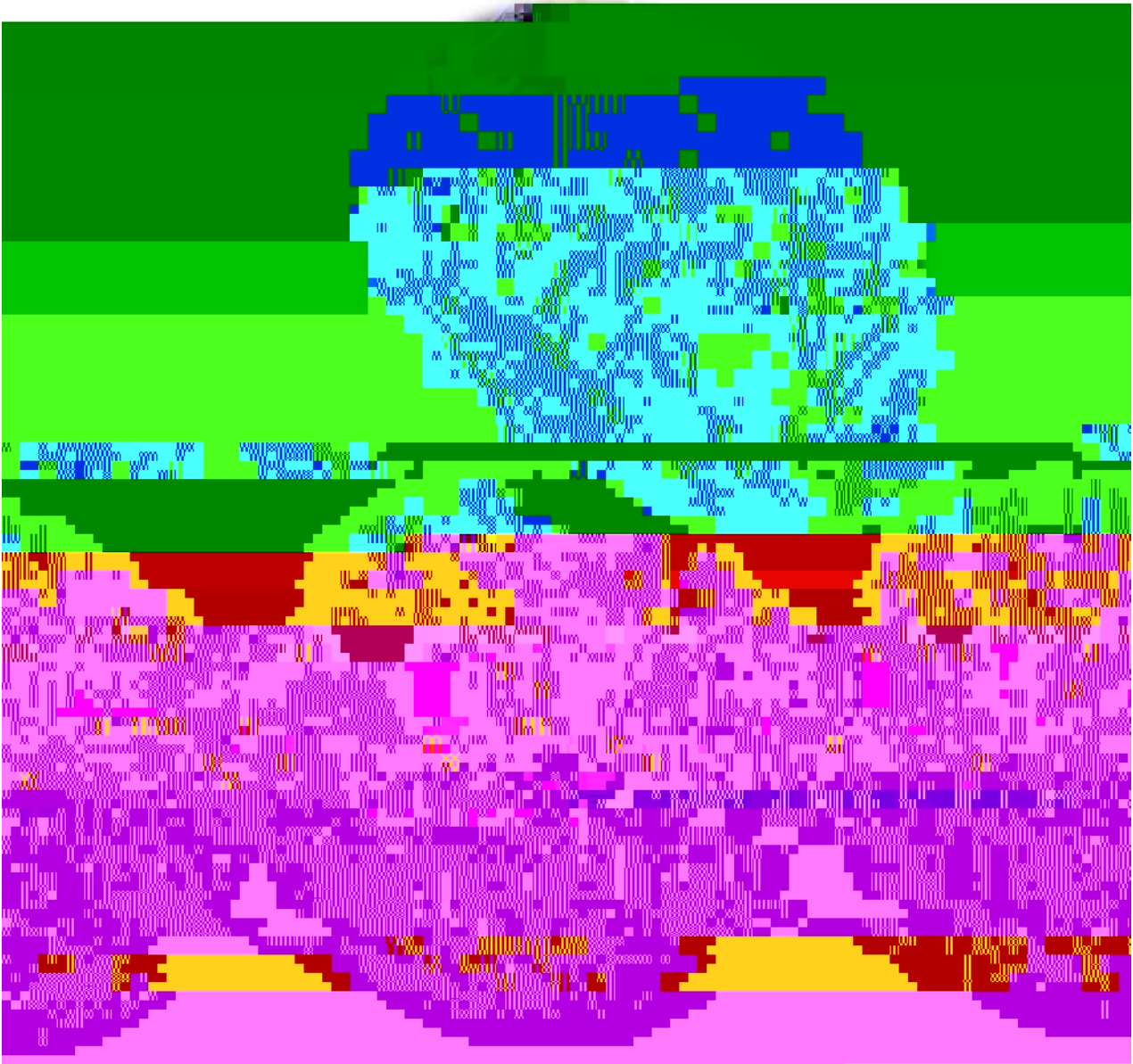


Support to Small Businesses

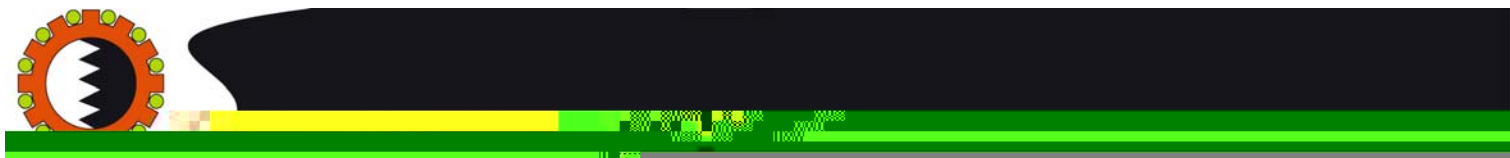


A Report from Overview & Scrutiny



Contents

| | |
|--|-----------|
| Preface | 4 |
| Summary | 5 |
| Summary of Recommendations | 7 |
| Glossary | 10 |
| 1 Introduction | 12 |
| 1.1 Why Examine Support to Small Businesses? | 12 |
| 1.2 What is a 'Small Business'? | 12 |
| 1.3 What Do We Mean by 'Support' for Small Businesses? | 13 |
| 1.4 How We Did the Review | 14 |
| 2 Background | 15 |
| 2.1 Birmingham's Economy | 15 |
| 2.2 The Strategic Economic Framework | 18 |
| 2.3 The Local Area Agreement | 19 |
| 2.4 The Local Enterprise Growth Initiative (LEGI) | 20 |
| 2.5 Summary | 20 |
| 3 Issues for Small Businesses | 21 |
| 3.1 The Barriers to Small Business Growth | 21 |
| 3.2 Workforce Skills | 22 |
| 3.3 Access to Finance | 22 |
| 3.4 Relationships with Local Authorities | 24 |
| 3.5 Accessing Support | 26 |
| 3.6 Black and Minority Ethnic-Owned Small Businesses | 28 |
| 3.7 Summary | 29 |
| 4 Regional Support to Businesses | 31 |
| 4.1 Introduction | 31 |
| 4.2 Business Link and Regional Delivery | 31 |
| 4.3 Regional Finance | 33 |
| 4.4 Issues with Business Support | 33 |
| 4.5 Summary | 35 |





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Summary

Small and medium-sized firms are a crucial part of the UK economy: at the start of 2004 they accounted for 99.7% of all enterprises, 47.5% of employment and 49% of turnover. At the local level, the importance of small businesses cannot be underestimated, playing a critical role in employment provision and the health and diversity of Birmingham's economy.

Making Birmingham a City of 'vibrant urban villages' is one of the three priorities set out by the City Council in the Council Plan 2006+. Within this there are elements underpinning the creation of a flourishing economy, whilst Birmingham's Community Strategy also seeks to address economic development through its 'Prosperous City' theme.

Previously, the City Council has delivered support through a variety of mechanisms funded by central government, including financial aid and area-based regeneration initiatives. More recently however, a shift in central government policy has seen this level of support provided by Business Link on behalf of Advantage West Midlands. In turn, Business Link is currently moving from a local to a regional delivery model.

Evidently the changing landscape of business support has had consequences for both small firms seeking support, and the City Council in terms of the support it can provide. Examining these issues and providing clarity on business support arrangements in Birmingham were central to this Review.

Our findings, conclusions and recommendations focus on three key areas:

- i. The role and nature of Council support for small businesses;
- ii. Mainstream business support delivered by external agencies, and its transition to a regional delivery framework; and
- iii. Tackling the issues faced by small businesses.

Council Support for Small Businesses

We feel that the Council needs to take stock of the support that it provides to small businesses and ensure that it is more effectively co-ordinated on an organisation-wide basis. This is particularly important in light of the changing way in which support is provided. Part of this is consideration of how it should supplement the support to small businesses provided by other organisations.

A key aspect of this conclusion is the need to ensure that the Council and its partner organisations do not ignore the needs of small businesses which do not have growth aspirations. Existing business support arrangements are not always accessible to many small businesses – particularly 'micro' businesses where expansion and growth may not be the highest priority. We feel it is important that such businesses are recognised for their contribution to the local economy and appropriate, co-ordinated support is still needed.



The Transition to a Regional Delivery Framework

The routes through which small businesses can access support are complex and not necessarily comprehensively linked. This may go some way in accounting for low levels of awareness of available support, both locally and nationally. We also found that small businesses that were aware of the available support services sometimes still had difficulties to accessing it. In the main, these related to how appropriate support initiatives were and the extent to which they were targeted at needs.

To access formal support (especially funding), small businesses need to be able to put forward a strong business case and provide well-developed business plans and proposals. Whilst this is understandable, it can also effectively deter or alienate many small businesses. Here, there may not be a well developed understanding of business planning and how to get the most from formal support mechanisms.

Business Link is transferring from local to regional delivery. Whilst this has yet to be completed, we do have some concern that the move to regional delivery could prove detrimental to local service provision. Alongside successfully managing this transition, it is important that Advantage West Midlands, through Business Link, ensures that awareness of how to access support improves.

Tackling Small Businesses Issues

By virtue of the Council fulfilling its role in delivering services, businesses benefit as part of the community that the Council serves. A clear message was that there is a need for the Council to improve its interactions with businesses as customers. We feel that Business Matters will be a key element of this for the future.

Small businesses do however face many other, diverse issues. These included the impacts of crime on local businesses; the problems associated with bureaucracy when applying for support/ funding; and issues around the lack of relevant skills and training.

However, there are also aspects about the influence the Council can have in its procurement of goods and services. Raising awareness of opportunities for local businesses to supply the Council, minimising bureaucracy and simplifying the tendering processes proved to be key areas here. We look for these to be more specifically addressed within the Co-ordinating Overview and Scrutiny Committee's forthcoming Scrutiny Review of Procurement.

Overall

Small businesses form a vital part of the complex picture that the economy of a city the size of Birmingham forms. Such a picture can always be expected to be composed of many different aspects, with a range of



Summary of Recommendations

| Recommendation | Responsibility | Completion Date |
|----------------|----------------|-----------------|
|----------------|----------------|-----------------|



Support to Small Businesses

| | Recommendation | Responsibility | Completion Date |
|-----------|--|--|---------------------|
| | <p>businesses can access support. This should:</p> <ul style="list-style-type: none"> • Be in place as part of the movement to a regional delivery model; • Provide clear signposting to allow those who cannot access support through Business Link to get this through other avenues. | | |
| R6 | <p>The Council should work with the Birmingham Economic Development Partnership to improve access to formal business support mechanisms in deprived areas and among BME communities. This should result in demonstrably increased uptake of business support services in deprived areas, and from BME communities.</p> | <p>Cabinet Member for Regeneration</p> | <p>30 June 2007</p> |

R7 As part of considering what the Council's role in supporting small businesses should be (R1), the Cabinet Member is asked to





Glossary

| | |
|-------------|---|
| ART | Aston Reinvestment Trust |
| AWM | Advantage West Midlands |
| BEDP | Birmingham Economic Development Partnership |
| BES | Birmingham Economic Strategy |
| BID | Business Improvement District |
| BME | Black and Minority Ethnic |
| BSCI | Business Support for the Creative Industry Programme (Birmingham) |
| BSP | Birmingham Strategic Partnership |
| CBI | Confederation of British Industry |
| CDFI | Community Development Finance Institution |
| DCLG | Department of Communities and Local Government |
| DTI | Department of Trade and Industry |
| ERDF | European Regional Development Fund |
| ESF | European Social Fund |
| FSB | Federation of Small Businesses |
| GOWM | Government Office for the West Midlands |
| HEI | Higher Education Institute |
| LAA | Local Area Agreement. This may also be referred to variously as the Birmingham Area Agreement or Birmingham Local Area Agreement. |
| LEGI | Local Enterprise Growth Initiative |
| LGA | Local Government Association |
| LSC | Learning and Skills Council |

| | |
|-------------|--|
| ODPM | Office of the Deputy Prime Minister (since 05 May 2006, the Department for Communities and Local Government) |
| ONS | Office for National Statistics |
| RES | Regional Economic Strategy (West Midlands) |
| RCO | Retail Crime Operation |
| RDA | Regional Development Agency |
| RFF | Regional Finance Forum |
| RVCF | Regional Venture Capital Fund |
| SBA | Small Business Account |
| SBS | Small Business Service |
| SME | Small and medium – sized enterprise |



1 Introduction

1.1 Why Examine Support to Small Businesses?

- 1.1.1 Small and medium-sized enterprises (SMEs) are a crucial part of the UK economy: at the start of 2004, they accounted for 99.7% of all enterprises, 47.5% of employment and 49% of turnover (Small Business Service, 2005).
- 1.1.2 The importance of small businesses at a local level

general term in UK legislation (and therefore applicable to many funding programmes) is the definition adopted by the European Commission in 1996. This is shown in Table 1 below.

Table 1: European Commission definition of SMEs

| Enterprise Category | Employees | Turnover |
|----------------------------|------------------|-----------------|
| Medium | < 250 | 43million euros |
| Small | < 50 | 10million euros |
| Micro | < 10 | 2million euros |

Source: European Commission, 2006

1.2.2 In broad terms therefore, when we refer to small businesses here we mean those that have:



1.4 How We Did the Review

1.4.1 Evidence was gathered between September 2005 and June 2006. We heard from:

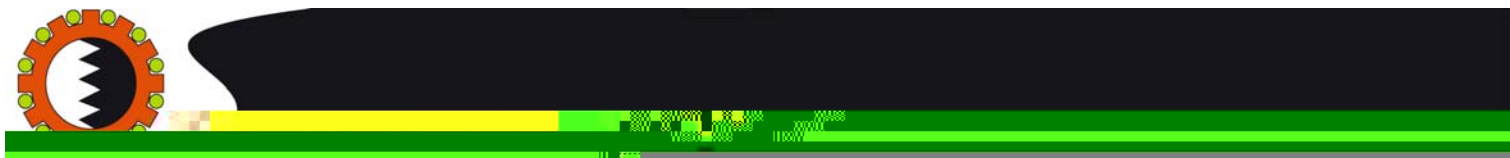
- The Regional Development Agency - Advantage West Midlands;
- Business Link Birmingham and Solihull;
- Specialist business 'hubs' with whom the City Council works, including Aston Science Park and the Jewellery Quarter Partnership;
- Universities with experience of working with small businesses, both from a perspective of providing support, guidance and mentoring and from an academic perspective;
- Academics specialising in small business issues – particularly those experienced by ethnic minority –owned businesses;
- Representatives from ethnic minority business forums;
- Officers within the Development Directorate and the (then) Learning and Culture Directorate of the City Council, dealing with varying aspects of the Council's involvement with small business.

1.4.2 A full list of witnesses and those who helped provide information for the review is shown in **Appendix 1**.

1.4.3 The following chapters explore these subjects in more detail. They cover:

- The background to small businesses and their role in the Birmingham economy;
- Issues that impact upon small businesses;
- Support to Business, for example financial, support and advisory services.
- The Council's role in the provision of support to small businesses;
- Other business support initiatives;
- Services to Business and the interactions with businesses that arise through the Council's delivery of services; and
- Our conclusions and recommendations.

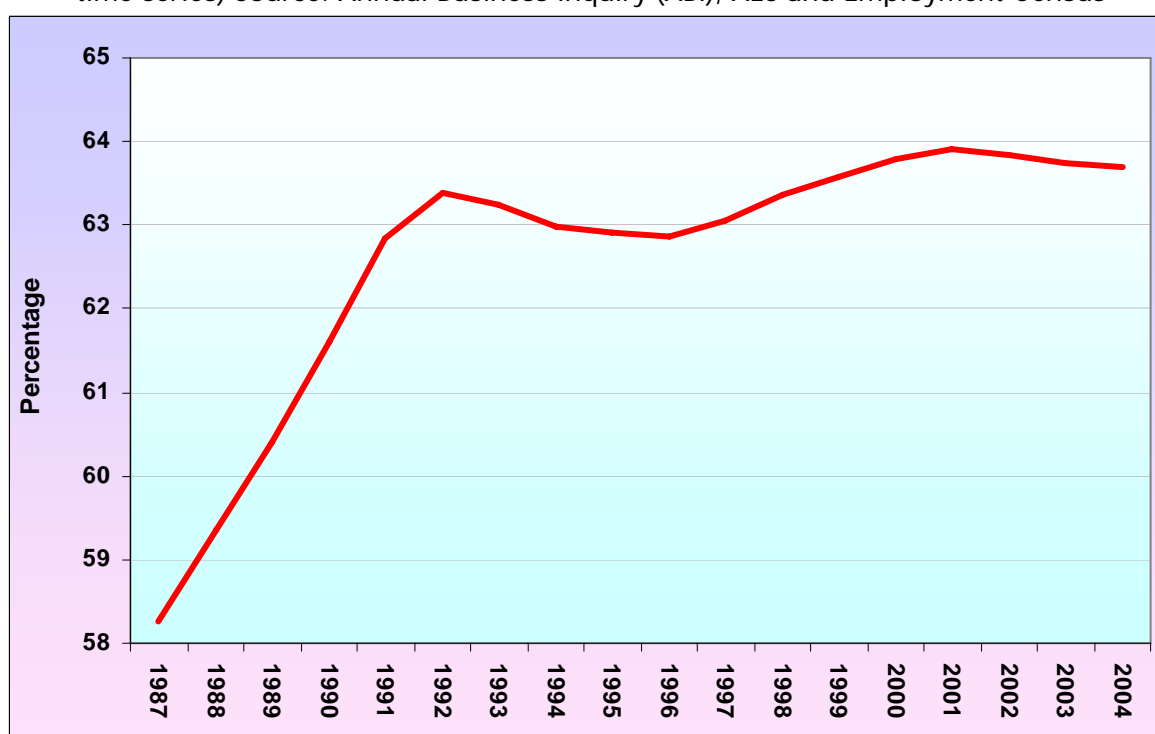




2.1.7 Online information covering workplace employment only goes as far back as 1987. The closure of so many large manufacturing plants in Birmingham since the 1970s and the increase in employment in services (where workplaces tend to be smaller) pushed up SMEs' share of employment.

2.1.8 However, as Figure 1 shows, this process seems to have mostly worked itself out after 1992. Since then, the proportion of Birmingham's employment accounted for by workplaces employing under 200 employees has remained at about two thirds of the total.

Figure 1: Percentage of Birmingham Employment in Workplaces with less than 200 Employees (Smoothed time series) Source: Annual Business Inquiry (ABI), AES and Employment Census



2.1.9 However, there is a weak 'enterprise culture' in the West Midlands in comparison to other regions of the country. In other words, people are less likely to consider or actually start a business, with a low and falling proportion engaged in entrepreneurial activity (around 4.5% of adults in 2004 – Global Entrepreneurship Monitor Survey). In Birmingham, the proportion of workplaces comprised by SMEs is 99.0% - slightly behind the national figure of 99.7%.

2.1.10 Ethnic minorities make up a large and growing proportion of Birmingham's economy, and one of its great strengths is the diversity of its population. However, whilst the city is emerging on the international stage as an example of cultural diversity and successful regeneration, in terms of entrepreneurship Birmingham still has a number of challenges to overcome:

- A legacy of relatively low educational attainment in deprived areas of the city;



- Low business start-up and survival rates;
- Less likelihood of people from ethnic communities accessing traditional business support services.

2.2 The Strategic Economic Framework

2.2.1 Following from European and national economic priorities, the West Midlands Economic Strategy is published by the Regional Development Agency (Advantage West Midlands - AWM). It sets out a strategy and actions for the development and regeneration of the regional economy, delivered by a range of regional partners.

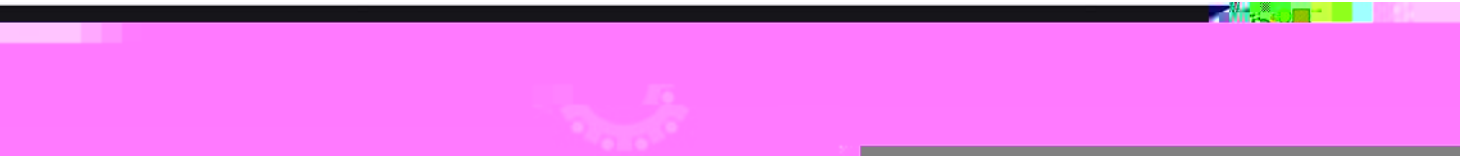
2.2.2 The West Midlands Regional Economic Strategy (RES) is founded on four pillars, the first of which is 'Developing a Diverse and Dynamic Business Base'. The challenges facing local enterprise are one of the five key priorities for the region. There are specific actions within this relevant to small business, including amongst others:

- Developing an enterprise culture;
- Developing a regional approach to tackling crime against business;
- Developing a strategy to encourage business start-ups and to improve survival rates;
- Supporting the growth of social enterprise; and
- Improving access to finance for small and medium-sized enterprises.

2.2.3 The Birmingham Economic Strategy (BES) is a document that provides the strategic economic framework for economic development and regeneration activities within Birmingham. It complements the issues set out in the regional economic strategy, with local priorities. In addition, the Manufacturing Strategy for Birmingham provides a framework for addressing the specific opportunities and challenges in the city's manufacturing sector.

2.2.4 The Council Plan 2006+ sets out the broad priorities of the Council, with its priorities defined by the Birmingham Economic Strategy. Target outcomes from actions here are to:

- Work with local businesses and partners to secure business growth;
- Support new developments that bring in investment, jobs and other benefits to the city; and
- Support investment to improve economic regeneration as part of developing sustainable communities, specifically by supporting our Local Area Agreement's economic development and enterprise block.





- **Planning for investment** to improve the investment offer of the target wards, initiated through a series of 'master planning' exercises to enable a better understanding of the current activity and issues within an area.

2.4 The Local Enterprise Growth Initiative (LEGI)

2.4.1 The Council's bid for funding under LEGI was submitted to the Government Office for the West Midlands (GOWM) in December 2005. At that time, it was hoped that this would form a key element in the funding to underpin the delivery of the Economic Development and Enterprise block of the LAA.

2.4.2 LEGI is funded by the Department of Communities and Local Government (DCLG - formerly





- Relationships with local authorities;
- Specialised support services; and
- Issues among Black and Minority Ethnic communities.

3.2 Workforce Skills

3.2.1 Skills shortages remain a serious problem in Birmingham, with job vacancies exceeding the number of people unemployed (BSEBC, 2006). Furthermore, the unemployed population are not generally able to meet the skill demands of available jobs. This increases the likelihood that available jobs will be filled by people from outside the city, which in turn means that there will be difficulties in closing the unemployment gap in the city.

3.2.2





- 3.3.2 Looking at national evidence of the sources of finance used by small businesses (Table 3 above), it is apparent that finance from government funds attracts low-level take up, with the primary means through which capital is accessed identified as private borrowing or savings.
- 3.3.3 It is also clear from this that a significant minority of people also fund their start-up capital from other sources, including families and friends, pensions, inheritance and redundancy. There may be expressed opinions that the public sector has an important role to play in supporting small business with financing. However, the reality is that it is private borrowing and private money that supports a significant proportion of start-ups, because this would represent an additional burden for the public sector.

3.4 Relationships with Local Authorities

- 3.4.1 The current Lyons Inquiry proposes that local authorities should have the freedom and flexibility to 'place-shape'. Although no formal proposals have yet been made, this could include the ability to





Support to Small Businesses

- Businesses were generally less satisfied than satisfied with services;
- The availability of recycling facilities is the aspect that businesses were most satisfied with;
- Businesses were least satisfied with Council refuse and licensing charges, the degree of consultation with small business, local regulation and the availability and cost of recycling facilities;
- Not all areas were relevant to all businesses – around 20-25% of businesses generally did not consume any particular service and just under 20% generally had neutral views of services.

Table 4: Satisfaction with local authority services (%)

| | Not ticked | Not relevant | Very dissatisfied | Dissatisfied | Neutral | Satisfied | Very Satisfied |
|------------------------------------|------------|--------------|-------------------|--------------|---------|-----------|----------------|
| Availability of premises | 31 | 29 | 6 | 8 | 20 | 6 | 1 |
| Cost of premises | 31 | 27 | 10 | 11 | 16 | 4 | 1 |
| Planning applications – timescales | 34 | 27 | 11 | 9 | 16 | 3 | 0 |
| Planning applications – cost | 34 | 27 | 10 | 10 | 17 | 2 | 0 |
| Economic development | 40 | 25 | 7 | 7 | 18 | 2 | 0 |

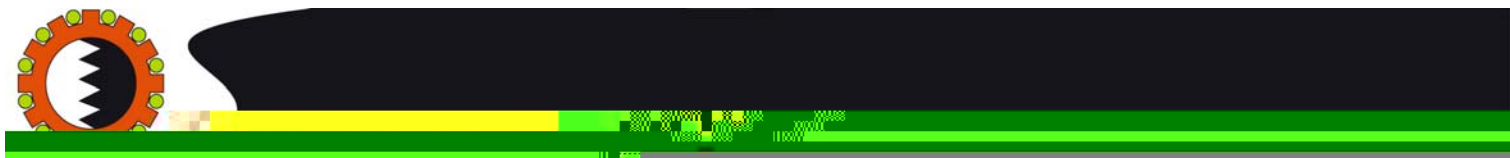
Local regulations

this is unhelpful. Many owners of small businesses simply want a stable future to ensure that they have continued employment. This is a factor as important as business growth, and it is essential to ensure that there is appropriate provision of support to these businesses too.

3.5.2 The FSB 2004 survey found that only 10% of small businesses were satisfied with the usefulness of government-funded business support services. Indeed, Accountants were the most frequently used source of business advice.

Table 5: Reasons for non-usage of government funded business support services

| | % |
|---|------|
| Inappropriate for my business | 22.9 |
| Confusion of service provision | 15.3 |
| My business needs are excluded from targeted support | 8.3 |



- 3.6.5 It is, however, important to recognise that this is a two-way process. Participating fully within the wider English-speaking community is essential to prevent ethnic minority businesses becoming isolated. Furthermore, networks among small businesses can provide a form of mutual support which may ease many of the problems faced. A particular example of the network support approach can be seen with the Heartlands Business Forum and various traders groups that exist within the city.
- 3.6.6 There are particular problems with African-Caribbean small businesses gaining access to finance. These are exemplified by lower success rates in applying for bank loans, where just 10% of African-Caribbean applicants are successful (Chivers, 2006).
- 3.6.7 Existing support arrangements provided by both the Council and Business Link do aim to address this. Again, however, the issue is raising awareness that these support mechanisms exist and, in particular, signposting how this support can be accessed. Furthermore, there is a need to tailor support more effectively to meet the specific needs of different groups, rather than adopting the 'one size fits all' approach.
- 3.6.8 The issues surrounding education in deprived areas have been examined in detail elsewhere, not least through the recent Scrutiny Review of *Education and Training in Regeneration Areas*, and therefore will not be discussed in detail here. However, it is important to note that the impact of education upon entrepreneurial and business skills, as well as retaining skills within Birmingham is very important to both small businesses, the wider local economy and the Council's regeneration agenda.

3.7 Summary

- 3.7.1 Small businesses face a range of issues which can act as barriers from start-up through to business expansion. There is also a strong message coming across about how the Council treats small businesses, both as a:
- **Customer**, in that it is important to have an awareness and understanding of small business needs, to listen to their feedback and respond to them; and
 - **Potential supplier**, in ensuring that we don't exclude potential suppliers with unnecessary specifications when we specify the goods and services that we want to procure.
- 3.7.2 With regards to the latter point, it is evident that



- Small businesses can offer value for money

3.7.3 Turning to the issues around government funded support, there are questions concerning the appropriateness of government funded support, both in terms of the uptake of financial support, and the relevance of business advice. Evidence suggests that there is low confidence/low take up of government grant schemes, with an apparent reliance upon private capital. This would seem to indicate that private capital is much easier to access than government support, despite the fact that private capital often attracts higher interest rates and/or financial penalties.

3.7.4 It would further seem that much of the mainstream support is focused upon the start-up period of a small business. However, businesses often reach a point of expanding and employing people just as their initial support is coming to an end. It is also often at this point that businesses fail. Clearly, some consideration needs to be given to ongoing small business needs.

3.7.5 One particularly important issue is the recognition of the difficulties that BME small businesses often face, such as inequalities in access to finance. However, it is essential not to paint too negative a picture – the issue is complex and must consider that:

- These issues, in general, are no different to those of other small businesses, just often experienced more acutely;
- Acute problems are not generic to all BME small businesses;
- BME small businesses are often the key beneficiaries of targeted government support, and also Council initiatives (e.g. Business Links specific focus on BME, Council's Enterprise initiative etc);
-

4 Regional Support to Businesses

4.1 Introduction

4.1.1 Section 1.3 outlines what we mean by 'support to businesses'. However, it is helpful to explain further what this involves. The core support activities include a range of services for specialised support and advice on areas such as:

- Business start-up;
- Legal matters;
- Financing and accountancy;
- Advertising;
- Management consultancy;
- Personnel services;
- IT hardware and software consultancy; and
- Research and development.

4.1.2 These support activities are often accessed through a range of support agencies, both publicly and privately funded. The means through which these activities are funded and provided has changed over time, so it is important to understand the present landscape and position in which the City Council finds itself.

4.2 Business Link and Regional Delivery

4.2.1 AWM now provides a regional strategic framework, with funding for enterprise development concentrated within three key delivery mechanisms:

- Regeneration Zones;
- High-tech Corridors; and
- Business Clusters.

4.2.2 Originally under the responsibility of the Small Business Service (SBS), Business Link was established in the mid-1990s as a gateway to information, advice and skills for small and medium-sized businesses,. Part of a national network funded by Government, Business Link provides new and existing businesses with access to free or subsidised practical information and advice.

4.2.3 Over the past four years, the Birmingham Chamber of Commerce and Industry has operated Business Link services within Birmingham and Solihull. Its general function has been that of a 'one



Support to Small Businesses

stop shop', and has also been supported by the Chamber's development of a Business Support Network.

- 4.2.4 Responsibility for enterprise support in the region (including the work of five Business Links across the West Midlands) transferred from the SBS to Advantage West Midlands in April 2005. AWM reviewed the Business Link operation, and are currently introducing a new regional business support model to better meet the needs of businesses across the region. The new regional model will be in place from April 2007.
- 4.2.5 The revised support model will be delivered regionally and consists of four components:
- **Gateway:** A single point of access to information and advice services for those wishing to start a business;
 - **Core Brokerage:** More intensive assistance, to enable businesses to develop and grow;
 - **Specialist Manufacturing:** Assistance to improve the competitiveness of manufacturing companies.
 - **Specialist Enterprise Brokerage:** Working alongside Core Brokerage, to increase the number of start-ups.
- 4.2.6 There are a number of key objectives underpinning the new regional model, by which AWM seeks to:
- Provide a consistent 'core offer' that is available to all businesses in the West Midlands
 - Provide an additional focus on firms that have the potential and desire to grow and provide a return to the regional economy;
 - Direct an additional focus toward

4.3 Regional Finance

- 4.3.1 Accessing finance for capital is a key issue for any small businesses. Many of the barriers that exist for small businesses are related to how social, economic and educational circumstances can impair people's ability to access start-up capital. Much of the money available through public channels is accessed through AWM at a regional level. Within this there are two key vehicles: the Regional Finance Forum (RFF) and the Regional Venture Capital Fund (RVCF).
- 4.3.2 The RFF is essentially a regional strategic forum, which was created in 2002 by AWM. The forum does not provide finance directly but has developed a family of venture capital funds including:
- The early growth fund;
 - The advantage growth fund;
 - The advantage creative fund.
- 4.3.3 The concept of venture capital funding for small businesses is not new, and the AWM models grew from a successful, original pilot by Birmingham City Council through the Birmingham Enterprise Fund (see section 5.4).
- 4.3.4 The RVCF provides risk capital finance in amounts up to £500k to small businesses who demonstrate growth potential. Essentially a government intervention that acknowledges the 'equity gap' at the lower, smaller end of the market, these funds are designed to stimulate private sector investors to provide small-scale risk finance to small businesses.
- 4.3.5 The West Midlands RVCF is the Advantage Growth Fund. This received £650k investment from the DTi, which is invested in West Midlands companies demonstrating a good growth potential. At the time of evidence gathering, the RVCF had made investments in only four Birmingham companies.
- 4.3.6 A key issue with financial support mechanisms provided through Business Link/ AWM grant schemes and venture capital is that they are restrictive in terms of criteria and minimum entry level funds. This makes funding of this kind very inaccessible to many small/ micro businesses. It appears that a lot of investment monies are poorly targeted, often only catering for a particular niche sector/ market.
- 4.3.7 It is telling that the region has a plethora of venture capital schemes, yet take up by small businesses is low. Evidence from the RVCF also suggests that typically one in every 20-25 business plans gains investment. Additionally, feedback from small businesses indicates that these do not comprise a significant element of start-up finance (see later).

4.4 Issues with Business Support

- 4.4.1 From a City Council perspective, there are potentially problems with the change to a regional support model. In many respects, such concerns are common to any move towards centralisation of control and operation, in that they mean the city will lose the ability to direct services to its own



Support to Small Businesses

specific needs and to reflect Birmingham's priorities. AWM however would argue that it has finite resources and regionalisation will provide a more effective and consistent use of those resources.

4.4.2 The concerns regarding the regional framework of support to small businesses focus on a number of key areas:

- Whether the regional delivery framework is capable of reflecting the specific needs of Birmingham as distinct from other parts of the region;
- The ability of Business Link to deliver on priorities important for the city including:
- Improved access for Black and Minority Ethnic business;
- General awareness of the service; and
- Ease of access.
- The adequacy of the financing vehicles that are available; and
- How well local economic development partners (including the City Council) will be engaged in delivering support to small businesses as a result of the move to a regional approach.

4.4.3 One of the aims of the regional model is to double the number of businesses assisted over three years, with the assistance of a massive marketing exercise. However, there is no indication currently as to how this will be achieved. This is a concern, particularly as a report by the Confederation of British Industry (CBI) suggests that nationally, only one in seven firms (14%) currently use Business Link (CBI, 2006).

4.4.4 AWM use the phrase 'regionally managed, locally delivered' to describe the changes to their business support services. They have stressed that there should be no decrease in performance as a result of the move to a regional service and have contingency resources available should this occur.

4.4.5 The view of AWM is that there are high levels of satisfaction with the service received by Business Link clients. However, they do acknowledge that the service lacks consistency and refer to the duplicated overhead structures as an opportunity to reduce costs, which will in turn release more money to the task of supporting businesses.

4.4.6 Independent research has shown that only 38% of businesses are satisfied with the general business information that Business Link provides (Bennett and Robson, 2004). Business Link concedes that it:

- Is not widely known;
- Has limited engagement beyond Chamber of Commerce circles; and
- Focuses upon those businesses that will grow and employ people.

4.4.7 However, from a Council perspective, concerns have been raised by some Birmingham organisations (notably BME business support organisations). These were regarding the lack of



5 The Role of the Council in Small Business Support

5.1 The Council's Changing Role in Providing Support

- 5.1.1 The role of the City Council in the provision of support – and in particular, financial support – to small businesses has changed, largely due to the structure through which Government funds business support but also budget pressures. This meant that the City Council had retreated from providing direct financial support to small businesses.
- 5.1.2 Despite these changes, the Council still has a legitimate and important responsibility towards small businesses in Birmingham, which it is pursuing through planning and regeneration projects, and regeneration schemes.
- 5.1.3 The aim of regeneration initiatives is to ensure the future prosperity of the City, closing the gaps within the most deprived areas. This can be achieved by working in partnership to create conditions for economic and employment growth, ensuring that areas and communities in greatest need benefit from Birmingham's economic prosperity.
- 5.1.4 Much of what the Council does in terms of economic regeneration is delivered in partnership, not just with AWM, but also certain specialised area/sector providers.
- 5.1.5 The Council's Planning and Regeneration Service has a number of key projects, which demonstrate a long-term focus on economic regeneration within the City. Through their very nature, such projects will offer benefits to local business and the local economy, and the following sections highlight a number of key projects which have specific remits for business support.

5.2 Creative Industries

- 5.2.1 Creative industries include those in the media, information technology, design and publishing, performing arts, art and photography, public relations and marketing sectors. This sector is key for continued growth and job expansion in the City. They are further recognised as a direct path to embracing the City's economic and cultural diversity, being high technology, and high value-added services.
- 5.2.2 The Business Support for the Creative Industry Programme is a Birmingham City Council-led initiative designed to assist both new and existing small businesses within Birmingham and Solihull.

5.2.3 Delivered with a number of key partners, and funded through the ERDF, the City Council and company contributions, the Programme consists of four key elements:

- **Creative Space** (incubation): Up to £5k grant support available to set up new business premises or expand existing premises.
- **Feasibility**: up to £2.5k available to help identify new market opportunities for products and services;
- **Business Development**: Up to 5-20 days consultancy support to develop a business.
- **Business Programmes**: Master classes and workshops covering sector specific subjects.

5.2.4 A range of projects underpin these four elements, providing business support, skills and learning with the intention of increasing knowledge and opportunities in the City's creative sector. These include:

- The Creative City: an outline introduction to the five key creative sectors;
- The Creative Route Map: a services database for creative industries in Birmingham, updated by the industries themselves;
- BIG Marketplace: Birmingham Industry and Genius marketplace – an online resource providing business opportunities and portfolios;
- The Knowledge Bank: a portal for creative industries providing free information, access to free courses and skills support;
- The Music Platform: a new distribution channel for all genres of music in Birmingham, incorporating digital radio stations and showcasing of local talent;

5.2.5 Other developments within the Creative Industries Programme include:

- The creation of a City Council-led Creative Birmingham Board to co-ordinate work across the City Partnerships – members include Business Link, Learning and Skills Council, the Arts Council and others.;
- Approval from Government Office for a £5m scheme of support to provide grants for space, relocation, business development, mentoring and showcasing;
- A new 'incubator' support programme to house start-up businesses and retain creative design talent, "Design Space" has been created in the Jewellery Quarter supported by LSC funding (see 5.3.5).



5.3 Jewellery Quarter Partnership

5.3.1 The Birmingham Jewellery Quarter Partnership is a multi-agency partnership with responsibilities for:


- Supporting businesses;
- Tackling dereliction;
- Improving the environment;
- Improving connectivity;
- Attracting more tourists;
- Developing a sustainable community.

5.3.2 With the City Council funding its operation team, the partnership also works closely with the AWM, local communities, the University of Central England and jewellery-based organisations in providing direct support through advice and innovation.

5.3.3 Around 1000 businesses, 400 of which are jewellery or jewellery-related, are located in the Quarter, with other creative businesses too. The quarter also benefits from popular bars and restaurants, which generate local employment and enterprise opportunities. It is estimated that the Quarter attracts around 1.25 million people per annum just to the main shopping areas.

5.3.4 Although not a business support operation *per se*, the partnership does offer support for business, including:

- Designer maker forum;
- Advice on available premises;
- Marketing;



Transportation, Land Property and Business Support. Wider support to businesses in the area derives from a range of initiatives, for example:

- Craft-based skills survey and other research;
- Showcasing for local businesses;
- A proposed Centre for Design Excellence.

5.3.8 Furthermore, the Jewellery Quarter is a conduit for the Council's planning and conservation remits. The area has a Conservation Management Plan in place. This means that despite residential property being more attractive in value, the number of residential properties in the area is constrained, and local aZvYxPpUqXl(ElA)RnE-q5W5%z0Bue



Support to Small Businesses

- 5.4.5 This suggests a plethora of investment funding streams but many are target focused at particular market segments leaving them inaccessible to many others. It is probable that supply exceeds demand in some sectors and in others there is insufficient funding available. Despite several recent

5.5.4 Funding in the region of £125k (as part of the Central Library main budget) covers only 25% of the services provided by Business Insight, and supports the purchase of books for its reference library. The remainder of its services are paid for by selling them to other departments of the council, other local authorities and private businesses. The income from these services is expected to generate approximately £220k in 2005/06. It is only because of this income that Business Insight can continue to provide free services to Birmingham residents/businesses.

5.5.5 Business Insight offers other, indirect benefits, including:

- Competitive rates and comparative cost savings for its services;
- Attracting external money to the City through EU projects;
- Contributing to Council Key Performance Indicators beyond those of the Library Service;
- Providing a socially inclusive service.

5.5.6 The role of Business Insight in supporting small businesses in Birmingham is an important one. However, there is some need for clarity as to its place within the Council's framework of support for small businesses.

5.6 Other Initiatives

5.6.1 Whilst the sections above have paid specific attention to particular initiatives providing support to small businesses, it is important to note that many more exist, providing equally important support services as part of wider regeneration and economic development agendas. Some of these are illustrated in Table 7, whilst full details are provided in Appendix 2.

Table 7: Examples of other Council initiatives providing business support

| Programme | Objectives | Outcomes for Small Businesses |
|-----------|------------|-------------------------------|
|-----------|------------|-------------------------------|




Support to Small Businesses

| Programme | Objectives | Outcomes for Small Businesses |
|---|---|---|
| Enterprising Communities South East Birmingham | A community-led regeneration programme in South East Birmingham, including funding from the European Community. Its main aim is to reduce the economic differential between the Enterprising Communities area and the rest of the city. | <ul style="list-style-type: none"> • Promoting social enterprise and entrepreneurship; • Building community capacity, skills and training and access to employment opportunities; • Delivering economic change to complement physical and infrastructure changes from previous and ongoing regeneration initiatives. |

**SRB6
 Regeneration Programme
 North West Birmingham**

A Central Government-funded, capital based programme to provide and improve the basis of ongoing, sustained regeneration, with objectives to:

- 
- 5.7.3 The Creative Industries programme is a prime example. Its original funding was secured until December 2005. Further funding for the programme has recently been agreed. It was, however, pointed out during evidence gathering that not gaining further funding would have been a big setback for the City, not least because it was the cornerstone for other initiatives and projects across the City.
- 5.7.4 Funding is an important facet to sustaining such successful initiatives. The Creative Industries Programme has demonstrated a number of key successes such as the support for 520 businesses and the creation of 400 jobs. Business Insight is a further example of success, having a national reputation for good practice, officially recognised as an Enterprise Agency and nominated by the DTi as the sole representative for UK business libraries as part of its *New Enterprise* initiative. Yet sustained funding is an ongoing issue for Business Insight.
- 5.7.5 Other initiatives described in this section have only recently started, or are at the stage where they are not yet reporting. There is a need therefore, to ensure robust performance management with effective monitoring of the schemes.
- 5.7.6
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5.7.11 There are important links between what the Council does in terms of services such as Business Link and the wider services that it offers. Just as the Council has a role in providing much of the social, environmental and economical infrastructure, services such as Business Link do perform a role in terms of the 'information infrastructure' within the city.

Are there gaps, and to what extent should they be filled by the Council?

5.7.12 Arguably, a first glance at the formal support arrangements for small businesses (as provided by AWM and Business Link) and the support provided by the Council through its economic regeneration remit suggest a wide (if not full), coverage. This however, is not the case.

5.7.13 As previously indicated, regional support is primarily orientated towards small businesses wanting to grow, whilst Council support is in the form of area/ sector-based programmes. For reasons already illustrated, this may not necessarily provide generic support to all who need it.

5.7.14 Whilst Business Insight covers some gaps in its provision of 'on the ground' information support and advice, there are undoubtedly small businesses/ entrepreneurs that will miss out. The extent to which the Council meets these gaps however, is a matter for further discussion.

6 Other Business Support Initiatives

6.1 Introduction

- 6.1.1 There are a number of particularly successful business-focused initiatives which have had an immediate impact on small businesses in Birmingham.
- 6.1.2 Initiatives such as the Aston Science Park employ the incubation model as a means to support specialist small business development – part of which focuses upon the retention of skills, skill development, learning and training.
- 6.1.3 Interlinked with the various partnership initiatives are a range of academic courses geared towards business skills and preparing graduates with necessary workplace skills as a possible means to improve graduate retention within the City. One particular example is the Birmingham University Business School.

6.2 Incubation Schemes

“Business Incubation is a unique and highly flexible combination of business development processes, infrastructure and people, designed to nurture and grow new and small businesses by supporting them through the early stages of development and change”

UKBI (2004)

- 6.2.1 Business incubation is a form of organisation rather than a specific scheme. Such organisations aim to create the right environment for nurtured and supported business growth, and can include universities, science parks, research and development laboratories, commercial clusters and social regeneration projects.
- 6.2.2 Business incubation has developed since the mid-1990s into a popular economic development vehicle – over 200 incubator projects have been established in the UK in the last five years alone (SinC, 2006). However, not all incubators are the same – some have a sector-specific focus and include specialist equipment and accommodation, whilst others can offer little more than managed workspace.



Support to Small Businesses

6.2.4 Owned and managed by Birmingham Technology Ltd, a Birmingham City Council controlled

6.3 Academic Courses: Birmingham University Business School

- 6.3.1 The Birmingham University Business School provides two kinds of support to small businesses. Firstly it undertakes research upon issues faced by small businesses. Secondly, it provides education in entrepreneurial and business skills.
- 6.3.2 The Business School offers a degree module, whereby students across a range of disciplines submit a 10,000 word business plan to launch a new business. Each year, approximately 200 students in the Birmingham area take this course, with many going on to launch successful businesses.
- 6.3.3 Whilst this support is currently limited to students, its potential benefits to the City are evident in that many businesses may be launched locally. Furthermore, the Business School has established Knowledge Transfer Programmes funded by the DTi, whereby students gain placements in local companies. Again, this may contribute to the retention of skills within Birmingham and the region.
- 6.3.4 The University is also home to a Research and Enterprise Centre which provides business advice. However, its Research and Development Unit provides some funding for high-tech small businesses, and is actively looking for innovative ideas.
- 6.3.5 The Business School has published a number of papers on SMEs in the region. One of the areas in which the Business school has conducted research is in its 2004 Business Capacity Audit of some 3,000 small businesses in Birmingham's A38 Central Technology Belt. This is an area designated for assistance by the government and AWM. A number of the findings from this research are illustrated in Chapter 3.

6.4 Summary

- 6.4.1 There are a range of direct measures to actively support and promote the development of small businesses. Schemes such as Aston Science Park have used the incubation model to good effect and smaller incubation schemes can be found within some of the Council's larger regeneration programmes (see Chapter 5).
- 6.4.2 The provision of tailored, sector-specific skills, training and facilities is a valuable means of attracting and supporting fledgling businesses and industries.
- 6.4.3 Overall, specialist support schemes recognise that small businesses require incubator space, mentoring, peer group support and initial pre-incubator funding in the form of grants and soft loans. This is especially applicable to highly specialised small businesses where suitable equipment, laboratory space, networking and training is essential for the success of the business. For small businesses which do not require highly specialised support, schemes such as this may not be so appropriate, or indeed necessary.



7 Council Services to Business

7.1 Introduction

7.1.1 The interactions of local authorities with the communities that they serve are complex and wide-ranging. One of our most important challenges as a Council is to create an environment in which people and businesses of all sizes can flourish. This is achieved through strategic economic and environmental development.

7.1.2 In these broad terms it is helpful to define 'Council Services to Business' as activities that the Council undertakes that are indirectly of benefit to specific businesses. These include:

- **Strategic Business Development:** Development of sectors and concentrations of business through activities such as land ownership and management, the planning process, attracting inward investment and winning and committing resources to support enterprise (such as the Council's work with partners in developing the Central Technology Belt).
- **Workforce Development:** Building the necessary skills and knowledge needed for a successful economy, through a combination of directly provided (pre-18) education as well as programmes delivered through partners such as the Learning and Skills Council (LSC) and other education bodies (such as Further Education Colleges and Universities).
- **Business Regulation:** Carrying out regulatory functions, such as licensing, collection of business rates and the operation of the planning system.
- **Quality of Life and Infrastructure:** Factors to support the business environment, often delivered in partnership. This diverse range of services and activities includes crime prevention, street cleaning, waste management and public health functions, transport infrastructure, housing, leisure amenities and maintaining the quality of open spaces.

7.1.3 The ways in which these activities serve businesses are readily apparent and do not need further explanation. However, three particular areas are worthy of note and further discussion:

- Tackling crime affecting businesses;
- Skills and education;
- Implementation of the Single Business Account.

7.1.4 Additionally, there is also the impact that the Council has upon the local economy in terms of how it procures goods and services. Whilst this is technically not a 'service' provided to businesses, it is a very important issue as



7.2 Tackling Crime Affecting Businesses

7.2.1 Crime, such as vandalism and shoplifting, impacts on the success of businesses, and through them



Support to Small Businesses

7.2.8 As successful as such initiatives are, it is important to note that they predominantly focus on the city centre, and many small businesses in Birm



7.5 Procurement

7.5.1 The public sector is a huge influence on the local and regional economy, quite simply due to the vast number of goods and services that it procures. For example, approximately 1.1 million invoices are paid each year through our Central Payments team. Analysis of the City Council's contracts and purchases above £1000 in 2004 revealed that:

- 34% of spend was with local, Birmingham-based businesses;
- 57% of the businesses who received over £1000 from the Council during 2004 were SMEs; and
- 59% of these SMEs were local, Birmingham-based businesses.

7.5.2 For previously awarded corporate contracts, the following profile exists:

- 40% (19% for SMEs) were Birmingham based;
- 28% (11% for SMEs) were based outside Birmingham, but within the West Midlands; and
- 32% (16% for SMEs) were based outside the West Midlands.

7.5.3 There are a number of generic issues that inhibit the effectiveness of the procurement supply chain between local authorities and small local businesses:


- The bureaucracy necessitated by public sector tendering processes;
- The accessibility of public sector contracts to small businesses, because they may not be able to generate the necessary economies of scale to compete;
- Lower levels of competition for contracts, meaning that keenness of cost is lost.

7.5.4 As well as actual issues, perceptions and myths about small businesses also cause difficulty. For example, it is not always the case that small businesses cannot be as competitive as large organisations.

7.5.5 It is however clear that procurement among small businesses does provide a direct stimulus to the local economy. Money spent with small businesses is much more likely to be retained within the local economy, not only in terms of direct employment, but also in terms of what small businesses in turn spend their income upon. Money spent with larger businesses, with their staff, overheads and support structures provided nationally and internationally, are less likely to be retained in the local economy.

7.5.6 Procurement issues such as these have existed for some time and are recognised at all levels. Central government is already developing local procurement guidance and this is being taken up at a regional level.

7.5.7 The Co-ordinating Overview and Scrutiny Committee is currently undertaking a Scrutiny Review of Procurement and is expected to report to the City Council towards the end of 2006. It is not the intention to examine the Council's role in procurement here. However, it is helpful to highlight



some of the steps that the Council is taking and some of the issues that small businesses face with regard to procurement.

Small Business Concordat

7.5.8 The Small Business Friendly Concordat is a voluntary, non-statutory code of practice for local authority procurement strategies. It is intended to outline what small firms and other local government suppliers can expect when tendering for local authority contracts. Equally, it also sets



7.6 Summary

- 7.6.1 The relationship that the Council has with all businesses, including small businesses, is a complex one, with many facets and levels of operation. It is clearly the case that the Council has an influential role to play in supporting small businesses through its provision of services. Many of these benefit businesses as members of the wider communities in which they exist.
- 7.6.2 Procurement and the money that local authorities spend in the local economy are important. Whilst there are requirements for how public sector organisations must procure goods and services to ensure that this provides fair competition, there are still ways that the Council can work to reduce the difficulties that small businesses have in accessing such processes. We do however acknowledge that this is a subject more appropriately addressed through the specific Scrutiny Review of Procurement.
- 7.6.3 It was clear to us that we needed to examine the effects of the City Council's relationship with small businesses in a way that was reflective of its multi-faceted nature. On one level, there are the services that the City Council provides for the community as a whole. On another, there are the consequences of other interactions (such as how we spend money, tackle crime and affect skill and education levels) that impact upon specific parts of the economy. On yet another still, there are the issues of how the Council works effectively with businesses as individual customers.

8 Conclusions and Recommendations

8.1 Introduction

8.1.1 Our conclusions and recommendations fall into three broad categories:

- i. The role and nature of Council support for small businesses;
- ii. The transition to a regional delivery framework; and
- iii. Tackling the issues of small businesses.

8.1.2 These are discussed in more detail in the following sections.

8.2 The Role and Nature of Council Support for Small Business

8.2.1 Just as the regional model for providing support is in transition, the Council's own role in business support has changed. However, residual elements still remain, often within the Council's agenda for encouraging economic regeneration and promoting growth in the local economy. However, expectations that the Council still provides support in the way it did previously still exist and it is important to understand that Business Link is the principal provider of business support.

8.2.2 Responding to this situation is based upon consideration of two policy questions:

- i. Given the changes in how support is provided at a regional level, what role should the Council take, now and in the future, in providing support to small businesses?
- ii. To what extent is the Council prepared, or able, to supplement business support provided by other organisations?

8.2.3 Providing a definitive answer to these questions is a matter for the Executive. However, we do wish to identify here some of the key aspects that we feel should be considered.

8.2.4 The first part of this is about 'taking stock'. We found that there is much support that the Council already provides. However, this appears disjointed and the elements could link together better. There is a need to conduct an overall evaluation of the support that the Council currently provides, with a view to how this can best be co-ordinated from an organisation-wide perspective.

8.2.5 Just as the support that the Council provides must have a corporately-aligned purpose, it must also be consistent with the wider framework of regional support. This is particularly the case if routes of access are to be improved.

8.2.6 Similarly, there may be changes over time, and it is essential that the current misalignment does not re-occur. Support services should continue to develop in step with what the Council feels its role should be and the wider regional framework.



Support to Small Businesses

- 8.2.7 The second part to be considered concerns where support is targeted in the future. There are a number of ways in which this might happen:
- The way small businesses access finance;
 - Sector-based initiatives that the Council undertakes with partners (e.g. Creative Industries);
 - Incubation initiatives that the Council is involved in (e.g. Aston Science Park);
 - Measures funded as part of specific regeneration programmes (e.g. Jewellery Quarter Partnership);
 - Other services that the Council provides that are associated with business support (e.g. Business Insight).
- 8.2.8 Clearly, some of the areas in which the Council might seek to provide support would require a change in the level of activity – necessitating the funds to do so. Whilst rationalising existing support might be necessary, it is essential to ensure that the Council is able to provide the support that is needed for the future.

Conclusions


1. The Council needs to take stock of the support that it provides to small businesses and ensure that this is better co-ordinated on an organisation-wide basis.
2. The Council should consider the means through which it will provide support in the future, and align existing structures with this. This should also cover the extent to which it is prepared to supplement the support that is already provided by other organisations.
3. Whilst we recognise that it is important that partners maintain a focus on supporting businesses that will grow, we are concerned that the regional support framework does not adequa

3. 1.



Support to Small Businesses

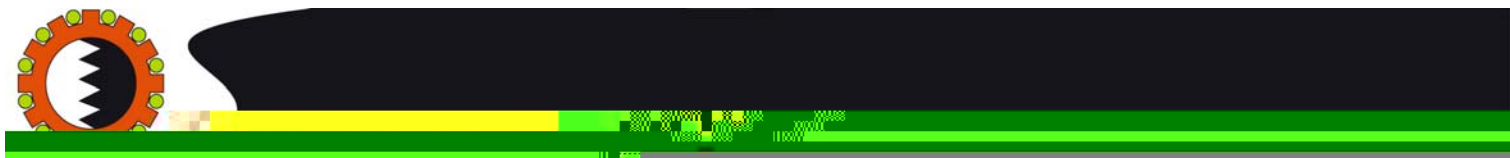
| | Recommendation | Responsibility | Completion Date |
|-----------|---|---------------------------------|------------------------|
| R2 | The Regeneration Overview and Scrutiny Committee should be kept informed of the progress against targets for business and enterprise in the Local Area Agreement. | Cabinet Member for Regeneration | 30 June 2007 |
| R3 | The Regeneration Overview and Scrutiny Committee should be kept informed of the progress of the Council's bid for funding in the second round of the Local Enterprise Growth Initiative (LEGI). | Cabinet Member for Regeneration | 28 February 2007 |




ensuring that these issues relating to accessibility are addressed is much wider, and lies with the Birmingham Economic Development Partnership.

8.3.6 Over the last five years, the City Council has withdrawn from the funding of wide-ranging business support services. This is a response to the Government's desire that such services should be managed through other public agencies. Concerns have been raised by some Birmingham organisations, notably BME business support organisations, about the lack of dedicated resources for businesses, particularly where such organisations previously received financial support. Further concerns have been expressed with regards to the difficulties in negotiating for resources with the Council's strategic partners (e.g. LSC, AWM, Business Link).

8.3.7





Account'. Quite rightly, this is part of the *Customer First* initiative – putting the interactions with businesses on a customer-based footing.

8.4.4 The ability of the Council to communicate effectively with small businesses through straightforward channels was also raised. This is something that also underpins two other strands of the Lyons Inquiry – the role of local authorities in 'place shaping' and bringing councils closer to the business community.

8.4.5 Such communication is a two-way process and whilst the Council has much to gain through being able to communicate with business through more straightforward channels, it also has much to learn from business.

8.4.6 A number of issues were also raised about how small, local businesses can better access local authority procurement and tendering processes. These relate to:

- How small businesses become aware of opportunities, and how contracts are advertised;
- Simplifying the process of tendering to avoid deterring smaller businesses;
- Being clearer about our requirements and how small businesses can deliver these.

8.4.7 This is a very broad subject, and we have been conscious that it forms a specific line of enquiry being pursued by the Co-ordinating Overview and Scrutiny Committee's ongoing review of Procurement.

8.4.8 Finally, the issue of how crime affects small businesses is an issue of not only of nnd D0.000nwibll



Support to Small Businesses

| | Recommendation | Responsibility | Completion Date |
|----|---|----------------|-----------------|
| R7 | <p>As part of considering what the Council's role in supporting small businesses should be (R1), the Cabinet Member is asked to consider establishing a focal point for co-ordinating interactions with business within the Council.</p> <p>This focal point should:</p> <ul style="list-style-type: none">• Be responsible for co-ordinating and simplifying communication between small businesses and the Council;• | | |

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Support to Small Businesses

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HM Revenue and Customs
The Companies Act 1985

Appendix 1: Witnesses

The Regeneration Overview and Scrutiny Committee would like to thank the following people for providing their time and expertise:

| | |
|--|--|
| Advantage West Midlands | <ul style="list-style-type: none">• Stephen Gray• Tony Sims |
| Aston Science Park | <ul style="list-style-type: none">• Phil Lines |
| Birmingham Asian Business Forum | <ul style="list-style-type: none">• Pritvi Chopra• Kuldip Gujral |
| Birmingham City Council | <ul style="list-style-type: none">• Councillor Ken Hardeman, Cabinet Member for Regeneration• Paul Cantrill, Creative Industries Development Programme• Jackie Culliford, Regeneration Services• Veronica Docherty, Economic Strategy and Information• Jan Rowley, Planning and Regeneration• Andy Munro, Jewellery Quarter Partnership• Douglas Laird, Business Insight |
| Birmingham University Business School | <ul style="list-style-type: none">• Prof. David Walker |
| Business Link, Birmingham Chamber of Commerce | <ul style="list-style-type: none">• David Draycott |
| Centre for Ethnic Minority Entrepreneurship | <ul style="list-style-type: none">• Prof. Monder Ram |
| Federation of Small Businesses | <ul style="list-style-type: none">• Denise Craig |
| Loughborough University | <ul style="list-style-type: none">• Prof. Geoff Chivers |

The Chairman would like to thank Anna Gibson Photography for use of photograph on the report front cover.




Appendix 2: Council Initiatives in Detail

Enterprise City

Enterprise City is a new £800,000 pilot initiative that aims to develop 160 new and existing entrepreneurs from ethnic minorities, women and young people. Starting in April 2006 and finishing in September 2007, it will be delivered by three consortia who will identify and support suitable individuals with entrepreneurial attributes.


The entrepreneurs will present themselves, their ideas and aspirations before the "Enterprise Den", an independent panel of experts established to bring knowledge and experience to the process. This panel will consist of a number of experi



With the collapse of MG Rover in April 2005, the city Council identified a package of £10m to deal with the impact of the closure. The aim of this element of the package is to focus on the diversification of the local economy through the attraction of high added value uses and developments within the knowledge economy. New project areas contained within this package to support enterprise and innovation are: Enterprise Centre at Aston Science Park (managed workspace for start-ups); a commissioning gateway to generate enterprise development in South West Birmingham; Bournville College ERDF project, aimed at developing small businesses and social enterprises in South West Birmingham.



Support to Small Businesses



Since its launch in 2003, the programme has enabled local businesses to create more than 46 new job opportunities, retain 163 jobs and create or improve over 10,000 square meters of business space (Birmingham Forward, 2006).

Support is available to small businesses who are located in the NEBBC area (the largest employment areas outside of the city centre, with more than 25% of Birmingham's industrial floor space), which includes Nechells, Hodge Hill, Tyburn, parts of Washwood Heath and Sutton New Hall.

Businesses can apply for works including demolition and land clearance, internal alterations and extensions, security measures, environmental works and landscaping. By providing this support, the programme contributes to the city's goal of regenerating local areas, safeguarding jobs and creating new employment opportunities.