



Regional Economic Engagement : Local Sector Briefing

Dorset: Financial & Business Services

Introduction

The Financial and Business services (FBS) sectors of Dorset and surrounding areas constitute a large, diverse and dynamic part of the economy: including many sectors that have grown relatively well in recent years.

In broad terms, depending on the definition used, these activities account for 15-20% of Dorset output, jobs and numbers of enterprises in any given year. Locally, the industry has a few large, multinational and national financial institutions supported by a multitude of smaller firms covering many different activities, but all delivering to a growing business and household client base.

FBS represent 'oil in the engine' of the modern economy, providing value to a range of customers in an increasingly complex and challenging financial and technical/regulatory world. FBS will be an important component of future growth in Dorset, developing high productivity and high value activities, generating well-paid jobs and supporting vital economic structure for a competitive and entrepreneurial future.

Economic Context

FBS constitute a range of services, including

- 1) Finance and insurance services (FIS) such as banks, building societies, insurance companies, pension providers and other financial services,
- 2) Professional, scientific and technical services (PST), such as legal, accountancy, architecture and engineering, research and development, and marketing/PR services, and
- 3) Other business services (largely real estate related¹).

In the national economy, the first two components of FBS represent about 8% and 7% respectively of total output (share of gross value added). These support 1.27mn and 2.24mn employee jobs: 4% and 7% respectively of the UK total. (A wider definition for FBS including 3) above takes the total towards the 20% benchmark mentioned earlier.) In combination, the output

¹ The last of these is largely outside the scope of this report.



Regional Economic Engagement : Local Sector Briefing

and employment figures suggest FIS is a relatively productive sector (high value output relative to labour input). Within Dorset, the equivalent ratios and totals compared with the national averages are 15% FIS and 8.8% PST for Bournemouth and Poole and 1.6% and 8.5% for the rest of Dorset.

The key message is that the share of these sectors in the economy are increasing over time: they represent an ‘engine of growth’ in the 21st Century.

In broad terms, Dorset’s breakdown of sector jobs is displayed in the table below. Dorset has a relatively high part-time element and is ‘heavy’ on manufacturing (9.1% of the Dorset total versus an 8.5% GB average), accommodation and food services (9.5% versus 7.1%) and the public sector (29% vs 27.4%). It is comparatively ‘light’ on transport (2.6% vs 4.5%) and finance and business services (19.7% vs 22.2%): the latter largely reflecting the weight of the ‘City’ in the national average.

Dorset: Employee Jobs (2014, no.)

agric & mining	900	distribution	52,400	finan & business	62,100
energy & water	2,300	transport	8,200	public	91,400
manufacturing	28,600	accom & food	30,000	other services	15,000
construction	15,500	info & comms	8,300	Total	314,700

Source: ONS - NOMIS

Spatial Employment Detail

Looking at the FIS and PST definitions of employment in more detail, we find the Dorset conurbation (defined for this purpose as Bournemouth, Poole, East Dorset and Christchurch) and the County area (Purbeck, West Dorset, North Dorset and Weymouth and Portland) have the aggregated employment characteristics shown in the next table. As would probably be expected, the conurbation is the centre of provision for these services in Dorset, providing over three quarters of the Dorset total for FBS jobs.

Dorset: Employee Jobs (2014, no.)

	conurbation	county	total
FIS	13,400	900	14,300
PST	13,300	8,300	21,600
Total	26,700	9,200	35,900

Source: ONS – NOMIS – rounded to nearest 100 to comply with ONS disclosure rules.

Definitional changes explain some differences between this and the previous table, chiefly the non-inclusion of real estate services.



Regional Economic Engagement : Local Sector Briefing

Compared with its neighbours, in absolute terms, Dorset's total number of FBS jobs is less. But, reflecting the relative scale of the economy as a whole, Dorset can argue that it has some concentration in these sectors. The c36,000 jobs in Dorset FBS (as table above) compare well with c44,000 in Swindon and Wiltshire, c53,000 in Devon and Somerset (Heart of the South West LEP), and c69,000 in Solent.

FIS and PST together constitute up to 13% of the employment economy in Dorset. This ratio compares with the equivalent ratios for Dorset's LEP neighbours, as summarised in the next table. Specialisation in these services is greater in Wiltshire (mainly in Swindon) and, to a smaller extent, Solent (Southampton) and lesser in Devon and Somerset (HoSW).

Dorset & Neighbours (2014, % of total economy)

	Dorset	HoSW	Sw+Wilts	Solent
FIS	4.5	1.6	5.3	2.9
PST	8.4	7.1	11.5	10.4

Source: ONS – NOMIS

Business Demography

Regionally, FBS tends to constitute a few very large firms and a myriad of smaller professional and bespoke service providers. In Dorset, the former group is typified, amongst others, by JP Morgan's activities in Bournemouth (c4,000 employees) and LV's (c2,400) operations in Poole².

These and other major companies cover a wide range of 'back office' and 'customer facing' activities, often at a global or national level. Their decisions about local investment in particular activities within a global or national context (on-shoring, offshoring and near-shoring for frontline and back-office functions), can have a major impact on the structure of the local economy, its workforce/skills requirements, and its trends of growth over time.

Moreover, they provide an 'anchor' that enables other entrepreneurial business service spin-offs to start, to grow and to develop. In recent years, the growth of FBS, at least in terms of net new jobs (as in the economy as a whole), has tended to be more amongst the SME community of the financial and professional supply chain, which ranges across the full gamut of banking,

² Other major employers include Abbey Life, Ageas, Arthur J Gallagher, BNY Mellon, Barclays, Nationwide, Pru Health and Teachers Building Society.



Regional Economic Engagement : Local Sector Briefing

insurance, accountancy and law and other professional services, and scientific, technical and other business consultancy and support services.

The PST companies in Dorset also tend to be at the smaller end of the spectrum, although there are some larger professional firms, some of which are parts of regional or national/international groupings. The PST companies offer standard-to-bespoke support services to the local business community as a whole and/or provide specialised technical and scientific services to particular sectors and/or technologies on a wide geographical scale.

In 2015, Bournemouth, Poole and the rest of Dorset had 110, 95 and 265 enterprises respectively in FIS according to ONS figures³. The equivalent numbers for PST and other services were 965, 880 and 2,575 respectively, probably implying a smaller individual scale.

Compared with the spatial totals, the former (FIS) were 1.8%, 1.6% and 1.4% respectively of the total number of local enterprises in each of the three main Dorset authority areas (Bournemouth, Poole and Dorset County), compared with 2.0% for Britain as a whole and a 1.7% average for SW England. This seems to suggest lower numbers but larger firms. On the same basis, the latter (PST) were 16%, 15% and 13.7% respectively of the total number of enterprises compared with 18% national and 15% regional.

In both of these main FBS sectors, a majority are small – indeed, micro businesses (less than 10 employees): i.e. Bournemouth 86% in finance, Poole 89% (both below national/regional averages) and 96% rest of Dorset. Professional equivalents are 93%, 94% and 95% respectively. These ratios are fairly typical for these industries.

The following table shows these enterprise statistics in different detail for a broader definition of FBS. It shows the preponderance of management, property, and professional services in quantitative and share terms. The more urban area is highly represented in real estate and marketing.

³ It is important to recognise that these data series are not always totally representative because 1) firms headquartered elsewhere may not be included and 2) confidentiality rules require major companies not to be identified – hence, branch networks and some large facilities of multinationals may not be fully represented.



Regional Economic Engagement : Local Sector Briefing

FBS Enterprise Counts in Dorset 2015	B'mth	Poole County	
64: Financial services, except insurance & pensions	20	40	15
65: Insurance, reinsurance & pensions	5	30	15
66: Activities auxiliary to finance & insurance	80	200	65
68: Real estate activities	290	660	300
69: Legal & accounting activities	180	375	135
70: HO Activities; management & consultancy	345	890	305
71: Architecture & engineering svcs; tech testing & analysis	170	630	220
72: Scientific research & development	5	30	5
73: Advertising & market research	75	110	55
74: Other professional, scientific & technical activities	180	485	150

Column 1 Bournemouth, Column 2 Dorset, Column 3 Poole

Risks to Local FBS

Maintaining a vibrant FBS business community is vital to the local economy. There are potential risks, however, because global financial and professional services can be 'footloose', moving to where market, technological, fiscal and other environmental or political factors are relatively attractive. Many of these factors, especially on broad policy matters, can be beyond the influence of those engaged in local economic development.

Where possible, however, the key need is to maintain local 'stickiness' of investment in productive capacity by providing the infrastructure and connectivity, skilled workforce, and broader business and social environment that encourages major employers, rapidly growing enterprises and their supply chains to stay and grow.

Investment is encouraged by certainty, competitiveness, agglomeration and openness: the demonstration that a locality is 'open for business because business is open' and attracting net productive inward investment and migration. Right now, a major risk to these elements of "stickiness" for Dorset is the long-term uncertainty for investment intentions created by the recent referendum vote to remove the United Kingdom from the European Union. There are already signs that major FBS players will re-orientate future real



Regional Economic Engagement : Local Sector Briefing
investment away from this country to elsewhere in the major EU financial countries/markets.

Concluding Remarks

Dorset has significant FBS activities, largely matching those of the economy overall in share terms but with some important specific specialisms and characteristics, notably a tendency towards larger, more externally orientated constituents in the conurbation.

This spread creates a mutually reinforcing flow of workers and services, within and without, the local area that is highly responsive to 'events' in the broader economy and the policy background.

It also reveals a degree of 'beacon' and 'catalytic' behaviour⁴ – the former shining a light on industrial 'best practice' for others in the industry and beyond to imitate and the latter providing a stimulus to creative and disruptive change: a key dynamic of growth in a modern economy.

The Dorset economy benefits from its FBS activities and development actors would do well to retain and develop capacity in FBS – a generator of high value activity and jobs. Local partners may not easily influence some of the global or national pressures that drive the process of growth and development in this sector. They can help, however, to create the conditions for relative 'stickiness' amongst key workers and decision makers by promoting an environment for sustainable growth.

Dorset's physical location is supportive in terms of its environmental wealth and connectivity. This helps to maintain a pool of talent and to drive investment forward.

There are some weaknesses, however, ranging from intense competition from the "City", with its networking and scale advantages, to workforce issues about SE costs and housing availability versus SW incomes and facilities. Dorset could usefully develop its agglomeration characteristics further to promote a viable 'cluster' of locally, nationally and globally successful businesses⁵ that is networked to the wider FBS community yet resilient to change in its own right.

⁴ See my inaugural public lecture for development of these characteristics

⁵ The South Coast Financial Services Centre of Excellence (SCFC – launched March 2015), building links in the industry across southern England, could yet prove to be an important initiative in this respect.



Regional Economic Engagement : Local Sector Briefing

FBS is a sector where market, technical and policy change is frequent and working closely with local development specialists is vital to structural cohesion. This is particularly relevant in the area of skills and training, where gaps and mismatches are often cited as factors restricting local expansion.

Finally, the recent UK decision (by referendum) to leave the EU casts a shadow over parts of FBS. Already, major financial institutions, including JP Morgan, are talking about moving some activities from UK sites to Frankfurt and Paris. This may have negative implications for the existing south coast FBS supply chain and casts a shadow over the prospects for further inward investment in the medium term.

There is always a balance to be struck between indigenous and externally driven growth. The key is to build integrated 'stickiness' between the two with an approach to local economic development that ties major finance companies to an area whilst allowing the preponderance of smaller operations to innovate and grow within both the local and wider geographies.

Against this background, it will be important for the local development community to work with local firms to investigate where damage may occur and to assist in possible initiatives to prevent and mitigate against the possibility of unfavourable shifts in investment.

Nigel F Jump, Professor of Regional Economic Development (August 2016)