

Understanding Hackney's economy – A focus on business and enterprise

This analysis forms part of Hackney's Local Economic Assessment, a collection of reports looking at how the local economy is performing and changing to help the Council and partners set strategic priorities and inform future strategy development. This section looks at, the types of businesses in the borough and how this has changed in recent years.

1. Key headlines

- There are 14,725 businesses in Hackney (3.3% of all businesses across London)
- The number of businesses in the Information & communication sector in the borough has almost doubled since 2010 (up 97%) and the Professional, scientific & technical sector has seen an increase of 1,550 businesses (72%).
- The City Fringe area around Shoreditch and Old Street is the biggest sub-economy in Hackney and is home to 43% of employment in the borough. The employment in this area is concentrated in the Professional, scientific & technical, Information & communication and Business administration & support services sectors.
- Since 2005 there has been a decrease in large employers (more than 100 employees) in Hackney falling from 1.2% to 0.7% in 2015.
- Almost all businesses in Hackney (99.8%) employ fewer than 250 staff and 9 out of 10 businesses in Hackney (90.3%) can be defined as micro-businesses because they employ fewer than ten people. This is slightly higher than the Inner London average of 88.3%.
- The number of annual business births in Hackney has significantly increased since the financial crisis in 2009. In 2015, the 4,105 business births in the borough was over 160% higher than the 1,570 of 2010.

2. Intro to the economy of Hackney

There is very limited data available to help us build a picture of the competitiveness and performance of the local economy in Hackney. The Huggins UK Competitiveness Index 2016 is one source and this ranks Hackney as the 18th most competitive local authority economy in the UK, up from 24th in 2013. Unsurprisingly, London ranks as the most competitive region in the country according to this Index, Hackney features as the 12th most competitive economy in London.

Borough	UKCI Score	Rank of LBs
City of London	752.5	1
Westminster	214.4	2
Camden	168.8	3
Islington	146.4	4
Hammersmith and Fulham	143.7	5
Tower Hamlets	141.2	6
Kensington and Chelsea	141.4	7
Lambeth	130.5	8
Southwark	128.2	9
Wandsworth	127.6	10
Richmond upon Thames	121.9	11
Hackney	116.6	12

Table 1 - UKCI 2016

3. An overview of Hackney's businesses

3.1 Number of enterprises

The Office for National Statistics (ONS) publishes data on the number of businesses within the current VAT threshold (not including businesses operating below the VAT threshold or self-employed people). This data is broken down into two separate measures:

- Enterprises is the smallest combination of legal units (generally based on VAT and/or PAYE records) which has a certain degree of autonomy - usually a head office - which may, or may not, have multiple sites, or 'Local units'.
- A Local unit is defined as an individual site, located in a geographically identifiable place. Local unit sites belong to an Enterprise.

This report will consider data relating to Enterprises (also described as businesses) rather than local units. According to this ONS business data, in 2015 there were 14,725 businesses in Hackney. Hackney has the 9th largest business stock across all London boroughs with 3.3% of all of the capital's businesses based in Hackney.

Borough	No. of enterprises	% of London total
Westminster	46,060	10.4%
Camden	25,630	5.8%
Barnet	20,855	4.7%
Lambeth	17,605	4.0%
Islington	16,665	3.7%
City of London	16,580	3.7%
Ealing	15,840	3.6%
Wandsworth	15,825	3.6%
Hackney	14,725	3.3%
Tower Hamlets	14,445	3.2%

Table 2 – ONS, UK business; activity, size and location 2015

There was a significant increase in the number of businesses in Hackney between 2010 and 2015, when the overall business stock grew by 41% (up 4,275 from 10,450 in 2010). This was significantly higher than the growth in the number of enterprises across London which was only 13%.

The ONS also publishes a Business Demography dataset which looks at the number of 'births' of new businesses and 'deaths' of existing businesses over the course of a year – the 2015 data shows that there were over 18,500 unique active enterprises operating at one point or another in Hackney in 2015. Estimating the exact number of businesses operating in the borough is tricky given the churn that takes place in dynamic small economies, so it is useful to look across the datasets mentioned here and also consider the businesses we as a Council are aware of through our business rates database, to build a fuller picture of the changing business stock in the borough.

3.2 Enterprises by sector

The ONS also publishes a breakdown on the number of enterprises in each local authority area by broad sector. A breakdown of Hackney's enterprises by sector is presented below.

The top 3 sectors with the largest number of enterprises in Hackney are:

1. Professional, scientific & technical sector (3,700 / 25%)
2. Information & communication (2,505 / 17%)
3. Arts, entertainment, recreation & other services (1,350 / 9%).

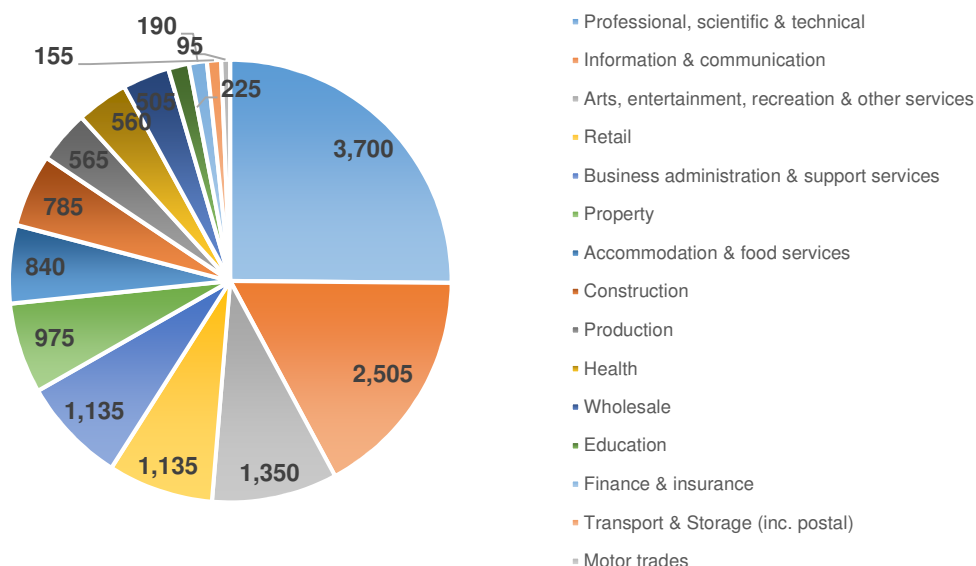


Figure 1 - ONS Enterprise/local units by Industry, 2015 (excl. Agriculture, forestry & fishing and Public administration & defence)

Sector	Hackney	London
Professional, scientific & technical	25.1%	23.9%
Information & communication	17.0%	13.2%
Arts, entertainment, rec & other services	9.2%	7.4%
Retail	7.7%	7.2%
Business admin & support services	7.7%	9.7%
Property	6.6%	4.8%
Accommodation & food services	5.7%	4.8%
Construction	5.3%	9.0%
Production	3.8%	3.2%
Health	3.8%	4.5%
Wholesale	3.4%	4.3%
Education	1.5%	1.6%
Finance & insurance	1.3%	2.9%
Transport & storage (inc. postal)	1.1%	2.1%
Motor trades	0.6%	1.4%

Table 3 - ONS Enterprise/local units by Industry, 2015 (excl. Agriculture, forestry & fishing and Public administration & defence)

In terms of variation of sectors against London, Hackney has a higher proportion of Professional, scientific & technical businesses and Information & communication business than London overall. There's also significant variation in the Construction industry, the proportion of Construction businesses in London is 3.7 percentage points higher than in Hackney.

Which sectors have been growing from 2010-2015?

With such significant enterprise growth in Hackney between 2010 and 2015, it is unsurprising that there has been growth in the number of businesses in most sectors in the borough but this overall trend masks some significant variation by sector. It is only possible to compare change over time at broad sector level.

The rank of the top 3 sectors in Hackney by size, has not changed since 2010 but the number of businesses in those sectors has increased sharply. By far the most significant increases in business

numbers by sector are in the Information & Communication sector which has seen the number of businesses almost double since 2010 (up 97%) and in the Professional, scientific & technical sector which has seen an increase of 1,550 businesses (72%).

There has also been considerable proportional growth in some sectors which were originally smaller in size, notably Accommodation & food services (up 41%) and Business administration and support services (up 51%).

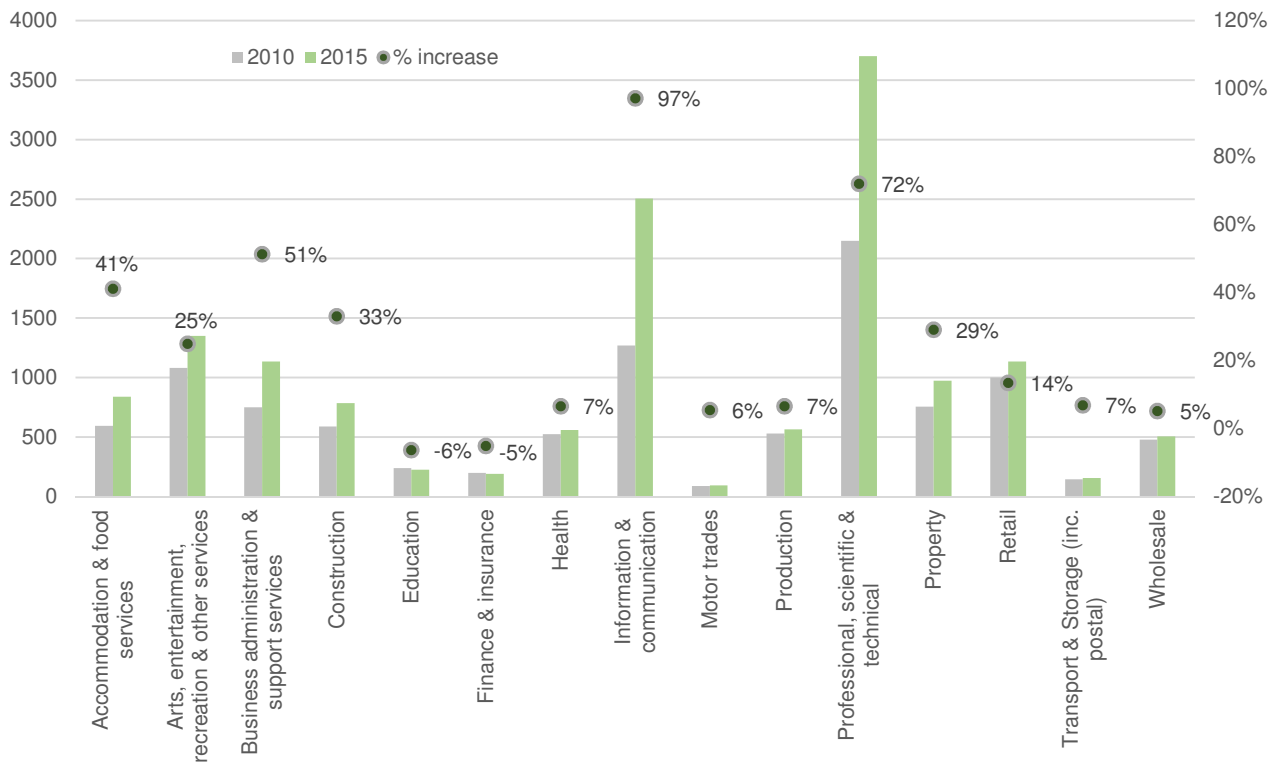
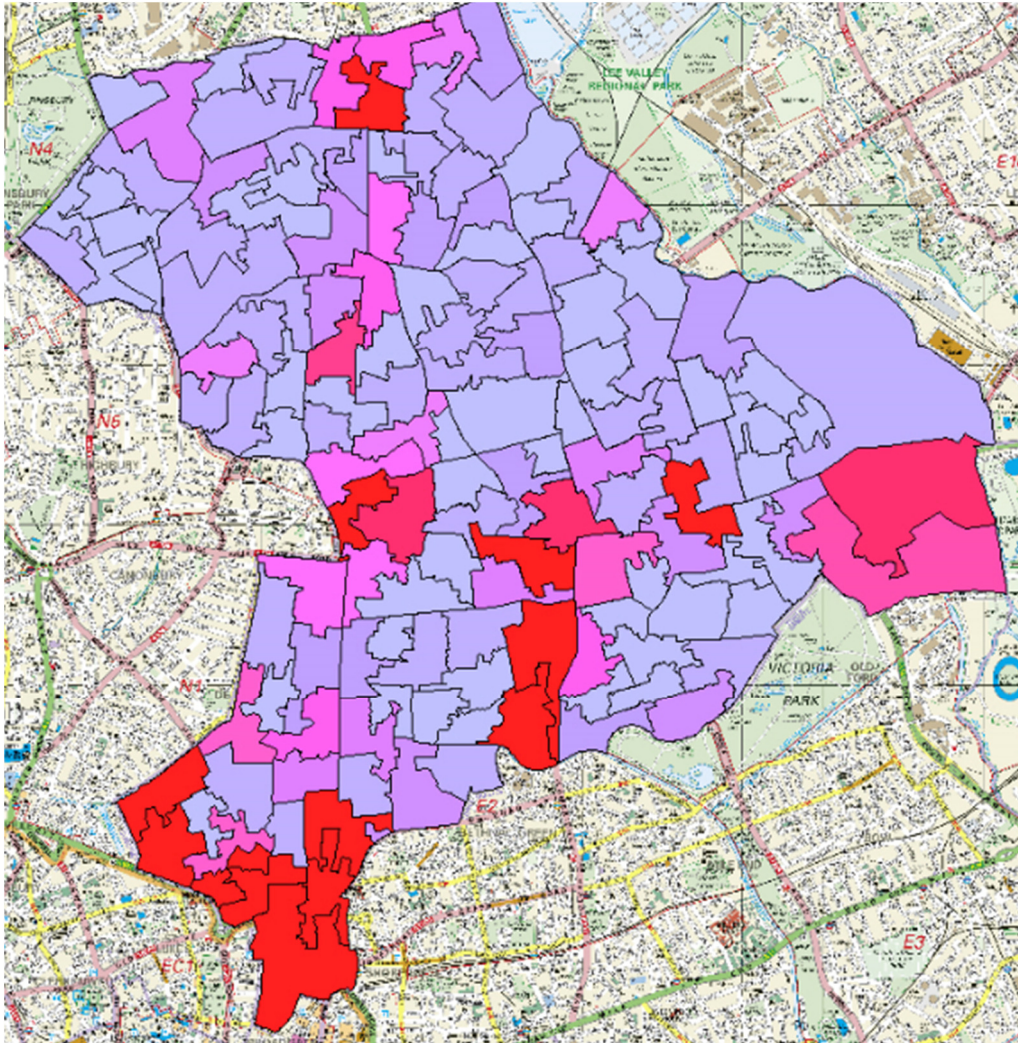


Figure 2 - ONS Enterprise/local units by Industry, 2010-2015

The only sectors that saw a reduction in the number of businesses between 2010 and 2015 were Education (down 6%) and Finance and insurance (down 5%).

This data reflects the changes our understanding of how the Hackney economy has changed over the last 5 years with an increasingly important tech sector in the borough as well as an increase in the number of hospitality venues.

Looking at the location of employment in Hackney, it is clear that the 'City Fringe' area around Old Street and Shoreditch is the major sub-economy of the borough with 43% of all employment in Hackney concentrated in this area.



Map 1 – employment concentration by business, by LSOA, BRES 2015

Area	% of total employment in the borough
City fringe and Shoreditch	43%
Hackney Central / Mare St	9%
Dalston	5%
Homerton	4%
Stamford Hill	4%

Table 4 - BRES, 2015

Employment includes employees plus the number of working owners. BRES therefore includes self-employed workers as long as they are registered for VAT or Pay-As-You-Earn (PAYE) schemes. Self-employed people not registered for these, along with HM Forces and Government Supported trainees are excluded.

Working owners are typically sole traders, sole proprietors or partners who receive drawings or a share of the profits.

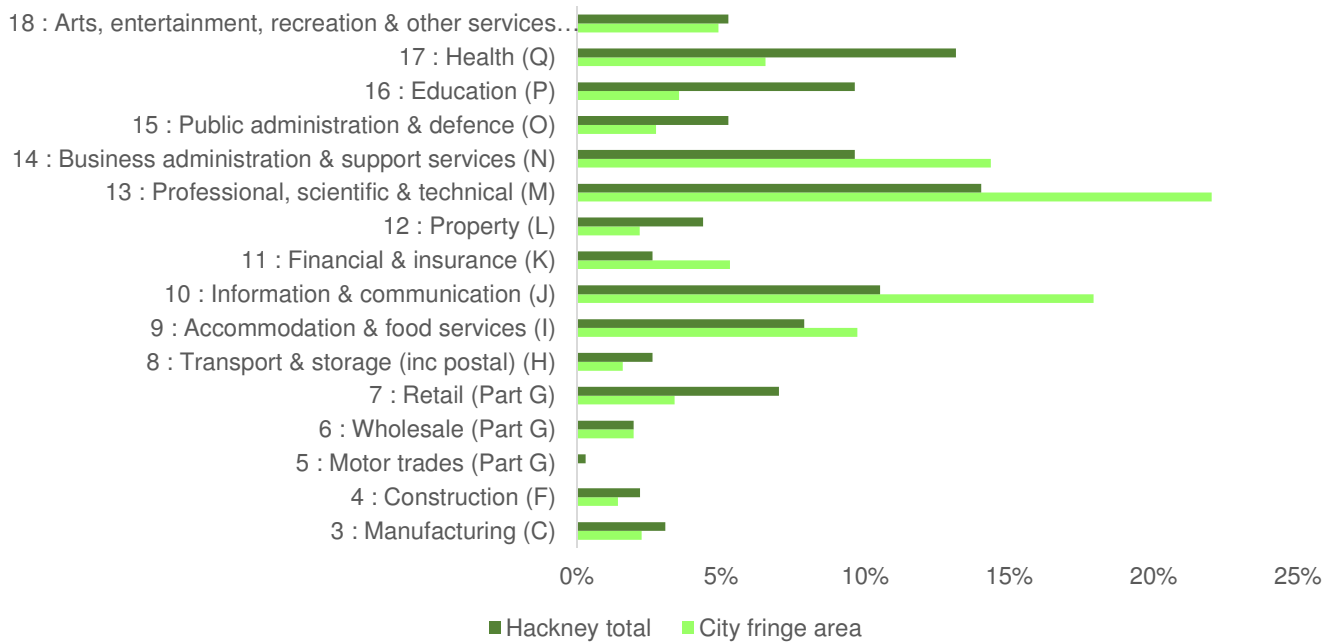


Figure 3 - BRES, ONS (2015) (Excluding 1: Agriculture and 2: Mining and quarrying)

3.3 Enterprises by employment size

99.8% of Hackney’s businesses fit the official UK definition of a small and medium sized enterprise (SME) when looking at employee size i.e. they are businesses that employ fewer than 250 people. Micro-businesses is a sub-category of SMEs and is defined as businesses employing between 0-9 people. Just over 9 in 10 enterprises in Hackney (90.3%) are micro businesses, compared to 88.3% in Inner London) and 88.7% across the whole of the UK.

Area	% of Enterprises by employment size band						
	0-4	5-9	10-19	20-49	50-99	100-249	250+
Hackney	79.6%	10.7%	5.5%	2.7%	0.8%	0.4%	0.2%
London	79.5%	10.5%	5.3%	2.7%	1.0%	0.6%	0.4%
Inner London	77.1%	11.2%	6.1%	3.2%	1.2%	0.7%	0.6%
England	76.6%	12.2%	6.0%	3.2%	1.0%	0.6%	0.4%
United Kingdom	76.3%	12.4%	6.1%	3.2%	1.0%	0.6%	0.4%

Table 5 - UK businesses: size, activity and location, (enterprise analysis) ONS 2015. Figures may not sum due to rounding.

Over the last ten years there has been a trend across Hackney, London and the UK towards a greater proportion of small businesses employing 0-4 people. In 2005, as in 2015, Hackney had a greater proportion of businesses employing 0-4 people (73.1%) than the comparator areas but across all areas this has increased suggesting a trend towards smaller businesses. In 2005¹, 1.2% of all Hackney’s businesses were large employers (employing more than 100 people), by 2015, this had fallen to 0.7%.

¹ ONS Business Size Activity and Location, ONS (2005)

3.4 Enterprises by turnover

Given the large proportion of micro-businesses and SMEs in Hackney, it is unsurprising that the vast majority of Hackney's businesses also meet the turnover definition of an SME and turnover less than £2m per annum. 92% of businesses in Hackney fall into this category but the biggest proportion of businesses by turnover are the 30.5% of businesses generating between £100k and £249k per annum. Over a quarter (26.7%) of Hackney's businesses are in the £59-99k turnover bracket which is markedly higher than across all of the comparator areas.

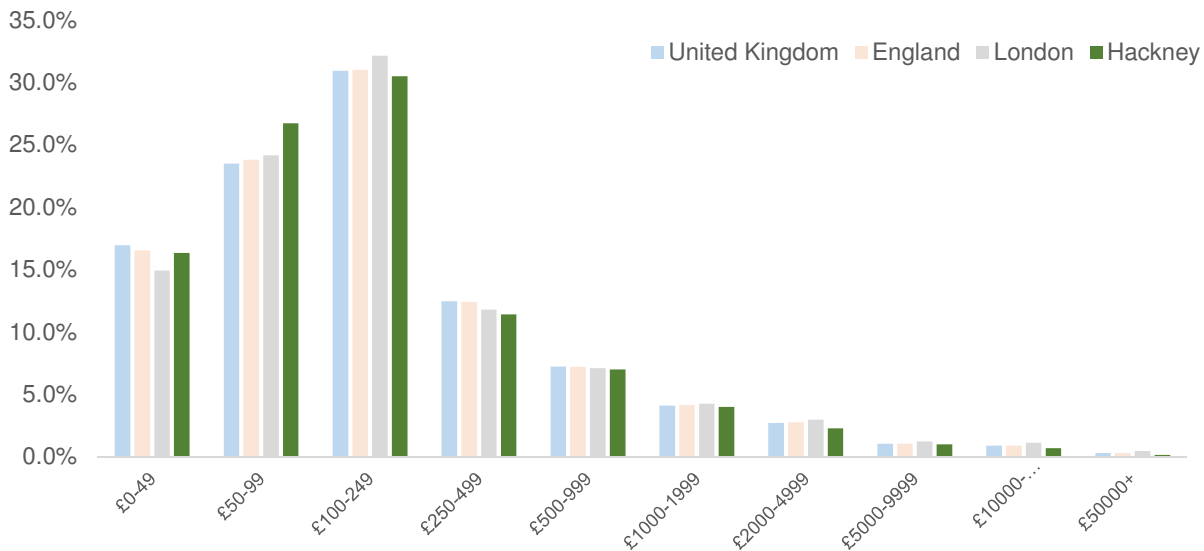


Figure 4 - UK Businesses: Size, Activity and Location, ONS (2015) (figures in thousands)

4. Business demography

The ONS publishes an annual business demography dataset which looks at the formation (birth) and closure (death) of businesses as well as the survival of businesses. This data is a useful indicator of the level of churn in the business stock of the borough and how the extent to which the local economy is able to support fledgling businesses compared to the performance of other London boroughs.

4.1 Business births

The number of annual business births in Hackney has significantly increased since the financial crisis in 2009. In 2015, the 4,105 business births in the borough was over 160% higher than the 1,570 of 2010. Importantly, while there has been a slight increase in business deaths, this is nowhere near as significant as the change in birth and therefore, the gap between births and deaths has widened meaning an increase in the business stock of the borough.

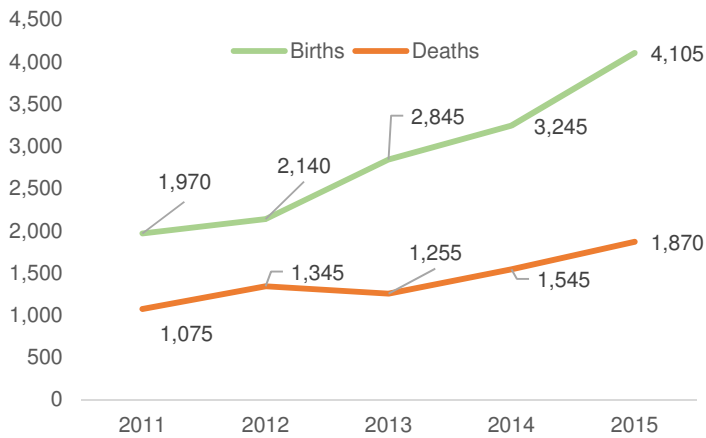


Figure 5 - Business Demography: Business Births, ONS (2015)

4.2 Business survival

Business survival rates provide an important insight into the success rate of new businesses starting up in a given area from the point of registration and for five years beyond this. It is widely accepted that for small businesses, the first two years of operation are often the toughest and only just over half of businesses tend to survive into year three and beyond. However, that is not to say that business deregistration should always be seen as a negative – businesses may cease operating for a number of reasons for example, from shutting down if they fail to be competitive but also if they merge with other companies or are bought out by another business. This dataset does not provide detail on the reasons why a business has closed down but it does provide a useful indicator of the level of business churn in the borough.

High business churn is often an indicator of the productivity and strength of the local economy as an environment which supports new businesses to thrive and develop. In many cases, a competitive local economy will see vibrant new businesses forcing less efficient or profitable businesses out of the local market, reducing stagnation. However, very high levels of business churn with new companies unable to survive beyond the first 1-2 years of operation can indicate instability in the market and indicate economic ill-health, particularly where it's driven by factors that might continue to undermine new businesses as they form, for example, spiralling commercial rents.

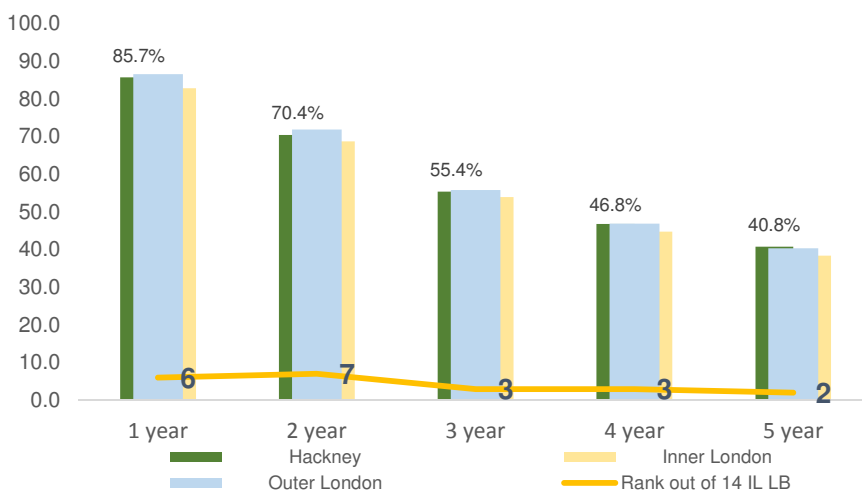


Figure 6 - Business Demography: 5 year survival rates for businesses formed in 2010, ONS (2015)

When looking at business survival rates, Hackney's rank out of 14 Inner London boroughs, paints an interesting picture. We only rank in the middle of the pack for businesses surviving for 1 year and 2 years but this improves to second out of 14 inner London boroughs for businesses surviving to 5 years. However, Hackney outperforms the Inner London economy on business survival at each of the five years shown and for years 1 and 2, fewer than 5 percentage points separate Hackney and the top performer Wandsworth. Wandsworth is the strongest performer throughout years 1 to 3, ranking 1st out of the 14 Inner London Boroughs for business survival for each of these years.

Across the UK, the industries with the highest rate of business survival at the end of year 1 are Information & communication, Human Health and social work activities and Professional, scientific and technical. Given the first and last of these industries are the largest two industries in Hackney in terms of number of businesses, new businesses in these industries can have relatively high confidence of their ability to withstand the pressures of the first year of operating in the local economy.

Produced by the Policy & Insight Team, summer 2017

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