



Birmingham Economic Review 2018

Chapter 4: Business Environment

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Introduction

The annual Birmingham Economic Review is produced by the University of Birmingham's City-REDI and the Greater Birmingham Chambers of Commerce, with contributions from the West Midlands Growth Company. It is an in-depth exploration of the economy of England's second city and is a high-quality resource for organisations seeking to understand the city to inform research, policy or investment decisions. This year's Birmingham Economic Review has been organised according to the five foundations of the UK's Industrial Strategy, which aims to boost productivity and the earning power of the national economy. We hope this review will help to inform Birmingham's approach to the UK's Industrial Strategy and a more productive and inclusive local economy that draws on the strengths of the city and works across industry, academia and civil society.

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All Chapters of the *Birmingham Economic Review 2018* can be found online on the [Greater Birmingham Chambers of Commerce website](#) or via the contact details at the end of this document.

Business Environment

Aim: "To be the best place to start and grow a business" UK Industrial Strategy

While the Organisation for Economic Co-operation and Development (OECD) already ranks the UK as one of the best places in the world to do business, the Industrial Strategy presents an ambition to reach the top of these rankings. Spreading best practice, improving access to finance, increasing exports and rolling out sector deals to support growth of key sectors are crucial to this end.

In Birmingham, the Greater Birmingham Chambers of Commerce exists to connect, support and grow local businesses. It annually runs campaigns and event series' to share good practice among local businesses and offers tailored support for start-up businesses. The GBCC also features an International Hub, with international trade advisors, an export documentation team and language and translation services. It additionally operates the GBS LEP Growth Hub, which is on hand to offer advice and signpost businesses to available finance options. Key sectors in the city are varied and include fast-growing business professional and financial services (BPFs), and professional, scientific and technical services.

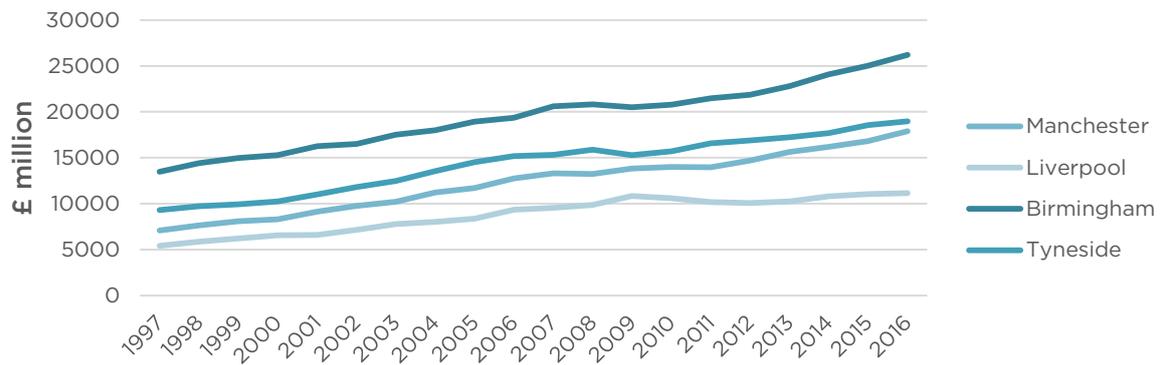
GVA

GVA measures the contribution to the economy of each individual producer, industry or sector in the UK. The 2008-09 recession hit employment and economic output across the country. Birmingham was no exception.

From the pre-recession peak in 2007 to the trough in 2009, the city lost around 40,000 jobs; approximately 7% of total employment. Over the same period, around £1 billion of economic output was lost. This was equivalent to approximately 5% of Birmingham's total GVA. Both employment and economic output suffered larger percentage falls in Birmingham than they did nationally, highlighting that the city was hit disproportionately harder during the downturn.

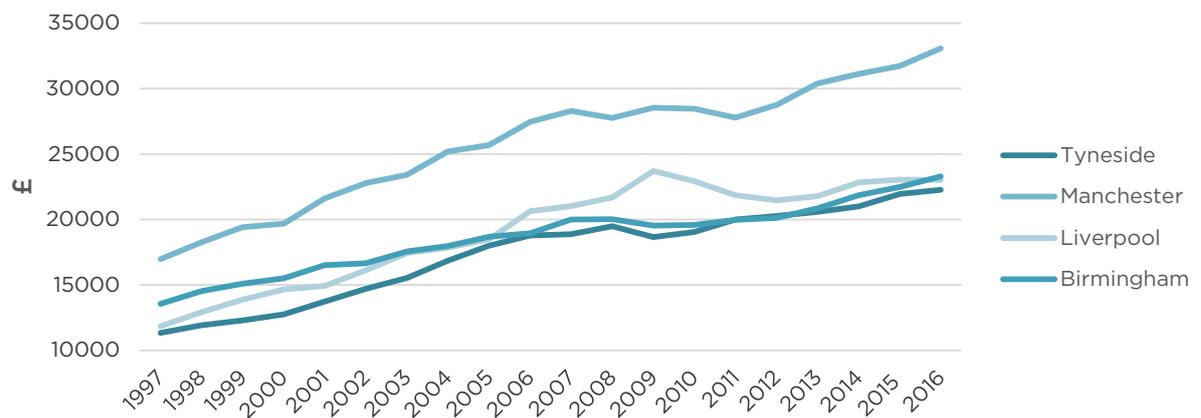
Official GVA data provided by the ONS shows that the economy has recovered from the low point reached in 2009. However, in terms of GVA per head, latest data from 2016 shows that Birmingham (£23,300) significantly underperforms the national average (£25,351) and other core cities such as Manchester (£33,063). Whilst other core cities like Manchester have seen relatively high growth in this figure, Birmingham's GVA per head has grown at a much slower pace. However, in the period 2015-2016 Birmingham's GVA overtook the GVA per head of Liverpool for the first time since 2005. Liverpool's GVA, although comparatively less affected by the 2008-09 recession, has experienced stagnation since 2014.

Figure 1: GVA Growth (at current prices) in Core Cities, 1997-2016



Source: ONS, Regional Gross Value Added

Figure 2 GVA per Head Growth (at current prices) in Core Cities, 1997-2016



Source: ONS, Regional Gross Value Added

Table 1 GVA per head (£)

GVA/head (£)	2015	2016
Tyneside	21,939	22,277
Manchester	31,731	33,063
Liverpool	23,054	23,029
Birmingham	22,497	23,300

Source: ONS, Regional Gross Value Added

GVA by Industry & Sector

The five biggest sectors in terms of GVA are 1) Public administration, education and health, 2) distribution, transport, accommodation and food, 3) business service activities 4) real estate and 5) manufacturing.

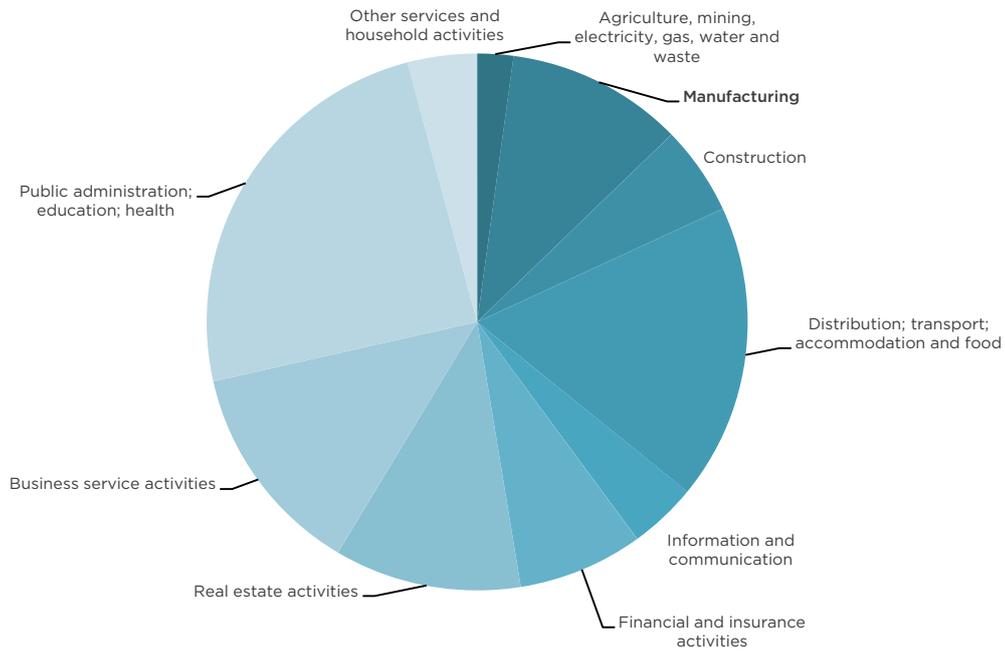
Table 11 shows that in terms of economic output, 'Public administration; education; health' remains the largest sector accounting for 24.4% of total GVA in Birmingham in 2016. After rapid growth in the early 2000s up until 2011, in recent years this growth has slowed down, but nevertheless remains by far the sector with the greatest economic output. 'Distribution; transport; accommodation and food' is the next largest contributor at 17.8% and 'business service activities' is third at 12.9%, both experiencing significant growth since 2010.

Table 2 GVA by Industry, Birmingham 2016 (£ million)

Industry	2016	Share of total
Agriculture, mining, electricity, gas, water and waste	562	2.14
Manufacturing	2,774	10.59
Construction	1,400	5.34
Distribution; transport; accommodation and food	4,662	17.79
Information and communication	1,068	4.08
Financial and insurance activities	1,957	7.47
Real estate activities	2,930	11.18
Business service activities	3,368	12.85
Public administration; education; health	6,396	24.41
Other services and household activities	1,086	4.14
Total	26,203	

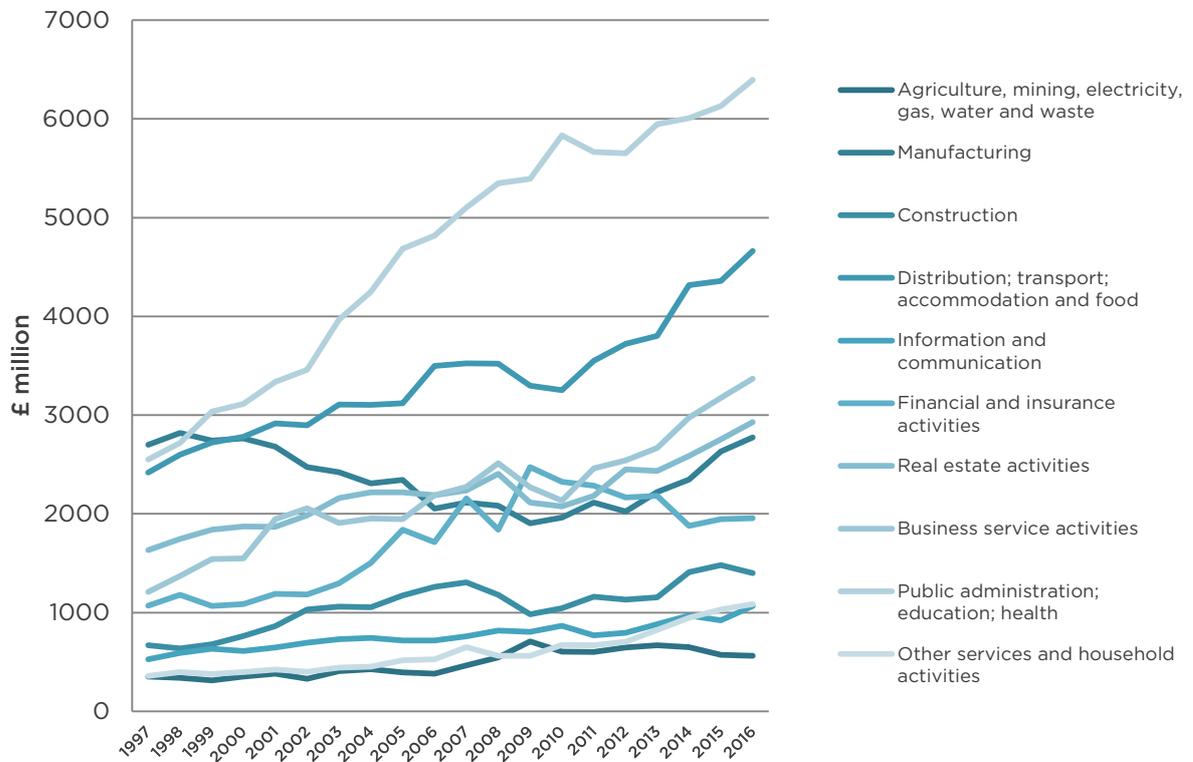
Source: ONS, GVA

Figure 3: GVA by Industry (£ million), Birmingham, 2016



Source: ONS, GVA

Figure 4: GVA by Industry, Birmingham, 1997-2016



Source: ONS, Regional Gross Value Added

Reflecting its function as a core city, Birmingham has a high public sector presence, comprising a number of very large public sector employers. Key amongst these is Birmingham City Council, the Queen Elizabeth Hospital (employing around 6,900) and the University of Birmingham (employing around 7,400).

A lot of work has recently gone into trying to rebalance the economy to grow and attract more private sector employers to Birmingham. Between 2013 and 2016, estimated gross Birmingham City Council expenditure decreased from £3.4 billion to £3.1 billion.

After a significant decline in manufacturing in the late 1990s and early 2000s, the manufacturing sector has seen an upturn in fortunes since 2012. In 2016, the sector contributed 10.6% to Birmingham's total GVA, up from 10.1% in the previous year. This has been influenced by a resurgence in manufacturing in recent years, with major employers like JLR announcing investments in innovative new products. The local supply chain has also benefitted from a strong upturn in the automotive sector.

The business services sector contributes the third largest share of Birmingham's economic output, with businesses increasing in confidence to take on staff and invest.

Construction in the city, however, is yet to demonstrate significant growth. Whilst there has been a gradual increase in domestic and commercial construction activity since 2014, there was a drop in the percentage this industry contributed to Birmingham's GVA between 2015 (6.1%) and 2016 (5.3%). It remains to be seen whether the recent rise in visible construction projects across the city will impact on the sector's contribution to Birmingham's GVA.

Although Brexit creates uncertainty, the pick-up in the service sector, along with manufacturing, should see employment growth in the city gather pace in the medium term from the relatively muted recovery in employment the city has experienced thus far.

As a core city, Birmingham hosts a number of nationally and internationally significant companies, reflecting both its manufacturing heritage and the city centre's function as a professional and business services hub for the wider region. The city has offices for a large number of financial and professional services companies focused in its financial district in Colmore Row and also in Brindleyplace. Such companies include Royal Bank of Scotland; Deutsche Bank; KPMG; PwC, Deloitte and Ernst and Young. In 2015, global bank HSBC announced the relocation of its national head office to Birmingham city centre. Currently still ongoing, the move which began mid-2017 will see the relocation of some 1,000 employees currently based in London to Birmingham. Birmingham also houses a significant amount of legal services firms, with key companies including Pinsent

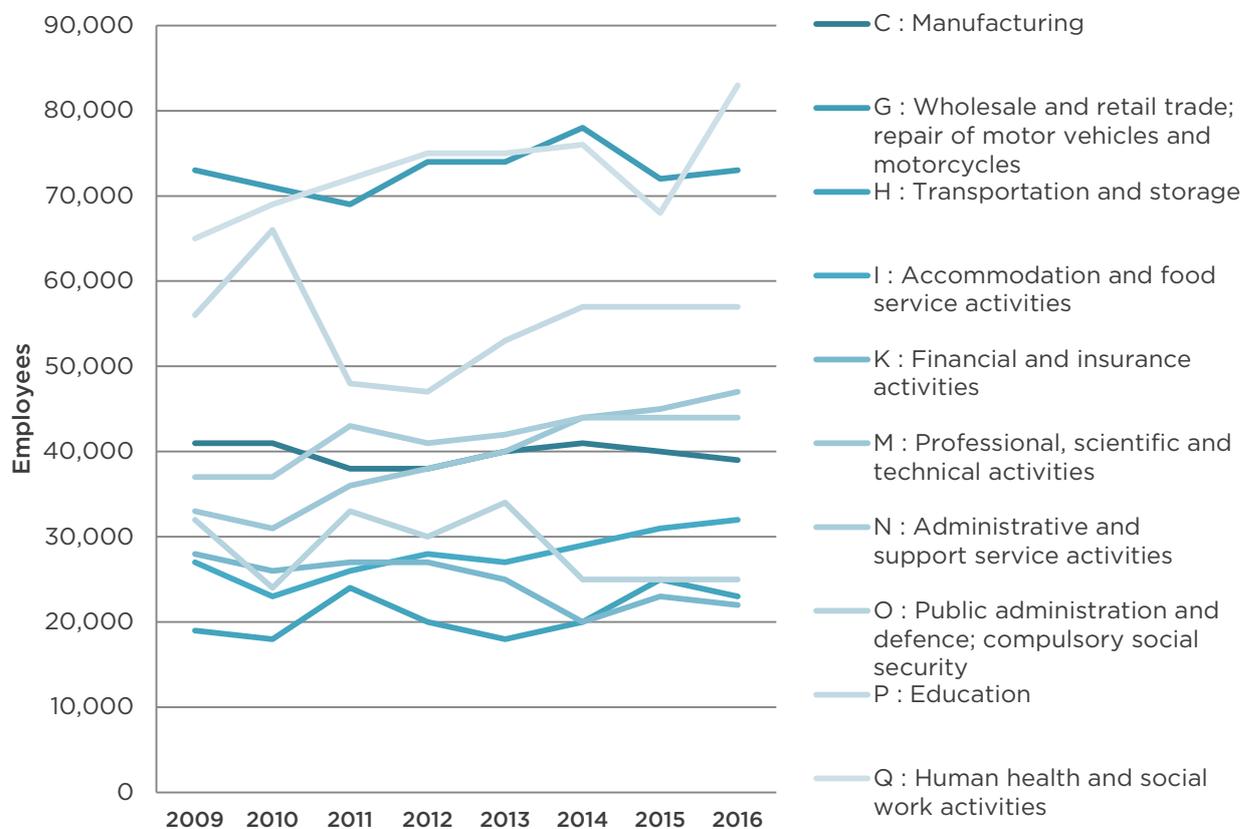
Masons, Squire Patton Boggs, DLA Piper, Wragge Lawrence Graham and Co., Eversheds and Shoosmiths.

Employee Shares

Chart 10 below uses the latest official workplace-based employment data from the 2016 Business Register and Employment Survey (BRES) to show the employment structure in Birmingham by broad industrial sector since 2009. Looking at the number of employees by sector allows a greater disaggregation of the sectors and reveals a different picture. The two largest sectors are health and social work (83,000 employees) as well as wholesale and retail (73,000). These figures may reflect the number of large hospitals in the city as well as the size and location of the city itself.

Education saw a rapid decline between 2010 and 2012 but has since gradually increased before plateauing between 2014 and 2016. Professional, scientific and technical services, which employs the 4th largest number of staff, has undergone significant expansion since 2010 and has experienced the fastest growth in comparison to the other top-10 sectors at 51.6% since 2010. The number of employees in Public Administration has declined to 25,000 from its peak of 34,000 in 2013.

Figure 5: Employee Numbers by Sector and Year (Top-10), Birmingham, 2009-2016



Source: ONS, Business Register and Employment Survey

Table 3 Employees by Sector, Birmingham, 2009-2016

Industry	2009	2010	2011	2012	2013	2014	2015	2016
A : Agriculture, forestry and fishing	175	35	40	45	20	175	175	200
B : Mining and quarrying	5	0	5	25	10	10	40	5
C : Manufacturing	41,000	41,000	38,000	38,000	40,000	41,000	40,000	39,000
D : Electricity, gas, steam and air conditioning supply	1,000	1,000	1,250	1,250	1,750	600	600	600
E : Water supply; sewerage, waste management and remediation activities	2,500	3,000	2,500	2,500	2,500	2,250	2,500	2,250
F : Construction	20,000	19,000	19,000	17,000	17,000	22,000	25,000	16,000
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	73,000	71,000	69,000	74,000	74,000	78,000	72,000	73,000
H : Transportation and storage	19,000	18,000	24,000	20,000	18,000	20,000	25,000	23,000
I : Accommodation and food service activities	27,000	23,000	26,000	28,000	27,000	29,000	31,000	32,000
J : Information and communication	14,000	13,000	11,000	11,000	11,000	12,000	12,000	13,000
K : Financial and insurance activities	28,000	26,000	27,000	27,000	25,000	20,000	23,000	22,000

L : Real estate activities	7,000	7,000	8,000	9,000	8,000	8,000	9,000	8,000
M : Professional, scientific and technical activities	33,000	31,000	36,000	38,000	40,000	44,000	45,000	47,000
N : Administrative and support service activities	37,000	37,000	43,000	41,000	42,000	44,000	44,000	44,000
O : Public administration and defence; compulsory social security	32,000	24,000	33,000	30,000	34,000	25,000	25,000	25,000
P : Education	56,000	66,000	48,000	47,000	53,000	57,000	57,000	57,000
Q : Human health and social work activities	65,000	69,000	72,000	75,000	75,000	76,000	68,000	83,000
R : Arts, entertainment and recreation	8,000	10,000	9,000	10,000	10,000	12,000	11,000	11,000
S : Other service activities	9,000	7,000	10,000	9,000	10,000	10,000	10,000	12,000
Total	471,000	468,000	478,000	478,000	489,000	500,000	500,000	508,055

Source: ONS, BRES

Examining Location Quotients (LQs)¹ enables us to further identify the sectors in the city that have above average employment shares compared to the national average and hence a greater degree of specialisation. The data used has been derived from the Business Register and Employment Survey. A location quotient of 1.0 indicates that the local share of employee jobs in an industry is equal to the national share of that sector. A location quotient greater than 1.0 indicates a relative concentration of an industry in the geographic area.

If spatial concentration occurs in an industry, individual firms must see the benefits of such co-location as greater than the costs. This applies whether the spatial concentration is in the form of an industry cluster or an urban

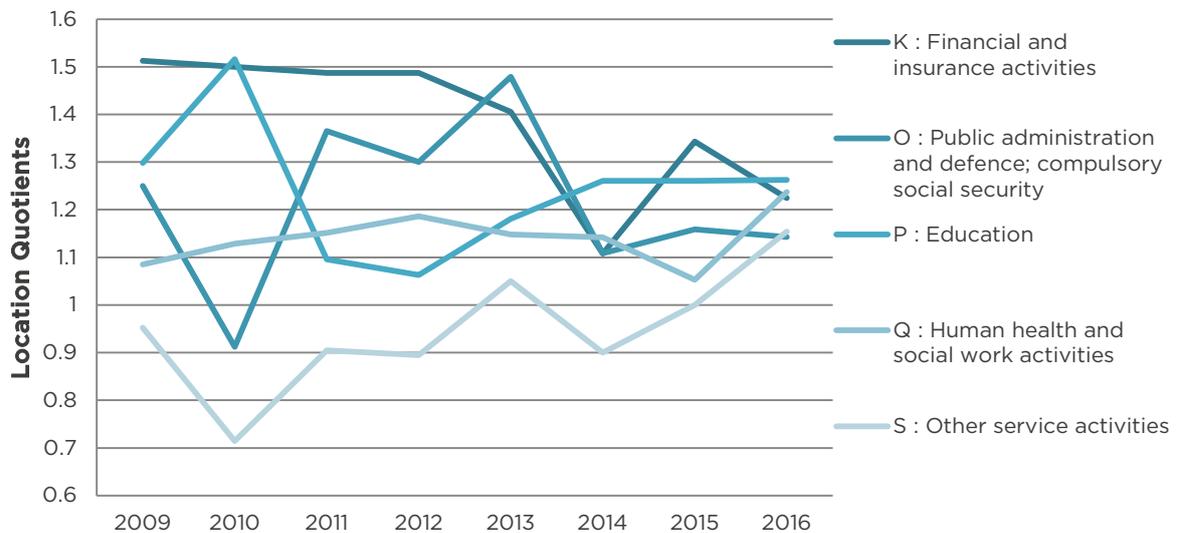
¹ The share of employment in a specific sector in Birmingham divided by the share of employment of that sector in the national economy.

agglomeration. The benefits of spatial concentration occur through increased productivity, due to a number of spillover effects usually labelled ‘agglomeration economies’. There are also costs associated with spatial concentration, particularly costs of congestion and increased land prices. Due to this balance of benefits and costs, it is not always clear what the optimal level of spatial concentration is, either within a specific industry or over the whole economy. The balance will vary by industry and location. To an individual, spatial concentration matters because the spatial pattern of employment across industries influences the economic opportunities available in the area in which they live. To a policymaker, spatial concentration is of interest because of the positive productivity benefits to the economy that spatial concentration can produce. There may also be an interest in any impacts on spatial inequalities across the economy.

To summarise, the three most concentrated industries in Birmingham are:

- **Education**
- **Human health and social work**
- **Finance and Insurance**

Figure 6: Employee-based Location Quotients for top 5 sectors in 2016, Birmingham, 2009-2016



Source: City-REDI calculations, BRES data

International Trade

According to HMRC data, in 2017 14,863 businesses (including branches of multi-branch businesses) in the West Midlands region were exporters.

In terms of exports of goods, the most popular categories of exports (by SITC section) for businesses in the West Midlands region are machinery & transport (worth £23.7bn in 2017 or 71% of all exports) followed by manufactured goods (£3.19bn or 9.6%), miscellaneous manufactures (£2.75bn or 8.3%) and chemicals (£1.67bn or 5%).

The largest destination by value for exports of goods by country group from the West Midlands region is the European Union (worth £14.7bn or 43.9% of all exports in 2017). This is followed by Asian and Oceania (£7.6bn or 22.8%), North America (£6.67bn or 19.9%) and the Middle East and North Africa (excluding EU) (£1.23bn or 3.7%).

Despite the fact that many of the main exporting companies derive a significant proportion of their revenue from services and financial services related-exports are crucial to the national balance of payments, there are currently no reliable data sets on regional services exports.

Table 1: UK Trade, 2014-2017

£ million

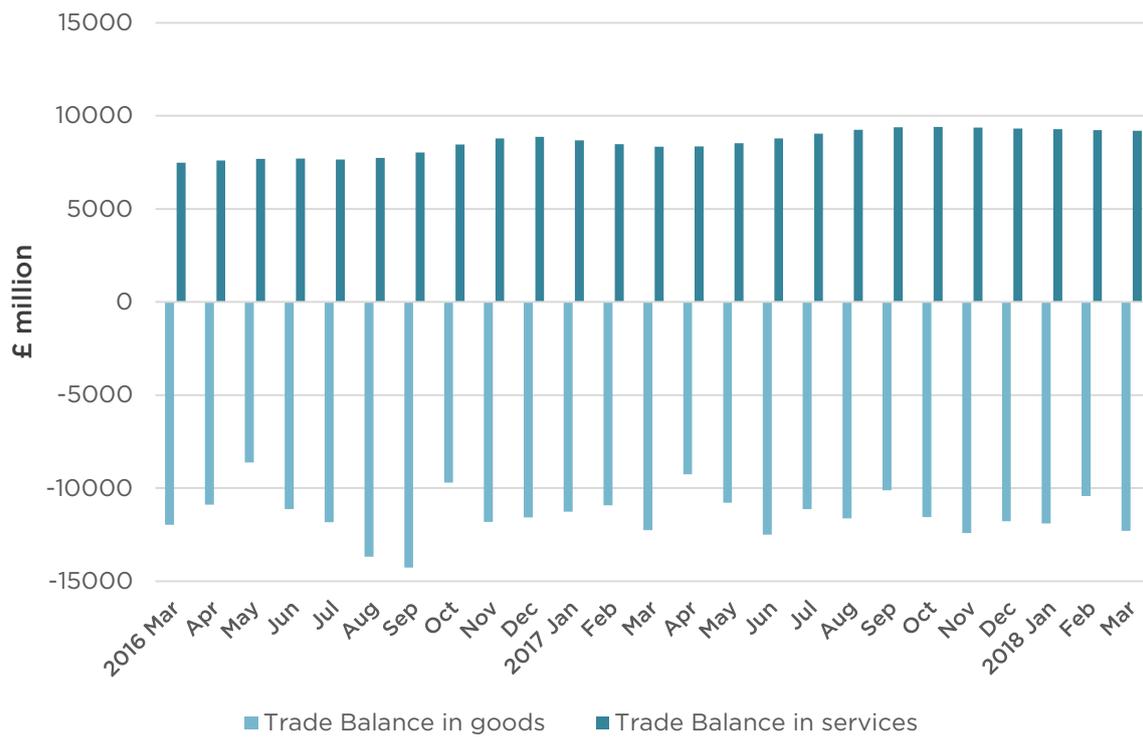
	Balance of trade in goods			Balance of trade in services	Total trade balance
	EU	Non-EU	Total		
2014	-78,093	-45,029	-123,122	86,291	-36,831
2015	-87,023	-31,603	-118,626	86,256	-32,370
2016	-96,464	-39,031	-135,495	94,818	-40,677
2017	-94,697	-40,885	-135,582	106,962	-28,620

Source: ONS, UK Trade

The table above shows the total balance of UK trade stood at -£28. billion in 2017, largely due to trade in goods both within the EU and within non-EU nations. The falling pound has failed to filter through into significantly increased sales of goods abroad. The deficit in goods widened to £12.3 billion within the month of March 2018 as exports fell (2.8%) and imports rose (1.6%).

The overall monthly deficit of goods and services stood at £3.1 billion in March 2018, up from £1.2 billion in Feb 2018.

Figure 7: UK Trade, Mar 2016 – Mar 2018



Source: ONS, UK Trade

Table 5: UK Trade, Mar 2016 – Mar 2018

£ million seasonally adjusted

UK Balance of Payments	Trade in goods			Trade in services		
	Exports	Imports	Balance	Exports	Imports	Balance
2016 Mar	23 142	35 109	-11 967	20 167	12 678	7 489
Apr	25 317	36 199	-10 882	20 396	12 785	7 611
May	25 029	33 655	-8 626	20 619	12 924	7 695
Jun	24 645	35 772	-11 127	20 793	13 091	7 702
Jul	24 838	36 672	-11 834	20 930	13 271	7 659
Aug	25 193	38 874	-13 681	21 170	13 422	7 748
Sep	24 920	39 174	-14 254	21 553	13 524	8 029
Oct	26 983	36 684	-9 701	22 043	13 585	8 458

	Nov	27 313	39 118	-11 805	22 447	13 669	8 778
	Dec	27 913	39 479	-11 566	22 678	13 801	8 877
2017	Jan	27 509	38 769	-11 260	22 676	13 987	8 689
	Feb	27 307	38 230	-10 923	22 620	14 146	8 474
	Mar	28 553	40 817	-12 264	22 589	14 249	8 340
	Apr	29 041	38 289	-9 248	22 653	14 288	8 365
	May	28 687	39 461	-10 774	22 820	14 288	8 532
	Jun	28 137	40 641	-12 504	23 055	14 275	8 780
	Jul	28 568	39 694	-11 126	23 324	14 277	9 047
	Aug	28 911	40 536	-11 625	23 597	14 341	9 256
	Sep	30 033	40 151	-10 118	23 847	14 469	9 378
	Oct	28 723	40 275	-11 552	24 042	14 640	9 402
	Nov	28 381	40 798	-12 417	24 160	14 787	9 373
	Dec	28 629	40 400	-11 771	24 201	14 875	9 326
2018	Jan	29 139	41 042	-11 903	24 171	14 891	9 280
	Feb	27 696	38 110	-10 414	24 099	14 861	9 238
	Mar	28 927	41 214	-12 287	24 007	14 811	9 196

Source: ONS, UK Trade

Business Births, Deaths & Survivals

In 2016, StartUp Britain identified that 17,473 new businesses were registered in Birmingham, the largest number of start-ups outside London. Manchester had the next highest with 9,416 new companies. Barclays' UK Prosperity Map 2017 named Birmingham the city with the highest business birth-to-death ratio of any other city in the UK with 1.81 businesses created for every closure, beating London (1.78).

Official ONS data is available to look at business start-ups in Birmingham. The ONS Business Demography dataset for 2016 (latest available) provides data on enterprise births in the UK, allowing for comparisons between Birmingham and other areas.

Table 6 Count of Business Births per 1000 Inhabitants

Area/Year	2011	2012	2013	2014	2015	2016
United Kingdom	4.13	4.23	5.4	5.43	5.88	6.31
Manchester	4.75	4.98	6.58	6.78	7.90	11.91
Liverpool	3.15	3.23	4.78	4.57	5.09	5.48
Newcastle	3.21	3.36	4.17	4.18	4.30	4.31
West Midlands	3.49	3.48	4.54	4.51	5.10	5.97
WMCA	3.25	3.35	4.42	4.48	5.46	6.33
Birmingham	3.42	3.62	4.84	4.81	6.58	8.16

Source: ONS Business Demography

The table above shows the enterprise births per 1,000 of the population (which represents an enterprise birth rate to enable comparison between different areas). We can see from Table 14 that performance has significantly improved; Birmingham (8.16 per 1,000) is now only second to Manchester (11.91 per 1,000) among the core cities and has a start-up rate above the national average (6.31 per 1,000), after a number of years of underperformance between 2011-2014. The business birth rate for Birmingham has almost doubled since 2014.

The ONS Business Demography dataset for 2016 also provides data on enterprise deaths in the UK. Table 15 shows that there were 4.9 business deaths per 1,000 people in Birmingham in 2016. This is higher than previous years but still lower than the national average.

Table 7 Count of Business Deaths per 1000 Inhabitants, 2011 - 2016

Area/Year	2011	2012	2013	2014	2015	2016
United Kingdom	3.63	3.96	3.7	3.82	3.87	4.99
Manchester	3.82	4.45	4.44	5.03	5.04	6.94
Liverpool	3.05	3.14	2.79	3.49	3.26	4.21
Newcastle	2.71	3.05	2.81	3.47	3.18	4.24
West Midlands	3.34	3.52	3.25	3.38	3.3	4.17
WMCA	3.06	3.27	3.09	3.23	3.24	4.21
Birmingham	3.35	3.63	3.35	3.64	3.63	4.88

Source: ONS Business Demography

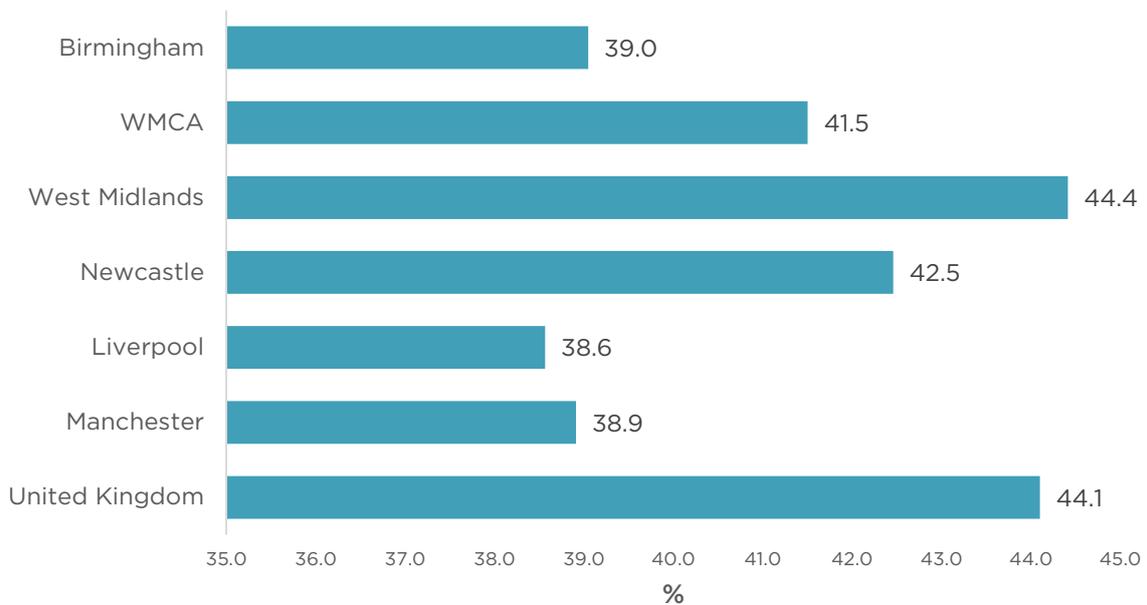
Another indication of the strength of an area's enterprises is business survival rates. Table 16 below shows the proportion of businesses started in 2011 that have survived five years. 39.0% of new businesses started in Birmingham in 2011 were still trading in 2016, compared to 44.1% nationally. The city is mid-ranking amongst the core cities in this respect.

Table 8: Business 5 Year Survival Rates

5-year survival rates - 2011 births	
United Kingdom	44.1
Manchester	38.9
Liverpool	38.6
Newcastle	42.5
West Midlands	44.4
WMCA	41.5
Birmingham	39.0

Source: ONS Business Demography

Figure 8: Survival Rates for Firms Born in 2011



Source: ONS Business Demography

Future of Professional Services

The Business, Professional and Financial Services sector is twice the size of the Manufacturing and Engineering sector in the West Midlands and accounts for 28.2% of GVA and 20.3% of jobs (1 in 5 jobs). Employment in the sector is set to grow by 31%, and the sector's contribution to GVA is set to double by 2030. It is a thriving sector in its own right and is recognised as having a significant multiplier effect across the rest of the economy because of the services it offers. City-REDI recently conducted a review of the sector for the West Midlands Combined Authority² which explored future prospects of the sector and the challenges facing business.

The sector is very different to what was previously assumed. Firstly, Birmingham is the only place outside of London where you can access the full range of services within the sector. Secondly, the business and professional services sector is set to grow considerably as highlighted above, driven by flagship investment such as HSBC moving their HQ to Birmingham which added to an already high number of nationally significant companies. Thirdly, the sector is not characterised by back-office jobs; rather there is a skew towards highly professional and technical roles, and where back office does exist, it is because the HQ is in the region or it has become a specialised function.

The main challenges for the sector are attracting and retaining staff to the region, and to the sector more broadly. The sector still suffers from a lack of understanding of opportunities as well as a negative perception of the city's lifestyle offer. The challenge for Birmingham, therefore, is continuing to promote the city as a great place to live with good job opportunities in the sector. Nevertheless, the sector is growing at an accelerated rate, and indications are that this is due to relocation from other UK cities, including London.

Technology could radically change the way this sector delivers. Businesses are increasingly characterised by networked delivery teams who can work for clients locally, nationally and internationally and technology allows expertise to be utilised wherever it is based. Technology is potentially a disruptive competitor to the services offered. However, businesses are already moving to a model which supports stronger client relationships to solve difficult business issues whilst commoditising off the shelf processes.

In terms of improving the wider economy, the sector may be underperforming. Despite excellent examples, the main challenge for the sector is innovation. Especially where clients are not innovative and constrain change, within a risk-averse economic climate. Businesses want to tap into Birmingham's diverse, young labour market to create diversity in thinking and innovative cultures, but they need help in attracting talent and creating new pathways to ensure local

² An investigation into the Foundations of Productivity for Business, Professional and Financial Services in the WMCA area Productivity and Skills Commission June 2018

people benefit from growth. The sector is increasingly focused on people and the infrastructure to attract them, and the next generation of professional services staff are demanding different working environments, challenges and work/life opportunities. The sector in Birmingham is already responding to this challenge. However, place attractiveness is becoming increasingly important to businesses and this is key to the industrial strategy going forward.

Procurement & Anchor Institutions

There has been an emphasis recently on local wealth building, a new approach to economic development. Local wealth building is no longer an 'alternative' but a guiding principle of the new economic model and movement gaining momentum across the UK.

A piece of research carried out in 2017-2018 by the Centre for Local Economic Strategies in collaboration with City-REDI looked at the local wealth building capacity of Birmingham, focusing on how the city's anchor institutions individually and collectively add to the economic and social vibrancy of the city. For Birmingham City Council and the University of Birmingham the key findings were as follows:

- In the financial year 2016/17, Birmingham City Council spent £762,252,622 with organisations based within the Birmingham boundary. This is equivalent to 68.7% of procurement spend with the top 300 organisations.
- Approximately 15% of the University of Birmingham's spend (£125.6 million) was with organisations based in the Birmingham boundary between 2012-2017. The greatest proportion of spend was within the construction sector (42% of total spend). 53.8% of the University's total net salary spend on employees is spent in Birmingham.

Other key anchor institutions in Birmingham that were included in this study are Pioneer Group, West Midlands Policy and Crime Commission, Birmingham Metropolitan College and Queen Elizabeth Hospital.

Going forward, the report outlines the following three priorities for Birmingham³:

- Generating individual anchor strategies which span the breadth of local wealth building activities and working together to mobilise the resources and support to put these into practice
- Advocating for the anchor approach across Birmingham and the wider West Midlands and encourage a shift in policy and practice on procurement, workforce and management of land, property and assets
- Construction and building: Of the four Anchor Institutions who undertook an analysis of their procurement spend as part of this project, all identified

³ Local Wealth Building in Birmingham & Beyond: A New Economic Mainstream, 2018

that a significant proportion of the money which leaks out of the Birmingham and West Midlands economy relates to construction projects. This presents a key issue for the city and the wider region, with an opportunity to address this collectively in the context of the imminent investment in the facilities for the Commonwealth Games in 2022.

Expert Comment

Professor John Bryson, City-REDI, University of Birmingham



There are many ways of considering economic activity. On the one hand, the emphasis may be placed on identifying and exploring generic processes or those that could perhaps be defined as spatially blind processes. On the other hand, there is an appreciation that economic activity is very much influenced and often determined by context. There are many different contexts – from the distinctiveness that comes from enacting business in a particular place or region to the contexts that exist inside a firm. This is to emphasise

the importance of understanding firm-level or micro processes and more meso processes that are related to a firm's place within a city-regional economy. There are, of course, more macro processes that operate nationally and often internationally. Within this framework of micro, meso and macro scales there are many different forms of action. These include firms that are locally owned and managed to branch offices/plants of translocal firms. Another set of actors are sometimes labelled as non-firm actors and these include the activities of local and national governments.

For the West Midlands, we need to consider three important processes that reflect the three scales at which economic activity is enacted or performed. First, there is the national/international scale. Here there are major uncertainties that are outside the control of firms located in the West Midlands and outside the control and influence of Birmingham or West Midlands based policy-makers. At this scale the on-going Brexit negotiations are a major moment of uncertainty for those firms that are involved in supply chains with firms located within the European Union. Brexit, however, must also be placed within the wider context of the ongoing alterations in international trade that have been driven by Donald Trump's imposition of tariff barriers. It is the onset of what could become a trade war that represents a critical moment of uncertainty for the EU and the UK. It must be noted that the US is not very dependent on imports or even exports. The US has the largest internal market. The implication is that the new American approach to trade will be more damaging for countries and regions, like the West Midlands, that are important exporters to the US. For the West Midlands, for the year ending 2017, the most important export partners by value were, in order of importance, the USA, China, Germany, France and the Irish Republic (HMRC,

20184). For the West Midlands, on-going alterations in the American approach to trade are perhaps one of the most important challenges. Exports from the West Midlands mirror the pattern for the UK. There is a deficit in goods and a surplus in services. This surplus in services is interesting as it is important to appreciate that services have never been a central part of international trade agreements and have been excluded from the current (July 2018) UK government approach to Brexit negotiations. Second, at a regional level the West Midlands still lags behind Manchester in terms of GVA per head and this reflects the overall structure of the regional economy which has high concentrations of low value producing sectors, or sectors that are yet to experience major productivity improvements. Third, for firms there are still problems with hard-to-fill vacancies that reflect problems with the local labour market but also the education system. In terms of new firm formation, Birmingham and the West Midlands Combined Authority have an interesting pattern. In comparison to Manchester, Birmingham and the WMCA have lower rates of new firm formation, but also a higher survival rate. This is a good place to be in terms of new firm formation. It is noteworthy that the five-year survival rate for the West Midlands exceeds the national average.

Overall, an annual review of the economic geography of Birmingham does not identify major changes at the firm or regional level. At this scale of analysis, change is gradual or incremental with only occasional major shocks. What is interesting for 2018, is that perhaps one of the greatest shocks that is beginning to be experienced by local firms reflects the outcomes of decisions made in Washington, D.C. rather than in London or Brussels. It is possible to summarise regional economic success by identifying three key processes that shape economic activity – the degree of connectivity at all scales, the availability of appropriately skilled labour and a high degree of stability or certainty. In terms of connectivity, it is important to appreciate that every firm will be connected to the national and global economy in different ways. Some firms will be more impacted by alterations in local consumption within the West Midlands, others by decisions made by consumers located elsewhere in the UK and in the EU and for many firms decisions made by foreign consumers and governments shape firm performance and competitiveness. This is especially challenging for local policy-makers as they can only focus on influencing one part of the concatenation of processes that influence regional economic activity. The key challenge is to identify local problems that can be addressed by local interventions.

⁴ HMRC (2018), *Regional Trade in Goods Statistics*, Fourth Quarter, HMRC: Southend-on-Sea

Business Insight

Mark Taylor, Central Regional Managing Partner, RSM



There is little doubt that we are facing one of the most uncertain operating environments in recent history. Yet despite significant geopolitical upheaval, Birmingham continues to stand strong. The latest quarterly business review published by the Greater Birmingham Chambers of Commerce shows that in the face of Brexit and other macroeconomic uncertainty, local businesses are still reporting a sizeable increase in domestic sales, exports, turnover and headcount.

Our own research reveals a similarly optimistic picture. Since June 2017, RSM has partnered with YouGov to track business sentiment as the UK prepares to leave the EU. The RSM Brexit Monitor, based on more than 300 interviews with C-suite respondents across the UK, shows that businesses across the East and West Midlands are confident that they will weather the Brexit storm. In our survey in June 2018, the region emerged as the most optimistic in England when thinking about how Brexit will impact business prospects over the next five years.

What is fuelling this positive outlook? While there are many interconnected forces at work, we know that Birmingham is a key hub of innovation. For the past five years, it has topped the list for the highest number of new start-ups outside London. The fact that we have five universities that play a key role in developing and nurturing exceptional talent is a significant factor in this success story. At the same time, continued investment in growth hubs, incubators and accelerators means SMEs and entrepreneurs can draw upon a cornucopia of professional, commercial and financial support that we know is so fundamental to business success.

This combination of strong academic and development support means that Birmingham is now one of the most attractive locations for businesses to not only innovate, but to also hold on to the intellectual property they painstakingly create. Yet at the same time, it's important that businesses do not become complacent. To continue their growth trajectory, particularly in a time of uncertainty, businesses must do more to take advantage of other development funding on offer.

Generous tax reliefs are available for companies of all sizes and in all business sectors. Alongside the Patent Box regime and video games tax relief, the Research and Development tax relief is an excellent tool to encourage innovation. Since the creation of the R&D tax relief regime for SMEs in 2000, the benefits for businesses have increased significantly from an initial rate of 50 per cent to the current 130 per cent. The level is now capped by EU state aid rules, so there is chance that Brexit may give the government more opportunity to increase these rates further to attract and retain important R&D activity in the UK.

Accessing this development funding will be crucial to the continued prosperity of the city, particularly at a time when Brexit negotiations could undermine other EU funding streams. Yet we know that this is not happening enough. Official statistics released in September 2017 showed that only 8 per cent of R&D claims made in FY16 in the UK were from companies with a registered office in the West Midlands. And although the number of claims in the region increased 22 per cent between 2015 and 2016, there are clearly a significant number of businesses in the West Midlands that are not accessing the relief which is available to them. A long legacy of innovation allowed Birmingham to emerge as the UK's second city. Today, a landscape of strong academic and development support has allowed this entrepreneurial spirit to continue to thrive. But in a time of economic volatility and political uncertainty, businesses will need to be smart if they are to continue their upward trajectory.

Contact Us

For queries related to the *Birmingham Economic Review 2018* please contact:

Emily Stubbs

Policy and Patron Advisor
Greater Birmingham Chambers of Commerce
E.Stubbs@birmingham-chamber.com

Rebecca Riley

Business Development Director
City-REDI, University of Birmingham
R.L.Riley@bham.ac.uk

Project Coordinators

Dr Charlotte Hoole

Policy and Data Analyst
City-REDI, University of Birmingham

Emily Stubbs

Policy and Patron Advisor
Greater Birmingham Chambers of Commerce

Data Prepared By

Dr Tasos Kitsos

Research Fellow
City-REDI, University of Birmingham

Greater Birmingham Chambers of Commerce

75 Harborne Road
Edgbaston
Birmingham B15 3DH
t 0121 607 0809
e policy@birmingham-chamber.com
w greaterbirminghamchambers.com