MAYOR OF LONDON

London and the UK

A DECLARATION OF INTERDEPENDENCE

August 2019

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Greater London Authority
August 2019

Published by
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

london.gov.uk
enquiries 020 7983 4100
minicom 020 7983 4458

ISBN 978-1-84781-721-1

Contents

Mayor’s Foreword

Every day I wake up proud to be Mayor of the greatest city in the world. London is a city that thrives on the diversity and boundless potential of its citizens. A city where you can hear languages, experience culture and eat food from anywhere in the world. And a city that’s both a global business hub and a thriving centre of international trade.

It’s well established that London is a global city. But it’s also an English city and a British city too. And I want those ties to remain strong.

We won’t achieve this by making London poorer. We will do it by helping the rest of the country become more prosperous and by strengthening our network of powerful cities and regions. The success of London and the rest of the UK is not and never has been a zero-sum game. We grow together and we succeed together. Put simply, we need each other.

It’s time to change the narrative and stop pitting London and the rest of the UK against each other.

This report helps to do that by busting some of the myths that exist about London. Yes, London is an incredible place to live, work and play, but people need to understand that the capital has real and persistent problems that need addressing. The scale of inequality and poverty in the city bear testament to that reality.

London is also unique in the UK as a result of its high population, diverse economy and capital city status.

This means London has transport and infrastructure demands that are not comparable with any other city, or indeed region, in the UK.

The combined number of people who travel into London for work or leisure each day is larger than the population of almost every other city in the UK.

Nine of the 10 busiest rail stations in the country are in London.

This is crucial for understanding how public money is spent in the capital in relation to the rest of the country.

What this report also does is highlight the strong interdependence between London and the rest of the UK. Jobs and growth in our city lead to greater economic demand in the rest of the UK and vice versa.

As Mayor of London it’s not within my gift to deliver a comprehensive, well-funded regional economic policy accompanied by far-reaching devolution. But I think it’s vital both for Londoners and for citizens throughout this country.

This is such an important moment in our nation’s history, and I fully believe that to ensure the greatest prosperity for London and the rest of the UK we need to see an ambitious new devolution settlement for the English cities and regions.

We need more power and more money to invest in housing, transport, skills, environmental protection and infrastructure to unleash the potential of our citizens and businesses.

In this way Londoners, alongside the cities and regions of the UK, can truly take back control and deliver the prosperity and growth they deserve.

Sadiq Khan
Mayor of London

Executive Summary

London is a successful city. It is one of the world's truly global capitals and a magnet for investors, visitors and tourists. It has highly specialised, world-leading service sectors and highly innovative industries. Its labour market has shown remarkable resilience after the financial crisis of 2008-09, its productivity remains considerably higher than the UK average and its economy contributes just under a quarter of the UK's entire economic output.

On the other hand, London faces two overarching challenges that chime with the rest of the country.

First, London is an unequal city and these inequalities must be tackled. Londoners are not wealthy, on average, and some are extremely poor. Median household incomes in London, after housing costs, are no higher than in the rest of the UK. No other UK region has more households and more children living in relative poverty when accounting for housing costs.

Many Londoners find it hard to meet their basic needs. For example, the recent Survey of Londoners paints a picture of a widespread lack of food security[1], with 1.5 million adults and 400,000 children in London having low or very low food security.

Second, London has huge investment needs. Severe housing shortages affect living standards and constrain its economy. The city's transport system is the most congested in the UK and struggles to meet increasing demand. Both require massive public and private investment, with transport capacity also being key to unlocking new housing developments.

Many people believe that London receives more public spending than other parts of the UK. In fact, spending on public services per head in London is not particularly high compared to the rest of the UK after taking into consideration the city's daily commuters, visitors and tourists.

[1] Having food security means having access at all times to enough food for an active, healthy life A full definition of food security was provided at the World Food Summit in 1996. See FAO (2006) Food Security: Policy Brief June 2016, Issue.

And compared to economic output, public expenditure in London is the lowest among all UK regions.

Another false impression is that London receives more infrastructure investment compared to other parts of the UK. For example, London’s rail expenditure per passenger is in fact lower than the GB average, while overall infrastructure expenditure per capita is projected to be on a par with other regions. Moreover, a large share of that expenditure is paid for by Londoners, while commuter flows and national supply chains mean that the benefits of investment are felt much more widely.

The data show that the economic fortunes of London and the rest of the country are very closely tied. No argument can be made from the macro-economic data that London somehow benefits at the expense of the rest of the country, or vice versa. Rather, London and the UK need each other.

The country’s economy is not a ‘fixed quantum’ that gets shared between London and other places; rather it is dynamic within a global economy.

London government and the civic leaders of all the core cities agree that the dynamism of the country’s economy as a whole, is being held back, by the centralisation of power in Whitehall.

Rebalancing the economy cannot be achieved by making London poorer, but by helping the rest of the country become more prosperous and by creating a strong network of powerful cities and regions.

To this end, two sustained revolutions are needed: the devolution of power - in London and throughout the regions; and substantial investment - in housing, skills and infrastructure. These combined will greatly increase prosperity within and across all UK cities.

Introduction

This report gives an overview of London’s economy to help inform current debates on regional growth and the desire to rebalance the UK economy as a whole.

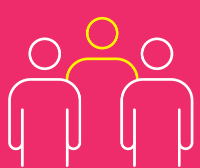
It highlights some of London’s strengths but also the key challenges it faces, especially in terms of inclusive growth. It tackles common narratives that inadvertently portray London as an island of privilege. The truth is the capital has its own persistent problems of poverty and inequality. Its economy is not isolated, but intrinsically linked to the rest of the UK:

- **Chapter 1** of this report provides an overview of London’s economy, highlighting its nature as a successful global city but also some of the macroeconomic and geopolitical risks it is exposed to, especially in a post-Brexit context
- **Chapter 2** looks at the scale and extent of London’s economic inequality and poverty
- **Chapter 3** looks at patterns of public investment and expenditure in London and in the rest of the country
- **Chapter 4** examines the strong interdependencies between the economies of London and the rest of the UK
- **Chapter 5** draws some conclusions and presents some key recommendations.

1 London's economy: Some key facts and figures

14%

of London jobs are filled by workers born in the rest of the EEA in 2017



London is the UK's only global city. With a population of over 8.9 million people, it has more inhabitants than Scotland and Wales combined. Its economy accounts for just under a quarter of the UK's total economic output[2], while London's net contribution to the Exchequer in 2017/18 was around £34.3bn.

Compared to other European countries, London would be the eighth biggest economy in the continent - larger than Belgium, Sweden, Austria or Norway.

London's productivity has historically been higher than in the rest of the country. Over the last 20 years it has been between 19 and 31 per cent higher than the UK average, although it has struggled since the financial crisis of 2008-09[3].

That financial crisis hit London's economy hard, with key sectors massively contracting (especially finance and insurance). On the other hand, London's economy has been remarkably resilient in the post-crisis years, whereas other parts of the UK and of Europe have not[4].

The financial crisis only briefly dented a 20-year trend of strong jobs growth. Since 2011 employment has surged, with the total number of jobs[5] now standing at around six million and anticipated to continue growing. Employment and unemployment rates are also at historical highs/lows respectively, but unemployment rates in London have always been above the UK average.

[2] To be precise, it accounted for 23.8 per cent of the UK's GVA in 2017.

[3] Based on output per hour chained volume measure on output per hour relative to the UK average (1997-2017). Source: ONS (2019) Industry by region estimates of labour productivity: 2017.

[4] See Orellana (2018), Regional, sub-regional and local gross value added estimates for London, 1997-2016, GLA Economics Current Issues Note 57.

[5] 'Workforce jobs' as defined and measured by the ONS.


visitor
centre
FREE

London's economy is both very specialised - in highly productive, export-oriented service sectors such as finance and insurance and advanced professional services – but also big enough to accommodate large numbers of jobs in most of the key employment sectors. Exports from the specialised sectors are a key driver of London's trade surplus with the rest of the world[6].

At the same time, London attracts inward investment from abroad. Between 2003 and 2015, London secured 39 per cent of all foreign direct investment (FDI) projects in the UK and 26 per cent of all FDI project-related jobs in the UK[7].

London is home to a thriving knowledge economy, with international strengths in life sciences, tech and digital, culture and creative industries, advanced urban services and low carbon and environmental goods and services.

These sectors are all research and innovation-intensive and are vital to solving the challenges that London and the wider UK face.

But we are in a period of heightened economic uncertainty, in no small measure because of Brexit. With 14 per cent of London jobs filled by workers born in the rest of the EEA in 2017, the economic contribution of these workers is far greater than in the rest of the UK[8]. The UK's departure from the European Union is therefore likely to affect the supply of skills in London.

[6] GLA Economics (2019), The London Input-Output Tables, www.london.gov.uk/sites/default/files/london-input-output-tables-working-paper-97.pdf.

[7] London and Partners (2017), Understanding London+ FDI

[8] This follows rapid growth in recent years: less than 8% of London's jobs were held by EEA workers in 2004. A third of UK jobs held by EEA workers was based in London in 2017. See also: GLA Economics (2018) EEA workers in the London labour market.

8.9m

people live in London. More than Scotland and Wales combined

1/4

of the UK's total economic output is contributed by London

39%

of all foreign direct investment (FDI) projects in the UK are secured by London

£34.3bn

the contribution by London to the Exchequer in 2017/18

19-31%

higher productivity in London than the UK average over the last 20 years

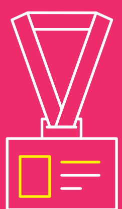
#8

biggest economy in the continent - larger than Belgium, Sweden, Austria or Norway

2 The challenge of inclusive growth in London

6/10

of adults suffering from food insecurity are in full-time or part-time work



Despite the city's economic success, substantial inequalities exist in both income and wealth. Once housing costs are considered, the poorest half of London's households have a lower income than the poorest half of the rest of the UK, while median household income in London and in the rest of the UK are basically the same when accounting for housing costs (Exhibit 1).

Exhibit 1

Income inequality 2015/16 - 2017/18. Difference in income (after housing costs) between top 10% and bottom 10%

Source: DWP Households Below Average Income 2015-16 to 2017-18
Chart GLA Intelligence

London also has greater wealth inequality than the rest of the UK. London households in the bottom half of the wealth distribution chart own just five per cent of total household wealth, while households in the richest ten per cent own more than 60 per cent of total wealth (Exhibit 2).

Exhibit 2

Wealth owned by households by decile 2014-16. Percentage of total wealth owned by households in each decile

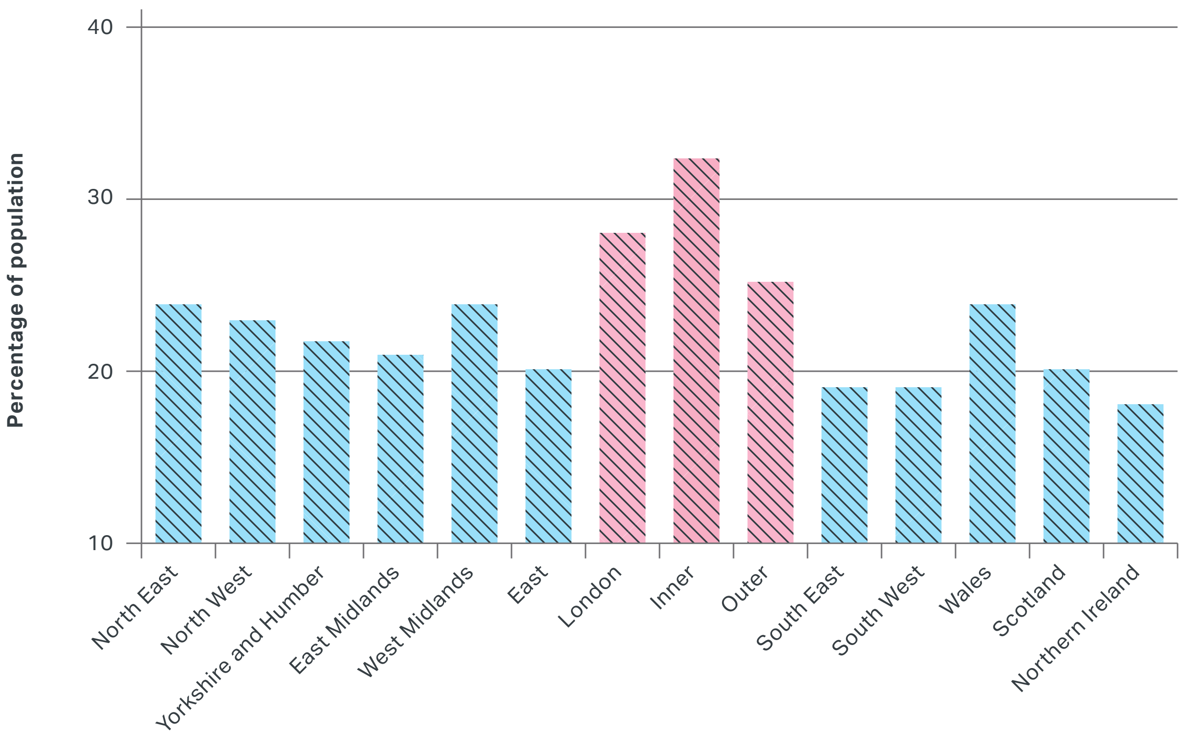
Source: Wealth and Assets Survey 2014-16
Chart GLA Intelligence

London's very high house prices and the fact that less than half of Londoners own the house they live in (either outright or with a mortgage) help to explain London's wealth inequality.

When accounting for housing costs, London has higher rates of relative poverty and of child poverty than any other part of the UK (Exhibits 3a and 3b). And much poverty is concentrated

Exhibit 3a

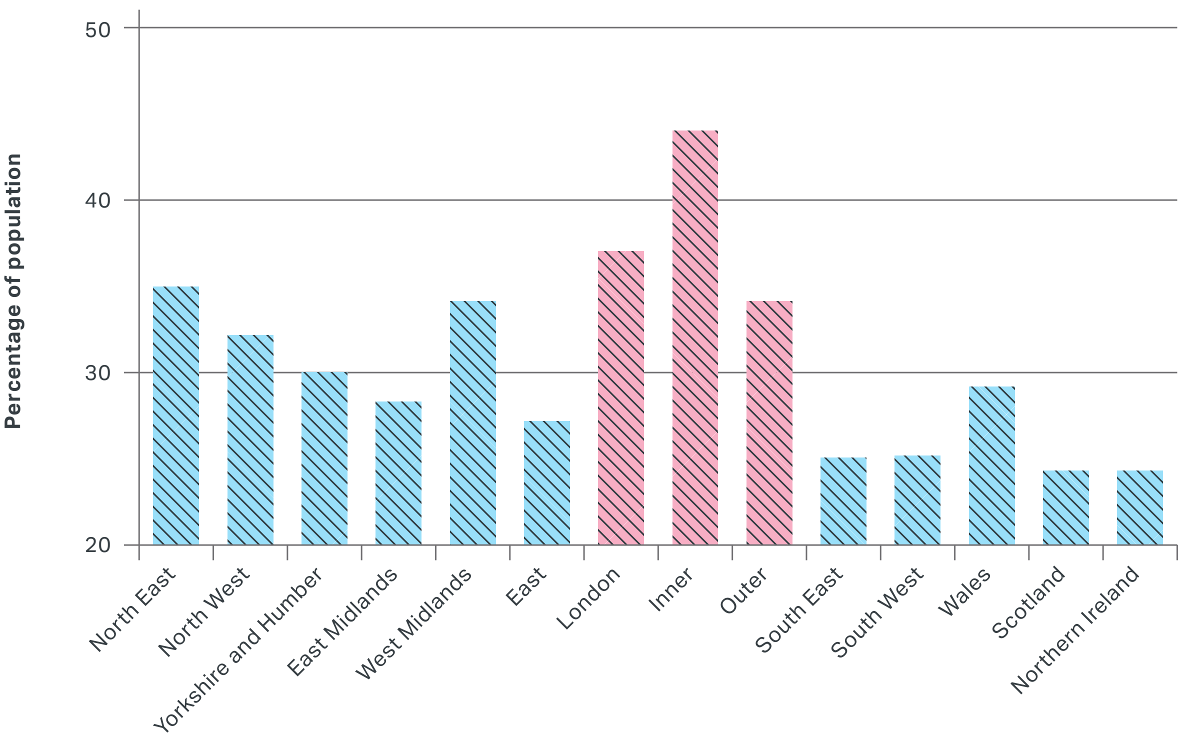
Population in poverty (after housing costs) 2015/16 to 2017/18



Source: DWP Households below average income with households where at least one person works. Other recent statistics reveal many Londoners[9] struggle to achieve basic living standards. For example, the recent Survey of Londoners paints a picture of widespread low food security, with 1.5 million adults and 400,000 children in London having low or very low food security. Once again, 6 out of 10 adults suffering from food insecurity are in full-time or part-time work.

Exhibit 3b

Children in poverty (after housing costs) 2015/16 to 2017/18



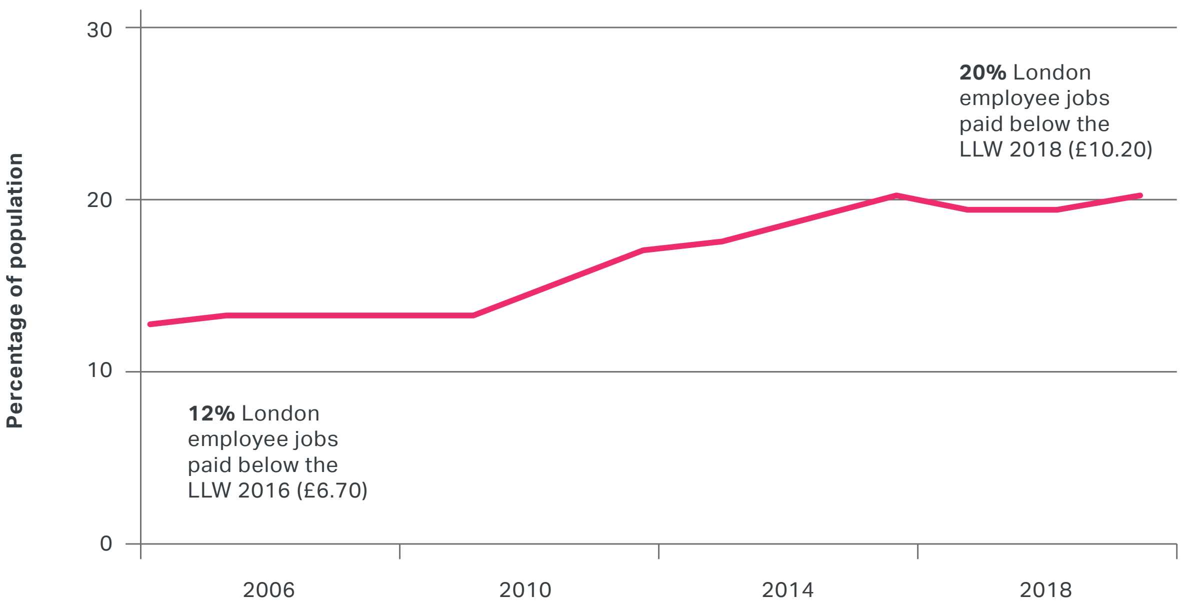
Source: DWP Households below average income

[9] GLA (2019) - Survey of Londoners Headline findings.

Work in the capital often does not pay enough for a decent standard of living and can be insecure. One in 5 employees in London are paid below the London Living Wage while 1 in 10 is in insecure employment. Both ratios have been increasing in recent years (Exhibit 4a). Moreover, the flipside of rapid employment growth in the capital since the financial crisis has been a major

Exhibit 4a

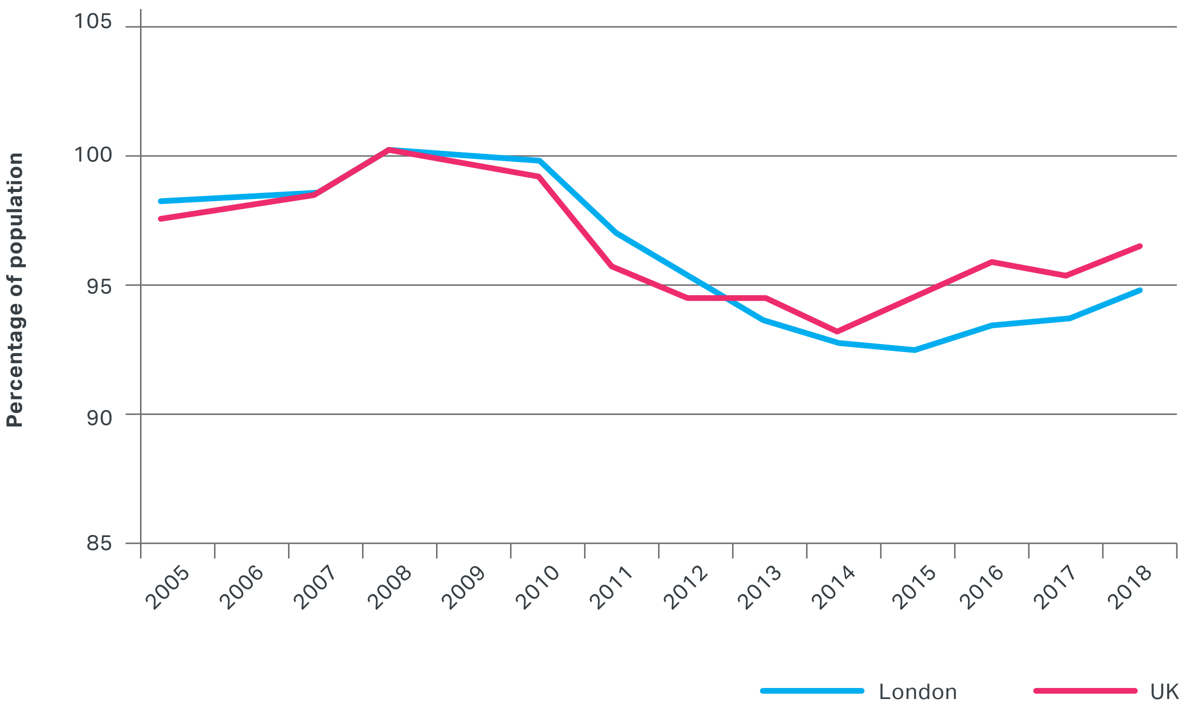
Proportion (%) of employee jobs in London paid less than the London Living Wage, 2006-2018



Source: Annual Survey of Hours and Earnings 2018 (provisional) pay squeeze, even more pronounced than at the national level. Taking inflation into account, full-time gross weekly earnings for employees in London were still 6 per cent below 2008 levels in 2018, compared to 4 per cent below for the UK as a whole (Exhibit 4b).

Exhibit 4b

Index of real (CPIH-adjusted) median full-time gross weekly earnings, London and UK, April 2005 to 2018 (April 2008=100)



Source: ONS Annual Survey of Hours and Earnings

3 Public expenditure and investment in London

42%

more jobs in London in the last two decades, but only 16% more homes

London has substantial investment needs – both now and for the future. Londoners face chronic and severe housing shortages, which (as we have seen) affect living standards. New housing supply in London has failed to keep up with demand. Specifically, in the last two decades the number of jobs in London has grown by 42% and the number of people by 26%, but the number of homes by only 16%[10].

Exhibit 5

Average house prices in London and England after adjusting for inflation, 1970 to 2017

Source: GLA (2018), Housing in London - The evidence base for the Mayor's Housing Strategy

[10] GLA (2018), Housing in London - The evidence base for the Mayor's Housing Strategy.

This in turn has led to a housing affordability crisis (Exhibit 5), whose impact on the economy, poverty, social and geographical mobility and well-being are of national significance.

With London's average prime office rents being more expensive compared to most competitor cities and very high residential costs, London's business environment also risks becoming a victim of its own success, making it more difficult for businesses to grow and creating a barrier to sectoral diversity. In short, the housing crisis is both an economic impediment and a social catastrophe.

London's transport system is already the most congested in the UK and is struggling to keep up with increasing demand. London commuter zone drivers wasted an average of 96 hours in traffic during 2014, above the UK average of 30 hours. Londoners spent more time idling in traffic than their European city counterparts. Rail overcrowding in London (measured by percentage of Passengers in Excess Capacity) is almost three times that of other UK cities[11].

More people and jobs in London mean that the demand for travel across all modes of transport is expected to increase to around 32 million trips on an average day in 2041. That's five million more than today.

[11] Wingham (2017). Transport investment in London. GLA Economics Current Issues note 54. July 2017.

Without adequate investment in transport infrastructure to boost capacity in London and in the Wider South East, congestion risks bringing the London network to a halt.

Investment in new transport capacity is needed to address this trend. Such investment will also help unlock the development of hundreds of thousands of new homes.

Despite all this, London is still widely perceived to be receiving preferential treatment in terms of public expenditure. The data tell a more nuanced and complex story.

When daily commuters (around 800,000), visitors and tourists are included public spending per head in London is not particularly high compared to the UK average. Compared to economic output, it is low (Exhibits 6a and 6b).

Exhibit 6a

Public sector expenditure per workday population, 2017-18

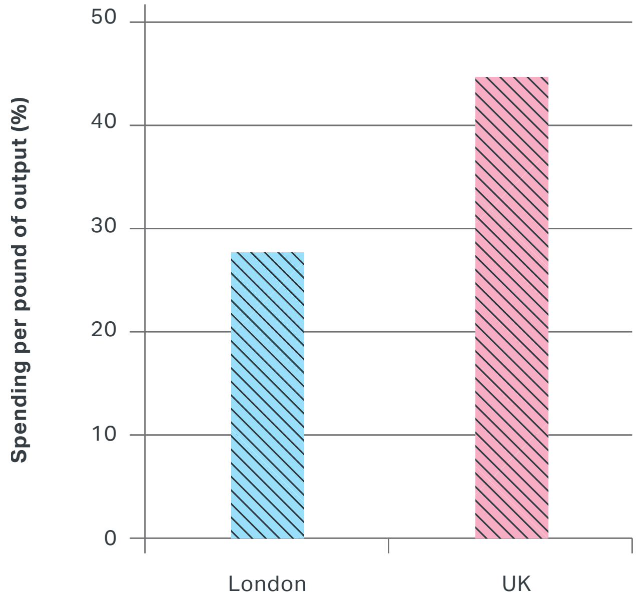
Source: HM Treasury PESA, ONS Population Estimates, ONS International Passenger Survey, ONS Annual Population Survey, DfE School Census, Visit Britain GB Tourism Survey, Visit Britain GB Day Visits Survey

When it comes to transport infrastructure expenditure in London, it is important to note that this reflects its unique geography, population density, and dependency on rail. In 2017-18 nine out of ten railway stations with the most entries and exits in Great Britain were all in London (Exhibit 7). When the total number of passengers is taken into account, London's total rail expenditure can be put into perspective (Exhibit 8).

Infrastructure spending in London is largely paid for by Londoners and London businesses, as the case of Crossrail and broader analysis of infrastructure investment in different regions of the UK shows (Exhibits 9and 9b).

Exhibit 6b

Public sector expenditure per £ of output, 2017-18



Source: HM Treasury PESA, ONS GVA estimates

Exhibit 7

In 2017-18 nine out of ten railway stations with the most entries and exits in Great Britain were all in London:

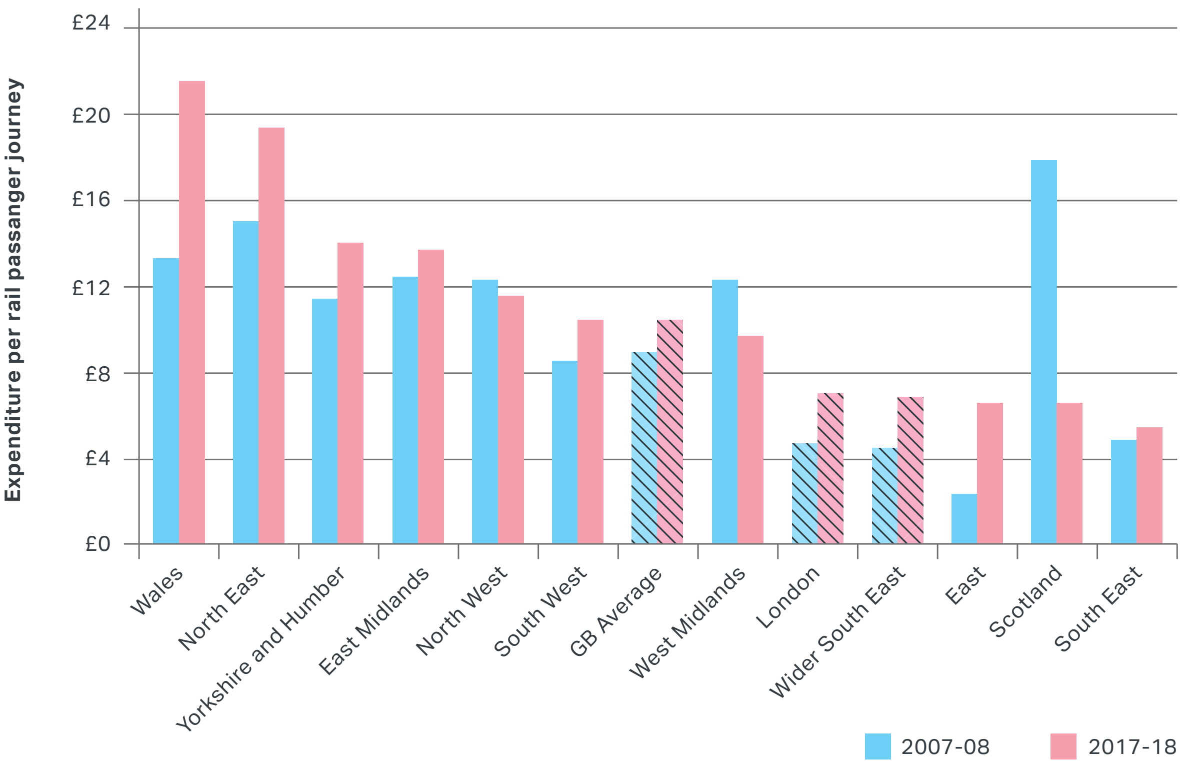
Station	Total entries and exits
Waterloo	94.3m
Victoria	75.0m
Liverpool Street	67.0m
London Bridge	48.5m
Euston	44.7m
Birmingham New Street	43.7m
Stratford	40.1m
Paddington	36.6m
St Pancras	34.6m
King's Cross	33.9m

Source: Office of Rail and Road


AFGHAN - IRANIAN - COSOVA - BULGARIAN - ROMA
Brixton P4
← Shopping Centre and Market Square
Lewisham Hospital →
Travelling over the Easter period?
36344
Stagecoach
LX09 ADV

Exhibit 8

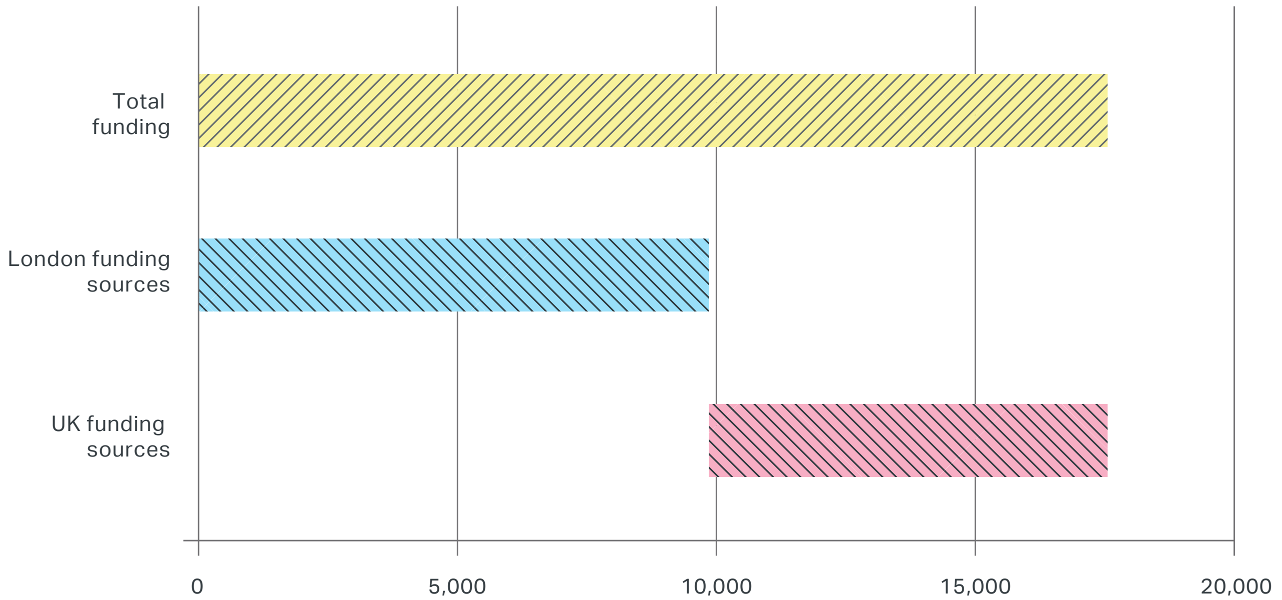
Public sector rail expenditure (capital and current) per passenger journey



Source: HM Treasury PESA, Office for Rail and Road Regional Statistics
Notes: Non-identified expenditure and spending outside of the UK has been apportioned to the UK regions using a per capita method

Exhibit 9a

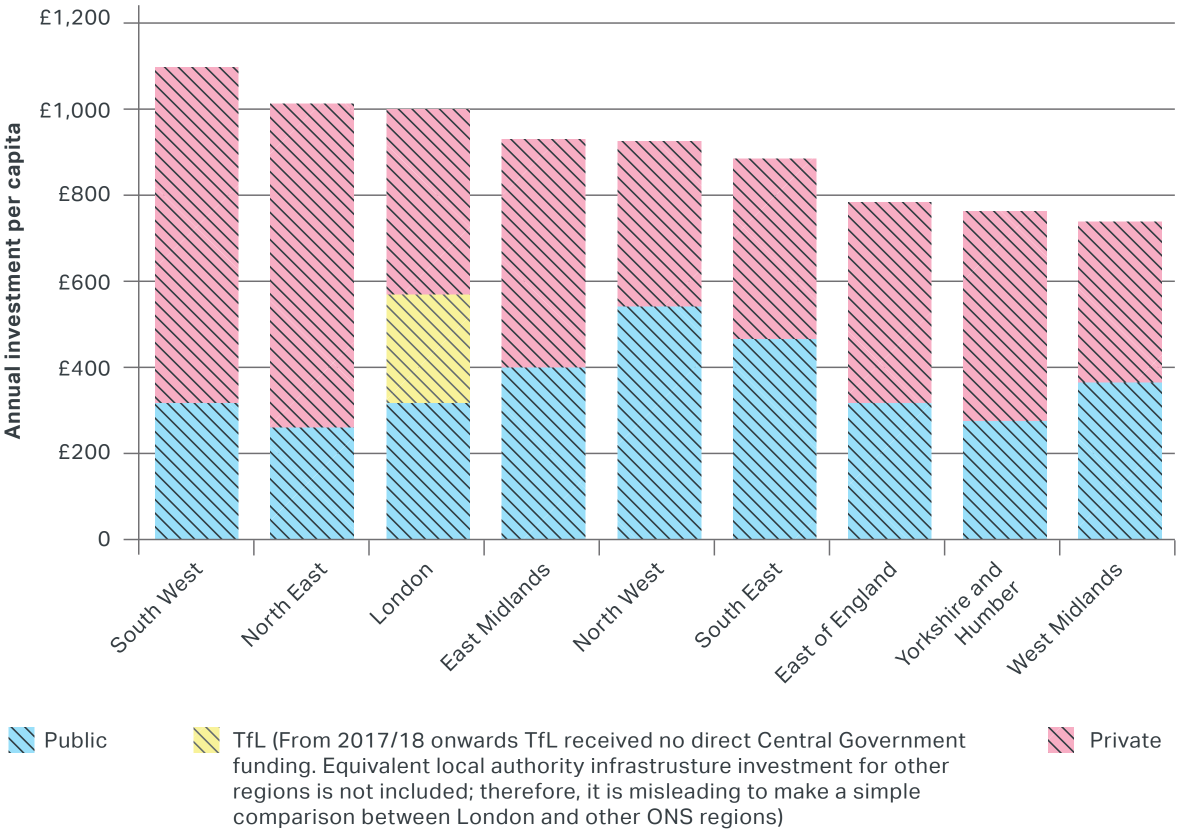
Funding sources of Crossrail, £ million



Source: National Audit Office
Note: National Government loans to fund Crossrail are attributed to London funding sources under the exception of repayment

Exhibit 9b

Average annual infrastructure investment per capita by funding source over the period 2018/19 to 2020/21

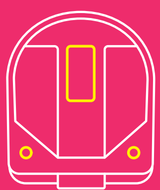


Source: Infrastructure and Project Authority

4 The interdependency between London and the rest of the UK

800k

commuters on average travel into London each day



London is not an island. Its economic influence extends to the wider South East (WSE) of England from which the whole region benefits. It also has deep economic links with the rest of the UK.

Commuting is a primary example. Around 800,000 commuters travel into London each day. That's more than half of the workforce in some of the local authorities bordering London. These commuters make an important contribution to the city's economy as well as to their own local economies on their return home (Exhibit 10).

But the links between London and its hinterland are not just about commuting. Business links are also very important.

London is a gateway to the rest of the UK for international investors and a great business accelerator. While the rate of London's business start-up is consistently higher than the rest of the UK, between 2012 and 2013 there was a net migration of firms moving out of London. In total, 1600 more firms migrated out of London than migrated in[12]. The main destination for these firms was the WSE.

And while trade is more important to London's economy than the UK's economy, this is not predominantly about international trade – London trades more with the rest of the UK than it does with the rest of the World[13]. The trade and supply chains that link London and the rest of the UK economy mean that for every pound consumed or invested in London, 24p of production is generated elsewhere in the UK.

Investment in London will inevitably benefit the wider economy, especially in terms of manufacturing supply chains. For example, London First reported that 35% of jobs created by the construction of new office space in London are spread across the rest of the UK[14]. In the same way, investment in projects in other parts of the country often support specialist financial and business advisory jobs based in London.

[12] GLA Economics (2016), Economic Evidence Base for London 2016.

[13] Hope, M. & Wingham, M. (2019), The London input-output tables, GLA Economics Working Paper 97.

[14] London First (2015). London 2036: An Agenda for Jobs and Growth.


Kingspan
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SWIFT
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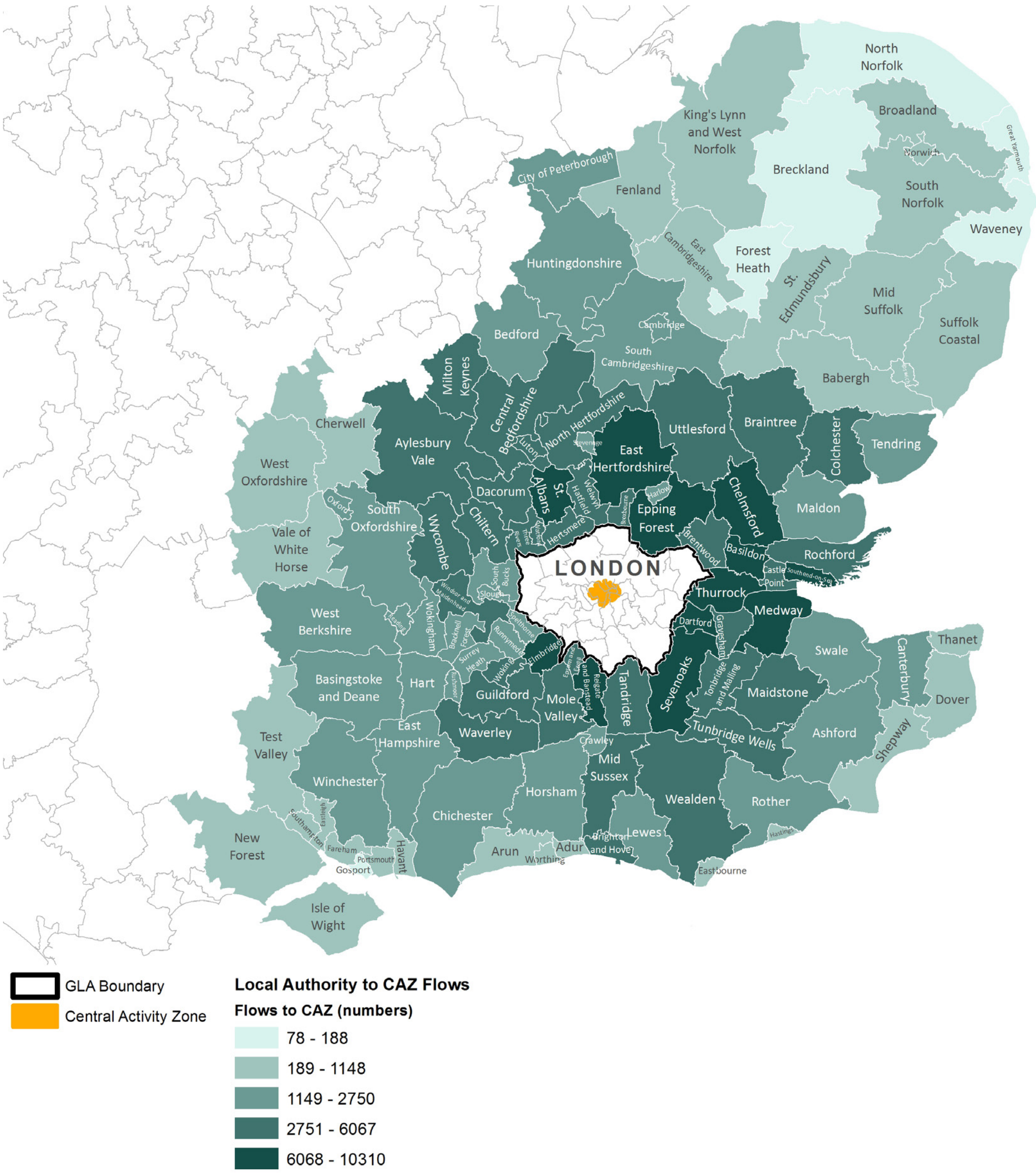
GROUP
830 235

Exhibit 10

Number of London workers living in the Wider South East, by local authority, 2011



Source: Census and GLA Intelligence

"(...) the UK would not be well served if (London) does not continue to grow. We do not accept the argument sometimes made (especially in a business cycle downturn when the north-south divide increases) that London's growth occurs at the expense of other UK cities.

"Economic growth is not a zero sum game, and this is just as true in thinking about the geographical location of activity within one national economy as in the context of international trade and growth."

Diane Coyle and Bridget Rosewell, 2014[15]

The truth is that London needs the rest of the UK to flourish and vice versa.

Over the past 20 years there has been a general correlation in economic growth trends between London and the rest of the UK. Similarly, since the financial crisis, London has suffered from slow productivity growth just like the rest of the UK. And while London has seen very strong employment growth, not all new job opportunities go to London. Wales and the North West have had higher employment growth rates than London over the last ten years.

London's role as a net contributor to the Exchequer means that for every pound contributed in recent years, around 30p is channelled to the rest of the UK in the form of net Exchequer contributions.

[15] Coyle, D. Rosewell, B. (2014), Investing in city regions: How does London interact with the UK system of cities and what are the implications of this relationship?

Ultimately as pointed out by many economists (including for example by Diane Coyle and Bridget Rosewell) the UK's economic growth is not a 'fixed quantum' that gets shared between London and other places. The idea that governments can move growth from one place to another is no longer widely held. Hence the OECD Regional Development Committee pointing to a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the competitiveness of all regions[16].

What really holds back productivity and living standards in the UK's lagging cities and regions – as highlighted by the OECD - is twofold: underinvestment in infrastructure, innovation, skills, business support, and a lack of freedom for local authorities in setting education and training goals.

A planning system that struggles to be sufficiently responsive to meet housing needs is also a factor.

It doesn't help that London and other regional centres lack the powers they need to invest in growth and living standards.

Many of the most dynamic and prosperous cities and regions in other countries have substantial powers and funding. London retains barely 6 per cent of all the tax paid by Londoners and businesses. Compare this to 50 per cent in New York and 70 per cent in Tokyo. One of the best ways of maintaining shared prosperity across the country is to give city regions more control over tax revenues.

[16] See the Committee's webpage: www.oecd.org/cfe/regional-policy/regionaldevelopment.htm

"In the face of a severe lack of resources in comparison with other countries and faced with the need to address considerable changes to their physical fabric and labour markets, local authorities across the United Kingdom have been forced to rely on relatively inadequate discretionary resources (...)

"The time has come in the UK to spatially decentre the power structures that drive and manage economic growth and development. Unless we have a greater spatial balance in those structures, the national economy itself will remain spatially unbalanced. The solution, we suggest, is a much-needed introduction of a federated or semi-federated model of economic and fiscal governance."

Ron Martin, Andy Pike, Peter Tyler and Ben Gardiner, 2016[17]

The London Finance Commission (LFC) for the Mayor of London published a report in 2017 calling for a devolution settlement that would be normal in most countries but has been considered radical in the UK. Since then there has been some very modest progress with the partial decentralisation of business rates, but little else. The eight Metro Mayors and Combined Authorities are facing similar constraints on their powers, with very little overall fiscal control.

[17] See Martin R. et al. (2016), 'Spatially Rebalancing the UK Economy: Towards a New Policy Model?', Regional Studies 2016, 50(2), 342-357.

5 Conclusion

To conclude, London is a very successful economy, but shares several challenges that are common to the rest of the UK economy, including slow productivity growth, not enough investment, poverty and inequality.

And, contrary to frequent caricatures, London's economy is not removed from the rest of the country. Far from it. UK cities and regions are linked by complex relationships of trade, people, finance and ideas. The value of London's trade with the rest of the UK exceeds the value of its trade with the rest of the world[18].

A strategy, then, of seeking to rebalance the UK economy by constraining growth in the capital would only risk dragging everywhere down.

Instead, two factors are paramount in promoting prosperity throughout the country: investment and local control.

Investment in infrastructure, skills and business support, and greater control to cities and regions to set their local growth priorities. Recent OECD analysis among others set this out very clearly. And more local control over taxes and public spending would enable better and greater investment in local areas, as set out by the London Finance Commission and in many other reports on devolution and localism in recent years.

The Mayor and the rest of the UK are united in this call for devolution. Devolution must be granted - so that towns, cities and regions can decide their own investments and spending priorities.

Ultimately, it will be these decisions, rather than those made in Whitehall, that will unleash innovation, growth and greater prosperity for the United Kingdom as a whole.

[18] Wingham, M and Hope, M (2019), The London input-output tables, GLA Economics Working Paper 97.

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