



Creating jobs, powering growth

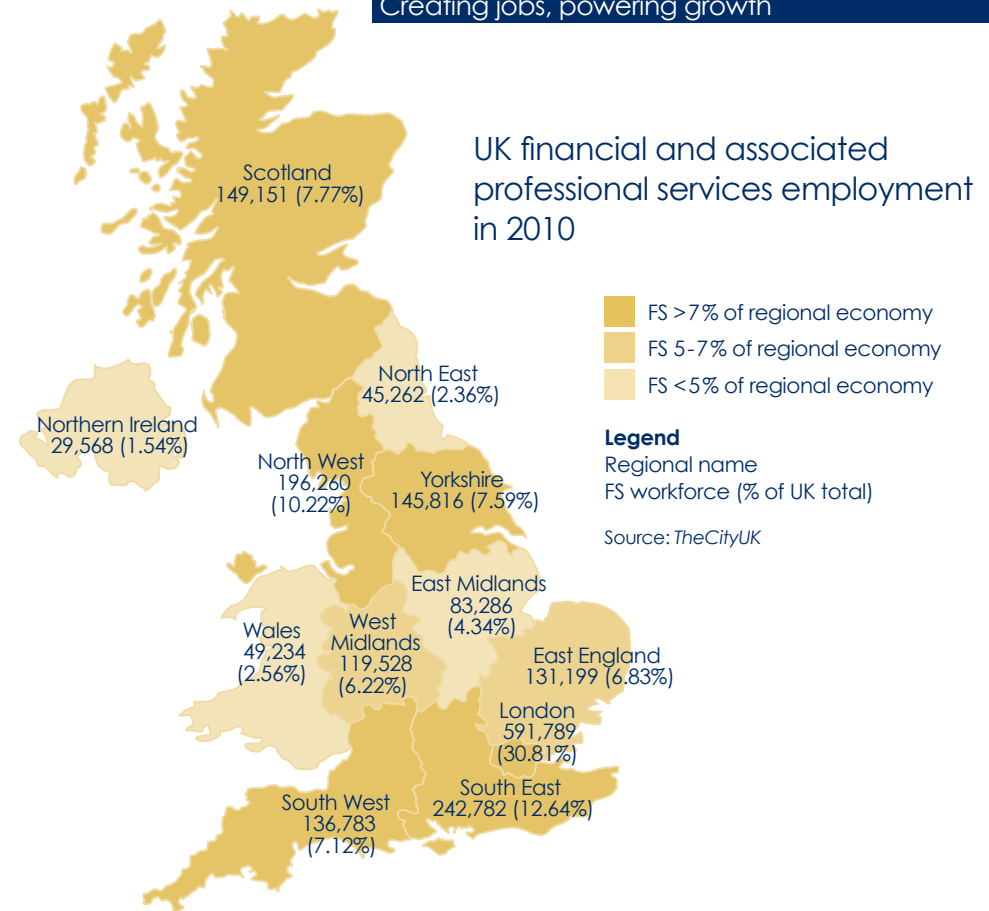
Providing jobs all over the UK

Financial services employ more than 1m people in the UK, with another 900,000 working in associated professional services. That is around 7% of all UK employment – one in 14 of all jobs.

It is often assumed that most of these jobs are concentrated in London and the South East, yet more than half are in other regions. As the map shows, financial and associated professional services firms are important employers in every part of the UK. In Scotland, the North West and Yorkshire, they provide one in 12 jobs in the private sector.

London's status as a global financial centre has given the UK international leadership in these services, but its success has created thriving financial centres around the UK. They include:

- **Edinburgh and Glasgow** in Scotland, where the key sectors are asset management, banking, asset servicing, life assurance and pensions
- **Newcastle and Sunderland** are hubs in the North East for professional services, shared services centres and outsourced services
- **Manchester** in the North West is England's northern hub in banking, insurance, law and accountancy, complemented by **Liverpool's** strengths in business and professional services, especially maritime insurance and wealth management
- **Leeds** has a large concentration of financial services businesses, while



other Yorkshire centres include **Sheffield** for servicing functions and **Hull** for maritime services

- **Birmingham** in the Midlands is strong in corporate banking, mergers and acquisitions, law and insurance
- **Cambridge** is headquarters for many venture capital investors, while elsewhere in the East of England **Norwich** is home to leading insurers

- **Bristol** is the centre of a cluster of insurance and pensions businesses in the South West, while **Swindon** and **Bournemouth** are also strong in financial services
- **Cardiff** and other Welsh cities have around 50,000 working in financial and associated professional services
- **Belfast** in Northern Ireland is attracting investment from global financial services companies.

Supporting smaller businesses

UK banks cater for around 3.9m small businesses – commercial enterprises with annual bank account debit turnover of up to £1m. Each month, another 50,000 or so such small businesses open their first business account.

The current and deposit accounts of these small businesses held almost £57bn at the start of 2011. Bank borrowing by this group was hovering at just under £50bn.

Loans to small businesses take two main forms:

- **Term loans** make up the bulk of the total – just over half a million term loans worth £42.2bn were outstanding at the start of 2011
- **Overdraft facilities** are available to many more small businesses, but often not drawn on fully – borrowing under such facilities was worth just £7.6bn at the beginning of 2011.

The amount banks lent to small businesses fell in 2010 and the amount deposited by small businesses rose. However, the major UK banks have agreed to increase lending provision for small and medium-sized enterprises by 15% in 2011. A review

by the Bank of England in August 2011 found that the banks were on track to meet their so-called Project Merlin targets.

There are other financial services used to fund the activities of small and medium-sized enterprises (businesses with annual turnover of up to £25m). Around 10% of SMEs that offer credit to their customers get their hands on the money quickly by selling the invoices to a financial organisation at a discount.

Businesses of all sizes can acquire machinery, equipment and vehicles through hire purchase and leasing, which provide finance to around 20% of all SMEs. A finance company buys the item and allows the business to use it in return for regular payments.

Start-up and innovative small businesses can also tap into other types of finance – see Financing innovation, page 24.

Case Study

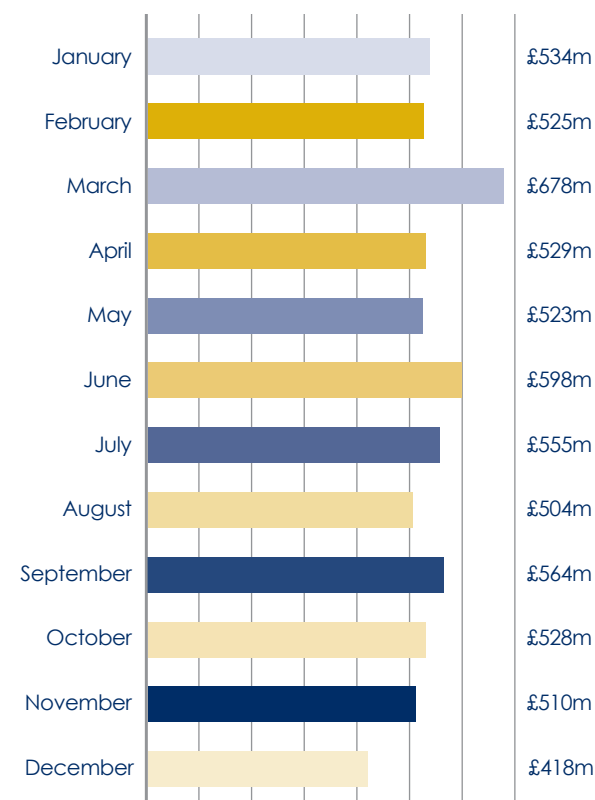
Keeping business moving

Small and medium-sized businesses are making increasing use of leasing and hire purchase to finance vehicles and other equipment. More

than £1bn was provided by finance companies for around 20,000 commercial vehicles, trucks and lorries in the first quarter of 2011 – up 32% on the first quarter

of 2010. Finance for business equipment, plant and machinery was £1,341m, up 15%.

New term-lending to small businesses in 2010, per month



Source: British Bankers' Association

Funding investment

Businesses that want to invest in building a factory, developing a new product or buying another business will often turn to outside investors for finance. This can be achieved by forming a company and selling shares: in return for the investment, the company pays a share of any profits to the shareholders – individual investors or big institutions such as pension funds and life assurance companies. Investors may also make money by selling the shares for a profit if the company is successful.

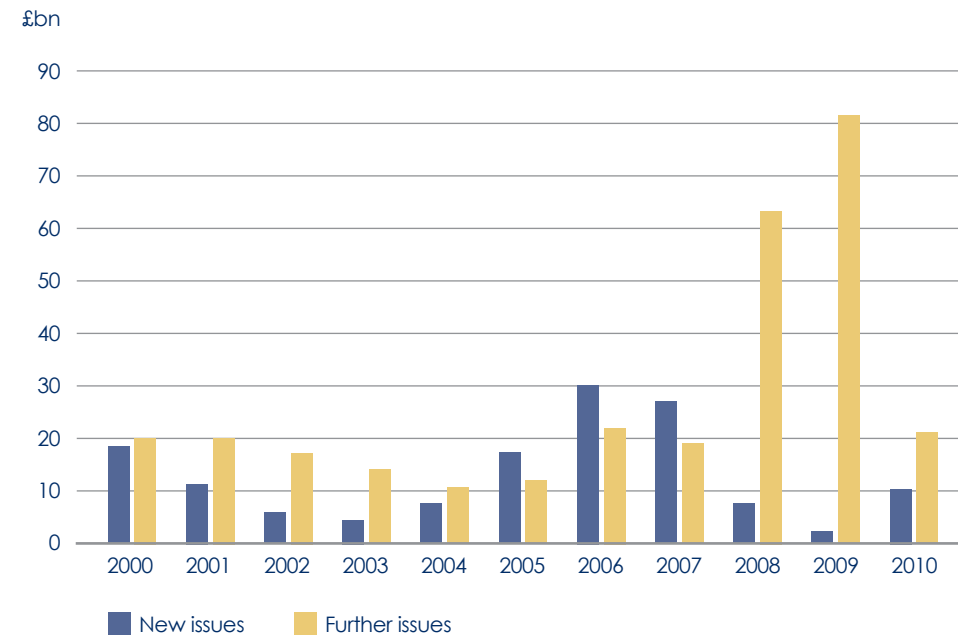
Stock markets such as the London Stock Exchange (LSE) and the PLUS Stock Exchange (PLUS-SX) provide markets where companies can raise capital from investors, and investors can buy and sell shares. In total there are 1,088 UK companies on the LSE main market, 929 on LSE’s AIM market for high growth companies and 131 on

PLUS-SX, which caters for smaller growth companies.

In 2010, companies raised more than £31bn on the two LSE markets, which included almost £7bn on AIM. Another £25.3m was raised on PLUS-SX. The LSE has provided a reliable and sustainable source of finance for companies needing to raise capital over the years. It displayed its resilience during the recent financial crisis, raising more than £150bn in 2008 and 2009 as companies repaired and rebuilt their balance sheets.

Companies can also raise capital by selling bonds which pay a specified return until the capital is repaid. The LSE launched a new retail bond market in 2010 which gives individual investors direct access to the bond market.

Money raised on the London Stock Exchange markets 2000-2010, £bn



Source: London Stock Exchange

Case Study

Pizza to go

Domino's Pizza UK & Ireland opened its first store in the UK in 1985, and in Ireland in 1991. It was admitted to the LSE's AIM market in November 1999 when it had fewer than 200 outlets,

raising £4m and achieving a market capitalisation of £25m. Having grown rapidly in the next few years, it moved to the LSE main market in May 2008 and is now a member of the

FTSE 250 index. Today over 20,000 people work in more than 660 Domino's Pizza stores in the two countries, most owned by franchisees.

Financing innovation

Enterprise and innovation are critical to the UK's economic growth and international competitiveness. Banks will be prepared to lend to an innovative business with a good prospect of success, especially if the loan is underwritten by government loan guarantee schemes. But it can often be hard for growing companies to raise finance from banks or the stock markets if their ideas have yet to be proved profitable. Specialist investors play a vital role in ensuring the success of such ventures.

Many new enterprises start with finance from business angels. These individuals invest relatively modest amounts in start-ups – typically between £50,000 and £500,000 – and also contribute their expertise. Estimates of the amount invested by angels in 2009-10 range from £318m up to £1bn.

Venture capital firms, which look for bright ideas and intelligent entrepreneurs, will also invest “seed capital” as well as finance for start-ups which have proved their businesses work so they can move through the next stages to lift-off. Venture capital firms raise funds from investment institutions such as pension funds, sovereign wealth funds, endowments and wealthy individuals and families. Altogether, venture capital firms invested £313m in 397 companies during 2010.

Further injections of expansion capital by venture capital or private equity firms may be needed before a new business can turn to the stock markets for funds. In 2010, £1,653m of expansion capital was invested in 334 companies.

Case Study

Glasses in cyberspace

Founded by entrepreneur Jamie Murray Wells in 2004, Glasses Direct is today the UK's largest internet-based retailer of prescription glasses – it calculates its lower prices have saved consumers over £40m since

it was launched. It initially raised £3m in 2007 from Index Ventures and Highland Capital Partners, and a further £10m in 2009 from these two venture capital firms and Acton Capital Partners. In 2011,

its parent company bought Sunglasses Shop, Europe's leading online retailer of sunglasses, which gives it overall sales of almost a quarter of a million pairs a year.

UK venture capital and expansion capital investment 2008-10

Financing stage	Number of companies			Amount invested		
	2010	2009	2008	2010	2009	2008
Seed	39	37	67	£10m	£14m	£12m
Start-up	65	57	103	£46m	£125m	£160m
Early stage	219	191	285	£168m	£164m	£187m
Late stage VC	74	80	n/a	£89m	£151m	n/a
Total venture capital	397	365	455	£313m	£454m	£359m
Expansion/growth capital	328	296	482	£1,651m	£1,055m	£2,050m
Bridge financing	6	21	27	£2m	£15m	£17m
Total expansion capital	334	317	509	£1,653m	£1,070m	£2,067m

Source: British Private Equity & Venture Capital Association (BVCA)