
*Kathryn Teal, Business Link Hertfordshire, June 2006*

# Business Environment

## *Introduction*

A high level of workforce and management skills and flexible working patterns continue to contribute a great deal to the success and competitiveness of British businesses.

According to the CBI Regional Survey of UK Economic Trends November 2005 businesses in England and Scotland, while still predicting increases in investment expenditure in all areas, are less optimistic about the general business situation than they were in May 2005.

In the East of England businesses are more pessimistic than the country as a whole for several reasons. Employment has increased, on balance, but for a lower proportion of companies than in March 2005. Businesses in the East of England, however, are most likely to have experienced an increase. Despite net increases in orders, output, employment and prices, companies across all regions have still seen profit margins fall significantly. Furthermore, businesses nationally expect profit margins to continue to fall in the coming year.

It is against this national background that we must assess the Hertfordshire economy. According to Acuigen businesses within Hertfordshire consider that current economic conditions are “favourable” (44%), in contrast to the regional responses which are higher at (50%). than Hertfordshire. When examining current economic conditions by business sectors, Business Link Hertfordshire follow a similar trend to that of the region, with “construction” stating conditions are “favourable” and “transport, storage and communications” stating conditions are unfavourable. (Business Survivability Survey Feb 2005)
In spite of this, Hertfordshire businesses working with Business Link have said that conducting business in Hertfordshire is on the whole a positive experience. They benefit from a highly prosperous local economy with much intertrading between companies, highly skilled workforce and good arterial transport including strong motorway links.

Businesses believe that regulations/red tape, finance shortage and inadequate business support from the government are the factors that inhibit growth the most.

## *Number of businesses*

Hertfordshire has a lower percentage of sole traders at 45%, in contrast to the region at 55%. The other observed difference was seen for the limited company profile where Hertfordshire is higher at 47% than the region at 36% (Acuigen Business Survivability Survey Feb 2005)
After Essex Hertfordshire has the largest stock of (VAT registered) businesses in the East of England. At the start of 2005 there were 39,635 VAT registered businesses in the

county. This is only 265 (0.6%) registrations less than the previous year but this is the first year on year decrease since 1998.

Within the East of England Region Hertfordshire and Norfolk have seen small decreases in the number of VAT registered businesses. The other counties have seen some growth but it is very small compared to that of previous years. Likewise the East of England region as a whole and the South East Region grew at much lower rates than in previous years. VAT registrations across the UK only grew by 0.1 per cent which his well below growth levels seen in the past three years.

| **Stock of businesses registered for VAT at start of each year (000s)** | | | | |
|---|---|---|---|---|
| **Area** | **2002** | **2003** | **2004** | **2005** |
| Hertfordshire | 38,795 | 39,295 | 39,900 | 39,635 |
| % Change | | 1.29 | 1.54 | -0.66 |
| East of England | 178,470 | 181,360 | 183,595 | 183,670 |
| % Change | | 1.62 | 1.23 | 0.04 |
| South East | 279335 | 283,470 | 287,050 | 287,180 |
| % Change | | 1.48 | 1.26 | 0.05 |
| UK | 1,775,835 | 1,796,335 | 1,817,820 | 1,819,870 |
| % Change | | 1.15 | 1.20 | 0.11 |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-registrations 1994-2005.<br>Notes(s): Columns may not add due to the way data is collected. | | | | |

The distribution of districts across the Local Authority Districts (LADs) has remained very similar to previous years with the majority of VAT registered companies in Hertfordshire within four districts: Dacorum, East Hertfordshire, North Hertfordshire and St. Albans at the start of 2005.

| **Businesses Registered for VAT by District, at the start of 2005** | | |
|---|---|---|
| **District** | **Number of Businesses** | **% of Hertfordshire** |
| Broxbourne | 2,715 | 6.85 |
| Dacorum | 5,455 | 13.76 |
| East Hertfordshire | 5,700 | 14.38 |
| Hertsmere | 3,860 | 9.74 |
| North Hertfordshire | 5,045 | 12.73 |
| St Albans | 5,680 | 14.33 |
| Stevenage | 1,835 | 4.62 |
| Three Rivers | 3,280 | 8.27 |
| Watford | 2,845 | 7.18 |
| Welwyn Hatfield | 3,230 | 8.14 |
| Total | 39,645 | 100 |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-registrations 1994-2005. | | |

## *Analysis by size of business unit*

Based on data from the 2004 Annual Business Inquiry, Hertfordshire business structure can be broken down by:

- Number of business units in different size bands;
- Number of employees by size of business unit;
- Size of business unit by industry.

In terms of business units in various size bands in Hertfordshire the figures below are based on the 2004 Annual Business Inquiry:

- 86% are micro (1-10 employees)
- 14% are small and medium sized (11-199 employees)
- Less than 1% are large (200+ employees)

This is a similar size distribution of business units to Great Britain and the East of England.

| **Business Units by Size Band** | | | |
|---|---|---|---|
| Area | Units with 1-10 Employees (%) | Units with 11-199 Employees (%) | Units with over 200 Employees (%) |
| Hertfordshire | 41,890 (85.8) | 6,676 (13.7) | 279 (0.6) |
| East of England | 192,245 (84.9) | 32,879 (14.5) | 1,316 (0.6) |
| Great Britain | 1,862,882 (83.3) | 356,886 (16.0) | 15,580 (0.7) |
| Source(s): Annual Business Inquiry 2004 | | | |

Data on the number of employees by business units show that in the East of England:

- 23% work in micro-sized business units;
- 50% work in small and medium sized business units;
- 27% work in large business units.

This distribution is the same as that reported in previous years which suggests that the distribution of employees across the various unit sizes remains fairly constant in Hertfordshire and across the East of England.

| **Employees by Size Band** | | | |
|---|---|---|---|
| Area | Employees in Units with 1-10 Employees (%) | Employees in Units with 11-199 Employees (%) | Employees in Units with over 200 Employees (%) |
| Hertfordshire | 108,346 (22.3) | 239,237 (49.1) | 139,263 (28.6) |
| East of England | 511,974 (22.4) | 1,152,933 (50.4) | 621,698 (27.2) |
| Great Britain | 5,269,833 (20.3) | 12,684,896 (49.1) | 7,904,058 (30.6) |
| Source(s): Annual Business Inquiry 2004 | | | |

As the tables below illustrate the majority of workers are employed by small and medium size business units (11-199). These patterns apply across all Local Authority Districts and reflect the pattern in the country as a whole.

**Businesses in Hertfordshire's Local Authority Districts (by size of business unit), 2004**

| District | Units with 1-10 Employees | 11-49 Employees | 50-199 Employees | 200 or More Employees |
|---|---|---|---|---|
| Broxbourne | 2,813 | 416 | 85 | * |
| Dacorum | 5,971 | 705 | 173 | 37 |
| East Hertfordshire | 5,840 | 693 | 147 | 26 |
| Hertsmere | 4,014 | 421 | 114 | 31 |
| North Hertfordshire | 5,308 | 673 | 132 | * |
| St Albans | 5,822 | 725 | 180 | 25 |
| Stevenage | 2,162 | 379 | 103 | 27 |
| Three Rivers | 3,386 | 325 | 64 | * |
| Watford | 3,086 | 551 | 133 | 34 |
| Welwyn Hatfield | 3,488 | 509 | 148 | 44 |
| Total | **41,890** | **5,397** | **1,279** | **279** |

Notes(s): * This information is confidential to protect the identity of individual enterprises that have made statistical returns
Columns may not add up to totals because of data confidentiality.
Source(s) Annual Business Inquiry 2004

For a listing of major employers in Hertfordshire, please see http://www.hertsdirect.org/yrccouncil/hcc/env/factsfigs/socio/majemp/

Welwyn Hatfield and Watford have a higher proportion of people working in large business units compared with the other Hertfordshire districts.

| **Employees in Hertfordshire's Local Authority Districts (by Size of Business Unit),2004** | | | | |
|---|---|---|---|---|
| District | 1-10 Employees | 11-49 Employees | 50-199 Employees | 200 or More Employees |
| Broxbourne | 7,214 | 9,230 | 7,519 | * |
| Dacorum | 15,028 | 15,648 | 15,567 | 15,733 |
| East Herts | 14,970 | 15,382 | 13,750 | 11,829 |
| Hertsmere | 10,084 | 9,840 | 11,210 | 10,648 |
| North Herts | 14,512 | 14,671 | 11,553 | * |
| St Albans | 14,395 | 15,864 | 16,011 | 12,367 |
| Stevenage | 6,105 | 9,033 | 9,651 | 17,575 |
| Three Rivers | 7,940 | 7,363 | 6,323 | * |
| Watford | 8,831 | 12,514 | 12,348 | 15,728 |
| Welwyn Hatfield | 9,266 | 11,211 | 14,548 | 29,169 |
| Total | **108,346** | **120,757** | **118,480** | **139,263** |

Notes(s): * This information is confidential to protect the identity of individual enterprises that have made statistical returns
Columns may not add up to totals because of data confidentiality.
Source(s) Annual Business Inquiry 2004

The table below illustrates that Hertfordshire continues to be a service based economy. Since 2002 there has been little change in the balance between manufacturing and service industry in the county although the number of businesses in both manufacturing and services sectors have fallen. The majority of Hertfordshire businesses in both manufacturing and services are micro businesses of between 1-10 employees. In fact there are over 41,000 micro-sized business units, with over 17,000 of these in the banking and finance sector. This sector continues to be an important sector in the Hertfordshire economy.

**Size of Business Unit by Industry in Hertfordshire, 2004**

| | 1-10 Employees | 11-49 Employees | 50-199 Employees | 200 or More Employees |
|---|---|---|---|---|
| Agriculture and Fishing | 115 | * | * | * |
| Energy and Water | 32 | * | * | * |
| Manufacturing | 2,836 | 472 | 116 | 24 |
| Construction | 4,704 | 271 | 55 | * |
| Distribution, Hotels and Restaurants | 9,985 | 1,842 | 333 | 83 |
| Transport and Communications | 1,660 | 196 | 89 | 29 |
| Banking, Finance and Insurance, etc | 17,296 | 1,086 | 287 | 76 |
| Public Administration, Education and Health | 1,677 | 1,209 | 328 | 42 |
| Other Services | 3,585 | 291 | 58 | * |
| Total | **41,890** | **5,397** | **1,279** | **279** |

Notes(s): * This information is confidential to protect the identity of individual enterprises that have made statistical returns
Columns may not add up to totals because of data confidentiality.
Source(s) Annual Business Inquiry 2004

When compared to the region there are fewer number of businesses in Hertfordshire that operate in the “Agriculture, forestry and fishing” (3% regionally, 1% for Hertfordshire) and “Construction” (6% regionally, 3% for Hertfordshire) sectors and a slightly higher percentage (8% for Hertfordshire, 5% regionally) of businesses trading within the “Transport, storage and communications” sector.

## *Business start-ups*

New business registrations provide a reasonable indicator of the number of new businesses that have started in a year. However, it is important to note that many start-ups will not be included, as firms have to reach a certain level of turnover (currently £58,000) before they are required to register. Another distortion is that the figures will also include firms that have been in business for some time, but are only now registering due to increased turnover and by existing businesses being registered under new identities perhaps because of change in ownership.

The top three reasons cited as being important factors to why people wanted to start their own businesses for Hertfordshire are “to provide an income”; “increased flexibility” and “the desire to be self employed”. When analysed by gender “salary / income” is more important to males in Hertfordshire (43%) than females (25%). When examined by age, “salary / income” is more important for the 18 – 30 (67%); 31 - 40 (38%) and 41 – 50 (36%) age groups. It was less important for those over 50 years of age.

Respondents who are still in business but who said that their objectives have changed since starting their business were asked what their main reason for remaining in business was. When compared to the region, “salary / income” is a more important factor for Hertfordshire respondents than “business growth”, although “business growth” is the most important factor regionally. To “provide a better service” is a more important factor to Hertfordshire respondents than regionally. Although “flexibility” and “to remain in business” are more important regionally these factors are less important for Hertfordshire respondents.

When analysed by gender “salary / income” is more important to males in Hertfordshire (43%) than females (25%) and more important regionally (24% males).

Although counts in Hertfordshire are lower across all age groups, where respondent’s objectives had changed from their initial objective for starting a business, “salary / income” in Hertfordshire is more important for the 18 – 30 (67%); 31 - 40 (38%) and 41 – 50 (36%) age groups, whereas regionally “business growth” is more important across all age groups.

| **New VAT Registrations 2002 to 2005** | | | | |
|---|---|---|---|---|
| **Area** | 2001 | 2002 | 2003 | 2004 |
| Hertfordshire | 3,790 | 3,950 | 4,260 | 4,025 |
| % change in new registrations | -8.67 | 7.24 | 7.85 | -5.51 |
| East of England | 16,555 | 17,710 | 18,510 | 17,580 |
| % change in new registrations | -5.91 | 6.98 | 4.52 | -5.02 |
| South East | 27,200 | 28,540 | 30,470 | 28,360 |
| % change in new registrations | -5.46 | 4.93 | 6.76 | -6.92 |
| UK | 169,250 | 176,150 | 189,115 | 181,415 |
| % change in new registrations | -5.23 | 4.08 | 7.36 | -4.07 |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-Registrations 1994-2005 | | | | |

Three Rivers was the only district which experienced a positive change in VAT registrations between 2003 and 2004. Dacorum, North Hertfordshire and East Hertfordshire experienced a significant fall in the number of VAT registrations between 2003 and 2004.

In Hertfordshire as a whole the number of deregistrations fell in 2004. St Albans experienced the highest percentage of deregistrations from 2003-2004. This marks a change from 2001- 2002 when it experienced a fall in the number of deregistrations.

**New VAT Registrations and De-Registrations by District, 2004**

| District | New Registrations (% of Hertfordshire Total) | De-registrations (% of Hertfordshire Total) | Change |
|---|---|---|---|
| Broxbourne | 285 (7.07) | 295 (6.88) | -10 |
| Dacorum | 535 (13.28) | 615 (14.34) | -80 |
| East Hertfordshire | 545 (13.52) | 570 (13.29) | -25 |
| Hertsmere | 405 (10.05) | 415 (9.67) | -10 |
| North Hertfordshire | 440 (10.92) | 515 (12.00) | -75 |
| St Albans | 630 (15.63) | 635 (14.80) | -5 |
| Stevenage | 190 (4.71) | 205 (4.78) | -15 |
| Three Rivers | 355 (8.81) | 350 (8.16) | 5 |
| Watford | 330 (8.19) | 340 (7.93) | -10 |
| Welwyn Hatfield | 315 (7.82) | 350 (8.16) | -35 |
| Total | 4,030 | 4,290 | -260 |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-registrations 1994-2005 | | | |

The table below shows Hertfordshire's new registrations and de-registrations for VAT by broad industrial sector and the proportion of Hertfordshire's total businesses each sector accounts for.

Overall there has been a slight rise in the overall number of businesses in Hertfordshire between 2002 data and 2004 data. However the proportion of new registrations and deregistrations across all sectors has remained fairly static between 2002 and 2004.

| **New VAT Registrations and De-registrations by Industry, 2004** | | | | |
|---|---|---|---|---|
| Industry | Hertfordshire Businesses | New Registrations | De-registrations | Change |
| Agriculture Forestry and Fishing | 840 (2.12) | 35 | 65 | -30 |
| Mining and Quarrying; Electricity, Gas and Water Supply | 25 (0.06) | 5 | 5 | 0 |
| Manufacturing | 3,135 (7.91) | 180 | 310 | -130 |
| Construction | 4,875 (12.3) | 485 | 475 | +10 |
| Wholesale, Retail and Repairs | 7,715 (19.5) | 785 | 775 | +10 |
| Hotels and Restaurants | 1,910 (4.82) | 280 | 235 | +45 |
| Transport Storage and Communication | 1,635 (4.12) | 175 | 195 | -20 |
| Financial Intermediation | 450 (1.12) | 45 | 40 | 5 |
| Real Estate, Renting and Business Activities | 15,275 (38.5) | 1,725 | 1,820 | -95 |
| Public Administration, Other Community Social and Personal Services | 3,180 (8.02) | 250 | 310 | -60 |
| Education, Health and Social Work | 600 (1.51) | 65 | 65 | 0 |
| Total | **39,640** | **4,030** | **4,295** | **-265** |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-registrations 1994-2005 | | | | |

| VAT Registrations and De-registrations by Industry Past Five Years. | | | | | | |
|---|---|---|---|---|---|---|
| | Registrations less De-registrations | | | | | Registrations at end of 2004. |
| Industry | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Agriculture Forestry and Fishing | -20 | -5 | -5 | -10 | -30 | 840 (2.12) |
| Mining and Quarrying; Electricity, Gas and Water Supply | 5 | -5 | 0 | 5 | 0 | 25 (0.06) |
| Manufacturing | -55 | -25 | -90 | -45 | -130 | 3,135 (7.91) |
| Construction | 15 | 140 | 150 | 145 | 10 | 4,875 (12.3) |
| Wholesale, Retail and Repairs | -15 | -55 | 85 | 45 | 10 | 7,715 (19.5) |
| Hotels and Restaurants | 65 | 50 | 65 | 110 | 45 | 1,910 (4.82) |
| Transport Storage and Communication | 35 | 20 | 10 | 35 | -20 | 1,635 (4.12) |
| Financial Intermediation | 30 | 10 | 0 | -5 | 5 | 450 (1.12) |
| Real Estate, Renting and Business Activities | 505 | 220 | 200 | 295 | -95 | 15,275 (38.5) |
| Public Administration, Other Community Social and Personal Services | 100 | 55 | 55 | -35 | -60 | 3,180 (8.02) |
| Education, Health and Social Work | 20 | 25 | 25 | 45 | 0 | 600 (1.51) |
| Total | **685** | **430** | **495** | **585** | **-265** | **39,640 (100)** |
| Source(s): SBS Business Start-ups and Closures: VAT Registrations and De-registrations 1994-2005 | | | | | | |

The total balance for all sectors was positive for each year until 2004. Real Estate, Renting and Business Activities makes up the largest percentage of the Hertfordshire economy and see a negative balance in 2004.

## *Business Survival*

Businesses cease trading for a number of reasons and a distinction must be drawn between businesses that fail (e.g.: lack of profit or go bust) and owners/proprietors who cease trading for other reasons (moving away, found full time employment, family reasons) in order to get a true picture of the business climate.

In the past 5 years Hertfordshire's business survival rates have been very close to the average for the region. Cambridge, Norfolk and Suffolk's survival rates were consistently above the regional average. Comparing the results below with those in the last Local Economy Assessment (2004), which covered the period 1999 to 2001, business survival rates have improved in all categories. For those businesses registering in the East of England in 1999, there was a 68.1% three year survival rate. The equivalent figure for businesses registering in 2001 was 70.9%.

The table below shows that the Eastern Region shows business survivability at three years averaging 70.9% with all counties in a 4.5% range. The East of England has consistently higher business survival rates than the UK as a whole. Results from this table compared with those from previous years show that Hertfordshire's position amongst the counties in the East of England has declined. In 1999 Hertfordshire had the 3rd highest three year survival rate. This dropped to joint third in 2000 and 4th in 2001.

| **Survival Rates of VAT registered businesses by Region and Business Link, TEC and Local Enterprise Company Area, 2001-2003** | | | | | | |
|---|---|---|---|---|---|---|
| | Registering in 2001 | | | Registering in 2002 | | Registering in 2003 |
| | 1 Year | 2 Years | 3 Years | 1 Year | 2 Years | 1 Year |
| UK | 92.0 | 81.1 | 68.9 | 92.4 | 80.1 | 92.0 |
| East of England | 92.9 | 82.2 | 70.9 | 92.9 | 81.6 | 92.5 |
| | | | | | | |
| Bedfordshire | 91.4 | 80.5 | 70.2 | 92.9 | 81.6 | 92.3 |
| Cambridgeshire | 93.3 | 83.4 | 72.4 | 93.8 | 83.3 | 93.5 |
| Essex | 92.8 | 81.4 | 69.0 | 92.7 | 80.8 | 91.7 |
| Hertfordshire | 93.2 | 82.7 | 71.1 | 92.5 | 80.6 | 92.6 |
| Norfolk | 93.3 | 82.9 | 73.2 | 93.6 | 82.9 | 92.7 |
| Suffolk | 93.3 | 82.4 | 72.3 | 92.7 | 81.9 | 92.9 |
| Source(s): SBS Business Survival Statistics, February 2006 | | | | | | |

There are inherent difficulties with looking at the business registrations and de registrations as an indicator of economic activity in the county. As registrations less de-registrations do not explain the pattern of end of year stocks they are referred to in this comment as 'balance of registrations'. A negative balance does not necessarily show that an industry sector is declining as companies may be amalgamating together under a single registration (NB. registration is required for 60K turnover). Nevertheless, looking at the table Size of Business Unit by Industry in Hertfordshire, 2004, manufacturing and agriculture (the sectors which registrations balances are declining) are concentrated in small and micro business units.

Generally in 2004 industry areas have a negative balance or smaller positive balance than they have previously. In 2003 4/11 sectors have negative balance; in 2004 there is 6/11. Manufacturing has had negative balances each year from 2000. However the negative balance in 2004 is the largest. This reflects the national trend towards decline in the manufacturing sector.

The Acquigen business survival survey study found little difference between the Hertfordshire and the regional business survival rate at 81%. This study found that Business Link Hertfordshire has a lower survival rate for females at 76% than the region at 77% whereas for males it is slightly higher at 84% when compared to the region at 81%.

The findings indicate that the 51+ age group has the highest survival rate (88%) and the lowest is within the 31 – 40 age group (75%). Little differences can be reported by ethnicity due to the small ethnic profile of 21 ethnic minority respondents in contrast to 208 whites.

The majority (57%) of companies that are still trading within Hertfordshire after three years have a turnover of £0 - £100K, and 68% also have a profit within this financial bracket in contrast to the average regional turnover of 64% and profit at 72%. This is not an altogether unexpected finding given that BL Hertfordshire has a higher number of businesses that had started trading prior to the year 2000 and therefore these businesses may have grown financially over an extended period of time.

Those businesses who participated in the business link “Business Awareness Workshop” had the highest survival rate at 90%; “Specialist advice” had a survival rate of 82% and “counselling” service a survival rate of 80%. This supports the theory that businesses who use specialist advisory and support services are more likely to experience a higher survivability rate.
The main reasons given why businesses did not start up were “financial”, “personal” and “other”. Females in Business Link Hertfordshire (31%) cited “financial issues” as a main reason that prevented them starting up in business and males cited “other” as a reason for why they did not start up in business. There were no differences by age profile and ethnicity.

The 3 main reasons cited as to why businesses in Hertfordshire ceased trading were “personal issues”, “financial” and “back to employment”. “Time” and “client / customers” were other important reasons why businesses in Hertfordshire ceased to trade. Females rated “personal issues” as the most important reason why they ceased to trade and males cited “back to employment” as their main reason for ceasing to trade. Analysis by age groups showed that for the 41 – 50 age group 22% of responses cited “back to employment” as a reason for ceasing to trade. For the 31 – 40 age group 13% of responses cited “time” as the reason that their business ceased to trade.

## *Business Optimism*

Business optimism is measured as a percentage balance. The balance is the proportion of companies saying ‘up/increase’ less the proportion of those saying ‘down/decrease’.

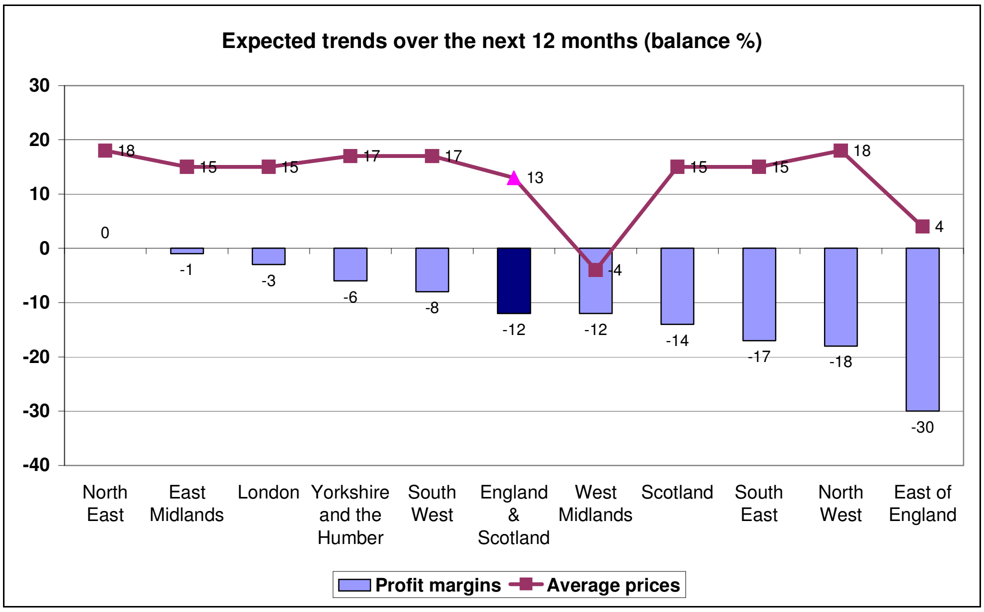
The previous LEA (2004) showed that confidence about turnover and profitability was, for the first time, higher in the service industry than in the manufacturing industry. This trend has continued into 2005, with the service industry reporting greater confidence in both turnover and profitability than in the manufacturing industry.

According to the British Chambers Commerce (BCC) Quarterly Economic Survey (q2 2005), the balance of service companies expecting turnover to rise in the next 12 months rose from +38% in 2005Q1 to +53% in 2005Q2. The balance of manufacturers expecting turnover to rise in the next 12 months rose from +34% in 2005Q1 to +36% in 2005Q2.Both sectors were less confident about rises in profitability. In manufacturing this may be due to rising raw material costs putting pressure of profit margins.

However the Confederation of British Industry (CBI) Regional Survey of Economic Trends, published in November 2005, recorded a downturn in optimism towards the end of last year. Businesses in England and Scotland did not expect the general business situation to change much with a balance of -1%. The East of England was one of the most pessimistic regions with a balance of -3%.

Businesses in the East of England as a group are more likely to absorb rising costs from input prices than in any other region. When asked by the CBI survey 36% of firms in the East of England said that they would not pass any increased costs on to their customers. This may be because they do not feel that there is room in the market for price increases. As input prices are expected to rise in the coming months, this may explain why firms in the East of England are pessimistic when compared to firms in other regions.

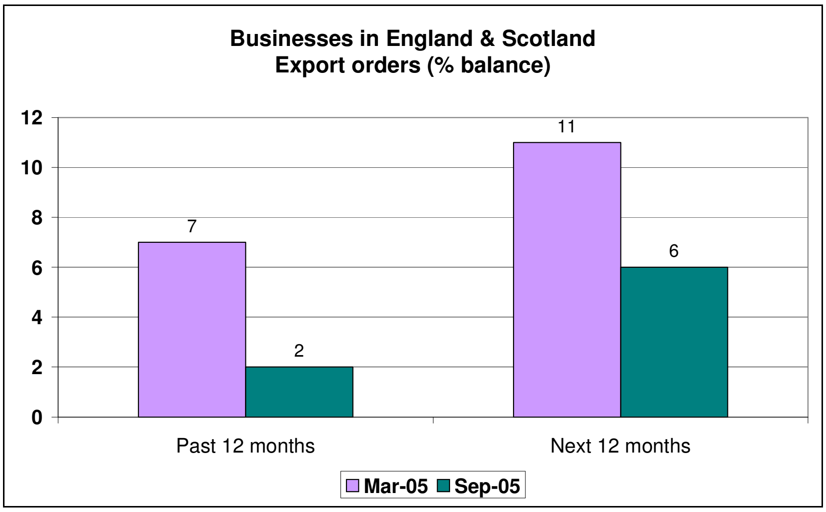
**Balance of firms expecting a change in prices/profit margins over the next 12 months**




*Source: Taken from the CBI regional Survey of UK Economic Trends November 2005*

The graph above illustrates that although prices in the East of England region are only expected to rise by 4% a very large reduction in profit margins are expected.
Exports

The graph below helps to illustrate that exporting businesses in England and Scotland are quite confident about the near future.

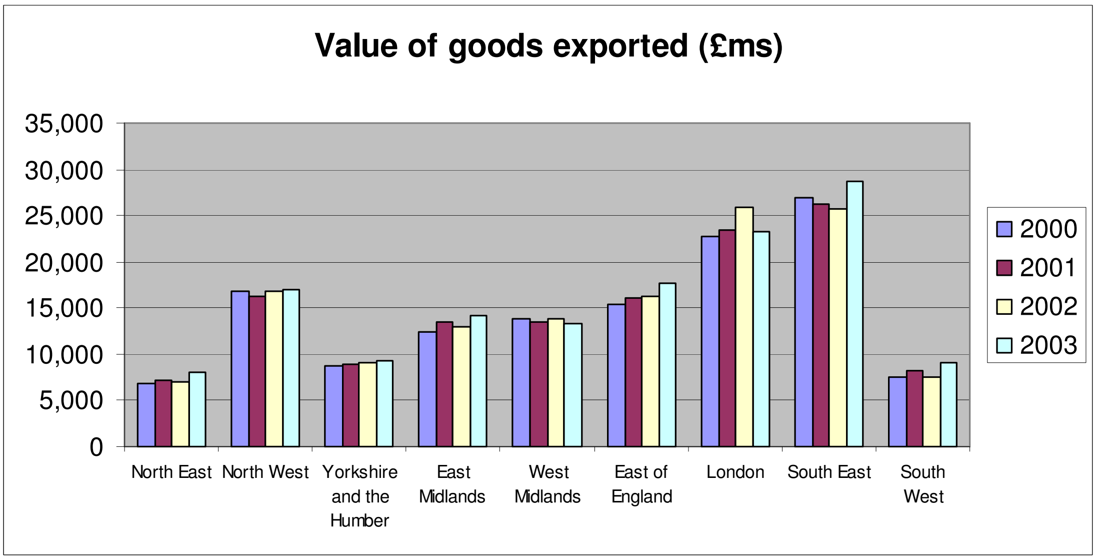



*Source: Taken from the CBI regional Survey of UK Economic Trends November 2005*

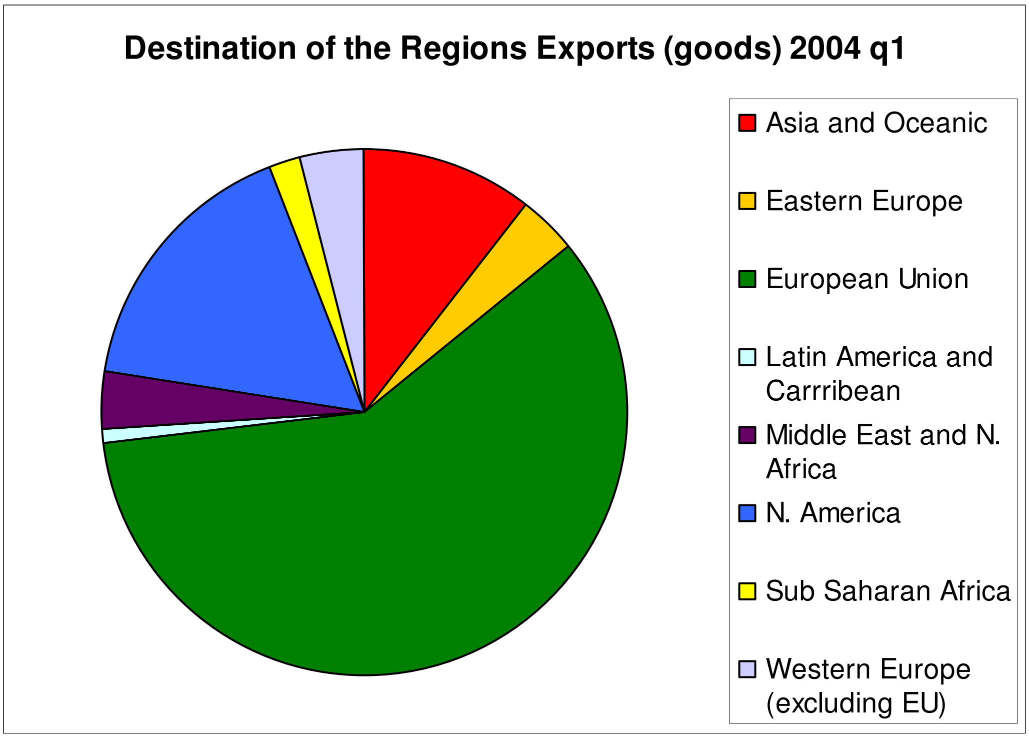
The Graph above is from the CBI report and shows the expected rise in business orders from abroad in the next twelve months compared to the actual % rise over the past twelve months.

The graph shows that businesses are much more optimistic about exports as they are expecting growth well above that of the past twelve months.

The East of England region has a strong export performance wit the value of exported goods (excluding services) reaching over £18bn in 2003. This places the region in third place in comparison to the value of goods exported in England's other regions.



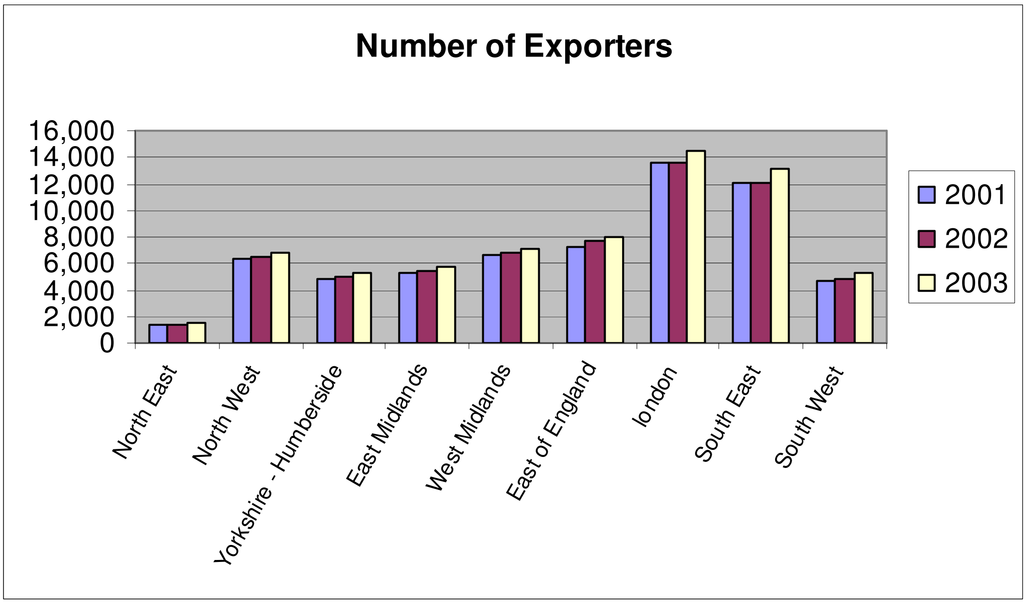

*Source: HM Customs and Excise – UK Regional Trade in Goods Statistics (q1 2004)*

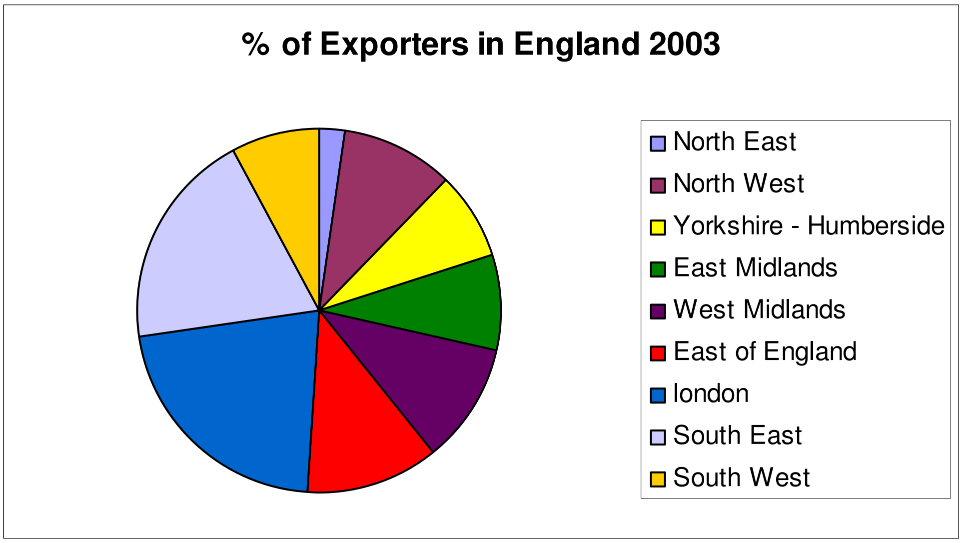



*Source: HM Customs and Excise – UK Regional Trade in Goods Statistics (q1 2004)*

The chart above shows that the Eastern regions largest export markets are the USA and other EU countries.

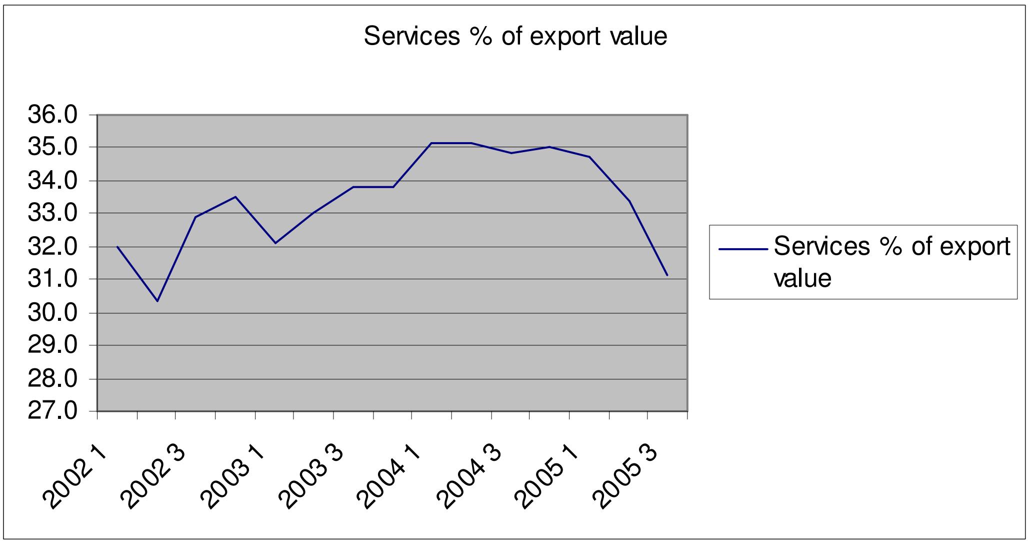
Another way of assessing the position of the region is by looking at the number of exporters in the region.

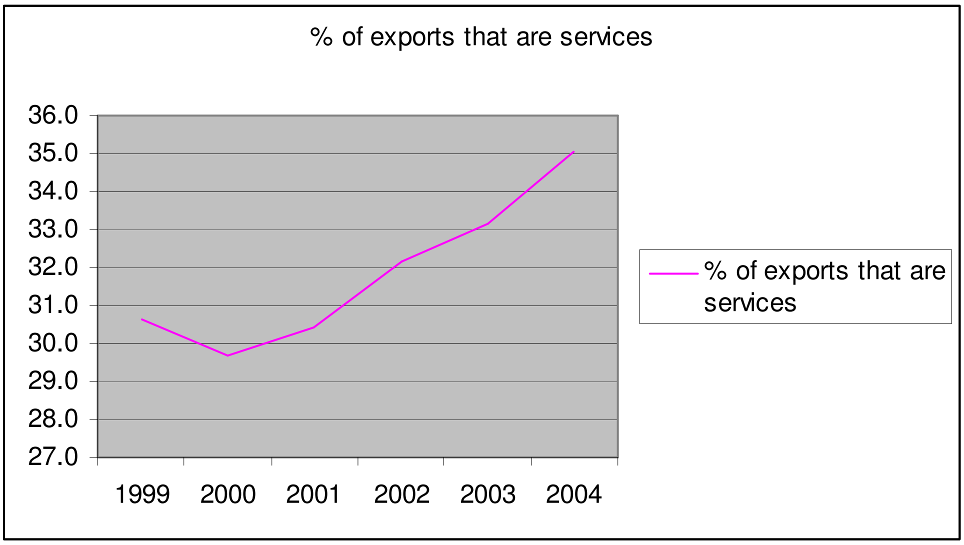





## *Services*

Exports are an increasingly important part of the export market but currently official statistics are only available at a national level. Data from the ONS, shows that the percentage of exports as a percentage of total exports grew steadily from 2000 to 2004. However in 2005 this trend ended as the proportion of exports that are services has begun to fall.






## ***Barriers to Growth***

The CBI regional Survey of UK Economic Trends November 2005 describes the various problems which businesses in the East of England consider to be more significant barriers to their growth than businesses in other regions.

The survey highlights 56% of companies in the East of England reporting that regulation/ red tape hinders growth within their business. The East of England had a greater percentage of business reporting problems with red tape than any other region in the UK.

High unit labour costs are thought o be restrictive by 33% of companies in the East of England. This is the highest percentage for a region in the UK.

19% say attracting staff to the region (move to) hinders growth. The East of England has the joint highest percentage of businesses reporting this problem with the North West region.

Skills problems are of particular consequence to firms in the East of England. 28% of firms report that these problems hinder future growth. The figure is only higher in the East Midlands. NB in London only 11% of firms reported skills shortages as a barrier to growth. (Could be due to differences is business type and or supply of skilled labour.)

These regional barriers are mirrored in Hertfordshire. The main barriers which have been cited by clients of business link Hertfordshire are:

High cost of living/shortage of low cost housing – increasing national and international competition is driving pressure for lowered cost base – in turn this drives need for low wage employment. Recruiting and retaining low wage staff is an escalating challenge in a county where costs are so high.

Congested road transport system, compounded by weak cross-country public transport infrastructure. In addition, those who live in rural areas face higher costs of commuting and rural businesses struggle to attract customer volumes because of travel costs and the inconvenience of getting to rural locations. All these lead to higher transport costs than are prevalent in many competing localities.

Inadequate provision of business parking – a problem compounded by planning guidelines that fail to recognise the importance to business and staff of adequate provision. This is a national problem, which is compounded locally by higher urban density, both domestic and commercial.

Although not exclusive to Hertfordshire the increasing burden of ensuring compliance with government (including EU) legislation and related bureaucracy is damaging the ability of business managers to focus on sustaining and developing prosperity for the future.

It should be noted that not all businesses experience the same problems. For example, adhering to regulations is much more likely to be a concern for employers in industries such as financial services and transport and communication as these are heavily regulated industries.

## *Economic Participation*

The Regional Economic Strategy: East of England 2010 Prosperity and Opportunity for All recognises that in spite of relative prosperity in the East of England social exclusion and disadvantage still have an impact on certain groups in Hertfordshire and the regional population. These groups include the disabled, isolated rural populations, ethnic minorities, lone parents, people on low incomes and women.
This document also suggests that developing entrepreneurship in Hertfordshire is a key way to stimulate job creation and to enable more people to play an active part in the labour market, especially for those who wish to have greater flexibility. (Entrepreneurship creates jobs for more than the entrepreneurs' but it is they who have greater flexibility). Research results from projects carried out by local support organisations have argued strongly for tailored assistance to help start businesses to reflect the needs of the local economy and its disadvantaged communities. An emphasis on basic skills provision and a focus on upskilling participants would enable under represented groups to contribute more effectively to the Hertfordshire economy, perhaps by starting their own business, and to begin to overcome some of the barriers to entrepreneurship they currently face.

Women, in particular face significant barriers to entrepreneurship and as women make up 50% of the population in the East of England this can have a major impact on the economy. The key barriers faced by women are:

- Limited skills and knowledge gained in the labour market that may be readily transferred to start a business
- Traditional views on woman's role
- Lack of knowledge and skills to raise and manage finance coupled with financiers perceptions of the abilities of women to run a business.

- Poor access to formal and informal networks which historically have been dominated by men
- Lack of knowledge and training in business and IT skills
- Low self esteem/self perception

The Global Entrepreneurship Monitor, UK Report, 2004 Women and Enterprise has identified specific barriers which affect women in the East of England more than the UK average. Women in the East of England are:

- Less likely to start a business – in fact in some areas of our region women's business start up rates are declining
- Less likely to grow or develop their business
- Less likely to have a high level qualification
- Less likely to receive training if they are employed
- More likely to in part-time, low skill, low paid work
- More likely to have basic skills needs
- More likely to be economically inactive due to rural isolation, being a lone/single parent.
- More likely to be suffering financial /social exclusion
- More likely to be benefit dependent
- More likely to miss opportunities because they have care responsibilities