirror, Clifford Chance, Knight Frank, KPMG, and BP.

3.28

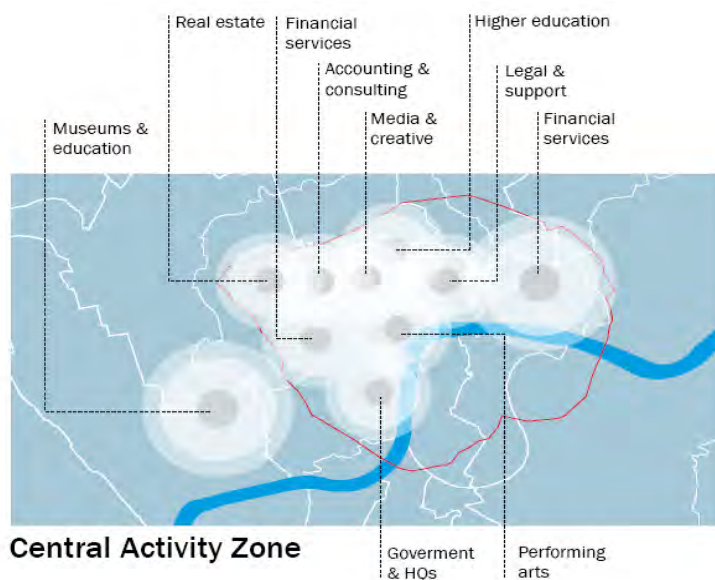
Whilst some legal and accountancy functions have moved to Canary Wharf in order to increase their exposure to the banks, many have remained in the West End and City Fringe areas, whilst the vast majority of insurance functions have remained resolutely in the City, close to the Lloyds market. The synergies that exist with other sectors, including the cultural, consumption and heritage assets of the West End, alongside the HQ and Government functions mean that the West End and City are likely to remain a focal point (Figure 3.10).

3.29 Similar firms derive a range of benefits from clustering together and with their supply chain/customers. This includes:

- access to deep labour pools;
- interactions with similar firms;
- access to associated firms/supply chain;
- intelligence sharing; and
- better customer attraction.

3.30 These links mean it is difficult to transplant one of these clusters. However, growth pressures and an absence of expansion space could mean relocation pressures become irresistible.

Figure 3.10 Economic Geography of Clusters in Central London



Source: NLP Analysis

3.31 There are a number of major development locations where major expansion of commercial space is being planned or constructed (Figure 3.11). These include major central sites at:

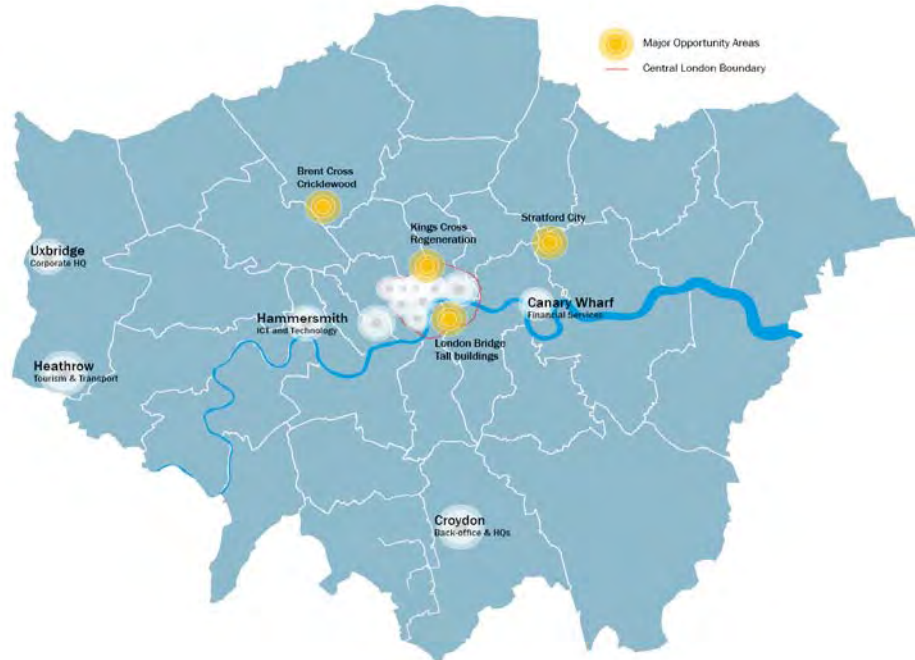
- a London Bridge;
- b Kings Cross;
- c Stratford City; and
- d Brent Cross/Cricklewood.

3.32 London Bridge and Kings Cross in particular provide central London and accessible (by Tube) locations that are already showing signs of being able to attract major professional and financial service organisations. There are also existing clusters at Uxbridge, Hammersmith, Heathrow and Croydon where there are opportunities for relatively cheap space and/or the ability to build upon existing clusters. These do not necessarily provide the quality of space or



environment of Canary Wharf, but for some financial service sector firms the represent viable alternatives.

Figure 3.11 Economic Geography of Service Sector Clusters in Greater London



Source: NLP Analysis

## Indications and Issues

The situation:

- Almost 5% of London's total employment is concentrated in Tower Hamlets, a borough covering just over 1% of Greater London's land area. In overall terms, the borough's overall mix and representation of sectors is much closer to the characteristics of Central London than to the other Host Boroughs or East London as a whole.
- However, averages can be misleading, and the true picture is that effectively two 'sub-economies' operate in Tower Hamlets. Canary Wharf and the City Fringe (together accounting for about 60% of total jobs) exhibit the specialist jobs and sectors expected of an advanced service sector economy at the centre of a global city. The rest of the borough is considerably closer in terms of the types of jobs in East London more generally.

- Based on the previous 2001 Census, the Borough tends to import higher-qualified staff in some 'high-value' sectors from a wide catchment (perhaps inevitably given the specialist nature of the work), and tends to export less-qualified labour in 'lower-value' sectors to work in the surrounding boroughs. This situation will have undoubtedly changed as the borough's resident workforce has evolved over the past decade, but the basic metrics of significant importing of labour are likely to have remained.
- The wider role of the Tower Hamlets' economy in supporting London's global position goes beyond the simple metrics. Canary Wharf is functionally part of London's Central Business District, playing a specialized role within it in relation to globally-oriented banking and financial institutions

**Issues:**

- Canary Wharf has established itself as a high growth business location, at the heart of the global financial services industry, a sector which dominates the Tower Hamlets economy, and is critical to its future prosperity. But there is an important disconnect and policy ambiguity – it is treated differently from the rest of the Borough, and not wholly accepted, still "they" not "we". What needs to happen to encourage acceptance that Canary Wharf is an asset to be harnessed?
- There is a fundamental disconnect between what Tower Hamlets offers as a workplace and the profile of its resident workers. This is unlikely to change, and the gap may continue to widen. Do the solutions lie in trying to encourage growth of other sectors which provide a wider range of job opportunities for local residents (and hence reduce out-commuting), or does it mean accepting that in a functioning labour market (particularly in London) workers will choose to work beyond the boundaries of where they live?
- The fact that effectively two 'sub-economies' operate in Tower Hamlets is unavoidable given the borough's dual role as a (relatively new) part of the Central London economy, but against the backdrop of being a more traditional East London economy. Maintaining London as a global financial services hub (and the implications this has for Tower Hamlets) has been a priority for the Greater London Authority since its inception, and this position seems unlikely to change. Notwithstanding the recession, employment forecasts also expect the sector to drive future growth. Tower Hamlets must accept this, but also consider how best to manage the demands and expectations of the sector.

4.0

## Economic Growth and Sectors

4.1

This chapter provides a more detailed analysis of recent growth of the Tower Hamlet's economy, and is structured as follows:

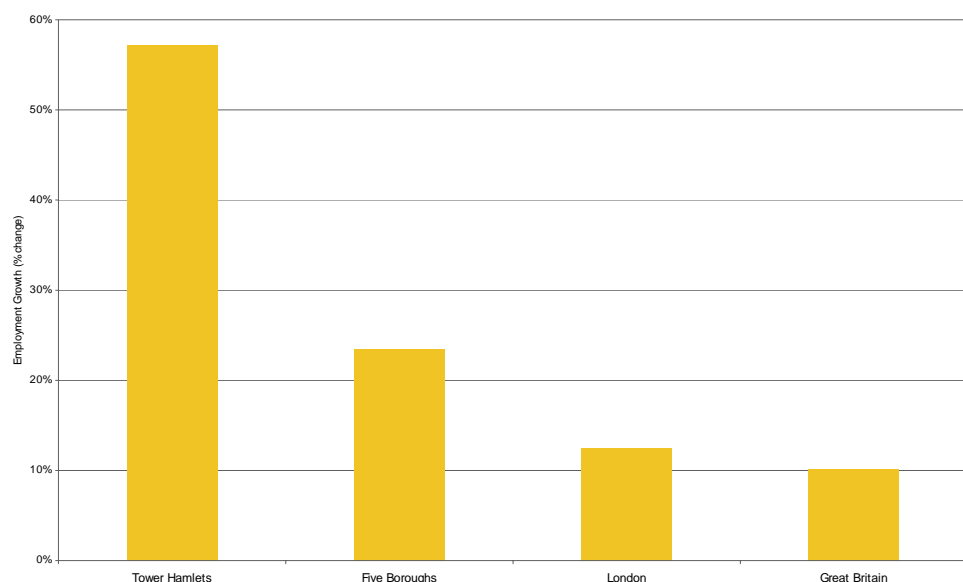
- 1 Employment growth and change;
- 2 Economic structure; and
- 3 Review of key sectors.

### Employment Growth and Change

4.2

Over the period 1998-2008, Figure 4.1 shows that total employment in Tower Hamlets expanded by 57%, considerably higher than the average growth rates for the Five Host Boroughs sub-region (23%) or London (13%) as a whole.

Figure 4.1 Total Employment Change, 1998-2008



Source: Annual Business Inquiry / NLP analysis

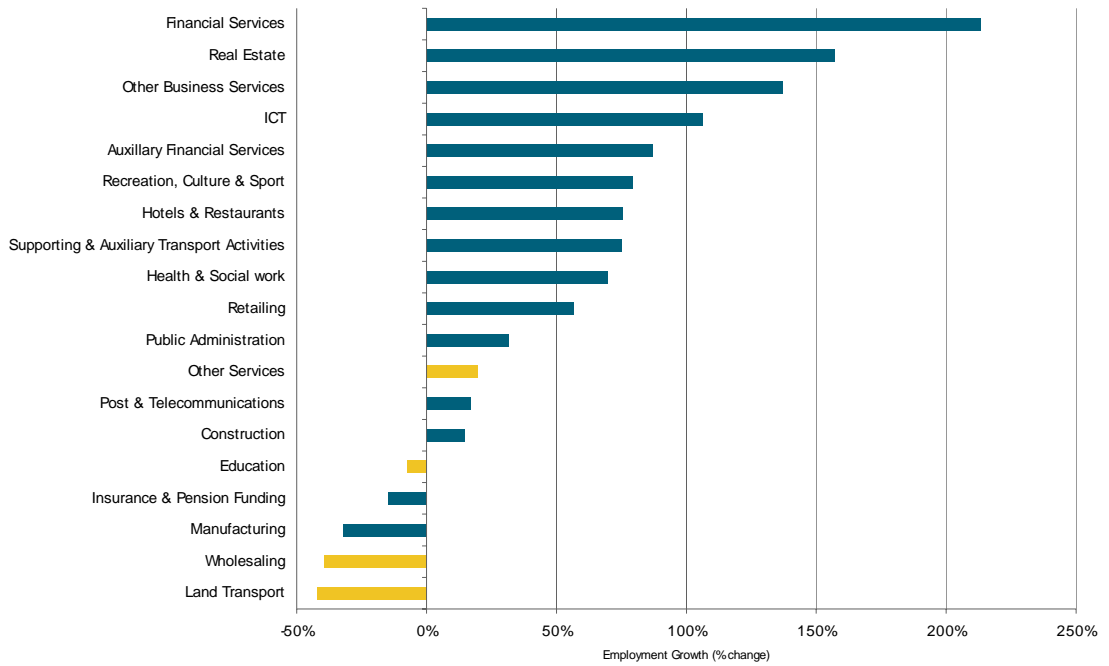
4.3

As illustrated in Figure 4.2, financial services have been the major driver of job growth in the borough over the past decade, recording a 214% increase in employment levels. This has been closely followed by real estate activities (+157%) and other business services (+137%). These rates of growth all exceeded the London average.

4.4

At the same time, overall employment declines were registered in land transport (-42%) and wholesaling (-39%) albeit at slower rates than the London average, and also manufacturing (-32%) which declined at a faster rate than the London average.

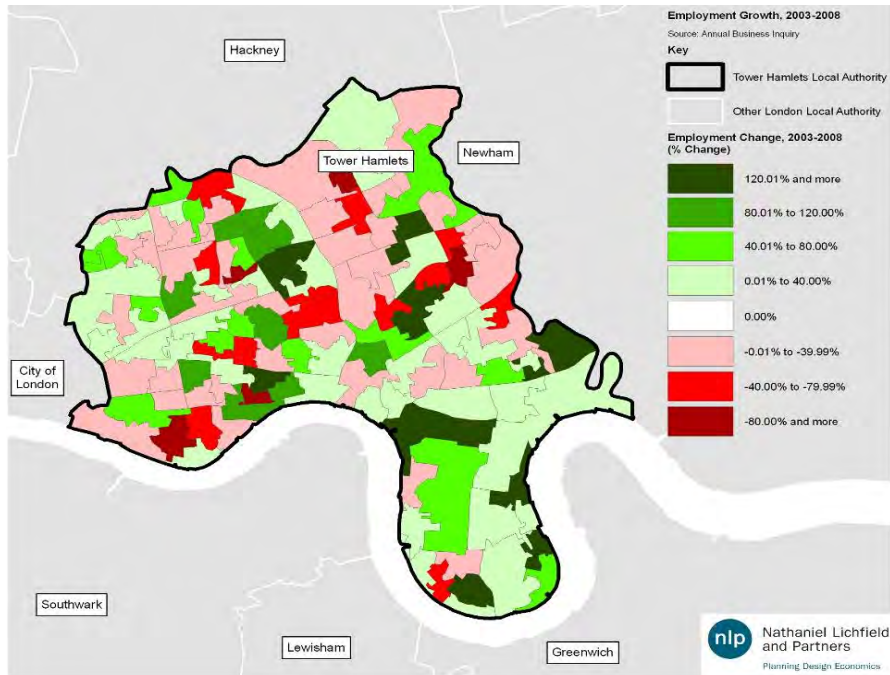
Figure 4.2 Tower Hamlets Sector Employment Growth, 1998-2008



Source: Annual Business Inquiry/NLP analysis  
 Note: Blue bars indicate rate of change above London average, yellow below.

4.5 Reflecting this pattern of sectoral change, in spatial terms, Canary Wharf and the Isle of Dogs registered the highest employment growth. In the rest of the borough, the pattern has been more mixed (Figure 4.3).

Figure 4.3 Employment Growth 2003-2008

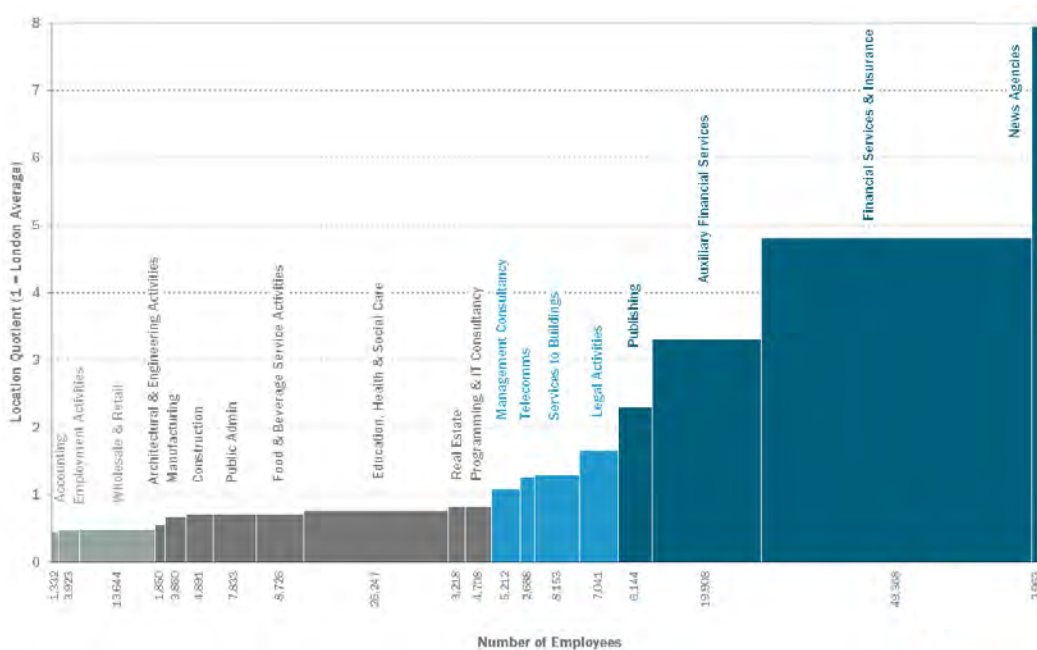


Source: ONS/NLP analysis

## Economic Structure

- 4.6 Figure 4.4 presents location quotient analysis for key sectors in Tower Hamlets compared to the London average. Sectors with a location quotient greater than 1 are over-represented against the London average (shown in blue), and those less than 1 are under-represented (shown in grey).
- 4.7 It confirms the degree of over-representation in financial services (by far the largest sector) and some business service activities. This includes a number of related service industries such as financial news agencies, lawyers and management consultants, all of which are over-represented in the borough compared with the London average.

Figure 4.4 Sectoral Composition of the Tower Hamlets Economy, 2008



Source: Annual Business Inquiry; NLP analysis

Note: This disaggregation uses the 2007 Standard Industrial Classification (SIC) which differs significantly from the 2003 SIC

Note: The location quotients are benchmarked against the London average

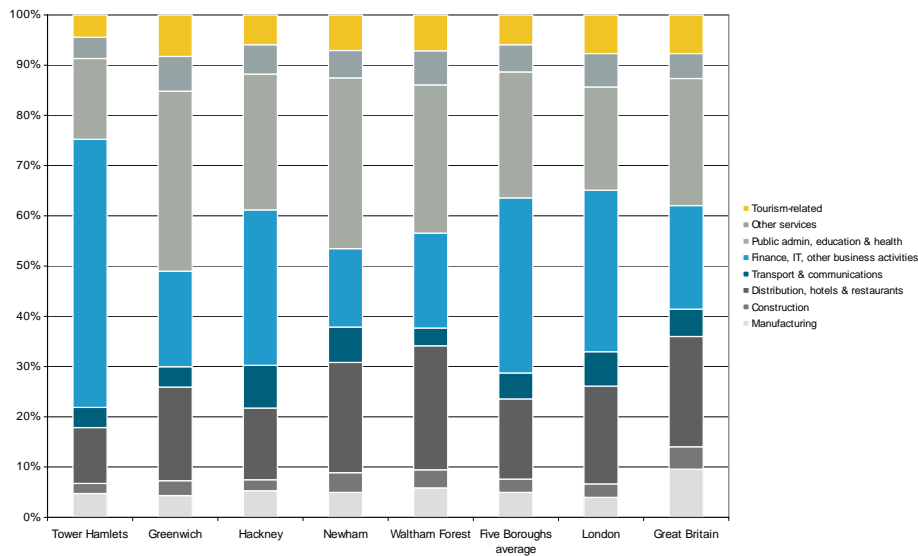
- 4.8 However, the location quotient analysis indicates that other service sectors not closely related to finance remain small by London standards, including accountancy, employment/recruitment, architecture, engineering and IT. The retail sector is under-represented, as are public administration, construction, education, healthcare. However, this is likely to have more to do with the scale of the financial services sector overshadowing other economic activity, rather than any inherent weaknesses in these sectors.
- 4.9 The manufacturing sector now accounts for less than 4,000 jobs, although it should be noted that older definitions of this sector (2003 SIC) include

publishing which has a very high representation within Tower Hamlets and accounts for over 6,000 jobs, giving a total of 10,070 ‘manufacturing’ jobs. However, based on the 2007 SIC definition of manufacturing (which categorises publishing separately), Tower Hamlets has a very low proportion of manufacturing jobs, accounting for just 1.9% of the total, a lower figure than for London (2.9%) and all four other Host Boroughs (with an average of 3.5%).<sup>3</sup>

4.10 Looking at the employment base as a whole, Tower Hamlets accounts for some 43% of the total number of jobs across the five Host Boroughs, demonstrating the large scale of the Borough’s economy. Tower Hamlets’ combined share of financial, IT and business services employment is even larger (Figure 4.8). In Tower Hamlets, these sectors account for about 55% of total employment, considerably higher than the five Host Boroughs’ average of 37%; Hackney has the second highest representation in these sectors (33%). As noted above, Tower Hamlets is marginally under-represented in ‘other services’ when compared to the five Host Boroughs’ average (4.4% and 5.7% respectively).

4.11 In terms of other sectors, Tower Hamlets has a lower proportion of public administration, education and health jobs (16.7%) compared to the five boroughs (26.5%), where the highest proportion exists within Greenwich (39%) – however, it is worth highlighting that these sectors collectively equate to some 34,100 jobs in Tower Hamlets. The proportion of tourism-related activities (which includes parts of the service sector) in Tower Hamlets (4.6%) is also lower than the Host Borough average (6.3%).

Figure 4.5 Employment by Sector in Tower Hamlets and Comparator Areas, 2008



Source: Annual Business Inquiry / NLP analysis \* Note: based on 2003 SIC definitions which categorises publishing as a manufacturing activity.

<sup>3</sup> It should be noted that the 2007 SIC definition of manufacturing used here is somewhat different from that used in the 2003 SIC – this primarily relates to the definition of publishing (which accounts for over 6,100 jobs in Tower Hamlets) which is included within manufacturing in the 2003 SIC but not the 2007 SIC where it is separate

## Key Sectors

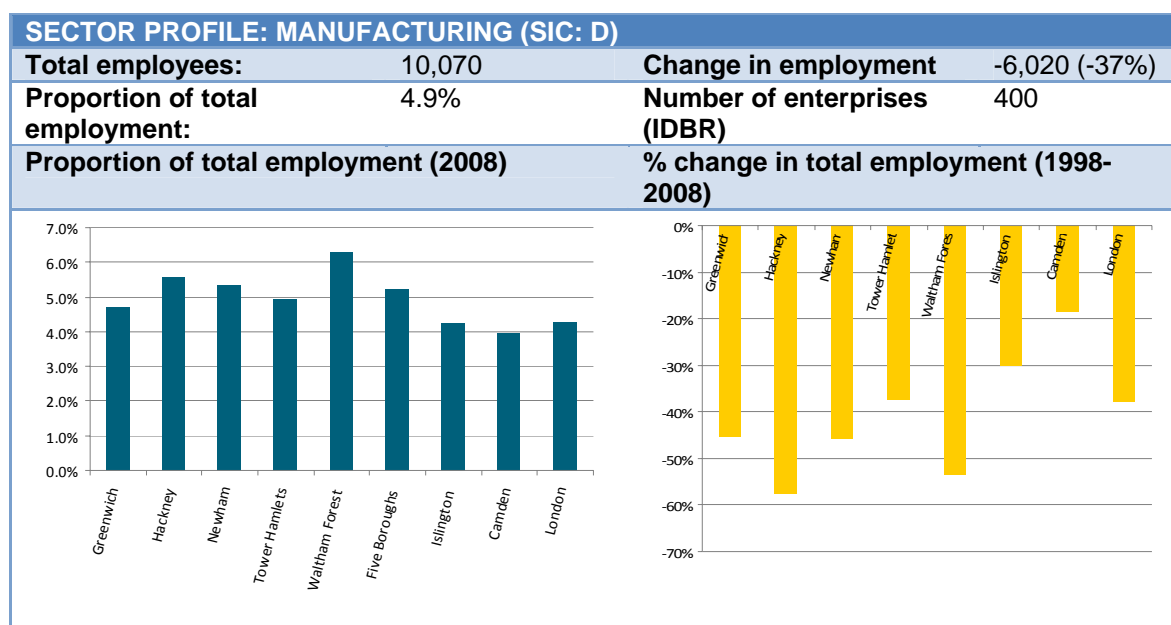
4.12 This section provides a more detailed overview of the main economic sectors in Tower Hamlets, in terms of:

- relative scale and importance to the local economy;
- relative performance in terms of employment growth;
- local representation compared to the other Host Boroughs and London average which indicates their relative degree of local competitive advantage;
- spatial distribution of jobs across the Borough; and
- locally-important sub-sectors present within Tower Hamlets.

4.13 The analysis is based on the latest Annual Business Inquiry data using 2003 SIC definitions, 2009 IDBR to indicate number of enterprises, and data from the 2009 Trends Central Resource database for Tower Hamlets to illustrate the spatial distribution of businesses in each sector. All figures are rounded, and references to the five Host Boroughs includes benchmarking of data with Newham, Hackney, Greenwich, Waltham Forest, as well as Tower Hamlets. It should be noted that the analysis excludes Barking and Dagenham, which has recently been added as a sixth ‘host’ borough. Islington and Camden have also been included as potential ‘city fringe’ comparators.

## Manufacturing

Table 4.1 Sector Profile: Manufacturing (SIC: D)

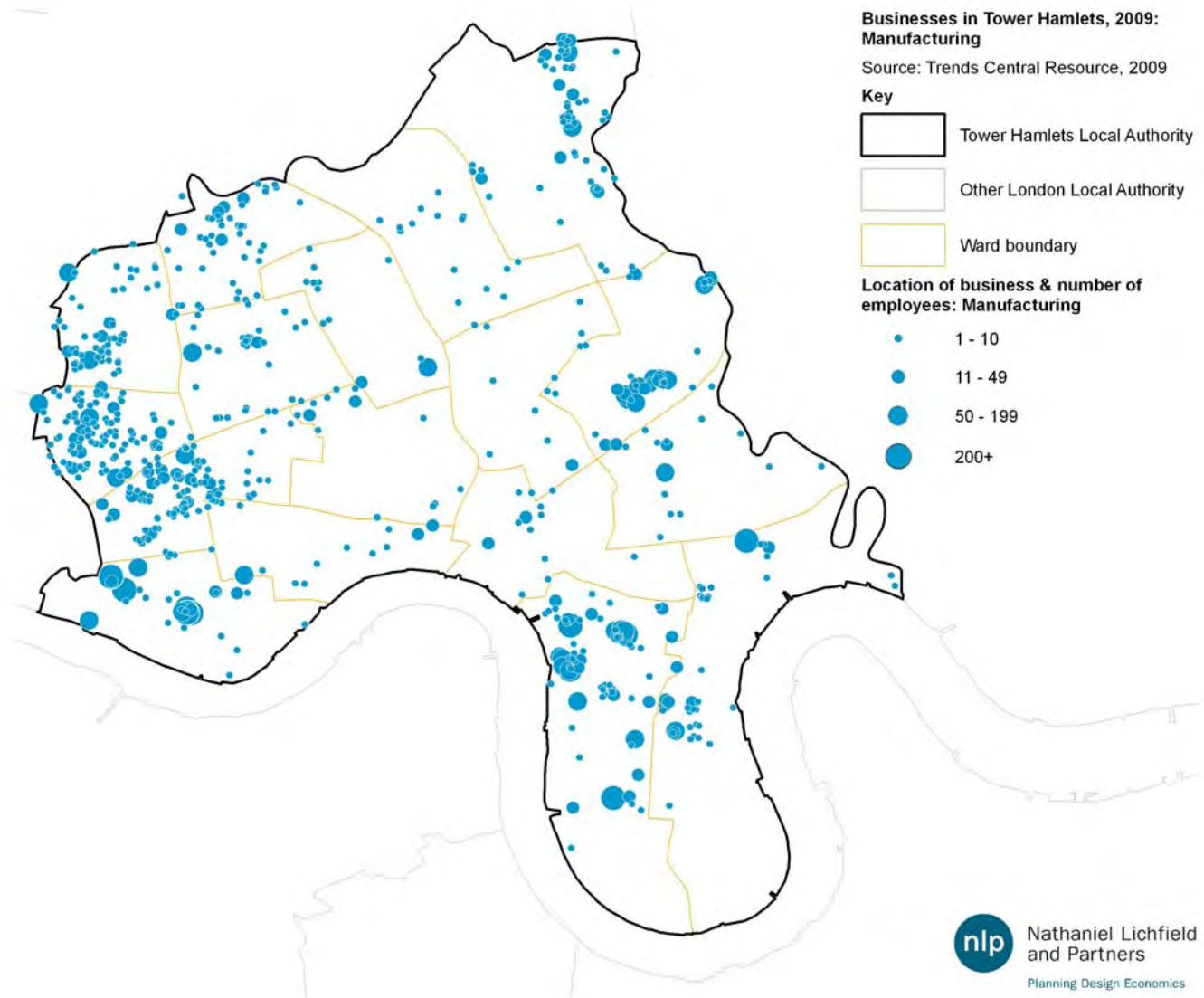


Source: ABI / IDBR / Experian / NLP analysis

- 4.14 The manufacturing sector accounts for just under 5% of total employment in Tower Hamlets, supporting about 10,100 jobs and 400 enterprises. As noted above, this definition includes publishing activities which are a major employer within the borough (6,100 jobs) but are categorised separately within the later 2007 SIC definition of the manufacturing sector. With publishing included it means that Tower Hamlets has the largest manufacturing sector in absolute terms (the next highest is Hackney with 4,600 jobs) of all the Host Boroughs. Based on the wider definition (i.e. including publishing activities), the sector has declined significantly over the past decade (-37%), which is broadly in line with the average for the host boroughs and London as a whole, and other city fringe boroughs such as Islington and Camden.
- 4.15 If publishing activities are excluded, other manufacturing activities account for about 4,000 jobs, or just 1.9% of the borough total, lower than the other Host Boroughs. Key sub-sectors include printing activities, which collectively account for about 1,600 jobs.
- 4.16 The main areas of manufacturing business activity are illustrated in Figure 4.6. This should a particular concentration of businesses in the City Fringe area (which reflects the presence of publishing activities), at Fish Island, and a number of smaller clusters at Bromley-by-Bow and Millwall.



Figure 4.6 Distribution of Manufacturing Businesses



Source: Trends Central Resource, 2009

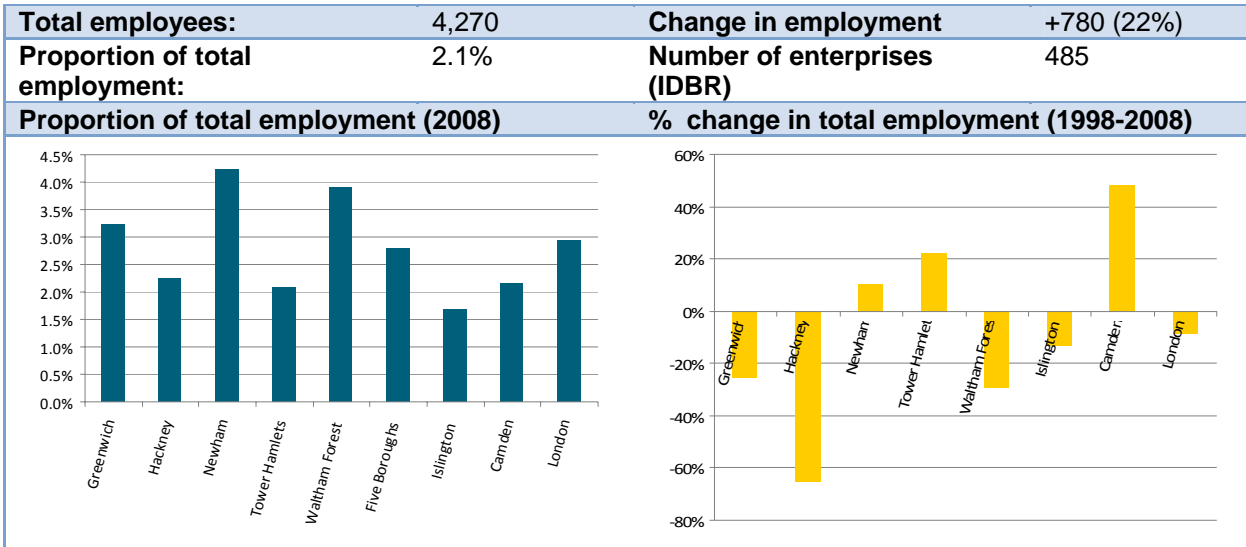
## Construction

4.17

The construction sector in Tower Hamlets mainly comprises general construction and engineering activities, and specialist supporting trades such as electrical installation and plumbing. In total the sector accounts for nearly 4,300 employees, or 2% of total employment. It constitutes a relatively low level of employment compared to the other Host Boroughs, but has expanded by about 20% over the past decade and is proportionately similar to Islington and Camden.

4.18 The key sub-sectors include general construction and engineering activities (2,200 jobs), electrical installation (600 jobs), other construction activities (370 jobs) and plumbing (350 jobs).

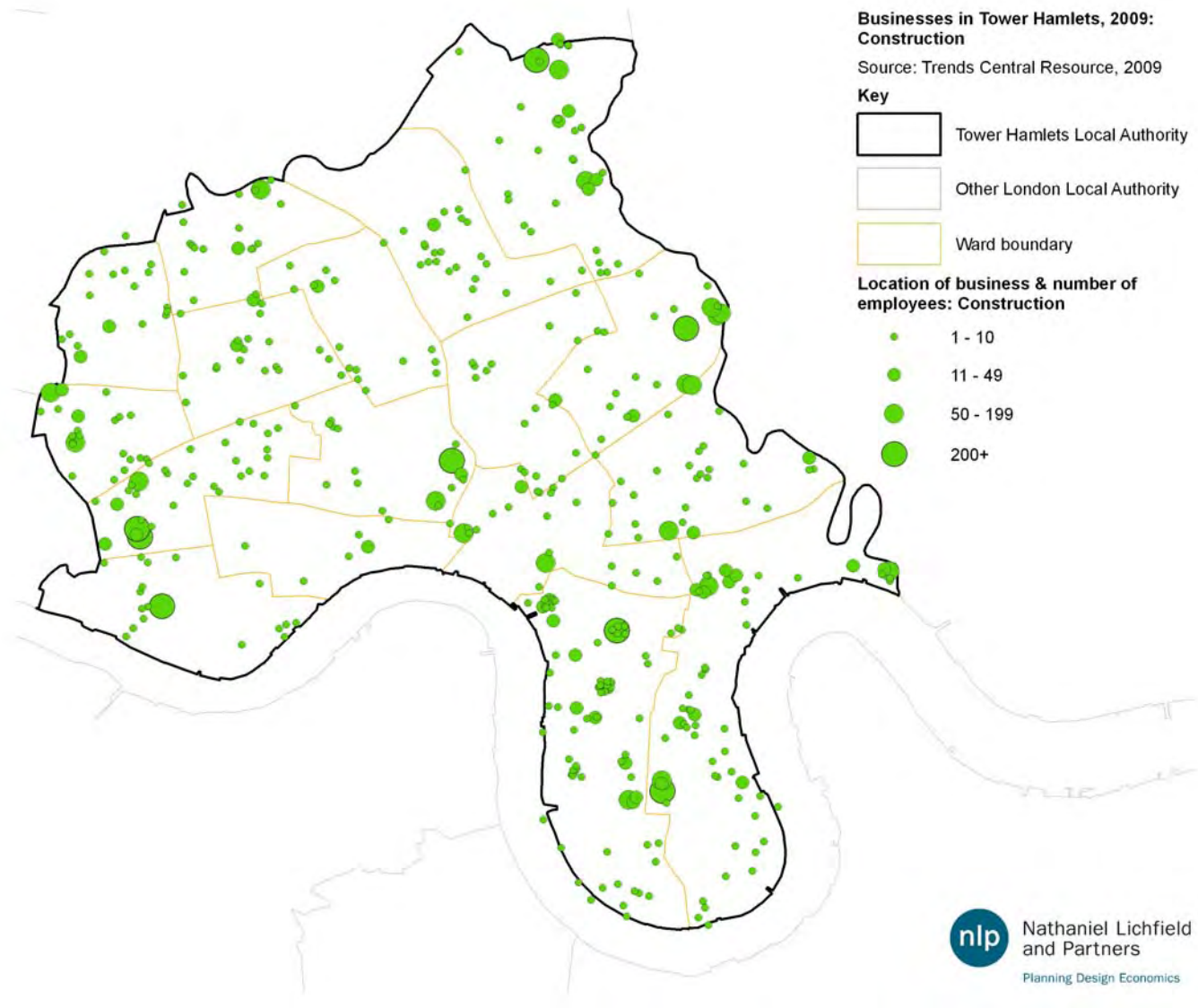
Table 4.2 Sector Profile: Construction (SIC: F)



Source: ABI / IDBR / Experian / NLP analysis

4.19 The main areas of construction business activity are illustrated in Figure 4.7. It highlights a varied distribution across the Borough, and a mix of both larger and smaller businesses.

Figure 4.7 Distribution of Construction Businesses



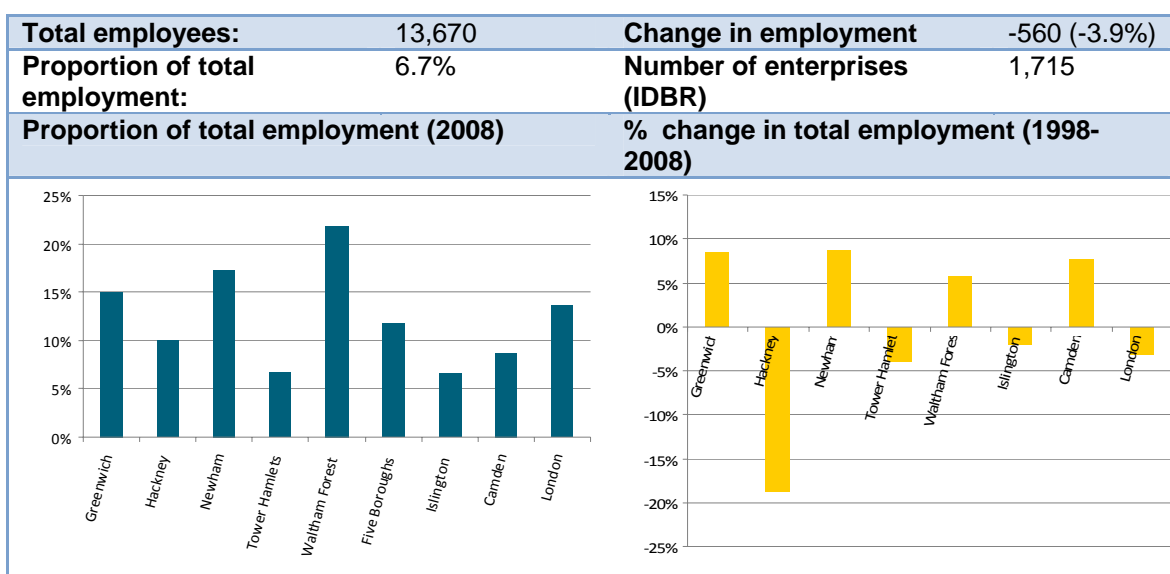
Source: Trends Central Resource, 2009

## Wholesale and Retail Trades

4.20

This sector is one of the largest in Tower Hamlets, supporting about 13,700 jobs or just under 7% of total employment. This is greater than the borough's entire manufacturing sector (including publishing). Compared to the other Host Boroughs, the sector appears comparatively small as proportion of overall employment although it is actually the largest of all the boroughs in terms of absolute job numbers, and supports some 1,715 enterprises. It has declined slightly over the past decade, but stands at a similar proportion to Camden and Islington.

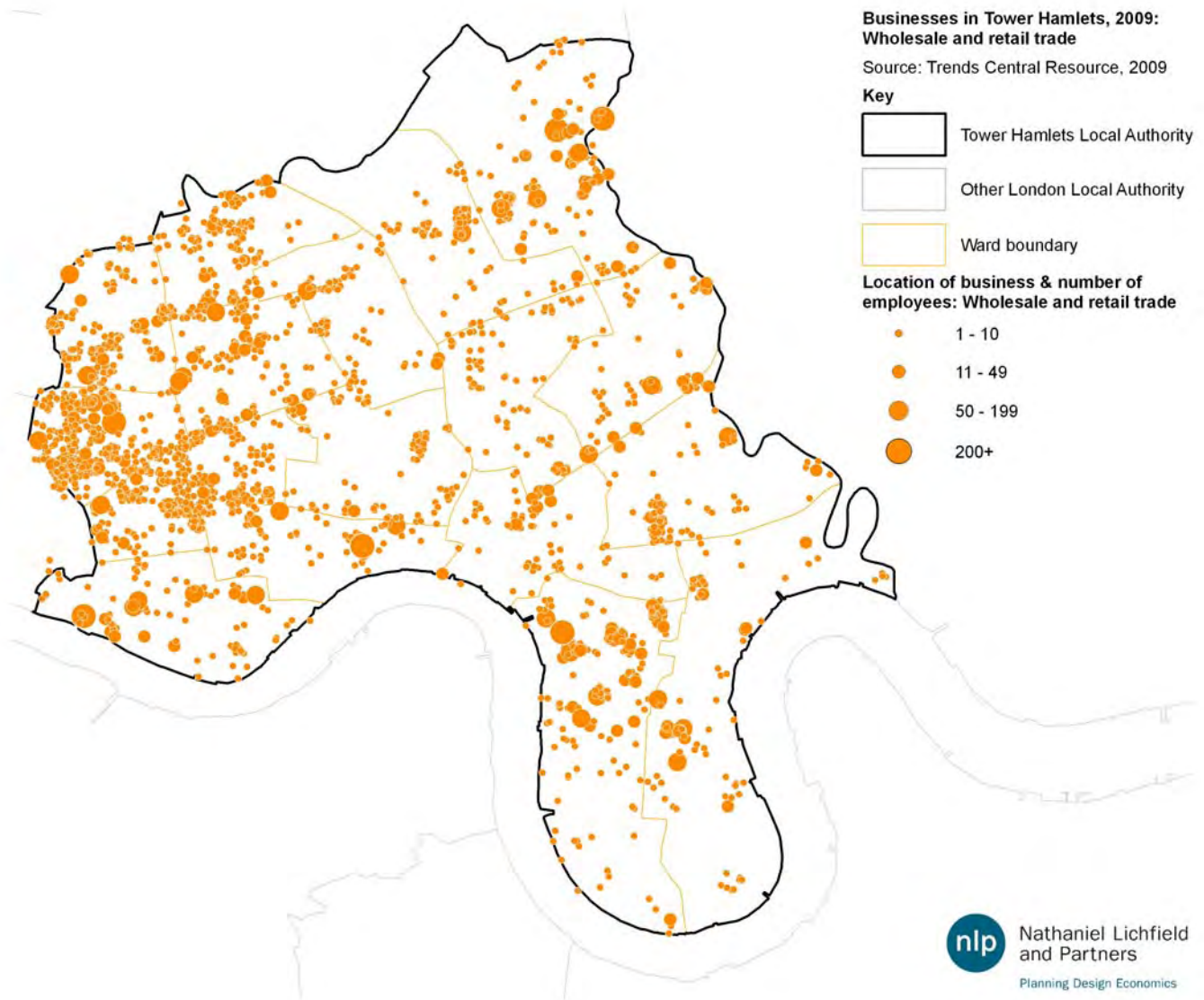
Table 4.3 Sector Profile: Wholesale and Retail Trades (SIC: G)



Source: ABI / IDBR / Experian / NLP analysis

- 4.21 The largest sub-sector, by some margin, is employment in non-specialised stores (predominantly food and beverages) – generally correlating to supermarkets. Other significant sub-sectors include wholesale of other household goods (1,200), wholesale of clothes and footwear (1,120) and retail sale of clothing (1,000).
- 4.22 The distribution of the sector is closely related to the location of the borough's town centres, but particularly concentrated in the City Fringe and around Canary Wharf (Figure 4.8). Linear concentrations within key town centres such as Bethnal Green and Roman Road can also be detected. The economic role of town centre locations is considered in more detail in Volume 4 (People and Places).

Figure 4.8 Distribution of Wholesale and Retail Trade Businesses

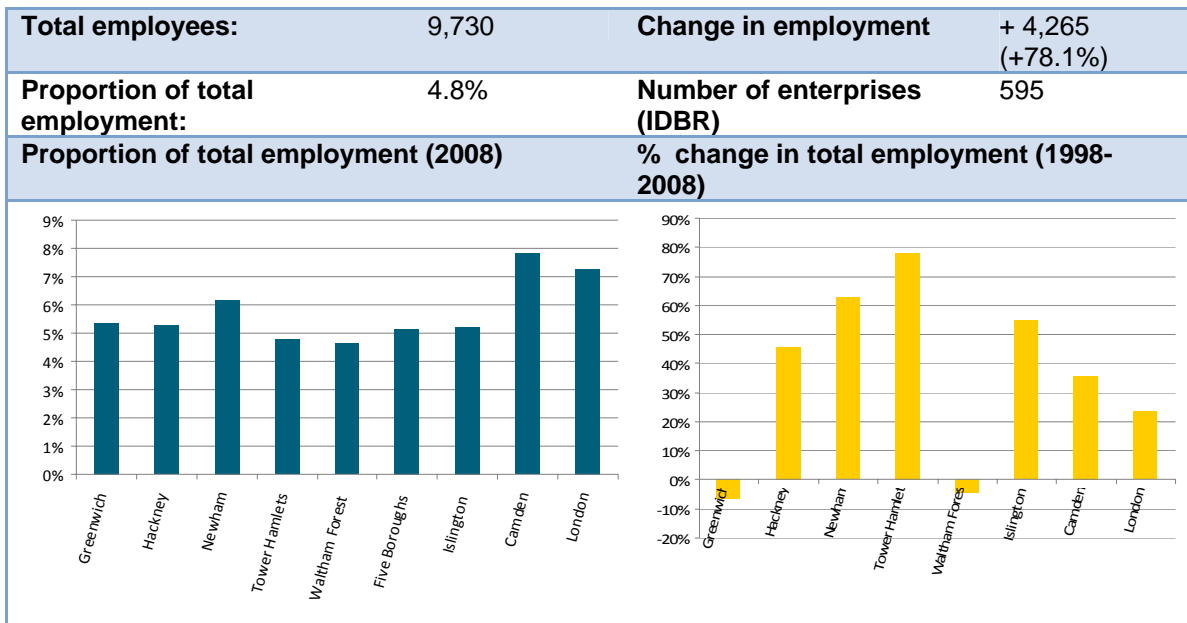


Source: Trends Central Resource, 2009

## Hotels and Restaurants

- 4.23 The hotels and restaurants sector employs 9,700 people in Tower Hamlets, equivalent to just under 5% of employment, and supports nearly 600 enterprises. It has been a significant growth sector, registering growth of nearly 80% over the past decade, higher than the London average and other Host Boroughs.
- 4.24 While the proportion of employment is similar to the other Host Boroughs, Tower Hamlets has by far the largest actual number of jobs in this sector (the next largest are Hackney and Newham both with about 4,300 jobs). Restaurants (4,160 jobs) and catering activities (3,030 jobs) are the largest sub-sectors in Tower Hamlets.

Table 4.4 Sector Profile: Hotels and Restaurants (SIC: H)



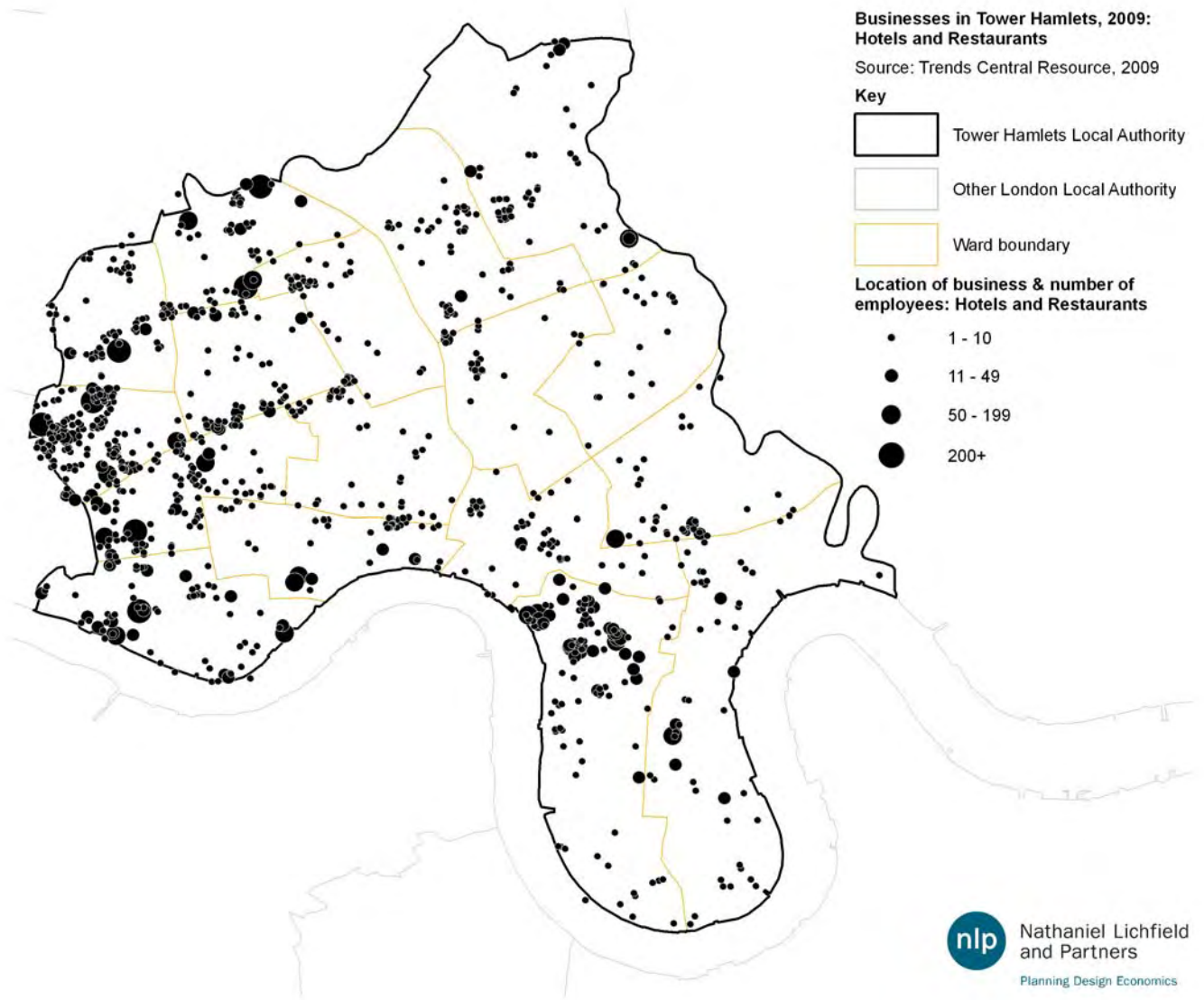
Source: ABI / IDBR / Experian / NLP analysis

4.25

The main areas of hotel/restaurant business activity are illustrated in Figure 4.9. Similar to the retail and wholesale trade sector, there is a strong alignment with the City Fringe and other town centre locations, characterised by a large number of smaller businesses.



Figure 4.9 Distribution of Hotel and Restaurant Businesses



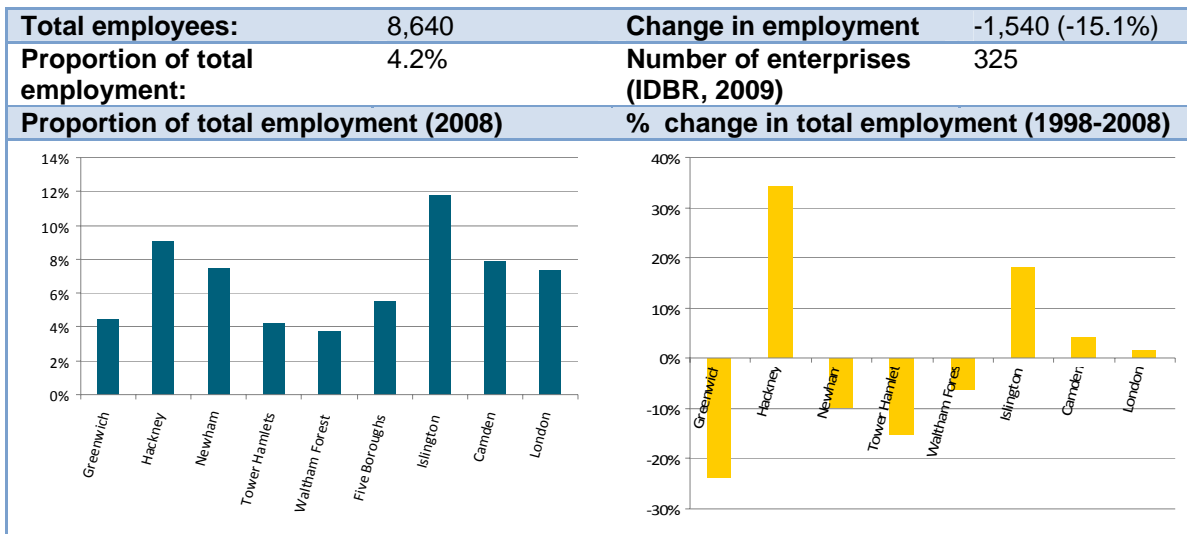
Source: Trends Central Resource, 2009

## Transport, Storage and Communications

4.26

This sector supports about 8,600 jobs in Tower Hamlets, equivalent to just over 4% of total employment. Consistent with other Host Boroughs (except Hackney), the sector has declined over the past decade, although there has been notable expansion of the sector in Islington.

Table 4.5 Sector Profile: Transport, Storage and Communications (SIC: I)

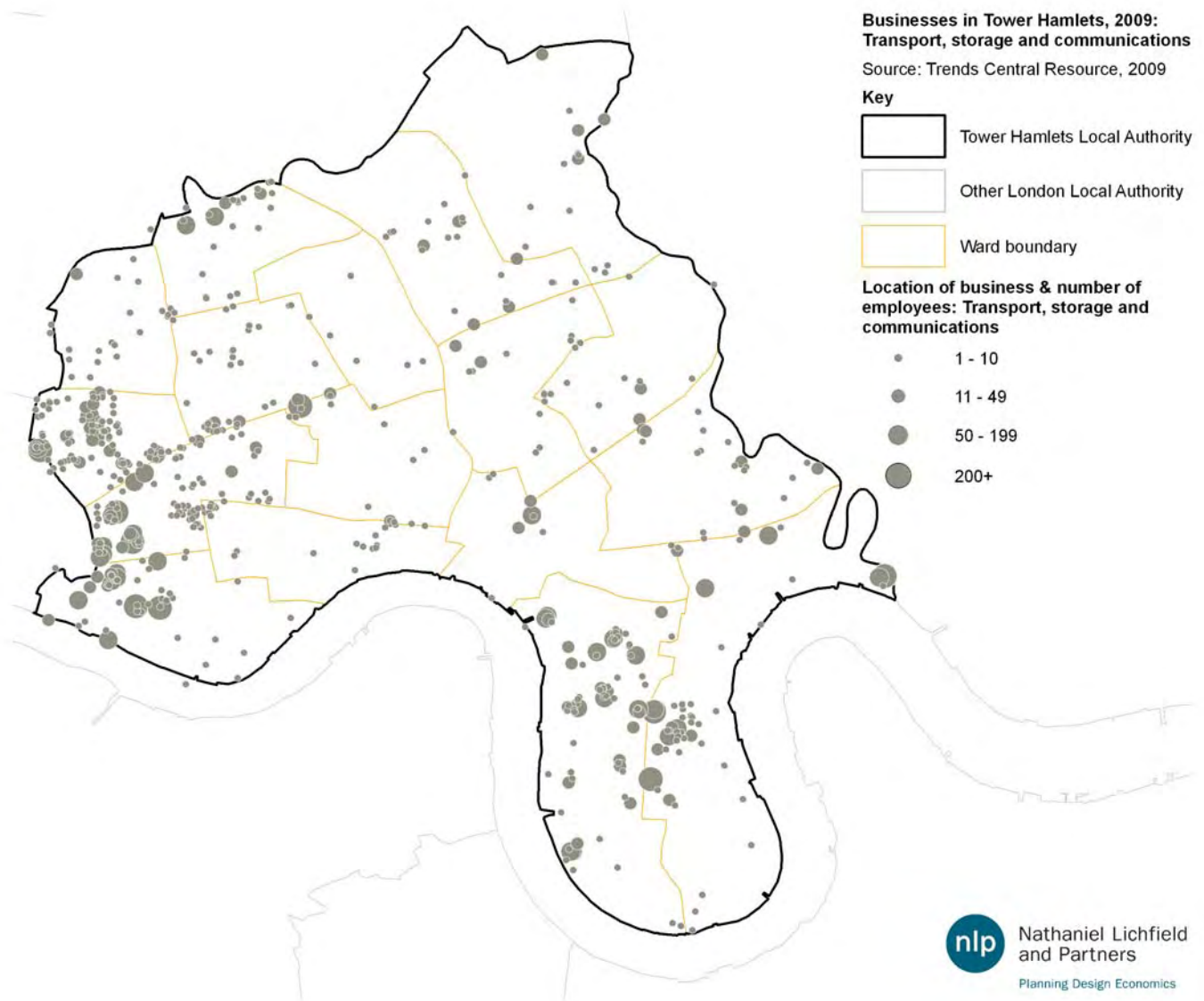


Source: ABI / IDBR / Experian / NLP analysis

- 4.27 The largest sub-sector is telecommunications (2,690 jobs), part of which plays a supporting role to the financial and business services firms operating in the borough and elsewhere in London, and is a relatively high-value activity. There is also significant employment within various transport sub-sectors, such as rail, taxis and couriers. The latter reflects that many of these types of businesses choose to locate within Tower Hamlets to take advantage of its close proximity and good road linkages to Central London.
- 4.28 The main areas of telecommunications, storage and communications business activity are shown in Figure 4.10. These are particularly concentrated in the City Fringe and at Canary Wharf, with limited activity elsewhere aside from a notable cluster on the northern edge of Bethnal Green / Globe Town.



Figure 4.10 Distribution of Transport, Storage and Communications Businesses



Source: Trends Central Resource, 2009

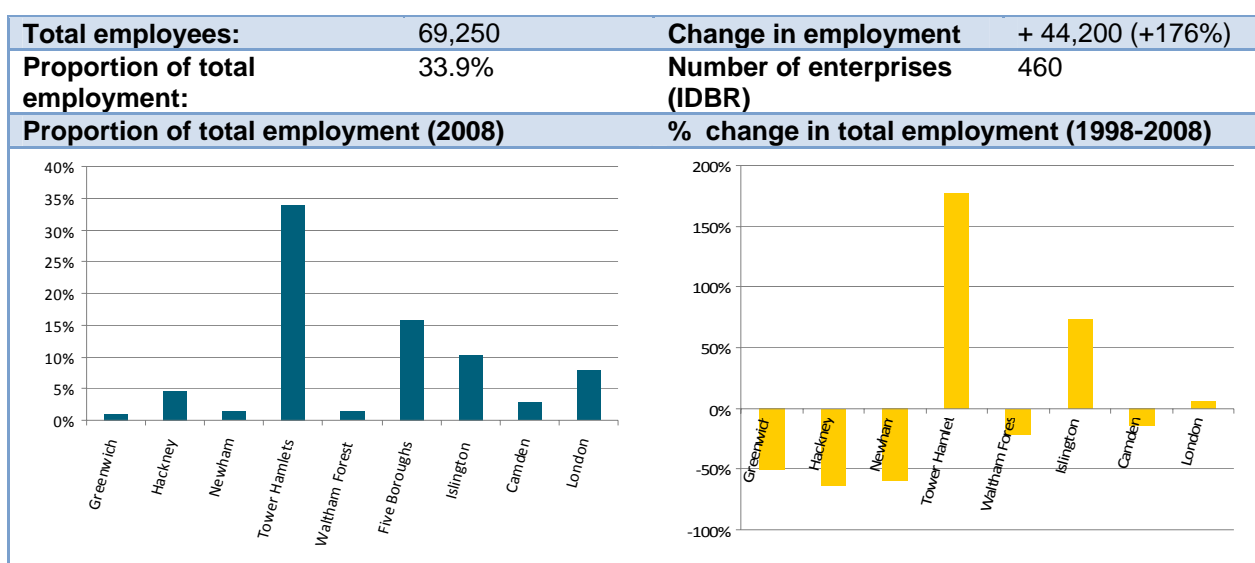
## Financial Intermediation

- 4.29 This is, by far, the largest single sector of employment within Tower Hamlets, accounting for 69,000 jobs and about 34% of total employment. It has been the fastest growing sector in the borough over the past ten years, and has grown much faster in Tower Hamlets than any of the other Host Boroughs or City Fringe comparators (although Islington has also recorded relatively high growth).
- 4.30 This is not surprising given the presence of the Canary Wharf financial centre within the borough. Comparisons of the borough’s employment in this sector

with the other Host Boroughs, and even with the London average, are almost academic.

4.31 The main sub-sectors present reflect a high concentration of specialised employment, such as financial intermediation, brokerage and fund management. Given the size of the sector, the number of enterprises may appear comparatively low. However, it confirms the picture of a smaller number of large employers, as is typical of the major financial institutions.

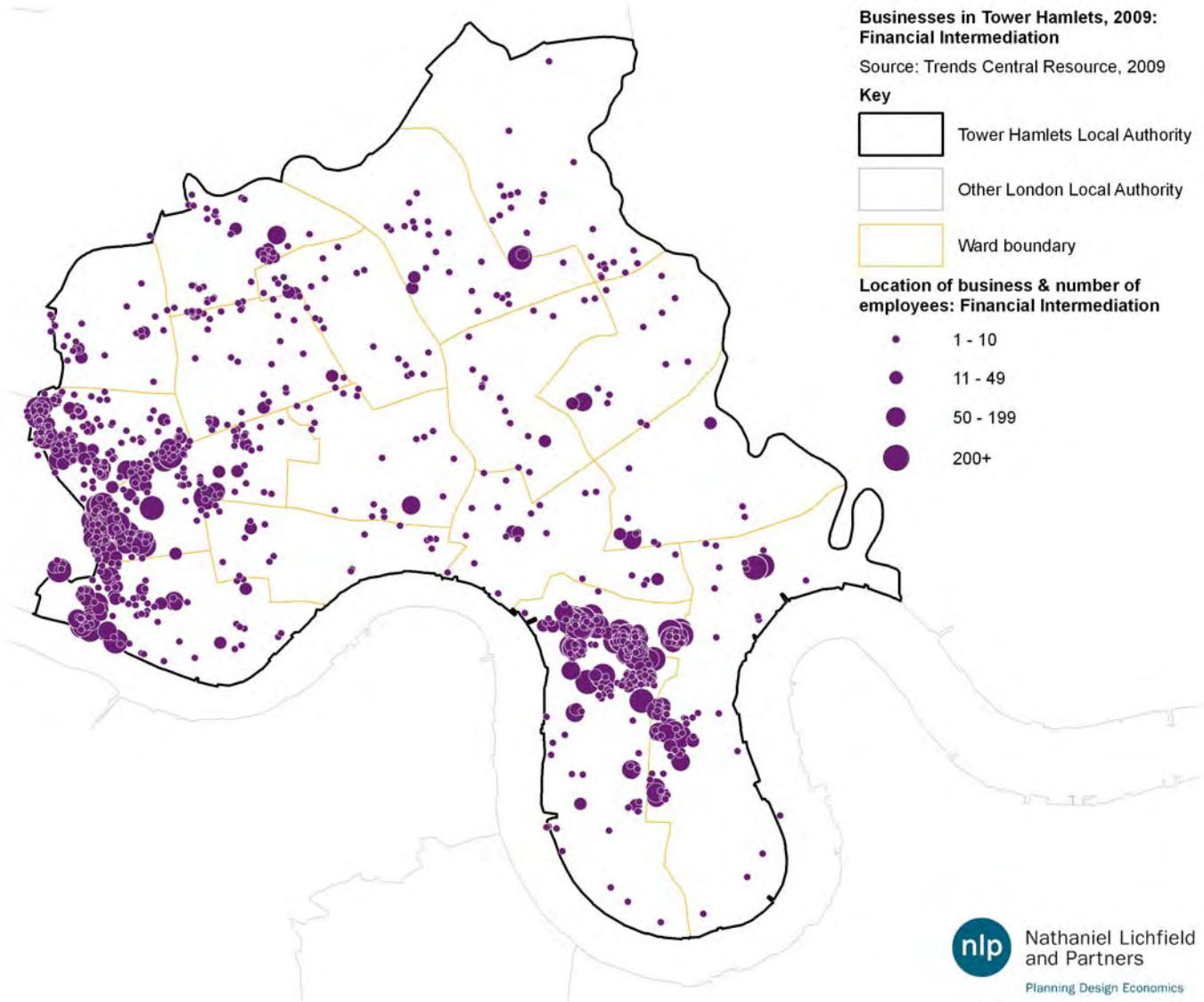
Table 4.6 Sector Profile: Financial Intermediation (SIC: J)



Source: ABI / IDBR / Experian / NLP analysis

4.32 The main areas of financial intermediation businesses are shown in Figure 4.11, which shows dense concentrations of larger businesses in the City Fringe and at Canary Wharf. There is however also a reasonable distribution of smaller firms across other parts of the borough.

Figure 4.11 Distribution of Financial Intermediation Businesses



Source: Trends Central Resource, 2009

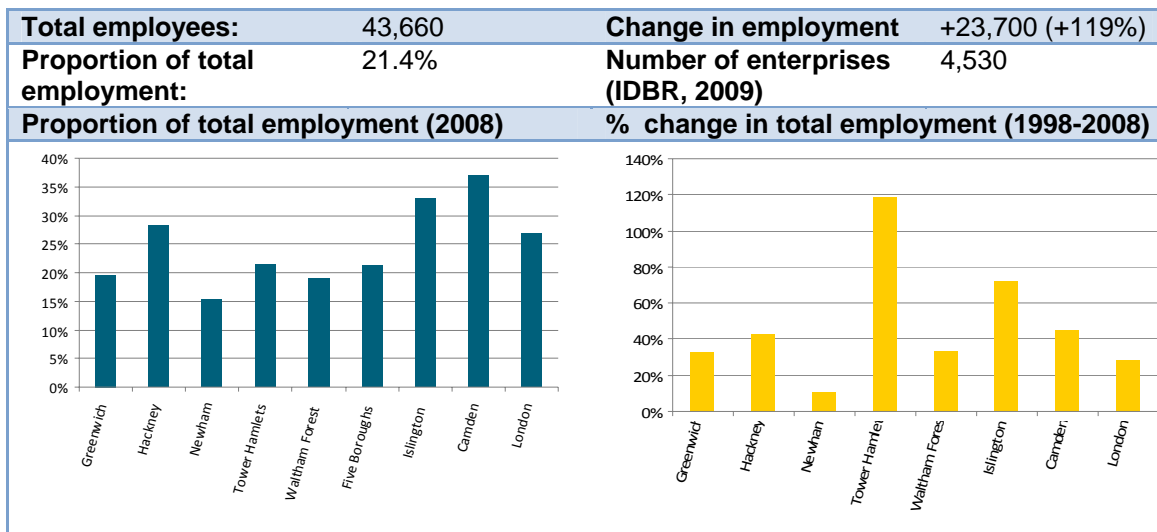
### Real Estate, Renting and Business Activities

4.33

This sector supports about 44,000 jobs in Tower Hamlets, equivalent to about 21% of total employment. Whilst in relative terms Tower Hamlets does not have the largest proportion of employment in this sector, in absolute terms the borough has the largest total employment of the Host Boroughs (Hackney is the next largest with 23,100 jobs). However, in both proportionate and absolute terms, Tower Hamlets has less employment in these sectors than either Islington or Camden.

- 4.34 Analysis of sub-sectors highlights the range of activities, ranging from the high value (legal, business and management consultancy) to the low value (industrial cleaning). While the latter is undoubtedly providing a *servicing* role for the borough’s financial and business services cluster, the former comprises a major component of the London service economy. The significant number of enterprises (4,500) reflects the range of activities included within this sector.
- 4.35 Compared to financial intermediation activities, business services are distributed more equally across the borough. It reflects that these types of activities can be serving markets both within and beyond the borough. However, there is still a general concentration within the City Fringe and Canary Wharf areas.

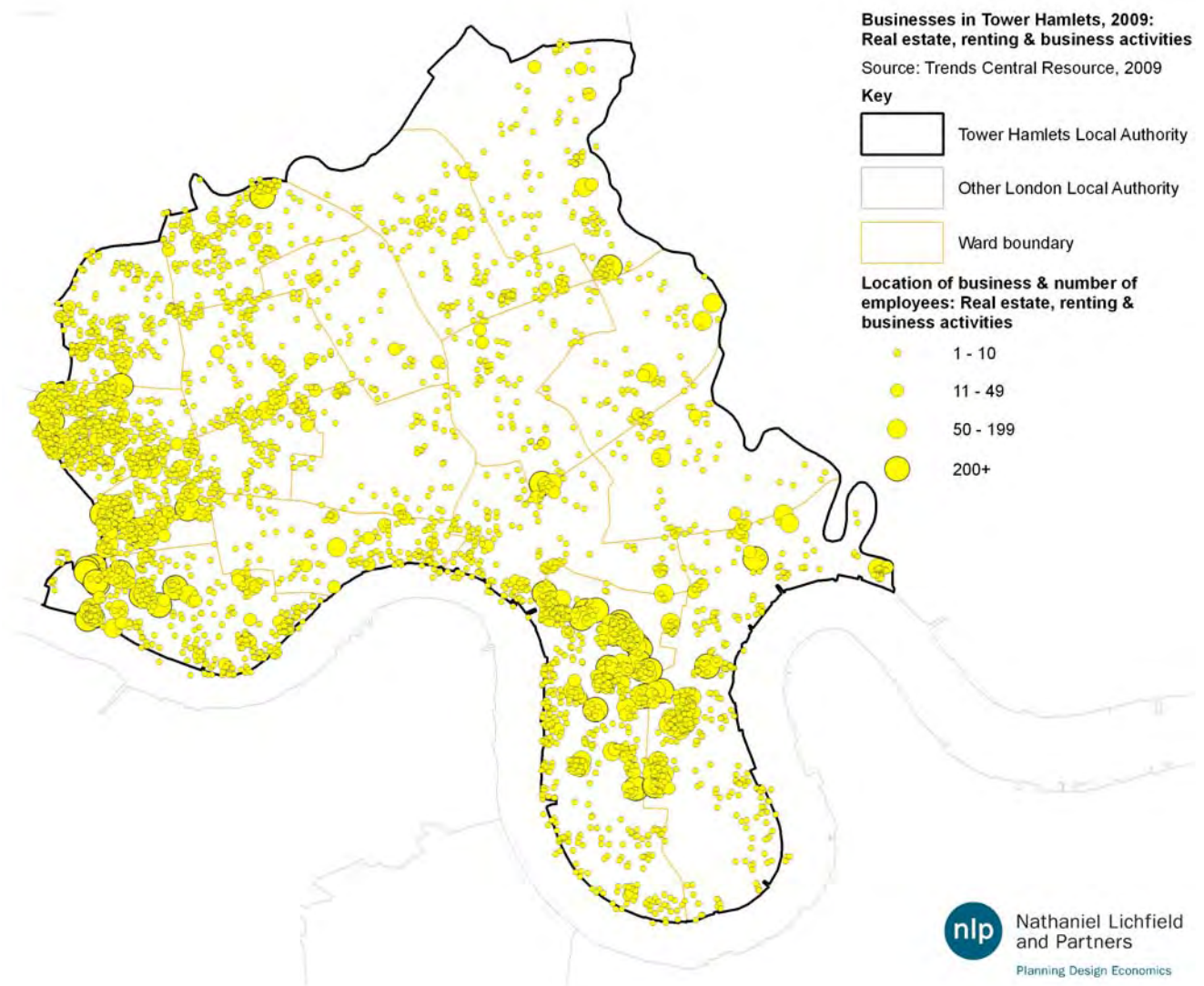
Table 4.7 Sector Profile: Real Estate, Renting and Business Activities (SIC: K)



Source: ABI / IDBR / Experian / NLP analysis

- 4.36 The main areas of real estate, renting and business activities are shown in Figure 4.12. Reflecting the breadth of the sector, there is a strong distribution of businesses across the borough as a whole, but with particularly dense concentrations around Canary Wharf and the City Fringe. Perhaps more than any other sector, there is a wide range of both smaller and larger businesses.

Figure 4.12 Distribution of Real Estate, Renting and Business Activities



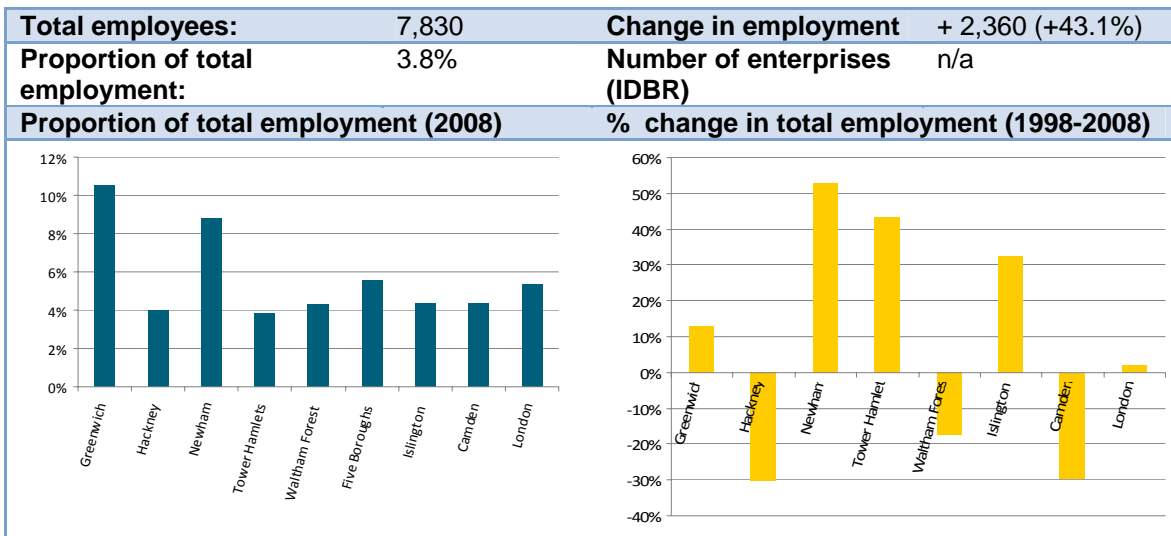
Source: Trends Central Resource, 2009

## Public Administration

- 4.37 The public sector accounts for about 7,800 jobs in Tower Hamlets, equivalent to just under 4% of total employment. This level of representation is below the London average (5%) and significantly below some other Host Boroughs such as Greenwich and Newham (11% and 9% respectively), although it is important to note that in absolute job terms, Tower Hamlets has the largest public sector job base (Greenwich is second with 7,100 jobs).
- 4.38 It is also a sector which has grown considerably in Tower Hamlets over the past decade. There is a fairly equal split between the main sub-sectors of general public service activities and public security, law and order.



Table 4.8 Sector Profile: Public Administration (SIC: L)

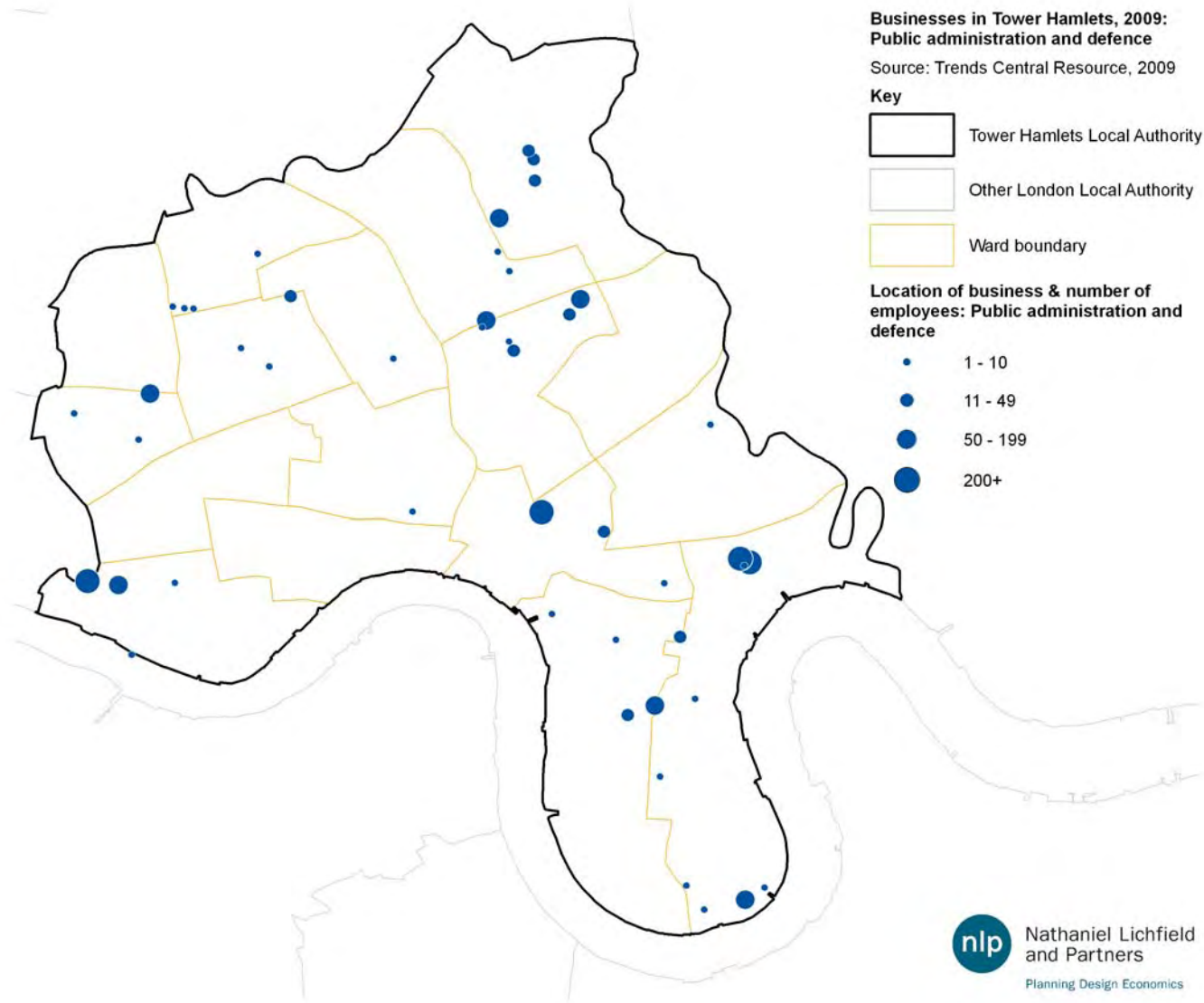


Source: ABI / IDBR / Experian / NLP analysis

4.39

The main areas of public administration activity are shown in Figure 4.13, and reflecting the nature of the sector, are concentrated in relatively few locations.

Figure 4.13 Distribution of Public Administration Activities

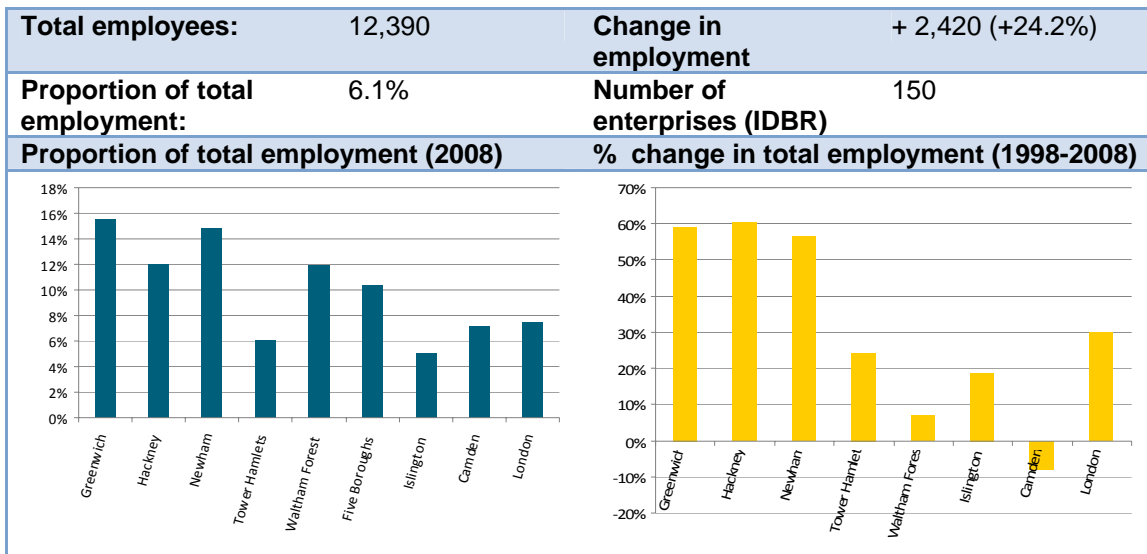


Source: Trends Central Resource, 2009

## Education

- 4.40 This sector supports about 12,400 jobs in Tower Hamlets, equivalent to about 6% of total employment, and supports 150 enterprises. The sector has grown by about a quarter over the past decade, although this was slower than the other Host Boroughs, and the sector is still under-represented both compared to these other boroughs and the London average.
- 4.41 The largest single sub-sector in employment terms is higher education, accounting for some 4,250 jobs, or a third of the sector total. This is closely followed by primary (3,930 jobs) and secondary (2,660 jobs), with lower levels of employment in technical and vocational education.

Table 4.9 Sector Profile: Education (SIC: M)



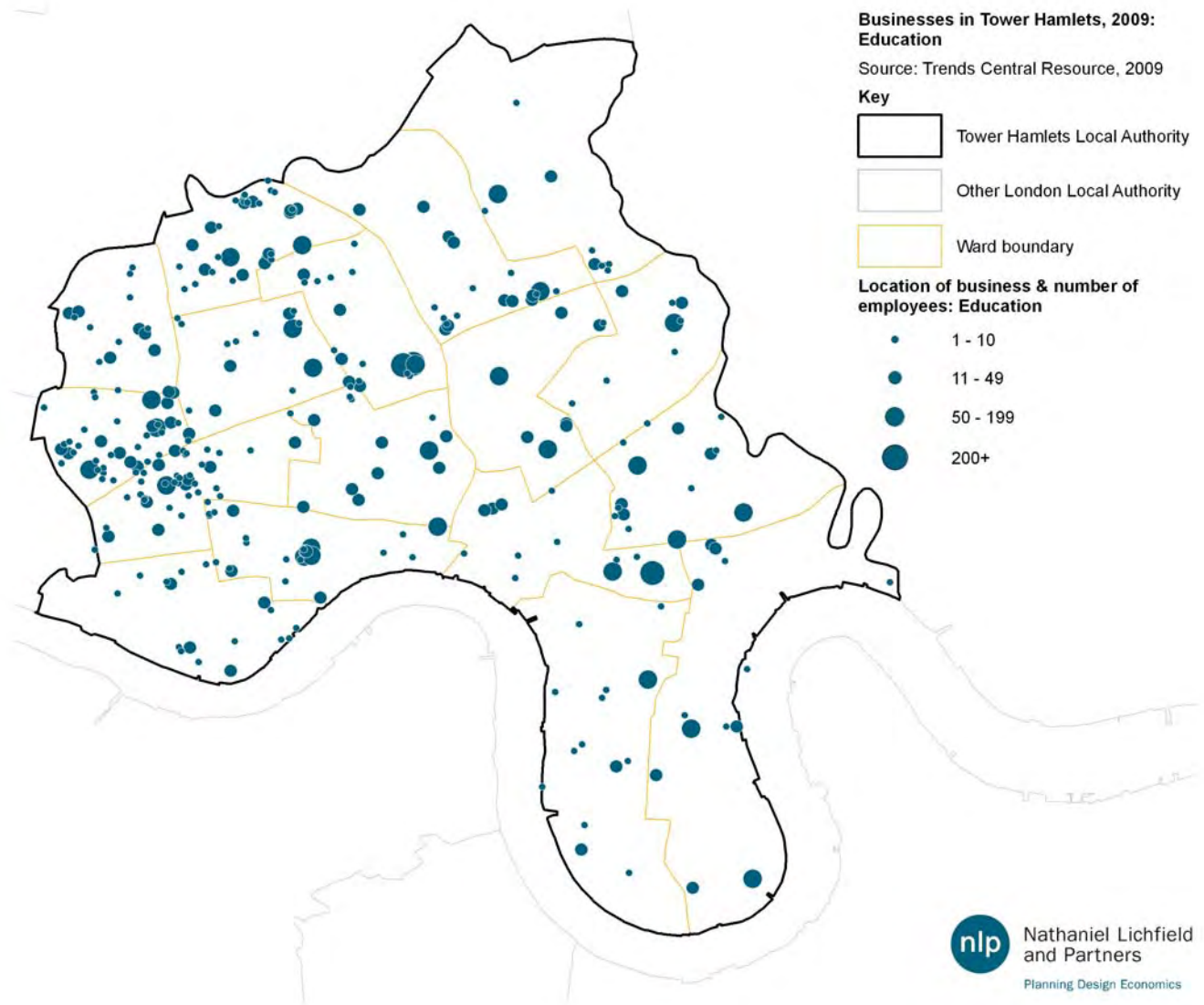
Source: ABI / IDBR / Experian / NLP analysis

4.42

Key areas of education sector activity are illustrated in Figure 4.14, which a varied distribution across the borough reflecting the location of individual institutions.



Figure 4.14 Distribution of Education Activities



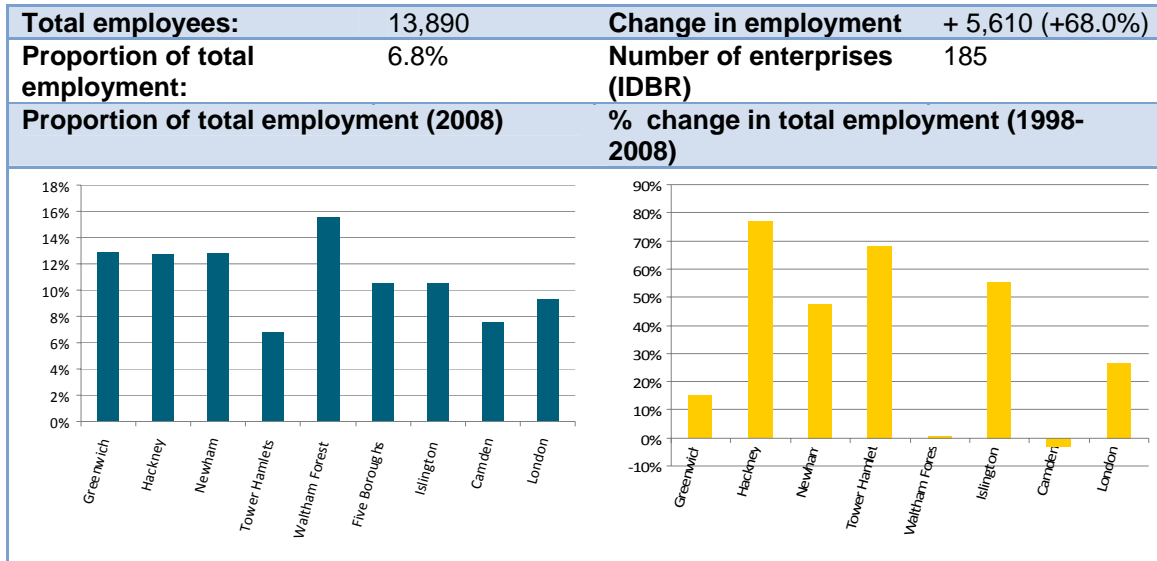
Source: Trends Central Resource, 2009

## Health and Social Work

4.43

This sector supports about 13,900 jobs in Tower Hamlets, equivalent to about 7% of total employment, and supports 185 enterprises. The sector has registered strong growth over the past decade, but remains under-represented in the borough compared to the other Host Boroughs and London average.

Table 4.10 Sector Profile: Health and Social Work (SIC: N)

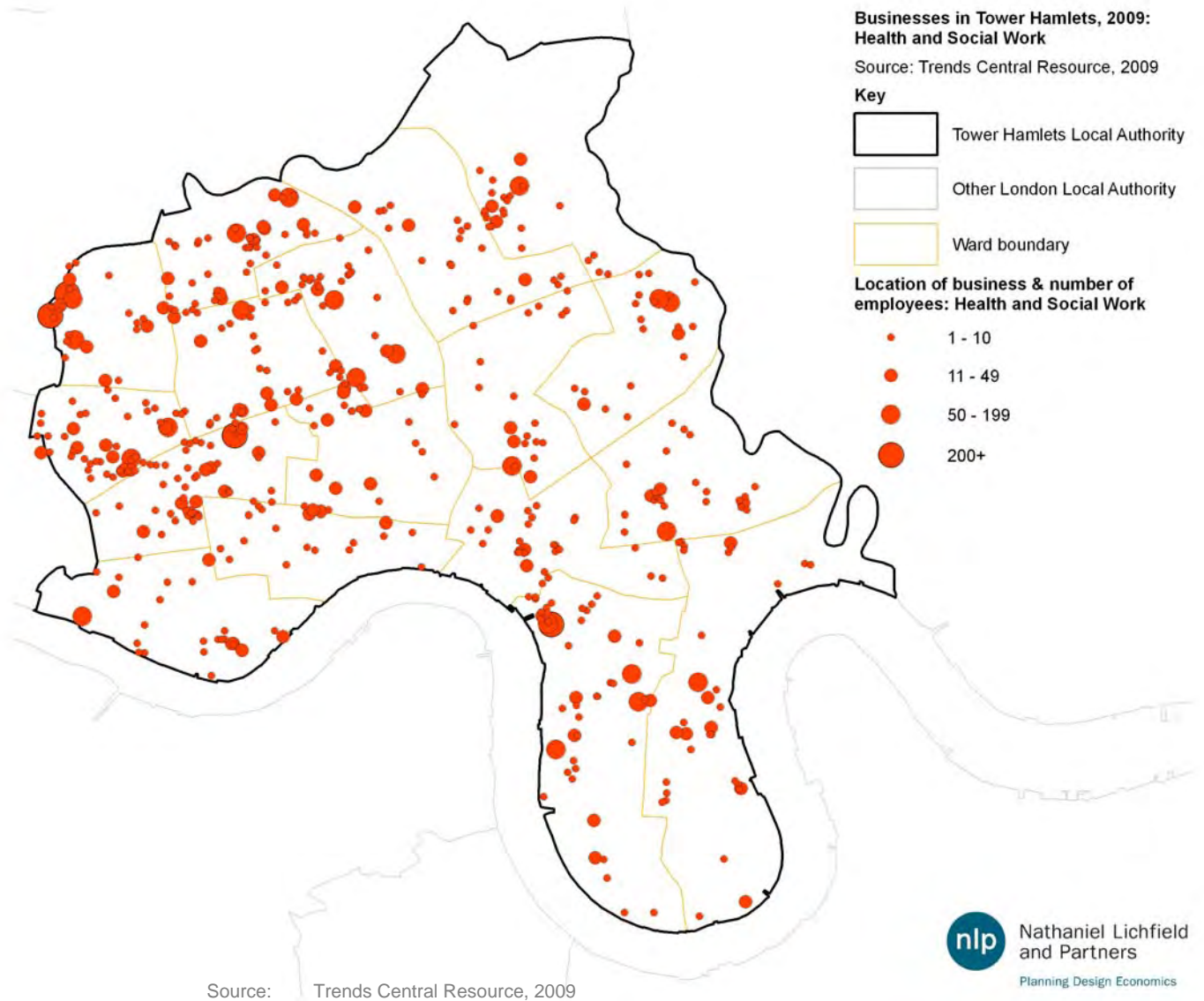


Source: ABI / IDBR / Experian / NLP analysis

4.44

The largest sub-sector relates to employment in the borough’s hospitals, which account for about 40% of total jobs, and accordingly, the distribution of employment follows the presence of these major institutions as well as smaller facilities and related businesses (Figure 4.15).

Figure 4.15 Distribution of Health and Social Work Activities



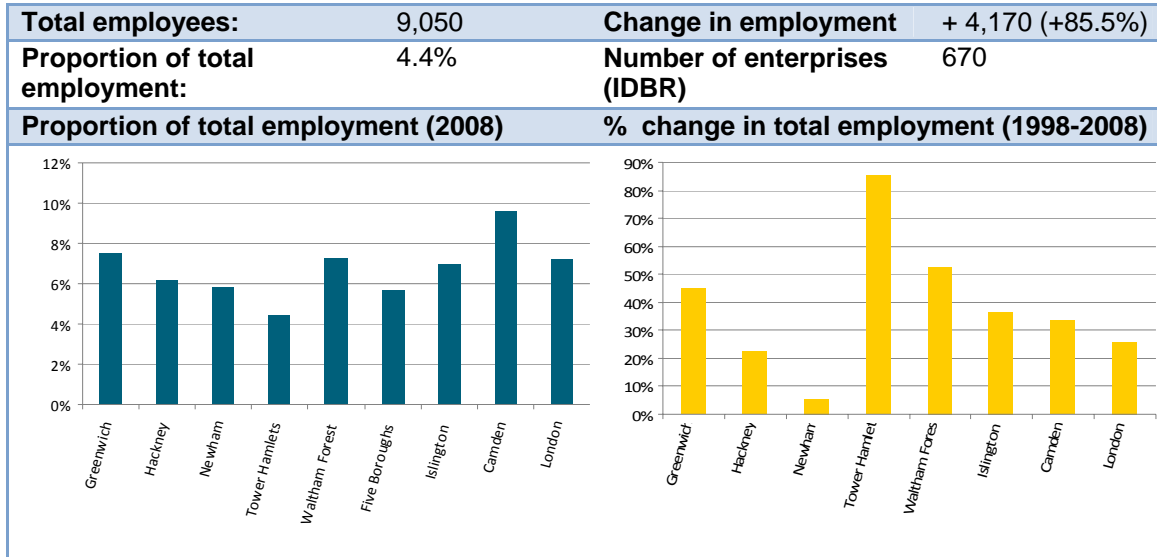
### Community, Social and Personal Service Activities

4.45 This sector supports about 9,000 jobs in Tower Hamlets, equivalent to about 4% of total employment. It has been a significant growth sector for the Borough, although is still under-represented as a proportion of total employment compared to other Host Boroughs and the London average. In particular, the sector comprises a much smaller proportion of employment than in the other City Fringe borough comparators of either Islington or Camden (but where growth rates have been lower).

4.46 The largest sub-sectors are social work and news agency activities, which together account for nearly two-thirds of jobs in this sector. The latter includes

many financial press activities that locate within the borough to gain close proximity to the Canary Wharf financial services hub.

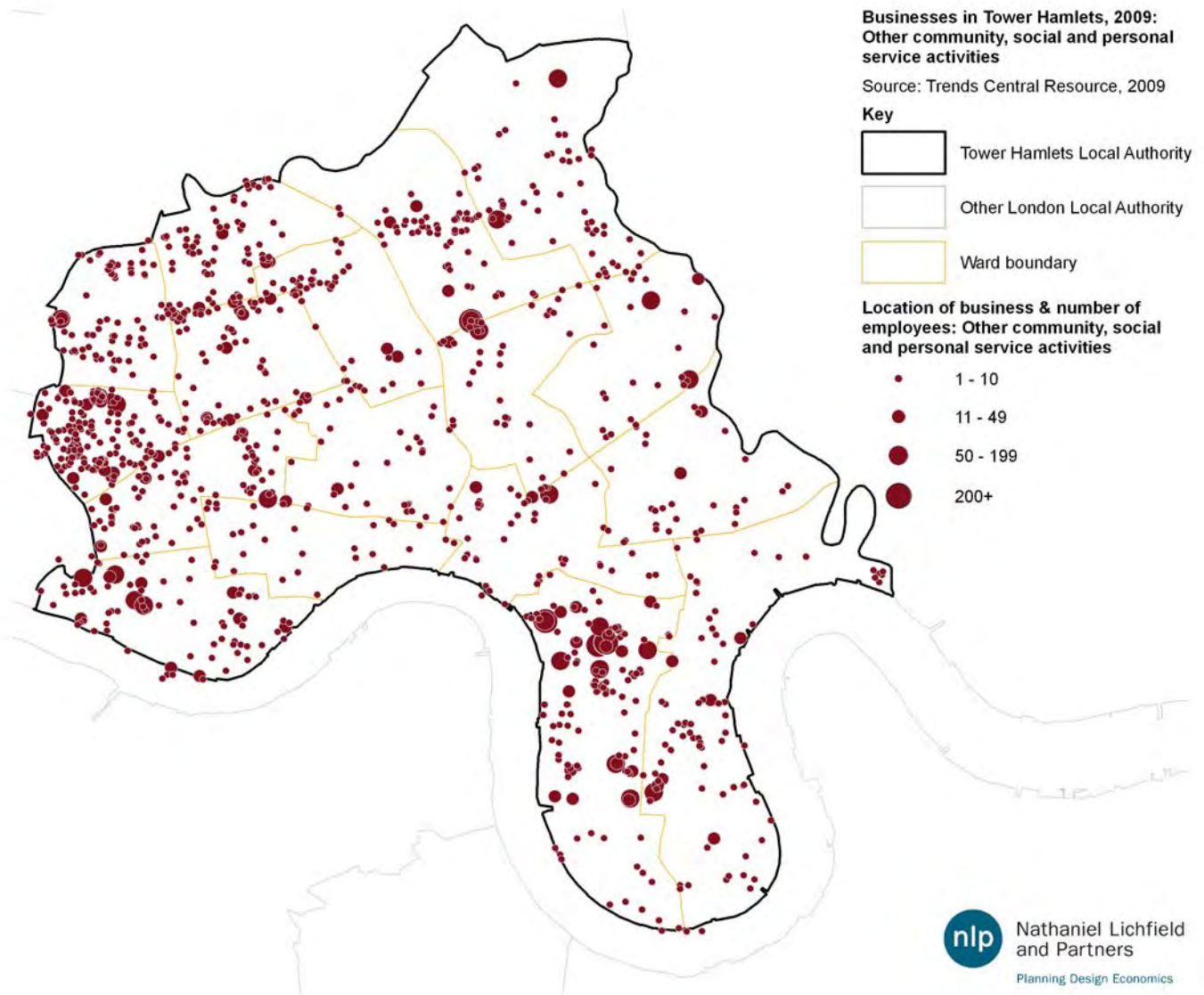
Table 4.11 Sector Profile: Community, Social and Personal Service Activities (SIC: O)



Source: ABI / IDBR / Experian / NLP analysis

4.47 The main areas of community, social and personal service activities are shown in Figure 4.16.

Figure 4.16 Distribution of Community, Social and Personal Service Activities



Source: Trends Central Resource, 2009

## Creative Industries

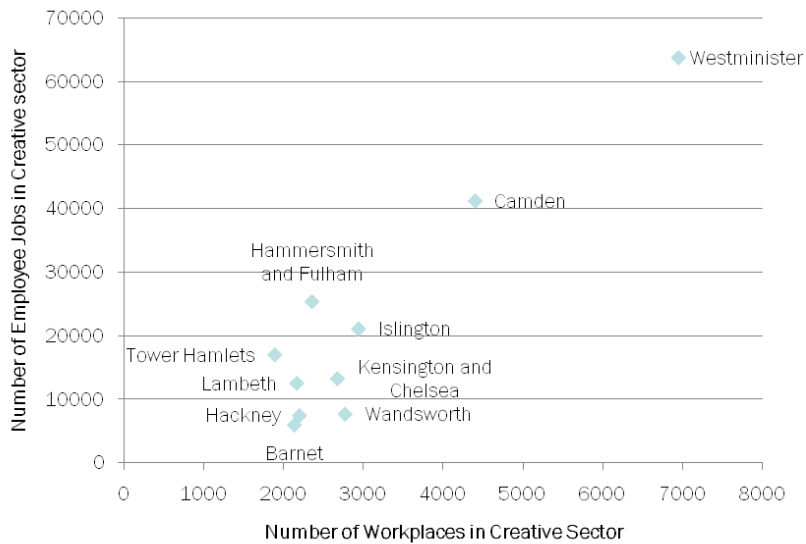
4.48

The term ‘creative industries’ generally describes a range of sectors where potential for wealth generation and job creation comes from the generation and exploitation of intellectual property. It is a difficult sector to define with any accuracy, and definitions of the sector vary widely. In reality, this sub-sector cuts across many others (including those detailed above), but is worthy of some specific consideration as it is an area of policy interest at both a London and local level.

4.49

Tower Hamlets has an established creative sector mostly concentrated around the City Fringe in the west of the borough. As Figure 4.7 illustrates, although Tower Hamlets has fewer creative industries workplaces than other boroughs it punches above its weight in terms of employee jobs. Even excluding the design, craft and arts and antiques sub-sectors, the creative and cultural industries accounted for approximately 13.7% of local jobs in 2002, meaning that it contributed more to local employment than the manufacturing, education or health & social care sectors. The size of the sector in Tower Hamlets has also grown rapidly in the last few years and at a faster rate than average for London.

Figure 4.17 Creative Industry Employee Job Density, 2008



Source: GLA Economics London's Creative Workforce, 2010

4.50

Mapping of all listed creative sector firms suggests that the City Fringe contains the clearest cluster of cultural activity (Figure 4.18). The creative cluster associated with the City Fringe appears to extend west and north to the borough boundaries, and to continue quite far south and east. Canary Wharf is conspicuous by its lack of representation.



Figure 4.18 Location of Creative Industry Sub-Sectors in Tower Hamlets, 2004



Source: Tower Hamlets Creative and Cultural Industries Report (2005)

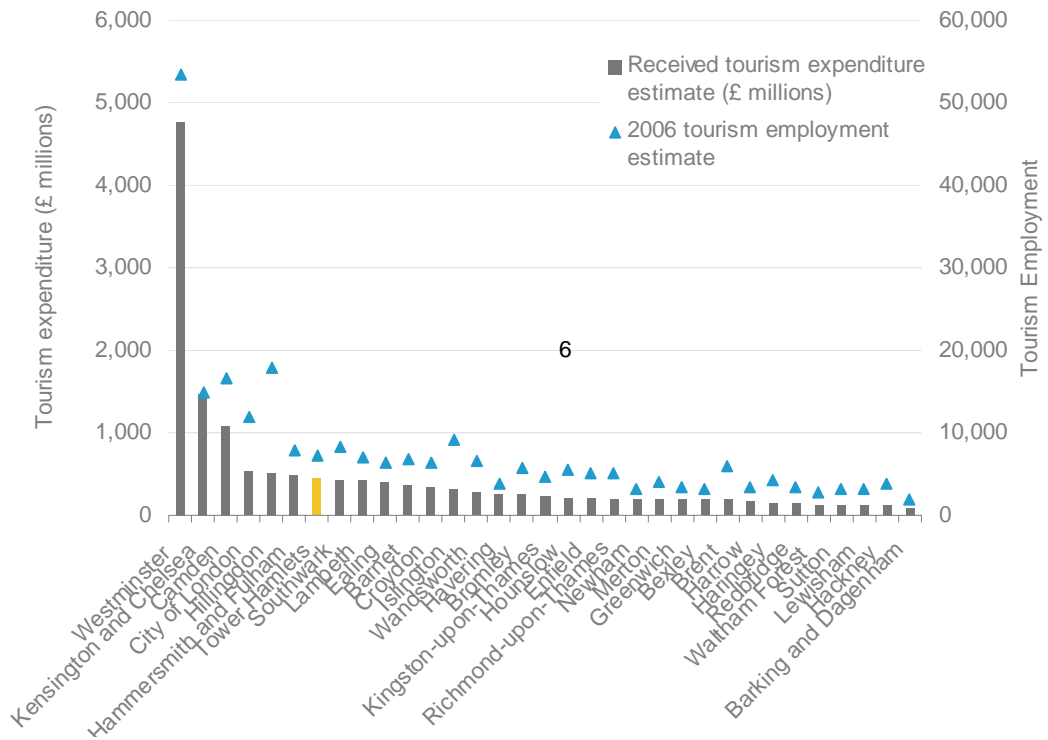
- 4.51 The creative industries within Tower Hamlets have felt the effects of the recession because of links to the financial and business services sector. According to Skill Set, the sector skills council for the creative media industries, 34% of employers they surveyed have had to make redundancies and 35% have had to freeze recruitment. Firms have identified their workforce as lacking business skills. 40% of employers reported experiencing skills gaps in sales and marketing, 32% in general business skills. Creativity and innovation skills was also mentioned but at roughly half the frequency of business and sales and marketing (17%).

## Tourism

- 4.52 According to research by Visit Britain, the visitor economy was worth £14.2bn in London in 2007 – by far the most important region for tourism in the UK – and tourism itself accounts for 5.8% of London's economy. As shown in Figure 4.19, Tower Hamlets plays a reasonably significant role within London's tourist economy – worth £454m, Tower Hamlets has the 7<sup>th</sup> largest tourism economy within London (according to 2006 GLA figures). This is broadly similar to other Central London boroughs (the City of London, Southwark, Hammersmith and

Fulham) that fringe the main tourism destinations in Westminster, Kensington and Chelsea and Camden. Nearly half of all tourism expenditure (some £212m) arises from overseas visitors, although this proportion is not particularly high compared to other London boroughs.

Figure 4.19 Tourism Economy in London's Boroughs



Source: GLA / NLP analysis

- 4.53 The sector employs some 7,300 people in Tower Hamlets and in terms of tourism expenditure and employment, the borough has roughly 3% of the London total (compared with Westminster’s 30% of expenditure and 20% of employment respectively).
- 4.54 The visitor economy in the borough is slightly more skewed towards day-visits (3+hours), with fewer overnight visits than the City of London for example. Overnight visits will have decreased as a result in the fall in business visits from overseas over the past two years <sup>4</sup>.
- 4.55 By 2009-10 there were approximately 3,470 hotel bedrooms in the borough and 1,720 in the planning pipeline. The demand for accommodation is mostly for 4 and 5 star and boutique hotels, as well as budget provision, and there is evidence of demand for serviced apartments for business visitors, though local analysis of the supply and demand has not been undertaken.

<sup>4</sup> Source: Visit London



- 4.56 The Tower of London is the borough's most significant visitor attraction, and the sixth most popular visitor attraction in the UK. Attracting more than 2.39 million visitors in 2009<sup>5</sup>, it makes an important contribution to London's tourism industry. The attraction employs some 250-300 people directly and draws in spin-off spending, acting as a focal point for a number of other tourism attractions around this part of the River Thames, including Tower Bridge, St Katherine's Dock, HMS Belfast, the Design Museum, Hays Galleria and other 'Pool of London' attractions (which are outside of the borough boundary).
- 4.57 Evidence to a public inquiry in 2003 indicated that the Tower of London attracted some 14% of the higher spending overseas tourists who visited London. Although this statistic is now dated, in the absence of newer information, it nevertheless demonstrates the value of the Tower to both London as a whole, Tower Hamlets specifically, and the other nearby tourist attractions.
- 4.58 Other key visitor attractions in the borough include the newly reopened and expanded Whitechapel Gallery which attracted 500,000 visitors in the last year, and the V&A Museum of Childhood in Bethnal Green which attracted 388,000 visitors in 2009. The Museum of Docklands attracted 96,000 visitors in the six months from April to September 2010, and experienced a significant increase in footfall as admission is now free for adult visitors, demonstrating tourism is not only located in the City Fringe area. The borough is also home to smaller, unique attractions, such as Grade II listed Wilton's Music Hall, the oldest surviving Grand Music Hall in the world.
- 4.59 There is no information available about the footfall to Columbia Road Market, Brick Lane Market or the redeveloped and expanded Spitalfields Market, but all three markets are very successful and regional and international tourist destinations in their own right. There is clearly an interrelationship between tourism and the creative industries in the borough, particularly in and around Brick Lane. Although the Council's Market Strategy acknowledges the contribution which local markets make to the local economy, there is little evidence in the strategy about the actual spend and footfall.
- 4.60 Not all tourism is related to cultural and leisure attractions, with business tourism being a component of some spending, although the LDA model and analysis does not appear to provide granularity of data on this. Tourism flows and spending are also subject to fluctuations in line with London-wide and international trends, and in response to wider factors, including for example, the impacts of the London terrorism events of July 2005, and global recession, which is perceived to have reduced some levels of business visitors, but increased retail-led spending due to the currency exchange rates. This is particularly relevant for the visits to the City Fringe and Canary Wharf locations.

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<sup>5</sup> Source: LBTH

## Issues and Indications

### The situation:

- 1 Tower Hamlets functions as a major centre of employment in London – it is the largest and fastest growing part of the Host Boroughs sub-region. The borough's economy grew by nearly over 60% over the past decade, nearly three times the average for the Host Boroughs.
- 2 Financial and business services are highly over-represented in the borough's economy. Together they are the largest sectors in employment terms, and have been the major growth sector of the past decade. If these sectors are excluded, the borough's job growth has been considerably more modest.
- 3 In terms of other sectors, the borough is actually under-represented in some of the sectors that typically make up the Central/East London economy, for example other services, retail and tourism. Employment decline has been underway in manufacturing, and it is important to emphasize that the majority of the borough's 'manufacturing' activities are in reality associated with the publishing sector.

### Issues:

- As noted in Section 3.0, Tower Hamlets effectively has two 'sub-economies' operating in parallel. Financial and business services have driven the borough's considerable economic expansion, growth in other sectors has been less impressive, while more traditional industries have declined. To what extent can, and should, the Borough seek to achieve a more balanced model of growth in the future?
- While financial and business services are well provided for (for example Canary Wharf and Wood Wharf, Aldgate), planning for the needs of other sectors is likely to become a more important in the future. This will be particularly important in the context of increasing competition from elsewhere, such as Stratford. In this context, how can the borough's other development opportunities, such as Fish Island, be harnessed to match the growth aspirations and requirements of other sectors?
- With regard to tourism, analysis of the supply and demand for hotel accommodation in the borough needs to be strengthened, as well as analysis of the borough's broader tourism economy (e.g. market footfall, footfall through the City Fringe, Brick Lane and Whitechapel areas).

5.0

## Future Economic Prospects

5.1

This section provides a summary of macro-economic conditions, assessing the impacts of the recession and forecasts and trends for the years ahead for the London economy, before exploring the positioning of the borough's economy in a London context.

### Macroeconomic Outlook

#### The National Economy

5.2

After over a decade of uninterrupted economic growth and macroeconomic stability, characterised by an expanding economy, low inflation, rising living standards, and low unemployment, the UK economy is now emerging from the longest and deepest recession since the 1930s.

5.3

The UK economy continued to grow in the first quarter of 2010, although at a slow rate of 0.3%. While two consecutive quarters of positive growth have now been recorded, GDP remains over 5% lower than at its peak in early 2008. The economic outlook remains subject to significant uncertainties across a broad range of factors, including the continued fall-out from the global financial crisis and its impact on market confidence and activity, and the longer-term impact of the implementation of the global and UK policy response to the recession.

5.4

Prospects in the short-term will be strongly influenced by:

- 1 The strength and sustainability of private sector demand, particularly in view of the fact that it is this sector of the economy that will need to compensate for the planned cuts in public expenditure which itself has been a key driver of the economy over the past decade and also provided some support during the recession.
- 2 The degree to which households try to increase their level of saving to rebuild their finances will impact on private sector demand, with consequences for the recovery of sectors such as manufacturing.
- 3 Business investment fell sharply during the recession, but the reasonably healthy financial position of the corporate sector has been sustained, and there are signs of investment levels picking up in some sectors which should help support output levels through the recovery.
- 4 The difficult outlook for the domestic economy means much will depend on the prospects for increased exports. Net trade has so far been muted in the fledgling Eurozone recovery, which remains the UK's largest trading partner. The lack of productive capacity stemming from reduced business investment during the recession, and the tendency for exporters to use the fall in sterling to increase profits rather than expand market share are key factors here. Prospects for exports may be

stronger in the medium-term, particularly if sterling remains weak against the Euro and other currencies. However, a significant export-led recovery would probably only be realised if the UK is able to increase its share of exports to higher growth economies such as Asia, which have traditionally been smaller markets for UK exporters.

5.5 In overall terms, it is expected that the national economy is expected to follow a lower-growth trajectory in the short to medium-term, as outlined by the post-Budget forecasts produced by the Office for Budget Responsibility (OBR).<sup>6</sup> These revised down the economic growth forecasts which accompanied the earlier March 2010 Budget. At that time, forecasts projected growth of 3.25% by 2011. These were initially revised down to a 2.6% central forecast by the OBR, and then down further to 2.3% to take account of the measures announced in the June Budget.

5.6 It reflects that there is a high probability that budget tightening on the scale proposed will affect growth, at least in the short term. There are also upside and downside risks to the forecast related to the availability of credit and restoration of business and consumer confidence.

### The London Economy

5.7 During the recession the London economy performed better than expected and relatively better than the UK as a whole. However, during the initial recovery phase, London could perform less strongly than the UK as a whole.

5.8 In the immediate aftermath of the credit crunch, there was an expectation that London's economy and labour market would be impacted most severely reflecting the significant role of the City's financial services cluster in global terms. However, during the recession itself, claimant count unemployment in London peaked at 4.7% in late 2009 and then stabilised. One underlying reason for this related to changing working patterns, notably shorter working weeks and increases in part-time working across the private sector as a means to reduce redundancies (effectively labour 'hoarding').<sup>7</sup>

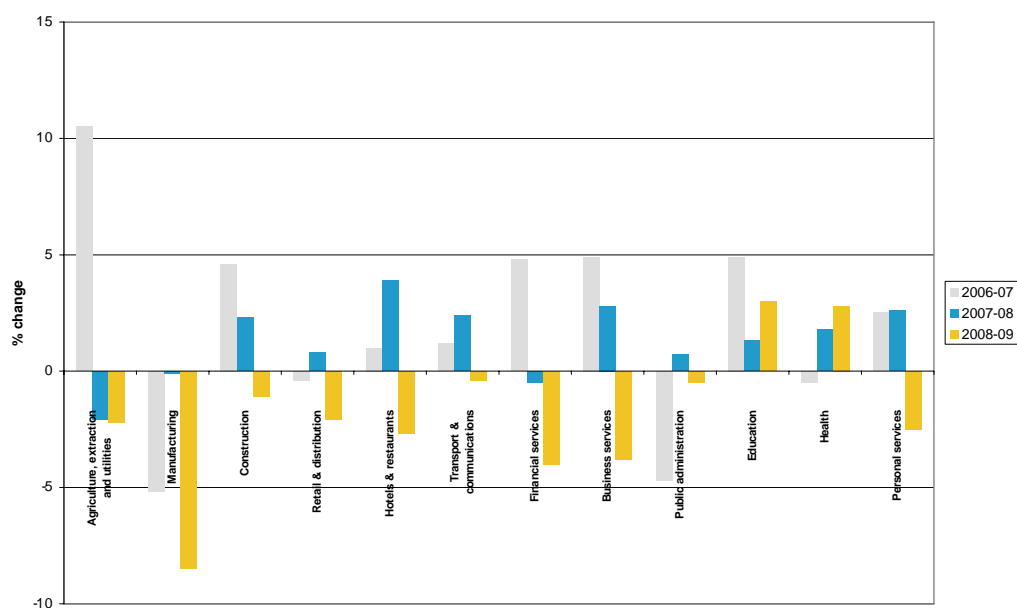
5.9 However, there were some important sector variations. For example, while London's total employment fell by about 2%, in financial services the reduction was 4%, and the related business services sectors fell by 3.8% (Figure 5.1). However, that should also be set in the context of an overall decline in London's manufacturing employment of 8.5% (equivalent to about 20,000 jobs).

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<sup>6</sup> Budget forecast, Office for Budget Responsibility, June 2010

<sup>7</sup> The Economic Outlook for London, Oxford Economics, April 2010

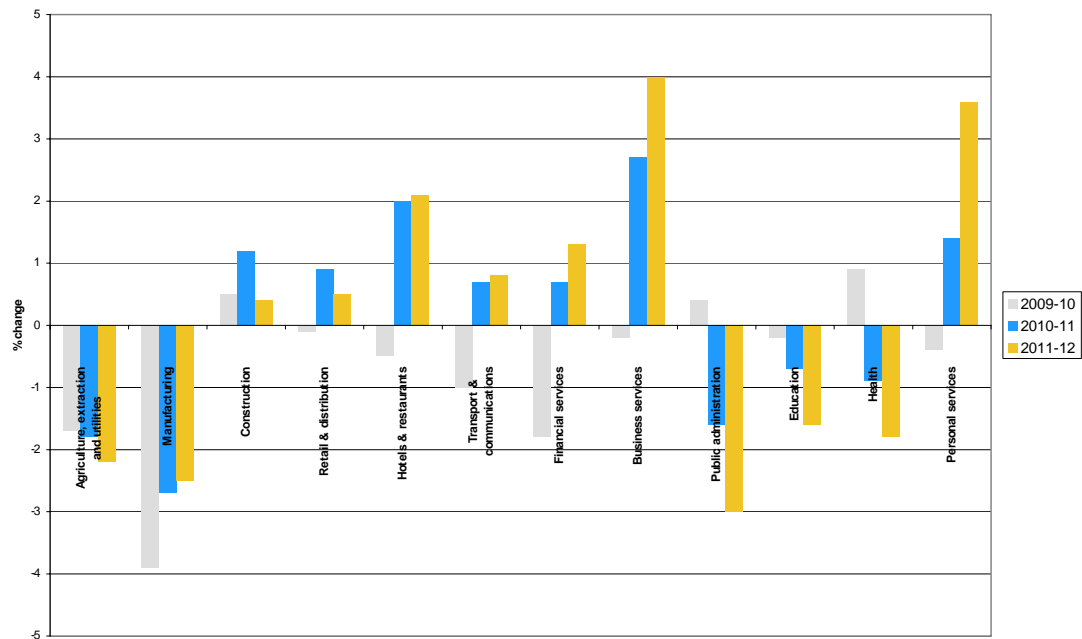
Figure 5.1 London year-on-year employment growth by sector, 2006-09



Source: Source: Oxford Economics, 2010

- 5.10 While the performance of London's labour market during the recession was perhaps better than expected, it does not disguise the fact that there was a significant drop in underlying economic output. Estimates produced by Oxford Economics suggest that London's overall output (measured by GVA) fell by 6%, and with significant declines in terms of financial and business services (6%) and construction (9%).
- 5.11 GVA growth in London is forecast by Oxford Economics to reach a modest 0.4% in 2010, the lowest of all UK regions. It reflects that London has the most downside risks to recovery, although the resilient labour market and rebound in banks' profits provides some reason for optimism. Therefore, while London was impacted significantly in 2009 and growth will remain muted in 2010, from 2011 onwards the expectation is that London will start to outperform the national average.
- 5.12 The key growth sectors are projected to be business services, personal services and hotels and restaurants, against notable contractions in the public services, education and health sectors (Figure 5.2).

Figure 5.2 London's year-on-year employment growth by sector, 2009-12



Source: Oxford Economics, 2010

5.13 However, as noted above, London’s economic fortunes remain closely allied to its important global relationships. London’s recovery will therefore be contingent on the pace of global recovery, improving world trade and the value of sterling, and the ability of a weaker pound to support growth of export sectors for which the UK has a competitive advantage, such as financial services.

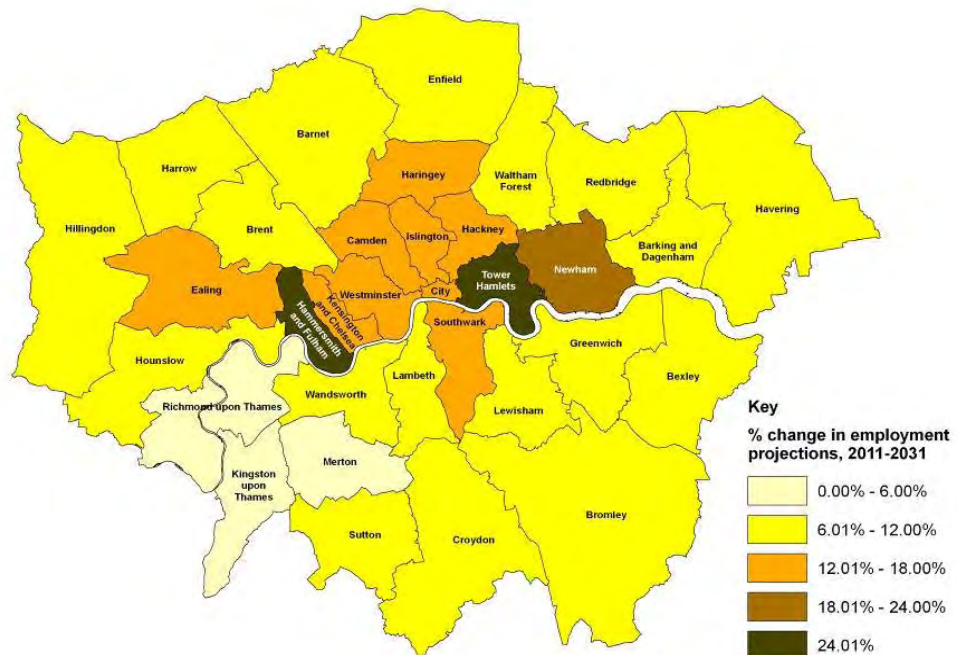
5.14 While London’s economic output is expected to recover reasonably quickly, the prospects for employment are considerably weaker. The effect of labour ‘hoarding’ by firms during the recession means that productivity levels have reduced, and therefore firms are unlikely to need to start recruiting in the early phase of the recovery, with the preference being to reinstate the working hours of existing staff. Oxford Economics predict that 2008 levels of employment in London will not return until at least 2014 (CIPD suggests 2015), amplified by significant public sector employment cuts which are likely to start taking effect during late 2010 and into 2011.

## Forecasts for Tower Hamlets

5.15

In both absolute and relative terms, the GLA's employment forecasts envisage significant (above average) levels of employment growth in Tower Hamlets to 2031. These projections indicate that Tower Hamlets will be one of the fastest growing boroughs in employment terms across London, comparable only to Hammersmith and Fulham (Figure 5.3).

Figure 5.3 Relative Change in Employment Projections 2011 - 2031



Source: GLA/NLP Analysis

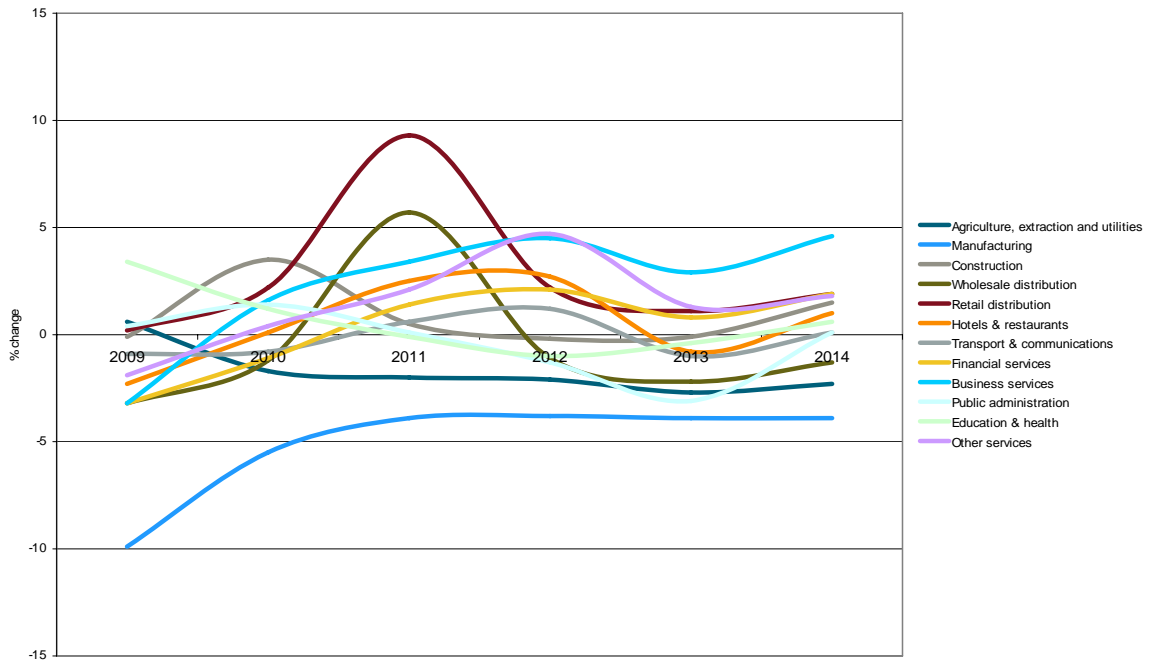
5.16

However, the economic outlook remains highly uncertain. Therefore, more detailed forecasts by Oxford Economics project overall employment growth for the borough at 5.8% in the more immediate future between 2010-2014.

5.17

These forecasts confirm that the borough has been significantly impacted by the global financial crisis in terms of the financial and, to a lesser extent, business services sectors. While business services employment is anticipated to rise in 2010, financial services will continue to decline. Construction employment is set to rebound quickly to 3.5% growth, supported to a large extent by ongoing construction activity at Canary Wharf. Other sectors are expected to gradually recover, and there are notable rises in a number of consumption-related sectors in 2011-12 reflecting the anticipated benefits of the London 2012 Olympics.

Figure 5.4 Forecast Employment Growth by Sector, 2010-2014



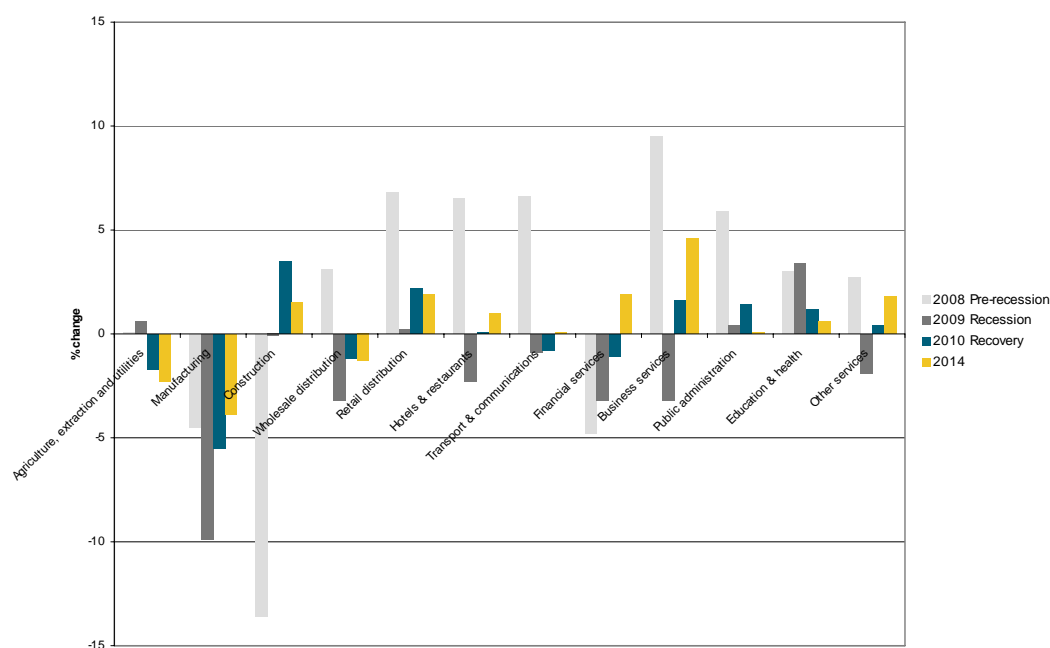
Source: Oxford Economics, 2010

5.18 It is instructive to consider how the borough’s economy is expected to recover by 2014 on a sectoral basis, illustrated in Figure 5.5. Business services are expected to return as the borough’s main growth sector (4.6%), but at a much lower rate than 2008 levels. After a number of years of negative growth during the recession, financial services are to recover to 1.9% growth, retail (1.9%) and other services (1.8%) also recover, but again at modest levels in relative terms.

5.19 After a significant contraction during the recession, the long-term trend of decline in manufacturing moderates slightly but is set to continue (-3.9% by 2014), alongside declines in primary industries (-2.3%) and wholesale distribution (-1.3%) both of which had been growing before the recession. Public sector contraction is projected to bottom out in 2013 (-3.1%) before stabilising too much lower levels than seen in 2008.



Figure 5.5 Employment Growth by Sector, 2008-2014



Source: Oxford Economics, 2010 Note: actual figures for 2008/09, projections for 2010 onwards

5.20

More bespoke analysis and modelling has been undertaken by Oxford Economics on behalf the Host Boroughs Unit. This presents a baseline position for employment growth over the period to 2030 based on the current economic position in each borough, and a number of scenarios which consider a range of different initiatives, including large-scale employment related developments, additional planned housing and other policies aimed at ensuring the sub-region makes the most of opportunities available. These scenarios are set out in Table 5.1 and Figure 5.6 and can be summarised as follows:

- 1 **Baseline** – while the Olympics will offer the Host Boroughs some ‘cushion’ from the impacts of the recession, it will be 2014 before employment levels recover to 2007 levels. In the longer term, Tower Hamlets has stronger growth than the other Host Boroughs, but its underlying residential challenges are distinct from its expanding commercial centre largely staffed by commuters;
- 2 **Scenario 1 (major developments)** – incorporates developments which may be expected to shift the economic outlook away from the baseline position (i.e. a genuine ‘step change’). The only scheme included in Tower Hamlets is the Wood Wharf extension to Canary Wharf, which is project to result in 25,000 additional jobs over the period 2013-30 (assuming a 10% displacement rate with the rest of London/UK). In Tower Hamlets, this generates an additional 32,500 jobs by 2030;

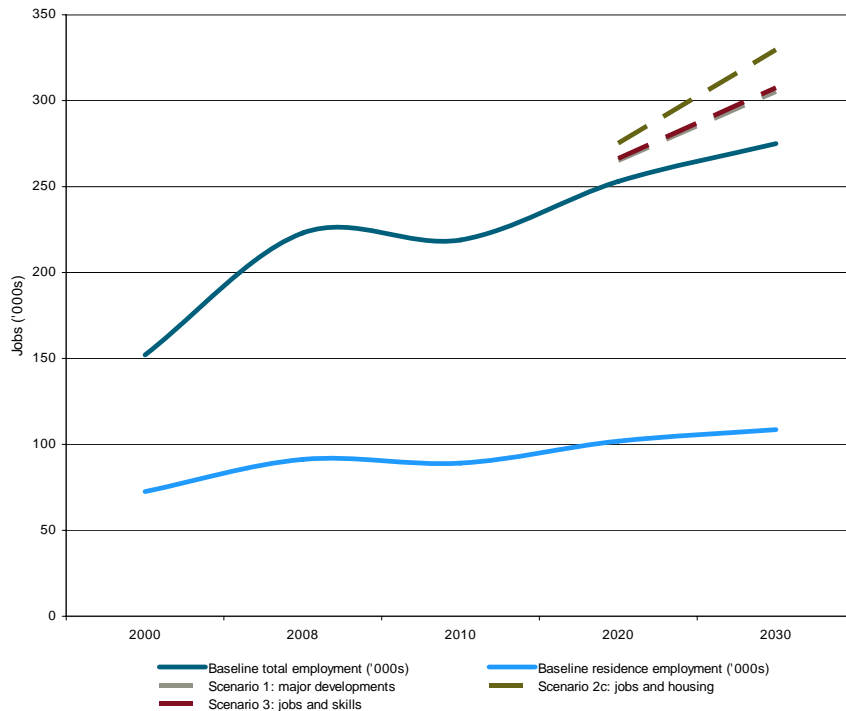
- 3 **Scenario 2c (jobs and housing)** – combines the additional employment growth of Scenario 1 with an additional 150,000 homes across the Host Boroughs area. This, in turn, stimulates additional job growth through demand for services; out-commuting is moderated to maintain employment rate. In Tower Hamlets, this generates an additional 54,600 jobs by 2030;
- 4 **Scenario 3 (jobs and skills)** – this scenario assumes that the skills mix (as measured by NVQ levels) of the population is raised to match the London average, and the employment rate improves in line with the existing and expected differential in employment rates by skill level across London. It is effectively a ‘policy on’ scenario, and would generate an additional 32,500 jobs by 2030.

Table 5.1 Comparison of Baseline and Scenarios for Tower Hamlets, 2000-2030

	Baseline total employment ('000s)	Baseline residence employment ('000s)	Scenario 1: major developments ('000s)	Scenario 2c: jobs and housing ('000s)	Scenario 3: jobs and skills ('000s)
2000	152	72.6			
2008	223	91.3			
2010	219	89.0			
2020	253	101.9	265.2	275.2	266.4
2030	275	108.6	305.4	329.6	307.5

Source: Oxford Economics, 2010

Figure 5.6 Comparison of Baseline and Scenario Employment Forecasts for Tower Hamlets



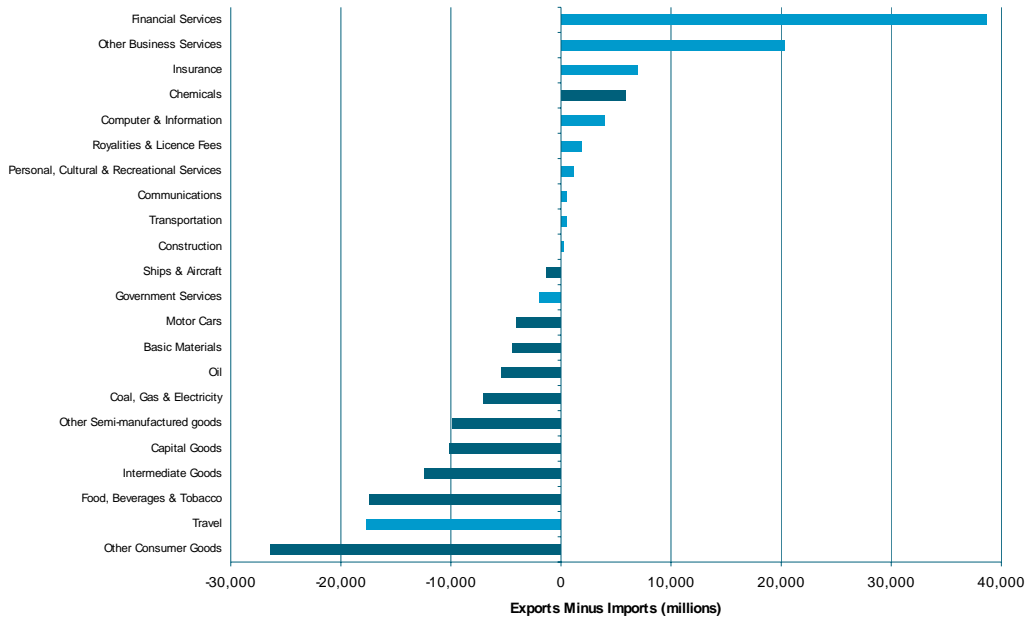
Source: Oxford Economics

- 5.21 The different projections and scenarios forecast very significant levels of employment growth in Tower Hamlets (between 25% and 50%). It is clear that expansion of Canary Wharf at Wood Wharf combined with higher levels of housing delivery will provide the greatest potential for employment growth. However, with resident-based employment increasing by just 19% under the baseline scenario, so the borough's employment opportunities are forecast to grow more quickly than the ability of local residents to access them. In other words, unless something changes, most of the new jobs in Tower Hamlets will continue to go to people who live outside the borough.

## Future Risks

- 5.22 With the prospects for the domestic economy remaining muted due to high debt levels amongst companies, consumers and the government, exports are expected to be the major driver of economic growth in the UK in the medium-term. Prospects for exporters have been helped by the devaluation of sterling and the more buoyant demand conditions occurring in parts of the developing world. However, it is exports of services rather than goods are the main contributors to the UK's trade position, and financial and business services in particular as our largest contributing sectors (Figure 5.7), will therefore be crucial to UK economic recovery. It underlines how closely related the growth prospects of Tower Hamlets are to London's recovery more generally.

Figure 5.7 Balance of Trade by Sector, 2008

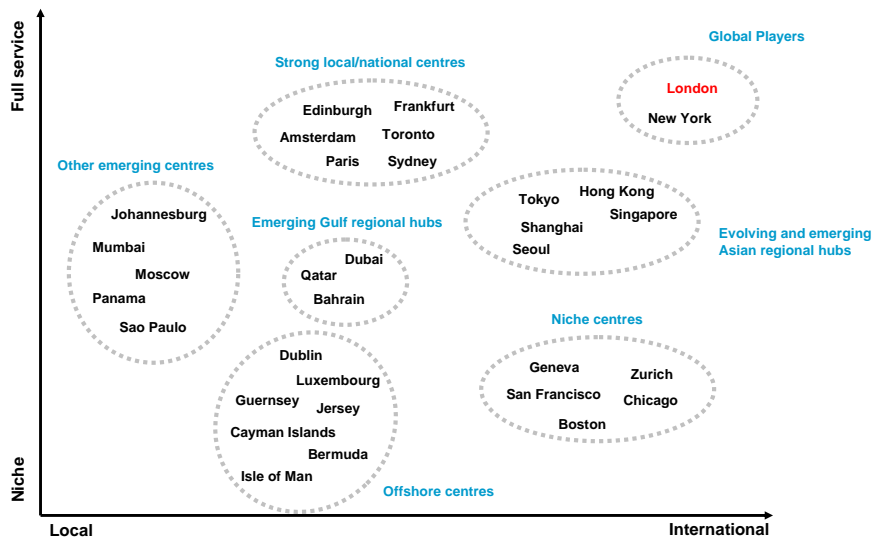


Source: ONS/NLP analysis

5.23

There is an overwhelming consensus that London and New York are the two ‘global financial centres’ based on a wide range of indicators. This recognises the fact that they have a uniquely intense concentration of a wide variety of international financial businesses and transactions in one location. As Figure 6.8 illustrates, below these two centres there is a mix of specialist or local centres which are often market leaders in particular market segments or regions but lack the critical mass of resources and talent which allow New York and London to conduct the most critical and complex financial operations.





Figure 5.8 Range of International Financial Centres



Source: Adapted from HM Treasury (2009)

5.24 However, London’s position faces challenges on a number of fronts, summarised in Figure 6.9. First and foremost are the changes to the tax and regulatory regime stemming from governmental responses to the financial crisis of 2007/8? These include higher rates of marginal tax for high earners and new EU restrictions on the amount hedge funds can borrow. In this situation, Asian centres such as Singapore and Hong Kong may benefit, as well as Switzerland where controls are more relaxed.

Figure 5.9 Future Risks to London’s Global Position

Issue	Historic Position	Current and Potential Future Changes	Level of risk to London’s Position
Taxation	Reputation for stable and relatively competitive income and corporation taxes	<ul style="list-style-type: none"> <li>50% personal tax rate makes UK uncompetitive internationally</li> <li>Reputation for stability and fairness hurt by banking bonus tax and non-dom levy</li> </ul>	
Regulation	‘Light-touch’ regulation compared with other financial centres	<ul style="list-style-type: none"> <li>Potential UK legislation on dividing investment and retail banking could reduce competitiveness of British banks</li> <li>EU legislation on hedge funds, capital requirements, a banking ‘bail-out’ levy and the working-time directive have potential to make London less attractive</li> </ul>	
Immigration	UK has been open to economic migration	<ul style="list-style-type: none"> <li>Potential ‘cap’ on non-EU immigrants and new points-based system could alienate foreign talent</li> </ul>	
Growth of Asia	Asia relatively small player in global financial flows	<ul style="list-style-type: none"> <li>Growth of Asian corporations and economies will drive global finance in the next 50 years.</li> <li>Few Asian firms have offices in London – potential to lose competitive advantage to other centres</li> </ul>	

Source: NLP Analysis

5.25 How these changes emerge will have a significant bearing on the future prosperity of Tower Hamlets.

## SWOT Analysis

5.1 In order to summarise the issues associated the borough’s economic structure and prospects we present a SWOT analysis detailing the key themes that have emerged.

### Strengths

5.2 The main strengths in relation to the borough’s economy are:

- 1 Canary Wharf has established itself as an integral and key player in London’s global pre-eminence as a financial centre, and of London’s Central Business District;
- 2 The borough’s adjacency to the City, supporting a strong business-services led sector, and creative industries activities;
- 3 The borough as a whole benefits from a clustering effect as similar, related and supporting businesses are drawn to the borough;
- 4 The borough is a major employment centre, and provides more jobs than there are residents of working age in the borough;

- 5 Economic activity is spread across a number of sectors apart from financial and business services;
- 6 A good level of enterprise, demonstrated by business births, deaths and survival rates; and
- 7 Good transport links, providing access to a wide labour catchment to support its leading financial and business service sectors.

## Weaknesses

The main weaknesses in relation to the borough's economy are:

- 8 Financial and business services have experienced some recent retrenchment, as a result of the financial crisis and subsequent recession;
- 9 Certain sectors - Manufacturing, Wholesale and Retail and Transport and Communications - are in long-term decline;
- 10 The limitations of the local labour force in relation to basic skills and qualifications, and the mismatch with the workforce required by the leading sectors;
- 11 The limitations of the local housing market, in particular a lack of family homes and affordability, may undermine sustainable local economic activity.

## Opportunities

- 5.3 The Financial and Business Service sectors are forecast to resume as the engines driving economic and employment growth, as the global economy itself returns to growth. The development of Wood Wharf will be an important element, accommodating an additional 25,000 jobs over the next 20 years. Stratford City and the Olympic legacy developments that follow the 2012 Games will also drive economic demand and employment growth.

## Threats

- 5.4 The borough's economy is acutely exposed to the global economy where recovery is far from secured. Moreover Tower Hamlets has a significant dependence on financial services, and new financial and banking regulation and taxation arrangements could undermine the attractiveness of London to such institutions, impacting the role of Canary Wharf in particular. Recessionary risks in the national economy remain in the short-term and there will be significant cuts in public sector employment over the next few years. Competition from new developments in the City and City Fringe and other developments in London may intensify competition for Canary Wharf and Wood Wharf.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Canary Wharf’s leading position within the financial services sector</li> <li>• Integration with London’s globally-oriented Central Business District</li> <li>• Proximity to the City, supporting a strong business services sector</li> <li>• Local clustering in support of its leading financial and business service sectors</li> <li>• Diversity of economic activity and employment across a number of sectors</li> <li>• Lots of jobs and a very high jobs density</li> <li>• Good transport links</li> <li>• Good level of enterprise and business churn</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse effects of recession on financial and business services</li> <li>• Decline in a number of key sectors including manufacturing and wholesale and retail</li> <li>• Mis-match between employment skill needs and local labour skills and qualifications</li> <li>• Unbalanced housing market with high level of flatted development and scarcity of family homes</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Strong growth in local economy forecast, led by financial and business services</li> <li>• Major developments – especially Wood Wharf – will drive economic and employment growth</li> <li>• Stratford City, Olympic developments and local demographic increases will generate economic and employment growth</li> <li>• Large potential supply of employees locally</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure to Global Economy, and uncertainty of recovery</li> <li>• New UK banking and financial services regulation, and new taxation arrangements</li> <li>• Recessionary and low-growth risks remain in UK economy</li> <li>• Public sector spending and employment cuts</li> <li>• Intensified inward investment competition</li> </ul>

## Issues:

- Private sector growth will need to play a greater role if it is to substitute for a contracting public sector – at a local level, public sector employment has been viewed as offering some protection from the most immediate impacts of the recession, but this is set to change as spending cuts loom. How can skilled staff be retained and employment opportunities diversified in other (private) sectors of the economy?
- A range of different projections indicate very significant levels of potential future employment growth in the borough (between 25% and 50%) ,however, resident-based employment is only anticipated to increase by 19% under the baseline scenario. How can local residents be further enabled to access the employment opportunities?
- The global financial crisis and recession have significantly changed some of the conditions for growth. It will be important to consider how key sectors have been affected and to identify those that will provide a platform for future growth – the business models which they operate and growth prospects may be different.
- Financial services are one of the UK's major export sectors, but are susceptible to global trends and competition, and potentially a new system of regulation. In headline terms, it is also the most important sector in Tower Hamlets, but what will London's role as a financial centre look like in the future and how will this affect the dynamics of the City Fringe and Canary Wharf?
- To what extent can the underlying worries that Canary Wharf (and to significant extent, the Borough as a whole) is too dependent on a weakened financial services be addressed? If the result of the global financial crisis and potential future changes in regulation means a 'new look' sector, is Tower Hamlets well placed to reflect this?



## 6.0 Productivity and Competitiveness

6.1 This section considers the drivers that contribute to the productivity and competitiveness of the economy of Tower Hamlets.

6.2 HM Treasury has previously identified five productivity drivers as the key to successful economic performance – skills, investment, enterprise, competition and innovation. Instances of market failure linked to these drivers often form the basis for public sector interventions in a variety of forms. They also form the basis of the annual UK Productivity and Competitiveness Indicators report which sets out the Government approach to monitoring competitiveness at a national level.<sup>8</sup>

### Skills

6.3 Skills are important for productivity as there is a positive correlation between high skills and high economic growth.

6.4 The skill levels of Tower Hamlets residents are considered in more detail as part of the Worklessness Assessment (Volume 3). However, in general terms, Table 7.1 shows that slightly lower proportion of the workforce in Tower Hamlets has attained an NVQ4 qualification (degree level) or higher than the London average, but is greater than the national average. However, a significantly higher proportion (23.4%) has no qualifications, twice both the London and national rates. This equates to some 35,500 people. The proportions achieving NVQ1 and 2 qualifications are also lower than average.

Table 6.1 Overview of Qualifications Levels

	Tower Hamlets (numbers)	Tower Hamlets (%)	London (%)	Great Britain (%)
NVQ4 and above	54,100	35.7	38.6	29.0
NVQ3 and above	68,200	45.0	51.6	47.0
NVQ2 and above	84,400	55.7	63.8	65.2
NVQ1 and above	93,900	62.0	73.7	78.9
Other qualifications	22,100	14.6	14.2	8.7
No qualifications	35,500	23.4	12.0	12.4

Source: Annual Population Survey, 2008-09

<sup>8</sup> BERR (2008) Productivity and Competitiveness Indicators <http://www.bis.gov.uk/files/file49953.pdf>

## Investment

- 6.5 There are two locations for investment, each are explored in turn:
- i Investment in physical capital; and
  - ii Investment in businesses.

### Investment in physical capital

- 6.6 Investment in physical capital is an essential determinant of economic growth and is undertaken to improve efficiency and future capacity. In the context of this volume, investment is considered in terms of business space. Other factors – such as housing and transport – are considered in Volume 4 (Places and Infrastructure).

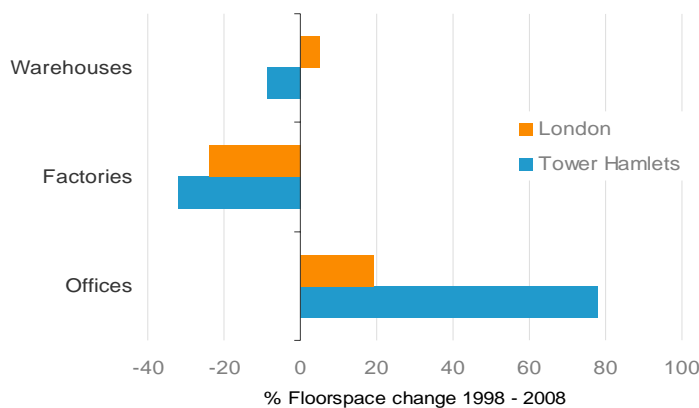
### Recent historical changes

- 6.7 This is not the place to provide an overview of the changing nature of business space as a result of the work of the London Docklands Development Corporation and the subsequent redevelopment of the Docklands. Here the focus is solely on changes over the past decade or so.

- 6.8 It is clear that over the last decade Tower Hamlets has lost significant amounts of industrial space over the last decade and gained significant new office space:

- Between 1998-2008, Tower Hamlets lost 284,000 m<sup>2</sup> of industrial floorspace. In 1998, 52% of all Tower Hamlets employment space was industrial; today it is 32%;
- Tower Hamlets gained 992,000 m<sup>2</sup> of office space in the same period, a percentage increase 4 times the London average. 68% of all employment space in Tower Hamlets is now offices, compared with the London average of 50%. Tower Hamlets has a much higher proportion of office space than all other East London Boroughs.

Figure 6.1 Tower Hamlets Employment Space Change, 1998-2008

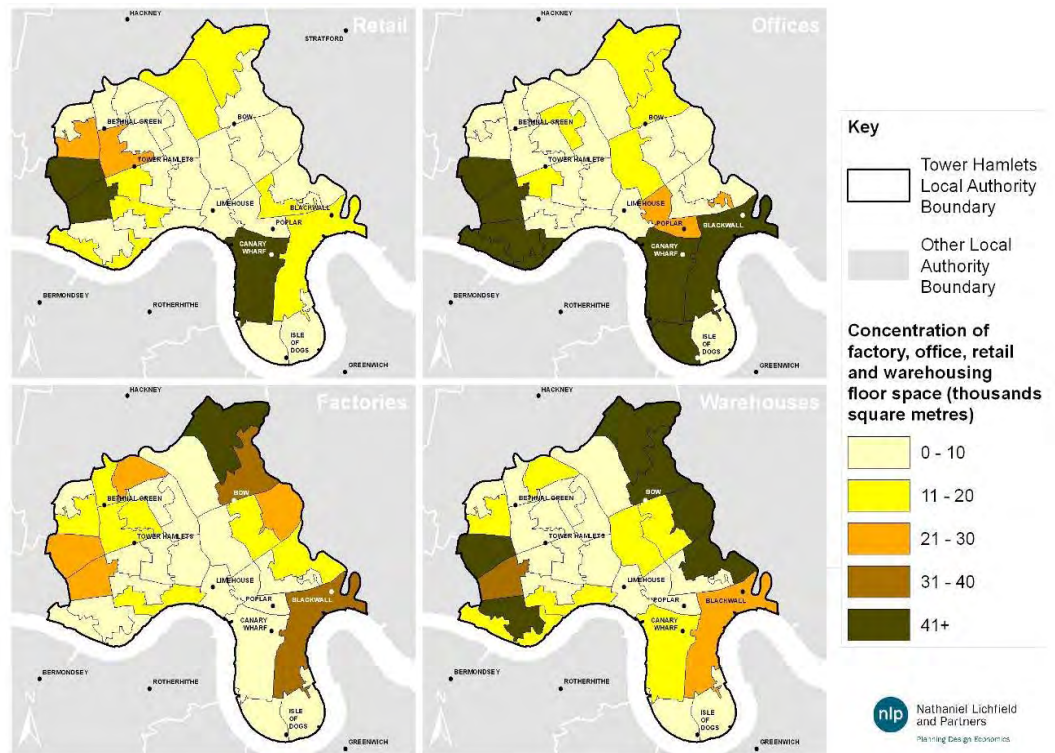


Source: NOMIS/VOA

6.9

The net effect of these changes are shown in Figure 7.2 which illustrates that office space is concentrated around Docklands and the City Fringe, with industrial and warehousing space mainly located on the eastern edge of the borough, although this has been subject to considerable change and redevelopment for other uses in recent years. The greatest concentrations of retail floorspace are, not surprisingly, concentrated around the City Fringe and Docklands areas.<sup>9</sup>

Figure 6.2 Spatial distribution of commercial floorspace, by ward



Source: Valuation Office Agency/NLP analysis

### The current situation

6.10

Owing to the presence of Canary Wharf, and to a lesser extent the City Fringe, Tower Hamlets performs as one of London’s major office markets. These are both identified as preferred office locations, as defined by the Interim Planning Guidance 2007. The role of the preferred office locations are designed to protect the role and function of the office areas from other uses.

<sup>9</sup> The economic role of town centres is considered in more detail in Volume 4 (Places and Infrastructure).

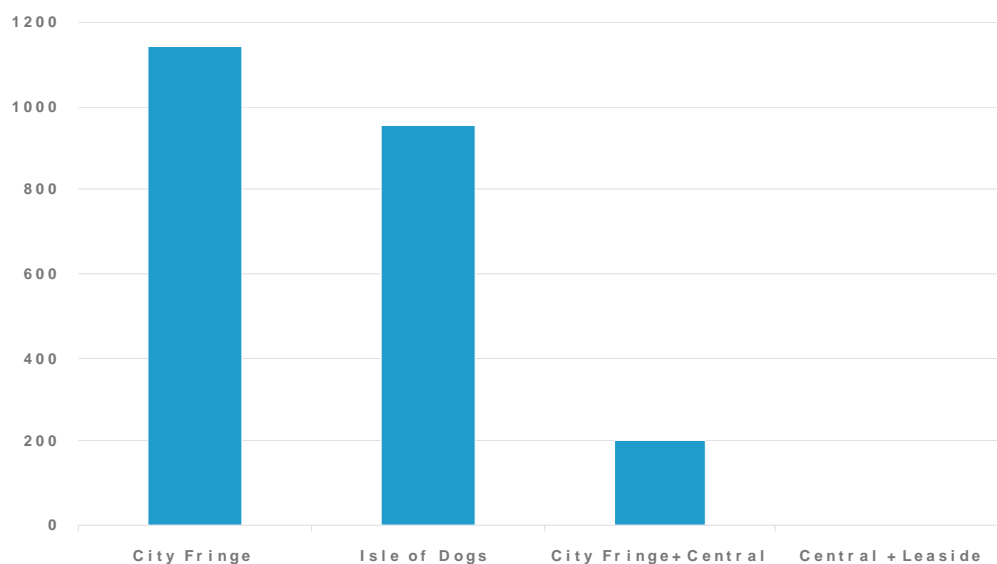
Figure 6.3 Tower Hamlets Employment Space v East London boroughs



Source: NOMIS/VOA

- 6.11 Compared with London as a whole, Tower Hamlets has fewer micro businesses with under five employees and significantly more large businesses with 500+ employees. However, SMEs make a significant contribution to the local economy accounting for 15% of Tower Hamlets employment. The quality of premises for small firms is low and there is only a small proportion of smaller workplaces for start-up firms; B1 units under 100 m<sup>2</sup> form under 2% of supply and demand is strong.
- 6.12 The majority of available SME office space under 100 m<sup>2</sup> appears to be located in the City Fringe followed by the Isle of Dogs with a lack of provision in more peripheral areas (Figure 7.4). There is demand for short term lets and more flexible workspace by businesses in the City Fringe area particularly but a restricted market for small office premises there and other parts of the borough.
- 6.13 A 2006 Council study found a requirement for more business space aimed at small business sector, particularly units under 100 m<sup>2</sup>. The inadequate supply of premises for SME firms may be forcing certain types of firms out of the borough.

Figure 6.4 Location of Available B1 space under 100 m2

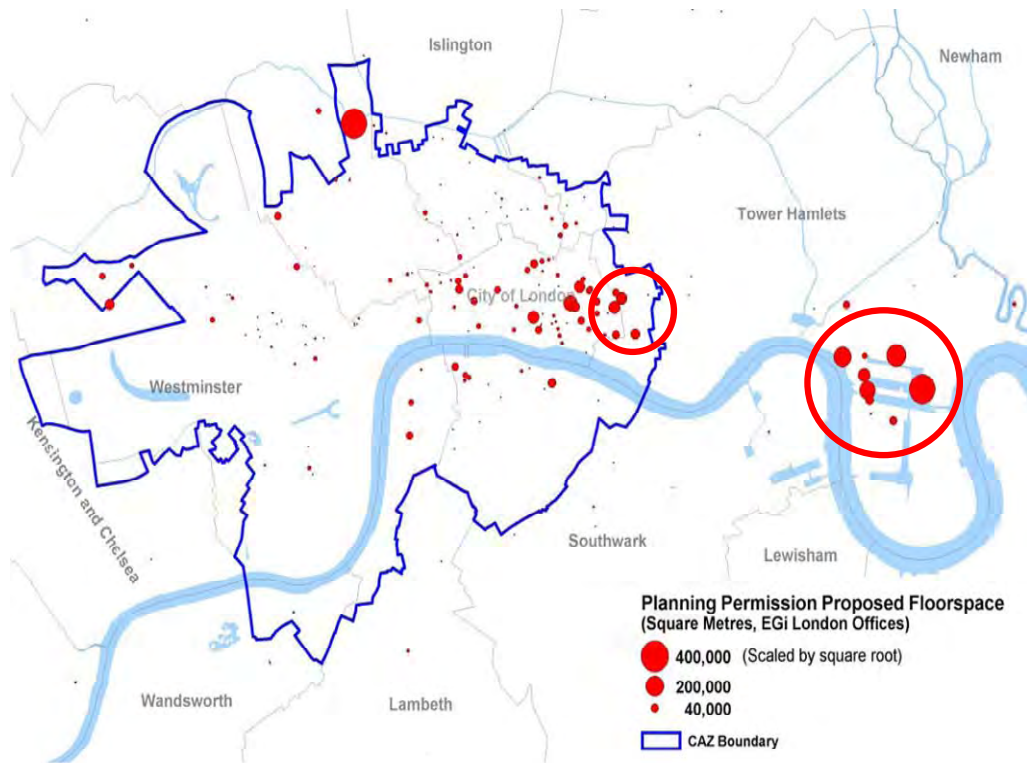


Source: Small and Medium Office & Workspace Study, 2006

### Future investment

- 6.14 At Canary Wharf, the estate continues to pursue a cautious construction strategy favouring pre-committed development over speculative schemes. The most significant change in 2008 was a formal resolution to approve the Wood Wharf scheme immediately east of Canary Wharf – in effect forming an office-led, mixed-use eastern extension, not least as the owner of Canary Wharf is one of three partners in the Wood Wharf development consortium. Taken together, therefore, the potential expansion of Canary Wharf/Wood Wharf encompassed a further 968,000 sq m of offices where there was either planning permission or approval in principle at the end of 2008.
- 6.15 This accounts for 66% of permitted office development within Tower Hamlets and some 24% of all permitted office development in Central London. If constructed, it would create a “collar” of high-rise office development right across the neck of the Isle of Dogs. Office development proposals in the rest of the Isle of Dogs, meanwhile, have reduced in favour of residential-led permissions.
- 6.16 Tower Hamlets also has an important role as a fringe expansion location for the City office market at times of high demand. A number of office schemes have recently been completed in the eastern City Fringe. Elsewhere in the borough, the majority of recent office development has been ancillary to development led by other uses, with the effect of pepper-potting modest B1 space across Tower Hamlets.

Figure 6.5 Planning Permissions for Office Floorspace, by size (2008)



Source: London Office Policy Review, 2009

## Investment in businesses

- 6.17 Investment in businesses is an essential determinant of economic growth both in the first instance of enterprise formation and in the growth of pre-existing businesses. By investment in businesses therefore we mean the availability of finance so that business owners can invest in their future.
- 6.18 Nationally, the Federation of Small Businesses (FSB) has conducted research<sup>10</sup> into sources of business investment, the results are provided in Table 6.2.

<sup>10</sup> FSB (2008) Putting the economy back on track – Business support and finance

Table 6.2 Source of investment for business development

Source of business investment	% respondents using source
Own savings	33%
Retained profit	32%
Bank overdraft	29%
Bank loan (secured)	14%
Personal credit card	10%
Bank loan (unsecured)	10%
Family	10%
Company credit card	8%
Supplier credit	6%
Second mortgage	6%

Source: FSB Business Support and Finance

- 6.19 In the context of Tower Hamlets there are two factors that require further exploration:
- i Do residents have savings that can be used for business investment; and
  - ii Do residents have access to credit for business investment?
- 6.20 Tower Hamlets is a relatively income deprived borough<sup>11</sup>, it may be logical to assume therefore that it is improbable that residents have savings for business investment. However, there are also other factors that impact upon the likelihood of residents having savings. An obvious one is the impact of remittances<sup>12</sup>. Tower Hamlets is an ethnically heterogeneous borough with a high BME and high migrant population. National research shows that these groups are likely to remit part of their income to family members elsewhere<sup>13</sup>. It is not possible to quantify the amount of remittances by Tower Hamlets residents (even national data is patchy with annual remittances per migrant per year varying from £170 to £1,199<sup>14</sup>) however it is clear that the market must be significant as the Bangladesh Central Bank has introduced non-resident accounts that allow migrants to remit their foreign earnings into an interest bearing, non-taxable account<sup>15</sup>.

<sup>11</sup> Index of Multiple Deprivation (2007) Income

<sup>12</sup> Possible remittance methods include: Hawala, Hundi and Fei Ch'ien

<sup>13</sup> DFID (2004) UK Remittance Market

<sup>14</sup> Ibid

<sup>15</sup> Bangladesh Bank guidelines for foreign exchange transactions



6.21 The other primary source of finance for business investment is credit (generally a loan or overdraft). Nationally, credit for businesses remains tight despite political pressure to increase lending<sup>16</sup>. This is complicated within the borough due to the need for Islamic Finance from some residents. In 2002 the FSA commented that “there are no solidly reliable statistics [nationally] on the size of Islamic finance”<sup>17</sup> and this situation does not seem to have changed. However it is likely that if a gap currently exists within the borough with demand for Islamic Finance outstripping supply, basic economic theory tells us that this situation will not last.

## Enterprise

6.22 It is worth starting with a look at the language used around public encouragement of ‘enterprise’ because there are some traps to avoid.

6.23 In the context of this report, ‘enterprise’ is taken to mean business formation, survival and growth and what this means for the local economy. Within this broad definition we do not assume that all those who run businesses are ‘entrepreneurial’ - commercial innovators like Richard Branson or James Dyson. Many, particularly among those who become self-employed, have simply turned to the best available alternative after failing to find a job (which is one reason the self-employment rate is a poor guide to how “enterprising” an area is).

6.24 In terms of public policy, this points to an important distinction between two types of actions which public bodies might take:

- encouraging more entrepreneurial activity of the type which has Branson and Dyson at its apex, but which includes many more modest businesses, in order to generate jobs and wealth locally: action which is likely to lead to *economic benefit*;
- encouraging people who are out-of-work to consider self-employment as an alternative to continuing unemployment: action which is unlikely to produce much economic benefit (and hence is dismissed in some quarters, sometimes with the pejorative term ‘lifestyle’ businesses), but which has clear *social benefit*.

6.25 This is more than a spectrum: the motivation behind the two types of business is quite different, so the levers which the public sector might apply to stimulate the actions it wants to see are also quite different. But the two types of business are not rigidly separated: a business formed initially with no ambition beyond providing a living for those involved, can be transformed, for example when the next generation takes the helm.

6.26 We have taken the view in this analysis that both sets of benefits are likely to be attractive to the Council and its partners.

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<sup>16</sup> Osborne G (August 2010) Interview with The Sunday Telegraph

<sup>17</sup> FSA (2002) Seminar on Islamic Finance

6.27 Readily available data provides the basis for some useful analysis, but stops frustratingly short of being really useful. The definitive data source for enterprise is the BIS Business Demography data-series, which provides information at a local level on:

- 1 Number of business births;
- 2 Number of business deaths;
- 3 Survival of newly-born businesses.

6.28 The methodology<sup>18</sup> for creating these statistics, particularly relating to business births is complex, but some key points are worth making:

- 1 The latest data is for 2008, pre-dating the credit crunch;
- 2 The most useful data is available for firms which register for VAT, but many fall below the current registration threshold of £70,000;
- 3 No data is available below borough level, and borough-level averages mask a good deal of variety within Tower Hamlets;
- 4 The data does not unambiguously reflect reality. From a public policy perspective, it is more useful to exclude technical changes, such as registration of a subsidiary as a new legal entity, but the data would include such subsidiaries if they have “a degree of autonomy over their own expansion”. Branches of national retail chains are excluded therefore (which is helpful), but some subsidiaries of large multinational companies might well be included in business birth data – which is very much a relevant consideration in Tower Hamlets, complicating the task of making an accurate assessment of current reality;
- 5 For rates based on resident population we use residents aged 15 or over, and include retirees because more and more retirees are starting businesses.

## Business births

6.29 The number of business births within the borough has been increasing and with the exception of Hackney, is much higher than the other boroughs in the Host Borough sub-region. We have therefore compared Tower Hamlets with other Inner London boroughs using several different comparators for Inner London:

- 1 The ‘Inner London’ count or rate;
- 2 The ‘Inner London Borough mean’ (i.e. the total count divided by 14<sup>19</sup>, this enables us to create a more meaningful and useful figure for number of business births);

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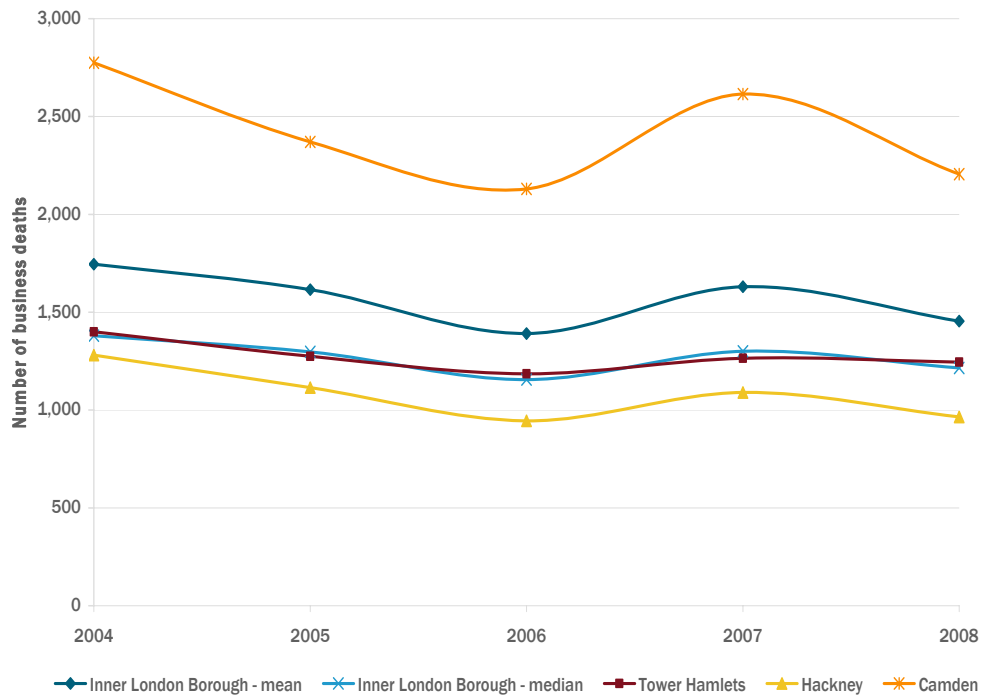
<sup>18</sup> Eurostat-OECD (2007) Manual on business demography statistics

<sup>19</sup> Inner London is formed of 14 London boroughs: Camden, City of London, Hackney, Hammersmith and Fulham, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Newham, Southwark, Tower Hamlets, Wandsworth and Westminster

3 ‘Inner London Borough median’, i.e. a median of the 14 boroughs. A median is useful because it reduces the effect of anomalies such as Westminster for counts (which are very high) and the City of London for rates (which are very high because the resident population is small).

6.30 Figure 6.6 shows the number of business births within the borough, and for four comparator areas.

Figure 6.6 Business births, 2004-08



Source: BIS Business Demography

6.31 Tower Hamlets has the seventh highest number of business births within London<sup>20</sup> - i.e. it is in line with the Inner London average, and consistently so.

6.32 Converting business births into births per 10,000 population (aged 15+, and including retirees) the data shows that nationally the population is becoming less enterprising with fewer business births per head in 2008 than 2004. Inner London bucks this trend (largely due to an 80% increase in the City of London) however the Inner London median (which reduces the effect of the City) has followed the national downward trend.

6.33 Tower Hamlets bucks the national and Inner London median trend. The borough is more enterprising in 2008 than it was in 2004. On this measure Tower Hamlets is ranked sixth within London<sup>21</sup>. Table 7.3 provides additional information.

<sup>20</sup> Westminster 6,975; Camden 3,075; Barnet 2,640; Wandsworth 2,595; City of London 2,245; Ealing 2,180; Tower Hamlets 2,070

<sup>21</sup> City of London 3,075; Westminster 337; Camden 152; Hammersmith and Fulham 137; Islington 120; Tower Hamlets 116

Table 6.3 Business births per 10,000 population aged 15+, 2004-08

	2004	2005	2006	2007	2008	% change 2004-08
England	61	58	54	59	56	-7.0%
Inner London	118	112	99	112	128	+8.1%
Inner London Borough - median	112	100	88	101	108	-3.7%
<b>Tower Hamlets</b>	<b>111</b>	<b>102</b>	<b>93</b>	<b>98</b>	<b>116</b>	<b>+4.1%</b>
Camden	155	136	128	139	152	-1.8%
Hackney	89	83	81	92	104	+17.0%
Westminster	303	264	244	276	337	+11.2%

Source: BIS Business Demography

## Business deaths

6.34

The second major component of change is business deaths. Tower Hamlets had the tenth highest number of business deaths within London in 2008<sup>22</sup>. Like business births, the borough roughly mirrors the Inner London median: in 2008 there were 1,245 deaths within the borough in contrast to an Inner London median of 1,215.

Figure 6.7 Business deaths, 2004-08



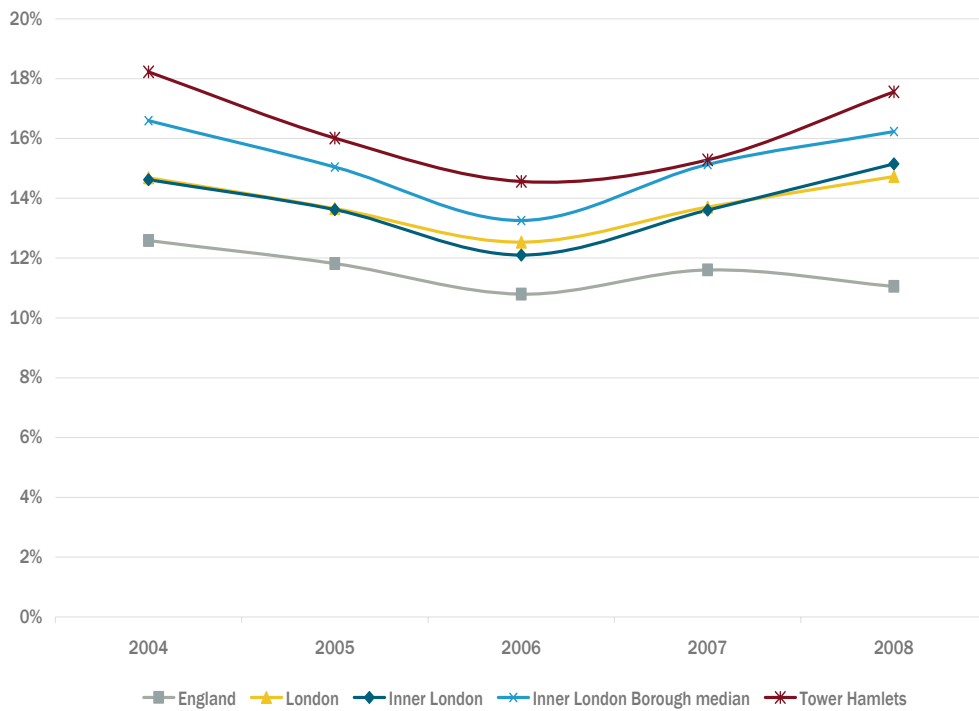
Source: BIS Business Demography

<sup>22</sup> Westminster 4,495; Barnet 2,300; Camden 2,205; Wandsworth 1,640; Ealing 1,505; Brent 1,350; Southwark 1,310; Hammersmith and Fulham 1,300; Islington 1,280; Tower Hamlets 1,245

6.35

Within England the number of business deaths in 2008 was the equivalent of 9% of businesses, an improvement from 11% in 2004. Within Inner London there was a similar decline though from a higher base, 14% to 10% and within Tower Hamlets the trend remains the same, 14% to 11%. However this snapshot approach masks the overall trend. Fig 6.8 below shows that although all geographies had a declining rate to 2006 but from then onwards the England average has fluctuated at roughly the same rate, whereas all of the London areas have increased.

Figure 6.8 Business deaths as a percentage of business stocks



Source: BIS Business Demography, ABI

6.36

One view of business deaths, particularly common in the USA, is that a high death rate suggests a healthy competitive business environment, where more successful firms take the place of less successful ones, and success flows more readily from more people 'having a go'.

6.37

The view in Britain tends to be more cautious, and harder on those who are seen to have 'failed' in business. Statistics provide no guide to how many firms fold for 'positive' reasons (a bold first attempt, perhaps, which did not come off but from which the entrepreneur learned a great deal) and how many for 'negative' reasons which are susceptible to influence by public agencies (whether those which were never likely to succeed, or those with promise stifled by, for example, inadequate business knowledge and training). A better understanding of why some firms in Tower Hamlets fail, and what scope there is for public agencies to intervene (while avoiding the risk of wasting money supporting "lame ducks"), would require specific research.

## Business survival

- 6.38 Table 6.4 shows that since 2003 the two-year survival rates of firms in Tower Hamlets have tracked the Inner London average, with an increase in survival rates of six percentage points. As Inner London has reduced the gap between itself and the England average this means that two-year survival rates for Tower Hamlets are now only marginally below the national average.
- 6.39 It is important to remember, however, that the latest data is for 2008 (and therefore relates to firms founded in 2006): it is probable that the current economic difficulties have caused more firms to fail. Until data is released we cannot assess whether the impact has been better or worse in Tower Hamlets.

Table 6.4 Two-year business survival rates

Business formed in	% of new businesses surviving two years later		
	England	Inner London	Tower Hamlets
2003	77.9	72.8	72.7
2004	78.7	75.1	76.8
2005	79.9	78.2	78.3
2006	80.7	78.7	78.9
2003-06 change	+2.8	+5.9	+6.2

Source: BIS Business Demography

- 6.40 Like two-year survival rates, Inner London (and Tower Hamlets) is catching up with the England average for four-year business survival rates – but the data series is short (just two years), so it is premature to be sure about trends.

Table 6.5 Four-year business survival rates

Business formed in	% of new businesses surviving four years later		
	England	Inner London	Tower Hamlets
2003	54.1	45.3	47.0
2004	54.5	49.4	50.1
2003-04 Change	+0.4	+4.1	+3.1

Source: BIS Business Demography

## Business growth

- 6.41 BIS measures business growth by recording VAT registered businesses showing year-on-year employment growth. The statistic focuses solely upon employers with less than 50 employees (around 98% of VAT registered enterprises in England and 97% in Tower Hamlets).
- 6.42 Table 7.6 shows that 15% of businesses hired additional staff in 2007-08, roughly on-par with the Inner London average and marginally above the England average. This is an improvement from 2002-03 where businesses

within the borough were marginally less likely to be hiring more staff than those within either England or Inner London.

Table 6.6 Proportion of employers currently employing less than 50 people employing more staff

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Variance 2002-08
England	10.6%	10.2%	11.4%	14.5%	14.2%	14.2%	+3.6
Inner London	10.8%	10.6%	11.8%	15.1%	14.3%	14.8%	+4.0
Tower Hamlets	10.1%	11.4%	11.4%	14.4%	14.2%	15.1%	+5.0

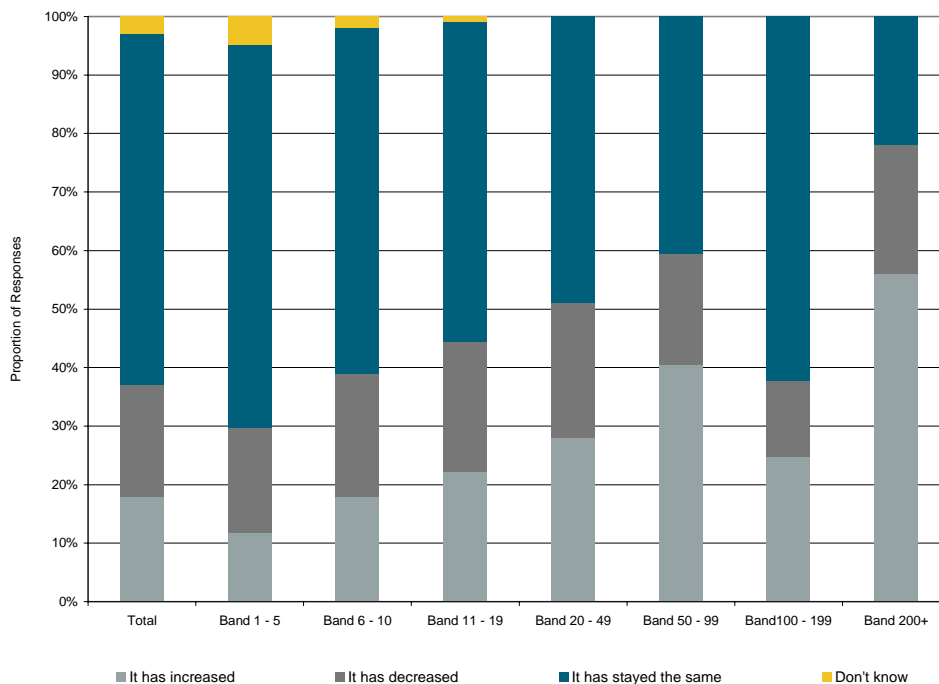
Source: DCLG Floor targets

6.43

The data does not allow any more detailed analysis, but the business survey undertaken for this LEA (detailed in Section 7.0 of this volume) provides some further information. 18% of respondents reported an increase in employment in the last year. Disaggregating the results by size shows that in general larger businesses are more likely to be expanding their workforce:

- 1 12% of respondents with a workforce between 1 and 5 grew;
- 2 18% of respondents with a workforce between 6 and 10 grew;
- 3 22% of respondents with a workforce between 11 and 19 grew; and
- 4 28% of respondents with a workforce between 20 and 49 grew.

Figure 6.9 Proportion of employers who have expanded their workforce in the last 12 months



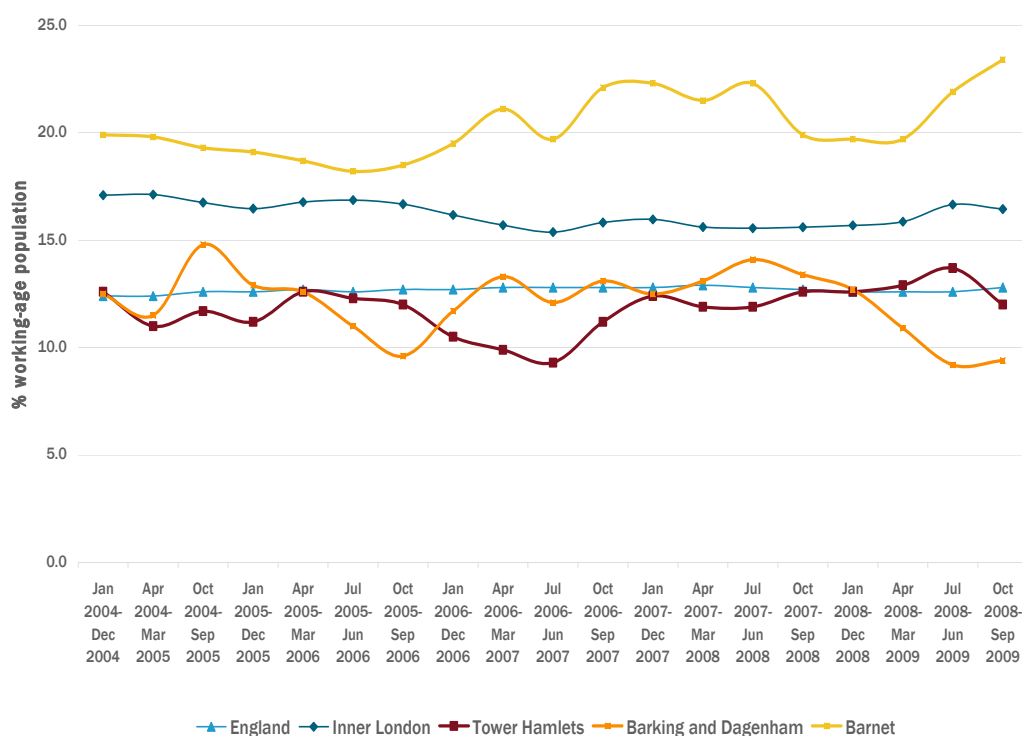
Source: NLP 2010 Business Survey



## Self-employment

- 6.44 Self-employment data needs to be treated with some caution. It is sometimes misleadingly used as an indicator of how “enterprising” an area is, on the basis that more self-employed business starts indicate more enterprising behaviour. The reality is more complex. Many true entrepreneurs are never self-employed, becoming immediately directors of limited companies. Some enterprising individuals start self-employed and grow a company. Many people become self-employed because it is their best remaining option when they fail to find a conventional job. The data makes none of these distinctions.
- 6.45 Tower Hamlets has a self-employment rate lower than the England and London average. Figure 6.10 also compares the borough against Barnet which has the highest self-employment levels within London, and Barking and Dagenham which has the lowest.

Figure 6.10 Proportion of working-age population self-employed



Source: Annual Population Survey

- 6.46 The nature of self-employment within the borough is different to the national average. Research suggests that self-employed individuals within the UK tend to be less well-qualified than employees<sup>23</sup> and that self-employment remains the preserve of those working in trade and crafts occupations (in contrast to other OECD countries).

<sup>23</sup> SBS (2003) The contribution of the self-employed to employment in the EU

6.47 However as Table 6.7 shows, in London the self-employed are more likely to be in higher-value occupations, with over a quarter in ‘*associate professional and technical occupations*’. The data derives from the Annual Population Survey so is unfortunately less robust at borough level (hence the blanks in the table).

Table 6.7 Occupation of self-employed

	England	London	Tower Hamlets
Managers and Senior Officials	18%	15%	21%
Professional Occupations	14%	17%	22%
Associate Prof & Tech Occupations	17%	26%	32%
Administrative and Secretarial Occupations	3%	2%	-
Skilled Trades Occupations	27%	19%	11%
Personal Service Occupations	6%	5%	-
Sales and Customer Service Occupations	2%	2%	-
Process, Plant and Machine Operatives	8%	9%	14%
Elementary occupations	6%	6%	-

Source: Annual Population Survey, Jul 2008-Jun 2009

6.48 Self-employment is sometimes seen as the first step towards forming a business that may one-day expand and offer employment opportunities for others<sup>24</sup>. However self-employed individuals do not necessarily aspire to grow their business<sup>25</sup> and leading economist David Blanchflower argues that “a high GDP is perfectly consistent with a lower self-employment rate”, concluding that more self-employment may not be better if the overall aim is to grow the economy<sup>26</sup>.

6.49 However, national research also shows that self-employment offers a way into economic activity for individuals who want to work but cannot get a job<sup>27</sup> - and local activity supports the research. East London Small Business Centre runs a four-day ‘business planning course’ for people who have been unemployed for at least a year: both demand and success rates exceed the Centre’s contractual targets. ELSBC argues that the programme provides a realistic alternative for some long-term unemployed residents (though by no means all: it deliberately presents a frank assessment of self-employment, knowing that some attendees will be put off, and should be)<sup>28</sup>.

<sup>24</sup> SBS (2003) The contribution of the self-employed to employment in the EU

<sup>25</sup> Cranfield University (2008) Does self-employment reduce unemployment

<sup>26</sup> Blanchflower D (2004) Self employment: more may not be better

<sup>27</sup> In academic publications this is known as the ‘refugee effect’. The topic has been researched extensively since the mid 1940s. Interesting recent papers on the topic include: DWP (2002) Self-employment as a route off benefit, Cranfield University (2008) Does self-employment reduce unemployment

<sup>28</sup> Source: interview with Deputy Chief Executive Pauline Barnett, June 2010.

- 6.50 Taking this view, self-employment has a social value which is at least as important as its economic value. (There is economic value, of course, in someone ceasing to receive benefits, and starting to make a positive contribution to the economy through their spending and their taxes, even if they never employ anyone else and never make much money).

### Social Enterprise

- 6.51 Social enterprise is in vogue, with high profile role models like Jamie Oliver's Fifteen restaurant just outside the borough. The label is new, but the approach is an old one. Two classic examples are the John Lewis group in the last century, and the Co-op movement in the previous one. The key difference with a social enterprise is what happens to the profits: in their core social enterprises mirror the activity of conventional businesses.
- 6.52 It is important to be clear that social enterprises are not easier alternatives to conventional business. Rather the opposite in fact, because in addition to the core disciplines which apply in any business (such as ensuring that "money in exceeds money out"), most social enterprises have additional ambitions - such as doing some good for a particular group - which commonly risk compromising the business disciplines of making a margin on activity.
- 6.53 The Coalition Government has said a good deal about promoting and encouraging social enterprise, and recent announcements about changes to the NHS and in education look likely to turn that enthusiasm into reality.
- 6.54 Anecdotal evidence indicates that the social enterprise sector is active in Tower Hamlets, but data is lacking. The most recent count was undertaken for DTI in 2005<sup>29</sup>, estimating that there were 3,400 social enterprises within London – an estimate derived from data on companies registered as companies limited by guarantee or Industrial and Provident Societies. It would be possible to update this work for Tower Hamlets, but it would require new research: routine data does not cover it.
- 6.55 Research by GLA Economics<sup>30</sup> shows that in many respects: sectoral distribution, ethnicity of the owner, size of the firm and turnover are broadly similar to non-social enterprise businesses. This may seem surprising were it not for the fact that a social enterprise has to mirror the core disciplines which apply in any business such as making a profit.

### Indications – How enterprising is Tower Hamlets?

- 6.56 Figure 6.11 shows the different approaches to enterprise pictorially: 'being enterprising' is something broadly-based, and not confined to classic business entrepreneurs.

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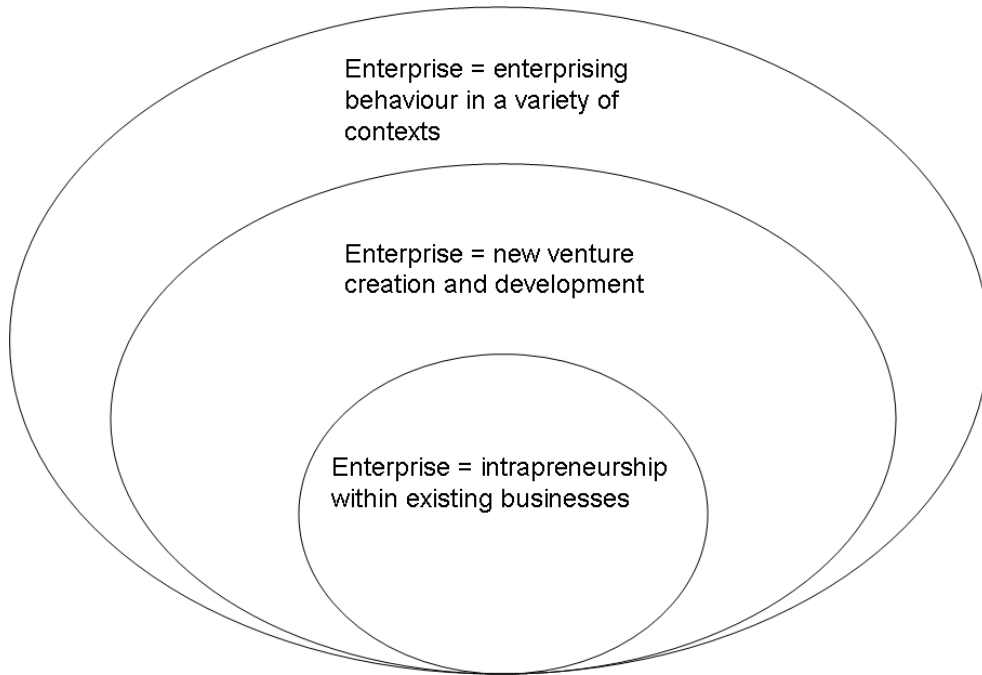
<sup>29</sup> DTI (2005) A survey of social enterprises across the UK

<sup>30</sup> GLA Economics (2007) Social enterprises in London

6.57

It includes a further category of enterprising behaviour worth noting: employees being enterprising within a conventional business – an approach branded ‘intrapreneurship’ in the 1980s, particularly for those firms which deliberately gave time to employees to pursue their enthusiasms in the hope that some would turn into new products and services.

Figure 6.11 Where does enterprise happen?



Source: Adapted from Enterprise Insight (2004)

6.58

These distinctions help to clarify the policy options for the Council. Is it seeking, for example, to promote business growth and success? To promote enterprising behaviour wherever it might be found? To encourage the unemployed to include self-employment on their list of options?

6.59

Table 6.8 shows the key statistics around enterprise for the borough. It shows that while in some aspects it is very much on top (eg ‘proportion of businesses expanding their workforce’) in others it is average (eg ‘business births per 10,000’). Even the two measures where the borough comes out below average: ‘business deaths as a percentage of stock’ and ‘self-employment rate’ can be seen as a positive. A high self-employment rate rarely leads to a growing economy and a high business death rate merely shows capitalism at work. Indeed the fact that both ‘business deaths as a percentage of stock’ and ‘proportion of businesses expanding their workforce’ are higher than the averages suggests that uncompetitive businesses die and those that survive are good businesses that are growing.

Table 6.8 Key enterprise statistics

	Tower Hamlets	England	Inner London	Inner London (median)
Business births per 10,000 15+ population (2008)	116	56	128	108
Business deaths as a % of stock	11%	9%	10%	10%
Two-year survival rate (business born in 2006)	78.9	80.7	78.7	78.7
Four-year survival rate (business born in 2004)	50.1	54.5	49.4	49.1
Proportion of businesses expanding their workforce (2007-08)	15.1%	14.2%	14.8%	14.3%
Self-employment rate	12.0%	12.8%	16.4%	16.6%

- 6.60 Ambiguity in the available data (explained above) makes it hard to be sure what is a real difference, and what is a statistical mirage.
- 6.61 For enterprise to happen, there needs to be an individual willing to become an entrepreneur and start their own business. Although, in general, deprived communities do not have access to high levels of resources in terms of human, cultural and financial capital partly out of necessity and partly out of opportunity deprived communities can be enterprising places.
- 6.62 In this, Tower Hamlets has advantages that other boroughs do not have, namely:
- 1 the availability of microfinance,
  - 2 a heterogeneous population comprising of many different ethnic groups, and
  - 3 relatively high levels of immigrants.
- 6.63 To create start-up most entrepreneurs will need credit. Sometimes this is from formal sources (banks and building societies), often it is from 'informal' sources (friends and family). In Tower Hamlets there is a third source that spans the gap between the formal provision of credit from a financial institution and informal sources. This is microfinance. In 2008 Planet Finance UK implemented a new service within Tower Hamlets to provide a social venture capital fund and microfinance for the resident population enabling those with business ideas to access small amounts of credit at an affordable rate.
- 6.64 From its inception in the 1980s, UK research on ethnic minority businesses and business formation tended to be heavily preoccupied with explaining the extraordinarily prominent business presence of ethnic communities originating in the Indian sub-continent<sup>31</sup>. The high levels of enterprise and small business

<sup>31</sup> BIS Ethnic Minority Business Forum (2007) Ethnic minority business in the UK

formation amongst individuals from the Indian sub-continent are thought to be a product of their small business class culture<sup>32</sup>. This is why enterprise levels nationally are high amongst this particular group, in contrast to nationally low levels of enterprising activity amongst the Black Caribbean and Black African groups<sup>33</sup>.

6.65 The 2009 National Employer Skills Survey (NESS) shows that it is more likely that at least half the owners of, or partners in, Tower Hamlets businesses are black, Asian, or from another minority ethnic group: 23% for Tower Hamlets compared with 21% for London and 8% for England.

6.66 Although data is patchy, it is believed that the borough also has high numbers of international immigrants<sup>34</sup>. It has been argued for several decades within academic research that immigrant communities exhibit strong communal solidarity thus providing a pool of resources that can be used by an immigrant entrepreneur, namely pooled capital, cheap flexible labour and loyal customers<sup>35</sup>.

6.67 Academic research that assesses the long-term trends of immigrant and BME communities shows that although they do display high levels of entrepreneurial activity this is not ever-lasting. Being enterprising becomes a launch-pad into professional upward mobility for future generations with a resultant drop in enterprising activity<sup>36</sup>. In a Tower Hamlets context this is very interesting as enterprise levels are currently above the London average (caused in part by local BME entrepreneurs) and qualifications levels are rising amongst the young – it is plausible therefore that enterprise levels will dip as these young residents join the labour market as employees rather than as small-business entrepreneurs.

## Innovation

6.68 The public sector supports innovation because innovation is a key source of business growth and economic success. There are many ways of disaggregating innovation. The simplest is to split innovation into three<sup>37</sup>:

- 1 **Incremental innovation.** Probably best captured by the saying, “cheaper, thinner, faster and more features” – these innovations improve a process, product, service etc.
- 2 **Architectural innovations.** New processes, products, services etc but one that does not alter the way we live our lives. An example might be organisations using cloud computing to store their files instead of running expensive servers themselves.

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<sup>32</sup> Mulholland (1997) The family enterprise and business strategies

<sup>33</sup> BIS ibid

<sup>34</sup> See main Local Economic Assessment

<sup>35</sup> BIS ibid

<sup>36</sup> Jones and Gidoomal (2003) South Asian businesses in retreat? The case of the United Kingdom

<sup>37</sup> Dubner & Levitt (2008) how can we measure innovation?

3 **Disruptive innovations.** These are also new processes, products, services are innovations but they are different to architectural innovations because they alter social practices. The classic examples are the personal computer and the mobile phone.

6.69 Most of the work on measuring innovation has focused at national level, where data is much more readily available, and where the economic unit has some clear coherence. Much less work has been done at local level, much less useful data is available, and the complexity of disentangling 'local' from other factors is much greater. How far, for example, does it make sense to assign an innovation within one of the major international companies on Canary Wharf, or within Queen Mary, to Tower Hamlets?

6.70 Even though there is consensus at a national level that more support should lead to more innovation, measuring the impact of funding innovation enabling projects has been notoriously difficult<sup>38</sup>. In 2007, the Government agreed a number of proxy measures that would form a basis for any future evaluation of innovative activity within the England<sup>39</sup>. The proxy measures were:

- 1 The UK percentage share of citations in the leading scientific journals;
- 2 Amount of income generated by UK Higher Education Institutions (HEIs) and Public Sector Research Establishments (PSREs) through research, consultancy and licensing of intellectual property;
- 3 The percentage of UK business with 10 or more employees that are "innovation active";
- 4 The annual number of UK PhD completers in Science, Technology, Engineering and Mathematics (STEM) subjects;
- 5 The number of young people in England taking "A" Levels in mathematics, physics, chemistry and biological sciences; and
- 6 Business research and development (R&D) expenditure – the average UK R&D intensity in the six most R&D intensive industries, relative to the US, Japan, France and Germany.

6.71 These measures do not work for Tower Hamlets, in some cases because the data does not exist and in others because it is not useful for local policy purposes. For instance does it matter how many individuals take PhDs in STEM subjects within the borough. We are interested in firstly, whether employers located in Tower Hamlets want to recruit STEM PhD students, and secondly, if they do want to recruit can Tower Hamlets firms convince these students to move to London and work in Tower Hamlets. From an economic development perspective it does not matter where the student studies.

6.72 Government has realised the deficiencies of these proxies and commissioned NESTA to develop an Innovation Index for the UK. This work will be complete towards the end of 2010.

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<sup>38</sup> NESTA (2009) Interim report for NESTA Innovation Index project

<sup>39</sup> HMT (2007) PSA Delivery Agreement 4: Promote world class science and innovation in the UK

6.73

For the LEA we have created our own proxy measures for measuring innovation taking the theory behind the current national indicators and finding measures relevant to Tower Hamlets. Our measures are:

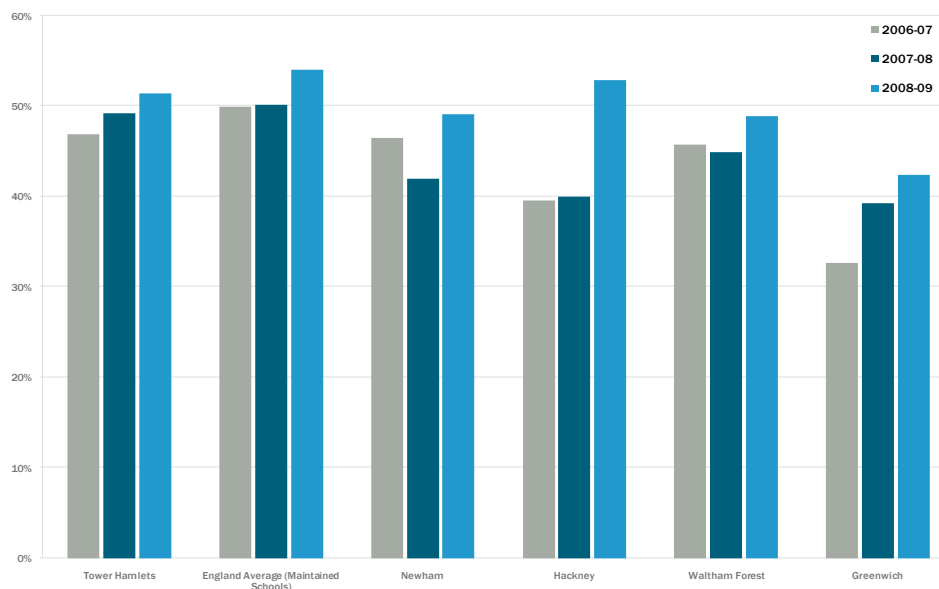
- 1 GCSE attainment in science – because innovation is frequently linked to engineering<sup>40</sup> (for both physical things and non-physical things like software);
- 2 the amount of funding won by universities to undertake research – because there is a clear and obvious link between the creation of new knowledge (typically from research) and innovation;
- 3 successful completions of PhDs – because some (but not all) of innovative activity requires clever individuals undertaking research into new areas; and
- 4 the number of firms investing in R&D – because this shows the scale of innovation in the Tower Hamlets economy.

### GCSE attainment

6.74

Tower Hamlets shows steady improvement in students leaving school with at least two GCSEs in science, maximising the numbers potentially moving on to study science at A-level and beyond. Tower Hamlets increased from 46.9% in 2006-07 to 51.4% in 2008-09 - still below the English average of 54% for maintained schools. Only Hackney, out of the neighbouring local authorities, has achieved better results.

Figure 6.12 Local Authority Averages of Students passing at least 2 GCSEs in Science with Grades A\*-C



Source: DCSF

<sup>40</sup> HMG Science and innovation framework 2004-2014



## Academic innovation

- 6.75 There are two universities in Tower Hamlets: the whole of Queen Mary, University of London, and part of London Metropolitan University. Data from HESA, the Higher Education Statistics Agency, shows that both are winning more research grants – both from national and international academic funding streams (for example HEFCE, the Higher Education Funding Council for England) and from private contracts.
- 6.76 Queen Mary won £36 million in research grants and private contracts in 2002-03 rising to £60million in 2007-08. In the same time period London Met increased from £2 million to £4.25 million.
- 6.77 Queen Mary has also seen an increase in the number of PhDs awarded rising from 125 PhDs in 2002-03 to 195 in 2007-08. However the number of PhDs awarded by London Met has fallen from 50 to 15 over the same time period. The Council may find it interesting to know what subjects these PhDs were awarded in. If they were in subjects that have practical applications within the workplace (eg bioscience) then it is clearly more useful to the local economy (assuming they get a job with a local firm) than PhDs in eg English Literature. The Council could ask the universities for this information however as stated previously where an individual studies is largely irrelevant. The important thing is whether employers within the borough can hire enough highly qualified people.

## Firms investing in R&D

- 6.78 The 2006 annual business survey commissioned by the LDA showed evidence of research and development activity in Tower Hamlets. Overall 31% of Tower Hamlets businesses had undertaken R&D expenditure over the previous twelve months (this was identical to the London figure). Interestingly expenditure per employee was found to be four times the London average.
- 6.79 The National Employer Skills Survey (NESS) brings this story up-to-date with data from 2009. The NESS show that 41% of establishments in Tower Hamlets consider that they lead the way in the development of new products and services similar to London (42%) and England (40%). 28% tend to not lead the way compared to 29% in London and 30% in England.

## Summary

- 6.80 Innovation occurs well before the impacts of innovative activity are felt. For example a business birth may result from innovative activity but there may be a significant lag between the two activities. It is impossible therefore to draw a clear and direct line between innovation and enterprise.
- 6.81 The analysis shows a mixed picture. GCSE results in science are marginally poorer than the England average, analysis of the NESS shows that businesses within the borough mirror the London and national averages, and an LDA

survey on businesses suggests that innovation amongst businesses is higher than average.

6.82 Comparing Tower Hamlets with other areas is also difficult as many of the measures used for innovation are not appropriate for spatial analysis. For instance although the amount of research funding awarded to universities located within the borough has increased it is not possible to say whether the current amount is good, poor or roughly average since there is no appropriate average.

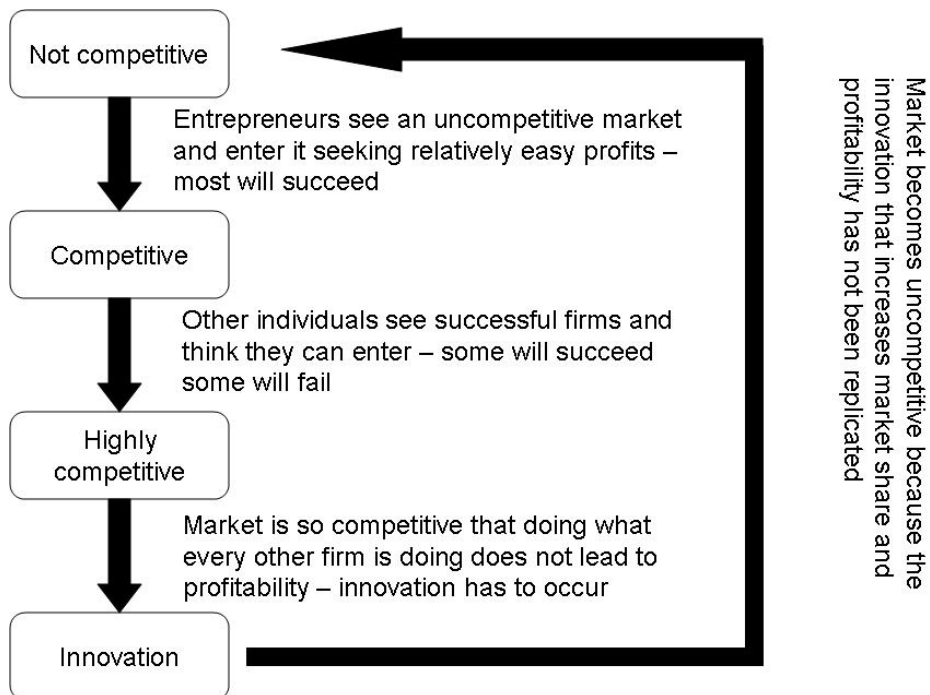
6.83 It is therefore difficult to interpret the data in a meaningful way to assist the Council in its policy-making. However it is possible to offer some broad pointers:

- The importance of science and maths education (from GCSEs upwards) is beyond doubt as enablers of innovative activity centred upon goods (both physical goods and intangibles such as IT software) and services.
- Universities are an important knowledge base and innovative businesses should be made aware of their offer.

## Competition

6.84 Competition is a driver of economic performance because competition forces firms to use their resources in the most efficiently manner and to innovate, Figure 6.13 shows how this works for any given market.

Figure 6.13 How competition drives economic performance for any given market



Source: TMP analysis

- 6.85 Because competitive markets are in the interest of consumers (and of firms though they would not admit it) the Office of Fair Trading and the Competition Commission ensure that competitiveness is maintained where the end product is bought by a consumer. In order to maintain competitive markets the Office of Fair Trading and the Competition Commission measure the competitiveness of a sector by comparing market share for given geographies. Some of these are national<sup>41</sup> and some use a more local geography<sup>42</sup>. Where the end product is bought by a business it is sensibly assumed that the buyer will choose the product that represents best value.

### Measuring competition

- 6.86 The competitiveness of businesses (and in some cases whole economic sectors) is directly dependent on where their competitors are. If competitors are global, because for instance you are manufacturing a product that does not require much skill then competition will come from amongst other places Romania, China and Vietnam. This explains much of the decline in manufacturing in the UK. However if you are a newsagent, competition will come from other newsagents, supermarkets etc within a 5 minute walk of your shop.
- 6.87 Measuring competitiveness of the business environment at a local level is therefore impossible. It would require measuring the competitiveness of all economic sectors located within the borough and as the previous example depicted using different geographies for each sector. This would take a huge amount of work and not actually lead to any useful recommendations for the Council and their parents to pursue because many of the causes of competitiveness are outside your control.

### Promoting competition

- 6.88 The only option the Council has for boosting competitiveness is to promote competitiveness by providing information. Two examples at different scales would be: The Canary Wharf Group produces helpful booklet detailing all the retail businesses within the area so that workers know what shops there are, and two so that all the similar shops are competing against each other driving up quality. The Welsh Development Agency (now Welsh Assembly Government) providing a booklet about University specialties, again to increase information amongst potential customers and to increase competition, innovation and quality.

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<sup>41</sup> For instance when Somerfield was recently put up for sale none of the Big four supermarket chains were allowed to bid for it as it would push their market share above set parameters. As a consequence Somerfield was bought by the Co-op.

<sup>42</sup> Using the same example, the Co-op was forced to sell some of the new stores it had as a result of acquiring Somerfield's because it would have created a local monopoly.

## Indications and Issues

### The situation:

- 1 Skills – the polarised nature of the borough’s labour force is highlighted by the significant proportion of working-age residents with no formal qualifications and lower levels of attainment at GCSE level, but conversely a slightly higher proportion of residents with degree-level qualifications.
- 2 Investment – amid a backdrop of significant losses of industrial space, owing to the presence of Canary Wharf and to a lesser extent the City Fringe, Tower Hamlets performs as one of London’s major office markets. Limited provision of employment space for SME firms may limit growth potential and the range of local employment opportunities.
- 3 Enterprise – the data suggests Tower Hamlets is a place where entrepreneurs can and do succeed in setting up businesses. The rising business counts and steady death rates suggest that competitive, productive businesses remain while the less competitive ones fail resulting in a progressively stronger stock of businesses within Tower Hamlets. The borough has a high number of entrepreneurial residents. Not all are actively creating businesses, however all help to foster an entrepreneurial culture.
- 4 Innovation – the analysis shows a mixed picture. GCSE results in science are marginally poorer than the England average, analysis of the NESS shows that businesses within the borough mirror the London and national averages, and an LDA survey on businesses suggests that innovation amongst businesses is higher than average.
- 5 Competition – the Council needn’t worry about fostering a competitive market as this is the role of capitalism. However it can if it chooses to play a role in promoting a competitive environment.

### Issues:

- 6 The lack of lower-level skills is a major barrier to improving the borough’s competitiveness. This is supported by responses to the business survey (see Section 7.0) and is considered in more detail in Volume 3 of this LEA. The underlying question is how can these be improved in order to help improve the ability of residents to access jobs (and potentially, in turn, employers to increase local recruitment).
- 7 Tower Hamlets is an entrepreneurial borough, recording the seventh highest business birth rate in London, and considerably more so than other parts of East London. Furthermore, the borough appears to be becoming more entrepreneurial, possibly reflecting its changing resident profile. How can the borough respond to this and ensure that this success is harnessed, and that new businesses have the means to expand and grow?

- 8 Following this, it appears that the supply of workspace for SMEs is particularly constrained in Tower Hamlets. The consequence may be to limit growth potential and the range of local employment opportunities. It appears to be a 'gap' in the market overlooked by the more shift from an largely industrial to increasingly office stock of commercial floorspace. Are the workspace needs of SMEs sufficiently well understood, and can the difficult balance of cost/quality be provided within Tower Hamlets so these types of businesses are not forced to move beyond its boundaries?

7.0

## Business Needs

7.1

A key input to the LEA process was the commissioning of a business survey to understand current and future business needs in the borough. A 25% sample (750 businesses) of the 2010 Experian Business Database for Tower Hamlets was used as the basis for a telephone survey, sampled to include a range of business types, sizes and locations within the borough.

7.2

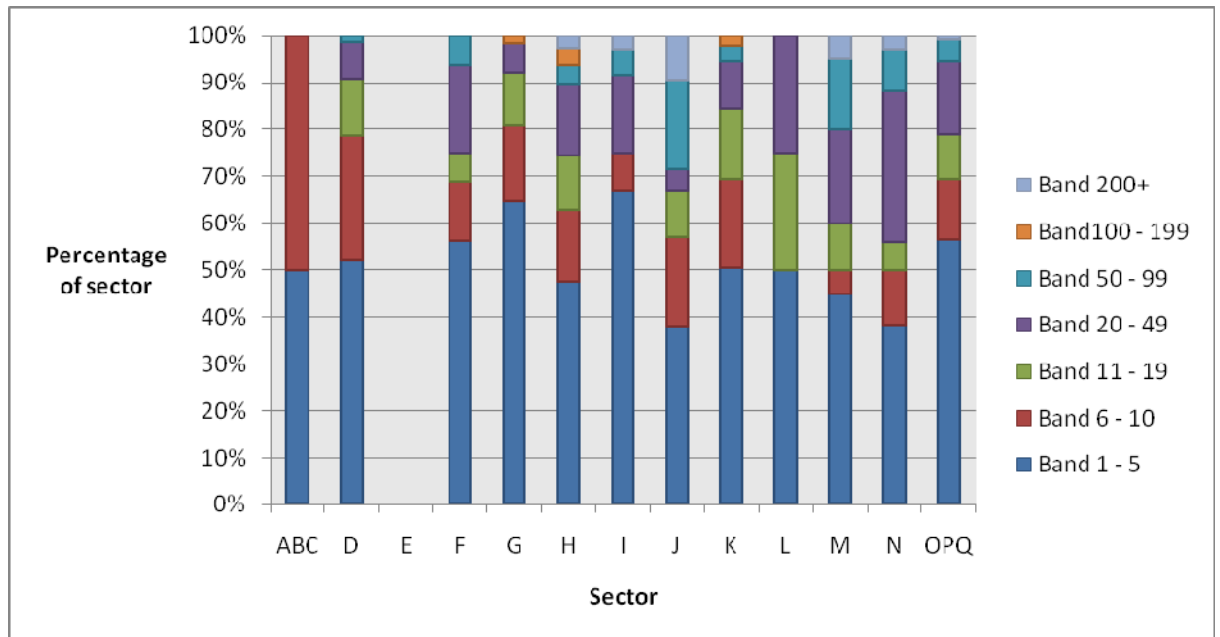
The business types were classified into sectors according to the UK Standard Industrial Classification, a table of the sectors is set out below at Figure 7.1, and a chart showing within each sector, the size of the businesses surveyed at Figure 7.2. In all but four sectors, the majority of businesses surveyed employed between 1-5 employees. In sector ABC, only two firms were surveyed which would mean the responses would be skewed or distorted by the small sample, so neither sectors ABC or E (which had no responses) are included in the sectoral analysis below.

Figure 7.1 UK Standard Industrial Classification

Sector Code	Description
<b>ABC</b>	Agriculture, hunting & forestry, Fishing, Mining & quarrying
<b>D</b>	Manufacturing
<b>E</b>	Electricity, gas & water supply
<b>F</b>	Construction
<b>G</b>	Wholesale & retail trade; repair of motor vehicles, motorcycles & personal/ household goods
<b>H</b>	Hotels and restaurants
<b>I</b>	Transport, storage & communications
<b>J</b>	Financial intermediation
<b>K</b>	Real estate, renting & business activities
<b>L</b>	Public administration & defence; compulsory social security
<b>M</b>	Education
<b>N</b>	Health & social work
<b>OPQ</b>	Other community, social and personal service activities, Activities of private households as employers and undifferentiated production activities of private households, Extra-territorial organizations and bodies

Source: ONS

Figure 7.2 Sector and number of employees (band) of firms surveyed



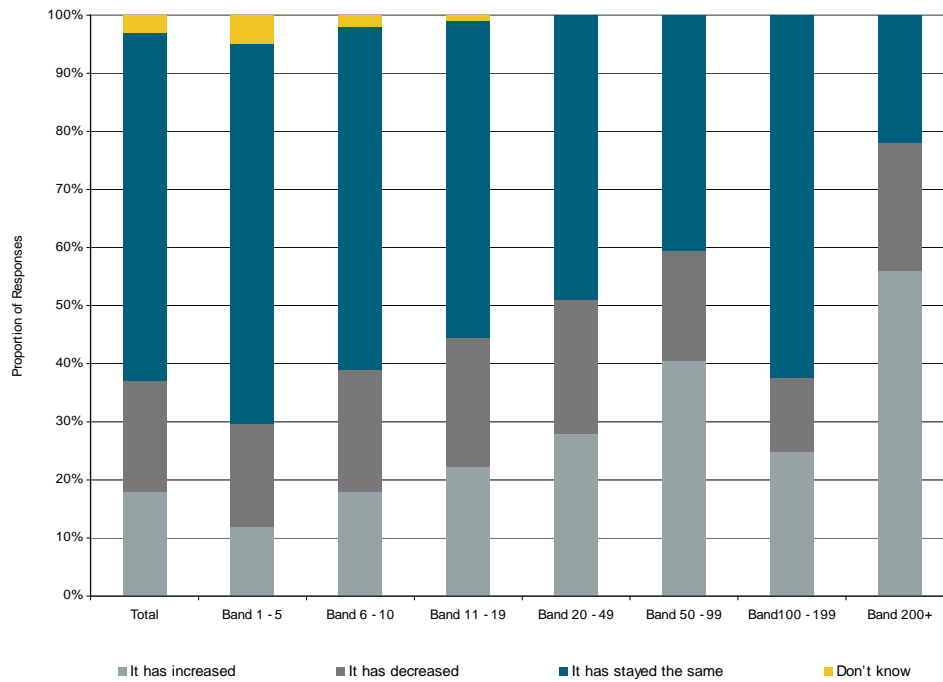
Source: Navigant analysis

7.3 The key findings are drawn out below. For some issues, reference has been made to other business surveys relevant to Tower Hamlets.

## Workforce and Recruitment Issues

7.4 Businesses were asked to comment on how the numbers of employees in their organisation had changed over the previous 12 months. For the majority of respondents (60%), the number of employees had remained the same. Just under 20% of respondents reported an increase, with a similar proportion reporting a decrease. This suggests employee levels amongst some firms in the borough have remained reasonably resilient against the backdrop of a national period of recession, although there was some variation depending on the size of firm. A higher proportion of larger firms (more than 200 employees) reported increased employee numbers (55%), although the number of respondents in this group was lower.

Figure 7.3 Question: how has the number of employees within your business based in Tower Hamlets changed in the past 12 months?

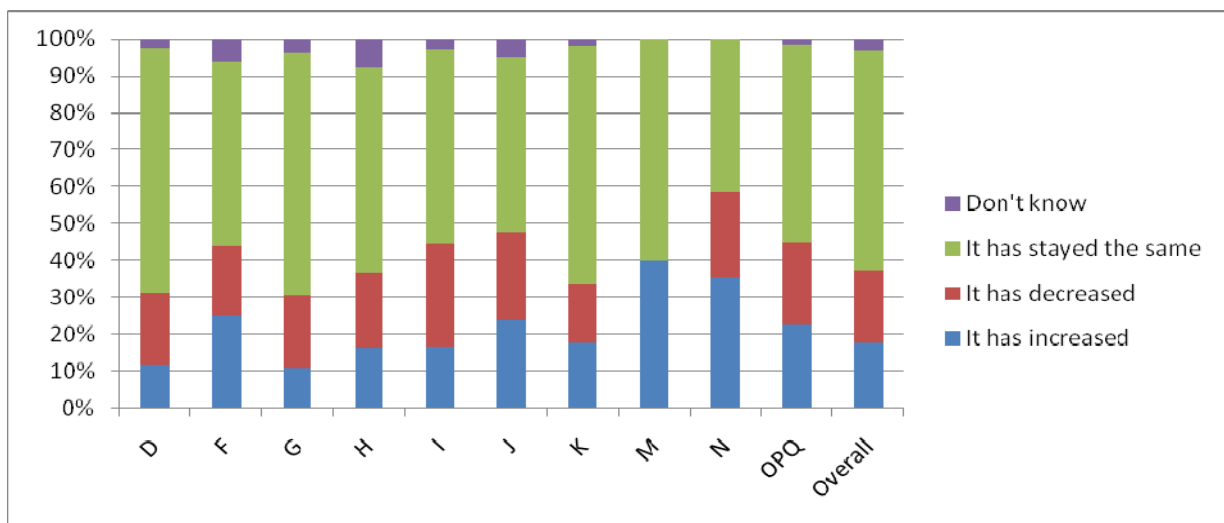


Source: NLP analysis

7.5

Examining the responses by sector, those citing the greatest increase in the number of employees in the past 12 months (over 30%) were Education and Health and social work, with the greatest decrease (28%) in Transport, storage and distribution.

Figure 7.4 Question: how has the number of employees within your business based in Tower Hamlets changed in the past 12 months? Responses by sector

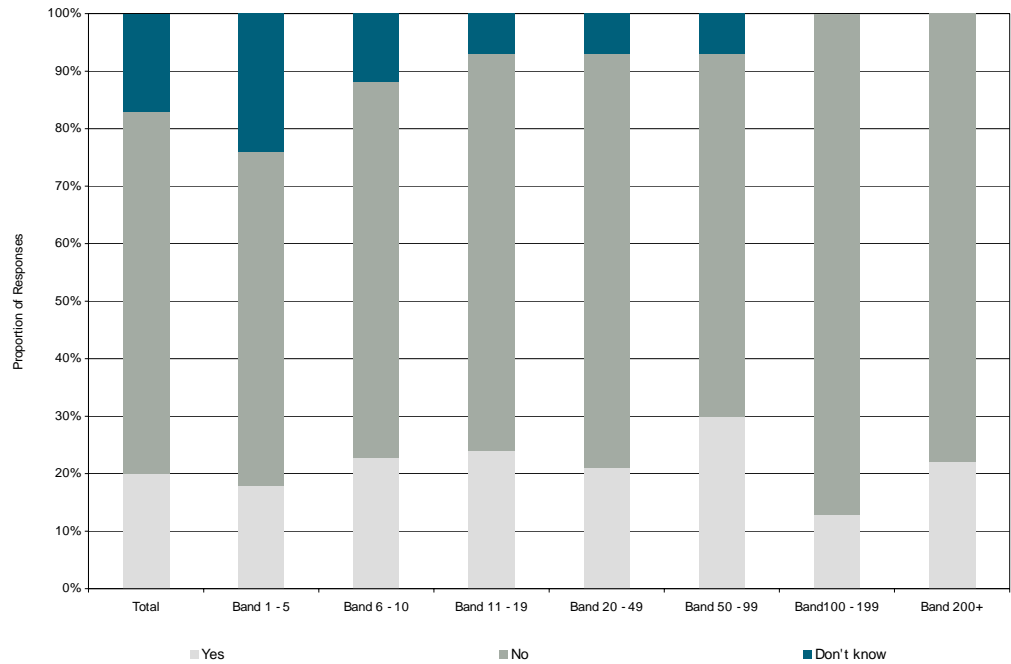


Source: Navigant analysis



7.6 In overall terms, about 20% of respondents reported difficulties in recruiting appropriately qualified staff from within the local area. This proportion increased to 30% in the case of businesses employing between 50-99 employees.

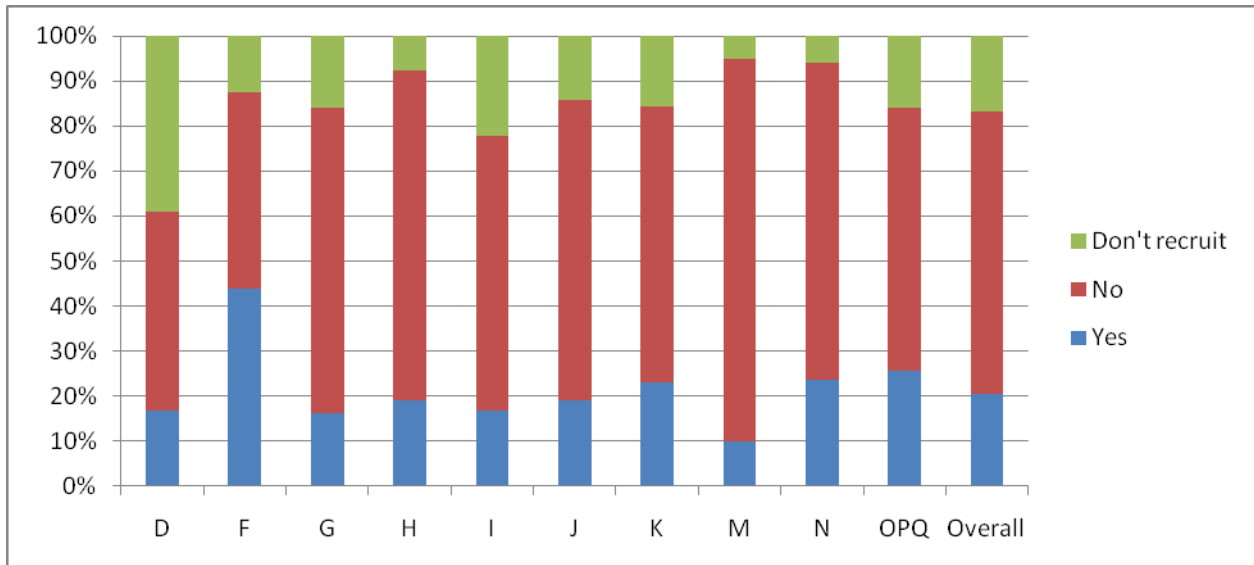
Figure 7.5 Question: do you find it difficult to recruit appropriately qualified staff from the local area?



Source: NLP analysis

7.7 The sector that reported the most difficulties in recruiting appropriately qualified staff from the local area was construction; at 44%, this was over double that of the overall average. The sector that reported the least difficulties in recruiting appropriately qualified staff was Education, at 85%. Out of the 75 manufacturing firms surveyed of various sizes, two fifths responded that they did not recruit.

Figure 7.6 Question: do you find it difficult to recruit appropriately qualified staff from the local area?  
Responses by sector



Source: Navigant analysis

7.8 Some important qualitative feedback was provided on recruitment difficulties, namely that the principal issues were in terms of language barriers, a lack of basic skills, and a shortage of higher-qualified workers. Some extracts are presented below.

**Qualitative Feedback – some examples:**

- “Lack of skills, when we tried to recruit it was difficult to get the manager and upper positions filled but with the lower positions its okay”
- “We've tried the jobcentre and various websites but applicants are not necessarily meeting the job criteria or particular role. Now we recruit through a recruitment agency which is quite costly”
- “Language - a lot of the residents are Bengalis. It's difficult to find employees with a clear English dialect. Some applicant[s] are just failing to understand”
- “We just don't seem to get anybody from the local area with the appropriate qualifications”
- “locals tend to fail the core tests that are put [in] place to qualify for the job”

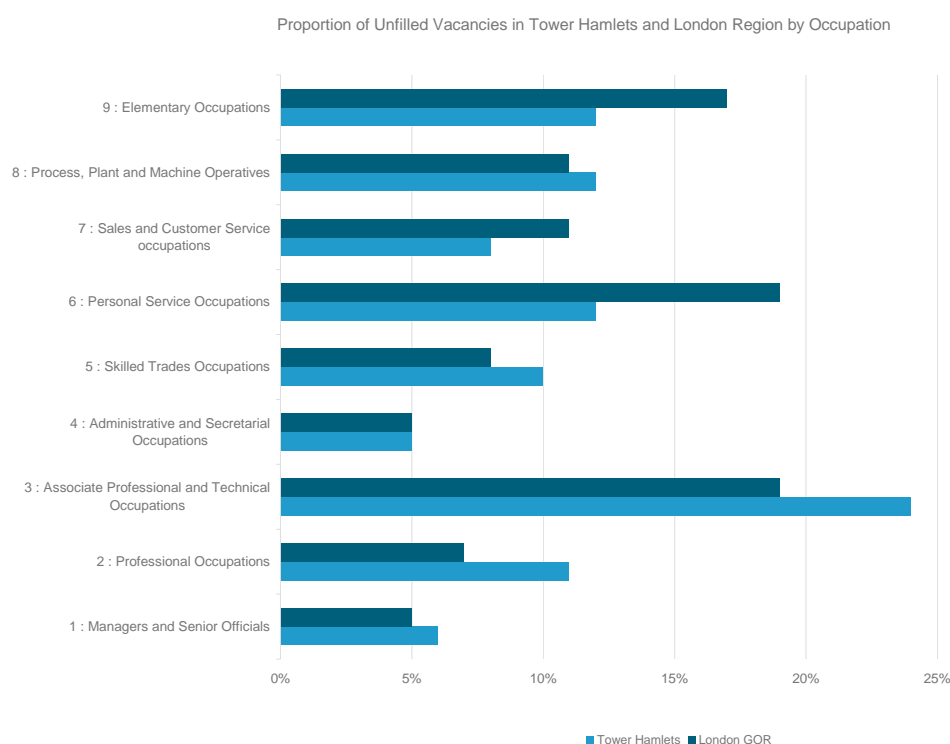
7.9 These conclusions are supported by the 2009 NESS which reported that, where employers in Tower Hamlets do have hard to fill vacancies, nearly all (95%) report that this is because of skill shortages rather than other reasons. This compares with the London average of 86% and 76% across England. Across London the main skills employers' found difficult to obtain were technical, practical or job specific skills (67%), customer handling skills (45%)

and management skills (43%). In addition two fifths found it difficult to recruit people with oral communication, problem solving and teamwork skills.

7.10

These difficulties may reflect the high number of high-level skilled jobs in the borough. Analysis of JCP vacancies shows that on average nearly a quarter (24%) of live, unfilled vacancies in 2009 were in associate professional occupations and two fifths were in the three high skilled occupational groups. This position is higher than the London average.

Figure 7.7 Proportion of Unfilled Vacancies by Occupation



Source: Job Centre Plus Notified Vacancies, 2009, ONS

7.11

Further disaggregation for the three high skilled occupational groups shows that these vacancies were for: sales representatives (accounting for 22% of the combination), vocational and industrial trainers and instructors (7%), police officers (5%) and social workers (5%).

7.12

A recent survey of London employers<sup>43</sup> suggests few are anticipating difficulties recruiting key staff to worsen over the next three years. It also suggests that the majority of employers recruit people employed elsewhere (90%) whilst 70% recruit those that are out of work. Around half recruit university and college leavers whilst around one third recruit school leavers.

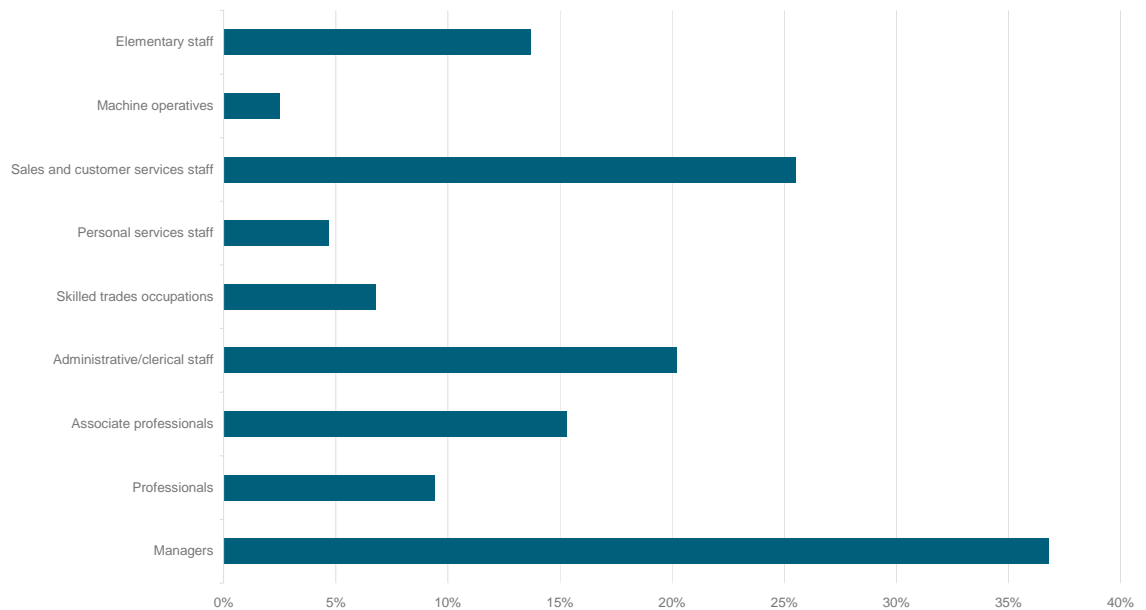
<sup>43</sup> London First, The Voice of London Employers, May 2010

## Skills gaps

7.13

Employers are described as having a ‘skills gap’ where they have staff who they believe to be not fully proficient at their job. In the 2009 NESS, shown below in Figure 7.4, 18% of employers in Tower Hamlets reported skills gaps amongst their existing workforce, which is similar to the London (17%) and national (19%) averages. Although care should be taken because of the sample size, the NESS suggests the highest proportion of employers in Tower Hamlets have identified skills gaps amongst their managers (37%), sales and customer service staff (26%) and administrative staff (20%).

Figure 7.8 Proportion of employers with skills gaps in each occupation



Source: NESS, 2009

7.14

Although the sample size for Tower Hamlets is small the 2009 NESS survey suggests the most common skills gaps identified by employers are related to technical, practical and job specific skills (61% of those with skills gaps identified this). The next most common skills gaps, identified by just under half, were oral communication, problem solving, management skills and team working. These reflect the skills gaps identified London wide, with the exception of customer handling skills with over half of London companies identifying this skills compared with around one third of Tower Hamlets companies.

Table 7.1 Type of skills gaps identified by those Tower Hamlets employers reporting skills gaps

Type of skills gap	% of employers reporting skills gaps
Technical, practical or job-specific skills	61%
Oral communication skills	45%
Problem solving skills	43%
Management skills	43%
Team working skills	43%
Office admin skills	40%
Customer handling skills	34%
General IT user skills	33%
Numeracy skills	28%
Written communication skills	26%
IT professional skills	19%
Literacy skills	17%
Foreign language skills	16%
Unweighted base	85
Weighted base	1,264

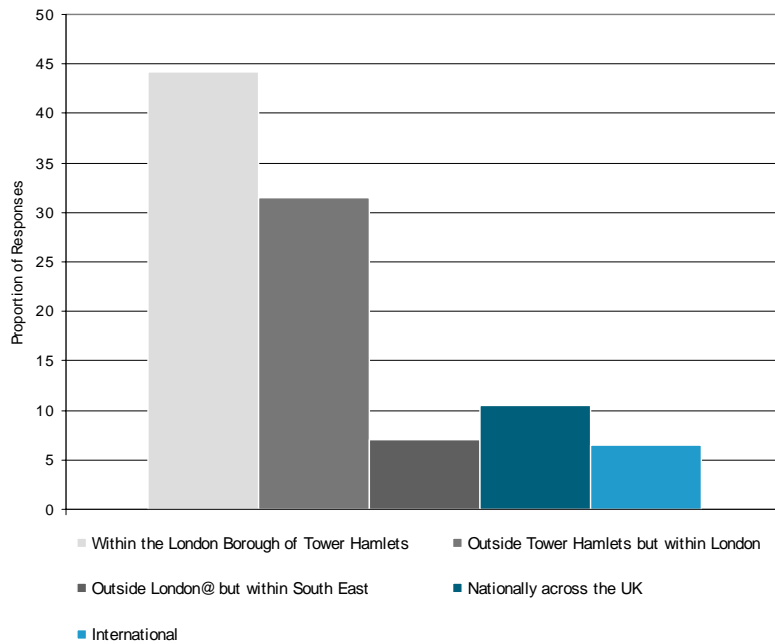
Source: NESS, 2009

- 7.15 Around 70% of Tower Hamlets employers with skill shortages intend to increase their training. Around one quarter will increase staff appraisals and performance reviews, and one sixth will undertake more provision of staff.

## Markets and Supply Chain

- 7.16 To provide an indication on the extent of markets served and supply chain linkages both within and beyond the borough, questions were posed centring on the location of customers and suppliers. Across all respondents, on average 45% of the customer base is located locally within Tower Hamlets, with a further 30% within London but outside of the borough. There were relatively small proportions reported where customers were located outside of London or the UK, but this in part reflects the lower number of responses received in these categories.

Figure 7.9 Question: what proportion of your customers are located in the following areas?

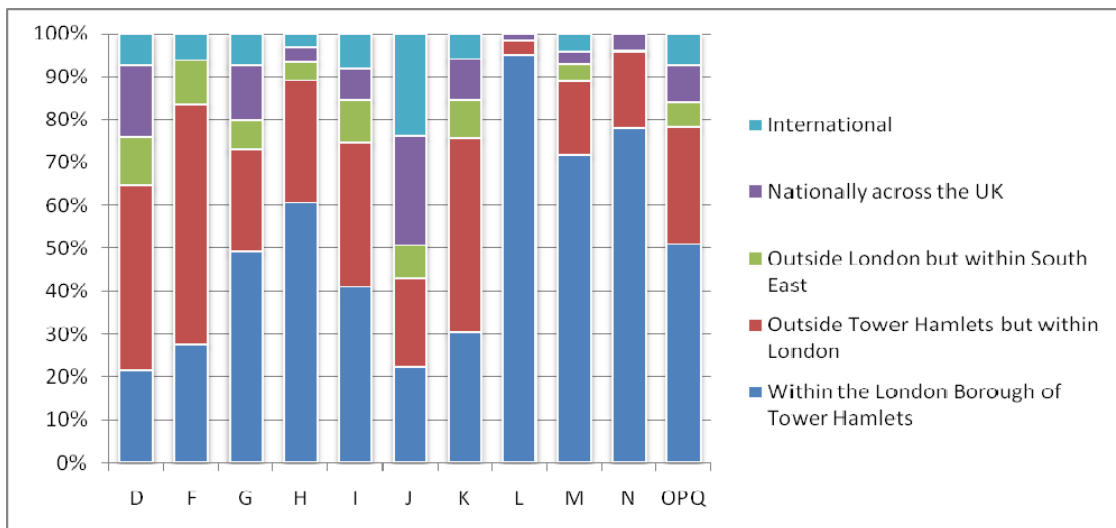


Source: NLP analysis

7.17

Taking the responses on a sectoral basis, firms in the ‘public services’ sectors (L, M, N) as expected have over 70% of their customers located within the borough, and Financial intermediation firms have the highest proportion of customers located internationally. In fact, the latter is the only sector not to have the majority of its customers located within the borough or London. Interestingly, in Manufacturing firms, nearly a fifth of customers are located nationally, greater than those in the South East (outside London).

Figure 7.10 Question: what proportion of your customers are located in the following areas? Responses by sector

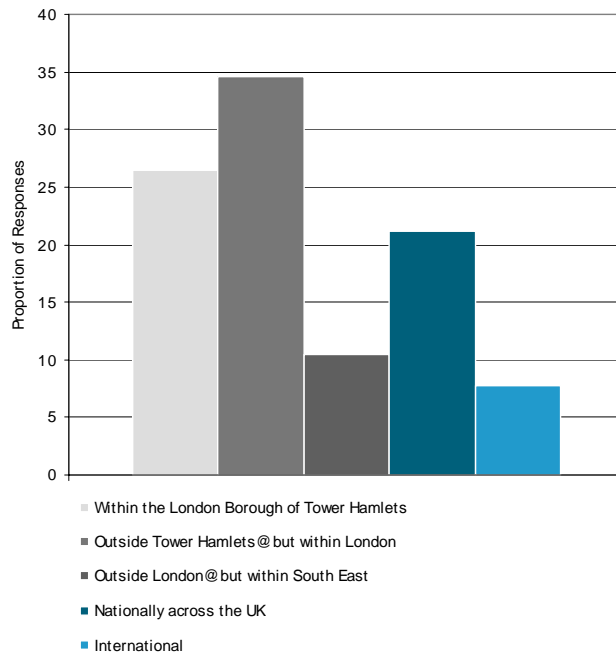


Source: Navigant analysis

7.18

In terms of supply chain, the response was more varied. About a quarter of suppliers were identified as being located within Tower Hamlets, representing a relatively localised supply chain. A further 35% of suppliers were reported as being elsewhere in London. Beyond London, about 20% of suppliers were located elsewhere in the UK but outside of the South East.

Figure 7.11 Question: what proportion of your suppliers are based in the following areas?



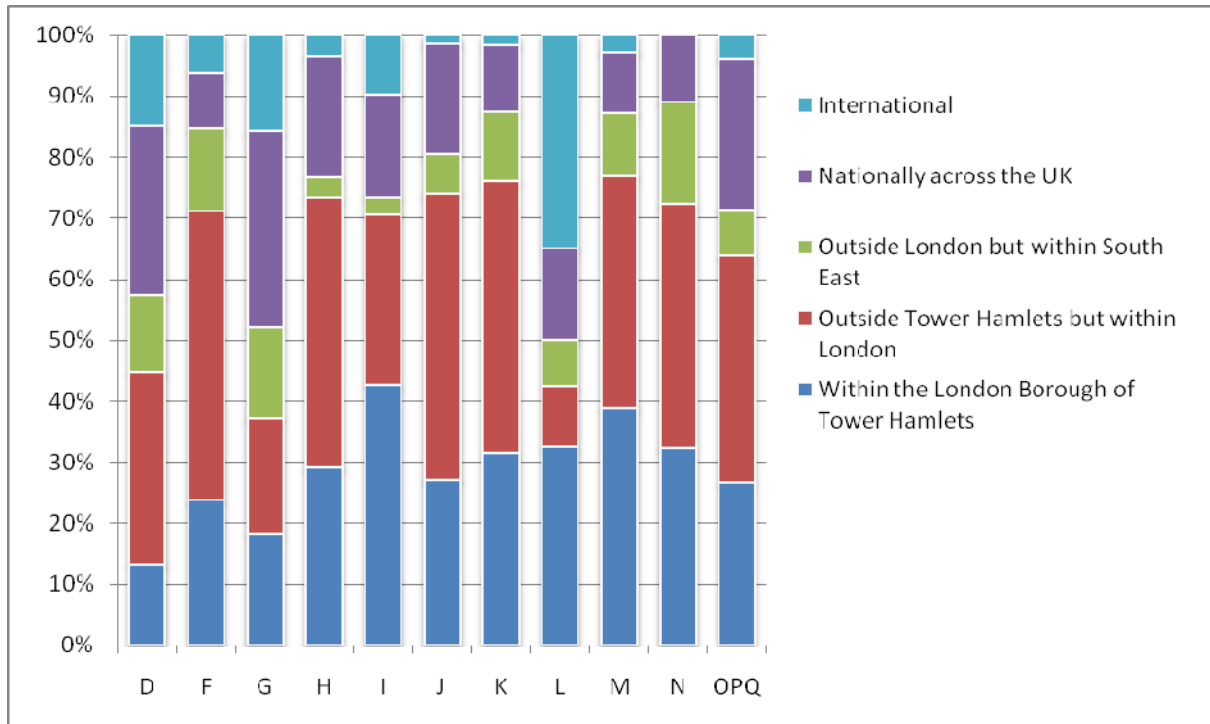
Source: NLP analysis

7.19

Transport, storage and distribution firms had the greatest proportion of suppliers within the borough at just over 40%. Wholesale and retail and manufacturing firms cited the greatest proportions of international suppliers, with over a sixth of suppliers based internationally.<sup>44</sup>

<sup>44</sup> The high proportion of international suppliers shown in Figure 8.12 for Sector L – Public administration and defence, social security - is due to the statistically small number of firms surveyed (4).

Figure 7.12 Question: what proportion of your suppliers are located in the following areas? Responses by sector



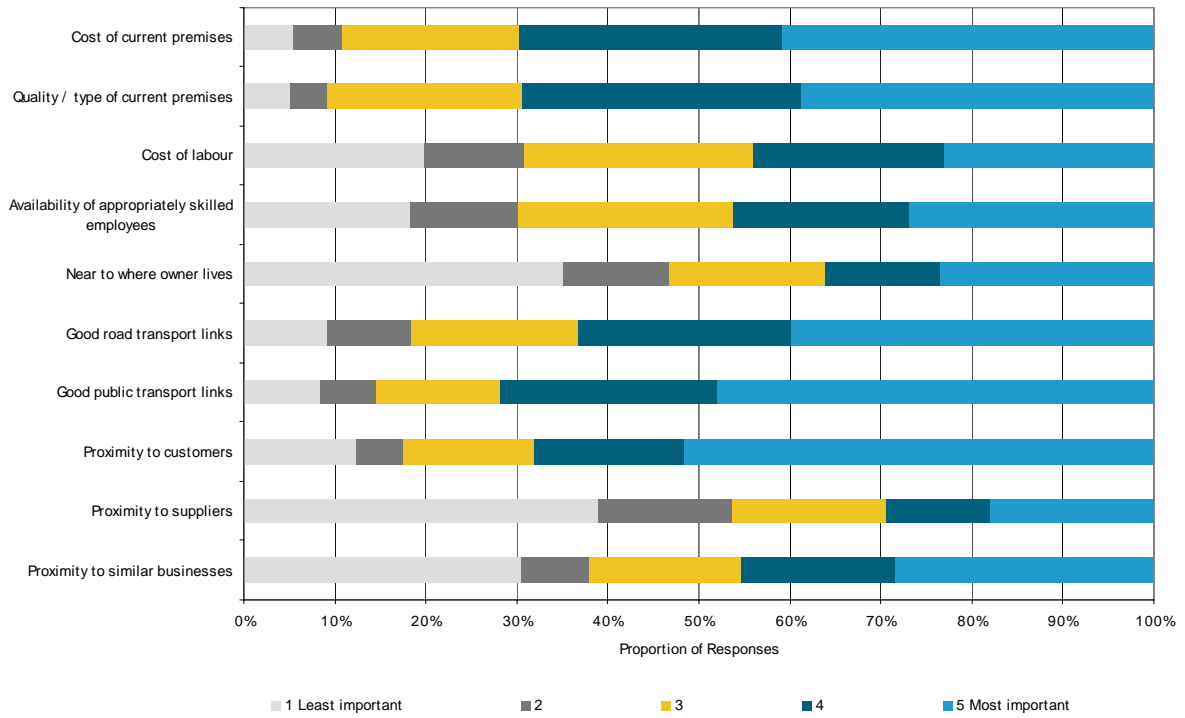
Source: Navigant analysis

## Tower Hamlets as a Business Location

- 7.20 Businesses were asked to rate in order of importance the factors that most important for doing business in Tower Hamlets, either in terms of what influenced their decision to locate in the borough in the first instance or that were important in determining their continued presence within the borough.
- 7.21 Proximity to customers and good transport links were rated highest, with about 50% of respondents identifying these factors the as the 'most important'. Cost and quality/type of premises both scored highly, with nearly 70% of respondents suggesting these were either 'most' or 'very important'. Factors such as proximity to suppliers or where the owner lives were deemed to be of least priority.



Figure 7.13 Question: how important were the following factors influencing your decision to locate/remain in Tower Hamlets?

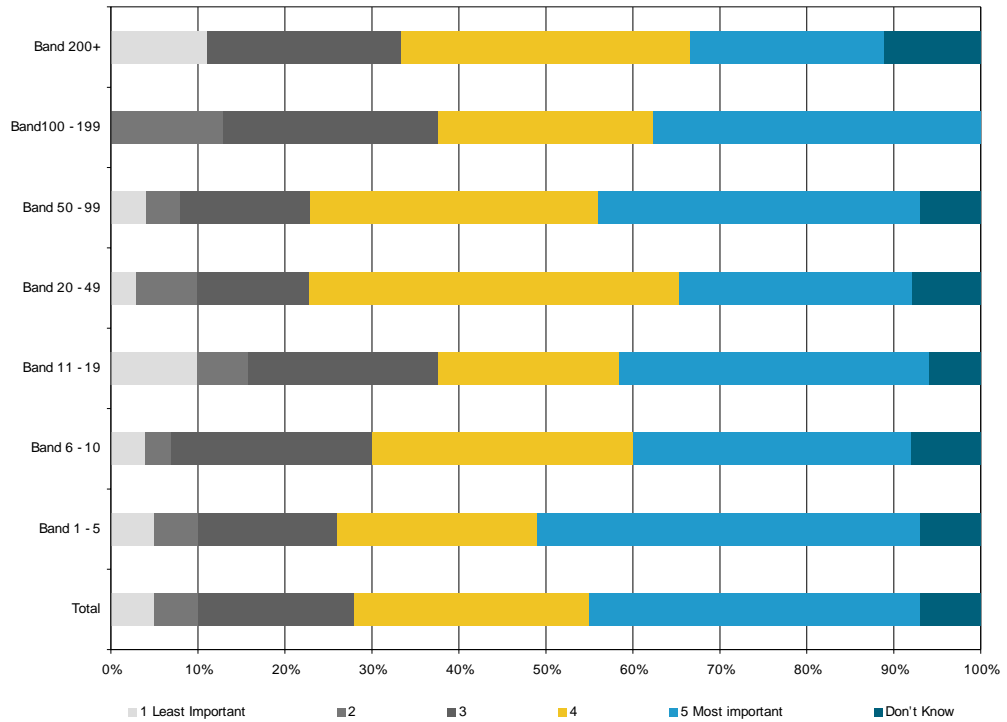


Source: NLP analysis

7.22

It is worth noting however that priorities tended to vary according to the size of business. For example, over 50% of businesses with 1-5 employees identified cost of premises as most/very important, compared to 35% of businesses employing over 200 employees.

Figure 7.14 Breakdown of responses for 'cost of current premises' (by size of firm)

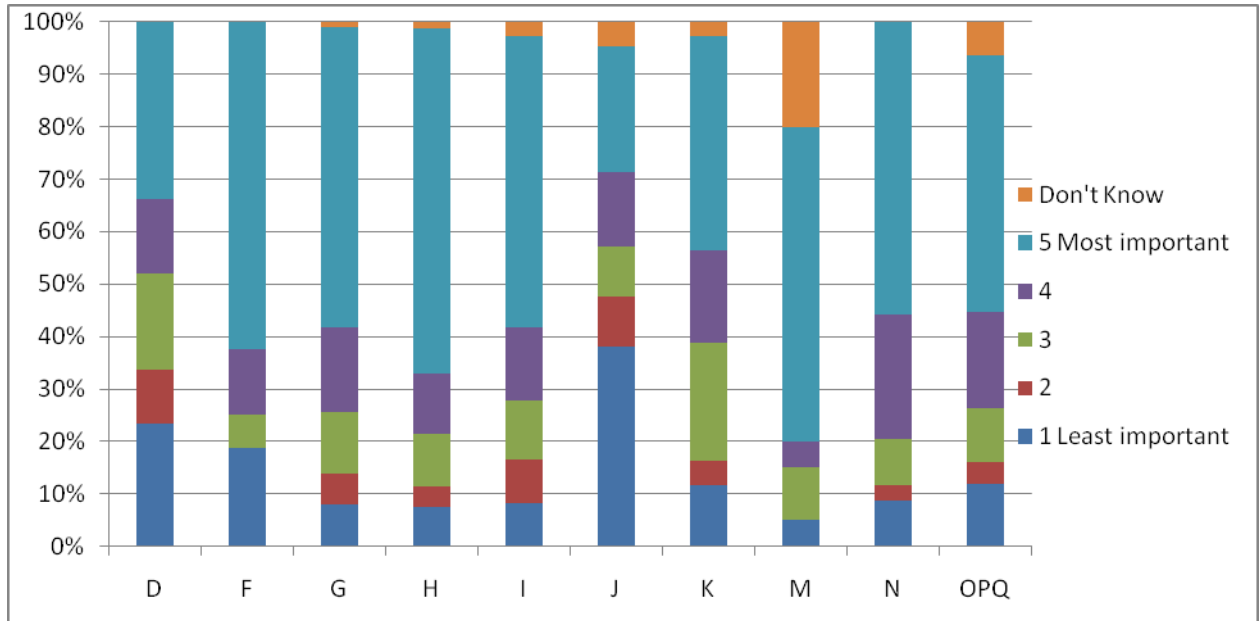


Source: NLP analysis

7.23

Priorities also varied across sector, for example, taking proximity to customers, this was deemed most important by respondents in the Hotels and restaurants and Education sectors as one would expect, and also by respondents in the Construction sector. This was deemed least important by firms working in Financial Intermediation, which again is to be expected due to the international basis of the sector

Figure 7.15 Question: how important is proximity to customers in your decision to locate/remain in Tower Hamlets? Responses by Sector

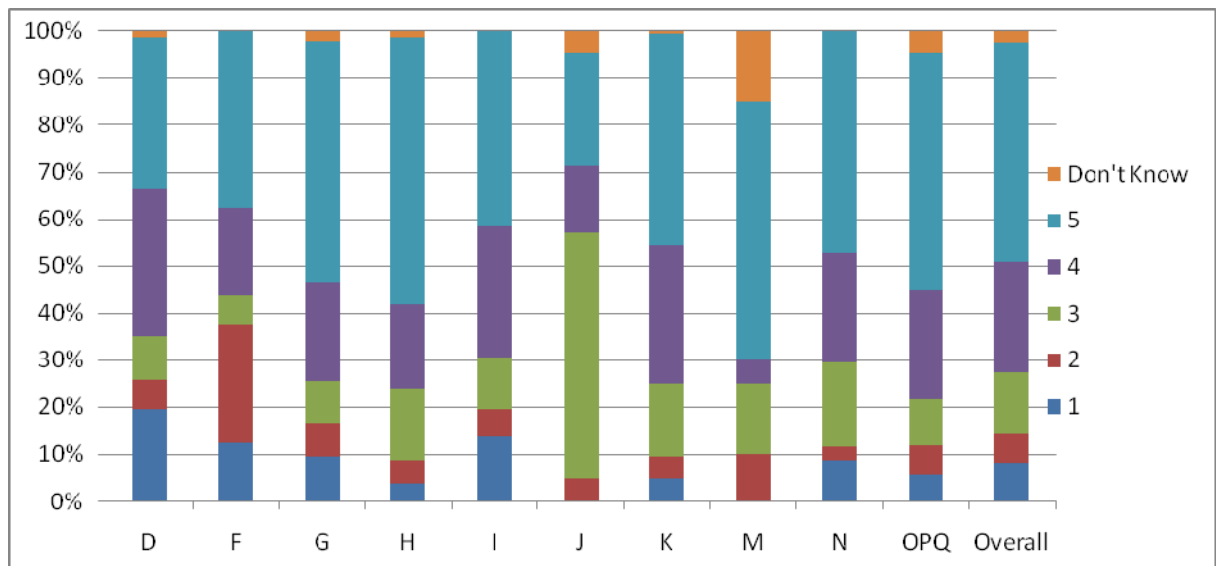


Source: Navigant analysis

7.24

Good public transport links were rated highest by over half of all respondents in three sectors: Hotels and restaurants; Education; and Wholesale and Retail trade, again mirroring expectations that ensuring people can access the services the firms provide is vital in these sectors.

Figure 7.16 Question: how important is proximity to customers in your decision to locate/remain in Tower Hamlets? Responses by Sector

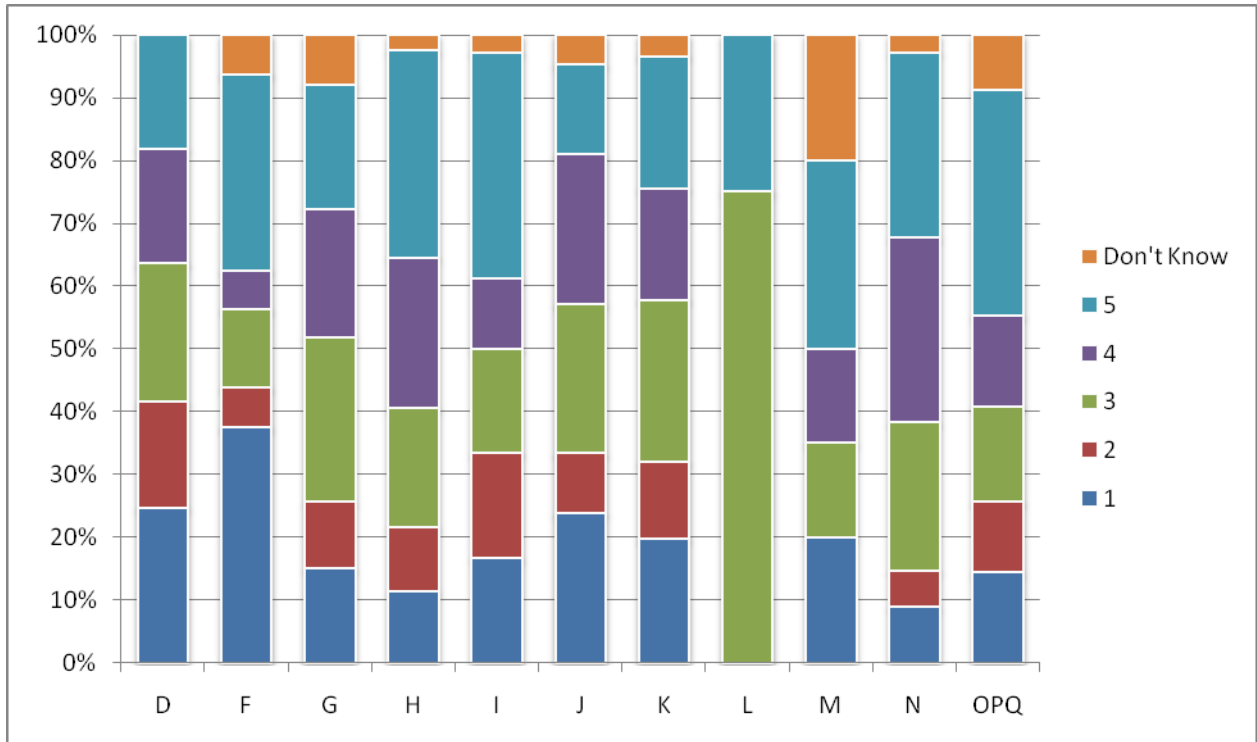


Source: Navigant analysis

7.25

With regard to the availability of appropriately skilled employees, this was deemed least important by firms in the Construction, Financial intermediation and Manufacturing sectors.

Figure 7.17 Question: how important is the availability of appropriately skilled employees in your decision to locate/remain in Tower Hamlets? Responses by Sector



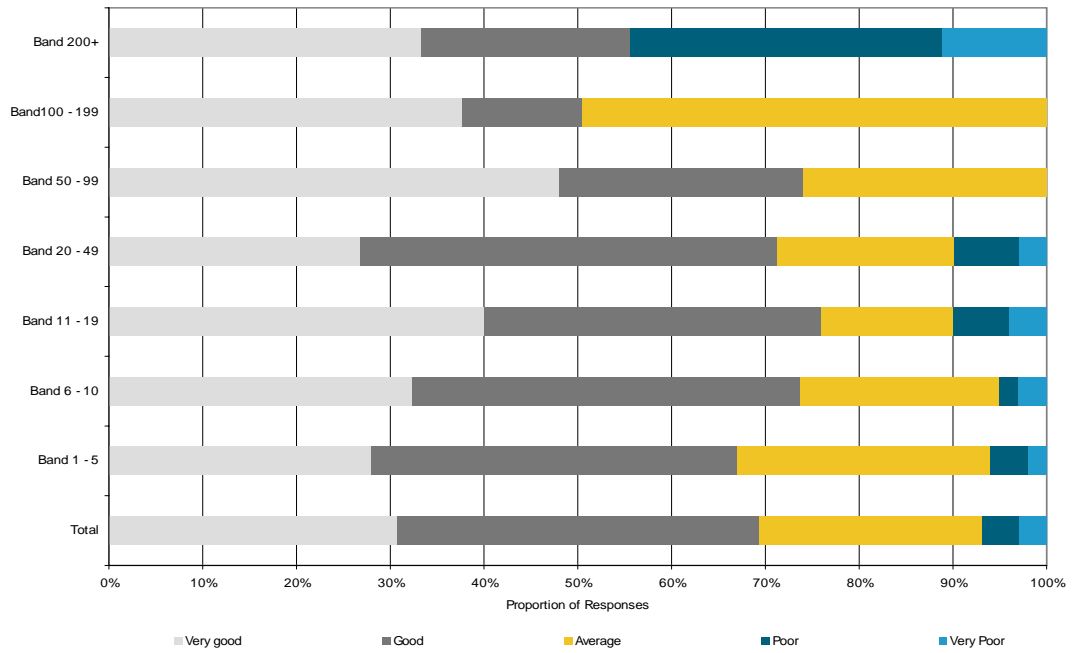
Source: Navigant analysis

## Workspace

7.26

Businesses were asked to rate the quality of their existing workspace relative to their business needs. Overall, some 30% of respondents indicated 'very good', with a further 40% responding as 'good'. Only 8% of respondents replied as 'poor' or 'very poor'. Responses from larger firms employing between 50-199 employees were generally more favourable, with no respondents rating their current premises as less than average; the exception was firms with more than 200 employees, where some 45% of respondents indicated their premises to be poor/very poor. This is perhaps surprising given the amount of large footplate office space within Tower Hamlets relative to other parts of London, although it should be noted that the number of responses in this category was lower than for the others. However, the overall picture suggested is that the majority of businesses surveyed were content with the quality of their premises.

Figure 7.18 Question: how would you rate the quality of your existing premises/site when taking account of the needs of your business?

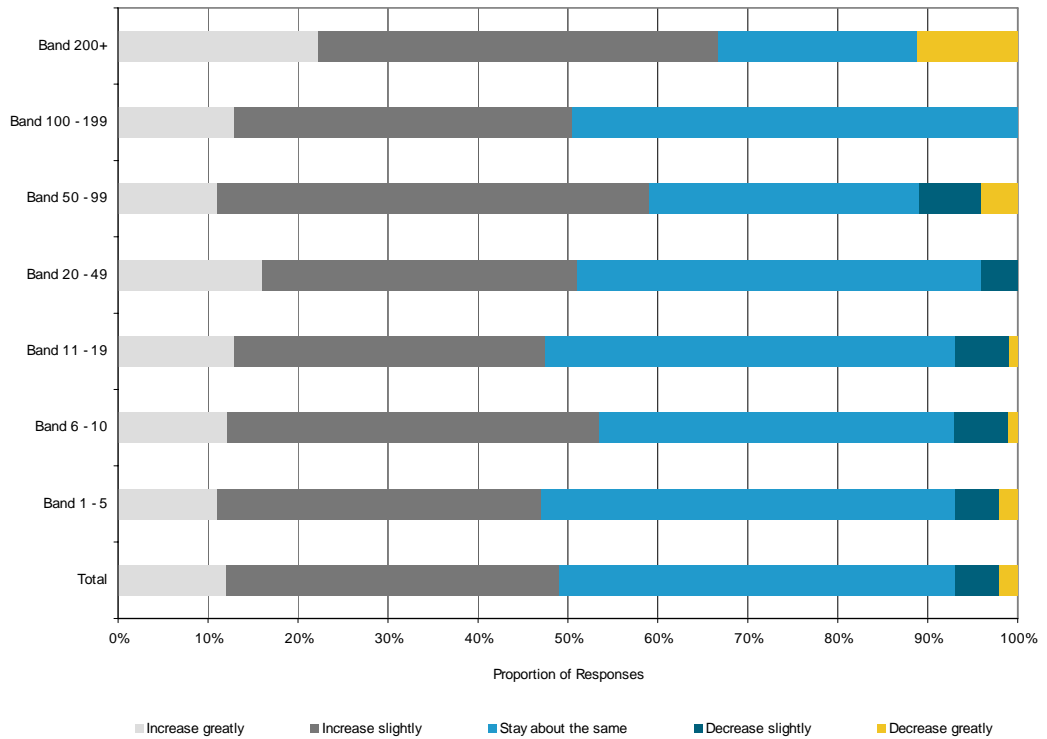


Source: NLP analysis

## Future Growth Expectations

- 7.27 An important consideration for the LEA and future economic development strategy in Tower Hamlets is to consider how the business base will grow and change in the future. Businesses were asked to provide an indication of their expected future change in workforce over the next 2-3 years, an important indicator in the context of recovery from the recession.
- 7.28 The majority of respondents (44%) indicated that employment levels are expected to 'stay the same'. In total, about 49% of respondents anticipated that employment levels would increase slightly/greatly.

Figure 7.19 Question: What changes do you anticipate in the size of your workforce in the next 2-3 years?

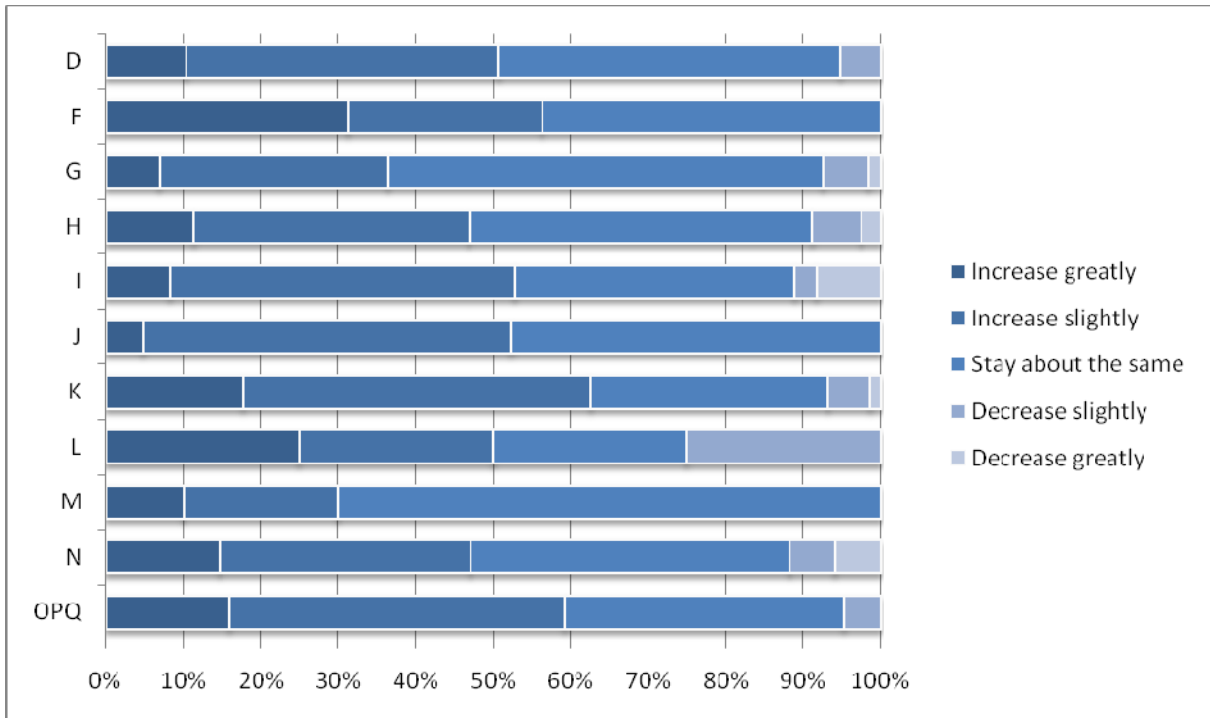


Source: NLP analysis

7.29

By sector, anticipated growth ('increase slightly' and 'increase greatly') in the size of workforce was most pronounced in firms in the Real estate, renting and business activities and Other community, social and personal service activities. One third of construction firms surveyed anticipated the size of their workforce to increase greatly, though half expected it to stay at about the same size. The 21 financial intermediation firms surveyed expected their workforce to stay the same or increase slightly.

Figure 7.20 Question: What changes do you anticipate in the size of your workforce in the next 2-3 years?  
Responses by Sector

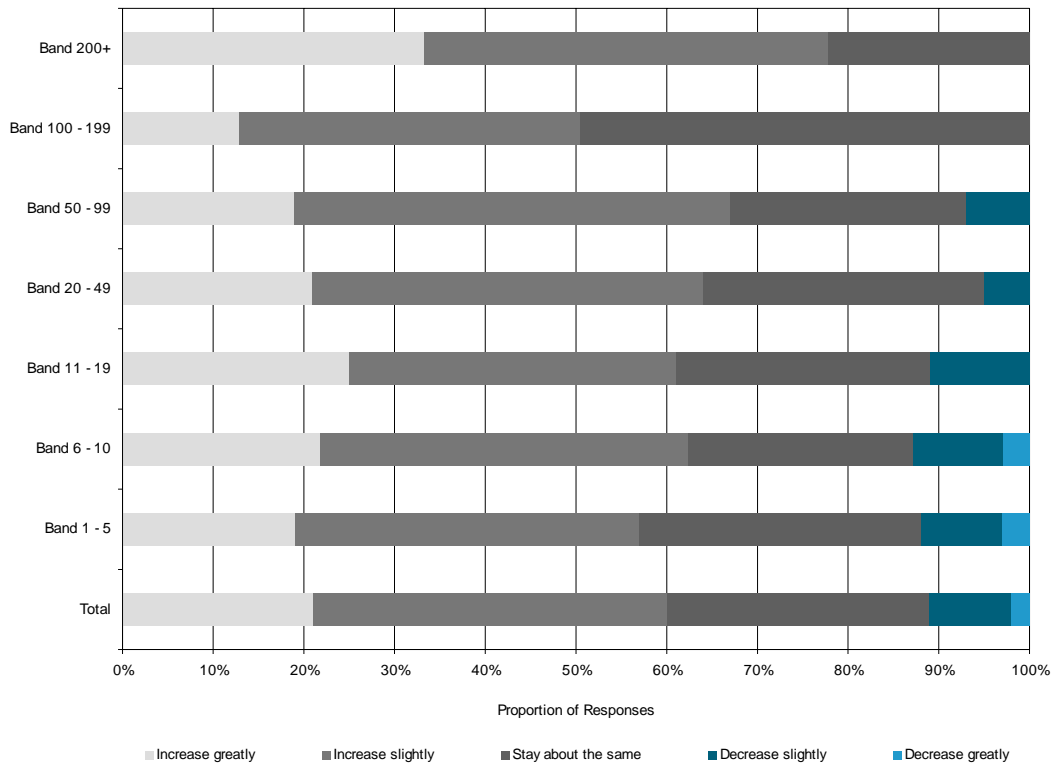


Source: NLP analysis

7.30

In terms of turnover, a significant proportion of respondents (39%) indicated that they expected turnover levels to ‘increase slightly’ over the next 2-3 years, with about 29% expecting they would ‘stay about the same’, and positively, some 21% considered they would ‘increase greatly’. Reflecting this, only 11% of respondents considered turnover would decrease to any extent. There was some variation in responses depending on the size of firm, with larger employers generally more optimistic about increases in turnover.

Figure 7.21 Question: What changes do you anticipate in the size of your turnover in the next 2-3 years?



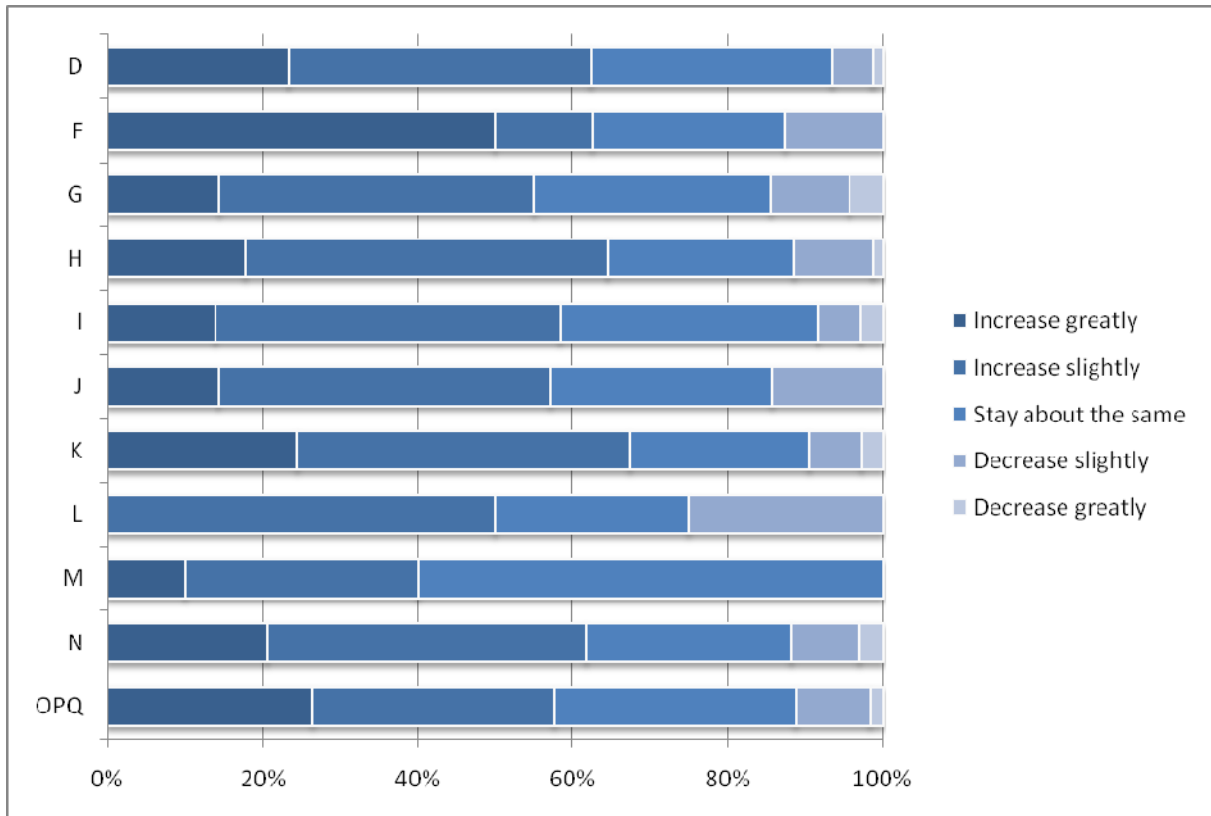
Source: NLP analysis

7.31

Firms within four sectors anticipated slight or greatly increased turnover in the next 2-3 years: Manufacturing, Construction, Hotels and Restaurants; and, Real estate, renting and business activities. Public administration firms surveyed felt that turnover would decrease greatly, which is perhaps understandable in the economic climate, but this was not echoed by respondents in the Education and Health and social work sectors.



Figure 7.22 Question: What changes do you anticipate in the size of your turnover in the next 2-3 years?  
Responses by sector

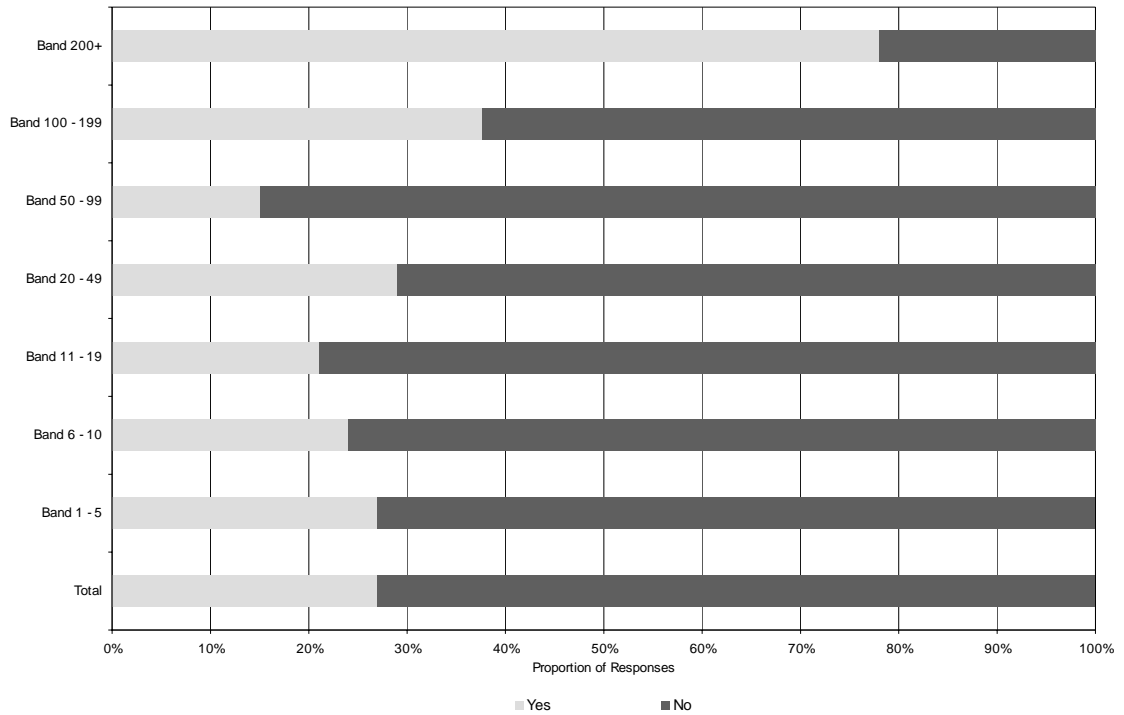


Source: Navigant analysis

7.32

In relation to premises needs to meet future growth expectations, over 70% of respondents indicated that they would be unlikely to need to move. However, there was significant variation depending on the size of business responding. Some 75% of firms with more than 200 employees indicated that they would need to move premises, compared to around 25% of firms with 1-5 employees.

Figure 7.23 Question: given your current and anticipated future operations, would you want / need to move premises?

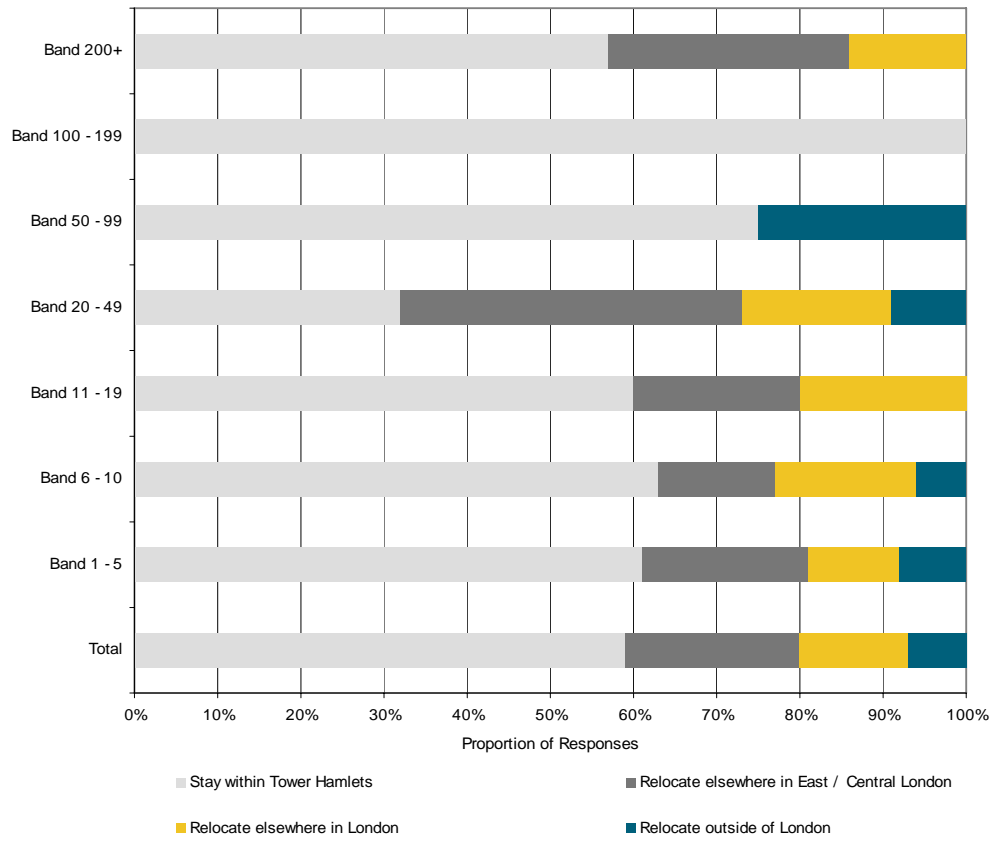


Source: NLP analysis

7.33

For those expressing a preference to relocate, the majority (60%) of respondents indicated they would prefer to remain within Tower Hamlets. Of those who would consider moving elsewhere, about 20% would relocate elsewhere in East or Central London, about 10% elsewhere in London, and in 8% of cases would relocate out of London completely. Whilst most of the smallest and larger firms indicated a preference to stay within the London, it was small-medium firms (particularly those employing 20-49 employees) who indicated a willingness to relocate outside of the borough. It may be indicative a lack of follow-on workspace for firms to relocate to as they expand, while the smaller and larger firms are generally well provided for.

Figure 7.24 Question: where would you move if relocating?

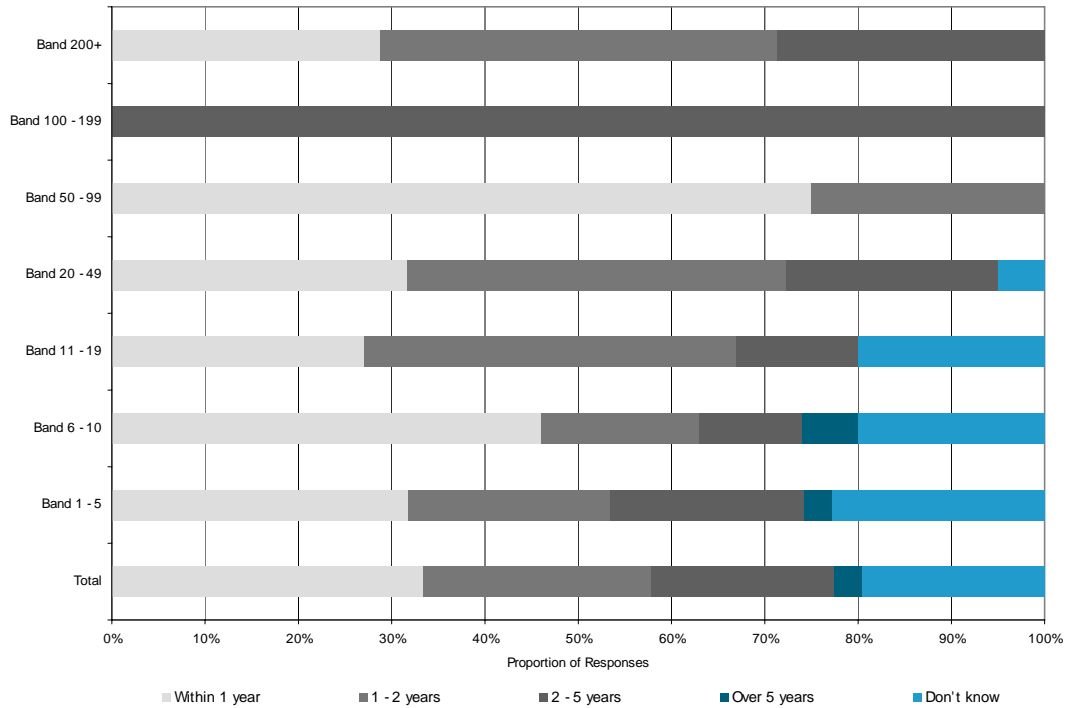


Source: NLP analysis

7.34

In terms of timescale for relocating, the majority of respondents would seek to move within five years, with about 35% of respondents indicated a requirement within 1 year. However, it is worth noting that this question had a reasonably high proportion (20%) of 'don't know' responses, so the figures should be considered with a degree of caution.

Figure 7.25 Question: when would you move if relocating?

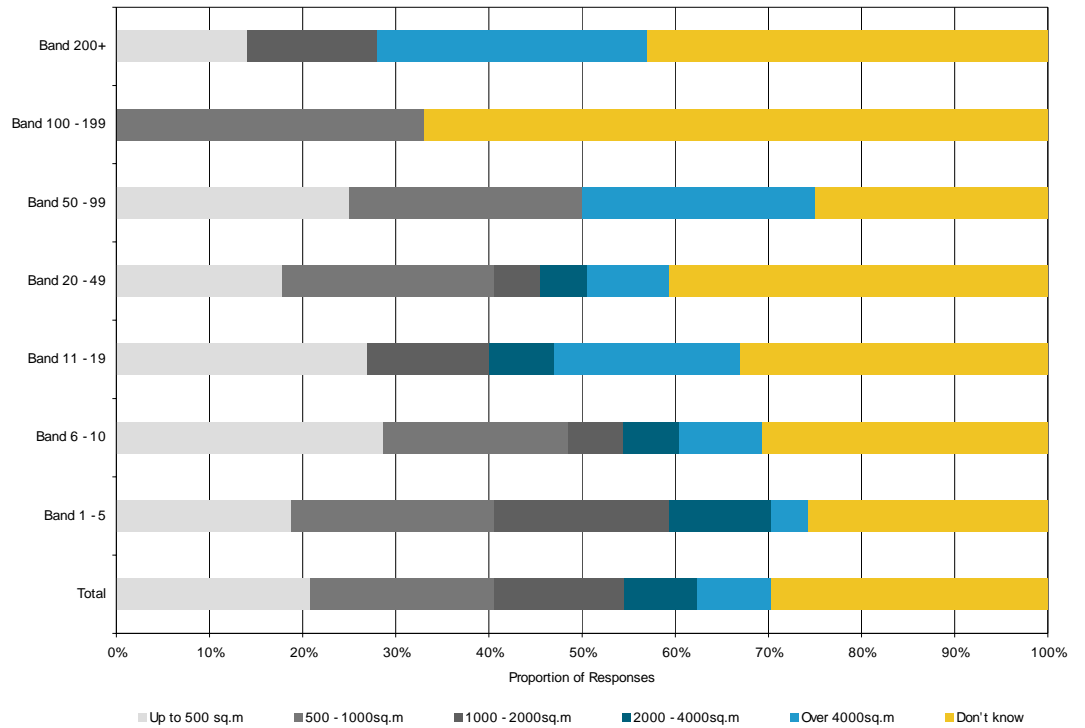


Source: NLP analysis

7.35

Those firms with an interest in relocating were asked to provide an indication of their potential floorspace requirements. Most demand was indicated for premises up to 1,000 sq.m. Unsurprisingly, larger firms indicated larger premises requirements, but the higher proportion of ‘don’t know’ responses make these less reliable. It is common in surveys of this type for respondents to be unsure when estimating workspace requirements in floorspace terms.

Figure 7.26 Question: how much floorspace would you require if relocating?

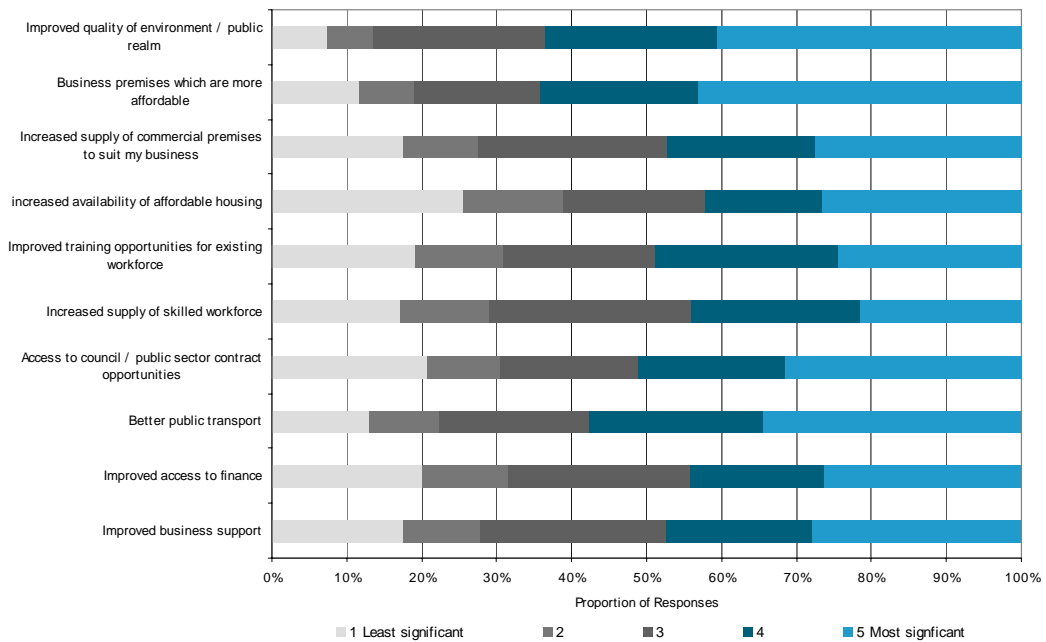


Source: NLP analysis

7.36

Businesses were asked to comment on what factors would most enhance their business prospects in Tower Hamlets. The highest scoring factor cited was more affordable business premises, with 65% of respondents suggesting this was most/very important. This was closely followed by improved quality of environment / public realm, and better public transport provision. Interestingly, increased availability of skilled workforce was only ranked as most/very important by just under 50% of respondents. Increased availability of affordable housing was considered the least priority factor.

Figure 7.27 Question: what factors would most enhance your business prospects in Tower Hamlets?



Source: NLP analysis

## Indications and Issues

### The situation:

- 1 Amongst respondents, workforce levels have proved reasonably resilient during the course of the recession.
- 2 About a fifth of business reported experiencing recruitment difficulties, with the common barriers being identified including language, a lack of basic skills, and shortage of higher-skilled workers.
- 3 Good public transport links, proximity to customers and premises are perceived as the most important factors for doing business within Tower Hamlets.
- 4 Respondents report a significant proportion (about 50%) of customers being based within the borough, but suppliers are more widely dispersed (only 25% are located locally).
- 5 Respondents appear reasonably optimistic about future growth prospects in terms of increasing turnover, but are more cautious about increasing workforce levels.
- 6 Current sites and premises were generally viewed as “fit for purpose”, and the majority of respondents seeking to relocate would prefer to remain within the borough.
- 7 More affordable business premises and improved environmental quality are regarded as the main factors that would enhance business prospects in the borough.

## Issues:

- 1 Feedback on local recruitment difficulties highlights a range of barriers – however language and basic skills emerge as two of particular concern. Tackling these will be a key way to encourage greater local recruitment. How can the borough’s future strategies on work and skills overcome these?
- 2 Views on sites and premises were generally positive, but affordability was raised as an issue. Does this simply reflect the premium for a locating close to central London, or does it reflect that the borough’s business floorspace has been in a state of transition, with large losses of industrial space?
- 3 Are other East London boroughs able to offer greater choice/lower cost alternatives, and if so, can/should Tower Hamlets be aiming to compete with these locations?
- 4 Businesses appear reasonably embedded within the borough – for example, for many it is home to a significant proportion of their customer base, and those looking to relocate would clearly prefer to stay. While current needs may be viewed as well provided for, are future requirements (e.g. premises, labour) as well understood and being planned for?

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