

London's Business Base

a report for London Councils



Produced by the Centre for Economics
and Business Research (Cebr)

**LONDON
COUNCILS**

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Executive Summary

About the report

- This report was produced by the Centre for Economics and Business Research (Cebr) for London Councils. The report summarises the data collection and analysis performed by Cebr to establish a comprehensive understanding of London's business base.
- Particular focus is placed on the contribution of micro-businesses to London's economy and the geographical location of particular clusters of industry activity around the capital.
- The high-level findings presented here are supplemented by 33 local authority profiles and a data workbook containing additional detail for each local authority in London, which are available on London Councils' website.

Headline findings

- There are over 1 million businesses in London. In line with the UK average an estimated 55% of these are unregistered small businesses.
- In 2018, 87% of all registered business local units (495,000) across London were micro-businesses (fewer than 10 employees).
 - London's registered (non-financial) micro-businesses generated over £210 billion in turnover in 2018 – an average of £475,000 per business.
 - This represents one fifth of the £1.06 trillion total turnover generated by London's non-financial businesses.
 - Small and micro-sized firms continue to play an important role in all sectors, even those such as finance and insurance which are dominated by larger companies, with 58% of registered businesses in these industries employing fewer than 10 people.
 - Since the financial crisis London's business base has grown substantially. The micro-business count grew by 50% between 2010 and 2018.
- While all of London's boroughs have their own economic strengths just three of them – the City of London, Camden and Westminster - account for 20% of all London's Gross Value Added.
 - On average, each London borough has a [revealed comparative advantage](#) in 71 industries.
 - The Central London Forward boroughs have more unique industry specialisms which produces a higher average 'complexity score' than across the other sub-regions of London.
 - 50% of London's micro-businesses operate in knowledge intensive industries, 13 percentage points higher than the UK average (37%).

What proportion of businesses operate in Knowledge Intensive Sectors?



1 London's business base

London is home to around 1.1 million businesses, making up around one fifth of the UK's total business population and generating over a quarter of national business turnover. Notably, London hosts 29% of the country's Information and Communication sector businesses, accounting for almost half (49%) of their turnover.

One important role of this research is, however, to establish more information about London's smaller businesses, revealing further detail about the location and industry mix of these firms. As such, much of the report considers micro-businesses, those with 0-9 employees, in detail. Altogether these represent 96% of all businesses in London, although more than 600,000 of these are so small as to be unregistered i.e. with turnover below the VAT threshold and not registered for PAYE (see Table 2). However, even among registered firms some 87% are micro-businesses.

Table 1: Summary of business population statistics for London (2018)

Category	Business counts	% of UK total	Turnover (millions)	% of UK total
All UK	5,667,510	100%	£3,861,613	100%
London	1,096,095	19%	£1,055,103	27%
Of which:				
Manufacturing	31,270	11%	552,725	8%
Construction	172,395	17%	318,170	18%
Wholesale and retail	94,320	17%	1,295,613	28%
Information and communication	104,175	29%	255,901	49%
Finance and insurance	20,755	24%	n/a	n/a
Professional, technical etc	207,165	25%	340,384	43%
Administration support services	88,490	18%	267,194	30%
Other services	49,860	15%	34,154	17%

Source: Department for Business, Energy & Industrial Strategy, business population estimates

Micro-businesses

As a proportion of all businesses, unregistered businesses are most prevalent among firms in the construction and 'other services' sectors. This result makes intuitive sense¹ as many forms of 'other services' activity cover so-called lifestyle businesses including small scale operations such as dog-walking or hairdressing that are often chosen for their flexibility but will often only generate turnover below the VAT threshold. Meanwhile, construction work is project based and skilled construction workers often seek a steady supply of new jobs from different employers which encourages self-employment.

¹ Notwithstanding any potential issues around businesses that fail to declare income in order to avoid registering for VAT

Table 2: Micro-business in London

Category	Micro (1-9 employees)	Businesses with no employees*	Of which: Unregistered businesses	Proportion of <u>all</u> business unregistered**
All UK	1,137,290	4,278,225	3,093,710	55%
London	195,420	858,580	605,995	55%
Of which:				
Manufacturing	5,995	23,480	17,515	56%
Construction	20,830	149,610	120,395	70%
Wholesale and retail	30,085	58,220	33,765	36%
Information and communication	20,205	80,090	35,835	34%
Finance and insurance	4,580	14,260	6,745	32%
Professional, technical etc	37,870	162,390	89,495	43%
Administration support services	21,030	62,900	40,980	46%
Other services	9,410	39,305	35,115	70%

Source: Department for Business, Energy & Industrial Strategy,

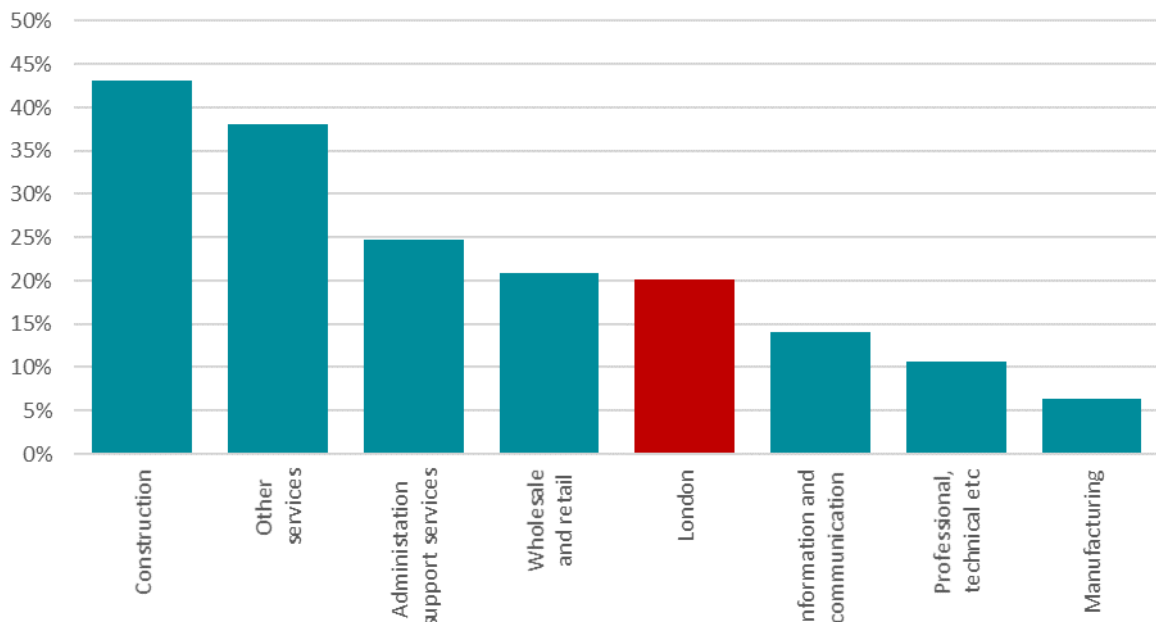
* includes working proprietors

**percentage of all businesses in each sector that are unregistered



Although 55% of businesses in London are unregistered their small scale means they generate just 2% all London's turnover, an average of £41,500 per business. By contrast, registered micro-businesses generate 20% of the total turnover across London an average of £475,000.

Figure 1 Share of total sector turnover generated by micro-businesses, London



Source: Department for Business, Energy & Industrial Strategy, Cebr calculations

Mapping London's business base

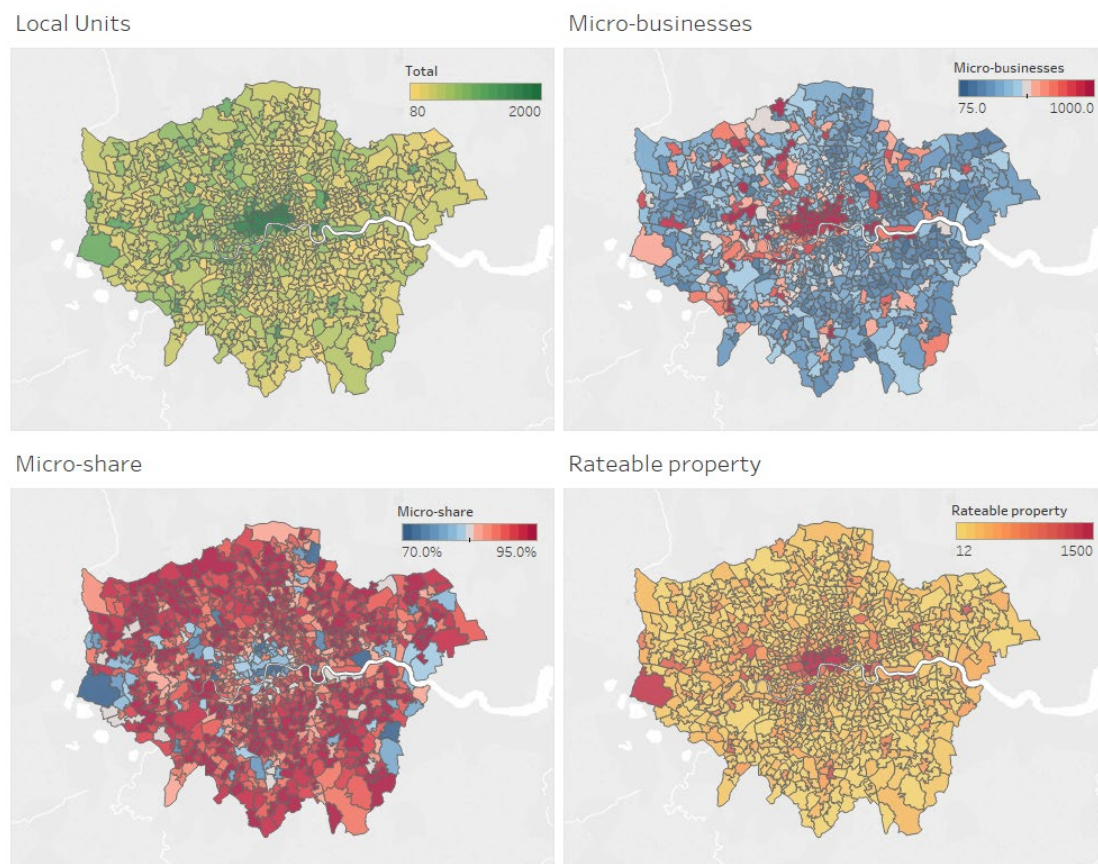
There are over one million businesses across the capital. But a lack of good data and the inherently low level of economic output produced by unregistered businesses means the following sections are concerned with analysing the role of the more than half a million registered firms in London. Nevertheless, the role of the self-employed people and unregistered business owners within London's supply chains remains worthy of discussion and clusters of activity within industries are often supported locally by self-employed workers within related industries.

A registered business (an enterprise) may operate across a number of sites and the majority of the analysis below considers the location of these individual sites across London's boroughs. The data used recognises these individual sites as 'local units' which the ONS defines as follows:

"A local unit is an enterprise or part thereof (e.g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place"

Local units may therefore be either a complete business based in a single location, or a local unit of a larger enterprise. There were 568,000 of these local units in London in 2018.

Figure 2 Various heatmaps – the number of local units, share of micro-businesses and number of rateable properties in London, by Middle Super Output Area, 2018



Source: Inter Departmental Business Register, London Councils, Cebr calculations

Maps contain public sector information licensed under the Open Government Licence v3.0.

The maps above illustrate the distribution of businesses across London at the Middle Super Output Area (MSOA) level. An MSOA is a geographical unit based on the 2011 census which contain a population of between 5,000 and 15,000 people. However, as indicated by the maps above this can relate to vastly different levels of business activity. The local units map (top left) simply shows the count of local units in each MSOA, with darker shades indicating a higher business count. The micro-business map (top right) is similar but in this case the count excludes local units with 10 or more employees. The proportion of micro-businesses in the total count of local units is shown in the micro-share map (bottom left), with dark blue indicating a lower share of micro-businesses in the area. Finally, the rateable property map (bottom right) shows the count of properties eligible for business rates in each MSOA.

London's economic geography is in part a function of its long history, with a central activity zone that has been home to globally important industries such as finance, insurance and shipping for centuries. As a consequence, older central areas both within and between boroughs are more firmly established and have over time attracted more dense clusters of businesses. Indeed, a quarter of local units are found in just four boroughs: Westminster (10.0%), Camden (6.1%), the City of London (4.8%) and Barnet (4.4%), of which Barnet is the only borough outside of central London. This is a similar proportion to the combined business count across the 13 boroughs with the smallest number of local units (26.4%).

Much of the industry within central areas is well established and these are home to many of the UK's largest firms. Consequently, the proportion of micro-businesses is typically lower in these central areas than in the outer London boroughs. Across London as a whole, 495,000 local units are micro-businesses – 87% of all local units.

While the number of businesses is skewed towards London's central activity zone, the level of economic output is even more concentrated within those same local authority areas. Westminster (14.6%), Camden (7.8%) and the City of London (11.9%) are estimated to have produced more than one third (34.3%) of London's Gross Value Added (GVA) in 2018. The 13 boroughs with the smallest volume of local units produced just 18.3% of GVA in the same period. One of the other notable hotspots on the maps above is the large MSOA on the western edge of London around Heathrow airport that contains many rateable properties and a relatively low share of micro-businesses.

Comparing the business base across boroughs

In order to compare each borough's business base, this report analyses a range of relevant data across the six dimensions outlined in Table 3. Details of the measures and the methodology for calculating the scores can be found in Appendix 1: Methodology.

Table 3 Summary of measures

Measure	Description	London
Business count	The number of registered businesses in the borough.	568,200
Business density	The number of registered businesses per resident employee. A score of 1 indicates an equal number of business and employees based in the borough. A low score suggests that resident employees are out-commuting or work for a few large companies, a high score indicates low levels of out-commuting and/or smaller businesses.	0.21
Micro-share	The share of registered business that are micro-businesses - defined as those businesses with 0-9 employees.	87%
Rateable properties per business	The number of rateable properties per registered business. A low ratio indicates that there are more businesses than rateable properties in the borough suggesting smaller businesses in industries that may not have a fixed place of work e.g. consultancy or construction.	0.48
GVA per business (£m)	The borough's total economic output (Gross Value Added) per registered business.	0.75
Business diversity	A measure of the industry concentration of the total business count. Higher scores indicate the business population is more concentrated in a few industries.	0.32
Complexity	<p>The complexity score measures the number of industries in which the borough 'punches above its weight' i.e. where the share of businesses in that industry exceeds the borough's share of all businesses in the country. The borough holds a 'comparative advantage' in these industries.</p> <p>The final score is the count of industries in which the borough has a comparative advantage, scaled by how widespread the industry is nationally, as measured by the count of local authorities that also punch above their weight in that industry. A score of 0 indicates no industry specialisation. Higher scores indicate more specialised and/or unique economic activity.</p>	0.90

Table 4 sets out the scores for all 33 local authorities in London across all six measures. The scores are heavily skewed towards the inner London boroughs for business density and complexity. Commercial land uses are far more prominent and intensive in these boroughs so there are inevitably more firms per resident employee, with workers commuting in from outer boroughs and beyond.

These areas are also significantly more 'complex' and in some cases e.g. the City of London represent global or national hubs for industries that are not widely represented outside of

those particular boroughs. A consequence of this level of specialisation is a lower business diversity score. By contrast, in most out boroughs the type of business is typically less niche and more evenly distributed across different industries.

Table 4 summary of key measures by London borough

Borough	Business count	Business density	Micro-share	Rateable properties per business	GVA per business (£m)	Business diversity ²	Complexity
Barking and Dagenham	7,790	0.16	88%	0.50	0.51	0.24	0.46
Barnet	24,820	0.22	91%	0.33	0.44	0.27	0.79
Bexley	9,895	0.12	88%	0.48	0.52	0.31	1.00
Brent	16,460	0.17	89%	0.48	0.58	0.23	0.80
Bromley	17,070	0.14	90%	0.38	0.46	0.31	0.57
Camden	34,745	0.58	85%	0.43	0.96	0.36	1.09
City of London	27,365	> 1	79%	0.59	1.86	0.54	1.93
Croydon	16,615	0.15	89%	0.49	0.49	0.28	0.66
Ealing	19,490	0.17	90%	0.48	0.54	0.25	0.79
Enfield	14,285	0.15	88%	0.46	0.49	0.23	0.63
Greenwich	11,265	0.14	89%	0.42	0.41	0.33	0.63
Hackney	21,145	0.27	89%	0.44	0.39	0.34	2.00
Hammersmith and Fulham	14,460	0.23	86%	0.55	0.83	0.31	0.64
Haringey	13,200	0.16	91%	0.49	0.46	0.25	0.71
Harrow	15,500	0.19	93%	0.31	0.42	0.37	0.52
Havering	10,990	0.13	87%	0.47	0.55	0.26	0.54
Hillingdon	15,320	0.17	85%	0.50	0.91	0.25	0.65
Hounslow	14,775	0.17	88%	0.45	0.91	0.36	0.67
Islington	21,010	0.28	85%	0.49	0.89	0.34	0.70
Kensington and Chelsea	15,590	0.47	85%	0.52	0.80	0.33	0.76
Kingston upon Thames	9,860	0.19	88%	0.44	0.52	0.34	0.55
Lambeth	15,660	0.15	87%	0.52	0.74	0.32	0.68
Lewisham	10,970	0.11	91%	0.49	0.48	0.31	0.51
Merton	12,490	0.16	89%	0.38	0.45	0.33	0.55
Newham	14,005	0.16	89%	0.49	0.54	0.31	0.51
Redbridge	14,760	0.20	92%	0.37	0.36	0.35	0.57
Richmond upon Thames	14,485	0.26	90%	0.38	0.53	0.43	0.83
Southwark	18,320	0.19	83%	0.58	0.86	0.32	0.85
Sutton	9,280	0.13	89%	0.39	0.51	0.31	0.58
Tower Hamlets	19,215	0.21	86%	0.68	1.55	0.36	0.96
Waltham Forest	11,775	0.14	91%	0.52	0.41	0.25	0.54
Wandsworth	19,010	0.16	90%	0.42	0.61	0.38	0.61
Westminster	56,580	0.99	81%	0.56	1.10	0.30	1.58
London	568,200	0.21	87%	0.48	0.75	0.32	0.90

² **Note:** The diversity score is a Herfindahl index where a higher score indicates a higher levels of concentration i.e **lower** diversity in the business base. This indicates the City has a lower diversity to Lewisham where there is no dominant sector

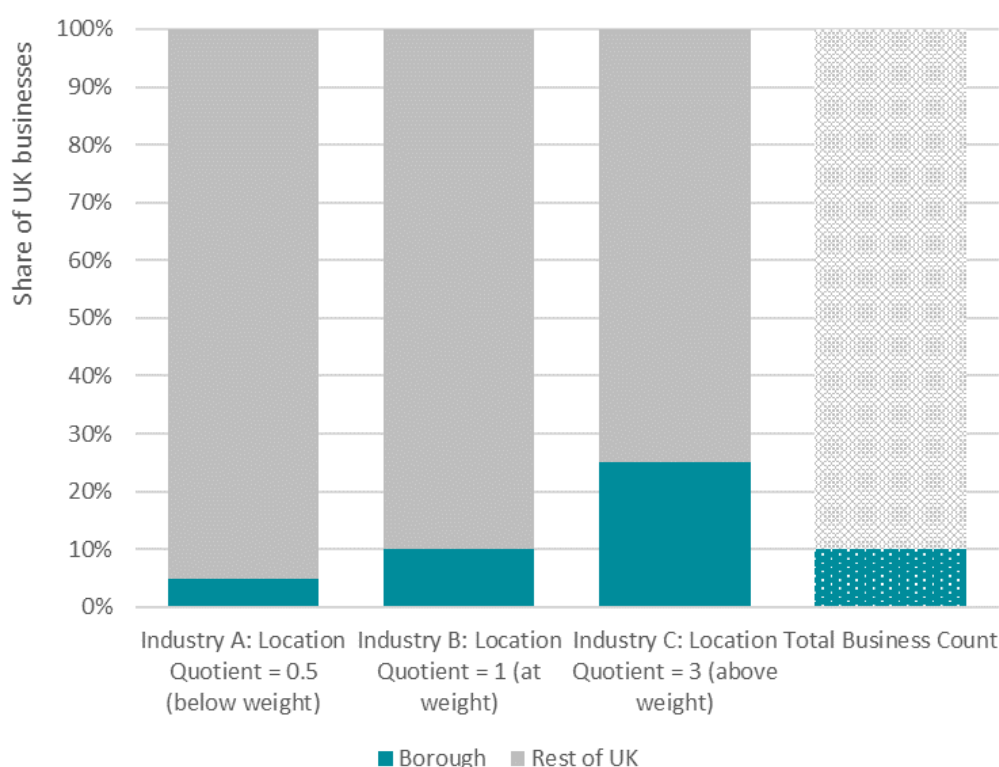
2 Revealed comparative advantage

One of the fundamental drivers of the complexity measure derived for the borough summary is the concept of revealed comparative advantage (RCA). The RCA is a way of looking at the various industries in a particular geography and assessing whether the size of an industry within that area is large relative to i) its own business base and ii) the size of the industry nationally.

Business based location quotients

The business-based location quotient is a score attributed to every combination of a location (local authority) and industry (3 digit SIC³ code). These scores are calculated as the proportion of an industry's national business count that are based in a location, divided by that location's share of all businesses nationally. If the score is 1, then that industry in that location is representative of the national average. A higher score indicates there is a local cluster and the area is 'punching above its weight' in that industry.

Figure 3 simplified example of revealed comparative advantage



In the hypothetical case presented in Figure 3, a local authority has a 10% share of the UK's total businesses but a 5% share of industry A, a 10% share of industry B and a 25% share of

³ Standard Industrial Classification code: SIC codes are numerical representations of major businesses and industries. SIC codes are assigned based on common characteristics shared in the products, services, production and delivery system of a business e.g. 620: Computer programming, consultancy and related activities

Industry C. The business location quotient scores for the three industries would be 0.5, 1 and 2.5, respectively.

This measure is useful because a score above 1 indicates that the industry is of greater than average significance to the local economy. In other words, something about the location suits that industry and it has a revealed comparative advantage (RCA). In the example, this borough punches above its weight in Industry C, which is more important to the business base locally than it is across the rest of the country. The opposite is true where the score falls below 1. In the example, Industry A is less prevalent than average in this local authority and there is no local advantage.

It is notable that the manufacturing sector is constituted of a large number of relatively niche industries – there are 95 separate 3 digit SIC codes in the manufacturing group, compared to just 9 in construction. This means manufacturing industries more regularly show up as a source of local comparative advantage because the national business count is spread across many categories. For instance, with only around 940 UK businesses engaged in the manufacture of electronic components and boards, just 5 or 10 of them being located in the smaller London boroughs would be indicative of a RCA.

Complexity scores

Across London most places have some areas of relative strength within their business base when compared to the rest of the country. To focus in on local authorities with a range of specialist industrial advantages, the relative strengths are adjusted into a 'complexity' score, which begins with the number of industry RCAs. On average, out of the 273 industries included in this analysis, the London boroughs record 71 industries in which their RCA score is greater than 1: Croydon has the highest number (83) while Harrow has the lowest (56).

In many cases, however, these strengths are not unique and are observed widely across the country. For instance, the requirement to provide some services close to the customer means that in industries such as repair and maintenance of motor vehicles or electrical installation, there are many small businesses providing these services across most local authorities. As a consequence of this business model, in both of these industries over 200 hundred of the UK's 381 local authorities have a RCA in at least one of them. By contrast, the City of London is the only local authority with a RCA in reinsurance.



260 of the UK's 381 local authorities have a revealed comparative advantage in the maintenance and repair of motor vehicles.

The purpose of the complexity calculation is to weight the raw count of the RCA values to account for how many other areas also indicate a relative strength in that industry. The final complexity score is the sum of these weighted RCA counts. For instance, an industry that is effectively confined to a single location e.g. reinsurance in the City of London, receives a 100% weighting. Meanwhile, relative strength in an industry like the maintenance and repair of motor vehicles is given a lower weighting, because so many other local authorities also have a high share of these businesses.

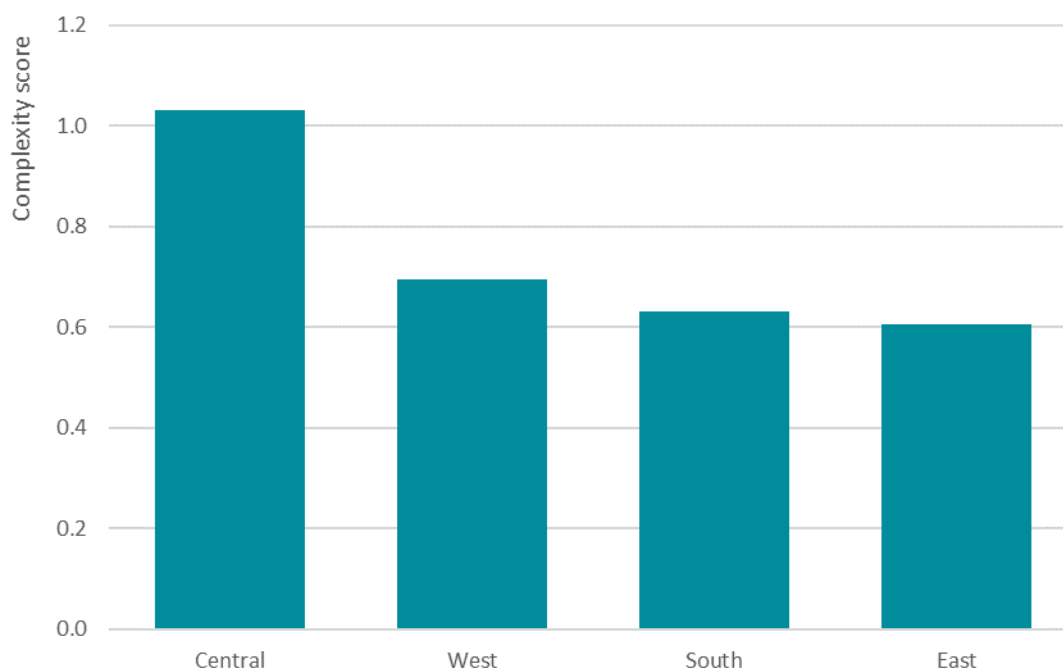
Some industries in London stand out based on their contribution to the complexity score. For instance, just 79 local authorities hold a comparative advantage in creative, arts and

entertainment activities across the country and 25 of these are located within London. Similarly, 26 London boroughs out of a total of 69 local authorities have a comparative advantage in motion picture, video and television programme activities. These industries clearly benefit from access to the pool of specialist talent and facilities that London is able to provide.

The simple average of the complexity scores for local authorities districts/unitaries across the UK is 0.68. Across London the simple average of all borough complexity scores is 0.78, which increases to 0.90 when weighted by business counts.

Figure 4 indicates the complexity scores of the four London sub-regions. With the most specialist industries that combine to produce higher complexity scores, typically found in the central boroughs⁴. This produces the highest overall complexity score across this sub-region. Outer boroughs have economies that are less different to the UK average, with their comparative advantage concentrated in industries that are much more common.

Figure 4 Complexity score by sub-region of London



Source: Inter Departmental Business Register, Cebr calculations

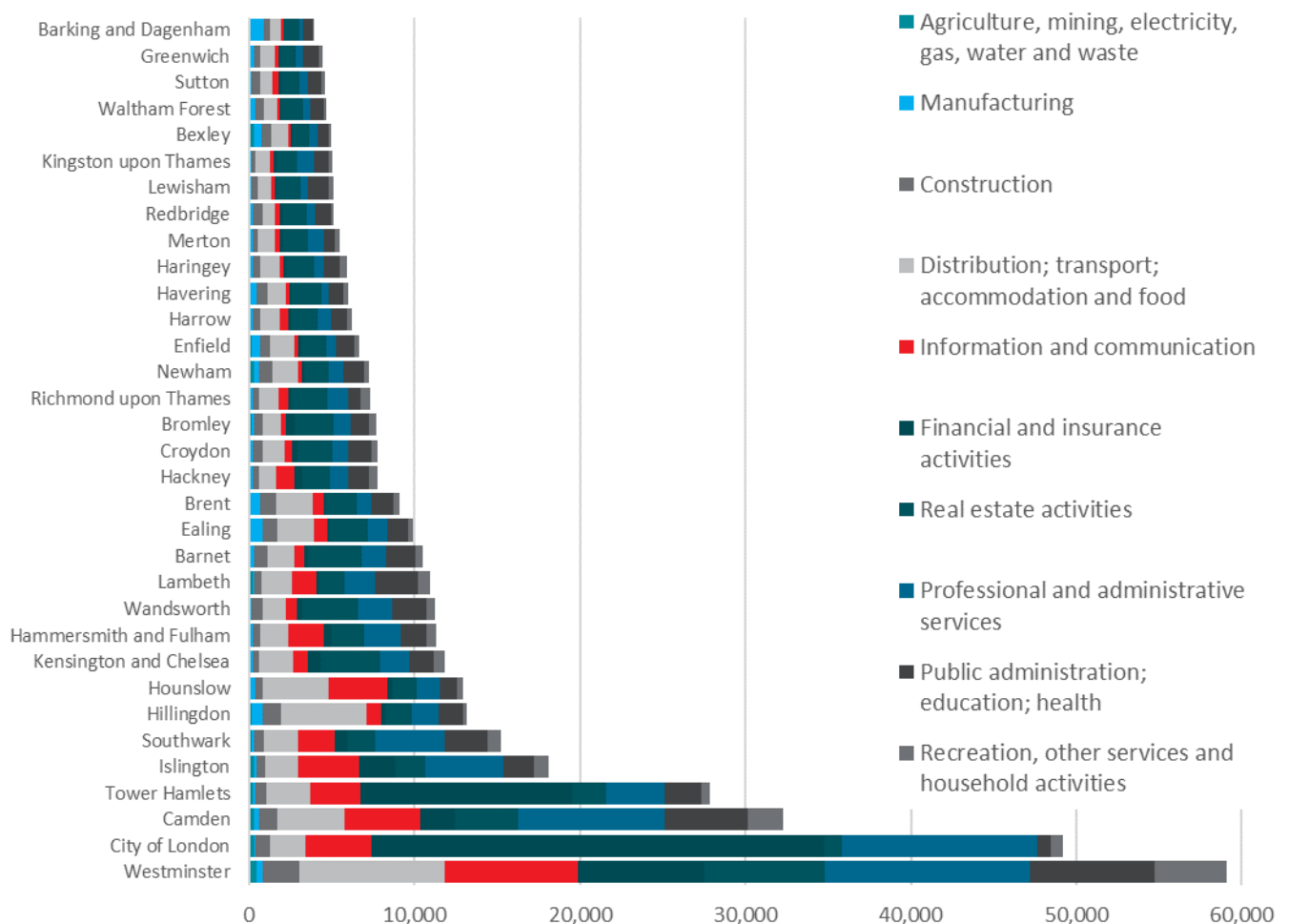
⁴ London is divided into four subregions with four subregional partnerships, Central London Forward's **Central** includes Lewisham, Southwark, Lambeth, Wandsworth, Kensington & Chelsea, City of Westminster, City of London, Tower Hamlets, Hackney, Islington, Camden, and Haringey; Local London's **East** covers Enfield, Waltham Forest, Redbridge, Newham, Greenwich, Bromley, Bexley, Barking & Dagenham, and Havering; The South London Partnership **South** includes Croydon, Sutton, Merton, Kingston upon Thames, and Richmond upon Thames; 'The West London Alliance's **West**' includes Hillingdon, Harrow, Ealing, Hounslow, Hammersmith & Fulham, Brent, and Barnet.

3 Gross value added and turnover

Gross Value Added (GVA) measures the combined value of the output produced in the economy (after accounting for taxes and subsidies). At the borough level this measures the amount of value added by the economic units in the production of goods and services in the local area. Figure 5 once again illustrates the dominance of central London in terms of GVA, and particularly the boroughs of Westminster and Camden and the City of London. Given the huge volume of businesses in these areas it is unsurprising that, in 2016, they accounted for 20% of total London GVA, worth £141 billion. Furthermore, the Central London boroughs had a GVA of £266 billion, equivalent to the South East of England (£259 billion).

The remaining London boroughs (the East, West and South sub-regions) had a combined GVA of £160 billion. This was close to that of the North West of England (£167 billion) and larger than any of the UK's other constituent regions or nations outside of the South East.

Figure 5 GVA by London local authority, 2016, £ million

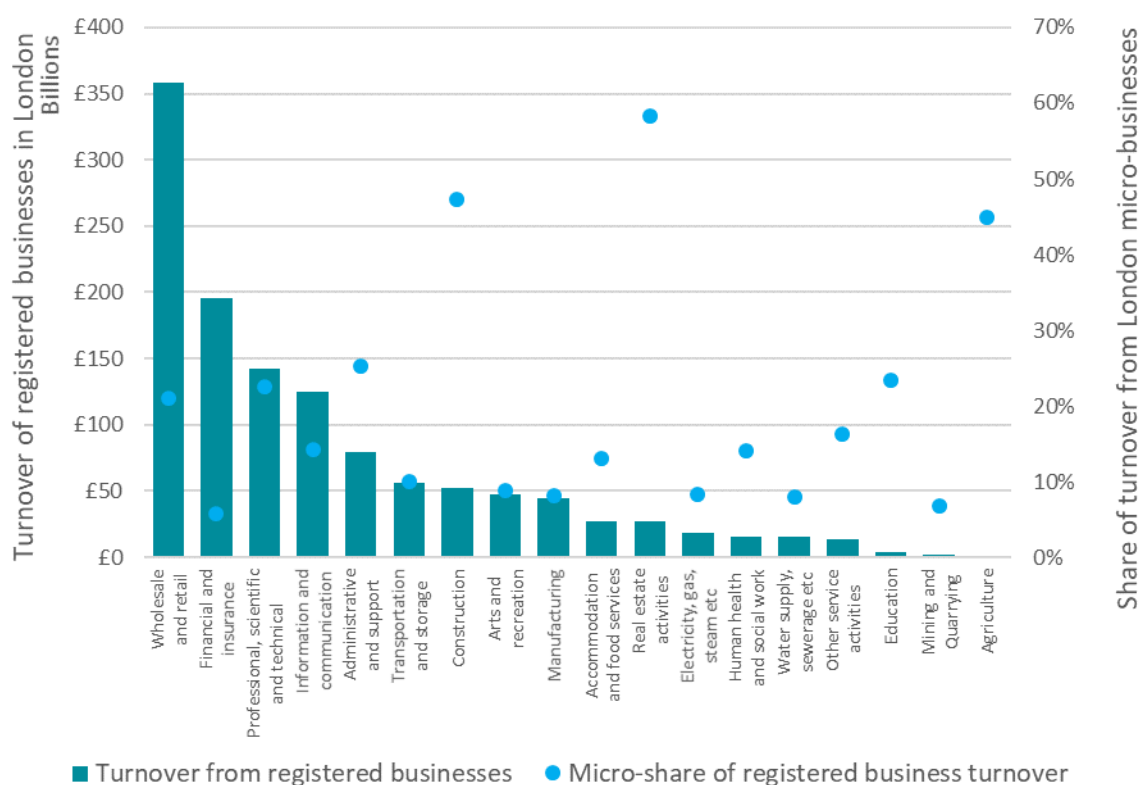


Source: Office for National Statistics, Gross Value Added (Balanced) by Local Authority

By excluding any intermediate consumption, GVA is a more refined measure of economic output, accounting only for the value of goods and services produced locally and not any inputs to production that were made elsewhere. At the borough level, this data is experimental and limited in scope, however, and is not suitable for deeper investigation. Instead, the remainder of this section focusses on turnover as a lens with which to examine the nature of each borough's micro-businesses.

The turnover data available are produced in bands and therefore the analysis presented below is heavily rounded and purely indicative⁵. Nevertheless, Figure 6 shows how the output of micro-businesses varies across industries and boroughs.

Figure 6 turnover of registered businesses and share of turnover from micro-businesses



Source: ONS Business Population Estimates, Cebr calculations

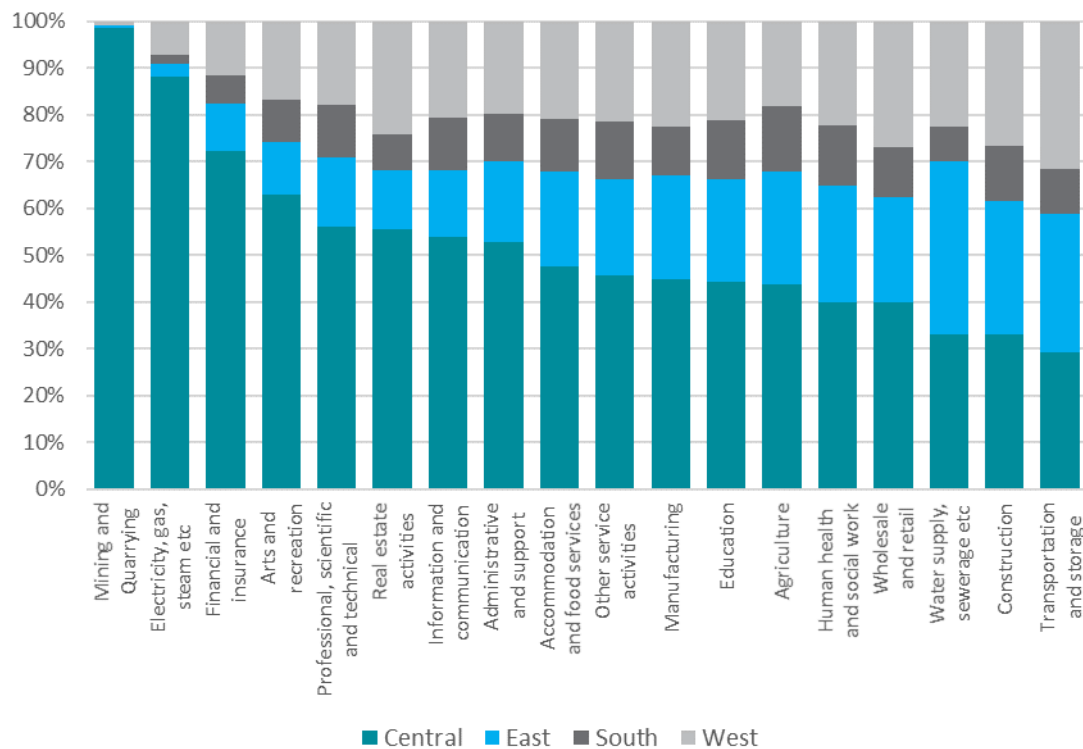
Wholesale and retail trade is responsible for over a third of turnover in London, but due to the high level of intermediate consumption, where finished goods are delivered from other suppliers and sold on by retailers, the sector accounts for just 7% of GVA in London. Micro-businesses account for a reasonably small share of turnover in wholesale and retail (21%) compared to industries such as construction, where micro-businesses are estimated to be responsible for 47% of turnover among all construction businesses registered in London.

The spread of turnover across the London boroughs varies significantly between sectors. For instance, while the Central boroughs are estimated to be responsible for 99% of all

⁵ See methodological appendix for further details.

turnover in mining and quarrying businesses (in London generally HQ activities) this falls to less than a third for transportation and storage. The same pattern applies for turnover among micro-businesses, whereby the central zone generates the bulk of the turnover of the most specialist industries. Manufacturing is more evenly spread, with around a fifth of turnover estimated in both the West London (23%) and East London (22%) sub-regions.

Figure 7 sub-regional breakdown of micro-business turnover by sector, 2018

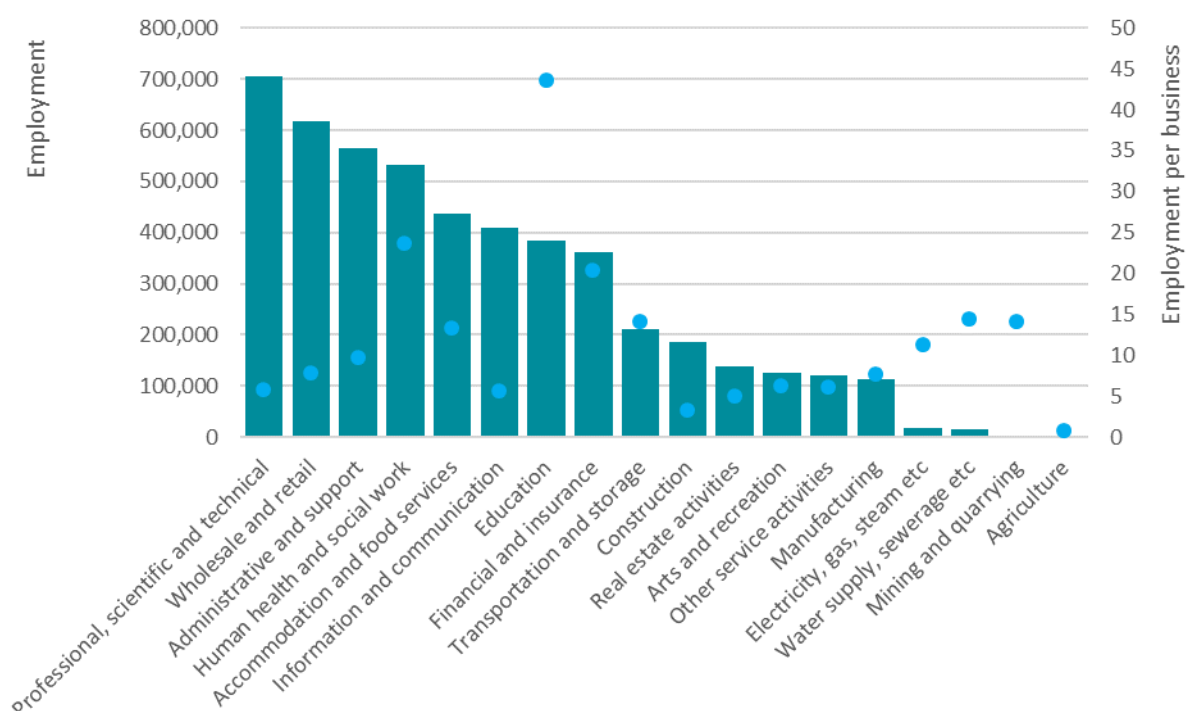


Source: Inter Departmental Business Register, Business Register and Employment Survey, Business Population Estimates, Cebr calculations

4 Employment

Employment in London largely tracks the business base and although its distribution will vary between sectors the average employment intensity in some industries is notably higher than in others. For instance, while the production industries and utilities have higher levels of employment per business, these industries are not central to the economy of London and as a consequence there is very little employment in total. Employment per business is highest in education, as the sector is dominated by large organisations, often in the public sector.

Figure 8 employment in London and level of employment per private sector business, by industry

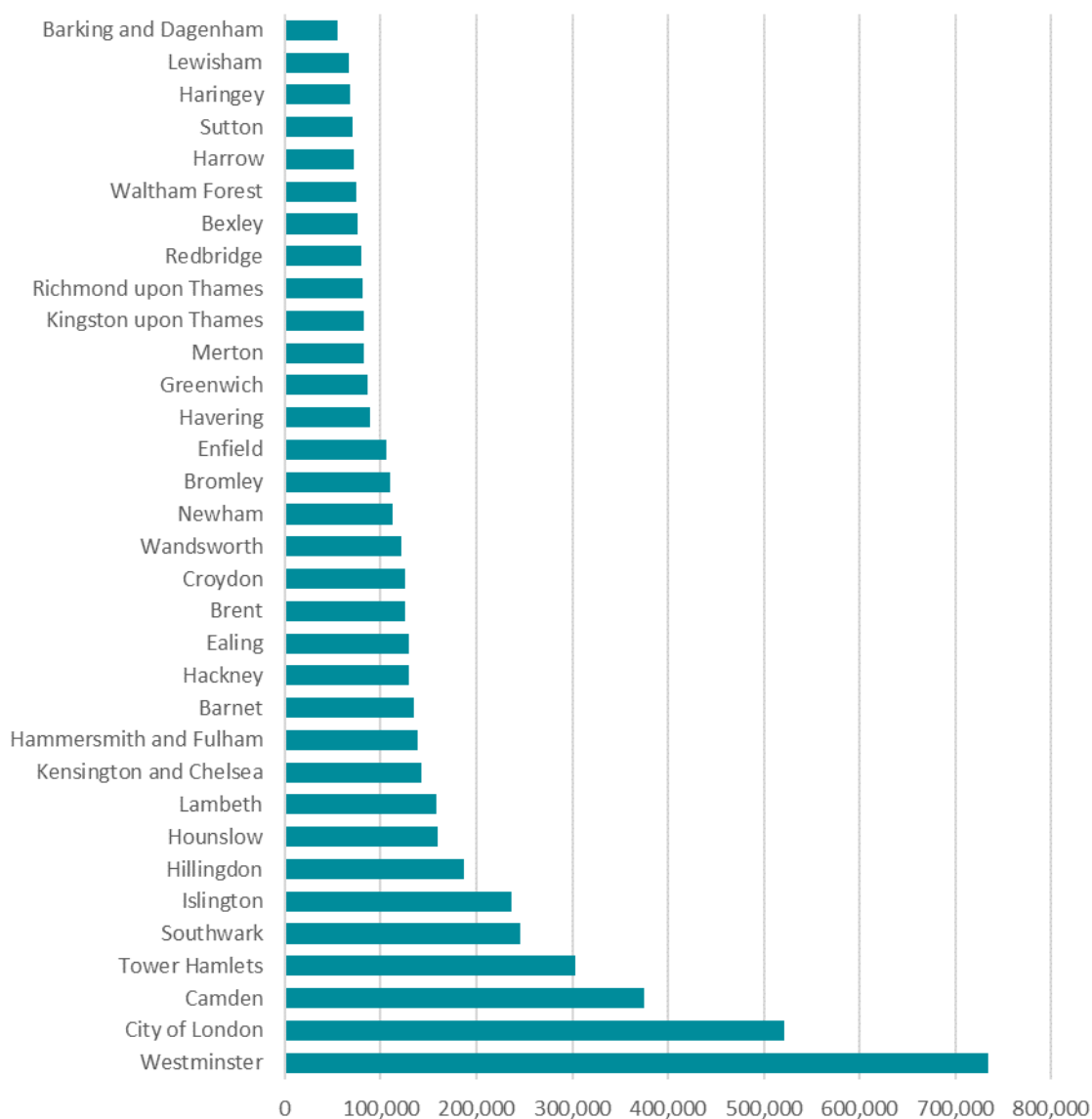


Source: Business Register and Employment Survey, Inter Departmental Business Register

The professional and technical services sector is the largest by both employment numbers and the number of businesses. Over 700,000 employees in the sector are spread across 124,000 private sector businesses, an average of around 6 employees per business. The lowest average number of employees per business across the sectors was in construction, with many skilled tradesmen setting up independently in small registered businesses. The information and communication sector also features many small consultancies, bringing down the average number of employees per business.

The sub-regional breakdown is skewed heavily toward central boroughs, with 59% of employment in the Central sub-region. The Southern sub-region contains the lowest share of employment at just 8%, although it should be noted that this region is comprised of just five boroughs. The West and East sub-regions are home to the remaining 18% and 15% of employment, respectively.

Figure 9 employment by local authority

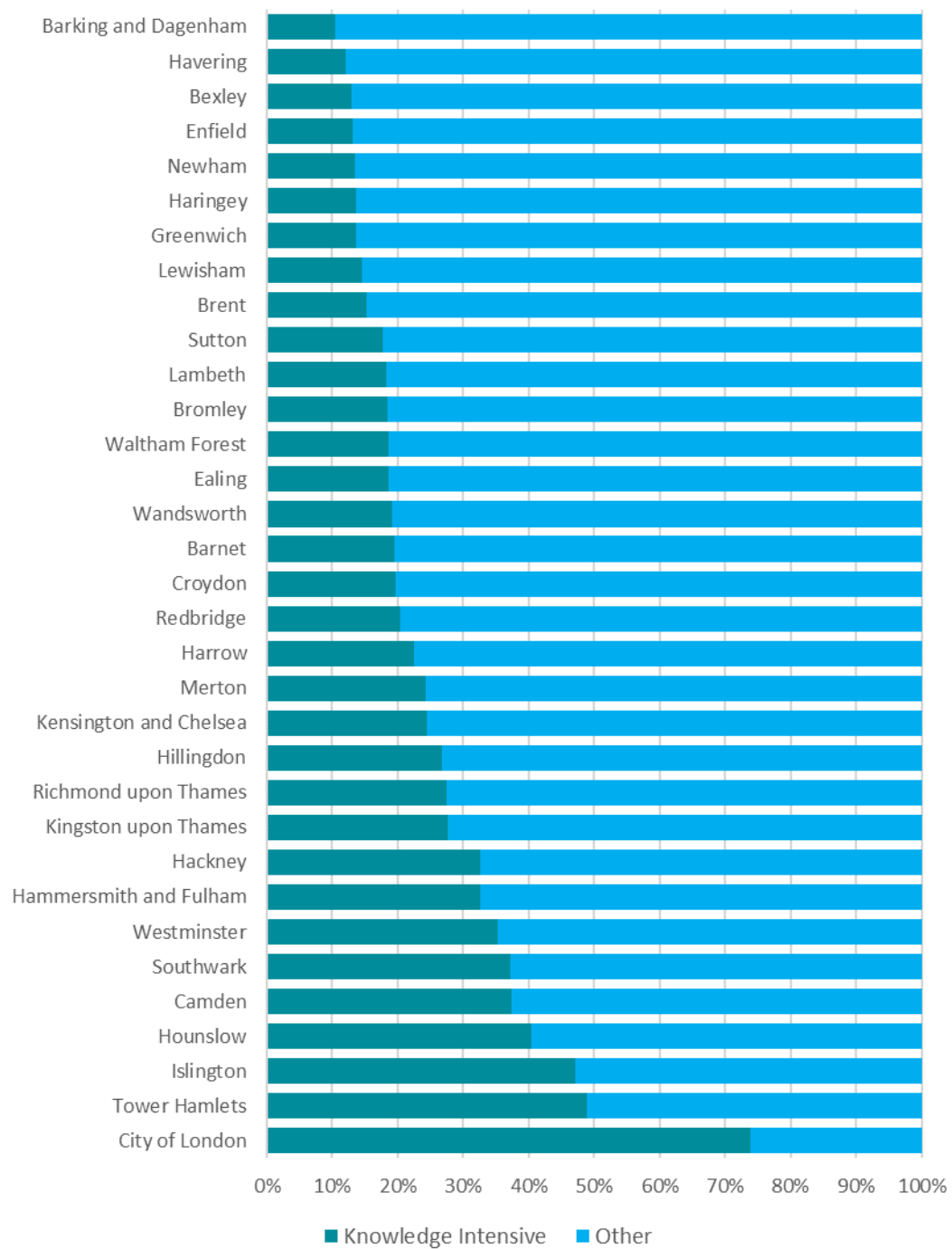


Source: Business Register and Employment Survey

The nature of employment is also very different between boroughs. The City of London stands out for the level of employment in knowledge intensive industries⁶. Three-quarters of the City's employment is in a knowledge intensive industry (74%), 25 percentage points higher than the next borough, Tower Hamlets (49%).

⁶ These are defined in further detail in Section 6

Figure 10 employment in knowledge intensive industries, % of total



Source: Business Register and Employment Survey, Cebr calculations

5 High growth sectors

Although past growth is not always an indicator of future success, the way the business base in London has changed over the years since the global financial crisis is indicative of two broad trends. First, a number of sectors were hit especially hard in the downturn and have more recently been staging a recovery. The second driver of growth is based on structural changes affecting the nature of the economy. The move towards greener energy, the increasing use of online shopping and other digital services have all presented opportunities for new business growth.

The years since 2010 have seen London's business base, measured by the number of registered companies, grow by 179,000, to 561,000 in 2018. In total, the business base has grown by 47%, equivalent to an average annual growth rate of 4.9%. Newham had the fastest growing business base of all of London's boroughs, recording average annual growth of 11.1%. Westminster was the slowest growing (2.6% annually), albeit from a significantly larger base. The micro-business count grew by 50% between 2010 and 2018 across London as a whole. Newham's micro-business count was once again the fastest growing, expanding by 145% to 12,450 in 2018.

Table 5 shows the top 10 industries according to the growth in the number of micro-business local units. While the rapid growth in employment placement agencies can be explained by the strength of the labour market, as the economy has recovered from the economic crisis of 2008, increases in other industries are more likely the result of structural changes in the economy.

Table 5 fastest growing industries, count of micro-business local units, 2010 - 2018

Industry	Number of micro-businesses 2010	Number of micro-businesses 2018	Compound annual growth rate
351 : Electric power generation, transmission and distribution	70	1,245	43.3%
422 : Construction of utility projects	15	135	31.6%
856 : Educational support activities	140	1,070	28.9%
421 : Construction of roads and railways	150	1,075	27.9%
110 : Manufacture of beverages	35	245	27.5%
774 : Leasing of intellectual property and similar products, except copyrighted works	50	275	23.8%
781 : Activities of employment placement agencies	1,105	6,270	24.2%
559 : Other accommodation	70	270	18.4%
479 : Retail trade not in stores, stalls or markets	2,385	6,810	14.0%
611 : Wired telecommunications activities	80	275	16.7%

The number of business local units in the electric power generation, transmission and distribution industry grew faster than any other between 2010 and 2018 in London. The number of micro-businesses expanded by 43.3% per year over the same period. Growth in this industry is indicative of the declining market share of the major energy suppliers. Ofgem found that between 2011 and 2019, the combined electricity market share of the six largest suppliers dropped from nearly 100% to 73%, as smaller suppliers gained up to 27% of the market by Q1 2019. Although Westminster (415) and the City of London (310) had the largest number of local units in the industry, Southwark also has a notable cluster, of 90 businesses, in the electricity production industry located in a single MSOA (Southwark 006).

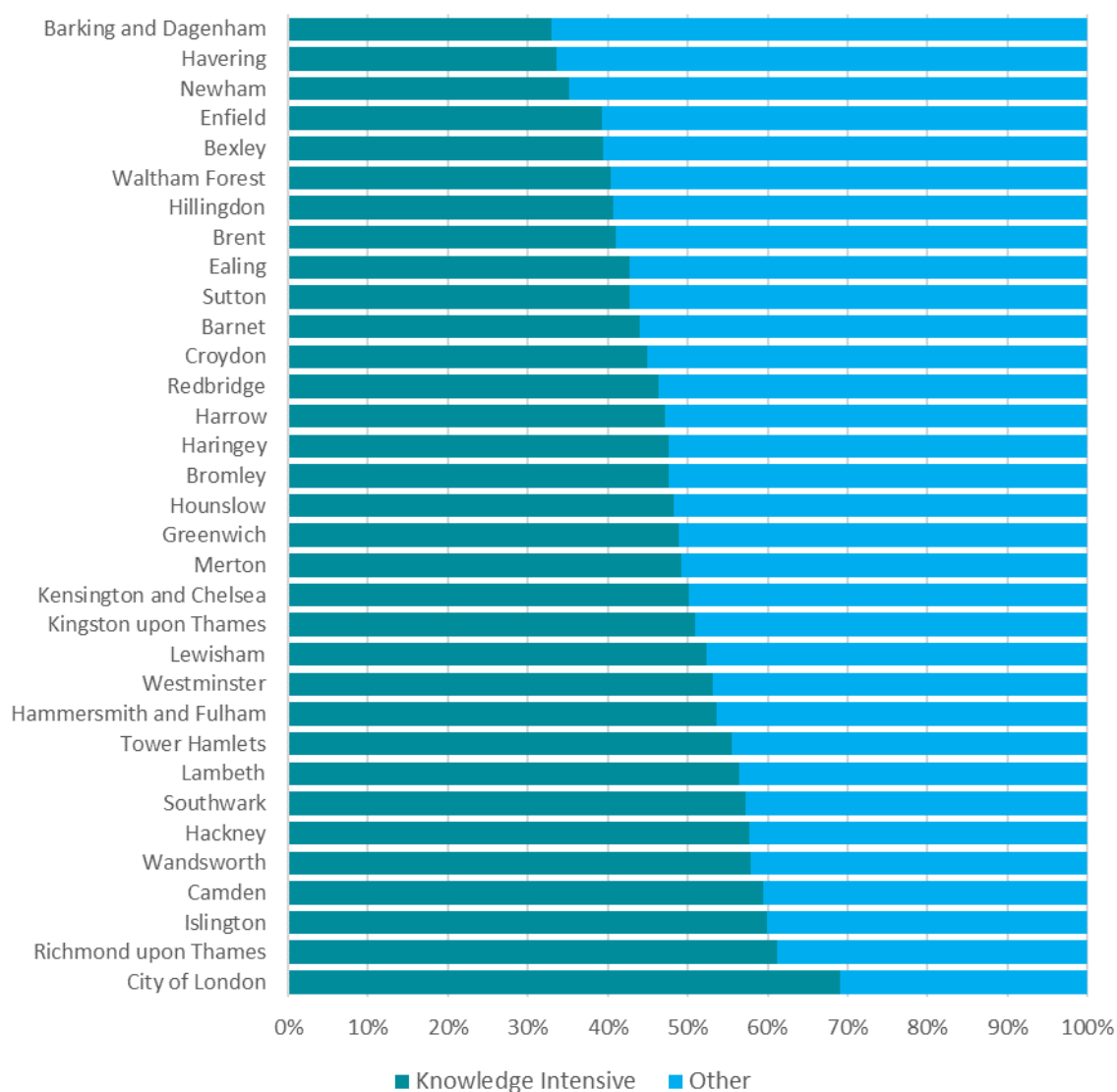
Growth in retail trade not in stores, stalls or markets is fairly widespread across London, without a particularly strong trend in any one borough. This is somewhat to be expected as the opportunities for online retailers, who are included in this category, have expanded over the last decade. Moreover, among micro-businesses the ability to run a company from, or close to, home at low cost probably outweighs the benefits of a central location favoured by some more traditional industries. Of the outer London boroughs, in the category of 'non-store' retail Bromley stands out, with 435 businesses.

6 Knowledge intensive industries

The Office for National Statistics has categorised certain Standard Industry Classification (SIC) codes as Knowledge Intensive industries. In 2018, half of all micro-business local units and a similar proportion (49%) of all businesses in London were classified in SIC codes producing one of either Knowledge Intensive Market Services (25%), High-tech Knowledge Intensive services (13%), Knowledge Intensive Financial Services (3%) or Other Knowledge Intensive Services (9%). A further 0.1% were involved in High technology manufacturing in the capital.

The City of London had the highest share of Knowledge Intensive micro-businesses in the business base (69%) of all the London boroughs. The Central sub-region had a 57% share of Knowledge Intensive micro-businesses. The South (50%) was in line with the London average, while the East (41%) and West (45%) sub-regions lagged behind.

Figure 11 share of Knowledge Intensive micro-businesses in the business base, 2018



Source: Inter Departmental Business Register

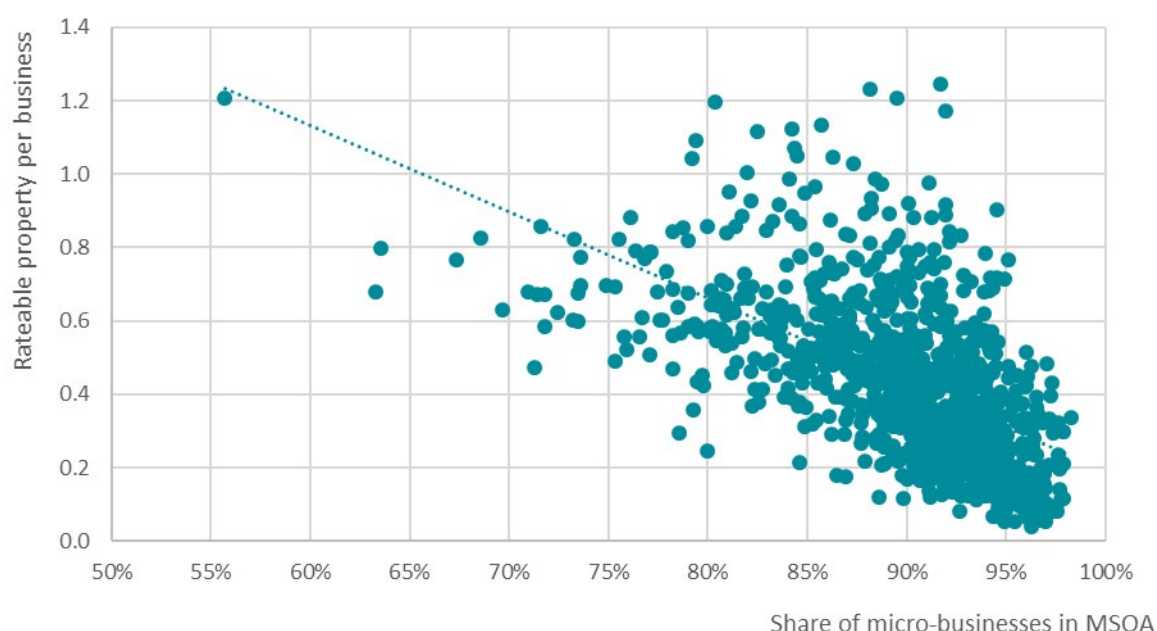
7 Business rates data

Using data supplied by London Councils we investigated the relationship between the business base in each borough and the number of properties liable for business rates. The analysis was completed down to the MSOA level and considered all rateable property excluding those that could obviously never be occupied by a business such as advertising rights, ATMs and Ministry of Defence property.

Across London there were 0.48 rateable properties on average per local unit suggesting that even among registered businesses, many either do not occupy a purpose-built commercial property or operate out of a shared workspace. For smaller firms in industries such as construction or consulting the project/client-based nature of work might render a permanent office space useless as the physical location of work changes from week to week. Large businesses are more likely to need a permanent base for their staff, regardless of the industry.

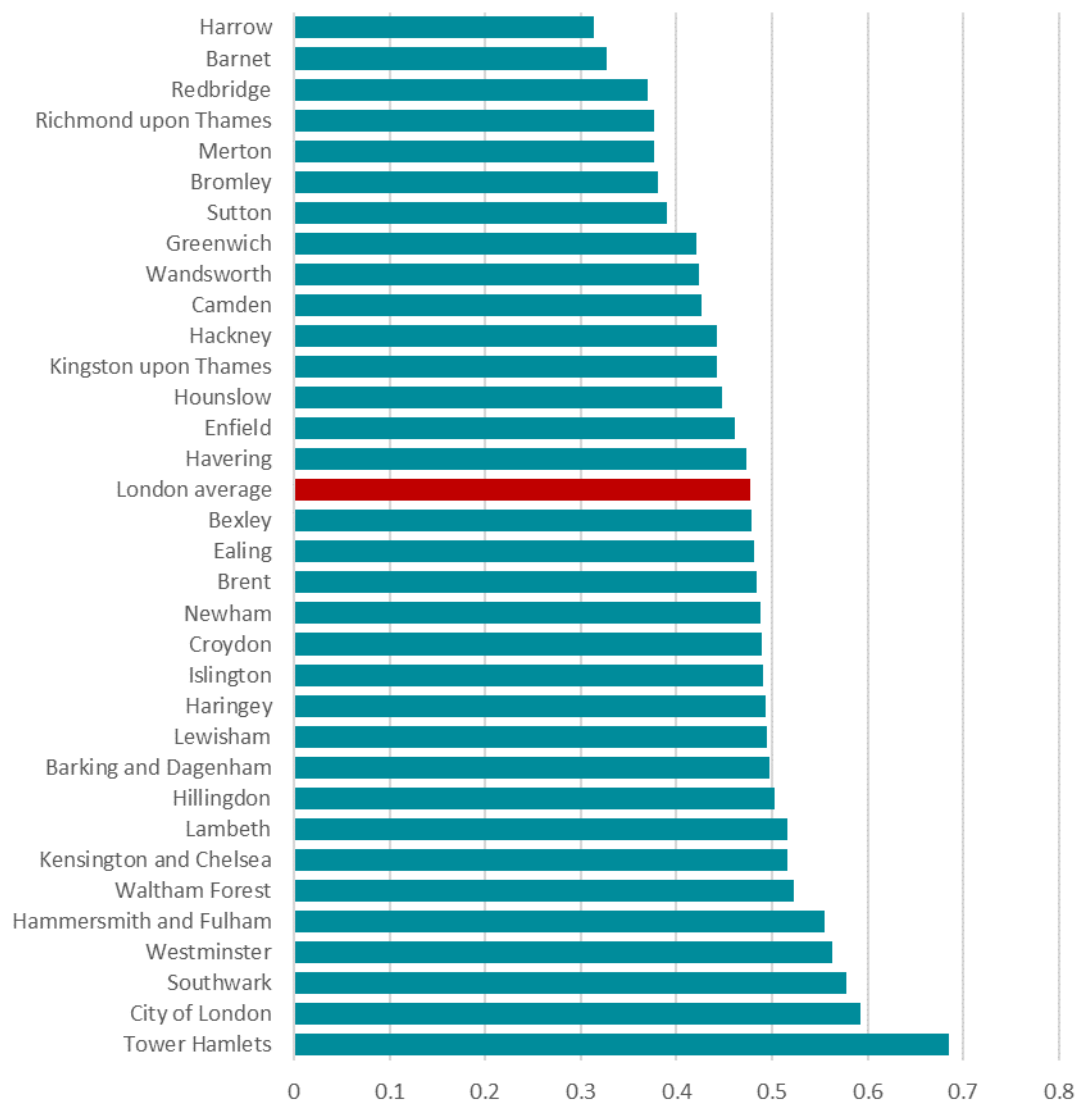
This phenomenon is apparent from the negative correlation (see Figure 4) between the share of micro-businesses and the number of rateable properties per business in an MSOA. The fact that a number of MSOAs have more rateable properties than businesses indicates either that i) there is a high rate of vacancy in the area or ii) the larger businesses are spread out across several separate properties. In practical terms this could relate to multiple floors of an office block, for example, if the Valuation Office Agency has valued those parts of a building separately.

Figure 12: Share of micro-businesses and rateable properties per business by MSOA



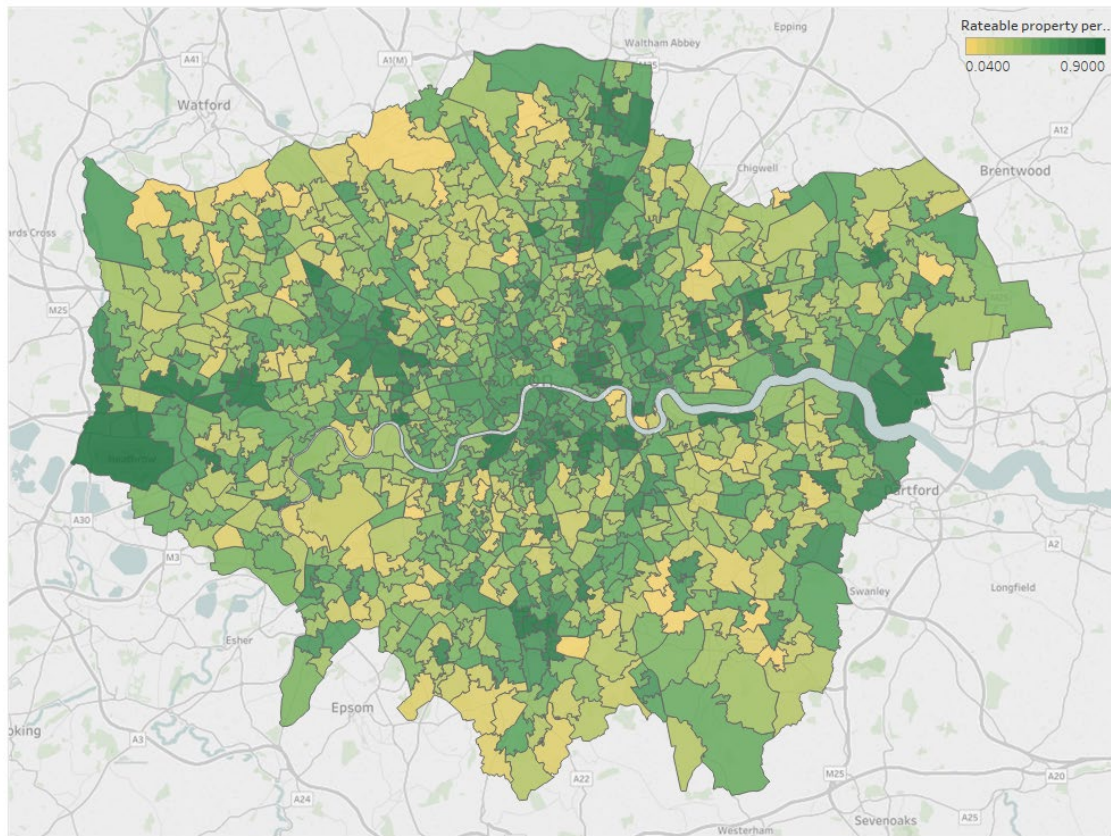
The central London boroughs, which are generally home to larger businesses are therefore likely to have more rateable properties per business. Tower Hamlets has the highest ratio at 0.68 and this is most likely driven by the very dense office space in Canary Wharf which is well suited to large firms. Harrow, which is home to the highest proportion of micro-businesses, also has the fewest rateable properties per business at 0.31.

Figure 13: Number of rateable properties per registered business



Source: London councils, Inter Departmental Business Register, Cebr calculations

Rateable property per business



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8 Summary

London's business base is highly diverse and provides a home for everything from global leaders in financial services to hundreds of thousands of micro-business. While some of these are so-called 'lifestyle' businesses or nimble sub-contractors providing niche expertise, others are seeking to expand into the global leaders of tomorrow.

Each of the capital's boroughs has its own industrial strengths. Outside of central London industries tend to be highly clustered into specific areas of business activity while other areas are more residential – without a detailed understanding of the business base there is a risk that the nature of these clusters remains hidden. Indeed, as the nature of commerce changes and businesses move online the prevalence of very small companies that may not work out of formal commercial properties means some clusters may have otherwise gone unnoticed. Furthermore, the extent to which some boroughs have seen the development of successful clusters in particular industries may have lessons for others as they identify their own opportunities for growth.

This report and the associated data shed light onto these clusters and draw attention to the areas of business strength within and between boroughs. By presenting a single shared evidence base for comparison it is hoped that policy makers are provided with a useful tool for building a strategy to support the continued development of London's business base.

9 Appendix 1: Methodology

Business counts data

In establishing the business base this analysis makes extensive use of the Inter-Departmental Business Register (IDBR). An extract compiled from the data records the number of enterprises that were live at a reference date in March each year. Extracts were taken by employment size band, detailed industry (2,3 and 5-digit SIC2007) and legal status. These were collected at various geographies including UK, London, local authority district and London's Middle Super Output Area (MSOAs) from NOMIS.

Analysis was conducted at the level of the enterprise and the local unit. Enterprises can be thought of as the overall business, made up of all the individual sites or workplaces. It is defined as the smallest combination of legal units (generally based on VAT and/or PAYE records) that has a certain degree of autonomy within an enterprise group. A local unit is an individual site (for example a factory or shop) associated with an enterprise. It can also be referred to as a workplace.

Employment

The level of employment was estimated using data from two separate surveys: the Annual Survey of Hours and Earnings (ASHE) and the Business Register and Employment Survey (BRES).

An estimate of the number of resident employees by borough was taken from ASHE. This data was combined with the number of businesses to assess the relative importance of the local workforce to the business base.

The total level of employment by industry and borough was established from BRES.

Turnover

Extracts from the IDBR provide counts of the number of enterprises by turnover size band and industry. The midpoint of these turnover bands and the business counts in each industry (3 digit SIC code) are used to generate a total turnover estimate for each of those industries across London. Using the estimates from BRES of employment by 3-digit SIC code a London average turnover per employee in each industry is estimated.

Using the Business Population Estimates dataset for 2018, the level of employment per business in London can be broken down by sector and employment size band. Multiplying together the average employment by sector for private sector (micro)-businesses, the average turnover by industry and industry business counts by borough from the IDBR produces an estimate of the total turnover by borough and industry.

Note: The use of averages, midpoints and rounded business counts means the borough turnover estimates are indicative at best. Using the Business Population Estimates dataset for 2018, the average turnover per business in London was broken down by sector to produce London-wide turnover values. Comparison against the borough totals showed the extent of any over or underestimate. The ratio between the borough-wide and London-wide estimates was used to scale-up the results at the borough level.

Business rates

Business rates data were provided by London councils. After removing those categories of property that were clearly unrelated to businesses e.g. advertising rights, ATMs and Ministry of Defence property the postcodes of the properties were used to aggregate counts of rateable property and rateable values by Middle Super Output Area (MSOA).

Revealed Comparative Advantage

The Revealed Comparative Advantage score is a variant on a location quotient based on the business count data. The first stage in calculating the location quotient for industry i in local authority j is to divide the number of businesses in that industry in the area by the national total business count for the industry:

$$(1) (industry_{ij} / \sum_{j=1}^n industry_{ij})$$

This value is divided by the local authority's share of all businesses across all industries:

$$(2) (businesses_j / \sum_{j,i=1}^{n,m} businesses_{ji})$$

The location quotient score is (1) divided by (2) and a location quotient greater than 1 indicates a Revealed Comparative Advantage (RCA). Each industry and local authority combination with a location quotient greater than 1 is given a RCA score of 1 and everything else a score of 0.

To calculate a final complexity score each industry receives a 'ubiquity weighting'. This weighting is calculated as the inverse of the sum of all local authorities with an RCA score of 1 in that industry. For the maintenance and repair of motor vehicles, where 260 local authorities have an RCA score of 1, the ubiquity weighting is $1/260 = 0.004$. For reinsurance where only the City of London has an RCA score of 1, the ubiquity weighting is $1/1 = 1$.

The complexity score is the sum of the weighted RCA scores.

Geographical cluster scores

A business cluster can also be defined as a geographic concentration of related businesses in a particular field. There are numerous famous business clusters around London such as the tailors situated on Saville Row or the jewellery shops in Hatton Gardens. Aside from identifying comparative advantage across the borough as a whole a geographical cluster score was also developed to find specific locations within the borough's boundaries where industries were clustered.

The cluster scores included in the accompanying data are calculated using the proportion of businesses with the same 5-digit SIC code operating in the same MSOA, divided by the sum of all the businesses with the same 5-digit SIC codes across the borough. The final cluster score is the variance between these proportions across MSOAs, weighted by the share of all businesses in a borough within that SIC code. The higher the score, the more geographically concentrated the business cluster.

For instance, while there is a cluster of 'Retail sale of clothing in specialised stores' in the Westminster 013 MSOA, the home of Saville Row, the cluster score is 0.291, compared to a score of 1.132 for the cluster of 'Barristers at law' in Westminster 018. The reason for the discrepancy is that the very tight concentration of Barristers in chambers around

Temple is not replicated in other locations across the borough, while other businesses in the specialist clothing retailers category are spread across Westminster and not solely the tailors at Savile Row.

Note: The clusters identified here are produced on the basis of data collected at the MSOA level and therefore a cluster spanning multiple MSOAs may not score highly using this methodology.

London Councils
59½ Southwark Street
London SE1 0AL
www.londoncouncils.gov.uk

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