



Report to Economic and Environmental Wellbeing Scrutiny & Policy Development Committee Thursday 20 September 2012

Report of: Edward Highfield
Director of Creative Sheffield

Subject: **Building a strong, sustainable and resilient Sheffield economy: Support for start-ups and small and medium sized enterprises**

Report authors: Kevin Bennett, Head of Enterprise, Creative Sheffield
Karen Ramsay, Economic Policy Officer, Creative Sheffield

Summary:

This report is in response to a request at the November 2011 Economic and Environmental Wellbeing Scrutiny Committee for an annual session to consider issues and barriers to business operation in the city. The Committee has identified this as an area where it would like to contribute to the development of policy.

The report sets out the aim of building a more dynamic private sector with a strong pipeline of new businesses to help rebalance Sheffield's economy and deliver growth that generates jobs. As Sheffield primarily is a small and medium sized enterprise (SME) economy, the activities set out in this report focus specifically on support for start-ups and SMEs. The work in this area is being developed in the context of the refresh of the city's economic strategy which was discussed by the Scrutiny Committee at the meeting on 19 July 2012.

A number of business representatives will be present at the meeting to provide their views and take part in the discussion with Members.

Type of item: The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	✓
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	

Briefing paper for the Scrutiny Committee	
Other	

The Scrutiny Committee is being asked to:

- Provide their views and comments on the programme of activities set out in the report.
- Discuss the programme of activities with the business representatives attending the meeting to identify gaps in provision and develop further ideas for supporting start-ups and SMEs in the city.
- Identify any specific issues for more detailed consideration or action at a future meeting of the Scrutiny Committee and/or through other groups like the Sheffield Business Advisory Panel, the Sheffield Chamber of Commerce and the Federation of Small Businesses.

Background Papers:

Category of Report: OPEN/CLOSED (please specify)

Building a strong, sustainable and resilient Sheffield economy: Support for start-ups and small and medium sized enterprises

1. Introduction

- 1.1 This report is in response to a request at the November 2011 Economic and Environmental Wellbeing Scrutiny Committee for an annual session to consider issues and barriers to business operation in the city. The Committee has identified this as an area where it would like to contribute to the development of policy.
- 1.2 The report sets out the aim of building a more dynamic private sector with a strong pipeline of new businesses to help rebalance Sheffield's economy and deliver growth that generates jobs. As Sheffield primarily is a small and medium sized enterprise (SME) economy, the activities set out in this report focus specifically on support for start-ups and SMEs. The work in this area is being developed in the context of the refresh of the city's economic strategy which was discussed by the Scrutiny Committee at the meeting on 19 July 2012.
- 1.3 A number of business representatives will be present at the meeting to provide their views and take part in the discussion with Members.

2. Building a strong, sustainable and resilient Sheffield economy

- 2.1 One of the main ambitions in *The Sheffield City Strategy 2010-2020* is to build a strong, internationally successful local economy, working with our partners across the Sheffield City Region economic area to ensure growth opportunities for local industry and businesses.
- 2.2 Two of the Council's Corporate Plan 2011-14 priority areas are directly relevant to this ambition:
 - *Focusing on jobs*
To encourage and support businesses to grow so that more jobs are created in the city. To encourage enterprise and support people to develop the skills that employers need.
 - *Business friendly*
To continue to build relationships with businesses to encourage jobs and growth in the city, and for the Council to be seen as an organisation that business can work with.

- 2.3 We are on a joint mission with businesses and other partners to make Sheffield the most business friendly city in the UK, and we want the Council to be a leading local authority in taking care of business:
- Being a business friendly city is about the quality and range of business opportunities and support available. It is also about the wider city offer – culture, education, environment, housing, quality of place – all the things that make Sheffield an attractive place to live and work.
 - Being a business friendly Council is about a commitment to working closely and positively with the city’s business community to promote economic prosperity, further improve our reputation with the city’s businesses, raise awareness of the services we offer to business, and improve these services based on advice and feedback from companies across the city. It is about *how* we do things as much as what we do.
- 2.4 It is important for us to build constructive relationships with the business community and to work with companies to decide the best way to promote local economic prosperity. This includes our major employers, small and medium sized businesses, sole traders and social enterprises. We particularly want to work with businesses who share our values around focusing on jobs, standing up for Sheffield and supporting our communities.

3. Refresh of the city’s economic strategy

- 3.1 In economic terms, the last few years have been about withstanding recession and making progress in tough economic conditions. Many of the realities remain challenging: a struggling global economy; less public and private money available; higher unemployment. Yet major opportunities exist and the city must position itself to take full advantage of them.
- 3.2 Sheffield’s first Economic Masterplan published in 2008 set out an ambitious programme of change for the city. Sheffield’s future growth will be defined by the way we create and shape opportunities now so the time feels right to reset our economic priorities, and establish a renewed programme of change that equips the city and city region to meet the demands of the future. To that end, a refresh of the city’s economic strategy is underway to set the economic direction of the city to 2020. The Scrutiny Committee discussed the development of the new economic strategy at the meeting on 19 July 2012.
- 3.3 The refreshed economic strategy is focused on strengthening the city’s economic foundations and delivering our core economic outcomes: securing higher levels of economic growth and creating more and better jobs for Sheffield people.

- 3.4 As the Core City at the heart of the Sheffield City Region, Sheffield has access to a highly skilled labour force in a well-connected economy. We have a proactive Local Enterprise Partnership that brings together the private and public sectors around a commitment to deliver a bigger, better, faster Sheffield City Region economy. To play our part in the growth of Sheffield City Region and the rebalancing of the UK economy, we are focused on delivering our 2020 economic vision:

“Sheffield is a strong, sustainable, resilient and internationally successful economy that is driven by growth in the private sector and provides jobs for local people.”

4. Support for start-ups and small and medium sized enterprises

- 4.1 A productive, competitive and growing business base is the primary component in rebalancing Sheffield’s economy and delivering growth that generates jobs. The refreshed economic strategy identifies as one of the main drivers of economic growth a dynamic private sector with a strong pipeline of new businesses. The activities set out in this report focus specifically on support for start-ups and SMEs and form part of a wider set of priority actions informed by the refreshed economic strategy for the city.
- 4.2 Currently, Sheffield’s business density is low compared to other UK cities as is the productivity of our sectors and businesses. This means that we lag behind other cities in terms of our overall competitiveness. Based on an analysis of sole trader, PAYE and VAT registration levels¹, we know that although the level of ‘micro start-ups’ (i.e. sole traders) has improved in recent years compared with the national average, too few of these are growing beyond the VAT threshold and creating employment. As in other Core Cities, this is compounded by the recession which has accelerated the number of business failures. In addition, the number of start-ups in Sheffield is falling faster than in other Core Cities to a point which seriously threatens to undermine the strength of the city’s SME base.
- 4.3 Setting aside the 3,700 sole traders, 97% of our 12,380 VAT registered businesses have fewer than 50 employees and 85% have fewer than 10 employees. This is broadly in line with both the national average and other Core Cities and in itself is not an issue. A similar pattern would be seen in Germany, for example. However, it is the sector mix, the resilience of these businesses to withstand recession and their ability to grow and employ that is the main issue for the city in terms of building a strong pipeline of new businesses.

¹ Latest available data is from 2009.

4.4 In summary, we have:

- 3,700 sole traders in the city who require access to a degree of light-touch support. Some of these may have the ability to grow beyond the VAT threshold and employ more people.
- Approximately 4,000 businesses which are VAT registered but turning over less than £100k. Some of these have potential to grow but many are vulnerable in the current climate. These represent a third of our VAT registered stock and reducing the failure rate of these is an important policy objective.
- We have around 6,000 businesses turning over between £100,000 to £1 million around a third of which are estimated to be in growth sectors. It is arguably the latter, alongside the 1,000 businesses turning over £1 million+ that are capable of producing the innovation-driven long term growth the city needs.

4.5 Against the background of this analysis, the national policy position and our experience of delivering support programmes for start-ups and SMEs in recent years we believe that over the medium to long term, Sheffield requires interventions in the following areas:

- *Fostering a culture of enterprise*

We need to foster a culture of enterprise which goes beyond self-employment and supports the development of a new generation of entrepreneurs and future business leaders. We need to convince young people that they can turn their good ideas into innovative products and grow a successful business. To do this, we need to maintain the work we are undertaking with schools, colleges and the universities to move from a standard approach to enterprise education to create a genuine enterprise 'pipeline'. This begins in primary school where we are running activities to encourage the development of enterprise skill-sets, to our BiG Challenge business competitions for the schools and colleges and the Young Entrepreneur Club which involves several of our brightest young entrepreneurs. Through these and other activities, we want to make starting, running and growing a business a compelling option for any young person from any part of the city.

- *Assisting all businesses to start up, survive and grow*

We need to continue to support the creation of businesses, help more of the smaller ones to survive and encourage those with an emerging track record to grow. Until 2011, we had significant investment through Business Link (£20m regionally each year) and the Local Enterprise Growth Initiative (LEGI) which enabled us to provide intensive support, especially for start-ups, in some parts of the city. Alongside this, Yorkshire Forward funded a number of programmes designed to promote innovation and knowledge transfer. However, in the last few years, LEGI funding has been withdrawn and national business support has been scaled back to be delivered online via a Business Link web portal.

This is supplemented by a limited accelerator growth programme, export support through UK Trade and Industry and schemes to encourage business-to-business mentoring. There are also national Government schemes including designed to encourage increased provision from the private sector including the Start-Up Britain campaign and support offered by professional associations such as the Law Society and Institute of Chartered Accountants. This means that there is important support available that we should draw on and encourage Sheffield firms to take up. However, it is fragmented, it is not comprehensive and some of the programmes are very narrowly targeted. To respond to the challenge of creating more and better businesses in the city, we believe that there is a strong case for a continuing level of ‘top-up’ investment to enhance what is available to businesses through other routes, and to allow us to package the support so business can access a full range of support. The ‘top up’ investment would include:

- First Point For Business as the enterprise gateway which all business can use to access all aspects of business support, including business-facing Council services such as licensing, health and safety, planning and other basic business information. This would build on the current model of First Point for Business and become a single business gateway for the city.
- A new package of support to individuals looking to start a business including access to group coaching workshops, support with research and business information, events on key business topics, drop-in sessions with advisors and business experts and mentoring support.
- Support for businesses at critical stages of their life-cycle, for example, taking on employees, expanding or making capital investments. Businesses will have access to business advisors, mentoring support from other businesses in the city, coordinated access to accountants, lawyers and other professional and technical experts.

- *‘The Sheffield Business Growth Programme’*

We have approximately 6,000 businesses in Sheffield of a critical size, that is £100,000 to £1 million turnover where we estimate there is the highest potential to achieve sustainable growth, create jobs and strengthen the business base. We will work with a selection of these businesses over the next five years to accelerate their growth through a new programme providing:

- A long term relationship with an experienced business account manager who will work with businesses to understand their ambitions, pressures, and the barriers they might be facing.
- A bespoke programme of support drawing on our network of experts in areas such growth finance, international trade, product development, innovation, leadership and management and human resources.

- Specific development 'bootcamps' to kick-start growth through export, improved procurement practices and the introduction of transformational ICT.
- Access to business development networks, both at home and overseas, which provide opportunities for our most ambitious business leaders to collaborate with others.

The exact details and selection criteria for identifying these businesses is in development.

5. Financial implications

- 5.1 In previous years, Business Link was investing £20m annually in support, £3-4m of which would have benefitted Sheffield. The LEGI programme invested around £5m annually in revenue-based business development and support. In addition to this, Yorkshire Forward supported significant business investment activity, for example through their funding for Creative Sheffield. In contrast, in 2011/12 the enterprise programme (formerly LEGI) receives an investment of £1m from mainstream City Council funds and matches this with an equivalent amount of European funding. In total, the overall direct investment in business and investment support in the city is now less than £3m.
- 5.2 In these challenging economic conditions we need a clear, intelligence-based policy position which allows us to make well-informed decisions on where our investment is best directed to deliver the outcomes we want for the city's businesses.
- 5.3 Whilst real financial pressures exist, the Government is beginning to devolve more powers and finance at city and city region level. We need strong leadership to meet the challenge of financial devolution and position ourselves to make the most of new financial tools for growth like Regional Growth Fund, Growing Places Fund and the Sheffield City Region Investment Fund agreed as part of the 'City Deal' with Government.

6. Corporate implications

- 6.1 The Council's Corporate Plan 2011-14 identifies the following as three of the four main priorities for the city that will set the direction of the Council at least until 2014:
- *Standing up for Sheffield* – Doing the right things for the people and businesses in the city.
 - *Focusing on jobs* – Encouraging and supporting businesses to grow so that more jobs are created in the city; building strong relationships with businesses in the city to encourage wealth to stay in Sheffield; encouraging enterprise.

- *Business-friendly* – Demonstrating through everything the Council does that we want businesses to succeed in Sheffield.

6.2 Support for the city’s businesses is critical to meeting these priorities and building a strong, competitive economy that Sheffield people benefit from, resulting in economic growth and creating more and better jobs.

7. Equality implications

7.1 Fairness is at the heart of the Council’s values in the sense that we want everyone to have a fair chance to succeed in Sheffield. Reducing inequality is crucial to increasing fairness and we want Sheffield’s people and communities to be well-connected to work opportunities.

7.2 A range of issues can restrict people’s ability to connect to jobs, for example, low levels of personal confidence and lack of aspiration, limited access to transport, poor health and the cost of childcare. The actions set out in this report will be supported by activities aimed at raising aspirations among the city’s residents and connecting them to job opportunities to build a more inclusive city.

7.3 Any recommendations from the Fairness Commission report on short and long term measures required to tackle inequalities that are relevant to supporting people to become self-employed, start up a business or take up job opportunities in the city’s growing business base will be taken into consideration in the ongoing development of this programme of activity.

8. Risk implications

8.1 Without a coherent approach to supporting and investing in the city’s start-up businesses and SMEs, the business community could lose confidence in Sheffield as a place to invest or grow a business. This could have damaging consequences for the number and quality of jobs on offer in the city and the long-term prosperity of the city’s residents.

9. What does this mean for the people of Sheffield?

9.1 We know that a strong, sustainable and resilient economy driven by growth in the private sector is vital to the economic future of the city, and the health and well-being of the people that live here.

9.2 Investing in actions to support people into self-employment, start up a business or take up opportunities in the city’s growing business base will help to build a stronger economy, remove barriers to work for vulnerable groups, raise people’s aspirations and improve their chances of taking up job opportunities, improve well-being among individuals and communities, and build a more inclusive city.

10. Recommendations

10.1 The Scrutiny Committee is being asked to:

- Provide their views and comments on the programme of activities set out in the report
- Discuss the programme of activities with the business representatives attending the meeting to identify gaps in provision and develop further ideas for supporting start-ups and SMEs in the city
- Identify any specific issues for more detailed consideration or action at a future meeting of the Scrutiny Committee and/or through other groups like the Sheffield Business Advisory Panel, the Sheffield Chamber of Commerce and the Federation of Small Businesses.