



REGIONAL VOICES: YORKSHIRE

BRIEFING PAPER

FOREWORD

Yorkshire's economy is well positioned to flourish in the coming years. The region boasts world-class companies across many industries – including finance, legal, manufacturing, medical, digital and retail – as well as top universities including York, Leeds and Sheffield. By the latest measure, Yorkshire & Humber brought in £106 billion per year in gross value added – that's 6.7% of the UK's total. Leeds is the UK's largest centre for financial and business services outside London, Sheffield is a leader in advanced engineering and Hull is in the process of becoming an international centre for renewable energy and healthcare technologies.

Yorkshire should be at the heart of Britain's future success – continuing the role it has played over many years as a key dynamo of economic activity. The Government's Northern Powerhouse initiative is testament to this aspiration, though the proof will be very much in the pudding as to how this policy plays out in practice and it will be interesting to see the extent to which it is applied effectively on both sides of the Pennines. PwC is committed to Yorkshire, as we are to all regions across the country. We are proud to have been doing business in Yorkshire for over 100 years and employ over 700 staff across our offices in Leeds, Sheffield and Hull.

This briefing paper is based on the edited highlights of a roundtable discussion run in partnership with The Entrepreneurs Network. It took place at our Leeds office with entrepreneurs invested in promoting Yorkshire as a hub for entrepreneurship. Our principal guest was Iain Wright MP, chair of the Business, Innovation and Skills (BIS) Select Committee. The ideas presented are designed to feed into his work on the committee, the work of the government in supporting entrepreneurs in Yorkshire, and wider debates on how to support entrepreneurship across the whole of the country.



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SKILLS, SCALE UPS AND THE NORTHERN POWERHOUSE

I want to do my part as chair of the Business Innovation and Skills (BIS) Select Committee to encourage you, as entrepreneurs, to voice concerns into government when I'm interrogating the Secretary of State. I want to understand what concerns you have about barriers to your businesses.

I have a number of key priorities that I want the Select Committee to look at. I don't want to be partisan. I don't want to make this about petty party politics as I think you would get bored very quickly, and we would lose reputational value. By 2020 I want to make sure Britain is a more competitive, more productive and more innovative economy – with a greater number of companies starting and scaling up, and with a workforce that has the skills excel in business.

I want to talk to you briefly about some key areas we are looking at.

SKILLS

I would be interested to know about the problems you've had in growing your business. Can you attract the talent you need for your businesses to grow? I'm keen to promote entrepreneurial skills as much as possible. What do we need to do in order to make sure that we have more entrepreneurs in this country? Are entrepreneurs born or made? Can the system – whether it's the education system, the fiscal system, or whatever – encourage entrepreneurialism in this country?

Entrepreneurs have a certain mindset, but I want the whole workforce to be entrepreneurial in its outlook. You don't have to be the next Steve Jobs to be enterprising. But does the education system lend itself to having a workforce that's enterprising? You aren't going to get people fully formed, and perhaps one of your jobs as entrepreneurs is in adding value and helping your staff make the transition from school, college and university into work-ready people. But what do we need to do to make sure there is a close coordination between what the education system is doing and what the requirements of new and traditional businesses are? I was an education minister for the last 11 months of the Labour government. I didn't have enough time to do what I wanted, but I was there long enough to observe that government departments operate too much in silos – there is no coordination between BIS and the Department for Education. Now I've got this opportunity as chair of the BIS Select Committee, we are pulling together the BIS and the Education Select Committee to produce a coordinated response and ensure there is a real match between the education system, the requirements of business and the skills system.

DIGITAL

What does the digital economy look like? We are seeing a digital revolution – the likes of which we haven't seen since the Industrial Revolution. I'm excited by disruption and the opportunities that technological innovation can bring, so how do we encourage that? How do we make sure there's a regulatory environment that's technologically neutral, but that encourages new entrants who disrupt the

traditional market? I'm interested in how traditional sectors adapt? How will they use digital as a means of driving forward productivity and innovation?

Construction is a good example of this. Are British construction companies using Business Information Modelling (BIM) in order to make sure that design, build and whole life costs are analysed properly? Are they taking out inefficiencies and costs through their supply chain in order to make them leaner through digital processes?

EXPORTS

The Secretary of State has said that this is one of his key priorities. He has a target to produce a trillion pounds worth of exports by 2020. While I would like him to achieve it, he is going to miss it hopelessly. But it's very important that we are outward looking, and that entrepreneurs go out into the world and create wealth for Britain. So what do we need to do? Are UKTI doing enough? Are they responsive enough to new businesses? How do they identify market opportunities? And to what extent do you want the likes of UKTI – and private sector organisations like PwC and not-for-profits like The Entrepreneurs Network – to help you through the process?

SCALE UPS

It's relatively easy to set up a business in Britain, but it's really difficult to scale up to be a large business, employing large numbers of people, exporting around the world and creating huge amounts of wealth for this country. How do we do that? What are the barriers? Is it cultural? Do we sell out too early? Do we discourage scaling up through the tax system? Why does Silicon Valley produce the Googles and Facebooks of the world? Is it just in Britain where we say I don't want to be the next Google, I want to sell out to Google? I don't think that's appropriate and I think we need to do something about it. It's an enormous challenge for this country and we will be carrying out an inquiry and producing a report into this issue.

FINANCE

What's shocked me since becoming BIS Select Committee chair is that access to finance remains such a big issue. People are increasingly telling me that access to growth capital is really difficult to find. Banks are doing a lot and there is always going to be a place for loan finance, but what needs to happen in terms of venture capital, private equity and non-bank finance? Are we doing enough? Is the ecosystem in this country good enough to make sure that we can scale up and produce these high growth small companies? I recently spoke at an Octopus Investments event and I would really encourage you to look at their report on High Growth Small Businesses, which shows that one of the major challenges is access to finance, particularly around the regions.

THE NORTHERN POWERHOUSE

As an MP representing the northern constituency of Hartlepool, I'm concerned that economic activity is still far too concentrated in London and the South East, and if you're ambitious, talented and entrepreneurial you might think the only way to succeed is by going to London. It wasn't like that in the past. Look at the great cities in the North. They're absolutely fantastic. Leeds is one of them, but we've

also got Manchester, Newcastle and many more. All of these places were powering economic activity – not just in Britain, but around the world.

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I'm interested in your thoughts on what we need to do to make the Northern Powerhouse a reality. What do we need to be doing to make sure the creation of wealth and jobs is across the country? I worry that George Osborne's Northern Powerhouse is just shorthand for Manchester or the M62 growth corridor. What about the North East? What about other parts of North? What do we need to ensure these great cities of the Industrial Revolution drive forward innovation in the digital age?

Iain Wright MP

Chair

Business, Innovation and Skills Select Committee

The wealth of all nations requires an open and dynamic economy. But the resulting competition means a nation can never rest on its laurels – in order to not be left behind a country needs to both develop and attract the necessary skills. As expected, most entrepreneurs around the table echoed concerns about skills that are faced by entrepreneurs up and down the country.

Barry James thinks the UK's training and education systems are antiquated and counterproductive. "Our education system has lost that spark of entrepreneurialism", James said, adding: "We have a system that was set up for the industrial age". Iain Wright MP expressed concern that "it's worse than an industrial model. It's an education system that was designed for the empire." To counteract this, he says, we need to be more project-driven and entrepreneurial.

Nick Palmer agrees, adding that one of the problems is the way people use the concept of skills: "I've yet to meet an 18-year-old who understands that term. At the moment, we deliver people, whether we intend to or not, through a measure of specialism – and thereon in their pattern is determined and it's difficult to get off that track. If you're young and you know that you want to be a vet, doctor or accountant, it's easy to follow that track. But there aren't many people who fall into that category." Palmer thinks we have a system that is counterproductive to supporting people who are adaptable and entrepreneurial. He has spoken to people in Whitehall and has learnt that the Education Select Committee has identified the same problem.

Mark Gardiner thinks "the link between secondary education, universities and businesses needs to be strengthened so students moving through the process understand what skills are in demand in their local area." Gardiner has a fast-growing fintech client based in Yorkshire who had to open an office in London as they couldn't identify enough of the right people in Yorkshire to allow them to grow. Gardiner fears this will be a continuing issue for tech companies in the region for the next few years.

Yet Lawrence Tomlinson doesn't have the same problem finding the right skills to maintain his 2,000 strong workforce. "We bring people from university – Huddersfield in particular is excellent." Tomlinson explained that the graduates he finds have good engineering degrees and high aspirations. He thinks it's his job as a business leader to train them in the skills they don't have when they leave university, often bringing them into the business as part of their degree course. He doesn't think there is a skills shortage in construction, plumbing and electrical, either. Heather Jackson agrees with Tomlinson that "in companies it's the leader's responsibility to find and grow talent to the best and attract the talent in." Tomlinson says that "skills are a key part of the North's past which can, if nurtured properly, make the UK internationally powerful again."

EDUCATION, EDUCATION, ENTREPRENEURIALISM?

Although he doesn't want to pre-empt the Business Innovation and Skills (BIS) and Education Select Committee joint inquiry, Wright thinks there might be an argument for changing the way schools are measured. He wants to see more entrepreneurs on the governing bodies of schools and suggests that "the remuneration package of head teachers shouldn't just be about GCSEs or going to university; it should include things like how many apprentices have you produced in your school, how many entrepreneurs and perhaps how many businesses are built by ex-pupils."

Gardiner thinks "the problem with schools is that young kids are taught to pass GCSEs. If they do that, they're then taught how to pass an A-Level. Then how to pass a degree and then they're taught to become chartered accountants. So it's this constant conveyer belt of learning to pass the next hurdle. It's an archaic form of education." James quotes Bertie Wooster: "education is a drawing out, not a putting in." Naveen Ahmed believes "the current higher education system is failing youngsters. We force them to make decisions about their career very early on, which means there are many people who end up with degrees that are not relevant to the career they want to go into." He thinks we would be better taking the American approach, whereby students learn a wider range of subjects and specialise later on in their studies.

STEM THE FLOW

Wright expressed concern that careers advice is bad and getting worse: "Will kids in Leeds and Hartlepool be told 'you've got nous, energy and spark, don't go to university – have you thought about being an entrepreneur?'" And as the father of a 13-year-old girl, he is concerned that "we put girls off STEM subjects in a horrendous way; in a way that undermines our productivity."

Matthew Murray has seen the problem of girls' dissuasion from STEM subjects first-hand. Schools were invited into his university to try to inspire them with the technology. "At one local all girls' school, we'd show pupils the really advanced stuff – like a laser that would drill through a wall. They responded really well: you couldn't shut them up." With mixed schools only a few of the girls would apply to attend. "There is a preconception that boys will want to do x, and girls y", said Murray. He thinks that there are "too few figureheads to draw them in." Jackson believes we're not using the right words to inspire them. "What if a girl could look at something and think 'actually this will do x; this will change the world?' Maybe we're talking to the next generation in a way that would have excited us, but they are more purpose-led."

Wright probed the entrepreneurs about scaling up businesses and how to ensure we get more in Yorkshire and the UK as a whole. Alpesh Patel responded based on his experiences of bringing investment into the UK, including Yorkshire. He thinks, “There’s a lot of great advantages we have, and one of those is the ease of doing business, especially when compared to other parts of the world.”

Patel says that although some people might think that we need to help our own entrepreneurs before looking to import them, he has found that foreign entrepreneurs come with big cheques to invest. However, the South still attracts most of the investment: “One of the key issues we have is that London has much better branding. And it does come down to the amount of information and noise that’s out there in the rest of the world.”

When talking to potential investors, Patel points out the advantages of investing in Leeds – not just the soft stuff like the quality of life, but the things that historically made the city so strong; the traditional and emerging centres of excellence. But he thinks that despite the work of the Foreign and Commonwealth Office (FCO) and UK Trade and Industry (UKTI), the message still isn’t out there. There are things the government could do though. Patel explains that he has “got a slew of companies that want to invest here, who can’t open bank accounts.” Many foreign investors want to buy into and expand UK businesses and many entrepreneurs want to start a business in the UK, but Patel thinks too many are being forced to look elsewhere. “We have an immense advantage of skills and infrastructure, but we have a blockage when it comes to capital and entrepreneurs coming in.”

Wright wondered if there might be a mismatch in government policy: “BIS are saying that we want to attract talent from around the world, then the Home Office is contradicting that. You could be a postgraduate of Leeds with a great degree, but instead of staying for 2 years you’ll now be kicked out after 6 months. In the US and Canada, they say: ‘you’re a postgraduate from a UK university and you want to be an entrepreneur? Come here and set up your business, we’ll give you money to make that possible.’ It seems ridiculous.”

Murray said that his company recently employed someone from Ghana, who was based in the US. He managed to bring him over quickly and easily, but he also knows of talented scientists who’ve had to leave. Patel added: “There is a huge difference between what the Prime Minister says and what the Home Secretary makes happen. It was the case with the last government and it’s continuing now. Genuine entrepreneurs are having problems with the bottle necks and visas. I know various government departments are looking at it – but at least everyone is pushing in the right direction. The Home Office is making it more difficult, but the great thing about entrepreneurs is that they’ll overcome almost any hurdle.”

Tomlinson explained that when he worked with BIS, access to finance was the key problem for entrepreneurs. He is strongly critical of the amount being lent by the banks: “They’re still contracting and rebuilding their balance sheets. And that’s at the cost of UK businesses.” He finds it “pleasing to see some market entry and expansion in the challenger finance sector, but with 90% of lending still from the four largest banks, we’re a long way off a fully competitive market.”

Tomlinson explained: “The current government and Local Enterprise Partnership (LEP) support grants available are, in general, aimed at start-ups and small businesses, which make them inaccessible to medium-sized businesses. The complexity and difficulty in implementing these support programmes are largely driven by EU legislation and red tape. While this is aimed at preventing anti-competitive behaviour, it creates a very bureaucratic system in the UK and a barrier to medium-sized businesses, which does not seem to be paralleled in the support provided to bigger businesses in our European counterparts. The government should be identifying those businesses that can boost growth and proactively approaching them to offer whatever help is required to accelerate their success.”

Matthew Murray thinks a company looking to scale up in Yorkshire would look outside of Yorkshire for funding. Although his company is fortunate to have investment from people with a base in Yorkshire (though not from Yorkshire) he has yet to come across anyone else in the region who has the funds to scale up a business from a Yorkshire based investor. And he knows of no means of finding such investors based in Yorkshire. However, he doesn’t think this is unreasonable: “the calibre of investors needed are either abroad – which is where many companies I know look for scale up funding – or they are down south in London, Cambridge and Oxford.” Murray caveats this, adding that his experience is within the high tech sector.

GOVERNMENT SUPPORT

Claire Mitchell hasn’t had any support from UKTI: “I contacted UKTI, told them my story, the guy said it was great and went away. All the exporting we’ve done ourselves.” Jackson added that people are torn between whether to try to sell their business to private equity and let them handle global expansion or contact the government for advice. Wright explained that “UKTI’s budget has been scaled back considerably over this Parliament.”

Gordon Singer has contact with lots of private businesses. He explains that most of his clients don’t know where to find the appropriate government services. “If you want to get people to export, take the bits of the government that work and bring them to the front. Entrepreneurs have enough to do.” Jackson agrees: “We’re busy people. We don’t want to spend hours in government working on things, only for that to be ignored. We need to see results.”

Wright expressed concern about the political rather than administrative side of Whitehall. He worries that certain entrepreneurs – for example, a state educated female engineer – are used as cover, and ministers don't actually want to hear the recommendations. He explains that this isn't split by political party, but linked to the culture of government announcements.

Tomlinson thinks there is limit to how much the government can help. "You're on your own out there", he explains. "You might as well tell people you're on your own rather than encouraging them to come and mess around on your website but waste a fortnight. The last grant I got was in 1991 and it was £7,500, and I wish I hadn't bothered. Right now, we're one of the most innovative businesses in the country. We export most of our race cars across the world, and every minister wants to have his or her photo taken by manufacturing. But I couldn't get banks to lend any money, so I've put in £20 million of my own and it's taken me 10 years to build. If I want to export, I Google it. If I want advice about what other people are doing to export, I speak to those guys. Ultimately, your time is really valuable. [Government] should put a sign up and say: 'this might distract you from your business.'"

Sam Morgan contrasted the support he has got through Virgin with the Leeds Chamber of Commerce. The connection to Virgin has taken him to America to pitch to Richard Branson mid flight (en route to Detroit) and has led to advice from some leading lights in fashion, including Julie Deane of The Cambridge Satchel Company and Wayne Hemingway. "While Virgin clearly have their own PR agenda in this, I have been a willing participant. The contrast with the Leeds Chamber experience has been akin to an Upper Class flight with Virgin compared to a Jet2 out of Leeds Bradford. While you are never going to get the glitz and glamour with a local enterprise network, Virgin have unlocked so many different opportunities which have been truly inspiring. The Chamber of Commerce has given me some rather bland link-ups to people who don't really get either me or my business."

Patel questioned why it had taken so long to get the massive issue of late payments on the agenda. Jackson added that she has yet to see any change: "There's no question of me saying: 'Excuse me, I've got a great contract, we've done our work, we're waiting for late payment and we've had to pay the VAT on it already'. Cashflow is important." A high-street chemist recently tried to suggest Mitchell sign a contract with payment terms of 105 days, while any payment she had to make would be due immediately, otherwise she would be charged interest.

Patel explains: "As a businessman, I would never have turned to government. I try to avoid the government, I think most entrepreneurs do. I haven't got time for the grants etcetera. But having worked with government officials, I discovered that entrepreneurs underutilise our export services. Measured against any other industrialised country we're under-exporting. But there's an immense resource, that we've paid for in our tax pounds, to help us to export into other markets. I know we spend a bit on marketing, but entrepreneurs aren't getting the message that there's a great service out there." Jackson thinks that, because entrepreneurs

are busy and focused on growing a business, “government should be going to successful entrepreneurs, knocking on their doors.”

Tomlinson spent a long time looking at government schemes in his position as Entrepreneur in Residence at BIS. “I can honestly say that there is no lack of desire to help businesses to break down the barriers to growth and there are a lot of programmes aimed at achieving that end. The gov.uk website includes a lot of information, support and advice that entrepreneurs can access should they want or require it.”

However, he thinks that the concentration is in the wrong place. “With over half a million new businesses starting-up every year, we do not need to encourage people to be entrepreneurial, there is no end of people willing to set-up their stalls in the business community. We need to look at those who are there already, who have made it through those early turbulent waters, to create a stable and successful business.”

Tomlinson thinks, as a country, “we need to ask ourselves ‘how do we incentivise these people to stay in their businesses and continue to drive growth?’ Most entrepreneurs are not driven by money, but by success. Their natural inclination, more often than not, will be to stay in the business. However, when the business future looks risky and uncertain, it is easy to see how attractive an offer of a lifetime of personal financial security can be. We need to make sure the risk/reward balance is aligned in a way which encourages and rewards entrepreneurs to take the personal risk of growing their business for long-term success.”

James said Silicon Valley works because it has a culture of entrepreneurs supporting and learning from each other. He said “it’s as much a lifestyle as a skill set. And the success factors are about being able to draw on networks, understanding what it’s like to do it.”

James thinks that there is a market failure so government needs to get involved, but Wright challenges this. “I’m a Labour MP, I believe in the power of the positive state and I think that government has a role to play in addressing market failure to produce optimum outputs. But one of the things I’m concerned about with government – and I’ve seen this first hand – is that there are too many initiatives. We love to tinker, and there are too many announcements and reannouncements. You just want a stable, easy to understand framework to do things. I’m not sure the government can deal with that. Is that why organisations such as The Entrepreneurs Network are so important? They can facilitate this and provide that network and allow the exchange of ideas that happen in places like Silicon Valley.”

POWERING THE NORTHERN POWERHOUSE

The sentiment across the table was broadly positive about the Northern Powerhouse, but most entrepreneurs wanted to know exactly how it would help them. “It’s a really positive movement, but I’d like to see some more initiatives

come to fruition and a long-term plan of what we can expect to be achieved and when”, says Ahmed.

Tomlinson thinks “the North has a strong industrial heritage and it is not too long since its prosperous industries were powering the UK economy’s global footprint. The concentration on the City, London and by extension South East, has had a lagging effect on the Northern economy. I’m very much behind the aims of the Northern Powerhouse, but I question whether it has the ability to achieve these aims in its current form. At present, it is very Manchester-centric. The Chancellor needs to avoid the trap of creating more ‘City’ like services-hubs in the North without developing the real economy and businesses that will drive exports. This means more focus on skills, access to finance and planning.”

Gardiner also expressed concern that “at the moment, it seems to be focused on Manchester, if the press and George Osborne’s travel arrangements are anything to go by. The focus on devolved power to local government is all well and good from a political perspective, but I have not seen a compelling case that the benefits of an extra layer of government (and potentially bureaucracy) will have on businesses and the ability to encourage entrepreneurs.”

Murray described it as unquestionably a good idea, but isn’t confident it will achieve any of the goals it purports to: “The focus on London has been toxic to our economic security. Centralising everything in London has created each and every major problem that the city currently faces – transport, pollution, housing prices, social inequality, crime, water services, sewage systems, and so on. Thinking of some of the proposed transport projects in and around London, I am simply shocked – why build Crossrail, when you can put that £14.8 billion into improving transport links in the North and outside of London, to literally remove people from London by improving job prospects outside of the capital? The more emphasis that gets put on London to boost jobs, the more the city will sink under its own weight, dragging the rest of us with it.”

Murray adds: “George Osborne said that he wanted the Northern Powerhouse to be something to rival other European regions. In order to do this, people have to be able to move freely within a city first, and a good way to manage the flow of people is through an underground metro system. In the UK, there are two cities that have metro systems – Glasgow and London. In the rest of Europe, Germany has four, France six, Italy seven, the Netherlands two, Spain four and Turkey five. I’m not proposing that each major Northern city get a metro system, that would be ridiculous, what I’m saying is that those European cities have well established means of transportation that the UK cannot compete on, because it has grossly neglected it for almost a century.” But Murray doesn’t think we should try to fix the mistakes of the past – “inner city businesses are built to meet the needs of a retired generation” – instead, he thinks we should focus on things like driverless cars, 3D printing, telepresence systems, digital economy and industry 4.0.

Regarding the Northern Powerhouse, Morgan says “anything that throws focus on business and enterprise outside the London sphere can only be good.” But he

thinks “this needs to be all encompassing and not just result in developing an inner business circle inside the M60.” He thinks “people need to understand the wealth of talent up here; we manage to create some spectacular products and services, and people need to look up from their spiced lattes and realise this.”

Despite the challenges, as the wealth of entrepreneurs around the table attested, Yorkshire has a lot going for it. As Gardiner notes: “Yorkshire has a strong network of advisory firms and the ability to keep things ‘local’. Yorkshire folk are also very loyal and supportive, which is what you need at an early stage. Yes, people want to ‘buy British’, but Yorkshire businesses would rather ‘buy Yorkshire’ if there is an opportunity and the more that can be done to promote that within the region will be great.”

ATTENDEES

Iain Wright MP (Principal guest) – Chair of the Business, Innovation and Skills Select Committee

Naveen Ahmed – Managing Director, Parklane Group

David Atkinson – Founder, theYMCo

Annabel Denham – Programmes Director, The Entrepreneurs Network

Mark Gardiner – Founder & Managing Director, Charles Warwick

Ian Harris – CEO, Search Laboratory

Heather Jackson – Founder & Chair, An Inspirational Journey

Barry James – Founder & CEO, The Crowdfunding Centre

Amanda Lennon – Founder, innov8tive Minds

Fiona Mawer – Head of Communication, LNT Group

David McNeill – BD Manager, PwC

Claire Mitchell – Founder & Inventor, Chillipeeps

Sam Morgan – Founder, Paria

Dr Matthew Murray – Chief Technology Officer, Ultramatis

Nick Palmer – Founder, Bizenko

Alpesh Patel – Founding Principal, Praefinium Partners

Philip Salter – Founder, The Entrepreneurs Network

Gordon Singer – Tax Partner and Private Business Leader, PwC

Lawrence Tomlinson – Founding Chairman, LNT Group

Katy Turner – Senior Marketing & Communications Manager, PwC

Kimberley Wilks – Senior Private Client Manager, PwC

Lotty Wiltshaw – Founder, Shot Blast Media

