EXECUTIVE SUMMARY

- Employment in the business services sector of the City of Sunderland has increased substantially (from 6,750 to 9,500) in spite of a fall in the number of establishments over the period 1996-2002.

- However, because of Sunderland's relative specialism in manufacturing and its proximity to the regional capital (Newcastle) the business services sector accounts for less than 10% of the City's employment. This is below the pro-portion for the region as a whole (13%) and the national average (20%).

- The business services sector is dominated by *Other Business Activities* (investigation/ security activities, legal activities, accounting, industrial cleaning); *Financial Intermediation* (banks and building societies); and *Real Estate Activities*. Together, these account for nearly three-quarters of total employment in the sector.

- Spatially, the sector is undergoing relatively rapid change. The number of establishments located in the *City Centre* fell by nearly one-third over the period, and now stands at 147; the resulting fall in employment is proportionate to this, with City Centre posts down by over 25%, from 2,200 to 1,540.

- *Washington* recorded a similar proportionate fall in both number of establishments (down from 103 to 68) and staff numbers (a decrease from 1,170 to just over 700 by early 2002).

- The *Urban Periphery* was, in 1996, already the main centre within the City for business services activity, with 220 establishments employing 3,050 people. Despite a reduction in the number of units (to 188), business services employment in this part of the City has more than doubled over the past six years, and now stands at 6,830.

- Average establishment size has been fairly steady in the City Centre and Washington (around 10-11 employees per firm) and Houghton/Hetton (with 8 employees per unit), but has increased sharply in the Urban Periphery (from 13 to 30) as a result of new large-scale operations.

- SMEs (<250 staff) account for around 90% of establishments, but just over half of total sectoral employment is now concentrated in eight large externally-owned companies, operating 44 establishments.

- Some 52% of the workforce are female, slightly higher than in the region as a whole (51%) and nationally (49%). Around 19% are part-time which is lower than both the regional (22%) and national (24%) figures.

INTRODUCTION

The business services sector is an important part of a city's economy, contributing to local wealth both in terms of its own growth and sales of services outside the area, as well as aiding the competitiveness of local firms through providing support for their activities.

No detailed study of the sector in the City of Sunderland has previously been attempted. However, research into the services sector as a whole, undertaken for the City Council in 1996-97, threw some light upon the business services component (see *Structure and Change in Sunderland's Services Sector since 1988*, NERU 1997).

The current report investigates the development of the business services sector (BSS) over the period 1996 to the beginning of 2002. It was compiled using a newly-updated business services database building on the services sector data gathered for the 1997 report. In all, the BSS database contains over 700 fully up-dated records, and analysis of this gives a picture of the nature of the sector and change it has undergone over the last six years.

The 703 establishments on the database include numerous branches or operations of multi-site businesses, such as banks, building societies and retail stores. Of this total, 453 units were found to be currently in operation. Data was obtained, via telephone or postal contact, from nearly 95% of these establishments. Estimates and indirect sources (such as the internet) had to be used for the remaining units - mainly branches of banks or building societies, where data is not routinely collected (or disseminated).

SECTORAL CHARACTERISTICS AND TRENDS

Overall picture

The business services sector in the City of Sunderland employed just under 9,500 people in 2002, representing 9% of total employment in the area. The sector is proportionally smaller than in the North East as a whole, where business services contribute 13% of overall employment. The contrast is even more marked in relation to the UK, where the sector accounts for 20% of overall employment, and, in particular, the South East, where the figure is 23%. Factors such as Sunderland's relative specialisation in manufacturing, and the proximity to the regional 'capital' (Newcastle, or, perceived at a larger scale, Leeds) both contribute to this situation.

Even though the Sunderland business services sector workforce is under-represented when compared to national and regional figures, analysis of the database reveals a significant increase in employment since 1996. Overall employment rose by 2,750 jobs, or around 40%, over the six year period. The sector has played an important role in helping to maintain employment levels in the City: its growth more than counter-balanced job losses in Sunderland's manufacturing sector, where employment declined by 9% (2,800 jobs) over the same period.

Taking a long-term perspective on this change, the BSS has, in recent years, begun to move towards a level which would be expected of a City like Sunderland, after years of being markedly under-represented. This is evidenced by comparisons with the wider economy. The growth rate of the BSS in Sunderland over the period 1996-2002 is proportionately much higher than that for the North East as a whole (17%) and also considerably above the equivalent figure for the UK (26%).

Workforce structure

The structural makeup of BSS in terms of working hours and male/female split is not substantially different from the pattern found within the wider economy. The latest *Annual Business Inquiry* (ABI) figures indicate that 52% of Sunderland's business services workforce was female in 2000 - similar to that for the North East (51%), but slightly higher than in the South East and UK as a whole (48% and 49%, respectively).

ABI figures also show that 19% of the Sunderland business services workforce is part-time, of which well over four-fifths is female. This part-time figure is lower than the North East percentage of 22%. The South East and UK BSS workforces also have higher percentages of part-time staff (25% and 24% respectively), although lower percentages of these are female (71% and 72%), the latter reflecting mainly

Table 1 Employment change by SIC classification

SIC Classification	1996	New openings	Closures	In situ change ⇑	In situ change ⇓	Net change	% change	2002
Financial intermediation	1,628	2,289	758	405	285	+1,651	*+101%*	3,279
Insurance + pension funding	713	0	407	491	10	+74	*+10%*	787
Activities auxiliary to financial intermediation	93	5	26	40	21	-2	*-2%*	91
Real estate activities	1,074	57	150	169	27	+49	*+5%*	1,123
Renting of machinery & equipment without operator	523	86	213	108	46	-65	*-12%*	458
Computer + related activities	176	68	110	34	3	-11	*-6%*	165
Research and development	60	8	60	0	0	-52	*-87%*	8
Other business activities	2,476	616	675	1,569	406	+1,104	*+45%*	3,580
Total	**6,743**	**3,129**	**2,399**	**2,816**	**798**	**+2,748**	***+41%***	**9,491**

differences in the make-up of BSS jobs in core areas of the economy. However, a higher proportion of the women engaged in Sunderland's BSS work full-time – 69% compared to the North East (64%), the South East (63%) and the UK (64%)

Breakdown of BSS activities

Using sub-sector categories based on SIC 1992, the BSS in Sunderland would appear to be dominated by two main sub-sectors, which jointly account for over 72% of overall employment (compare totals for first and last columns in Table 1). Moreover, these two areas of activity have become proportionally more important within the BSS employment total over the period since 1996.

The largest of these sub-sectors is *Other Business Activities*, which accounts for two-fifths of the number of establishments and a similar proportion of the jobs (3,580). The breakdown of major activities within this sub-sector is as follows:

- *investigation and security activities*, with an employment figure of just under 800 – the bulk of which is contributed by Group 4 Securitas;
- *legal activities* with an employment level of 660, made up of small sized establishments;
- *business and management consultancy activities*, which has a workforce of 550, almost all of which is employed by 2Touch Acxiom;
- *accounting* (370 workers), with Tenon the main firm;
- *industrial cleaning*, employing 300, over 60% of whom work for Rentokil Alisa Environmental and Insitu; and
- *labour recruitment*, over half of the 250 workers found in a new company, Driving Power.

The second main sub-sector is *Financial Intermediation*, which accounts for one-fifth of the total number of business units, but over a third of total employment (3,280 workers). Unsurprisingly, these jobs are largely in *banks and building societies*, which account for 2,660 people (81% of the sub-sector's total employment). Although banks and building societies have grown in terms of employment over the recent period (by 84%), this is below the rate of growth experienced by the sub-sector as a whole (which doubled in size) and therefore their proportional contribution has diminished slightly. Barclays Bank is the biggest employer, contributing 43% of all bank/building society employment (1,430 staff).

The final significant sub-sector, with the third highest number of units (68) is *Real Estate Activities*, which contributes around 12% of total employment (1,120 workers). This is a smaller proportion of total employment than in 1996 when it accounted for just over 16%, although the number of units has fallen only marginally. The major source of employment is *letting of own property*, which provides over two-thirds (750 workers) of the sub-sector's employment and is dominated by the Sunderland Housing Group.

The other five sub-sectors contribute only around 1,500 (16%) of the total number of BSS jobs – most of these in *Insurance and Pensions Funding* (800) and *Renting of Machinery* (460). There are noticeably few firms or employees in *Computer and Related Activities* and *Research and Development*.

BUSINESS SERVICES SUB-SECTORAL TRENDS

The number of BSS establishments actually fell by 141 during the 1996-2002 period, equivalent to a quarter of the initial total (Table 2). This trend applied to all sub-sectors (apart from *Research and Development* which has just one establishment).

The greatest contraction – in terms of actual firm/establishment numbers, if not proportionally - was recorded in *Other Business Activities*, with a net loss of 49 establishments (35% of the total). This sub-sector, however, also increased its employment by over 1,100 jobs (45%), so there has plainly been a significant process of rationalisation accompanied by growth in average unit size.

The same can be observed of *Financial Intermediation*, which was also a main contributor to the fall in establishment numbers (a net loss of 27 establishments, nearly a quarter of the 1996 total), while also registering a sharp growth in employment (+101%). In this sub-sector, Northern Rock made the largest contribution to the fall in the number of units. Following a takeover of the North of England Building Society, some 14 branches were closed down as part of a rationalisation of outlets/offices. Barclays (a net reduction of nine units over the period) also carried out a high street restructuring; some of the staff being transferred to the new Contact Centre at Doxford International Business Park (see box below).

Other main contributors to decline in terms of number of units were *Renting of Machinery and Equipment without Operator* which had 23 (16%) fewer establishments in 2002 than in 1996. The greatest downsizing originated with the Box Clever Group, which closed five establishments following its takeover of Granada Rental. *Insurance and Pension Funding* also lost 22 establishments, representing a fall of nearly 60% in the number of units over the six year period.

The employment expansion of *Financial Intermediation* and *Other Business Services* (an aggregate gain of 2,750) is almost exactly equivalent to the net expansion in BSS as a whole over 1996-2002. In the other sub-sectors, the small gains in *Insurance and Pensions Funding* and *Real Estate Activities* were almost exactly cancelled out by losses in the remaining four sub-sectors.

Dynamics of change

Consideration only of the *overall* changes in the BSS as a whole, or even the individual sub-sectors, can hide significant developments

Table 2 Establishment change by SIC classification

SIC Classification	1996	New openings	Closures	In situ change ⇑	In situ change ⇓	In situ change -	Net change	*% change*	2002
Financial intermediation	119	27	54	21	27	17	-27	-23%	92
Insurance & pension funding	38	0	22	6	4	6	-22	-59%	16
Activities auxiliary to financial intermediation	16	1	5	5	4	2	-4	-25%	12
Real estate activities	74	15	21	23	7	23	-6	-8%	68
Renting of machinery & equipment without operator	79	18	41	22	7	9	-23	-29%	56
Computer & related activities	25	5	15	7	1	2	-10	-40%	15
Research and development	1	1	1	0	0	0	0	0	1
Other business activities	242	42	91	80	33	38	-49	-20%	193
Total	***594***	***109***	***250***	***164***	***83***	***97***	***-141***	***-24%***	***453***

occurring within the sector. This section examines the components of change (new creations, closures, and expansions/contractions among units surviving the period) which contribute to the net figures. It should be borne in mind that 'new creations' may refer either to the formation of an entirely new business or the opening of a new branch or office by a pre-existing firm.

Closures/exits

Of the 594 BSS establishments operating in the City of Sunderland at the start of the period, no fewer than 250 (42%) had closed by 2002 (i.e. ceased trading at that location altogether, moved out of the Sunderland area, or amalgamated activities on another site within the City). This rate of closure is higher than that for manufacturing (35%), which, given the more favourable operating environment in services relative to manufacturing over the period, indicates greater volatility on the part of BSS.

The number of jobs affected was 2,400, a quarter of which were lost in closures carried out by three firms - The Insurance Service (220), Courtline Security Services (120) and Northern Rock (210). (Northern Rock actually transferred a number of these jobs to their Doxford Park location, so they effectively re-appear under '*in situ* expansion'.) Sub-sectors recording the highest number of closures were:

- *Other Business Activities* – 91 out of 242 establishments (38%)
- Financial Intermediation - 54 out of 119 (45%)
- Renting of Machinery and Equipment without Operator - 41 out of 79 (52%)

An even higher rate of closure was recorded by *Insurance and Pensions* (58%) and *Computer and Related Activities* (60%), but the number of units involved were much smaller.

New creations

Although the number of new creations fell well short of closures (109 compared with 250), the relatively large average size of the new operations (nearly 30 jobs per firm), meant that they contributed 3,130 new posts, easily outweighing the losses incurred through closures. *Other Business Activities* had the highest number of new units (42), generating just over 600 new jobs, followed by *Financial Intermediation*, with a lower number of new units (27) but a higher level of new job creations (2,290, or three-quarters of all such gains). In every sub-sector, the number of new creations was equivalent to only a relatively small proportion of closures.

In situ change

Employment change in units surviving the entire period was generally positive; of the 344 establishments within this group, almost half (164) experienced growth, twice the number registering contraction (83). The 2,800 new jobs created in expanding businesses were equivalent to nearly four times the number lost in those firms which downsized during the period, leaving a net gain of just over 2,000 jobs as a result of *in situ* changes. Just over 28% of these surviving units (97) registered no change in employment.

The best performing sub-sector was *Other Business Activities* where 80 expanding units provided 1,570 additional jobs, compared to the 400 posts lost in 33 contracting establishments. Employment growth was also experienced in all other sub-sectors, most noticeably *Finance and Pension Funding* (a net gain of 480 jobs). *Financial Intermediation* was the only sub-sector to register a larger number of contracting than expanding units, although, even here, positive employment growth was registered among the units which survived the period.

SPATIAL ASPECTS

Table 3 Establishment spatial change

Area	1996	New openings	Closures	In situ change ⇑	In situ change ⇓	In situ change -	Net change	*% change*	2002
City Centre	206	29	88	60	34	24	-59	-29%	147
Urban Peripheral	220	47	80	58	29	52	-32	-14%	188
Washington	103	20	55	28	12	8	-35	-34%	68
Houghton/ Hetton	64	12	27	16	8	13	-15	-23%	49
Total	***593***	***108***	***250***	***162***	***83***	***97***	***-141***	***-24%***	***452***

Sunderland's BSS continued to reconfigure its spatial distribution at a rapid pace. Although all areas recorded a net loss of sites (Table 3), associated employment performance differed sharply between the main zones making up the city of Sunderland (Table 4).

The *City Centre* was a major loser, both in terms of the number of establishments and associated employment. It recorded 59 (29%) fewer establishments than in 1996 and a reduced number of jobs (down by 670, or 30%). This reduction is largely accounted for by changes in *Financial Intermediation*, where eight unit closures led to more than 400 job losses, and *Other Business Activities* where 29 small unit closures caused a further 140 positions to be lost.

Sunderland's *Peripheral Urban* area, by contrast, continued its previous trend of impressive employment growth, and increased its overall number of jobs by 3,785 (+124%). This performance took place in the context of continued contraction in establishment numbers, with 32 (15%) fewer establishments in 2002 compared with 1996. This change was again most dramatic in the *Financial Intermediation* and *Other Business Activities*, contributing net increases in employment of 2,280 and 1,300 jobs respectively.

Financial Intermediation achieved this gain in spite of recording the highest loss of units (13) among the sub-sectors. This overall increase in employment is wholly due to developments at the Doxford International Business Park (see box), which grew by 2,850 jobs, and Sunderland Enterprise Park (a net gain of 1,100 jobs).

As with the City Centre, *Washington* experienced a decline in the number of both establishments (35) and jobs (460). This fall in employment represented a 40% reduction since 1996 - proportionately larger than the City Centre's and in sharp contrast to the overall BSS *expansion* throughout the City of 41%. Once more, change was most noticeable in the *Financial Intermediation* and *Other Business Activities* sub-

Table 4 Employment spatial change

Area	1996	New openings	Closures	In situ change ⇑	In situ change ⇓	Net change	*% change*	2002
City Centre	2,213	149	1,048	515	290	-674	-30%	1,539
Urban Peripheral	2,936	2,351	698	1,636	242	3,374	115%	6,310
Washington	1,165	134	556	188	226	-460	-39%	705
Houghton/ Hetton	316	168	93	66	40	101	32%	417
Total	***6,630[1]***	***2,802***	***2,395[2]***	***2,405***	***798***	***1,584***	***+24%***	***8,971[3]***

[1] Does not include NE9 (4 jobs) and SR7 (9 jobs) [2] Does not include NE9 (4 jobs) [3] Does not include SR7 (20 jobs)

sectors, which lost 230 and 150 jobs respectively.

Whilst the *Houghton/Hetton* area lost a quarter of its establishments, it showed a modest increase in the number of BSS jobs (a net gain of around 100, up by 32%). *Other Business Activities* was by far the most important employment contributor with a net gain of nearly 100 jobs, while *Renting of Machinery and Equipment without Operator* recorded the highest number of unit closures (8).

BSS LARGE EMPLOYERS

Table 5 Large City of Sunderland BSS Employers

Company	SIC	Numbers of staff				Number of Units		
		1996	Net change	% change	2002	1996	Net change	2002
2Touch (Acxiom)	*74*	100	400	*400%*	500	1	–	1
Barclays	*65*	324	1,103	*340%*	1,427	17	-8	9
Group 4 Securitas	*74*	11	489	*4,445%*	500	1	–	1
Lloyds TSB	*65*	163	328	*201%*	491	11	-1	10
More Than (Royal & SunAlliance)	*66*	27	430	*1,593%*	457	1	–	1
Northern Rock	*65*	537	-3	*-1%*	534	19	-14	5
Sunderland Housing Group	*70*	680	6	*1%*	686	15	–	15
The Associates (Citigroup)	*65*	14	325	*2,321%*	339	1	1	2
Total		**1,856**	**3,078**	***166%***	**4,934**	**66**	**-22**	**44**

Dramatic structural change has occurred within this sector over the short period since 1996. BSS has been largely characterised by the presence of SMEs (fewer than 250 employees), which account for over 90% of the sector's establishments. However, over half of its employment (4,930 jobs) is now concentrated in eight larger firms (250 employees plus), operating from 44 establishments (Table 5). This represents a significant increase in the dominance of large firms, which in 1996 provided just 27% (1,860) of overall employment. This employment growth has been accompanied by a process of spatial consolidation, as firms have closed smaller sites moved into larger (and often more modern) premises; nearly a third of the establishments of the larger BSS firms have been vacated since 1996. The importance of new infrastructure underpinning this development is emphasized by the fact that two-thirds of large firm employment (3,300 jobs) is now located at Doxford International Business Park.

The majority (57%) of this large firm employment is found within *Financial Intermediation*, although, proportionately, this represents hardly any rise since 1996. *Other Business Activities* is also significant within this picture, providing 20% of employment; having increased this share from 6% in 1996. *Real Estate Activities*, with 14% of employment, and *Insurance and Pension Funding* (9%) constitute the remaining 23% of this sector.

Doxford International Business Park

The business park has grown considerably in the last six years and now accounts for well over a third of BSS employment in the City of Sunderland. In 1996 it had a BSS workforce of 700 which increased to 3,550 by 2002 - over 50% of the total Doxford workforce of 7,000.

Major growth here has come at *More Than (Royal & SunAlliance)* which increased it's workforce from 27 to 460; *2Touch (Acxiom)* which has grown from 100 to 500 staff; *Northern Rock*, employment at which has more than doubled employment from 250 to 520; and *Arriva* which now has a workforce of 170, a 77% rise since 1996.

New arrivals include the *Barclays Contact Centre*, established in 1999, which is one of only three contact centres in the country. It currently employs 1300 staff and plans to increase employment in the next year to 2000, making it the largest site in the country. *The Associates (Citigroup)*, which already had a small site in the City Centre, now employ 330 staff at Doxford; and the *Sunderland Housing Group*, which were formally part of the City of Sunderland Health and Housing Department, now employ around 200 staff at the site.

Written by Ian Fitzgerald (Neru – Northumbria University)

northumbria
UNIVERSITY

NERU
Northern Economic Research Unit