

Appendix A

London's Economic Role and Core Indicators

This paper is intended to provide a broad introductory context to support the London Enterprise Partnership proposal. Once the LEP is formed we shall look at the evidence required to inform the work of the Local Enterprise Partnership, this is likely to include drawing more from the local and sub regional Economic Assessments.

Further supporting evidence is set out in the GLA Economics Economic Evidence Base document 2009 which was produced to support the development of the London Plan, Transport Strategy and Economic Development Strategy.

London: Economic context

On many measures London is a very successful global city economy. London has a larger economy than many European countries and has long been recognised as a leading world city by various studies and surveys. London accounts for over one-fifth of the Gross Value Added (GVA) of the UK economy and has a higher level of income per head than any other UK region. Over the past decade or so London has grown faster than the UK economy and London accounts for one-third of the UK's exports of services.

However, for all its success, London has some significant socio-economic issues. For instance, London has a higher proportion of its population out of work than the UK as a whole – a situation that has persisted since the early 1990s. In addition, after accounting for housing costs, London has the highest rate of child poverty in the country. There are also significant spatial disparities across London. For instance, Tower Hamlets, Hackney, Islington, Newham and Haringey are the five boroughs with the highest rates of children living in poverty in England with at least 44 per cent of children living in poverty.

London's specialisation

The constant drive to higher productivity, in particular due to London's openness to trade, has contributed to structural change in the economy encouraging domestic resources to shift from less productive to more productive uses. As a result of such economic forces over the past three decades or so, London has seen a significant shift away from manufacturing towards services¹.

London's leading area of specialisation is in Financial Services, where London ranks as one of the two leading global financial centres according to the Global Financial Centres Index, and London has the opportunity to develop further as a wider international trading centre in areas such as carbon trading. Along with finance, London also specialises in business services including advertising, legal services, management consultancy, accountancy and creative and cultural activities.

Jobs in retail, hotels and restaurants are expected to grow substantially. London welcomes 14 million overseas tourists every year and business and leisure tourism (business and personal travel and air transport) is one of London's main exports.

¹ Manufacturing employment in London fell from over 1 million jobs in 1971 to around 225,000 jobs in 2007. In contrast, employment in the broad category of business services increased from under ½ million in 1971 to over 1.2 million in 2007

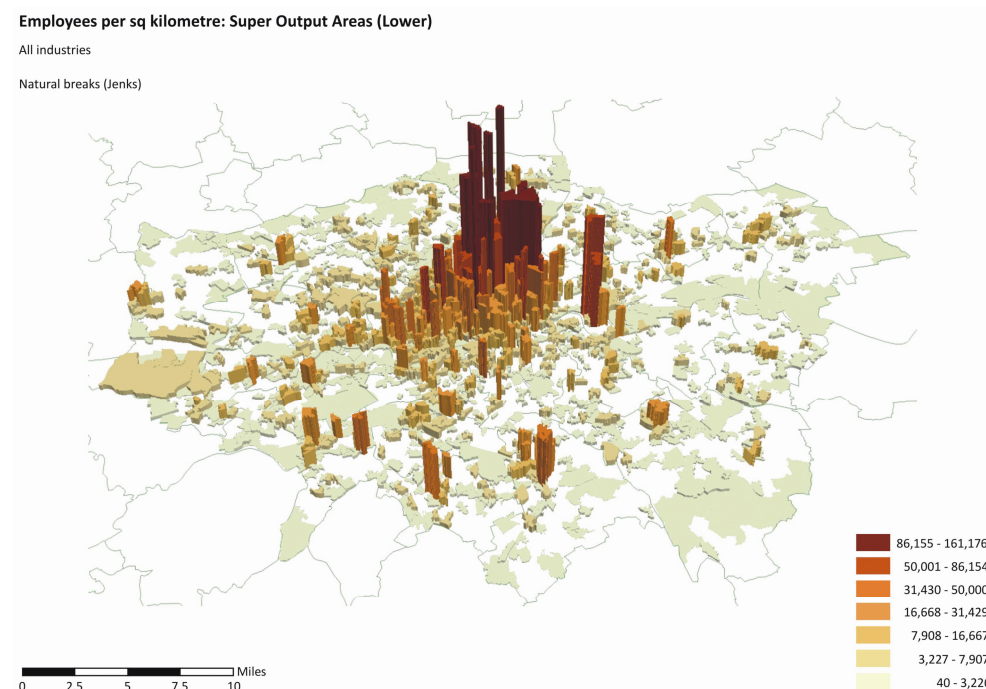
London is one of the most culturally diverse cities in the world, and London's cultural offerings and vibrant night life is an important factor in attracting people to London and in its entrepreneurial culture. London's dynamic creative industries employ well over half a million people. London has a competitive advantage in many of the creative sectors such as TV/radio advertising and publishing. There are significant clusters in video reproduction, publishing, motion picture, radio and television particularly in West London and in Soho. London's strength lies in this sectoral diversity. London also has diversity in the size of businesses, with a healthy small business base providing around half of private sector jobs as well as 600,000 self employed people.

London is home to five of the top 100 universities in the world according to The Times Higher Education Rankings; and with close proximity to Oxford and Cambridge, London is able to benefit from strong links with higher education, which aims to enhance London's performance in innovation and the growth of the "knowledge economy".

The spatial nature of London's economy

London's physical form is the product of more than a century of trade and agglomeration at work. London benefits from agglomeration economies; extra benefits (like a large pool of skilled labour, knowledge spillovers from other firms/workers and access to specialised services) that arise when economic activity takes place in a concentrated space.

Employment Density in London

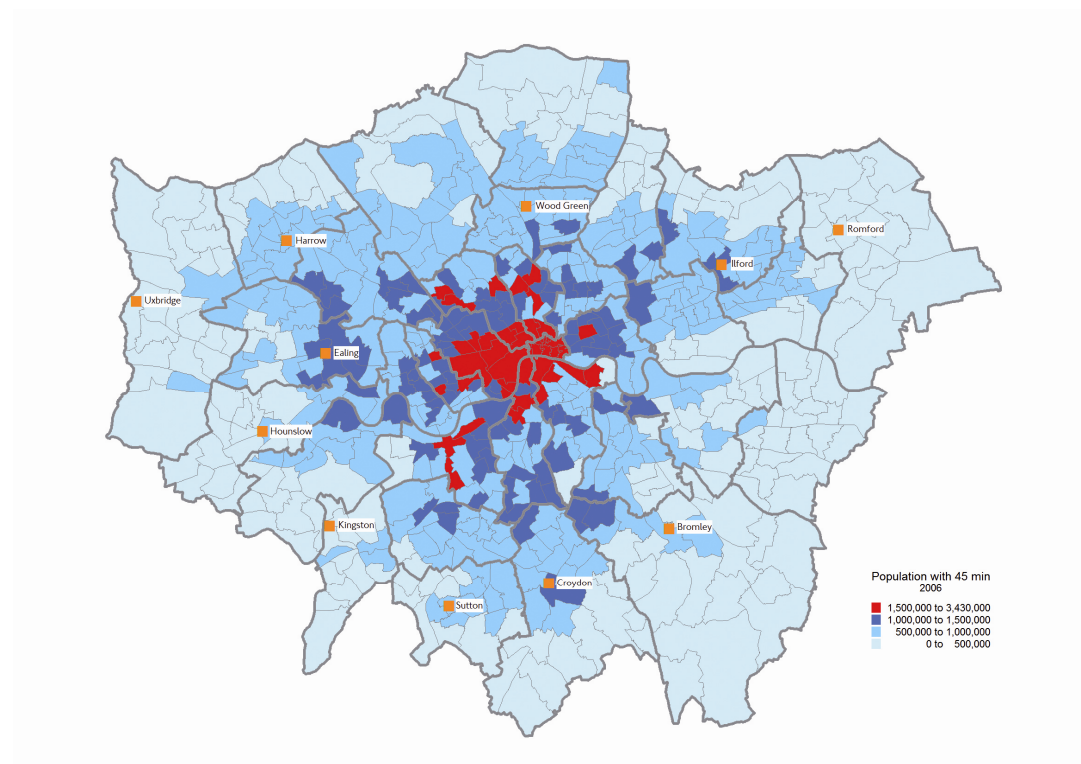


Source: *Annual Business Inquiry, 2008*

There is a significant concentration of employment in the very centre of London. It lies at the centre of the most populous region in Britain and more than 3 million people can travel by public transport from home to Central London within 45 minutes.

Many competing businesses near to one another also leads to more effective competition and puts pressure on all businesses to maximise the efficient use of resources, making them more competitive locally as well as globally.

Number of residents living within 45 minutes public transport travel time



Source: *Transport for London, 2009*

London's specialised, globally competitive activities tend to locate here because they benefit so greatly from agglomeration economies. Within the business services sector, there are notable concentrations in accountancy, legal, management consulting and advertising in Central London as well as the more creative radio and television, publishing and motion pictures industries.

Economic activity outside Central London tends, on average, to be more widely spread and more supportive of an area's immediate population than in Inner London. To this end, the proportion of jobs associated with serving the population (like retail or health and education, for example) and jobs in what might be referred to as 'support business services' are higher in Outer London than in Inner London.

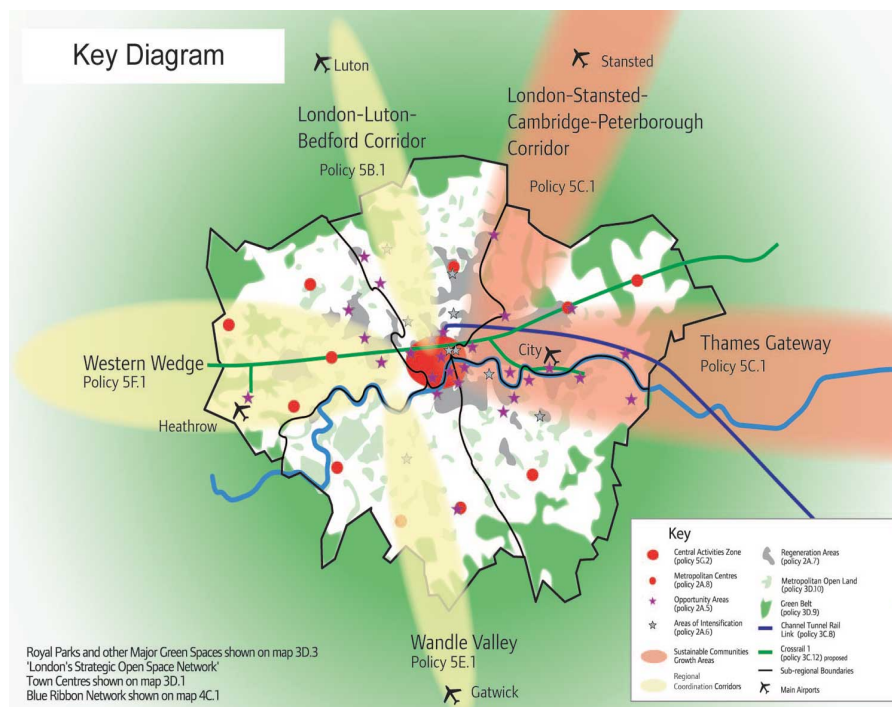
The Mayor's Outer London Commission Report states that over the course of the last two economic cycles, only 2,800 jobs per annum have been created in Outer London compared with almost 5,100 per annum in Inner London and 36,000 per annum in the Home Counties. Moreover, of the 18 Outer London boroughs, nine had negative growth between 1989 and 2007. The report also outlined four potential main areas of economic activity moving forward for Outer London including knowledge-based industries; leisure, tourism and culture; retail; and office based work. Areas that the Commission recommended for future focus include fostering innovation; encouraging a strong, vibrant and diverse retail sector and an increased promotion of Outer London's cultural offerings.

Statistics show significant differences between Inner and Outer London when looking at business demography data. Net-start up rates in Outer London are 2 percentage points lower than in Inner London, and enterprise births per 10,000 population are over 40 per cent lower (however business survival rates are 3 percentage points higher, they are still over 5 percentage points lower than for the UK as a whole). The percentages of small enterprises showing employment growth in Outer London is 2 percentage points lower than the UK as a whole at just 12.4 per cent (and 2.4 percentage points lower than Inner London).

Functional Urban Geography of London and the Greater South East

The functional economic area of London operates on a different scale and with a different dynamic to those of the other UK City Regions. London is the dominant economy within a very large region, the Greater South East (GSE).

Within this region is a collection of areas that have especially strong links with London, commonly known as the Outer Metropolitan Area and includes areas directly



surrounding Greater London as diverse as Southend-on-Sea, Crawley, and Reading. The Western Wedge, an economic corridor with historical specialisation in information technology, stretches from Central London through Heathrow and into the Thames Valley, is the biggest employment centre within the Outer Metropolitan Area. The area is significantly influenced by Heathrow Airport with the area of the Wedge within London containing much employment integral to the airport's supply chain and logistical network. To the west of Heathrow the Thames Valley has become a key centre of international headquarters. Towards the north of London there are significant connections towards Cambridge, with access to high skilled industry and links to higher education; and also a corridor towards Luton. To the east, the Thames Gateway will see

significant investments and improvements to its structural capacity through the completion of Crossrail, creating significant opportunities for growth.

London's sub regions

For sub regional coordination purposes the London Plan is based on five sub regions. These sub regions present considerable diversity and it is important to present the background to each and the notable differences across areas such as employment, productivity, business demography and skills levels. Sub regional characteristics are briefly summarised below:

Central London

Central London contributes approximately 7% to UK GDP, and the City of London 2.5%. Central London's economy is almost entirely based on the service sector, with approximately 95% of all employee jobs accounted for by the broad sector. There is a significant agglomeration of financial and business services, which are found on both sides of the river, as well as creative industries. Central London is home to five of the top research universities in the UK, which are important in providing links and knowledge bases to start-up and established enterprises. Outside the Central Business District; micro, small and medium sized enterprises dominate the area's business structure, but to a lesser extent than that of London as a whole.

Central London has a vibrant economy with high value added businesses and a buoyant labour market. It is an open economy attracting job seekers from across the country and internationally. It also successfully attracts investment, with London having the highest rate of FDI of any city in Europe.

Further, central London has a high number of public sector jobs and it is essential that private sector business activity grows to assist in any shift from public to private sector employment.

South London

South London has good rates of business with 9,000 new businesses per year, and a high level of self-employment at over 11%. The level of employment and economic activity is high and there is a highly skilled workforce with only central having a higher proportion of highly qualified staff.

The business base is diverse with strengths in creative industries, tourism retail and hospitality, advanced manufacturing and production, and business services. Employment is concentrated in a number of inter-linked town, commercial and industrial centres, including a number of centres of regional significance.

South London contains four of the Strategic Outer London Development Centres, Croydon, Wandle Valley, Kingston, and Biggin Hill. South London also includes London's largest regeneration site – Vauxhall, Nine Elms and Battersea which will itself create 27,000 jobs over the next 20 years – and other regionally important development sites such as Cane Hill in Croydon.

Our area is home to a number of major international businesses, including: BT,

Nestle, AIG, Pegasus Solutions, Bank of America, Mondial, E-bay, Thales Avionics, Vector Aerospace Group, Nikon, Thames Credit, Janes Information Group, Lidl and Coty.

The highly qualified workforce means that there is potential for growth in those sectors requiring high skill levels, including creative industries, high value, high technology manufacturing and production and high value networked and intermediary services. There is a good track record of links between higher education and industry, with Kingston University in particular having proven knowledge transfer expertise in business innovation, engineering, aerospace, digital media and design. Recent forecasts show that there is growth potential for up to 120,000 jobs by 2031.

West London

West London contributes approximately 17% of the output of Greater London, with a Gross Value Added of £35bn, and has seen a considerable expansion in overall employment during the last decade across a range of businesses. It is home to a number of major employment locations of national and international importance including Heathrow and Park Royal and to major development site opportunities such as at Earls Court/Kensington, Wembley, White City, Southall and in the Heathrow area. In addition, HS2 and Old Oak Common interchange has major long term regeneration potential. Notable local employers include, British Airways, BBC, BSkyB, Carphone Warehouse, Cisco, Diageo, GSK and Sony Ericsson complemented by 53,315 micro/SME businesses employing less than 5 people.

However, whilst West London has maintained a strong and diverse private sector based economy, it also faces specific challenges. It has a congested communications system, significant pockets of deprivation with nearly a quarter of a million workless residents and an above average business mortality rate. 17.1% of the working population is employed in the public sector rising to 27% in some boroughs, however on average; this is below the UK average.

East London

The East/South East London boroughs are identified in the Mayor's London Plan as a spatial sub region. It is intended that this part of the capital will collectively propel London's phased, long term growth. The Gateway is a well connected sub region, scoring 2nd out of 53 UK sub regions on transport connectivity. It has significantly enhanced links to be realised through Crossrail, connecting residents across the sub region to employment centres in Central London and Canary Wharf. It is ranked 1st out of 49 UK sub regions on business and enterprise indicating a healthy enterprise culture. It has a young, diverse and growing population.

The sub region has slightly higher than UK average employment in the public sector - but with some parts of the sub region heavily reliant on public sector jobs. It does however have higher than average rate of business failure, weaknesses in the labour market, with a relatively low skilled workforce and lack of opportunity for progression and high unemployment across the sub region, ranking in the top 20% nationally.

North London

North London is the location for over 670,000 jobs, based predominately around the M11/Upper Lee Valley and A5/Edgware Road corridors. A wide range of sectors are seen in the area including manufacturing and business services. There is a higher proportion of small businesses and self-employment (for example, 94.6% of businesses in Haringey are small enterprises).

In the sub-region, there is a significant polarisation of skills; with higher than average numbers of high skilled and low skilled residents, indicating pockets of deprivation in the area. There is also a significantly higher than average proportion of public sector employees than the UK as a whole, accounting for approximately 29% of employment compared with 21% for the UK. Given reductions in public spending, there may be opportunities for shifts towards private sector investments in the sub-region.

With an area of 3000 hectares the Upper Lee Valley is London's largest Opportunity Areas identified in the London Plan. It runs into and is spatially connected to the Lower Lea Valley, identified as a priority in the London Plan during the period of delivery of the 2012 Olympics. It is projected to deliver up to 10,500 new homes and 15,000 new jobs. There is also significant investment in green enterprise and clustering in the Lee Valley.

London's economic performance

Employment

At a regional level, London's employment rate is amongst the lowest of the nine English regions, with Annual Population Survey data for 2009 showing London's working age employment rate at 68.3 per cent compared with 70.6 per cent for the UK as a whole. Within this there are significant disparities within the sub-regions. The employment rate in the South sub-region is 10 percentage points higher than that in the North, with East London also significantly lower London as a whole. Unemployment data show similar results, with unemployment in East London above 10 per cent compared with the London average of 8.9 per cent. Employment rates in Outer London (66.8 per cent) are much closer to the national average of 69.5 per cent. The unemployment rate in Outer London is similarly close to the national average.

Business Climate

There is a strong culture of enterprise in London and higher levels of both business start up and economic churn. This is illustrated across London with all five sub-regions having higher enterprise birth rates than the UK as a whole and net start-up rates significantly higher than national averages. However, probably partly as a result of the higher start-up rates, three-year business survival rates are lower in London than national averages. Compared to a national average of 63.6 per cent, survival rates are lowest in Central London at 54.1 per cent, closely followed by North and South London (55.7 and 55.9 per cent respectively).

The disparities within London are more noticeable between Inner and Outer London, with significantly lower enterprise birth rates and growth. Despite marginally better survival rates, Outer London has lower business growth and business survival rates than the UK as a whole.

Skills Base

The proportion of degree level skilled residents in London is 10 percentage points higher than the UK as a whole (at 39.7 per cent). This is also the case for all sub-regions; however the proportion in East London is the lowest at 32.2 per cent. The level is highest in Central London (53.1 per cent). Skills indicators show that levels in Outer London are closer to national averages, the proportion of residents qualified to degree level and above stands at 34.3 per cent compared to 29.8 per cent for the UK as a whole.

Public Sector Employment

The proportion of Londoners working in the public sector is the lowest of the nine English regions at 16.7 per cent compared with a UK average of 20.4 per cent. However these figures do mask some noticeable differences between sub-regions and boroughs, where some boroughs such as Newham and Greenwich have proportions above 30 per cent.

Further information on the economic performance of London's sub regions can be found at Annex A.

London's attractiveness to businesses and people

London's economic success is based on its competitive strengths across a range of factors. For business these factors include, amongst others, access to qualified staff, access to markets and a competitive business environment. People are attracted to London by the variety of career opportunities, the diversity and openness to different cultures, as well as the vast array of leisure and cultural activities.

As a result, London has long been recognised as a leading world city by various studies and surveys². Surveys such as the Global Financial Centres Index³ consistently ranks London as one of the two leading financial centres in the world, while Cushman and Wakefield⁴ consistently ranks London as the most attractive city in Europe in which to locate a business. This position as a global centre plays an important role in sustaining and attracting business and people to the city.

London's total economic activity (GVA) is substantially higher than any other UK region accounting for over 21 per cent of total UK GVA⁵. London's highly skilled labour force contributes to London being over 30 per cent more productive than the rest of the UK. GVA per hour worked in London is above the UK level across all sectors of the economy.

The main factors that have been found to attract businesses to London include: the availability of highly qualified staff; a favourable business environment (including taxes and regulation); access to markets; a favourable time zone; pre-eminence of the English language; internal and external transport links⁶.

² Sassen, S. (2001) *The Global City*.

³ Global Financial Centres Index (2010) prepared by Z Yen and published by the City of London Corporation.

⁴ Cushman and Wakefield, 'European Cities Monitor' (2005-2009).

⁵ Office for National Statistics, Regional GVA (December 2009) provisional estimates.

⁶ Cushman and Wakefield, 'European Cities Monitor' and Livingston, I., Sharp, R., Booz & Co (October 2009), London: World capital of business.

A report by Booz and Co⁷ found that people are attracted to London because it is seen as a great place to live, it is open and attractive to international communities and it is home to world leading educational opportunities. For highly skilled people London was found to be attractive as it: offers good career opportunities and higher wages; has one of the most diverse populations of any international city; it has a significant cultural and entertainment offer; and is a relatively green city in terms of green space.

The London Annual Business Surveys found that areas such as transport within London, access to skilled employees and costs of premises have traditionally been the most important problem or constraint on businesses in London. Recent reporting from Business Link in London found that as a result of the economic downturn, accessing finance has been a major concern of small and medium sized enterprises in London.

London's prospects

Following a contraction in employment due to the recent recession forecasters expect London's employment level to continue to grow over the longer term. All forecasts assume that by 2015, at the latest, employment will have recovered to the level observed before the recession (2008). The GLA's long-run employment projection, which is used for planning purposes by the GLA Group, sees employment in London growing to 5.45 million by 2031, an increase of about $\frac{3}{4}$ million from 2007 levels⁸.

This employment growth is projected to be driven primarily by the business services sector. Other sectors projected to experience significant growth over the next two decades or so are other services (which include areas such as media, recreation and leisure for example) and hotels and restaurants. More modest employment growth is projected to be experienced by financial services, retail, and health and education. All other sectors are forecast to lose employment with particularly significant falls in employment in manufacturing.

The 10 boroughs forming the Thames Gateway are identified in the London Plan as a spatial sub-region. This area is intended to drive London's long term growth with delivery focused on and 17 Opportunity and Intensification Areas, 59 new Town Centre developments, 26 Strategic Industrial Land locations and 148,450 housing units over the next 10 years providing 44% of London's new housing capacity.

Following the successful regeneration of the Docklands, the creation of Canary Wharf and the London 2012 and Stratford developments, we must now turn attention to regeneration opportunities further East for example in the Royal Docks. We shall maximise the economic benefits presented by the Government's Crossrail investment. The Mayor's Transport Plan recognises the importance of transport investment to developing outer London boroughs.

London's challenges

London faces a number of challenges if it is to maintain its position as a leading global and national centre over the next 20 years.

⁷ Livingston, I., Sharp, R., Booz & Co (October 2009), London: World capital of business.

⁸ Full details of GLA's long-run employment projection and projections by sector are set out in GLA Economics Working Paper 38.

One such challenge is climate change. As a result of past greenhouse gas emissions some level of climate change is now inevitable. Whilst resolving this issue will require difficult international agreements, it is likely that, over time, economic activity will need to become much more carbon efficient and planning for this could provide London with new economic opportunities. As well as mitigating the effects of climate change, London needs to adapt to the change in the climate that is already occurring.

As a result of the recent financial crisis and economic downturn there are likely to be changes to regulation and a significant deterioration in the UK's public finances. Both these changes could reduce the attractiveness of London as a place to do business when compared to other cities. In addition, issues such as crowding and congestion on London's transport and the availability and cost of both staff and office space could also impact on London's attractiveness as a place to do business. Similarly, the attractiveness of London as a place for people to live and work could reduce if issues affecting the quality of life in London (like the cost of living, crime and safety and London's environment) are not managed effectively.

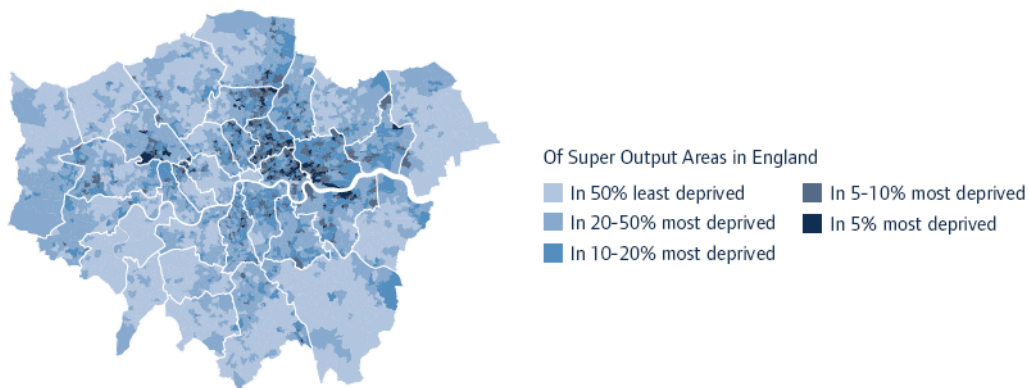
Maintaining London's competitiveness on a regional and national scale will be important to develop future growth opportunities, but also to maintain growth in all areas of London's economy. Business surveys report London's major challenges in areas such as tax competitiveness, a lack of availability for finance and transport issues.

As noted above, for all its success, London has significant socio-economic issues. As well as containing a high share of the UK's most prosperous individuals, London is also home to a high share of the UK's poorest individuals. With high levels of skills and qualifications becoming increasingly important to succeed in the London job market, the fact that almost four out of every ten children live in poverty is a major problem, given that children in low-income families significantly under-perform their peers in educational attainment. Moreover, many poor socio-economic outcomes are frequently concentrated in certain parts of London – in particular areas in North and East London.

Another challenge comes from effectively enabling growth in all areas of London. The Outer London Commission report showed over the course of the last two economic cycles, growth in job creation was almost half that of Inner London. The Commission identifies areas to focus on for Outer London such as the attraction of economic activity that does not require a Central London location and improvements in town and local district centres.

As noted earlier there has been a significant growth in services in the past few decades in London. Whilst manufacturing has been in decline in London for some time, there are potential opportunities for growth in emerging areas of economic activity, such as in environmental and green enterprise. London could be well placed for growth in these areas due to its central location and its abundance of high and medium skilled labour in the capital.

Deprivation in London, 2007



Source GLA

The role of the public sector investment in economic development in London

Public sector intervention is justified and necessary in London due to the existence of certain market failures. Market failures around information, externalities and public goods all impact on London's economy and a London wide Enterprise Partnership can be a means of effectively addressing such market failures. For instance, firms may have insufficient information to make effective business decisions and may also be unable to source access to business acumen; examples of this would be the utilisation of expert knowledge or an inability to source finance. Businesses may also engage in too little innovation.

Intervention can also act as a means of co-ordinating activities, for instance inward investment - helping to create new employment and a more agglomerated business environment. Intervention can also create improvements in skills and employment; without co-ordination, then it could be that individuals do not gain the necessary skills or knowledge to start businesses or improve their skill levels.

Investment in London supports the UK

London's economy is a vital and dynamic part of the UK economy. It contributes greatly to the UK's output and growth while its strong export industries provide significant tax revenues to the UK Exchequer. It delivers this as a direct result of 30% higher productivity in the capital driven by the agglomeration benefits that accrue to London.

Public investment and spending in London should not be considered as being at the expense of the rest of the UK. Indeed the agglomeration that London brings about acts as an external benefit to the UK as a whole. That is the UK as a whole benefits from the agglomeration economies that derive in London from having business and population concentrated in a relatively small area. This is because London has traditionally been a net exporter of tax. As a result, the region makes a significant contribution to the UK's public finances. The London School of Economics has found that London generated between £14bn and £19bn more tax revenue than was spent in the region in 2007/08⁹.

⁹ The London School of Economics for the City of London Corporation – London's Place in the UK Economy, 2009-10, October 2009.

Core Indicators

Economic Activity – Jan – Dec 2009, (%)

	London	UK	Central	North	South	East	West	Inner	Outer
Employment Rate (16 - 64)	68.3	70.6	69.1	63.9	74.3	65.5	69.1	66.8	69.5
Unemployment Rate (16+)	8.9	7.6	8.8	8.9	6.7	10.4	9.5	9.9	8.3
Claimant Count (16 – 64)	4.0	3.8	3.7	4.5	2.8	4.0	3.7	-	-

Source: Annual Population Survey, ONS. Note: ONS Regional Labour Market summaries provide borough data on claimant count, but not explicitly provide data for Inner and Outer London.

Skills – Working Age, Jan – Dec 2009, (%)

	London	UK	Central	North	South	East	West	Inner	Outer
NVQ Level 4+	39.7	29.8	53.1	37.1	39.1	32.2	35.8	47.2	34.3
NVQ Level 3+	53.2	49.3	63.1	51.1	56.2	46.1	49.4	57.7	49.9
NVQ Level 2+	64.5	65.3	71.4	61.8	69.8	59.6	60.0	67.0	62.8
No Qualifications	11.8	12.6	9.2	14.7	8.7	14.4	12.0	11.3	12.1

Source: Annual Population Survey, ONS

Business Climate

	London	UK	Central	North	South	East	West	Inner	Outer
NI 171: Enterprise births per 10,000 population	96.1	54.2	143.2	78.2	72.9	84.6	90.3	129.5	73.5
NI 172: % of small enterprises showing employment growth	13.6	14.4	15.1	12.0	12.0	13.8	13.1	14.8	12.4
3-Year Business Survival Rate (2003 births)	56.5	63.6	54.1	55.7	61.2	58.6	55.9	55.0	58.2
Net Start-up Rate (2008)	4.7	2.2	5.1	2.9	3.5	6.1	4.8	5.8	3.6

Sources: National Indicator 171 and 172, BIS. (NI171: 2008; NI172: 2007/08). Business Survival Rate, ONS Business Demography, 2008.

Population and Employment, 2009

	London	GB	Central	North	South	East	West	Inner	Outer
Mid-Year Population	7.75	60.00	1.70	1.08	1.41	2.10	1.47	2.67	5.09
Total Employment (mill.)	4.16	26.68	1.58	0.32	0.52	1.05	0.70	2.49	1.68

Source: ONS Mid-Year Population Estimates, 2009. Total Employment, Annual Business Inquiry, ONS.

Public Sector Employment, 2008, (%)

	London	UK	Central	North	South	East	West	Inner	Outer
% employed in the public sector	16.7	20.4	15.5	23.0	18.7	16.1	16.0	15.4	18.7

Source: Annual Business Inquiry, ONS. Note: These are workplace based estimates, not residence based.

Deprivation

	London	England
% of Lower Super Output Areas in the 20% most deprived in England	28.4	20.0

Source: *Index of Multiple Deprivation, 2007, CLG*

Index of Specialisation

Sector	Index
Financial Services	2.45
Business Services	1.63
Other Services	1.46
Transport and Communications	1.34
Hotels and Restaurants	1.09
Public Administration	0.99
Wholesale and Retail	0.80
Education	0.77
Health and Social Work	0.73
Construction	0.58
Manufacturing	0.38
Mining, Utilities and Agriculture	0.19
Total London Economy	1.00

Source: Annual Business Inquiry, 2008, ONS. Note: An index score above 1 indicates, that (based on employee numbers and shares), London specialises in an individual sector.