

## Business growth and access to finance

### Why is this important?

The Enterprise Research Centre (2013) estimates that between 2007 and 2010 growth businesses accounted for 59% of job creation, with 'high growth' businesses accounting for 22% of job creation despite being just 1% of job creating firms.

Business growth is aligned with the SEP targets to increase the number of jobs in the North East by 100,000 and to reduce the gap in private sector job density with England excluding London by 50% by 2024.

The importance of high growth businesses is reflected in the Industrial Strategy and the establishment of the Scaleup Task Force.

### What does the data tell us?

- The North East LEP area has fewer businesses per head than England excluding London and fewer business births and deaths. Whilst the North East underperforms on these measures, it has made progress against each of them since 2014 - suggesting the business base is growing and becoming more dynamic
- Whilst business growth (for both start-ups and existing businesses with a turnover of £1-£2 million) is slightly below the English rate, the gap is relatively small and the North East outperforms a number of other core city LEPs. This suggests that

the smaller business base is not adversely affecting the North East's ability to generate growth businesses

- The value of goods exports per head in the North East region is higher than across England excluding London. The value of good exports has increased since 2014/15. Whilst the value of service exports per head is lower in the North East region than across England excluding London, it increased between 2014 and 2015
- In 2016/17, the North East LEP area had almost three times the number of jobs created/safeguarded due to foreign direct investment (FDI) projects than England excluding London.



### Business growth in the North East LEP area economy

Indicator	Most recent data	Change since 2014	NE as % of England excl. London	Gap closing with England excl. London
Private sector enterprises per 10,000 adult population	319 (2017)	Increased by 44 enterprises per 10,000 adults	67	No change
Business births per 10,000 adult population	45 (2016)	Increased by 2 births per 10,000 adults	63	No - widened
Business deaths per 10,000 adult population	37 (2016)	Increased by 5 deaths per 10,000 adults	68	No - widened
% of start-ups scaling turnover from less than £500,000 to £1 million in 3 years	1.6% (2013-16)	Decreased by 2.2 percentage points	80 (England)	No - widened (England)
% of scaling survivors increasing turnover from £1-2 million to £3 million in 3 years	6.4% (2013-16)	Increased by 2.1 percentage points	94 (England)	No - widened (England)
Value of exports in goods per head	£4,801 (Oct 2016 to Sept 2017)	Increased by £60 per head	108	No - narrowed
Value of export in services per head	£1,337 (2015)	Increased by £46 per head	64	Yes
Jobs created and safeguarded through Foreign Direct Investment projects per 10,000 adult population	41 (2016/17)	Increased by 31 jobs per 10,000 adults	297	Not available

Sources: UK Business Counts (Nomis), Business demography (ONS), UK Local Growth Dashboard (Enterprise Research Centre), HMRC Regional Trade Statistics, Regionalised estimates of UK service exports (ONS) and Department for International Trade.

Notes: To ensure that seasonal factors are not affecting comparison, the same time periods are used for both the most recent year and the 2014 benchmark year for each indicator. For example, the most recent HMRC Regional Trade Statistics data is for the period October 2016 to September 2017 - so October 2014 to September 2015 is used as the comparator.

**Wider commentary**

**Business base**

In 2017, there were 52,010 private sector enterprises in the North East LEP area.

- This is equivalent to 319 private sector enterprises for every 10,000 adults in the North East
- If the North East LEP had the same rate of private sector enterprises per head as England excluding London, there would be an additional 25,800 enterprises

Looking at the private sector enterprises in the North East LEP area in more detail:

- In common with the national picture, the majority are micro-enterprises (employing between 0 and 9). There are 45,470 enterprises in this category, accounting for 87% of all private sector enterprises
- 5,460 enterprises are small (employing 10 to 49), 890 are medium (employing 50 to 249) and 190 are large (employing 250 or over). A slightly higher proportion of enterprises in the North East LEP area are medium or large than in England excluding London (2.1% compared to 1.7%)
- The sector profile is broadly similar to the national picture and those in other core city LEPs.

**Business births and deaths**

In 2016, there were 7,355 business births in the North East LEP area. This is equivalent to 45 births for every 10,000 adults in the region.

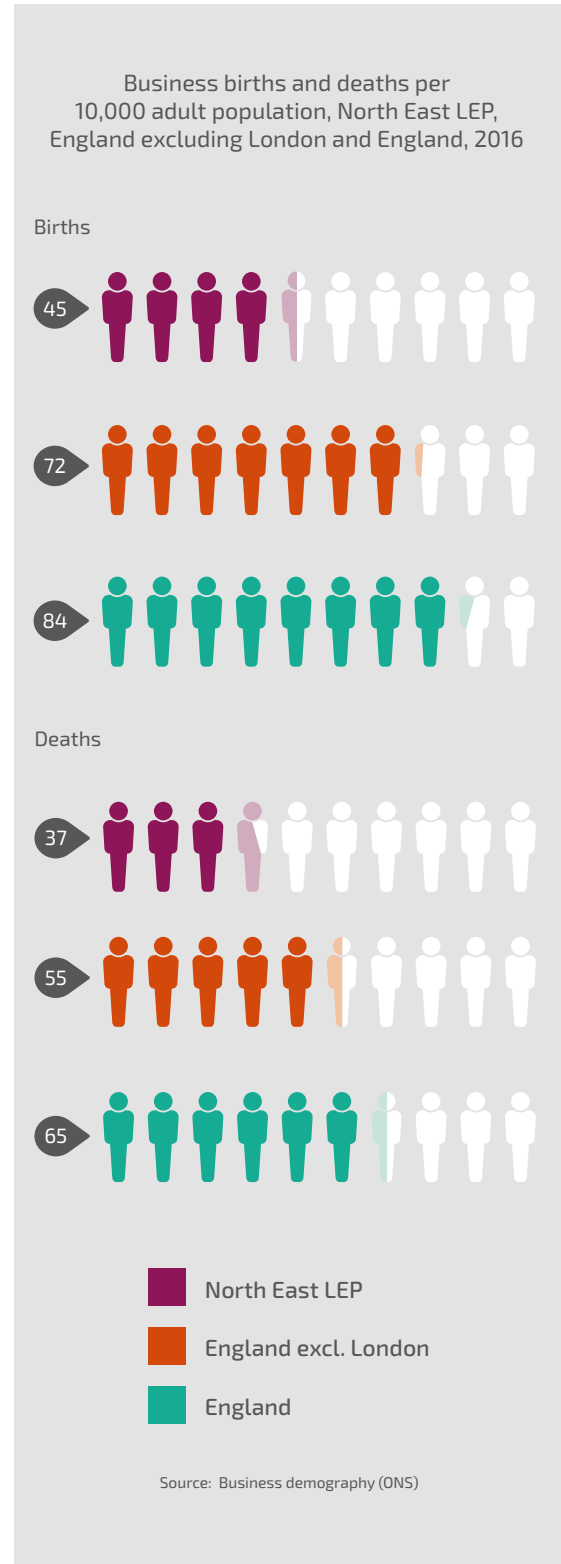
If the North East had the same business birth rate as England excluding London, there would have been approximately 11,700 business births in 2016 – over 4,300 more.

6,100 businesses closed in the North East LEP area during 2016. This is equivalent to 37 closures for every 10,000 adults in the region. Again, this is below the England excluding London (55 per 10,000 adults).

Whilst this would initially appear to be a positive finding, research has shown that the most dynamic and successful regions have both high birth and death rates.

There is a strong connection between high birth rates and high death rates for two reasons:

- Approximately one quarter of start-ups close in first two years
- Some start-ups displace existing companies, for example, by introducing better products or processes.

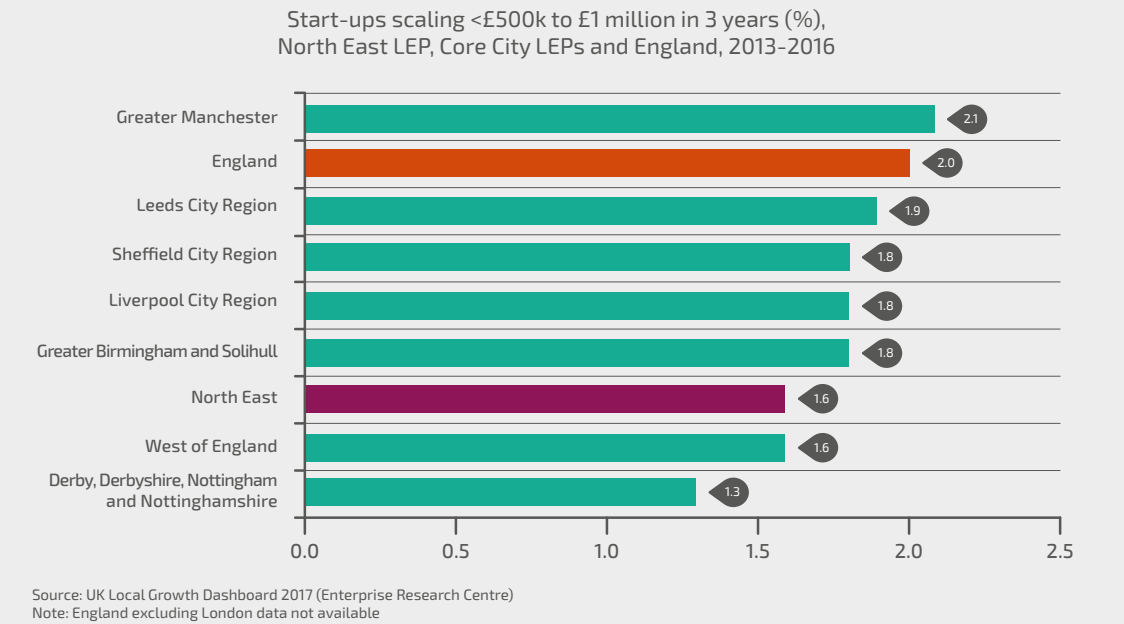


**PRIVATE SECTOR ENTERPRISES**  
**52,010**  
**In 2017, there were 52,010 private sector enterprises in the North East LEP area**

**Business growth**

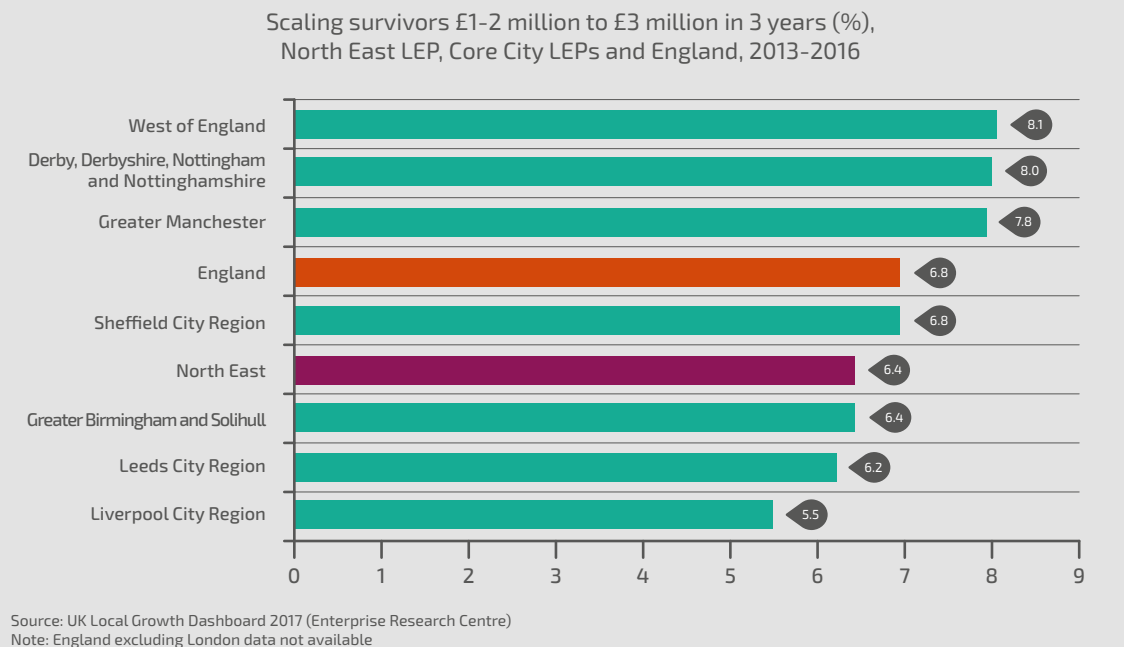
The proportion of 2013 start-ups in the North East LEP area that survived to 2016 and were generating more than £1 million in revenues in 2016 was 1.6%, below the English average (2.0%).

The North East is ranked sixth out of the eight core city LEPs.



The proportion of businesses within the North East LEP area with a turnover of £1 million to £2 million in 2013 that increased turnover to £3 million or more by 2016 was slightly below the English average (6.4% compared to 6.8%).

The North East LEP was ranked fifth out of the eight core city LEPs on this measure.



### Access to finance

#### Loan finance

In 2016/17 (year to September), 4,263 loan facilities were approved for North East region SMEs. The value of loan facilities approved was £420million.

A higher number of bank loans per enterprise were approved in the North East region than across England excluding London (29 per 1,000 enterprises compared to 18), but the average loan size is only around two-thirds of the England excluding London level (£98,500 compared to £152,900).

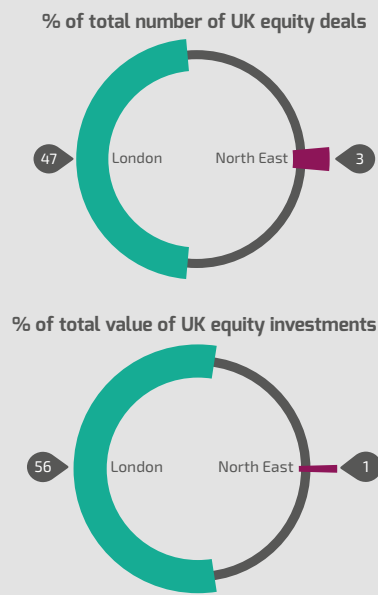
### Equity finance

In 2016, the North East region accounted for 1% of UK equity investment by value and 3% of UK equity deals.

- 69% of equity deals in the North East region in 2016 involved Government funds
- Software is a key sector for North East region equity investments. Software accounted for almost a quarter of all equity investment in 2016 in the North East.

One of the key factors that underpins the lack of equity investment in the North East region is the limited presence of private sector equity investors with just eight venture capital (VC) investors based in the region.

Proportion of equity investments and deals by region and devolved administration, 2016



Source: Small Business Finance Markets (British Business Bank)

Number of unique equity investors per region and devolved

	VC listed as one investment strategy	VC listed as primary investment strategy
London	531	305
South East	42	26
East of England	34	25
North West	27	15
West Midlands	18	11
East Midlands	9	8
North East	8	4
South West	8	4
Yorkshire and Humber	7	4

Source: Small Business Finance Markets (British Business Bank)

### The Finance for Business North East Fund

From 2010 to 2016, North East Finance Limited (holding fund managers) managed the Finance for Business North East Fund (FBNE).

FBNE invested in businesses throughout the North East LEP and Tees Valley Combined Authority areas.

The total fund value was £160m and this was split into seven funds available that were managed by five fund managers.

The funds were a mixture of debt, equity and mezzanine finance.

Over the investment period there were 938 investments made. although some of these were follow-on investments into existing investees.

The primary aims of the fund were to:

- Safeguard existing jobs
- Create new jobs
- Leverage private sector monies
- Generate portfolio returns to a 'legacy' fund.

Stakeholders in the fund were the European Investment Bank (EIB), European Regional Development Fund (ERDF), legacy monies and latterly the North East LEP to provide match for an extension of the fund.



## International trade

Between October 2016 and September 2017:



The value of exports in goods from the North East region was

**£12.7 billion**

The value of imports in goods into the North East region was

**£13.2 billion**

### Exports in goods

- In 2016, 59% of the North East's exports in goods were to the EU and 41% were to non-EU countries
- The trends across these two markets have varied with:
  - North East exports in goods to the EU having increased 7% between 2014/15 and 2016/17, from £6.9 billion to £7.4 billion
  - North East exports in goods to non-EU countries having decreased between 2014/15 and 2016/17, from £5.5 billion to £5.2 billion (a decline of 5%)
- The North East accounted for 5.3% of all English exports in goods between October 2016 and September 2017. Within this, the North East accounted for a larger

proportion of English exports to the EU (6.3%) than to non-EU countries (4.2%).

A number of studies looking at specific industries have suggested that HMRC data may underestimate the scale of exports from the North East region. Goods exports are allocated on the proportion of the exporting business' employees in the region. Where this is not an accurate proxy for the proportion of exports from the region, the North East will be unrepresented.

### Exports in services

In 2015 the value of service exports from the North East region was £3.5 billion.

- This is an increase of £0.7 billion or 25% compared to 2011 (earliest data available)
- The North East accounted for just 1.8% of the England's service exports in 2015. This is a much smaller proportion than for trade in goods (5.3%).

### Inward Investment

In 2016/17, the North East LEP area secured 56 foreign direct investment (FDI) projects. These investments:

- Secured 3,934 new jobs
- Safeguarded 2,750 existing jobs.

In addition, the North East was part of eight 'multi-region' FDI projects. 55% of investments secured by the North East LEP area were expansions, 34% were new investments and 11% were mergers and acquisitions. The number of jobs created and safeguarded through FDI has increased in the North East each year between 2013/14 and 2016/17 (from 1,609 to 6,684).

### What next?

The North East is performing well on a number of indicators, including exports and inward investment. It is making progress on the size and dynamism of the business base. Further work is needed to build on this progress and close gaps with England excluding London. Priorities include:

- Supporting businesses to start-up, scale up and grow. The North East LEP is helping to contribute to this through the delivery of the North East Growth Hub and the launch of Scaleup North East in January 2017
- Improving access to finance. The North East Fund will provide £120 million of debt, equity loans and mezzanine funds to over 600 North East SMEs
- Encouraging inward investment into the region and ensuring the benefits of inward investments are maximised. The North East LEP is working with Invest North East England, DIT and others to promote the region and build links between inward investors and the wider North East economy
- Supporting businesses in the North East to internationalise, building on our already strong trading record. Again, the North East LEP is working with DIT and other partners to support businesses to develop their international links.

