Chapter 3 Business and Enterprise

Introduction

3.1 This chapter profiles Leicester and Leicestershire in terms of its economic size, structure and business climate.

Output and Productivity

Output (GVA) in the East Midlands and Leicester and Leicestershire

3.2 Gross Value Added (GVA) is the principal measure of the total value of goods and services that a geographical area produces. GVA, and particularly GVA growth, are important indicators of the overall health of a local economy. GVA is calculated by summing the incomes generated in the production process. GVA's relationship with Gross Domestic Product (GDP), the measure for a country's net income, is defined as:

GVA + taxes on products – subsidies on products = GDP

3.3 Since aggregates of taxes and subsidies are available only at a national level, GVA is used as the measure of output at local levels (regional and sub-regional).

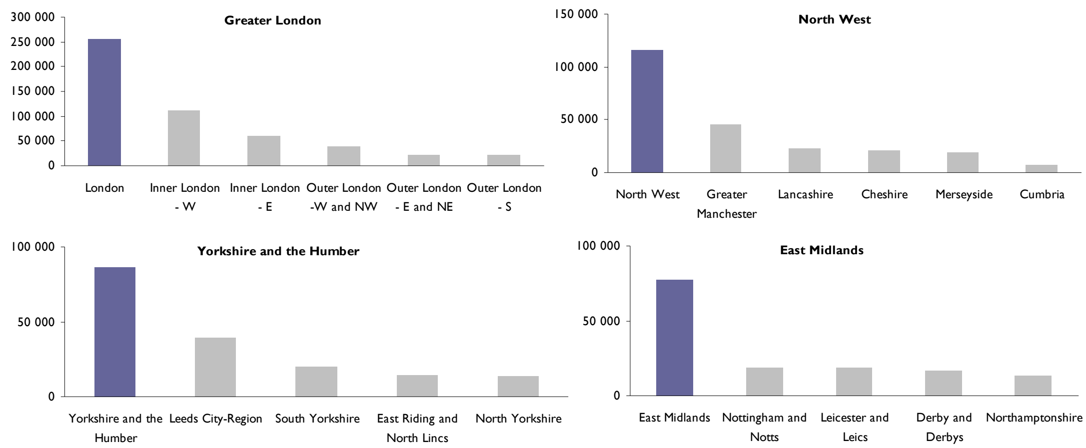
3.4 In 2007, the Leicester and Leicestershire sub-region produced £18.5billion. This constitutes almost a quarter of total regional GVA (table 3.1). What differentiates the East Midlands from other regions (such as the West Midlands and, most obviously, London) is that there is no single economic core which drives its economy. The Nottingham and Nottinghamshire and Derby and Derbyshire sub-regions also contribute significantly to the regional economy (figure 3.1).

Table 3.1 Gross Value Added in Leicester and Leicestershire, 2007

	Total GVA (£)	GVA per head (£)	Average annual GVA growth rate 1997-2007
Leicester	6,241m	21,331	4.3%
Leicestershire*	12,278m	18,072	5.2%
East Midlands	77,497m	17,614	5.1%
United Kingdom	1,245,735m	20,430	5.4%

*Includes Rutland
Source: Local GVA, 2007

Figure 3.1 GVA by Region and Sub-region, 2006



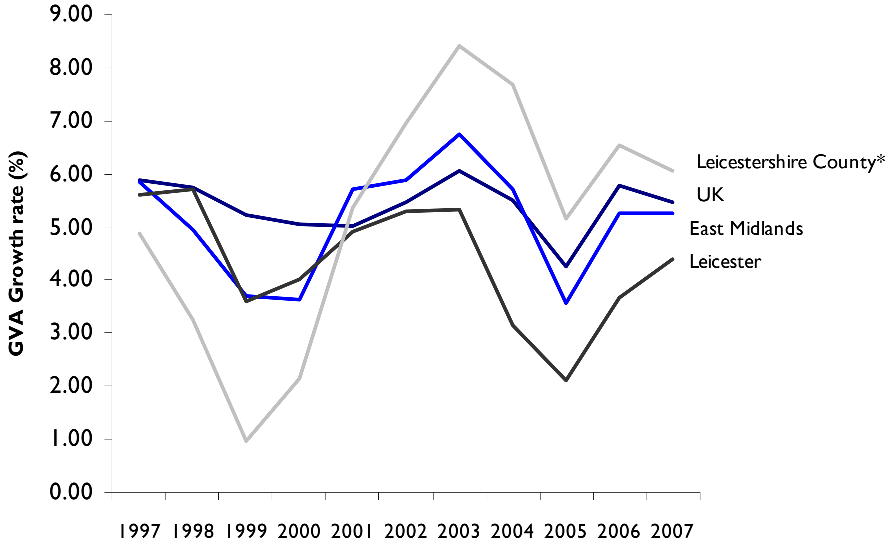
Source: Local GVA, 2007

GVA Growth Rates

3.5 Over the 10 years between 1997 and 2007, average annual growth rates for the East Midlands (5.1%), Leicestershire (5.2%) and Leicester City (4.3%) were behind the UK (5.4%) average annual growth rate. In terms of year on year growth, figure 3.2 shows that Leicester and Leicestershire loosely followed regional and UK trends.

3.6 Interestingly, growth rates for Leicestershire and Rutland, and, to a lesser extent, Leicester City, have been less stable than regional and UK averages. This is often the case with smaller economic areas where any change in output experienced by a business sector is more likely to register in aggregate GVA. The fall in GVA growth rates in Leicestershire and Rutland, for example, was felt largely in the ‘production’ sector. In 1996, ‘production’ accounted for 36% of total County GVA, whilst, by 2001, this had reduced to 29% and, by 2006, accounted for less than a quarter of the County’s aggregate GVA. These relatively significant sector-related shifts impacted heavily on Leicestershire’s output growth rates in the mid-to-late 1990s.

Figure 3.2 GVA Growth Rates (year-on-year) 1996-2007



Source: Office for National Statistics, GVA 2007

GVA Growth, Recession and Forecasts

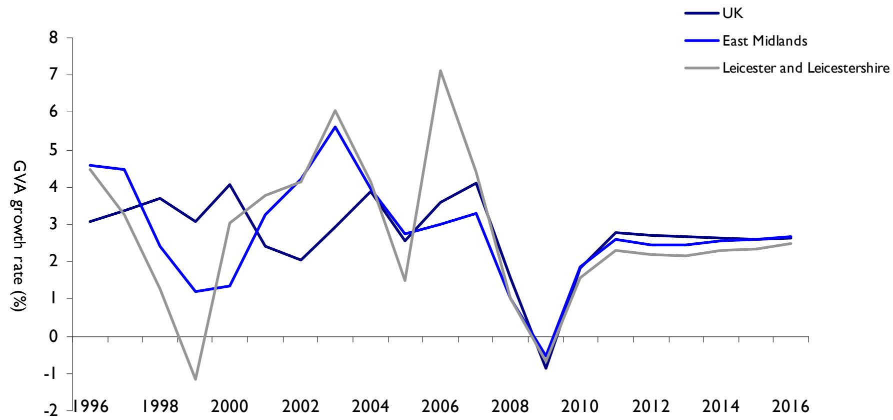
3.7 The economic situation is very different today from that in 2007. A lack of liquidity and credit in the financial markets, coupled with a related global slump in demand, has had an impact on all industry sectors. This has led to falls in UK output; after a flat quarter-on-quarter growth rate in Q2 of 2008, GDP growth contracted by -0.6% in Q3 and by -1.6% during Q4 of 2008. Given past trends and reports from local businesses, it is likely that Leicester and Leicestershire figures (when available) will show similar reductions.

3.8 Looking ahead, figure 3.3 sets out Experian's output (GVA) growth forecasts[1] from 1996 to 2016. Their projections for 2009 showed the economy contracting by -0.5% for the East Midlands, -0.7% for Leicester and Leicestershire and by -0.9% for the UK. The economy at all three geographical scales is then expected to recover sharply into 2010. From 2011 onwards, Experian project an optimistically stable growth rate of roughly 2.6% across the UK, East Midlands and the Leicester and Leicestershire sub-region.

3.9 Importantly, Experian's forecasts can be broken down by broad industry sector. The forecasts for Leicester and Leicestershire (in figure 3.4) identify the construction sector as taking the worst hit and being the first to respond. The construction sector is particularly elastic - it is usually the quickest to react to changes in demand. The service sector is expected to be relatively resilient and, to a lesser extent, so is the production sector.

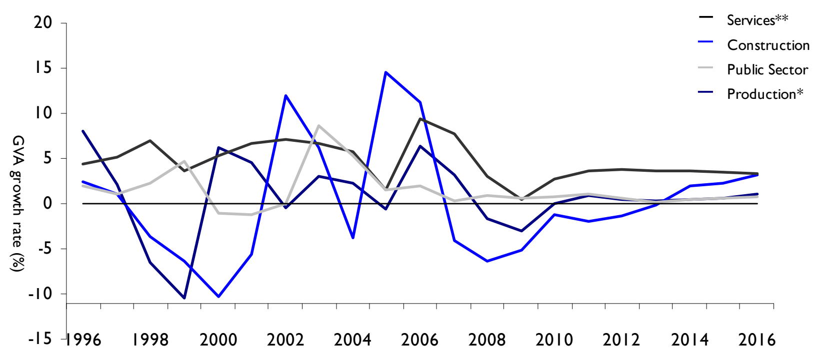
[1] Experian's output and employment forecasts are based on its Integrated Regional Sectoral Model (IRSM) of the UK. In this model each sector of the economy is treated as an economic entity in its own right. The forecasts take into account historical relationships between a range of national and non-local variables, but also rely relatively heavily on local sector structure and local labour markets.

Figure 3.3 Output Growth Rates (year-on-year) 1996-2016[2]



Source: Experian Forecasts, 2009

Figure 3.4 Output Growth Rates (year-on-year) 1996-2016 by Industry in Leicester and Leicestershire



*Mining and quarrying, fuel/chemicals refining, manufacturing and electricity, gas and water supply. **Retailing, wholesaling, hotels and catering, transport and communications, banking, business and financial services and other services.

Source: Experian Forecasts, 2009

Productivity and GVA/Head

3.10 Productivity is defined as the ratio between outputs and inputs in an economy. It is a useful concept because it puts output (GVA) measures for an economic area into context. Improving local productivity is directly related to wealth creation and is a key priority for the sub-region. GVA per head is the most frequently used measure of productivity at the sub-regional level[3]. It measures the value of goods/services that a local area produces as a proportion of the number of residents who live there.

3.11 Table 3.2 shows that Leicester City (£21,331/head) outperforms regional and national averages. Leicestershire (£18,072/head), however, falls behind the UK average of £20,430/head. The East Midlands at £17,614/head is significantly behind the UK average.

[2] Source:Figures 3.3 and 3.4 emda/Experian, Scenario Impact Model, 2009
[3] GVA per hour worked or per worker is a better measure of productivity. However, these figures are not available at a sub-regional level.

Table 3.2 Gross Value Added in Leicester and Leicestershire, 2007

	Total GVA (£)	GVA per head (£)	Average annual GVA growth rate 1997-2007
Leicester	6,241m	21,331	4.3%
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United Kingdom	1,245,735m	20,430	5.4%

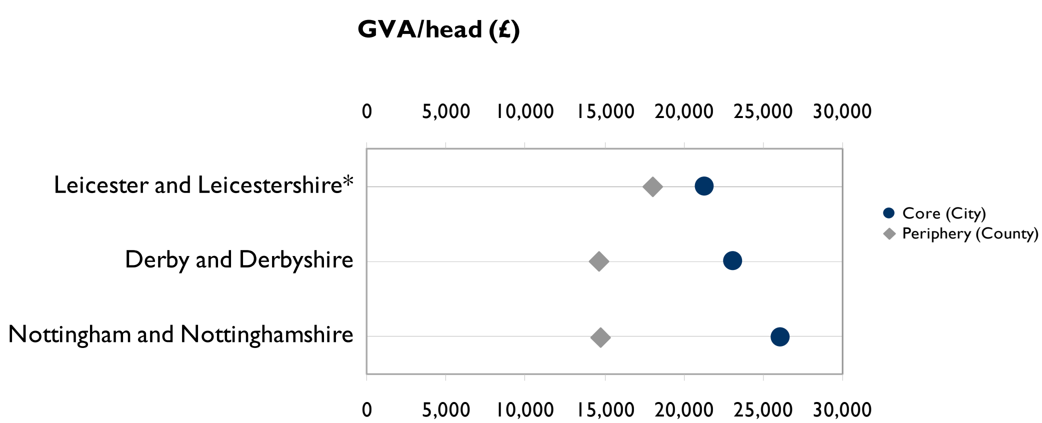
*Includes Rutland

Source: Local GVA, 2007

3.12 It is usual for cities to show higher levels of GVA per head than the areas that surround them. This is because they provide a focus or core for economic activity to take place. Figure 3.5, however, shows that the difference in productivity between Leicester City and Leicestershire is less marked than is the case with Nottingham City and Nottinghamshire and Derby City and Derbyshire. This suggests that Leicestershire's market towns and the rural economy, as well as economic activity concentrated within Leicestershire County's science and business parks, make a strong contribution to sub-regional productivity.

3.13 Figure 3.5 also suggests that Leicester City is performing below its potential as an economic core at the heart of the sub-region. It is worth noting that GVA per head is lower in Leicester City than in Derby and Nottingham (figure 3.5 refers).

Figure 3.5 GVA per head in Leicester and Leicestershire, Nottingham and Nottinghamshire and Derby and Derbyshire sub-regions



*Includes Rutland
Source: Local GVA, 2007

Economic Structure

3.14 Economic structure has a significant impact on the performance of local economies and influences their growth potential.

3.15 Figures 3.6 and 3.7 profile Leicester and Leicestershire's economic structure in 2008 in terms of jobs and output. The first and darker set of bars presents the number of jobs in a sector expressed as a percentage of all jobs at that geography. The second shows the relative size of each sector in terms of output, in other words how much money each sector generates as a percentage of all sectors. Looking at figure 3.6, the Leicester and Leicestershire sub-region stands out as having a relatively high proportion of manufacturing, transport and communications and retail jobs. Compared with national, regional and district averages, the proportion of public sector employment is high in Leicester City. At a district level, Hinckley and Bosworth, Melton and Oadby and Wigston have relatively high levels of manufacturing employment. When compared across all geographies, Harborough's wholesale and retail sector is considerable and North West Leicestershire stands out as having a high proportion of transport and communications jobs. The differences between sector size in terms of jobs and output are worth mentioning. As expected, the sectors which are typically regarded to be productive – banking, finance and business services, transport and communications and manufacturing – tend to be more important in terms of output than jobs. In a similar vein, public administration, education and health, retail, and hotels and restaurants are more important to the sub-region in terms of jobs than they are in terms of output. A breakdown of productivity values by sector for Leicester and Leicestershire, along with forecasted growth to 2016 is presented in Table 3.18. The most productive sectors in 2008, in terms of output, were energy and water, food and drink manufacturing, financial/business services and transport and communications. It is interesting to note that sectors with the highest forecast output growth, up to 2016, are: energy and water, financial/business services, transport and communications, wholesale and retail, and construction.

Figure 3.6 Employment and estimated output (GVA) by Broad Sector in Leicester and Leicestershire, 2008 (%)

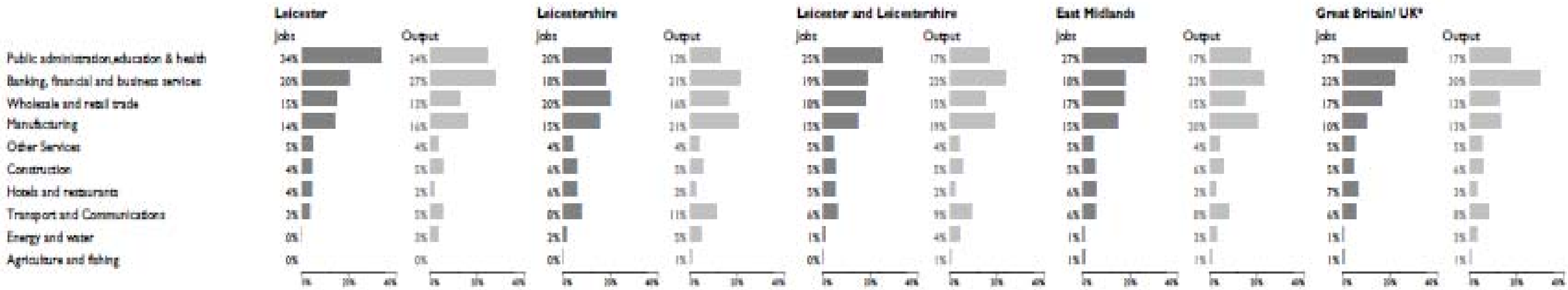
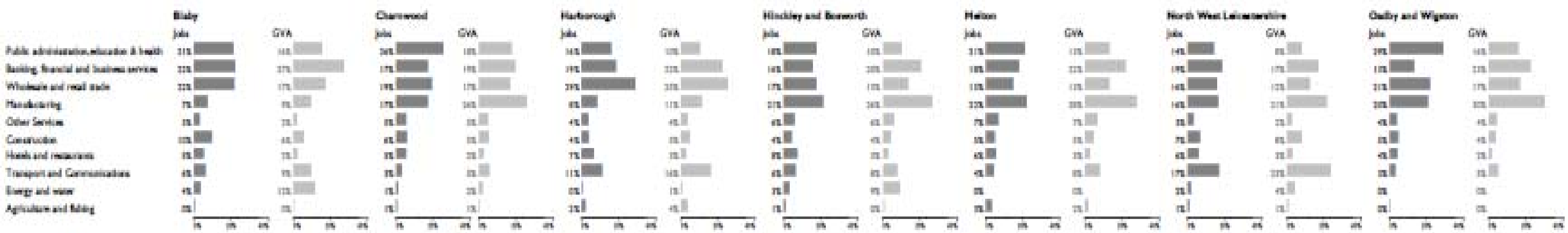


Figure 3.7 Employment by Broad Sector in Leicestershire Districts, 2008 (%)



Source: ABI, 2008 and emda/Experian Output Forecasts from Scenario Impact Model, 2009

Table 3.3 Productivity* Estimates for 2008 and Forecast Growth in Productivity by Sector for Leicester and Leicestershire

	Productivity 2008 (£000s)	% growth to 2016
Energy and Water	125	34%
Food and drink manufacturing	62	4%
Banking finance and business services	52	28%
Transport and communications	49	17%
All manufacturing	46	16%
Wholesale and retail trade	36	21%
Other services	33	14%
Public administration,education & health	32	4%
Construction	26	21%
Hotels and restaurants	26	12%
Agriculture and fishing	22	6%

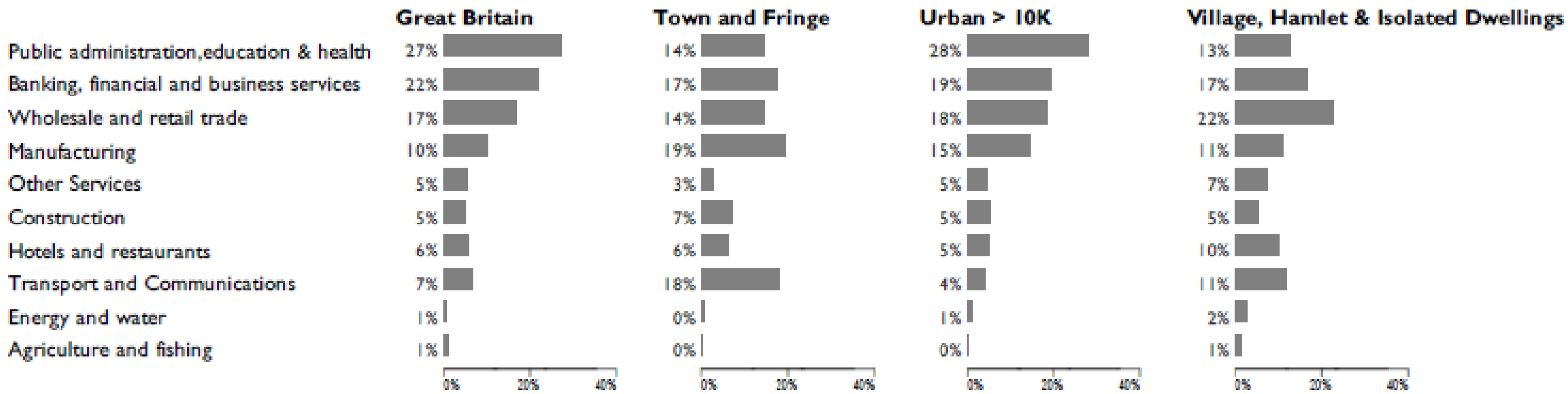
*Defined as output per full-time worker

Source: Experian Output Forecasts from Scenario Impact Model, 2009

3.16 Figure 3.8 shows employment structure by the Census 2001 urban rural classification for all Lower Super Output Areas (LSOAs)[4] in Leicester and Leicestershire. Clearly, the public sector takes a significant proportion of all jobs in neighbourhoods with an urban classification in the sub-region. Banking, financial and business services, manufacturing, and transport and communications are the most significant sectors in jobs terms for neighbourhoods with a Town and Fringe classification. Wholesale and retail is the largest sector for neighbourhoods labelled as village, hamlet and isolated dwelling. It is interesting here that the banking, financial and business services sector also takes up almost 17% of all employment for isolated/rural neighbourhoods, particularly given the fact that this sector takes up just 19% of all jobs for neighbourhoods with an urban classification. That this sector is high, and also that these businesses tend usually to be very small enterprises, could be as a result of self-employment and homeworking. At the very least, the size of the sector in isolated/rural areas can be assumed to be a function of technological advancements and a reasonable electronic infrastructure (including Broadband connectivity).

[4] **LSOAs** - in this chapter the term neighbourhoods is used – referring to small communities (generally smaller than wards) which have around 1,500 people living in them. In total, there are 32,482 LSOAs in England and 583 in Leicester and Leicestershire.

Figure 3.8 Employment by Broad Sector and Rural/Urban Classification, 2008 (%)



Source: ABI, 2008

3.17 The table below shows the new 2007 SIC[5] codes breakdown of employment in Leicester, Leicestershire and the sub-region, with regional and national comparators. This highlights the relative importance of the manufacturing sector, wholesale and retail sector and the transportation and storage sector to the local economy. The table provides a new breakdown of service sector employment. This analysis illustrates the importance of the health and education sectors to Leicester City compared to regional and national figures. Arts, entertainment and recreation employment is now shown in a new category with the employment share in line with the regional and national figures. Employment in accommodation and food services is below the national average in both Leicester City and Leicestershire.

Table 3.4 Employment by Sector using SIC 2007

Industry	Leicester		Leicestershire		Leicester and Leicestershire		East Midlands		England	
	number	percent	number	percent	number	percent	number	percent	number	percent
Agriculture, forestry and fishing	0	0.0	400	0.2	400	0.1	19,300	1.0	172,700	0.7
Mining and quarrying	0	0.0	1,400	0.5	1,400	0.3	5,000	0.3	26,100	0.1
Manufacturing	21,200	13.6	41,000	15.1	62,200	14.6	271,900	14.4	2,175,900	9.4
Electricity, gas, steam and air conditioning supply	100	0.1	2,600	1.0	2,700	0.6	8,600	0.5	63,300	0.3
Water supply; sewerage and waste management	600	0.4	1,500	0.6	2,100	0.5	10,600	0.6	127,200	0.6
Construction	7,000	4.5	17,300	6.4	24,300	5.7	103,700	5.5	1,136,600	4.9
Wholesale and retail trade	23,600	15.1	53,800	19.8	77,300	18.1	329,300	17.4	3,843,300	16.7
Transportation and storage	3,500	2.2	19,900	7.3	23,400	5.5	93,100	4.9	1,107,200	4.8
Accommodation and food service activities	6,900	4.4	16,000	5.9	22,900	5.3	109,800	5.8	1,544,100	6.7
Information and communication	2,900	1.8	4,900	1.8	7,800	1.8	42,100	2.2	914,600	4.0
Financial and insurance activities	5,800	3.7	6,400	2.4	12,200	2.9	44,400	2.3	945,400	4.1
Real estate activities	1,800	1.1	2,600	1.0	4,400	1.0	18,500	1.0	326,600	1.4
Professional, scientific and technical activities	6,600	4.2	19,100	7.0	25,700	6.0	98,700	5.2	1,638,400	7.1
Administrative and support service activities	16,400	10.5	18,500	6.8	34,900	8.1	153,800	8.1	1,931,200	8.4
Public administration and defence	10,500	6.7	10,500	3.9	21,000	4.9	96,800	5.1	1,201,900	5.2
Education	17,400	11.2	24,100	8.9	41,600	9.7	175,200	9.3	2,181,600	9.5
Human health and social work activities	24,900	15.9	20,300	7.5	45,100	10.5	230,600	12.2	2,689,000	11.7
Arts, entertainment and recreation	3,900	2.5	6,200	2.3	10,100	2.4	46,600	2.5	554,700	2.4
Other service activities	3,300	2.1	4,900	1.8	8,200	1.9	33,100	1.8	494,000	2.1
Activities of households as employers	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Activities of extraterritorial organisations	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Column Total	**156,300**		**271,400**		**427,700.0**		**1,891,300**		**23,073,700**	

Note: Number reflects the numbers in employment in each sector and the percent column shows the share of employment in each industry sector.

Source: Annual Business Inquiry, 2008
Note numbers may not add up due to rounding. – all figures rounded to nearest 100

3.18 The following section provides a more detailed commentary on changes in sector employment over the last decade. However, it should be noted that during this time period there have been some changes to the data collection methodology so comparisons should be regarded as indicative. This section

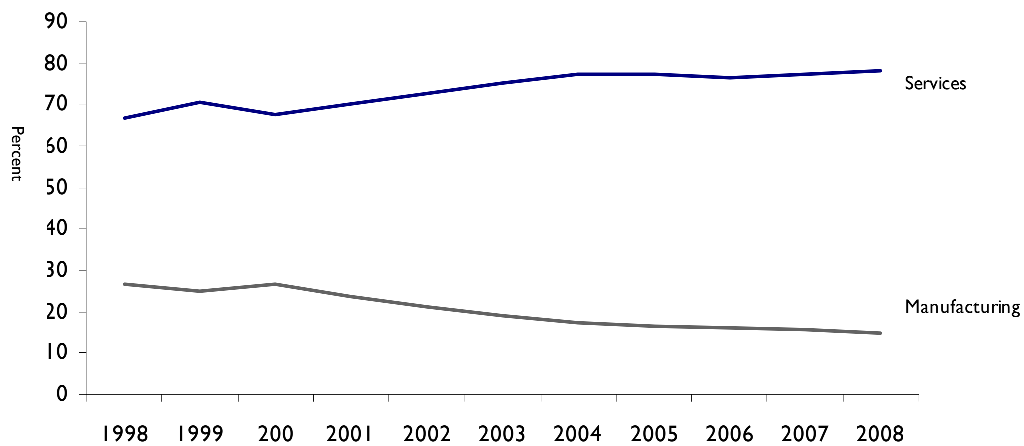
[5] Standard Industrial Classification

uses the old SIC coding and so the figures are compatible with figures 3.6, 3.7 and 3.8 rather than table 3.4.

Manufacturing

3.19 The Leicester and Leicestershire sub-region has a strong history of manufacturing and was an early centre for textiles. As a result of economic deregulation and greater competition during the 1970s and 1980s, the sub-region went through significant change. There was a shift away from manufacturing and mass production in favour of leaner, knowledge-intensive and service-based industries. The textiles industry was hardest hit (figure 3.10), along with the mining industry in North West Leicestershire. Nevertheless, manufacturing still remains a key sector in the local economy, accounting for 14.8% of sub-regional employment compared with a GB average of 10.2%[6]. At a district level, with the exception of Blaby and Harborough, all districts show relatively high levels of manufacturing employment. Hinckley and Bosworth (22%), Oadby and Wigston (20%) and Melton (21%) show particularly high levels of employment in manufacturing.

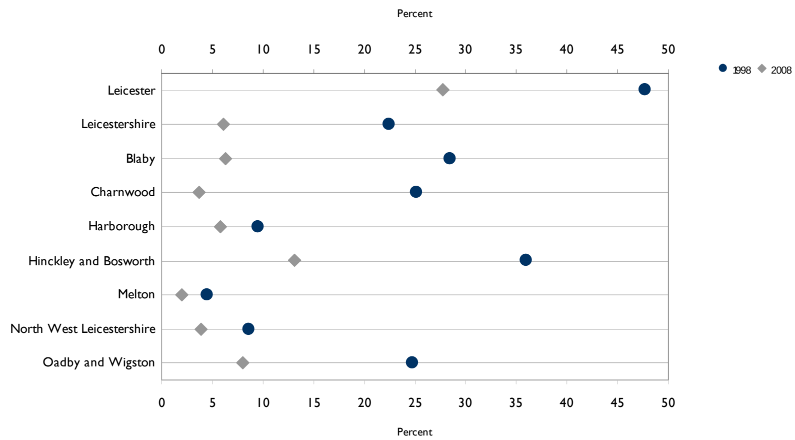
Figure 3.9 Employment in Manufacturing and Total Services as a Share of All Employment in Leicester and Leicestershire, 1998-2008



Note: Estimates for 2005 and earlier are on a different basis to those from 2006 onwards, mainly due to a change in methodology
Source: ABI, 2008.

[6] ABI 2008

Figure 3.10 Proportion of People Employed in Textiles as a Proportion of All in Manufacturing, 1998 and 2008

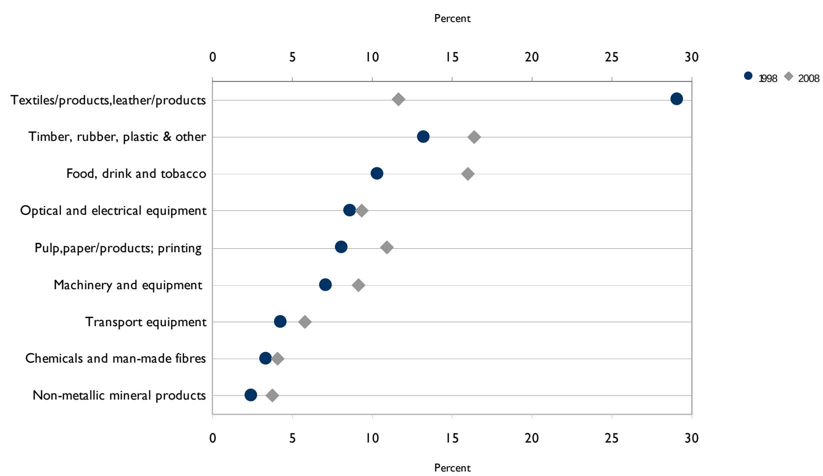


Note: Estimates for 2005 and earlier are on a different basis to those from 2006 onwards, mainly due to a change in survey methodology (figures 3.9 and 3.10).

Source, ABI, 2008

Manufacturing Sub-sectors

Figure 3.11 Proportion Employed in Manufacturing Sub-sectors as a Proportion of all in Manufacturing in Leicester and Leicestershire, 1998 and 2008



Textiles

3.20 Figure 3.11 shows employment in the sub-sectors of manufacturing in Leicester and Leicestershire as a proportion of all manufacturing jobs within the sub-region in 1998 and 2008. Between these years, the textiles industry experienced significant change, shedding almost 22,700 jobs – or reducing by 73%. Textiles went from accounting for 29% of all Leicester and Leicestershire's manufacturing jobs in 1998 to 12% of all jobs in the sector in 2008.

3.21 Figure 3.9 demonstrates this shift in textiles as a proportion of all manufacturing at a more local level. It shows that Leicester City, Blaby, Charnwood and Hinckley and Bosworth experienced the biggest shifts away from textiles between 1998 and 2008.

Textiles
Leicester and Leicestershire's textiles industry was hit from the 1970s onwards as a result of global competition, and, towards the end of the 1990s, by a slump in the UK fashion retail sector. Today Leicestershire companies focus on high-quality clothing and technical textiles. The design centres for Next Clothing and George Clothing (Asda/Walmart) are both based in Leicestershire.

Food and Drink
Leicestershire's food and drink industry is rooted in signature specialities including Stilton and Red Leicester cheeses and the Melton Mowbray pork pie. Big employers include Samworth Brothers, Pedigree Masterfoods, Walkers Snack Foods and Everards Brewery. Melton has recently been designated as the Rural Capital for Food by the National Skills Academy.

Value-added Engineering
Leicestershire's engineering industry is split across a range of sections and includes automotive, electronics, high-performance engineering and motor sport, rail and logistics. Companies with a Leicestershire presence include Caterpillar, Triumph, FKI Brush, Trellborg and Alstom.

Source: Leicester Shire Promotions

Timber, Rubber and Plastics

3.22 The number of jobs within the timber, rubber and plastics sector reduced by 26% between 1998 and 2008. Leicester City (24%), Charnwood (21%) and Harborough (16%) have a relatively high proportion of the sector's jobs.

Food and Drink

3.23 Food and drink manufacturing has become increasingly important to the sub-regional economy. In 1998, it accounted for 10% of all manufacturing jobs in the sub-region and, by 2008, this had increased to 16%. Melton had 25% of all food and drink manufacturing employment in the sub-region. The food and drink manufacturing sector accounted for 54% of all manufacturing jobs in Melton by 2008. It has recently been reported that during the recession, high-value food and drink producers have not seen a slump in demand. Whilst consumers will forgo expensive activities, such as foreign travel, as a substitute they may turn to everyday food-related luxuries.

Optical and Electrical Equipment

3.24 As a sector, the manufacture of optical and electrical equipment has remained relatively stable and, in 2008, it accounted for 9% of all the sub-region's manufacturing jobs. Charnwood was particularly dominant, containing 33% of all optical and electrical equipment manufacturing jobs in the sub-region.

Printing

3.25 There has been relatively little change to the printing sector, which constituted 11% of all manufacturing jobs in the sub-region in 2008. There was no particularly dominant district in terms of printing sector employment.

Machinery and Equipment

3.26 The manufacture of machinery and equipment represented 9% of the sub-region's manufacturing jobs in 2008. At 22%, Hinckley and Bosworth held the highest share of manufacturing jobs in the sector.

Transport and Equipment

3.27 Transport and equipment manufacturing accounted for 6% of all manufacturing jobs in the sub-region in 2008 and 35% of all these jobs were in Hinckley and Bosworth.

Chemicals and Man-made Fibres

3.28 Employment in chemicals and man-made fibres manufacturing has remained relatively stable, accounting for 3% of all manufacturing jobs in 1998 and 4% in 2008. Charnwood has the highest proportion (32%) of the sub-region's jobs.

Non-metallic Minerals

3.29 The manufacture of non-metallic minerals accounted for 4% of all manufacturing jobs in the sub-region in 2008. North West Leicestershire manufactures an increasingly high proportion of non-metallic mineral products (50% of all the sub-region's non-metallic minerals manufacturing). In 2002, the sector accounted for 12% of all manufacturing jobs in North West Leicestershire. By 2008 this had risen to 22%.

Agriculture and Fishing

3.30 It is perhaps worth noting that although those employed in agriculture and fishing represented a very small proportion of all employment in the sub-region (0.2%), it is an important sector from an environmental perspective and to the rural economy as a whole.

Services

3.31 Leicester and Leicestershire's service sector employment has grown significantly over the last 10 years (figure 3.9 refers).

3.32 Leicestershire County is relatively strong in terms of transport and communications employment (8% of all jobs, compared to 6% nationally)[7]. This is linked to its central location and communication links by road, rail and air. The wholesale and retail sector is also a significant one for the County,

[7] Based on old SIC classification rather than SIC 2007

accounting for 20% of total jobs, which is above the East Midlands (17%) and Great Britain (17%) averages. This reflects the strong retail offer of market towns and major out of town shopping centres such as Fosse Park. The wholesale and retail sector in Leicester City accounts for 15% of all employment, which is lower than regional and national averages. This is likely to improve when employment in the new Highcross shopping centre has had a full impact on the official statistics.

3.33 The contribution that tourism (visitor economy) makes to the economy at national, regional and local levels is significant. This is likely to grow in future years and helps to create a sense of place within local communities as well as contributing to regeneration and economic development activities. A recent report from Experian[8] commented that the cultural and creative industries sectors (which include sport-related businesses) also make a significant contribution to the regional economy, but are currently under-represented. This is also the case in the sub-region. Experian conclude that the sector is set for a bright future, making both direct and indirect contributions to local economies.

3.34 In line with regional performance, the sub-region (19%) falls behind the GB average (22%) in terms of employment in the banking, financial and business services sector. The business services sector includes areas such as marketing, creative industries and design. Interestingly, Leicester City has high levels of employment in public administration, education and health (almost one in three jobs). Whilst this is a relatively stable sector, it does not generate wealth in the same way that the private sector does and is heavily influenced by changes in government policy.

[8] Unlocking the Potential of the Creative and Cultural Sector: A Meta Review of the Evidence Base, Experian December 2009

Service Sub-sectors

Wholesale and Retail Trade

3.35 The wholesale and retail trade sub-sector accounted for 18% of jobs in the sub-region and between 1998 and 2008 the sub-sector grew by 14%. Harborough experienced much of this growth, with employment in retail/wholesale trade increasing by 126% between 1998 and 2008. The sub-region has two major retail centres at Highcross and Fosse Park (Blaby). Large distribution centres such as Magna Park have a significant impact on Harborough's employment structure. As a retail centre, Leicester City now ranks 11th in the UK in terms of retail spend[9]. Many rural market towns have suffered from the recession as key national stores such as Woolworths have closed and hence reduced the pull of the towns' shopping offers. Towns with more independent retail offers have fared much better. Market Harborough and Melton had retail vacancy rates of around 2.1% and 6.7% respectively (2009). On the other hand, towns with a higher proportion of "national" retailers such as Coalville, Hinckley and Loughborough had much higher vacancy rates (13% in Hinckley, 12.8% in Coalville, and 11.5% in Loughborough – in line with national figures). Nationally, rates are expected to increase to 15% in early 2010. It is considered important to encourage the use of empty shops for other purposes (such as Arts Trail in Melton) to encourage visitors and give the towns a much better appearance. Four of Leicestershire's market towns, Coalville, Market Harborough, Loughborough and Melton, are members of the East Midlands Business Improvement District (BID) Academy. This provides an opportunity to enhance the town centres in a climate where public and private spend for public realm is decreasing.

Transport and logistics
Due to its central location and communications network, Leicestershire is attractive to logistics companies. The sub-region is home to high-quality distribution parks such as Magna Park in Harborough and the East Midlands Distribution Centre. The industry makes use of Leicestershire's proximity to the M1, M6, M69 and M42, as well as to East Midlands Airport.

Hotel and leisure
The visitor economy is worth almost £1.3bn to Leicester and Leicestershire. Key attractions include the National Space Centre, Twycross Zoo, Bosworth Battlefield, Donington Park, Great Central Railway and Foxton Locks. Both City and County also offer distinctive food, a rich heritage, high-quality sporting facilities as well as arts and cultural activities. In May 2006, the Leicester Marriott hotel was opened and brought an estimated £22m to the city.

Financial and business services
Key financial and business services companies with a presence in Leicester and Leicestershire include Alliance and Leicester, Royal Bank of Scotland, State Bank of India, HSBC and PriceWaterhouseCoopers.

Source: Leicester Shire Promotions

Hotels and Restaurants

3.36 The hotels and restaurants sub-sector accounts for 5% of all jobs in Leicester and Leicestershire. The sub-sector is most significant in Hinckley and Bosworth, Harborough and North West Leicestershire. This is linked to the presence of East Midlands Airport, growth around junction 24 of the M1 and the growing National Forest tourism base.

[9] Venuescore, 2009

Public Administration, Education and Health

3.37 Leicester City has a particularly high proportion of employment in the public sector. The sector accounted for 34% of all Leicester City's employment in 2008. Furthermore, Oadby and Wigston (29%) and Charnwood (26%) have a high proportion of employment in the public sector. Although public sector employment is important to many cities, Leicester featured in the top 20 vulnerable cities in terms of its reliance on public sector employment, in a recent report published by the Centre for Cities.[10]

Transport and Communications

3.38 Transport and communication makes up 6% of all employment in the sub-region. Influenced by the presence of East Midlands Airport, North West Leicestershire has a particularly high proportion of transport and communications jobs. The district accounted for 32% of all transport and communications jobs in Leicester and Leicestershire and, in real terms, the number of jobs grew in North West Leicestershire by 54% between 1998 and 2008.

Banking, Financial and Business Services

3.39 North West Leicestershire, Hinckley and Bosworth, Blaby and Melton have seen significant employment growth in banking, finance and business services between 1998 and 2008, albeit from a relatively low base. For Blaby, the banking, financial and business services sector makes up 22% of the entire district's employment. This is linked to developments such as Grove Park and Carlton Park and the presence of some large employers such as Alliance and Leicester.

Tourism

3.40 In 2008, Leicester Shire Promotions estimated the sub-regional tourist industry to be worth almost £1.3billion[11] and that annual tourist numbers to the City and County now stand at over 32.6 million. There had been modest growth in tourist numbers compared to the previous year (up 2.69%), with the spend by staying visitors up by 2.32% and the number of day visitor trips up by 3.32%. Direct employment estimates for 2008 are shown in tables 3.5 and 3.6. Tourism accounted for 7% of all employment in the sub-region, compared to an East Midlands figure of 7% and a GB average of 8%. The sector has seen greater relative growth in real terms (growing by 32%) in Leicester and Leicestershire than in the East Midlands (27%) and GB (20%). At a district level, Hinckley and Bosworth stands out as having relatively high proportions of employment (10%) in tourist-based industries. In Hinckley and Bosworth, key sites include Twycross Zoo, Bosworth Battlefield and a high number of restaurants and guest houses. North West Leicestershire is also important with growth around the National Forest and the airport. That Leicestershire has seen the greatest growth in tourism-related jobs (38%) suggests that rural tourism is particularly important to the sub-region.

[10] Public Sector Cities; Trouble Ahead, Centre for Cities 2009
[11] http://tourism.goleicestershire.com/ - using the STEAM model – Scarborough Tourism Economic Activity Monitor

Table 3.5 Tourism Jobs in Leicester and Leicestershire

	Total tourism jobs (2008)	As a % of all jobs	% change in tourism jobs 1998-2008
Leicester City	9,601	6	21
Leicestershire	20,184	7	38
Leicester and Leicestershire	29,785	7	32
East Midlands	144,359	8	27
Great Britain	2,181,146	8	20

Source: ABI, 2008

Table 3.6 Tourism Jobs in Leicestershire Districts

	Total tourism jobs (2008)	As a % of all jobs	% change in tourism jobs 1998-2008
Blaby	2,906	6	30
Charnwood	4,632	8	39
Harborough	2,936	8	67
Hinckley and Bosworth	3,772	10	44
Melton	1,352	7	3
North West Leicestershire	3,360	7	47
Oadby and Wigston	1,226	7	17

Source: ABI, 2008

3.41 A recent report, published by Deloitte, draws on statistical and qualitative information to identify the impact of tourism on retail, manufacturing and even health and life sciences industries in the UK. The report sees the visitor economy as strongly associated with entrepreneurial activity and new business formation, as well as bringing clear social and environmental benefits to rural areas.

3.42 In the short-to-medium term, the London 2012 Olympics and Paralympics will bring significant opportunities to Leicester and Leicestershire's hotel, leisure and sports sectors. Loughborough University, for example, will be a training camp for the Japanese and a number of other delegates.

Creative and Cultural Industries

3.43 The size of the creative industries sector is difficult to quantify as definitions vary. A study conducted in 2008 estimated that the sub-region had 14,400 jobs in the creative industries sector and 4,100 VAT registered businesses. Employment in the creative industries sector grew by 3.3% between 2001 and 2005 and in related business units by 8.5% over the same period. Leicestershire had the most significant creative industries sector in the East Midlands in terms of employment levels and number of business units[12]. The more recent Experian study of the creative and cultural sector confirmed the potential significance of this sector for the future. This study estimated that there were 16,000 businesses in the East Midlands region employing over 150,000 people. Software, computer games and electronic publishing; and

[12] East Midlands Urban and Regional Creative Industries Data Study, BOP Consulting, March 2008

sport were the most dominant sub-sectors in the East Midlands. With the exception of sport, the creative and cultural industries are currently considered to be under-represented in the region.[13] The digital creative sector is significant and access to next-generation broadband will be important for this sector to prosper in the future. Loughborough University's work around sports technology is also finding commercial success.

Knowledge Economy

3.44 In recent years, there has been a recognition that economic success increasingly relies on skills, knowledge and innovation. Rather than competing on cost alone, businesses that are able to adapt quickly to technological change, understand their markets and see and exploit new market opportunities tend to be highly successful. The 'knowledge economy' is a term used to label such businesses; it encompasses any economic activity which relies on the creation, evaluation and trading of knowledge. The local presence of a knowledge economy is important since it is a means of improving local competitiveness and generating wealth.

3.45 The main sectors categorised as part of the knowledge economy are set out in table 3.7 and figure 3.12 attempts to capture the scale of the knowledge economy in Leicester and Leicestershire. The level of knowledge-intensive manufacturing activity in the sub-region is in line with the national average. Employment falls noticeably behind in terms of knowledge-based services (16% compared to a GB average of 19%). The size of a consumer services sector in Leicestershire is close to the national average, but in Leicester City this sector is still relatively small.

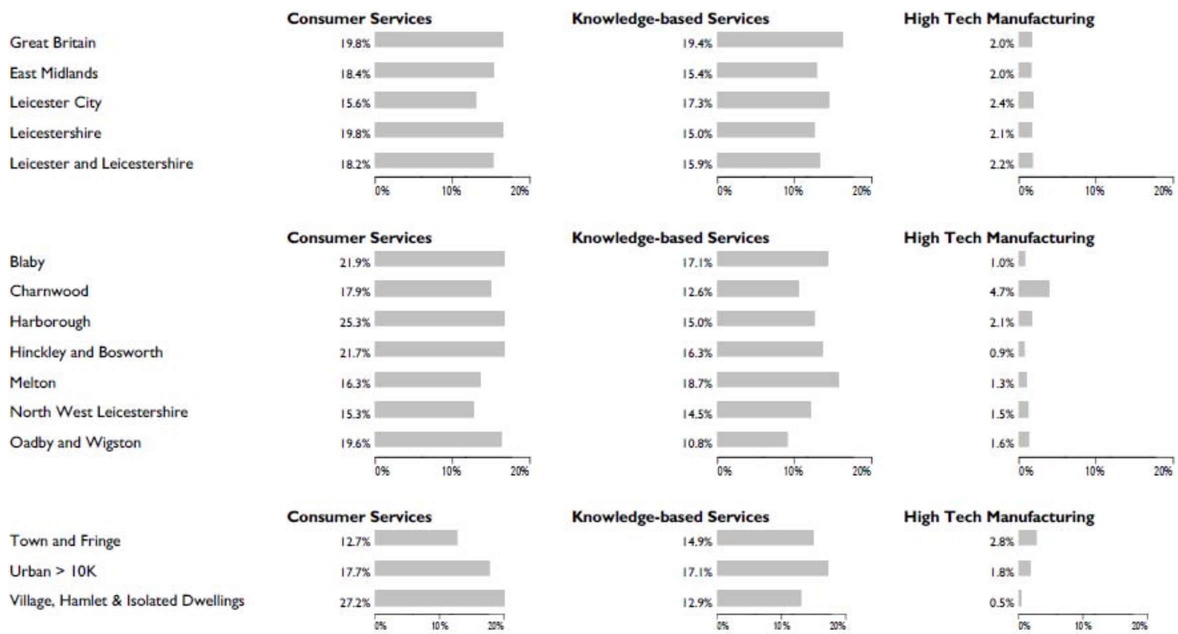
3.46 At a district level, Charnwood has a high relative proportion of employment in high tech manufacturing. This reflects large R&D-based employers such as AstraZeneca[14] and high-value start-ups located at Loughborough University's Innovation Centre. Harborough, Hinckley and Bosworth and Blaby have a higher than GB average proportion of consumer services jobs. Melton is the only district to be at the national average in terms of employment in knowledge-based services, with employers such as Pera having a strong impact.

[13] Unlocking the Potential of the Creative and Cultural Sector: A Meta Review of the Evidence Base, Experian December 2009
[14] Recently AstraZeneca have announced significant future job losses resulting from a decision taken to close this facility (by management located outside the UK)

Table 3.7 Knowledge Economy Standard Industrial Classification Code Relationship

	SIC Codes	Sectors
Consumer Services	52	Retail trade
	55	Hotels and restaurants
	92	Recreational, cultural and sporting activities
High Tech Manufacturing	22	Publishing, priniting and reproduction of recorded media
	24	Manufacture of chemicals and chemical products
	30	Manufacture of office machinery and computers
	32	Manufacture of radio, television and communication equipment
Knowledge-Based Services	65	Financial intermediation
	66	Insurance and pension funding
	67	Activities auxiliary to financial intermediation
	72	Computer and related activities
	73	Research and development
	74	Other business activities

Figure 3.12 Employment in the 'Knowledge Economy' in Leicester and Leicestershire, 2008 (%)



Source: ABI, 2008

Business Structure

3.47 Whilst employment structure provides robust information on the shape of a local economy, it is also important to consider the size and change in business stock that underpins the economy.

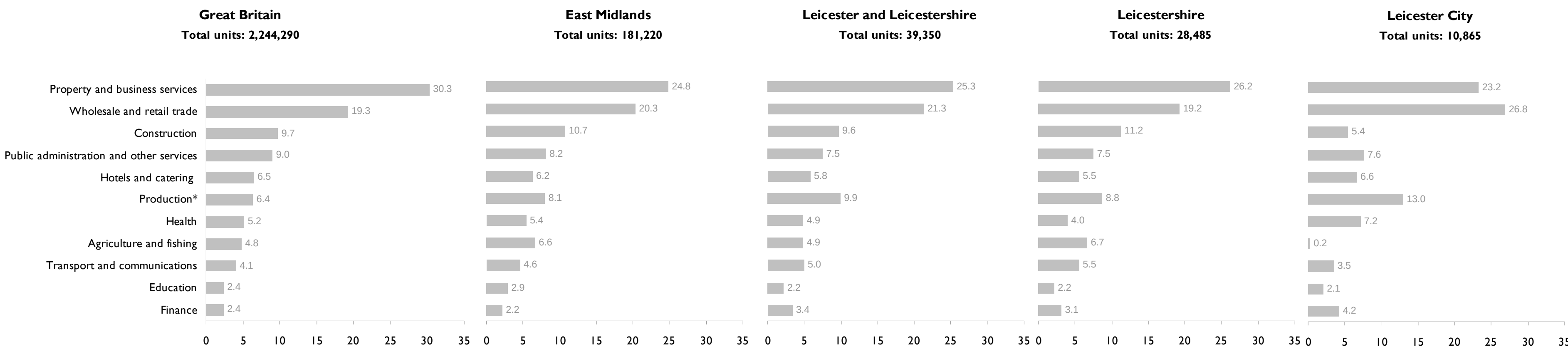
Business Units by Sector

3.48 In 2008, almost half of Leicester and Leicestershire's business units were concentrated in two sectors - property and business services (25%) and wholesale and retail trade (21%). This picture is loosely consistent across all Leicestershire districts (figure 3.14) and also mirrors England and East Midlands trends. However, Leicester City has a higher proportion of businesses in the retail sector. The sub-region has a higher share of business units in the 'production' sector than is the case regionally or nationally.

3.49 According to the IDBR[15], there were 39,350 VAT registered and/or PAYE registered businesses in 2008 in the sub-region. Only 10% of business units are in the "production" or manufacturing sector, however, these businesses tend to be larger in size and account for 16% of employment. Conversely, 10% of business units fall into the construction sector, but as many of these businesses are smaller in size, the sector accounts for around 5% of employment. The property and business services sector also tends to comprise smaller-sized organisations.

[15] The Inter-Departmental Business Register (IDBR) is a list of UK businesses and includes the VAT based business register and PAYE based register. It therefore excludes very small business without VAT or PAYE schemes as well as some non-profit organisations.

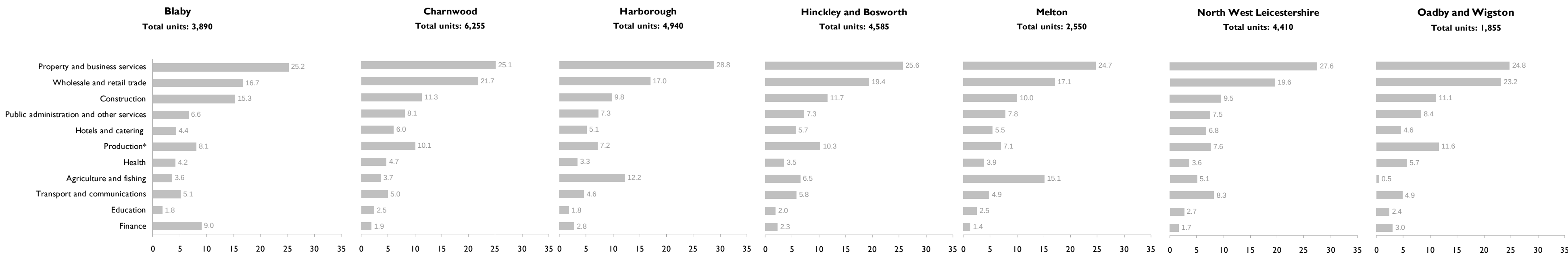
Figure 3.13 Share of Business Units by Sector in Leicester and Leicestershire 2008



*Mining and quarrying, manufacturing and electricity, gas and water supply

IDBR, 2008[16]

Figure 3.14 Share of Business Units by Sector in Leicestershire Districts 2008



*Mining and quarrying, manufacturing and electricity, gas and water supply

Source: IDBR, 2008

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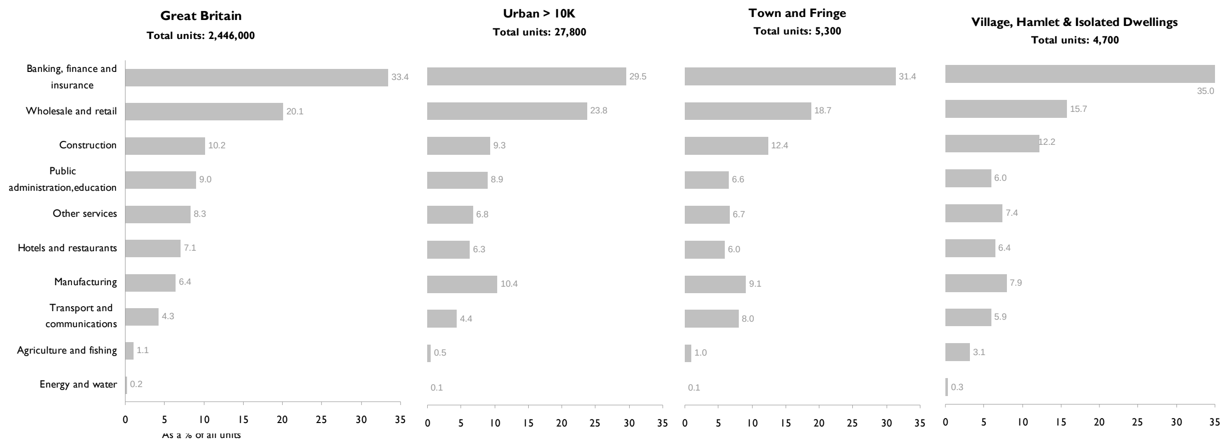
[16] The Inter-Departmental Business Register (IDBR) is a list of UK businesses and includes the VAT based business register and PAYE based register. It therefore excludes very small business without VAT or PAYE schemes as well as some non-profit organisaitons.

Figure 3.15 Share of Business Units by Broad Sector and Rural/Urban Classification, 2008 (%)



Source: ABI, 2008

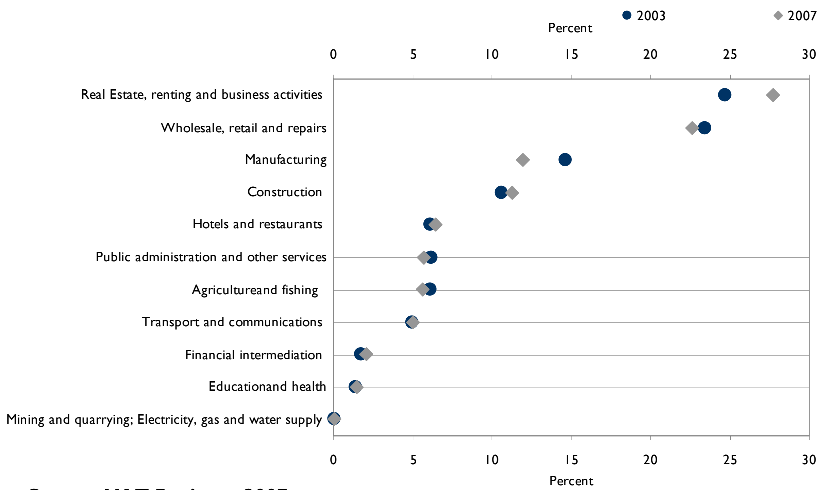
Note: Percentages in Figure 3.15 are different to those in Figures 3.13 and 3.14 because the IDBR is a different data source to ABI, and as such includes a higher proportion of very small businesses.

Business Structure over Time

+

3.50 In terms of growth sectors, changes in business stock loosely follow changes in employment growth. The real estate renting and repairs sector saw the most growth in business stock between 2003 and 2007, growing by 23%, whilst the number of manufacturing businesses shrunk by 11% between 2003 and 2007.

Figure 3.16 Change in Proportion of Business Units by Sector in Leicester and Leicestershire 2003 and 2007



Source: VAT Register, 2007

Business Size

3.51 Small businesses are extremely important to the local economy. 81% of businesses in the sub-region employ less than 10 people and 96% employ less than 50 (similar to regional and national levels). Leicester City contains noticeably fewer micro-businesses (<10 employees) as a proportion of all businesses (76%). At a district level, Harborough (87.4%) and Melton (86.7%), which are predominantly rural, stand out as having an above-average share of micro-businesses.

Table 3.8 Business Size in Leicester and Leicestershire, 2008
Percentage of Businesses in Each Size Band

	Leicester	Leicestershire	Leicester and Leicestershire	East Midlands	England
Total Units	10,865	28,485	39,350	181,220	2,244,290
0-9	75.7	83.5	81.4	81.2	81.9
10-19	11.4	7.7	8.7	8.9	8.8
20-49	7.6	5.1	5.8	6.1	5.7
50-99	3.0	2.0	2.2	2.1	2.0
100-249	1.6	1.2	1.3	1.2	1.1
250+	0.8	0.5	0.6	0.5	0.5

Source: IDBR, 2008

Table 3.9 Business Size in Leicestershire Districts, 2008
Percentage of Businesses in Each Size Band

	Blaby	Charnwood	Harborough	Hinckley and Bosworth	Melton	North West Leicestershire	Oadby and Wigston
Total Units	3,890	6,255	4,940	4,585	2,550	4,410	1,855
0-9	80.6	82.2	87.4	84.6	86.8	81.5	81.8
10-19	8.2	8.1	6.6	8.1	6.6	8.0	8.4
20-49	6.3	5.9	3.5	4.3	4.2	5.9	5.2
50-99	2.4	2.1	1.4	1.6	1.4	2.4	2.6
100-249	1.6	1.2	0.9	1.1	0.7	1.5	1.3
250+	0.8	0.5	0.3	0.4	0.2	0.7	0.6

Source: IDBR, 2008

Enterprise and Entrepreneurialism

3.52 It is widely recognised that a healthy economy is underpinned by a diverse and dynamic business community. Successful and progressive businesses boost productivity, create jobs and drive up prosperity, generating wealth. Whilst enterprise and particularly entrepreneurialism is about creating and commercialising new ideas[17], it is also about coping with risk, a lack of resources/information and a degree of self-efficacy[18]. During recession, where there is market instability, these skills are particularly important.

National Indicators and Entrepreneurialism

3.53 In 2007, the Local Government White Paper, Strong and Prosperous Communities, introduced a set of streamlined indicators -198 in total - that reflect national priority outcomes for local authorities[19]. In terms of business growth and enterprise, there are two key indicators: the business registration rate (NI 171) and the proportion of small businesses showing employment growth (NI 172).

NI 171 Business Registration Rate

3.54 The business registration rate is calculated by taking the number of VAT and/or PAYE businesses that have registered for the first time and dividing this by the local population (per 10,000 aged 16+).

3.55 The business registration rates for Leicester and Leicestershire were slightly below the national level in 2008 (table 3.10). However, the new business registration rate in Leicester City increased to 53.4 new businesses per 10,000 population in 2008, compared to 48.5 in 2006 and 49.7 in 2007. The Leicestershire County figure for 2008 was 51.5, slightly lower than the 2007 level, but similar to that seen in 2006. In terms of the districts, Harborough has a particularly high business registration rate, whereas Charnwood and Oadby and Wigston are significantly below the national average (table 3.11). Leicester City's rate in 2008 is considerably higher than that seen in Nottingham (38) and Derby (40.5) and higher than the comparator cities shown in figure 3.17.

[17] Audretsch and Thurik, 2000
[18] Add refs Hannon *et al*, 2005
[19] http://www.communities.gov.uk/documents/localgovernment/pdf/152456.pdf

Table 3.10 Business Registration Rates (2002 to 2008) – NI 171

	2002	2003	2004	2005	2006	2007	2008
Leicester City	54.3	52.8	53.5	54.7	48.5	49.7	53.4
Leicestershire County	51.7	56.8	57.5	56.6	51.9	54.2	51.5
East Midlands	48.4	52.5	54.3	54.6	50.0	51.9	46.7
Great Britain	51.5	56.4	58.5	56.9	52.4	57.1	54.6

Source: DBERR via BIS website, January 2010

Table 3.11 Business Registration Rates (2002 to 2008) – NI 171

	2002	2003	2004	2005	2006	2007	2008
Blaby	46.5	55.0	51.4	53.9	46.1	54.3	54.6
Charnwood	42.4	50.5	49.6	51.0	40.6	43.5	43.1
Harborough	67.4	70.6	77.8	70.0	70.6	78.7	73.6
Hinckley & Bosworth	57.0	61.3	61.2	62.9	57.0	57.1	47.9
Melton	53.1	56.3	55.8	55.6	55.3	52.4	49.6
North West Leics.	58.2	64.0	62.0	58.7	59.5	59.5	55.0
Oadby & Wigston	43.4	38.7	48.5	44.0	43.5	39.8	42.5

Source: DBERR via BIS website, January 2010

NI 172 Small Businesses Showing Employment Growth

3.56 In order to assess the strength of the small business sector, NI 172 identifies the proportion of small VAT and/or PAYE registered businesses (< 50 employees) showing year-on-year employment growth. The indicator is identified as a key measure of performance in Leicester and Leicestershire's Multi Area Agreement[20]. Table 3.12 suggests that Leicester City and Leicestershire performed similarly to national levels in 2007/08. Leicester City has regularly outperformed the national average between 2002 and 2006, and Leicestershire has shown consistent and improving performance. At a district level, North West Leicestershire performed particularly well in 2007/08, whereas Melton and Oadby and Wigston were below national levels in 2007/08, reflecting a decrease compared to 2006/07 performance.

Table 3.12 Percentage of Small Businesses Showing Employment Growth

	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Great Britain	10.8	10.3	11.6	14.7	14.4	14.4
East Midlands	11.5	10.6	12.0	14.8	14.5	14.5
Derby UA	12.1	12.7	14.8	14.5	14.3	14.6
Leicester UA	**12.4**	**12.4**	**13.1**	**17.0**	**14.7**	**14.3**
Nottingham UA	12.4	12.2	14.3	16.8	16.1	15.1
Leicestershire County,	**10.7**	**10.3**	**11.2**	**14.2**	**14.3**	**14.4**
Blaby	11.0	10.2	10.4	12.9	13.8	14.1
Charnwood	9.9	9.4	11.1	14.5	14.3	14.7
Harborough	11.1	10.0	11.4	14.1	13.8	14.4
Hinckley and Bosworth	9.6	11.3	11.1	14.2	15.2	14.2
Melton	11.8	8.7	11.3	13.2	14.5	12.8
North West Leicestershire	12.0	12.1	12.4	15.6	14.4	16.0
Oadby and Wigston	10.6	10.4	10.6	13.6	14.3	12.3

Source: DBERR, via BIS website, January 2010

[20] Leicester and Leicestershire's Multi Area Agreement can be accessed at: http://www.leicestershiretogether.org/maa_final.pdf

3.57 There is little variation in this indicator across the country, with the East Midlands ranking fifth out of nine regions. London and the South East, which tend to outperform all other parts of the UK on most business and enterprise indicators, have the lowest proportions of small businesses showing employment growth. Leicester City's performance is lower than the other cities in the East Midlands in 2007/08 and below comparator cities such as Newcastle, Sheffield and Bristol (table 3.14).

Table 3.13 Small Businesses Showing Employment Growth by Region, NI 172, 2007-08

Rank	**Region**	**NI 172**
1	North East	15.8
2	Yorkshire and The Humber	15.0
3	South West	15.0
4	North West	14.5
5	East Midlands	14.5
6	West Midlands	14.4
7	East of England	13.8
8	South East	13.6
9	London	13.6

Source: DBERR, BIS website, January 2010

Table 3.14 Small Businesses Showing Employment Growth by Similar City, NI 172, 2007-08

City	**NI 172**
Newcastle upon Tyne	16.7
Sheffield	15.7
Bristol	15.6
Nottingham	15.1
Derby	14.6
Cambridge	14.5
Northampton	14.3
Leicester	14.3
Coventry	13.9

Source: DBERR, BIS website, January 2010

Business Base in Leicester and Leicestershire

3.58 In addition to the two National Indicators on enterprise, changes in business stock, start-up and survival rates, levels of self-employment and micro-firm density are often used as proxies to measure entrepreneurialism. Between 2004 and 2008, Leicestershire County's business stock grew by 5%. Three-year business survival rates were also encouraging. Leicester City, however, performed slightly below county, regional and national averages, with only a small increase in its business stock between 2004 and 2008, and relatively poor three year survival rates.

Table 3.15 Profile of Business Base in Leicester and Leicestershire

	No. of active enterprises (2008)	% change 2004-2008	% employing <5 people (2007)	1-yr businesses survival rate (%) (2007)	3-yr business survival rate (%) (2005)
Leicester City	9,715	1	73.4	97	59
Leicestershire	25,830	5	78.2	96	65
Leicester and Leicestershire	35,545	4	76.9		
East Midlands	158,365	7	77.0	96	65
England	2,024,990	7	78.3	95	65

Source: IDBR, 2008

Table 3.16   Self-employment and Micro Firm Density in Leicester and Leicestershire

	% Self Employed	Micro-firm Density (2008)*
Leicester City	6	3
Leicestershire	8	3
Leicester and Leicestershire	8	3
East Midlands	9	4
United Kingdom	9	5**

*No. VAT and PAYE registered businesses (<10 employees) as a proportion of working age population.
**England figure.
Source: Annual Population Survey, 2007; 2008; IDBR, 2008

3.59 Figures 3.17 to 3.20 compare Leicester City's performance against other cities on four key enterprise indicators: 3-year business survival rates, business registration rates, self-employment rates and 3-year growth in business stock.

3.60 On three-year business survival rates (Figure 3.17), Leicester City again stands out as having particularly poor survival rates. Self-employment rates (figure 3.19) and growth in business stock (figure 3.20) across these similar cities also show Leicester City to be performing less well. However, on business registration rates (figure 3.18), Leicester City performs relatively well.

3.61 Self-employment rates are high in Harborough which might support anecdotal evidence that the district is seeing an increase in home-working. Apart from Hinckley and Bosworth, Oadby and Wigston and North West Leicestershire, which fall only slightly behind the national rates, all districts out-perform national and regional averages on their three-year business survival rates (table 3.17). It is worth noting that Oadby and Wigston falls significantly behind all other districts in its growth in VAT registered businesses between 2004 and 2008.

Figure 3.17: 3 year business survival rates by similar city, 2005

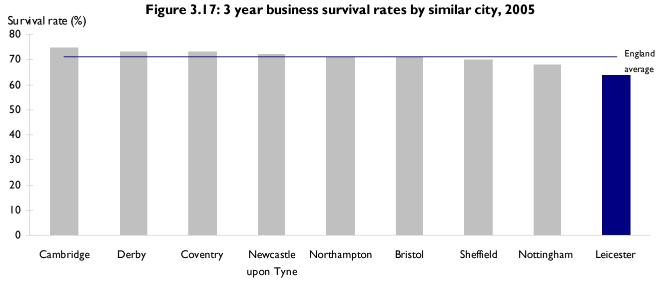


Figure 3.18: Business registration rate by similar city, 2008

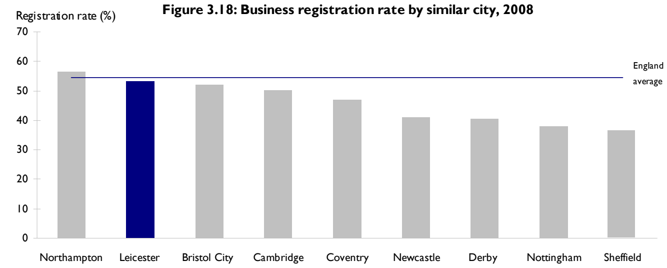
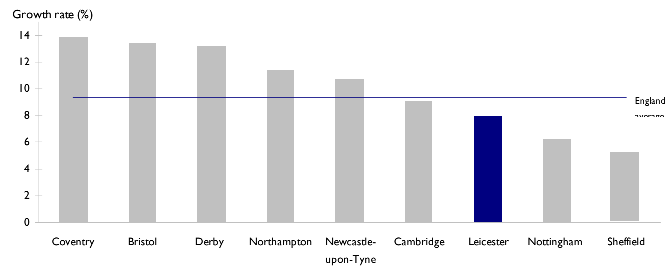


Figure 3.19: Self-employment rates by similar city, 2008

Figure 3.20 Growth rates in VAT registered business stock, 2003-2007



Source: DBERR, 2008 (BIS website, January 2010)

Table 3.17 Profile of Business Base in Leicestershire Districts

	No. of active enterprises (2008)	% change 2004-2008	% employing <5 people (2008)	1-yr businesses survival rate (%) (2007)	3-yr business survival rate (%) (2005)
Blaby	3,515	8.7	78.8	98.8	69
Charnwood	5,725	1.5	77.3	95.8	66
Harborough	4,455	5.4	80.2	98.1	66
Hinckley and Bosworth	4,265	7.2	78.4	91.8	62
Melton	2,130	4.9	79.8	95.2	68
North West Leicestershire	3,955	9.1	76.1	97.7	64
Oadby and Wigston	1,785	0.0	77.6	94.6	63

Source: Business Demography, 2008
Note:
1-year survival figure refers to businesses started in 2007
3-year survival figure refers to businesses started in 2005

Table 3.18 Self-employment and Micro-firm Density in Leicestershire Districts

	% Self-employed	Micro-firm Density (2008)*
Blaby	10	4
Charnwood	11	4
Harborough	12	7
Hinckley and Bosworth	9	5
Melton	7	6
North West Leicestershire	6	5
Oadby and Wigston	12	4

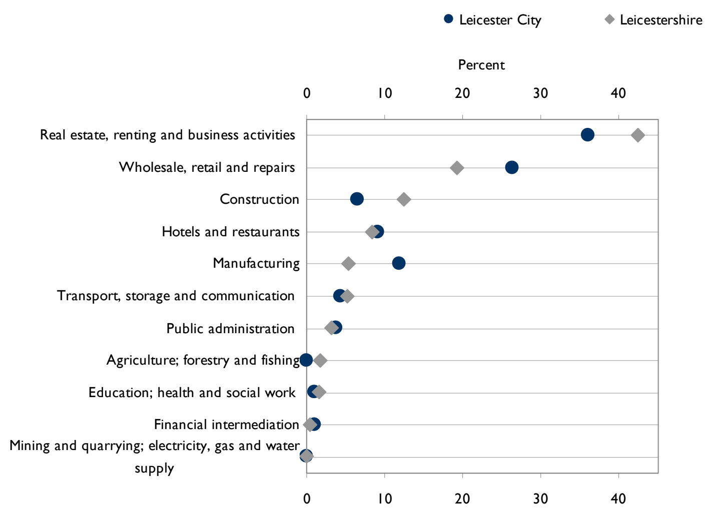
*No. VAT and PAYE registered businesses (<10 employees) as a proportion of working -age population.
**England figure.
Source: Annual Population Survey, 2007; 2008; IDBR, 2008

New Start-Ups in Leicester and Leicestershire

3.62 Finally, figure 3.21 identifies the sectors into which new businesses started up in Leicester and Leicestershire in 2007. A high proportion of the 2007 VAT registered start-ups occurred in the real estate, renting and repairs sector. The retail sector accounted for the second highest proportion of all registered start-up activity, followed by the construction sector.

3.63 A similar picture emerges at district level. Although there are subtle differences (7% of Melton's start-up activity was in agriculture and 13% of Oadby and Wigston's start-up activity was in manufacturing), real estate, retail and the construction industry dominated most registered start-up activity in Leicestershire districts in 2007.

Figure 3.21 New VAT Registrations by Sector
(as a Proportion of all New Registrations)



Source: VAT register (2007)

3.64 It is a concern that start-up activity in 2007 was concentrated within the real estate and retail sectors (figure 3.21). Both sectors have been badly hit by the recession and are dependent on easily available credit and investor confidence in the market. The retail sector also depends on consumer confidence which remains low.

Third Sector and Social Enterprise

3.65 The third sector is a diverse, active and passionate sector which is vitally important to local, regional and national economies. As part of the Cabinet Office, the Office of the Third Sector (OTS) was created in May 2006 in recognition of the increasingly important role the third sector plays in both society and the economy. The overarching aim of the OTS is to develop and support an environment which enables the third sector to thrive and increase its contribution to society, economy and the environment.

3.66 Organisations in the third sector share common characteristics. These include:

- Non-governmental
- Value-driven
- Principally re-invest any financial surpluses to further social, environmental or cultural objectives

3.67 The term encompasses voluntary and community organisations, charities, social enterprises, cooperatives and mutuals both large and small.

3.68 Voluntary Action Leicester estimate that the value of volunteering to the local economy is at least £36.5M for Leicester City and £101.5M for Leicestershire County, giving a total of £138M for the sub-region. This estimate has been arrived at using data from the Place Survey[21] which showed that 19.3% of respondents in Leicester City and 23.4% of respondents in Leicestershire County participated in regular volunteering activity (which would include at least once a week or once a month).

3.69 In terms of third sector organisations, VAL's database suggests that there are at least 3,702 such organisations in the sub-region, with 40% based in Leicester City. At least 94 of these organisations have a turnover in excess of £250K.

3.70 In 2008, Ipsos MORI conducted a national survey of Third Sector Organisations on behalf of OTS. This survey was used to measure progress against National Indicator 7 (NI 7): "An Environment for a Thriving Third Sector." The question asks "Taking everything into account, overall, how do you think statutory bodies in your local area influence your organisation's success?" The results are shown below:

Table 3.19 Environment for a Thriving Third Sector (NI 7)

Area	NI 7 Score	Very positive influence	Positive influence
Leicester	19.6%	1%	18%
Leicestershire	17.3%	2%	16%
England	16.2%	1%	15%

Source: Ipsos MORI, 2008

3.71 This suggests that statutory organisations, in both Leicester and Leicestershire, are performing slightly above the national figures in terms of supporting the third sector. However, there appears to be significant room for improvement in this area across the country.

Social Enterprise

3.72 In the past, it has proved difficult to obtain reliable statistics on the number of social enterprises in the local and national economies, partly due to difficulties in defining what constitutes a social enterprise. Using the current Cabinet Office definition:

[21] Place Survey 2008

"a social enterprise can be regarded as a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners."

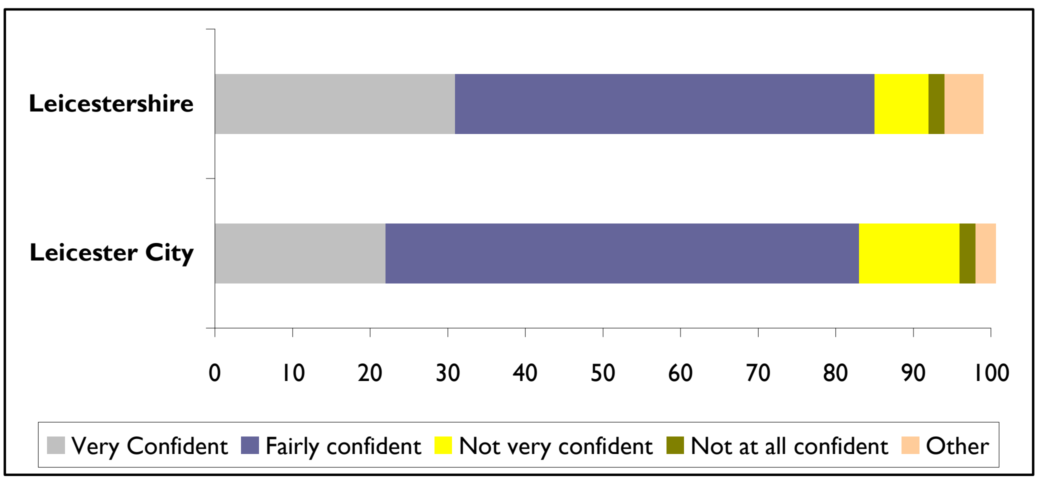
3.73 Using complex calculations, the Cabinet Office now estimate that there are 62,000 social enterprises in the UK. The new methodology uses a rolling average across the period 2005 to 2007 from the Annual Small Business Survey (ASBS). Although it is difficult to compare this figure with previous estimates, the Cabinet Office believes that the number of social enterprises is increasing. This is supported by feedback from a range of partners working with the sector.

3.74 In terms of Leicester City, 51% of the third sector organisations responding to the OTS survey considered themselves to be social enterprises, giving an estimate of at least 422 social enterprises in the city. In Leicestershire County, 46% of respondents considered themselves to be social enterprises, suggesting there are at least 820 social enterprises in Leicestershire County. Anecdotal local evidence suggests that the size of the sector is likely to be higher than this.

Third Sector Performance and Confidence

3.75 In terms of meeting objectives in the last 12 months, 91% of City-based and 88% of County-based organisations felt that they had been successful in meeting their objectives. Looking forward to the next 12 months, organisations were generally positive about meeting their main objectives, as shown in figure 3.22.

Figure 3.22 Third Sector Confidence About Meeting Future Main Objectives



Source: IPSOS MORI 2008

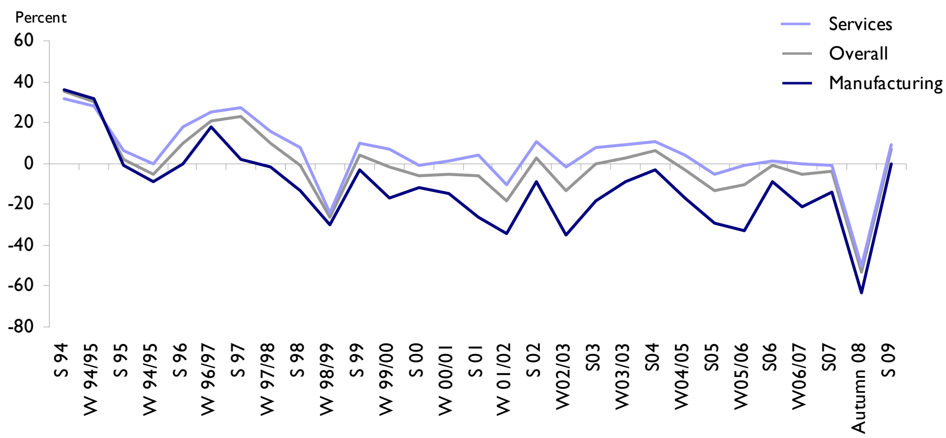
Business Opinions

3.76 Research with the local business community gives further insight into the local economy and an up-to-date picture of local business issues. Since 1994, local partners have conducted a regular business survey of approximately 1,000 businesses. The most recent survey took place in June 2009 and updates on the survey conducted in October 2008, when many of the UK's major banks and financial institutions were in crisis.

Business Optimism

3.77 Figure 3.23 shows that business optimism in Summer 2009 has improved to +7%[22] from the very low level (of -53%) seen in October 2008. The October 2008 figure was the lowest recorded since the surveys began in 1994. Confidence has recovered in the service sector to give a balance of optimism of +9% (compared to -50% in October) and the manufacturing sector has recovered to 0% (from -63%). Further signs of improvement can be seen by the fact that one in ten businesses feel that their market sector is now growing and a further 16% feel that their sector is starting to pick up. However, a quarter of businesses still feel that their sector is in decline. Large businesses and those in the service sector are more optimistic about their market sector growing. Encouragingly, 19% of those in the construction sector felt that their sector was growing.

Figure 3.23 The Balance of Business Optimism for the next 12 months



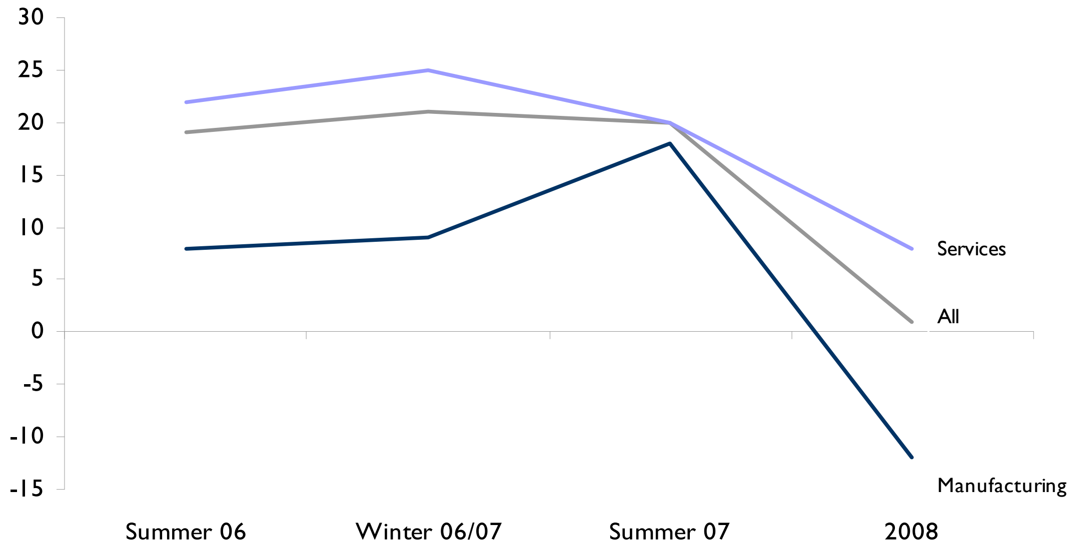
Source: Leicester and Leicestershire Business Survey Summer 2009
S=Summer, W=Winter

Recent Business Performance

3.78 Although optimism about the next 12 months has increased sharply, businesses have been affected by the recession with a downturn in sales. The number of firms reporting an increase in turnover has declined sharply since the last survey in October 2008 and there is now a negative balance (-15%). Around a quarter (26%) reported an increase in turnover, compared to 41% reporting a decrease. The situation with regards to profits is similar. Overall, 23% reported an increase in profits compared to 41% reporting a decrease (giving a balance of -18%). Smaller businesses were particularly badly hit along with those in the manufacturing sector.

[22] Business optimism is measured by taking the difference between the percentage of businesses expecting business conditions to get better and those expecting conditions to get worse - over the next 12 months

Figure 3.24 Balance of Increase in Profits over the Last 12 Months



Source: Leicester and Leicestershire Business Survey 2008

Business Concerns

3.79 Businesses were asked in an open-ended way to indicate the most significant issues they were facing. In response, the key concerns mentioned by businesses were largely related to the economic downturn, the current economic climate or the credit crunch (23%). A further 16% mentioned a lack of sales or orders, 13% referred to customer confidence. When asked to rate concerns, cash flow and energy costs emerged as key issues. Concerns about finding suitable staff and staff retention have continued to decline. This is not because fewer firms are recruiting but appears to be linked to rising unemployment, with a larger pool of qualified people to recruit from.

3.80 55% of companies participating in the survey said the recession had impacted negatively on their business, with 39% reporting no impact and 5% a positive impact. One in three companies had not replaced staff that had left and 29% had made staff redundant. 24% had cut back on overtime, 19% had introduced short-time working and 7% had reduced wages or salaries. 16% of those interviewed reported that access to finance had been a problem for them in the last 12 months.

Exporting

3.81 About one in five businesses participating in the Business Survey are engaged in export activity. As might be expected, this is much higher for those in manufacturing (45%) than for the service sector (13%). Possibly linked to favourable exchange rates, 31% of businesses have increased their overseas sales, 44% reported no change and 23% reported some decrease. Overall, 28%

of exporting companies said that their advanced orders had increased and 47% indicated they were much the same.

Rural

3.82 103 out of 1,011 businessess surveyed were located in rural areas. 28% of rural businesses thought that conditions would improve over the next 12 months, compared to 31% of urban businesses. The main concern for rural businesses was 'customer confidence', stated by 19% of rural businesses, compared to 10% of urban business. 37% of rural businesses felt that the market they were in was declining, compared to only 23% of urban businesses. Moreover, 17% expected their workforce to decrease over the next 12 months, compared to only 7% of urban businesses.

Inward Investment

3.83 Since the freeing-up of national borders and the economic deregulations of the 1980s, local economies must compete within global markets. At the same time, and as a result of technological transformation, people, money and ideas are more mobile than ever. These two movements have meant that attracting and retaining new investment is extremely important to the economic health of a local area[23].

3.84 During the financial year 2007/2008, Invest Leicestershire attracted record levels of investment to the sub-region. This resulted in 1,053 jobs safeguarded or new jobs created, much of these within knowledge-intensive sectors (table 3.20).

Table 3.20 Invest Leicestershire's Successes, 2007-2008

District	Sector/ Activity	Jobs created	Jobs safe-guarded
Leicester City	Charitable organisation	7	0
	Textiles	4	0
	Spatial consultancy	3	0
	Misc	3	0
	Software consultancy and supply	2	0
	Transport and storage	0	750
	Food and drink	0	200
North West Leicestershire	Hotels	15	0
Hinckley and Bosworth	Engineering	9	0
	Mechanical and electrical project management	2	0
Market Harborough	Distribution	8	24
Charnwood	Tourism	5	0
Harborough	Design, manufacture and marketing	4	15
Oadby and Wigston	Printing	2	0
		64	989

Source: Invest Leicestershire, 2009

[23] There is tangible evidence that winning inward investment and particularly Foreign Direct Investment (FDI) is a key driver of economic productivity. In 2006 DTZ calculated that FDI firms on average paid 27% more than domestic firms and created 30% more GVA per employee. DTZ (2008) *Investment Strategy for Leicester and Leicestershire and Evaluation of Current Arrangements*

3.85 Some important successes include: *PepsiCo* announcing in August 2007 that it would be relocating its Research and Development arm to a new £15million centre of excellence in Beaumont Leys; *ATX software*, an international software provider, creating a wholly-owned UK subsidiary at office space within the University of Leicester; and international footwear distributor *Brevitt-Rieker* opening its North European Head Office at the Compass Point development in Market Harborough.

Innovation

3.86 In its Regional Innovation Strategy and Action Plan for 2007-2010, *emda* identified an investment gap in Research and Development (R&D) amongst SMEs and a lower than national average expenditure on both government and Higher Education R&D[24]. Also, one of the key barriers to growth was seen to be in converting ideas into commercially successful products, processes and services. As a partial solution to this, the sub-region's three universities collectively have won £12million from the Government to lead on a range of initiatives aimed at enabling businesses to use their expertise and boost competitiveness. Importantly, the emphasis is on facilitating networks between universities and businesses. The 'Three Universities for Business' initiative brings together De Montfort University, Loughborough University and the University of Leicester to showcase recent successes that have come out of this[25].

Product Development Centre, DMU
In 2007, DMU opened its Product Development Centre in the faculty of Art and Design. The sector won £0.5m funding from the LSEP to improve the performance of SMEs across Leicester and Leicestershire. The centre aims to help a greater number of design ideas in the sub-region to become commercially viable.

Retail Lab, DMU
Is a new design laboratory at DMU. It is where retailers, both large and small, can obtain specialist support for the development of cost effective and eco-friendly shop layout and design in order to increase sales and reduce overheads.

Progressive Sports Technologies and Loughborough University
Progressive Sports Technologies is a spin-out company from the University's Sports Technology Research Group. It is a sports innovation consultancy providing research-led new product development services to major sports brands. The company is based at the £15m Sports Technology Institute, a development supported by *emda,* situated next to the Loughborough Science and Enterprise Park.

ATX Technologies and the University of Leicester
ATX technologies Ltd is a Portuguese software engineering company based at the University of Leicester. The University has offered research and consultancy activities, teaching of students, training of ATX staff, and student placements. The University was also a key part of a group of organisations, which included *emda* and *Invest Leicestershire*, securing this Inward Investment.

De Montfort University

3.87 In the last three years, De Montfort University (DMU) has supported over 1,000 SMEs and has recently secured £6million from the Higher Education Funding Council for England (HEFCE) – a programme designed to support growth and success of local businesses. Businesses have access to research and consultancy, professional advice and support, in-house training, joint ventures, contract research, intellectual property and knowledge and technology transfer. A particularly successful project for DMU has been its Product

[24] *emda* (2007) *Regional Innovation Strategy and Action Plan for 2007-2010*
[25] More detailed information on the 3 Universities for Business initiative can be accessed at: http://www.3u4b.com/

Development Centre, which tests new design and manufacturing software and offers design advice and support to local businesses[26]. Organisations working with DMU include Rolls Royce, Ministry of Defence, NHS, BBC, IBM and Confetti Studios.

Loughborough University

3.88 Loughborough University has a long tradition of developing strategic partnerships with global organisations. On its campus are Ford's largest European training centre; the Systems Engineering Innovation Centre – a partnership with BAE systems and *emda*; and the Rolls-Royce Fuel Cell Systems facility. The University is noted for its collaboration with global aerospace and automotive companies, research in engineering and developing social policy-related programmes, vehicle, road and driver safety research, and sports development/ sports research and education. Its Innovation Centre was opened in 2002 and is one of the region's largest high-tech business incubators.

University of Leicester

3.89 The University has a world-class reputation for work in Cardiovascular Medicine, Physics and Space Science, Economics, Engineering, Law, English, Historical Studies, Archaeology, Mathematics and the Biological Sciences. The University offers businesses consultancy services, partnerships which aim to commercialise the ideas/knowledge the University produces – its intellectual property and is a partner in procurement. The University was joint founder of the National Space Centre.

Local Authority Procurement

3.90 At a local level, the public sector can play an important role in supporting local businesses through the contracts it commissions and this in turn can help to keep investment in the local economy.

3.91 Leicestershire County Council spent around £274million on goods, works and services in the financial year 2007/2008. Of this, an estimated 49% was spent with businesses based within the sub-region. For Leicester City Council in 2007/2008, £191million was spent on goods, works and services supplied by the private sector. 55% of this went to local businesses and stayed within the sub-region. Table 3.21 shows the top 10 areas, in terms of value, where these two budgets were spent for the financial year 2007/2008 and their breakdown by value awarded to local versus non-local firms[27]. Contracts are awarded following a formal tender process, against specified criteria, including value for money.

[26] Three universities for business Leicestershire (p5)
[27] These figures are estimates and should therefore be read cautiously. £10 million of County Council spend could not be identified as local/non-local.

Table 3.21 Top 10 areas of spend for the Financial year 2007/2008 in Leicestershire County Council and Leicester City Council

Leicestershire County Council

		Total spend (millions)	Proportion of spend staying within sub-region
1	Social Care - Adults	£71	62%
2	Building Construction & Maintenance Services	£27	39%
3	Passenger Transport Services	£25	90%
4	Local Government	£24	41%
5	Social Care - Children	£18	44%
6	Waste Management	£12	3%
7	Road/ Footway Construction & Maintenance	£10	25%
8	Materials for Construction & Highways	£8	72%
9	Unclassified	£6	38%
10	Utilities	£6	0%

Leicester City Council

		Total Spend (millions)	Proportion of spend staying within sub-region
1	Community Care & Grants	£35	76%
2	Agency Staff	£15	11%
3	Refuse & Removals	£13	99%
4	Repairs & Maintenance (incl. Equipment)	£13	84%
5	Salary Related	£12	13%
6	Professional Fees	£11	55%
7	Third Party Payments	£10	82%
8	Transport & Vehicle Costs	£9	59%
9	ICT Hard & Soft incl. Maintenance	£9	14%
10	Energy & Related	£8	1%

Source: Leicestershire County Council and Leicester City Council Procurement Teams

Procurement and the Leicester and Leicestershire Business Survey

3.92 The Winter 2006/2007 Business Survey for Leicester and Leicestershire included a section on public sector procurement. Over a third (35%) of the 762 respondents had supplied to public sector organisations. Larger companies (by employees) were slightly more likely to supply than smaller ones. The construction sector (68% of all businesses in the sector) and health and education sectors (25% of all related businesses) were the most likely to supply to the public sector. The main barriers identified by businesses were seen as overly bureaucratic procedures, delays and not being able find the right contact within the local authority[28].

[28] http://www.lsr-online.org/static/lsr/legacy/LSEP%20Survey%202007.pdf

Business and Enterprise Chapter Summary

3.93 The following section summarises the key evidence presented in the chapter and concludes with a summary of strengths, weaknesses, opportunities and threats (SWOT) analysis.

Productivity and Investment

3.94 In 2007, total Gross Value Added (GVA) in the Leicester and Leicestershire sub-region was £18.5billion. This represents almost a quarter of total regional GVA. Average annual growth rates in GVA over the last ten years have been slightly lower than national figures.

3.95 Productivity, understood as output per head of the local population, is an important indicator of the overall health and wealth of an economy. In 2007, productivity for Leicester City was £21,331/head and for Leicestershire (and Rutland) was £18,072/head. The Leicester City figure is above regional and national figures. It is usual for cities to show higher levels of GVA[29] per head than the areas that surround them. This is because they provide a focus or core in which economic activity takes place. However, the distinction between core-periphery in the Derby and Derbyshire and Nottingham and Nottinghamshire sub-regions is noticeably more distinct than in Leicester and Leicestershire. This suggests that the contribution of Leicestershire's market towns and rural economy is important and more significant than in other areas of the region. It also highlights the potential under-performance of Leicester City as an economic centre.

3.96 Leicester City is performing relatively poorly for a city of its size on a number of economic indicators, including productivity, business survival rates, earnings, skills and deprivation[30].

3.97 The area has a significant competitive advantage in terms of its three excellent universities and a strong Further Education (FE) sector. This offers the opportunity to promote a culture of innovation, facilitating knowledge transfer and improving general business links with universities and FE Colleges

3.98 During the financial year 2007/2008, Invest Leicestershire attracted record levels of investment to the sub-region. This resulted in 1,053 jobs safeguarded or new jobs created, many of these within knowledge-intensive sectors. However, this is a relatively small proportion of the total 434,000 jobs in the economy, highlighting the importance of retaining and supporting indigenous businesses.

Sector Structure

3.99 The local economy is diverse and the area is not overly dependent on any one sector or large employer. This helps to protect local economies in times of recession. The local economy has undergone a significant re-structuring over the last 20 years, with substantial losses of manufacturing jobs and growth in service sector employment. Some 20,000 manufacturing jobs have gone from

[29] Gross Value Added
[30] Earning, skills and deprivation are covered in chapters 4 and 5

Leicester City and 23,500 from Leicestershire County in the last decade. Nevertheless, the relatively high proportion of manufacturing employment (14.8% in the sub-region compared to 10.2% nationally) remains a key feature of the local economy and differentiates the sub-region from other areas of the country. Food and drink manufacturing is a local strength and this sector has become increasingly important to the sub-regional economy, now accounting for 16% of manufacturing jobs. There is some local specialisation in high technology manufacturing in Charnwood and the new science parks in Leicester and Loughborough will offer opportunities to strengthen high technology manufacturing in the area. Supporting these sectors will enable the sub-region to take advantage of the potential links with the three world class universities in the sub-region.

3.100 Service sector employment has grown over the last decade and is projected to continue to grow. Significant sectors include transport and communications, associated with the sub-region's central location and communication links. The retail sector has also grown in importance with major retail centres at Highcross, Fosse Park, Loughborough and in other vibrant market towns.

3.101 The area has less employment in the financial and business services sector compared to national figures. Whilst this has protected the area during the recent economic downturn, over the longer term, these sectors are projected to grow and it could be important for the local economy to attract some new investment in these areas. The business services sector covers a wide range of businesses including professional services, cultural and creative industries and could potentially offer a wider range of opportunities for graduates.

3.102 Tourism currently accounts for 7% of all employment in the sub-region with some high-profile attractions such as Curve and the National Space Centre in Leicester and Twycross Zoo and the National Forest in Leicestershire. There is potential to further develop tourism, with requisite investment in the sub-region as appropriate. Examples of development could include short breaks, holidays, business tourism and themed activities and events.

3.103 The high proportion of public sector employment in Leicester City (one in three jobs) is a potential concern in the light of potential cuts in public expenditure. Although public sector employment is important to many cities, Leicester featured in the top 20 vulnerable cities in a recent report by the "Centre for Cities".

Business Structure

3.104 The fact that 96% of local businesses employ less than 50 people has implications for the provision of business support. Evidence has shown that promoting local supply chains can be helpful in terms of supporting smaller businesses and encouraging links with public sector procurement.

3.105 According to the IDBR, there were 39,350 VAT registered and/or PAYE registered businesses in 2008 in the sub-region. A quarter of these are in the property and business services sector and 21% in retail/wholesale. Only 10% of business units are in the "production" or manufacturing sector. However, these businesses tend to be larger in size and account for 16% of employment.

Conversely, 10% of business units fall into the construction sector, but as many of these businesses are smaller in size, the sector accounts for around 5% of employment.

Enterprise

3.106 The business registration rates[31] for Leicester and Leicestershire were close to but slightly below the national level in 2008. The business registration rate for Leicester City showed a marked improvement for 2008, up to 53.4, compared to 48.5 in 2006, and is higher than that seen in Nottingham and Derby. Leicestershire County's rate was slightly lower at 51.5. Harborough stands out as having a particularly high business registration rate at 73.6 compared to the Great Britain figure of 54.6. Self-employment levels are also high in Harborough. Although the business registration rate is good in Leicester City, self-employment levels are relatively low compared to other cities.

3.107 Three-year business survival rates are low in Leicester City but better in the surrounding County. A key concern is the high volume of recent start-ups in potentially vulnerable sectors – real estate, property services, retail and construction.

Business Confidence and Performance

3.108 In the October 2008 Leicestershire Business Survey, business confidence was at its lowest level since the surveys began in 1994. This in part reflected the significant uncertainty in the financial markets and stability of banks at the time of the survey. By the summer 2009 survey, confidence had recovered with more businesses believing that their situation would improve in the next 12 months than those who thought it would deteriorate. In addition, whereas a third of all businesses thought that their market was in decline in October 2008, by summer 2009, this had reduced to a quarter of businesses. Larger businesses and those in the service sector were generally more optimistic about their market sector growing.

3.109 Many businesses have reported reduced turnover and profits in the last 12 months. However, fewer businesses have experienced recruitment difficulties. Key concerns included cash flow, access to finance and rising fuel/energy costs. Within the service sector, low consumer confidence continues to have an impact on turnover and profitability.

Third Sector

3.17 There are over 3,700 third sector organisations in the sub-region[32], with around 40% based in Leicester City. Volunteering makes an important contribution to the local economy, currently estimated to be at least £138M.[33] A significant proportion of the area's third sector businesses are considered to be social enterprises. The Cabinet Office estimates that there are now 62,000 social

[31] Business Registration Rate is the number of VAT and PAYE registered for the first time divided by the local population (per 10,000 that is 16+
[32] Source Voluntary Action Leicester (VAL) database
[33] VAL estimates and using Place Survey data

enterprises in the UK and that this number is on the increase. Based on a recent IPSOS MORI survey, 51% of third sector organisations in Leicester City and 46% in Leicestershire County considered themselves to be social enterprises.

3 Business and Enterprise SWOT

Strengths	**Weaknesses**
• GVA per head in Leicester City is above regional and national averages • County market towns and rural economy make a strong contribution to sub-regional GVA • Diverse economic structure that is not overly dependent on any one sector, some local strengths in food and drink, transport and communications, retail (Highcross/ Fosse Park) & wholesale, high technology manufacturing • Growing service sector employment across a range of industries, with business services making strong contribution to GVA • Good growth in small businesses (<50 employees) – important as 96% of local businesses fall into this category • Strong 3-year business survival rates in Leicestershire County • Three world-class universities with a clear strategy to support innovation and business growth • Strong FE sector • Leading science and enterprise parks, such as Loughborough University's Innovation Centre.	• GVA per head in Leicester City is lower than in Derby and Nottingham • Potential over-reliance on public sector employment in Leicester City and Oadby & Wigston • Much of the recent business start-up growth has been in vulnerable sectors – such as property services, construction • 3-year survival rates are low in Leicester City compared to other major cities and to regional and national figures. • Relatively low self-employment levels in Leicester City • Sub-region does not have a strong identity which can make it difficult to attract new investment • Knowledge-based service sector employment still relatively low • Long-term impact of the recession is difficult to predict and many recent start-ups are in vulnerable sectors
Opportunities	**Threats**
• Diverse economy can weather recession better than other areas • Local specialisms in terms of food and drink manufacturing including local brands, ethnic minority foods, snack food manufacturing • High technology manufacturing base and creative industry sectors could be further developed through links with universities • Improving retail profile – Highcross and Fosse Park • Strong cultural offer for tourism, destination and inward investment marketing (e.g. Curve, Phoenix Square, Digital Media Centre, Festivals, Sports Venues) • Ongoing development of National Forest as visitor destination of regional and national significance • Olympics and Paralympics 2012 • Infrastructure investment in Leicester, to attract further inward investment to the City • Public sector procurement and initiatives • Development of local supply chains • Business confidence has improved so businesses are more likely to invest • Improve sub-region's image and identity to attract more business and leisure tourism • Retail and leisure schemes in market towns • Confident third sector	• Current forecasts show that output growth will shrink in the short-term • Many recent start-ups are in vulnerable sectors which could impact on business survival rates • Risk that businesses will not be able to respond quickly enough to upturn • Some businesses may become "leaner" and employ less people in future • Low consumer confidence continues to impact on the service sector and survival rates • Short-term access to working capital is a constraint to growth for businesses with a previously strong track record • Public sector spending will have to reduce in the current climate • Price could become the overriding criteria in terms of public sector procurement • Closure of some retails outlets in market towns will have a "snowball" effect • Decline in public sector resources to provide infrastructure for growth (for both employment land and housing)