

**Devolution and economic growth in London  
- a rapid evidence review**

October 2022



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## Outline

This paper examines some of the issues around devolution and economic growth in respect to London, as well as some of the drivers of growth in the capital. It should be noted that this analysis is selective and therefore not exhaustive and although it highlights some of the more obvious further benefits of devolution these were not the primary focus of this research.

## Summary

### Literature and international comparisons

- Academic literature on the link between growth and devolution is mixed, but there are reasons why decentralising government could improve economic growth.
- Competition between regions for investment is one way devolution can boost growth. Switzerland is an example of a country where different regions have the fiscal powers to set policy to attract investment.
- A closer connection between local economic performance and economic policy could also boost growth as fiscal policy and public services respond to local needs. Germany offers an example of this kind of ‘yardstick competition’ between decentralised government areas.
- Greater policy innovation is another reason why devolution could drive higher growth. Here the evidence is more mixed, but some elements of China’s experiences of decentralisation may offer hope for a link between devolution and innovation inside and out of government.
- More broadly, the wider academic evidence on a link between devolution and growth is mixed both because of methodological challenges and contrasting findings.
- It is likely that for devolution to unlock higher growth, it will need to be carefully tailored to the UK’s institutional setup, led by the communities being offered more policy powers and structured to sharpen growth-positive incentives.
- In relation to the wider benefits of devolution the OECD has observed that “decentralisation can strengthen citizen participation in government by bringing governments closer to citizens and by making governments more accessible”. Box 1 also shows how AEB devolution in London has been used to meet local priorities, including support for disadvantaged communities.

### Central Activities Zone (CAZ)

- The CAZ is strategically important to the UK economy:
  - Productivity (GVA/job) in 2019 was £91,000, compared with £74,000 in the rest of London, and £60,000 in the rest of the UK;
  - The CAZ accounted for 43% of London output in 2019, and 9% of UK output, despite making up just 0.03% of the UK land mass.
- Commuting from the wider South East provides an important part of the pool of labour supporting the CAZ:
  - A quarter of workers in the CAZ in 2011 lived outside the CAZ;
  - The growth in workers in inner London between 2004 and 2018 has been met equally by people living in inner London, outer London, and the wider South East.
- Higher productivity in the CAZ derives from agglomeration benefits. There are clusters of jobs in sectors in which London specialises, i.e., Finance, Information and Communication, and Professional services.
- London is an export-oriented service sector economy, and these three sectors (Finance, Information and Communication, and Professional services) also make a disproportionate contribution:
  - London contributed 60% of the UK net trade balance in services of £103 billion in 2019;
  - The three sectors account for 84% of London’s net trade balance;
  - Local authorities with areas in the CAZ have both higher GVA and exports.
- The strength of London’s economy has meant that it has made a net contribution to the Exchequer (pre-pandemic) unlike most other regions of the UK.

## Literature review and international evidence on the impact of devolution on growth and its wider scope

The GLA has previously examined the economic case for further devolution of powers as part of the evidence base for the London Finance Commission<sup>1</sup> in 2013 and in 2017. The earlier review (in 2013) found:

*“The body of existing academic evidence was inconclusive about the impact of devolving fiscal powers. There is no consistent and certain evidence that either centralised or, on the other hand, devolved models of government have measurable effects on economic growth.”*

Building on this earlier work, the later review (in 2017) found that:

*“Overall, these articles provide inconsistent findings in terms of the relationship between devolution and economic growth; similar to what the previous literature review found... in 2012. However... **If the different types of devolution are looked at individually, then there appeared to be more consensus that revenue decentralisation – that is, local government has a large share of total government revenue – is linked to economic growth.** Nonetheless, there remains inconsistency between the studies in terms of the magnitude of this effect and the strength of this relationship.”*

Studies propose several mechanisms for how decentralised government can boost economic growth.

One mechanism connecting decentralisation with growth is competition for investment. While national governments can usually rely on a significant aggregate level of investment across the economy, local governments need to set policy to attract investment to their district rather than others. Hatfield (2006)<sup>2</sup> builds a theoretical economic model giving detailed grounds for this idea. The results suggest a decentralised government will set capital and labour taxes at a level that maximises growth, while a centralised government will not. A further result in this model is that districts with lower overall productivity compensate by setting policy on an even more growth-positive footing.

While the paper does not follow up with an empirical assessment, Switzerland provides an example of tax competition between regions with revenue-raising powers. According to a Local Government Association (LGA) paper<sup>3</sup>, Switzerland is “closer to the stereotypical view of tax competition between local government” than other European examples of de-centralisation. Yet the LGA finds that “In none of these systems is a race to the bottom evident, nor is there a postcode lottery”. In the academic field, Burret, Feld and Schaltegger (2021) find that these competitive elements of decentralisation in Switzerland do indeed lead to improved economic performance<sup>4</sup>. At the same time, they find that ‘cooperative’ decentralisation (transfers for redistribution, for instance) drags on performance – though this may be to do with Switzerland’s existing institutional setup leaning towards competition.

Another reason connecting devolution to improved growth is that local bodies may be more responsive to local needs, leading to better-tailored public services and more responsibility for local growth. The Resolution Foundation and the Centre for Cities argue decentralisation is essential to long-term growth as part of the Economy 2030 research project<sup>5</sup>. The authors link the UK’s weak economic performance relative

<sup>1</sup> Detail of which can be found at [Greater London Authority: London Finance Commission](#).

<sup>2</sup> Hatfield (2006), “[Federalism, Taxation, and Economic Growth](#)”, January 2006; This is a working paper and a final published paper with the same conclusions went out in the Journal of Urban Economics in May 2015.

<sup>3</sup> LGA (2020), “[Fiscal devolution: adopting an international approach](#)”, July 2020.

<sup>4</sup> Burret, Feld and Schaltegger (2021), “[Fiscal Federalism And Economic Performance New Evidence From Switzerland](#)”, Freiburger Diskussionspapiere zur Ordnungsökonomik, No. 21/01, January 2021.

<sup>5</sup> Breach & Bridgett (2022), “[Centralisation Nation](#)”, Centre for Cities, September 2022.

to developed country peers with a lack of policymaking responsibility for local economic growth. Since national economic growth depends on the totality of local growth, “Change is necessary because at present no part of the state is truly responsible for improving the performance of local economies. National government often seems to think it can, but struggles to do so, and it faces few penalties for failure until the consequences for the national economy become unavoidable.”

The LGA paper characterises Germany’s system of policy decentralisation in terms of this kind of ‘yardstick-competition’ framework. Here, modest differences between policy in different regions allow voters to compare their region against others to judge how these differences should be set in their area. The multiplier on local business tax allows municipalities to vary their tax take – but importantly draws a clear connection for the businesses taxed between the higher tax rate and the public services provided to their employees. Yet in a broader cross-country context, Rodriguez-Pose, Tijmstra and Bwire find that decentralisation may lead to less capital spending (investment) and more current spending<sup>6</sup>. This might seem to contradict expectations that responsiveness to local needs would mean more long-term planning and investment. But the authors also find this shift only damages growth in situations where decentralisation is (ironically) imposed from the top down.

Another mechanism for decentralisation creating growth is the possibility that a larger number of locally-focused policymaking institutions would lead to more innovative policy-making. The empirical literature on this topic is very mixed. One example sometimes given is China, where a decentralisation process and local policy innovation accompanied its rapid development in the latter decades of the Twentieth Century. However, papers like Heilmann (2008) suggest that the picture is more complex, with distinctive features of China’s institutional and factional setup undermining comparisons with more Western forms of decentralisation<sup>7</sup>. China may also be an example of how policy decentralisation can lead to better support for economic innovation as well as creating policy innovation. Feng et al (2020) found that decentralised environmental policy in China led to more innovation in the 2000s and 2010s<sup>8</sup>, though other studies suggest decentralisation is not always positive in the absence of a national strategy for innovation<sup>9</sup>.

## Ensuring governance matches policy needs

Matching the challenges facing economic policymaking with the right forms of governance is central to designing a well-functioning devolution agenda.

Breach and Bridgett discuss how under the current setup, local government is largely handed blocking powers against pro-growth projects, without having any accountability for local growth. It is this mix that acts as a key barrier to better economic development policy.

To realise the economic benefits of devolution, then, “serious reform must address [English local government’s] incentives and responsibilities, its boundaries and structures, and its resourcing and powers over taxation all together. Only reforming all three of these areas can strengthen local government’s ability to absorb greater responsibility to the degree the forthcoming decade requires”. Breach and Bridgett find that fragmentation of local government in the UK leads to confused responsibilities and approval bottlenecks which could prevent devolution reaping growth benefits.

<sup>6</sup> Rodriguez-Pose, Tijmstra and Bwire (2009), “[Fiscal decentralisation, efficiency, and growth](#)”, *Environment and Planning A: Economy and Space*, 41(9), March 2009.

<sup>7</sup> Heilmann (2008), “[From Local Experiments To National Policy: The Origins Of China’s Distinctive Policy Process](#)”, *The China Journal*, No. 59, January 2008.

<sup>8</sup> Feng, Sui, Liu and Li (2020), “[Environmental decentralization and innovation in China](#)”, *Economic Modelling*, Vol. 93, December 2020.

<sup>9</sup> Yang, Li and Li (2020), “[Fiscal decentralization, preference for government innovation and city innovation: Evidence from China](#)”, *Chinese Management Studies*, 14(2), January 2020.

London offers examples of how coordination between levels of government is possible to match policy with important local needs. The GLA's convening powers have allowed it to play an active role in programmes like the Central Activities Zone Action Plan<sup>10</sup> or the London Recovery Programme<sup>11</sup>. These activities have allowed the regional authority to coordinate with local authorities and others to create a coherent plan for policy and advocacy around issues that might be both within and outside the powers available to either level of government.

Under current arrangements, some kinds of pro-growth policies drawn up by one set of councils may be vetoed by one in a different tier of government. An example lies in the way Local Transport Plans are prepared by upper-tier councils, but Local Plans that determine where new homes are built are prepared by lower-tier district councils. A coherent setup for different kinds of government to have clear responsibility for policies and outcomes that affect their local economy is therefore vital.

Centralising funds for growth and regeneration may yield limited success too. The Commons Public Accounts Committee found this year that "Local authorities have faced a confusion of different funding pots and have had to respond piecemeal to each new announcement over the years."<sup>12</sup> And despite the energy devoted to Levelling Up in recent years, central government "does not yet have a strong understanding of what works for local growth."

Marcus Johns from IPPR North found that rather than the energy to achieve local growth lying with central government coordination, Mayoral Combined Authorities (MCAs) in the North of England are pushing beyond their original scope<sup>13</sup>. Using their hard spending powers and soft convening powers, they are delivering policy priorities for local areas like re-regulating bus routes and taking action to tackle homelessness. Johns argues the MCAs "have developed holistic place based visions that utilise their hard powers, soft powers, and abilities to bargain and advocate for their places. But they continue to be held back by central government, because Whitehall has reneged on promises over funding and 'doing devolution properly'".

Turning back to the international examples in the LGA paper, this advocates for the UK to take inspiration from the Netherlands – which adopts a system of 'fiscal freedom'. Germany devolves significant chunks of central taxes and Switzerland allows local authorities to largely determine their own tax regimes. Meanwhile the Netherlands has a unitary government with many centralised taxes but allows local bodies to set a broad range of local taxes. Importantly, while central government in the UK restricts local government revenue-raising to a very narrow range of tools largely designed centrally, Dutch local taxes are chosen and designed locally. This allows all levels of government to set economic policy in a way that matches up with well-defined responsibilities for economic performance.

Indeed, one area where the Netherlands and the UK seem to be moving in a more centralising direction, is creating issues. Both countries have moved towards a centrally-led deregulation of land use policy, with commercial conversions seeing a lighter-touch approval process. Remøy and Street (2018) argue that the trend for planning deregulation has led to generally lower standards and a weaker link between development outcomes and local economic priorities<sup>14</sup>. The UK's Permitted Development Rights run the risk

<sup>10</sup> Central London Forward (2022), CAZ Future Action Plan (forthcoming)

<sup>11</sup> GLA (2020), "[London Recovery Programme: Overview Paper](#)", October 2020.

<sup>12</sup> House of Commons Committee of Public Accounts, "[Fifth Report of Session 2022–23: Local economic growth](#)", May 2022.

<sup>13</sup> Johns M (2021), "[Northern Mayors: 100 days of a new term](#)", Institute for Public Policy Research, August 2021.

<sup>14</sup> Remøy and Street (2018), "[The dynamics of "post-crisis" spatial planning: a comparative study of office conversion policies in England and The Netherlands](#)", Land Use Policy, Vol. 77, September 2018.



of de-linking spatial planning and local requirements. Here a centrally-set reform cutting local powers is likely to create negative economic outcomes.

Another paper from the Centre for Cities suggests that MCAs should ensure better alignment between Further Education (FE) course content and the needs of industries within their boundaries<sup>15</sup>. This would allow bodies with local expertise to match up local skills demand with the profile of the local education offering. “By giving the MCAs the authority to co-ordinate the courses put on by FE colleges, and by incentivising collaboration between colleges rather than competition... the courses delivered could be brought in line with the needs of industry.”

There remain limitations to the breadth of conclusions we can draw. Some theorise that more layers of government allow for more ready opportunities for bad actors to corrupt officials<sup>16</sup>. More and competing government agencies might also duplicate work, while smaller governments may fail to gain economies of scale – both of which could damage economic efficiency<sup>17</sup>. What kind of decentralisation takes place is also likely to be important. Mitra and Chymis (2021) found that the Belgian experience suggested that spending devolution in the presence of a centralised tax system could lead to increased “pork barrel spending” where local governments over-spend on less useful pet projects<sup>18</sup>. Different articles also provide ambiguous or inconsistent findings. Asatryan and Feld (2013) conclude that most studies fail to account for model uncertainty, and that averaging across models leads to no robust link between fiscal federalism and economic growth<sup>19</sup>.

In terms of the academic evidence on designing devolution, one meta-study by Baskaran, Feld and Schnellenbach found that single-country studies more often tended to find positive impacts of devolution on growth, and that the choice of decentralisation measure could significantly change the findings<sup>20</sup>. Both point to the methodological challenges of measuring devolution, but also to the important point that devolution is only likely to lead to growth when it is the right kind of devolution tailored to the specific setting.

## Wider issues around devolution

In terms of the wider benefits of devolution the OECD notes that “Decentralisation can strengthen citizen participation in government by bringing governments closer to citizens and by making governments more accessible”<sup>21</sup>. While also noting that “Decentralisation can induce the hindrance of rent-seeking and corruption in public administration (Boadway and Tremblay, 2012) as well as the expansion of experiments and policy innovation (Oates, 2008)”. Although they note that the “Lack of subnational governments’ capacity to deliver public services forms a major threat for successful implementation”. While “the co-ordination of service delivery by the central government is essential, especially in the case of decentralised redistributive services provision, such as education or healthcare”.

<sup>15</sup> Sainsbury (2021), “[Levelling up the UK’s regional economies](#)”, Centre for Cities, March 2021.

<sup>16</sup> Casoria et al. (2019), “[Local Government and Innovation: the case of Italian provinces](#)”, September 2019, find that Italian decentralisation reforms led to lower innovation and drew a link with mafia transplantation.

<sup>17</sup> Rodriguez-Pose and Bwire (2004), “[The economic \(in\)efficiency of devolution](#)”, Environment and Planning A: Economy and Space, 36(11), March 2004.

<sup>18</sup> Mitra and Chymis (2011), “[Federalism, but how? The impact of vertical fiscal imbalance on economic growth. Evidence from Belgium](#)”, Economics & Politics, 34(2), September 2021.

<sup>19</sup> Asatryan and Feld (2013), “[Revisiting the Link between Growth and Federalism: A Bayesian Model Averaging Approach](#)”, CESifo Working Paper Series No. 4357, August 2013.

<sup>20</sup> Baskaran, Feld and Schnellenbach (2015), “[Fiscal federalism, decentralization and economic growth: A meta-analysis](#)”, Freiburger Diskussionspapiere zur Ordnungsökonomik, No. 16/02, December 2015.

<sup>21</sup> [Why do countries decentralise? | Decentralisation and Regionalisation in Portugal : What Reform Scenarios? | OECD iLibrary \(oecd-ilibrary.org\)](#)

The London Finance Commission noted that “international evidence suggests that fiscal devolution also has positive impacts on accountability, business mobility, resilience, fairness and efficiency”<sup>22</sup>. While, in terms of financial devolution the Commission argued that it should follow the following principles:

- **“Accountability**: There should be a link between spending decisions and taxes raised. The impact of spending decisions by government should be clear to taxpayers and should be clearly linked to local wellbeing, for example in the promotion of local jobs and growth.
- **“Transparency**: The financing system should be as simple as possible. It should not be so complex as to be incomprehensible.
- **“Efficiency and effectiveness**: Decision-making by sub-national government should be such as to ensure the preferences of citizens are better met than if the same decisions were made by national government. The use of public money should avoid waste, in the sense that inputs should be minimised in relation to outputs and outcomes. Arrangements should minimise administration costs, economic distortions and tax avoidance.
- **“Autonomy**: Sub-national government should have choice about how much to spend and on what, such that it is not blocked from promoting local interests. A higher percentage of funding raised locally would be more likely to deliver autonomous sub-national government than a lower one. The capacity to raise resources in this way is an important element in the constitutional balance between different spheres of government within a country.
- **“Fairness**: The overall funding system should operate in a way that ensures all parts of a country or city receive acceptably fair service provision and face acceptably fair tax burdens. Matters of fairness are also relevant between individual taxpayers in different parts of a country or city, as well as matters of inter-generational equity. The assumption has been made that any proposed reform should not lead to a redistribution of resources to or from London at the point the reform occurred – i.e., in the year change took effect, London would neither be better nor worse off, a principle that also applies to individual boroughs”.

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<sup>22</sup> GLA (2017). [“Devolution: a capital idea”](#).

## Box 1: AEB devolution in London – a case study

Since August 2019, the Mayor of London has been responsible for the capital's share of the Adult Education Budget (AEB), previously managed by the Education and Skills Funding Agency (ESFA). The GLA budget for the AEB in London was approximately £320m in 2020/21.

It is too early to assess the long-term impact of devolution on adult skills. However, devolution has allowed the GLA to tailor provision in ways that provide greater support for disadvantaged Londoners. A range of flexibilities have been introduced since 2019, including flexibilities aimed at low-income and unemployed learners, and those with protected characteristics. These include:

- Fully funding AEB courses for learners paid below the London Living Wage. Since August 2019, this flexibility has supported around 56,000 low-paid learners who were previously ineligible for support to develop their skills.
- Fully funding British Sign Language (BSL) courses for Deaf Londoners, Londoners in low-paid work or those who are unemployed.
- Giving providers the freedom and flexibility to deliver training at higher levels of learning (Levels 3 and 4) to support Londoners into good jobs.
- Uplifting the funding rates for adult courses in London to help providers meet the full cost of delivering adult education in the capital.

Changes have also been made to the way that AEB grants and contracts are managed on a day-to-day basis. Each AEB provider in London now has a dedicated provider manager, helping to strengthen relationships with the GLA and to align provision with London's strategic priorities.

The AEB is also being used to support and integrate with other Mayoral programmes. For example, up to £6m has been allocated from the AEB to support job outcomes payments as part of the [Mayor's Academies Programme](#). Emerging from COVID-19, this will incentivise providers to focus on employability and drive the progression of Londoners into good work in priority sectors.

The GLA has commissioned a multi-year evaluation to review the impacts of AEB devolution in London<sup>(i)</sup>. The early findings from this research have been positive – with the vast majority of providers (39 out of 44) satisfied with the GLA's approach to managing the delegation of the AEB in the first year (2019/20). This is consistent with wider evidence on AEB devolution to date<sup>(ii)</sup>.

Going forward, the introduction of the London Learner Survey will provide more granular information on the impact of AEB-funded learning on Londoners<sup>(iii)</sup>. The results will form a core part of the Mayor's approach to managing the design and delivery of the AEB in future years.

(i) <https://www.london.gov.uk/what-we-do/jobs-and-skills/adult-education-budget/measuring-impact-aeb>

(ii) According to the House of Commons Education Committee, the evidence paints 'an impressive picture of AEB devolution working in a highly effective way' ([link](#)). Ministers have also cited AEB devolution as an example of Mayoral success ([link](#)).

(iii) <https://londonlearnersurvey.co.uk/learner/>

## Central Activities Zone

The 2020 Local Industrial Strategy Evidence Base<sup>23</sup> made the case for the contribution of the Central Activities Zone (CAZ) and the Northern Isle of Dogs (NIoD) to the growth of London and the UK. The strength of London's economy enables it to make a positive contribution to the finances of the UK.

The pandemic, and the shift to hybrid working has been a major challenge for the CAZ. Research led by Arup for the GLA<sup>24</sup> sets out the scale of the challenge. For example, there was the loss of almost a quarter of a million workplace jobs between March and the end of 2020. Footfall and spend in the CAZ have been hit harder than anywhere else in the UK.

Despite the testing times current GLA Economics estimates are that the economy of the CAZ bore the brunt of the pandemic comparatively well, and shrank by less than London as a whole in 2020, 7.4% compared with 9.2%<sup>25</sup>. That should not understate that significant challenges remain as outlined above.

The Arup report also sought to establish a vision for change, and made a number of recommendations on the way forward, which may require additional powers for local government to take forward:

- Provide immediate support to re-ignite the CAZ ecosystem, and to bring people back.
- Develop the CAZ as a model of a sustainable, healthy and green urban centre, with a thriving arts, culture, entertainment and hospitality offer.
- Be agile, embrace experimentation, encourage temporary solutions and continue to move with the fast pace of change.
- Strengthen the CAZ's growth sectors and provide the world's best environment for collaboration and innovation.
- Take steps to increase the population of the CAZ.
- Create a shared vision, work in partnership and apply strong leadership.

More recently, an action plan for the CAZ<sup>26</sup> has been developed by six central London local authorities – Camden, City of London, Kensington and Chelsea, Southwark, Tower Hamlets and Westminster, working with the GLA and Central London Forward, the sub-regional partnership for central London. This demonstrates the potential for local government in London to work together effectively, but also the limited levers at its disposal to effect change.

Further, the removal by central government of Permitted Developments Rights in the CAZ which had restricted the conversion of Class E commercial property to residential use in July this year is a risk to the strategic importance of the CAZ. It has been replaced by GLA strategic evidence for local planning authorities<sup>27</sup>. The CAZ action plan seeks that central government should work with London government to agree Article 4 Directions in order to protect the CAZ, and review the impact of permitted development on the area.

The CAZ action plan would also like central government to ensure sufficient support and incentives are in place to drive the decarbonization of commercial property. Central government should also introduce a registration scheme for short-term lettings to enable local authorities to enforce standards. Central

<sup>23</sup> GLA Economics (2020), [The evidence base for London's Local Industrial Strategy – final report](#).

<sup>24</sup> Arup et al (2021), [Central Activities Zone \(CAZ\) Economic Futures Research, Phase 1 and 2 reports](#)

<sup>25</sup> Source: GLA Economics calculations of ONS GVA, BRES, LFS, and Workforce jobs data

<sup>26</sup> Central London Forward (2022), CAZ Future Action Plan (forthcoming)

<sup>27</sup> GLA (2021), [Strategic evidence to support London borough Article 4 Directions \(commercial to residential\)](#)

government should continue to invest in active transport to continue the shift away from car use, reducing local pollution and carbon emissions.

The shift to hybrid working raises other issues not least around the use of office space, and the funding of Transport for London (TfL). The CAZ action plan is asking that central government should ensure TfL has a fair and sustainable long-term funding settlement beyond April 2024. More than 70% of TfL's income came from fares in 2018/19, while the proportion was less than 50% for its international counterparts of Singapore, New York, Hong Kong and Paris<sup>28</sup>. The agglomeration economies which make London so productive, as explained below, rely on a mass transit system, yet the current funding model threatens its viability. This would not support economic growth at a time when this is clearly needed. TfL has already sought to increase revenues and reduce costs, but public transport users would experience an immediate loss of benefits if TfL were forced to pursue severe service level reductions beyond current plans<sup>29</sup>. Measures adopted by other cities, and which would require new powers are<sup>30</sup>:

- Promote land development, and land value capture
- Further fiscal powers to raise local income contributions
- New revenue-raising tools focused on car ownership and driving

The reasons for these asks is so that the strength of London's economy continues to derive from the effects of agglomeration of businesses in the centre of the city. The CAZ is where there is a very strong concentration of jobs, Map 1.

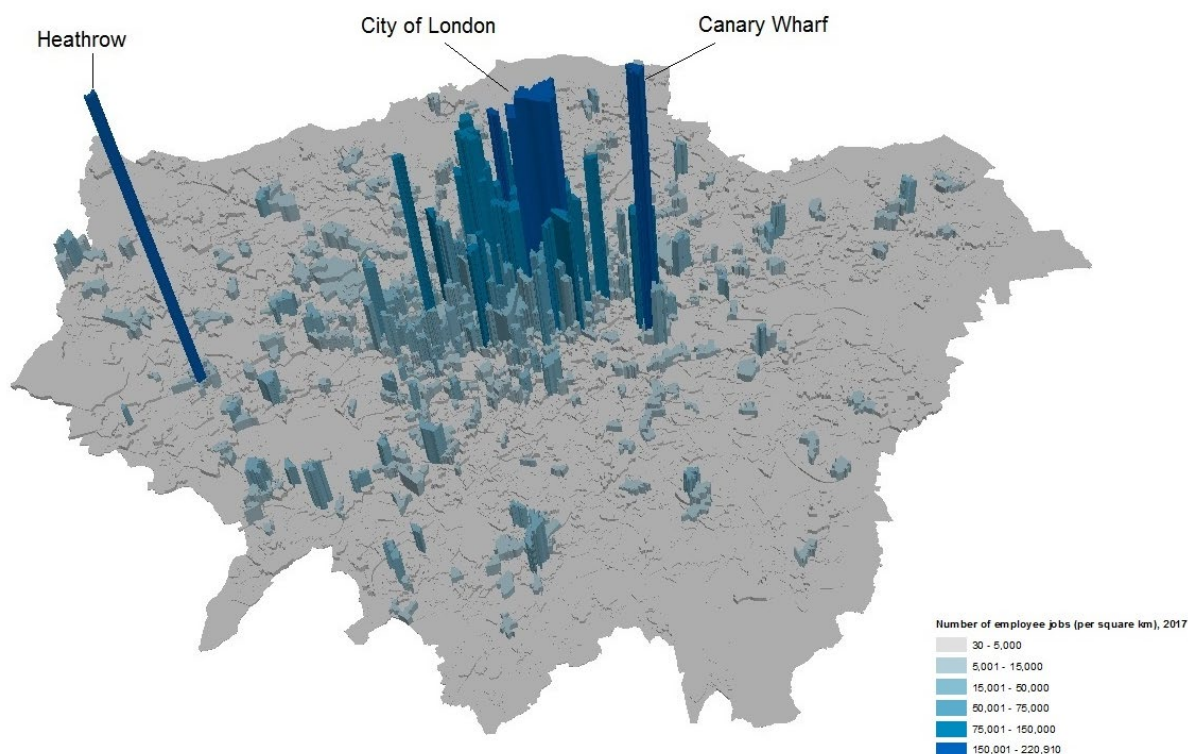
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<sup>28</sup> Rodrigues G and Gibson J (2022), [What's next for Transport for London?](#), Centre for Cities

<sup>29</sup> TfL and GLA Economics (2021), [The economic impacts under future funding scenarios for Transport for London](#)

<sup>30</sup> Rodrigues G and Gibson J (2022), [What's next for Transport for London?](#), Centre for Cities

**Map 1: Number of employee jobs per square kilometre in London, 2017, by Lower Super Output Area (LSOA)**



Source: GLA Economics calculations drawn from ONS BRES

Note: Heathrow airport is in Hillingdon, but many jobs which support the airport are in Hounslow. See GLA Economics (2017), [London Labour Market Projections](#), Appendix F, for more details

The CAZ constitutes 0.03% of the land mass of the UK, but makes a disproportionate contribution in terms of productivity and output. In 2019, the productivity of the CAZ was £91,000 output per job, compared with £74,000 for the rest of London, and £60,000 for the UK outside London. The CAZ accounted for 43% of London output, and 9% of UK output<sup>31</sup>.

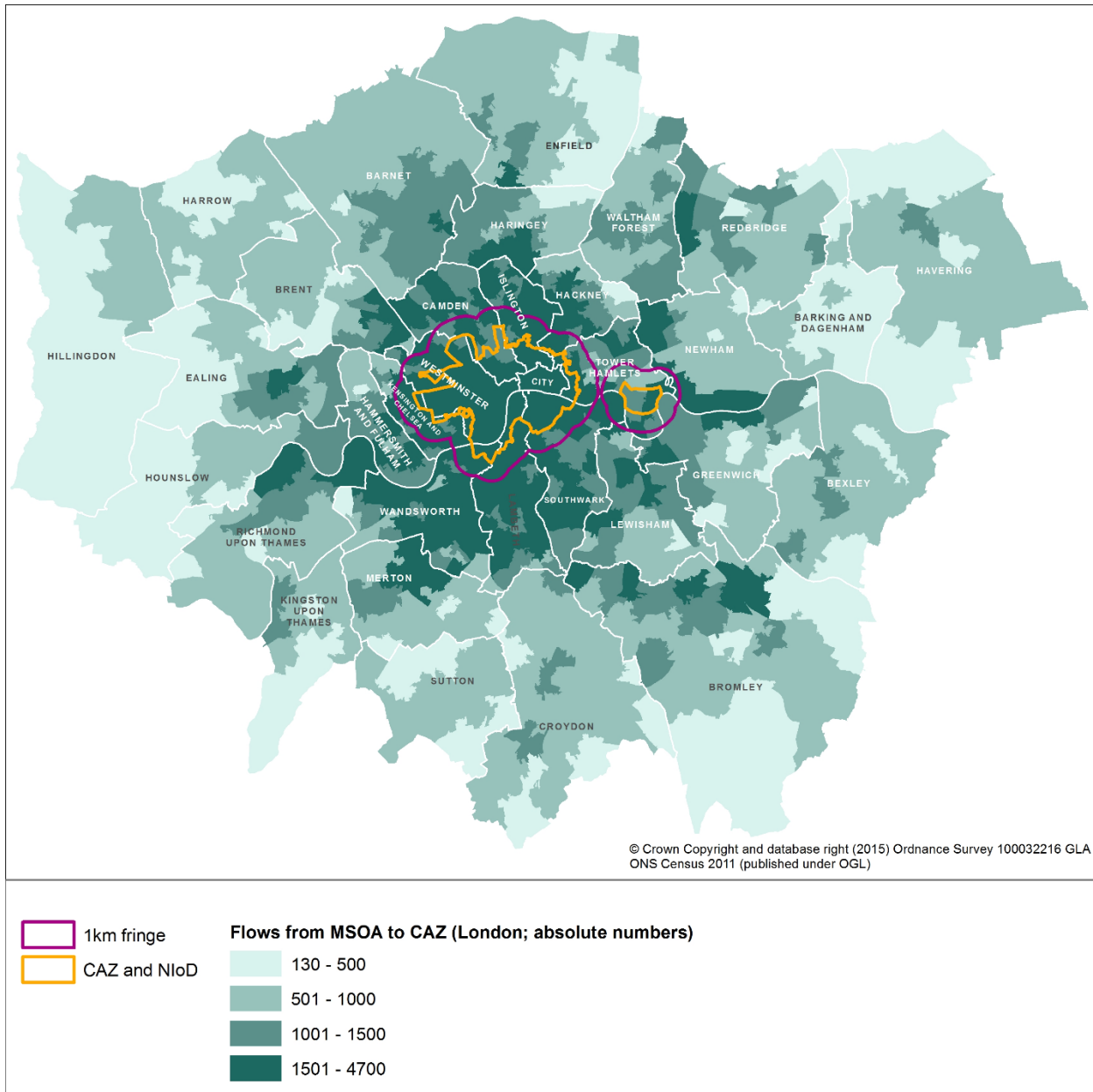
The CAZ derives its economic strength from agglomeration benefits, that is access to a large pool of skilled labour, and knowledge sharing between businesses, and so knowledge spillovers. It enables better job matching, and so individual wages are higher in areas with agglomeration. This relies on a mass public transport system.

A large pool of skilled labour supports the London economy with large numbers of workers commuting in from across the wider South East, Map 2. Analysis of Census 2011 data suggested that a quarter of workers in the CAZ lived outside London. London is also more reliant than other Large Metropolitan Areas of Greater Manchester, West Yorkshire, and the West Midlands for workers to commute in from outside the area<sup>32</sup>.

<sup>31</sup> Source: GLA Economics calculations of ONS GVA, BRES, LFS, and Workforce jobs data

<sup>32</sup> Hope M (2020), [Transport expenditure in London 2020](#), GLA Economics Current Issue Note 60

**Map 2: Workers in CAZ-based workplaces by residence origin, 2011, absolute numbers**



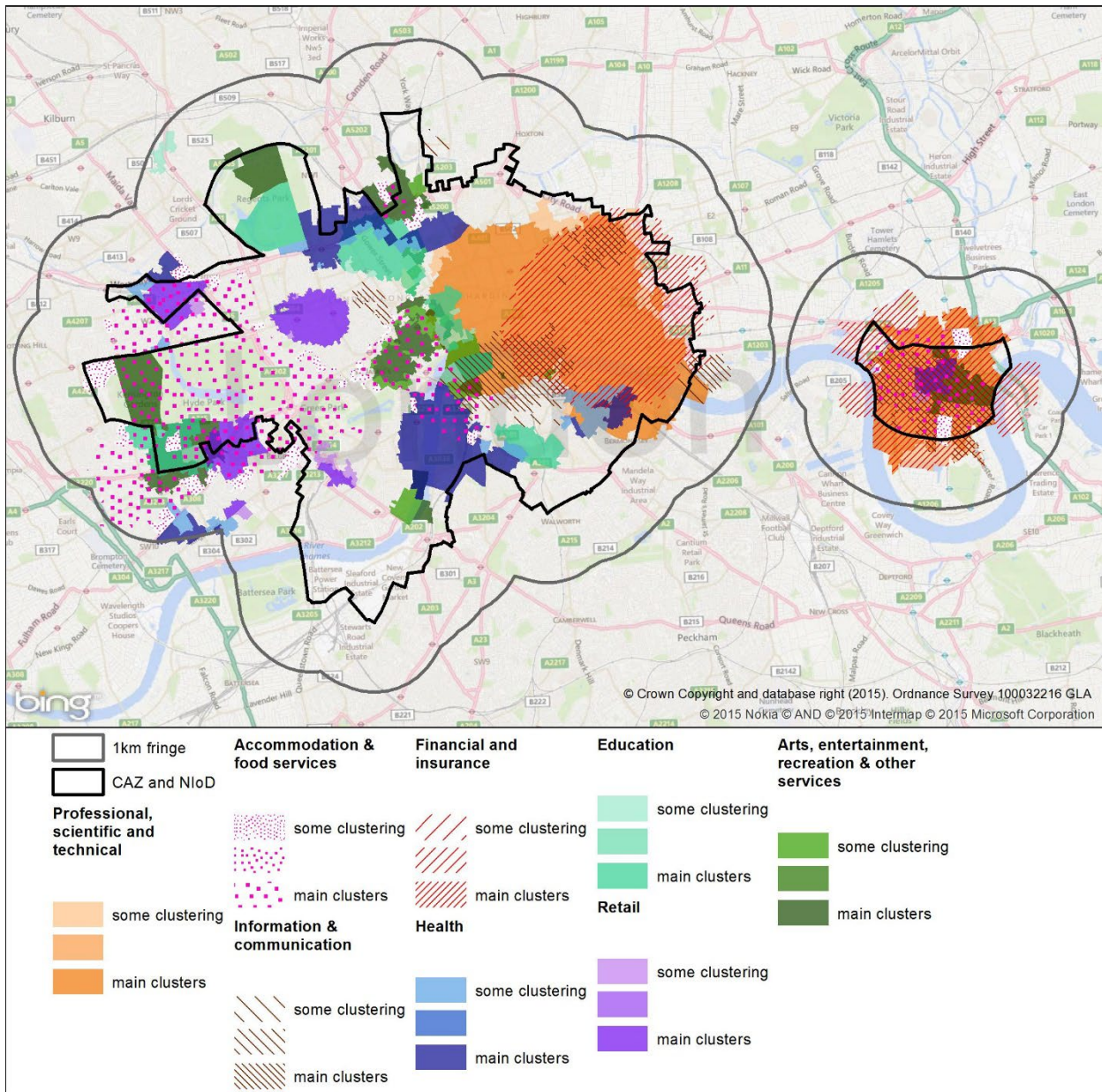
Source: GLA City Intelligence Unit analysis of Census 2011

Between 2004 and 2018 the number of workers in London rose from 3.8 million to 5.0 million. Almost all of this increase was in inner London, at 1.1 million. Around 50% of the workers in inner London live in inner London. In proportionate terms, the additional supply of labour has been met equally by residents from inner London, outer London and the wider South East, emphasizing the importance of London’s transport systems to support employment in the CAZ<sup>33</sup>.

A second means to achieve agglomeration benefits is through clustering, and in the CAZ there are clusters of sectors such as Professional services, Information and communication, and Finance, Map 3.

<sup>33</sup> Hope M (2020), [Transport expenditure in London 2020](#), GLA Economics Current Issue Note 60.

**Map 3: Clustering by industry employment type in the CAZ, NIoD and approximately 1km fringe around them**

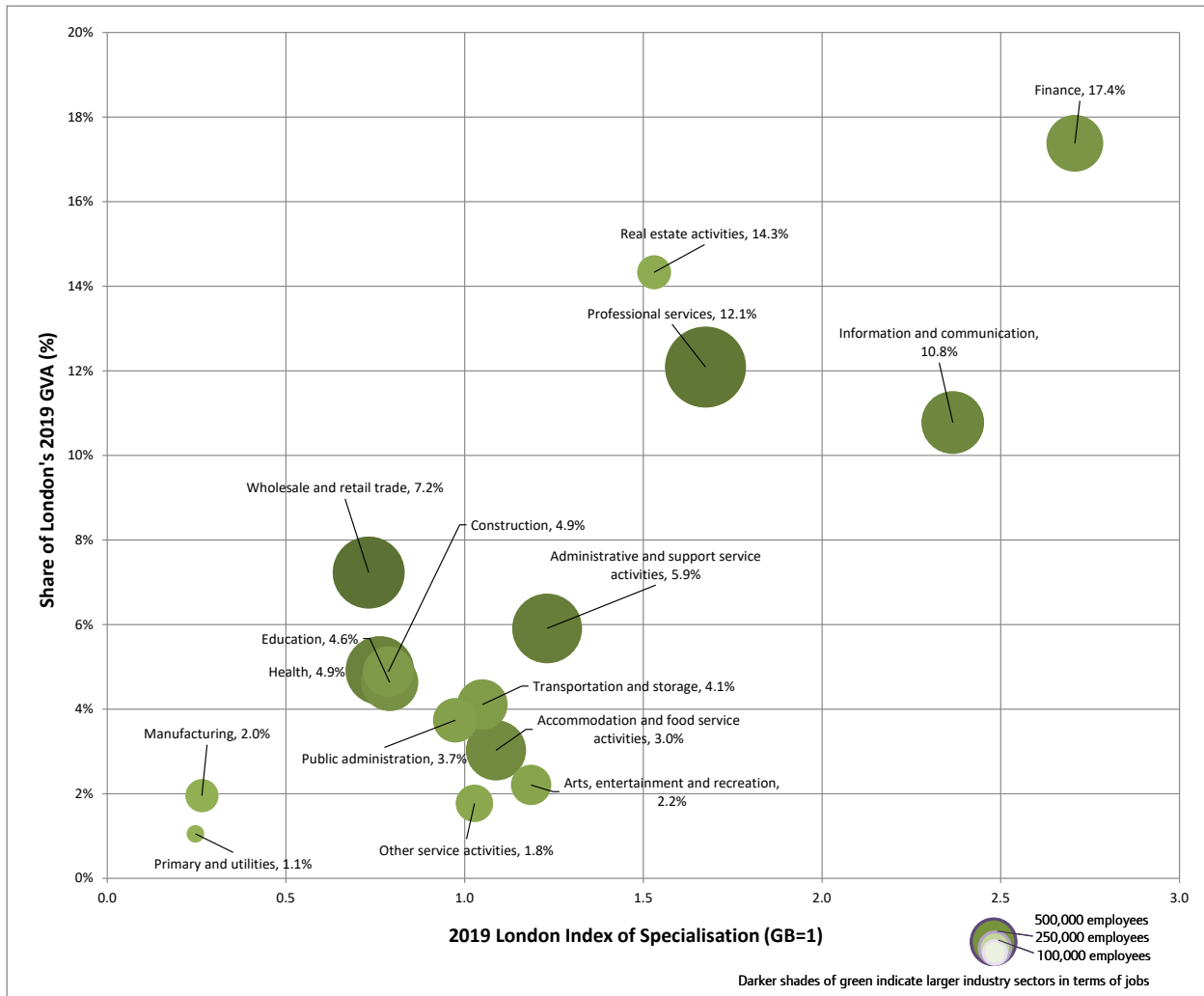


Source: Census 2011 and GLA City Intelligence Unit analysis

The sectors of Finance, Information and communication, and Professional services are ones in which London both specialises, and which make a significant contribution to London’s output, Figure 1. Sector specialisation is measured as the ratio of the share of jobs in London and the share of jobs in the rest of Britain.



**Figure 1: Sector specialisation and share of output, London 2019**



Source: GLAE calculations of ONS GVA, BRES, LFS and Workforce Jobs data

London is an export-oriented service economy. London’s service exports were £138 billion in 2019, or 43% of UK service exports of £316 billion. London’s service net trade was £62 billion in the same year, or 60% of the UK net trade balance of £103 billion, Table 1. In comparison, London contributes around a quarter of UK output, and services account for 90% of London’s economy.

Around a quarter of London’s service exports are to the EU, and London’s net trade balance with the EU accounts for 67% of its overall net trade balance. The corresponding figures for the UK are 38% and 17%.

The export-oriented sectors of Finance, Information and communication and Professional services account for 72% of London’s exports and 84% of its net trade.

**Table 1: Service exports and net-trade, London and the UK, and for export-oriented sectors, 2019, £ million**

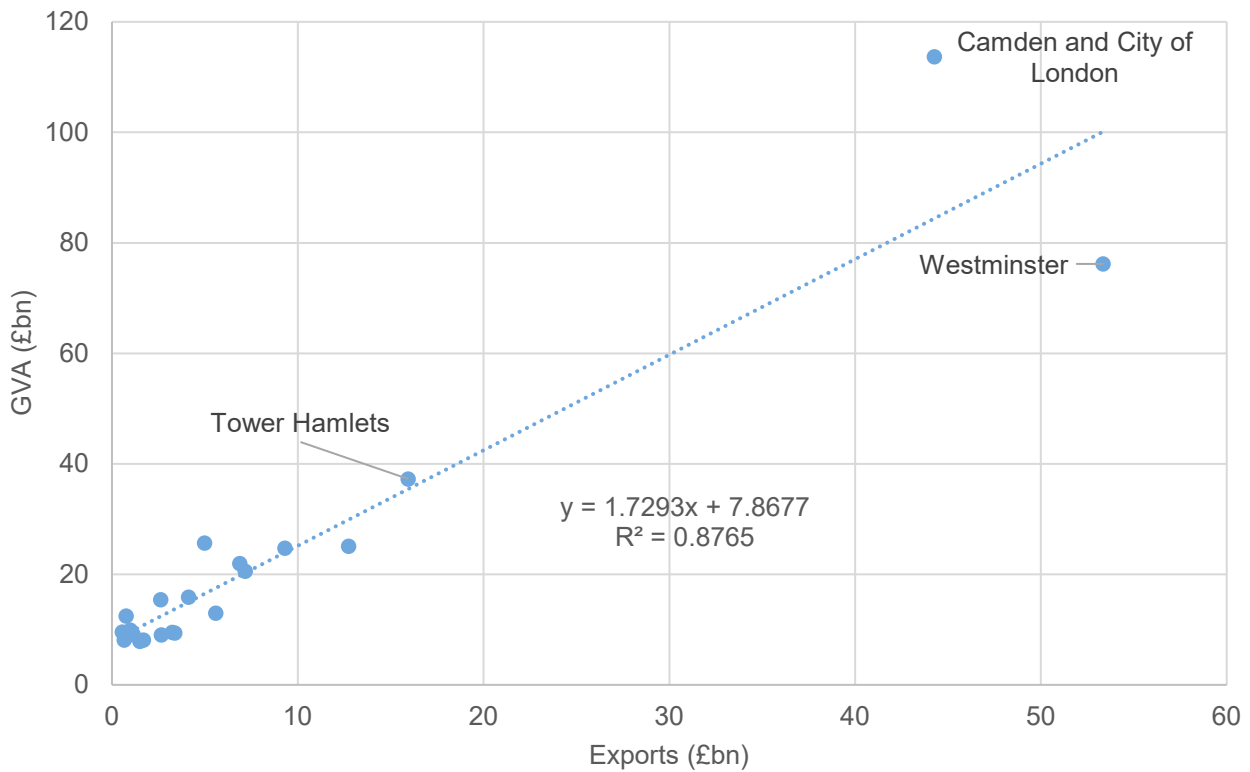
	Export oriented sectors			Total	Share of export-oriented sectors
	Finance	Information and communication	Professional services		
<b>London</b>					
<b>Services exports</b>	41,422	33,097	24,971	137,525	72%
<i>o/w EU</i>	5,201	7,474	4,096	32,977	51%
<b>Services net trade</b>	21,542	15,240	15,539	62,111	84%
<i>o/w EU</i>	13,565	11,979	9,166	52,049	67%
<b>UK</b>					
<b>Services exports</b>	92,012	49,263	52,228	316,320	61%
<i>o/w EU</i>	29,504	18,755	16,496	120,622	54%
<b>Services net trade</b>	50,169	23,109	27,828	103,333	98%
<i>o/w EU</i>	17,408	7,259	6,876	17,877	176%
<b>London share</b>					
<b>Services exports</b>	45%	67%	48%	43%	
<i>o/w EU</i>	18%	40%	25%	27%	
<b>Services net trade</b>	43%	66%	56%	60%	
<i>o/w EU</i>	78%	165%	133%	291%	

Source: ONS sub-national service exports

In 2019, London had goods exports of £46 billion, or a quarter of its total exports of £184 billion.

To make further the point about export-orientation there is a clear relationship between total exports and output by area of London. The importance of the CAZ is such that local authorities which lie wholly or partially within the CAZ such as Camden and the City of London, Tower Hamlets, and Westminster have both higher exports and output than other areas of London, Figure 2. (The NIoD is also entirely within Tower Hamlets.)

**Figure 2: Exports and output by London local authority, 2019, £ billion**



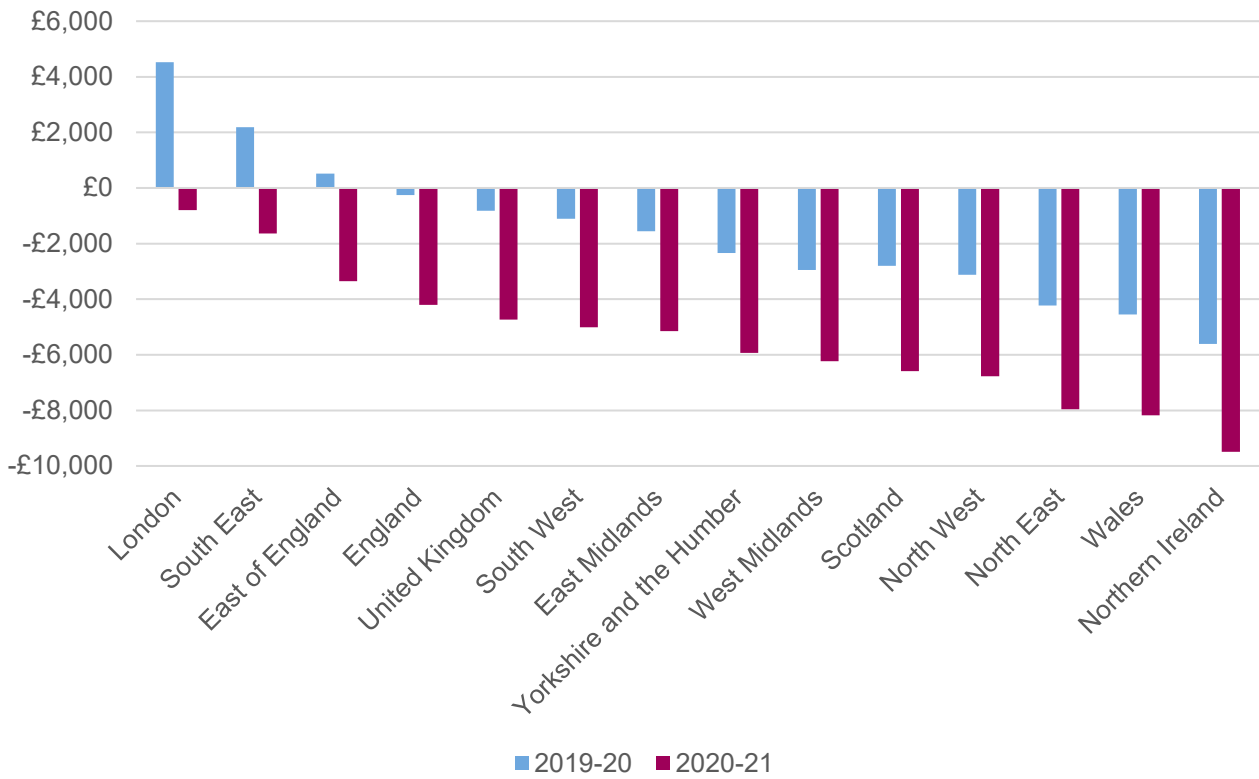
Source: ONS subnational goods and services trade, and output statistics

Note: Figures are by ITL3, so cover more than one local authority for some areas

One consequence of the strength of the CAZ is that London had made positive (often large) net contributions to the Exchequer since 2009/10 up to the pandemic. These could be disbursed to the other regions of the UK. Due to the pandemic, a surplus of £4,500 per person in 2019/20, switched to a deficit of £800 per person in 2020/21, Figure 3. Even in 2020/21 London made the smallest call per head of population on the public purse of the UK regions.

In conclusion, the CAZ is of strategic importance for the London and UK economies. There have been adverse impacts on its contribution due to the pandemic. London government is engaging and acting together to provide some remedies, but it will also require action from central government for the CAZ to meet its potential.

**Figure 3: Net fiscal contribution of the countries and regions of the UK, 2019/20 and 2020/21, £ per person**



Source: ONS Country and regional public sector finances

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**MAYOR OF LONDON**