Oxford
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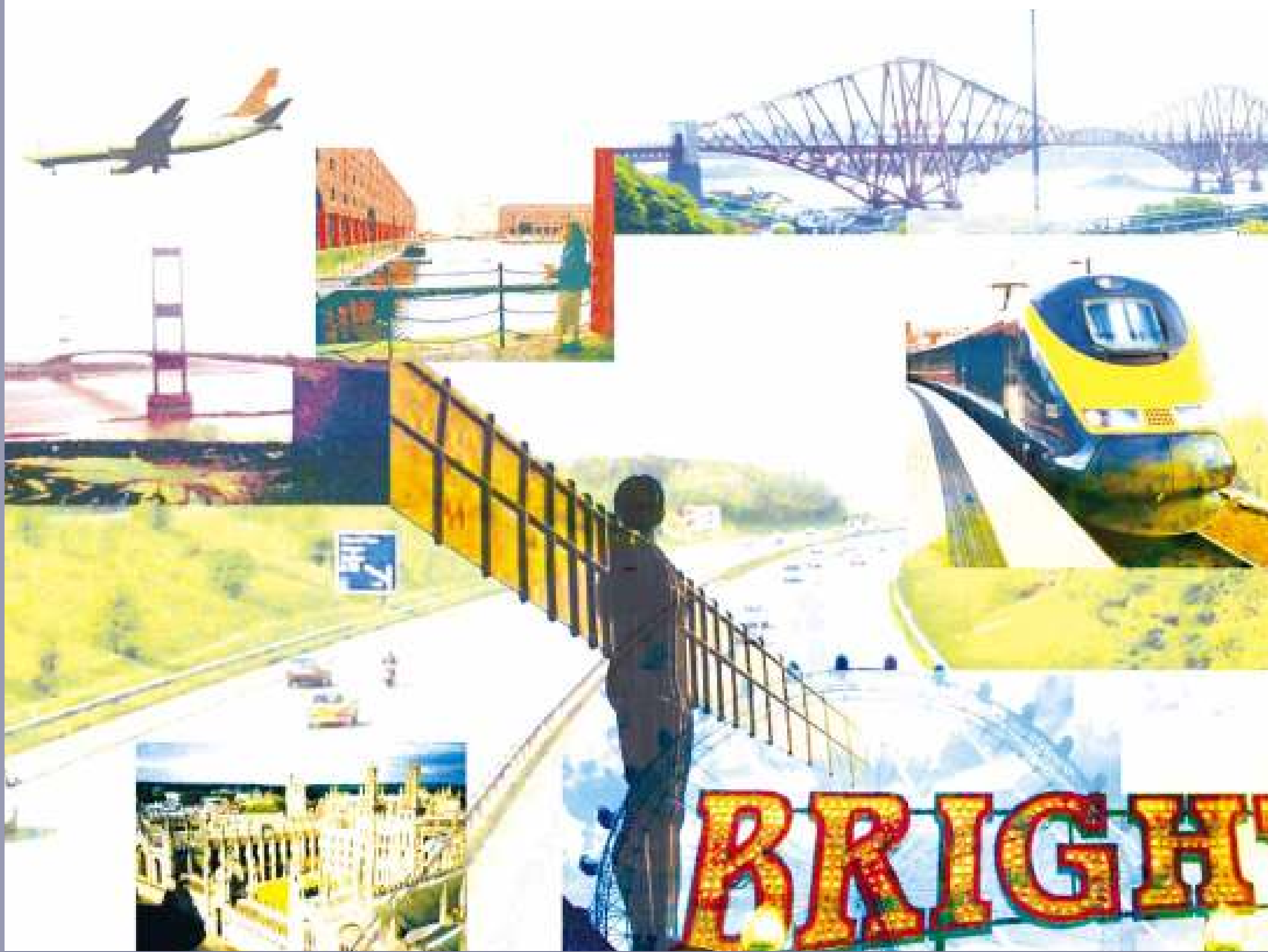
London's Linkages with the Rest of the UK



CORPORATION OF LONDON

May 2004

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Foreword

Michael Snyder
Chairman, Policy and Resources Committee
Corporation of London

To many of us who live and work in London, the nation's capital is very clearly a valuable asset for the United Kingdom as a whole. A World City that serves as an engine of growth for Britain and a magnet for talent and enterprise on a global stage, London is a success story that we believe to be worth further investment. From other perspectives, however, the picture is often less clear. It is sometimes argued that London has grown at the expense of other parts of the country, and even that Britain would be better off if funds were diverted away from the capital to other regions.

It is against this background that the Corporation decided to commission Oxford Economic Forecasting to undertake an analysis of the economic linkages between London and the rest of the UK. The mandate was left deliberately broad and open-ended. We already know, from work carried out by a number of consultants, that London makes a significant net financial contribution to the UK Economy, so the object here has been to explore the wider links and relationships that tie London into the country as a whole.

The results of the OEF study should prove of considerable interest to policy makers across the entire range of UK government and administration. Perhaps the most important conclusion is that London's growth has not been, and is not likely to be, at the expense of the rest of the UK. Rather than hindering the development of other regions, London's success has contributed to and stimulated growth elsewhere. The linkages between the capital and the country are such that economic specialisation works to the benefit of all, while London's dual roles as a World City and the premier international financial centre add an extra impetus that few other capitals elsewhere in the world can match.

The report covers a range of different dimensions. It covers the positive contributions London makes as a source of jobs and demand, and as source of supply and specialist skills, analysing such issues as the city's contribution as a centre of creativity and innovation, as a national centre of training and education, and as a powerful attraction drawing in both international business and international tourism. The report is eloquent on the contribution made by the City, not only as an international wholesale marketplace, but also as a national asset that helps provide superior access to finance and financial services for the country as a whole. It also offers some valuable insights into London's place in the UK housing market.

I feel that one of the conclusions on education and skills captures the key message of the report as a whole: "A 'brain drain' to London from other parts of the UK may be a way of avoiding a 'brain drain' out of the UK." Not only in the field of education, but also in the fields of cultural creativity, business innovation, financial intermediation and a host of others, London's unique concentration of skills and resources is providing the country with a wide range of products, services and wealth. Britain would not enjoy these to the same degree without a vibrant World City at its heart. London, quite simply, is a national asset. Investment in London's future should be seen as an investment in the future of the whole country, because two way bridges are constantly being created. Those who come and work here bring energy, ideas and talent; if they later choose to return to their roots they take with them the experience of a World City and add to the economic vitality of the country.

Michael Snyder
London
May 2004

EXECUTIVE SUMMARY

- London's economy has grown more strongly than that of the rest of the UK over the last decade, in sharp contrast to the experience of much of the post-war period. **This revival in London's growth has not been at the expense of the rest of the UK, nor is it likely to be in the future**. Indeed, employment growth outside London has been nearly 2½% faster over the last ten years when London has been expanding than it was over the previous ten years when employment in London was shrinking.

- **Rather than rivalling other regions of the UK, London's success appears to have complemented and supported growth elsewhere in the economy**. The report reviews the ways in which London contributes to and helps maintain and improve the economic performance of the rest of the country. It also considers whether London creates economic problems for other parts of the UK.

- **The close linkages between London and the rest of the UK economy bring benefits to the whole country**. In particular, flows of both people and goods and services between the different regions allow resources to be allocated where they can be most efficient.

- **London's dual roles as a World City and a major global financial centre offer the UK benefits beyond those of most capital cities in Europe**.

London as a source of jobs and demand

- **London provides 750,000 jobs for commuters from the rest of the UK**. While there is also significant out-commuting from London to other regions of around 250,000, the net inflow into London has grown from under 400,000 commuters a decade ago to around 500,000 today. Most of those commuting to work in London live in the South East and Eastern regions, but there are also around 50,000 regular commuters to London from the South West, East Midlands, West Midlands and Yorkshire & Humberside, and 2,000-3,000 people travel by air on a regular basis from Scotland, Northern Ireland and the North West to work in London.

- The impact of commuters on the regional economies where they live is significant - commuters from the South East to London represent around 11% of workers who live in the South East, while for the East the figure is around 9%. We estimate that commuters spend over £11 billion a year of income earned in London within the rest of the UK, thereby supporting an estimated 140,000 jobs outside London. **Commuting therefore provides a strong transmission mechanism translating the burgeoning prosperity in London into support for employment in the neighbouring regions**.

- London does not just provide jobs for the rest of the UK through commuting. It also provides work for those who move on a more permanent basis in order to take advantage of a job in London – particularly young people. **We estimate that London has provided 70,000-80,000 jobs a year to people migrating from outside the Greater South East since 1995**. In addition, many London-based companies – particularly in the financial services sector - have relocated 'back-office' and/or customer support jobs to other parts of the UK.

- As well as being a direct source of jobs for the rest of the UK, London also helps to support employment in the regions by providing a source of demand for the goods and services produced elsewhere in the country. **We estimate that households, companies and government departments based in London last year spent about £108 billion on goods and services imported from the rest of the UK**. About 40% of these imports were financial and business services products, and a further 35% were manufactured goods.

- Moreover, the net outflow of older people from London to the rest of the UK enables wealth accumulated within the London economy to be continually dispersed throughout the UK.

London as a source of supply and specialist skills

- The other parts of the UK also help support jobs in London through the purchases their residents and companies make from London businesses. **We estimate that London exported £124 billion of goods and services to other UK regions in 2003**, implying that it had an overall trade surplus (current account) with the rest of the UK of just over £16.5 billion. This surplus is derived purely from the service sector of the economy, and underlines the extent to which London acts as the hub of financial and business services for the UK. The counterparts of this trade surplus are London's net contribution to UK public finances and flows of private capital from London to the rest of the UK.

- **The substantial trade that occurs between London and the rest of the UK benefits the whole country** by encouraging greater regional specialisation in areas of comparative advantage. The rest of the UK also benefits from lower costs of imports from London compared with home production or imports from abroad, making individuals better off and providing a competitive advantage to businesses in the rest of the UK that buy cheaper and/or better inputs from London. London, too, gains in the same way with its imports from the rest of the UK. Taken together, these intra-UK trading links improve the UK's ability to compete internationally.

- **London is the UK's key source of supply in a number of activities**, including media & entertainment, capital & financial markets, publishing, property management, a wide range of business services, including IT & telecommunications, and for the services of membership organisations, such as the CBI and TUC. London also has pockets of specialism in parts of the transport, wholesaling, manufacturing and retailing industries. **The clustering of companies in particular sectors in London generates important agglomeration economies, as firms have access to specialised inputs and employees, and benefit from networking and competing with other firms in their sector.**

- Within many of these areas, **London acts as a centre for design and innovation** for a broader UK industry. London is seen as the top region in the UK in its capacity to absorb and exploit new knowledge through its highly qualified labour force and concentration of skilled science and engineering professionals, and this means that even in sectors (for example within manufacturing) that London is poorly represented in, the capital may be involved in high value-added activities that are vital to the health of the wider industry.

- **London plays a particularly important role in the professional services**. It accounts for 27% of all private practice law firms in England & Wales and 39% of private practice solicitors. Similarly, London is home to 27% of working members of the Institute of Chartered Accountants in England & Wales and 22% of the non-student membership of the Institute and Faculty of Actuaries.

- **London is the UK's central market place and regulatory centre**, providing key elements of the infrastructure required to build a successful market economy. This includes not just financial markets and regulation, but a variety of institutions supporting other sectors, ranging from famous market places such as Smithfield and Billingsgate to organisations providing regulatory functions such as the Civil Aviation Authority and the Law Society.

- Although the city is the primary seat of government in the UK, and the Lyons review has highlighted the scope for further relocation of civil service jobs to the regions, **London has a lower share of public sector jobs in total employment than most regions across the rest of the UK**.

- Many of London's companies require highly qualified staff, and **40% of London's jobs are in professional and manager occupations compared with under a third in the rest of the UK**. Around 25% of the London workforce possesses university degrees, compared with only 15% for the rest of the UK, and nearly 8% of London's working-age population hold post-graduate qualifications compared with around half that level in the rest of the UK.

- There is concern that the capital denudes the rest of the UK of talent, as young people, particularly graduates, are attracted by the higher wages offered by its employers, but **London does provide important education and training opportunities**. Over 13% of all undergraduates in UK universities, and nearly 19% of post-graduates taking up jobs or moving on to further study in 2001/02 had been studying in London universities, figures that are respectively higher and substantially higher than London's share of the UK population. In addition, almost 30% of those leaving London universities that year moved either to jobs or to study in the rest of the UK.

- **A 'brain drain' to London from other parts of the UK may be a way of avoiding a brain drain out of the UK** (and it is often only a temporary movement). Overall migration flows suggest that, while many people may start their careers in London, a significant proportion move to other parts of the UK later in their careers. This migration helps transfer skills from London to the rest of the UK and may be important in increasing the population of potentially successful entrepreneurs in parts of the UK where the business start-up rate is low. **The Countryside Agency, for example, reports that incomers from urban areas create up to two-thirds of all new firms in rural areas.**

London's financial role

- **The concentration of wholesale and international financial activities in London makes it by a wide margin the largest financial centre in the UK (and also in Europe)**. Of 1.05 million people employed in financial services in the UK last year, around 320,000 were employed in London (30% of the total).

- **London's financial markets provide access to capital for firms based throughout the UK**. 52% of the 1,984 companies currently listed on the London Stock Exchange's markets with UK-based headquarters, with a combined market capitalisation of nearly £445 billion, are located outside London. Similarly, firms located outside London accounted for over half of new issues to the LSE by UK-headquartered companies in 2003, raising over £2 billion at issue. In particular, the Alternative Investment Market (AIM) provides fledgling companies, many of which are do not have a presence in London until they become much larger players, with a means of raising capital

- It is likely that London's position as a global financial market, and the benefits from both the scale of its operations and the clustering of financial and business services organisations in the City and Canary Wharf, help make capital available to companies throughout the UK at lower cost than would otherwise be the case. For example, previous research for the Corporation of London[1] suggests that doubling the size of business in the insurance and banking sectors reduces unit costs by 10-15%. **These economies of scale may partly explain why the spread of lending rates over deposit rates in the UK has apparently been lower over the last decade than in other OECD economies.**

- The UK has some strong financial clusters outside London, such as Edinburgh, Manchester and Leeds. However, while most of the activities based in those centres are only indirectly dependent on London's financial markets, there are important linkages (e.g. through support functions, provision of research and trading services etc). **London's global financial services**

[1] centre for economics and business research (cebr), *The City's Importance to the EU Economy 2004*, Corporation of London, January 2004

industry primarily competes with other international centres, such as New York, Frankfurt and Tokyo, rather than with other regions of the UK.

London's international role

- **London is one of a handful of truly "World Cities"**, with a diverse population that attracts people, businesses and investment because of its international links; the high quality employment, education and cultural opportunities it offers; and its role as a hub for physical and virtual communications.

- **London is a magnet for foreign workers**. Since the early 1990s net international migration has added over 300,000 to the city's population, with London's financial and business services sector and its creative industries in particular playing key roles in attracting international highly-qualified professional staff to the UK.

- **London is the location of choice for the European headquarters of international companies**: 33% of Fortune Global 500 companies have their European headquarters in London, compared with 9% in Paris and 3% in Frankfurt. Indeed, London is home to more headquarters than any other European location and to more foreign banks than any other city. The leadership role that headquarters play is a crucial driver of London's business service specialisms, including legal, accounting and media services, from which companies in the rest of the UK also benefit. Moreover, there are pervasive linkages from headquarters activity to demand, business and investment opportunities and skill levels in the rest of the UK.

- Surveys show that London is Europe's leading business centre and a leading destination for inward investment projects. **London's reputation and international transport links are a positive factor in attracting inward investment to the rest of the UK**. In recent years, the share of manufacturing projects coming to the UK has dwindled, while the number of service-oriented projects has climbed strongly. As with headquarter functions, it is unlikely that London's success has been at the expense of the rest of the country. **In both cases, London's unique attributes have allowed the UK to capture activities that would otherwise locate in other countries.**

London's role in UK tourism

- London historical legacy, culture and range of facilities make it a key destination for both UK domestic and international tourists. In particular, **around half of overseas tourists only visit the UK because of the original draw of London**. Without this initial attraction, it is likely that many fewer overseas visitors would explore the rest of the UK.

- **London residents provide a major source of tourism demand for other parts of the UK through the visits they make**. The combined spending of both day and overnight visitors from London to the rest of the UK supports around 10% of the tourist economy (equating to around 150,000 jobs). But there is a net inflow of tourism spending to London from the rest of the UK of around £1.6 billion per annum, largely as a result of spending by day-visitors to London.

- **London also provides the UK with both a meeting place and a cultural centre.** The DTI estimates that London accounts for 57% of total UK jobs in conference organising; 46% of jobs in exhibitions; 40% of jobs in theatrical and literary arts; and 27% of museum activity-based jobs.

Links between London's housing market and the rest of the UK

- **London has historically led the UK cycle in house prices**. Over successive cycles, house prices have increased first in either London or the South East with other regions catching up gradually over time – the so-called 'ripple' effect. However, the differential between house prices in London and those in the North of the country has gradually been rising over the last twenty years.

- There is little doubt that housing markets in London and the South East are closely allied. Since they constitute an integrated labour market area with good commuting linkages, this is unsurprising.

- Linkages between housing markets in London and the rest of the country are slightly more tenuous. The interrelationships occur primarily through conditions in the broader regional economies and from differences in credit conditions.

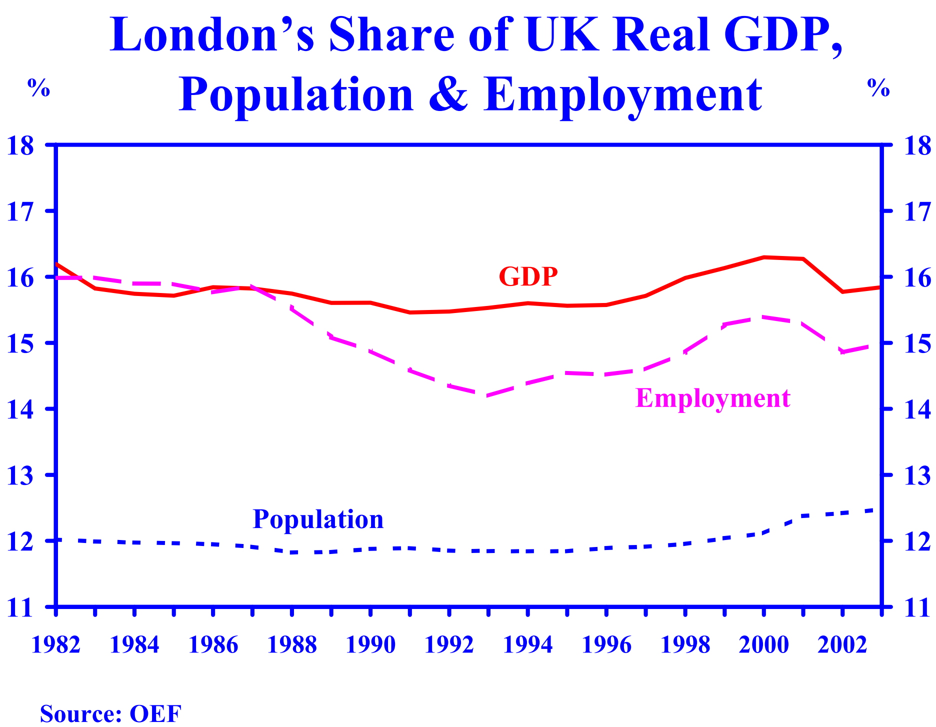
- **From this, we cannot however argue that house prices outside London are "too high". London does not, in itself, cause prices to be excessive elsewhere.** House prices in all markets, whether national, regional or local reflect the underlying conditions of demand and supply. Indeed, it could be argued that population drift from the North to the South, particularly amongst the most skilled, reduces prices in the North relative to the South.

CHAPTER 1: INTRODUCTION

This study was commissioned by the Corporation of London to identify, examine and assess the linkages between the London economy and the economy of the rest of the UK.

London clearly plays a key role in the UK economy. The city accounts for a larger share of the UK's economy than any other Government Office Region, directly contributing about 16% of GDP and 15% of total employment. In 2001, London contributed £7.5-£17.5 billion a year in net terms to the Exchequer as it accounted for 16.5%-17.4% of total government tax revenues but only received 14% of public spending.[2]

Chart 1.1



London has also been a key source of growth in the UK economy over the past decade. In this respect, London's recent economic performance is in sharp contrast to the experience of much of the post-war period. For nearly 40 years London lost both people and jobs, much of it due to planned decentralisation and, even after the abandonment of such planning in 1977, the trend remained predominantly downward until 1993.

The turnaround since then has been remarkable and has changed the inter-relationships between London and the rest of the UK. In the ten years from 1993, over 850,000 extra jobs were created in London, allowing all of the jobs lost since 1971 to be replaced. The same is true of population: although the decline in the number of people living in the city ceased in the early 1980s, rapid growth did not begin until the mid-1990s, since when London's population has risen by 600,000 (about 9%).

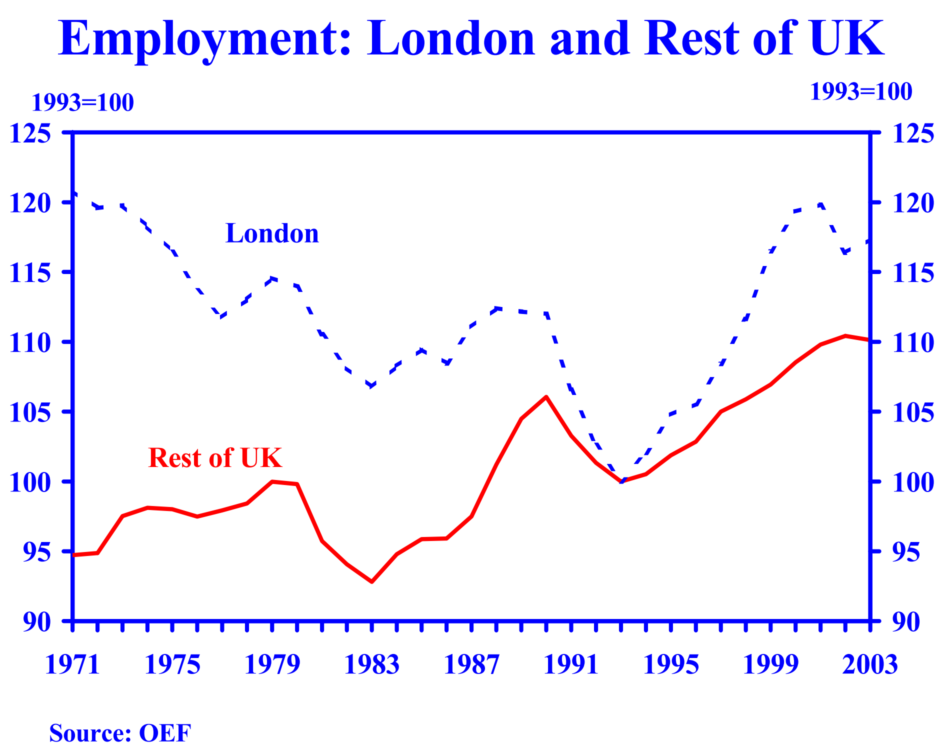
[2] London School of Economics (LSE), *London's place in the UK economy 2003*, Corporation of London, October 2003

London's economy has expanded more quickly over the last ten years than any other UK region except the South East, and not only has employment in London also increased more rapidly than in the rest of the UK, with an average annual growth of 1.6% from 1993-2003 compared with 1.0% in other regions, but so has the productivity of London's workforce. GDP per worker in London is now around £31,000 a year, 7% above the average in the rest of the country. Forecasts suggest that London's strong performance is set to continue, with the GLA consensus of forecasts showing the city's GDP rising by 2.4% in 2004 and 3.0% in 2005. OEF forecasts show London GDP rising by an annual average of 2.9% over the next ten years compared to 2.6% for the UK as a whole.

It is important to emphasise that this revival in London's growth has neither been at the expense of the rest of the UK, nor is it likely to be in the future. While employment in London has risen by 645,000 over the last ten years, employment in the rest of the country has increased by 2.3 million. Employment growth outside London has been nearly 2½% faster over the last ten years when London has been expanding than it was over the previous ten years when employment in London shrank.

London's revival has coincided with a period of remarkable success for the UK economy compared both with experience of the 1970s and 1980s and with recent economic performance in the rest of Europe. Rather than rivalling other regions of the UK, London's success appears to have complemented and supported growth elsewhere in the economy.

Chart 1.2



The ways in which London's economy complements and supports the economy of the rest of the UK are discussed, and where possible quantified, in this report. Most obviously, these include trade links – for example, firms based outside London supplying goods and services to London's consumers and businesses - and employment links – for example, people living elsewhere in the rest of the UK who commute to London for work.

While such links are important in their own right, there are other linkages that can be loosely described as facilitating, dynamic or catalytic in their effect, related to making things happen in the rest of the UK that would not otherwise occur but for the presence of London. One example is spending in the rest of the country by foreign tourists who would not have visited the UK but for the attraction of London. Another example is jobs located in regions outside London that support the activities of the City's international banks - organisations that, if they were not in London, would probably be in Frankfurt or New York.

There is also a sense in which the impact of London on the UK economy is greater than that of a typical (economic) capital city on its hinterland. Without London, the UK would still have a capital that would take on many of the roles that London fulfils, such as the centre of government. London's status as a "World City" – that is, a city that has a fluid international population and which hosts a wide range of international businesses - gives it a much wider role, with knock-on effects to the rest of the UK that would not otherwise exist. For example, London is home to the lion's share of European headquarters for global companies, offering job and business opportunities that are additional to and different from those that an "ordinary" capital would provide.

Clearly, London's economy is different from the rest of the UK. As we aim to show in this report, this differentiation sets up opportunities for trade and specialisation across the UK to the benefit of all.

There is, however, a view that London (and, by extension, the South East) creates problems for other parts of the UK, particularly its more peripheral nations and regions. One oft-expressed concern is that the Bank of England has to keep interest rates relatively high in order to prevent inflationary consumer housing and credit booms in London, at the cost of lower investment and growth in the rest of the country. Box 1 below considers the extent to which London has tended to lead the UK's economic cycle in recent years.

A second concern is that migration from the rest of the UK to London denudes regions of talent, as young people – particularly graduates – are attracted by the higher wages offered by London's employers. Throughout the report, therefore, we consider, where relevant, aspects of the economic linkages between London and the UK that may cause problems as well as those that are beneficial.

Box 1: London's Recent Economic Cycles

As well as becoming a relatively fast-growing economy in recent years, London has also become more volatile. Formerly the least exposed to boom and bust, London has recently tended to lead the UK into downturns. As the table below shows, the late 1980s peak occurred a year and a quarter earlier in London than the rest of the UK, and the early 2000s peak a year earlier. There is no clear pattern in the timing of cyclical troughs. (The table uses data on employees since regional data on GDP are not available on a quarterly basis.)

Cyclical turning points in London and the rest of the UK – Employees

Cyclical Peaks		Cyclical Troughs	
London	**Rest of UK**	**London**	**Rest of UK**
		March 1983	March 1983
March 1989	June 1990		
		June 1993	December 1992
March 2001	March 2002		
		September 2003	September 2003

Source: OEF analysis of ONS Employee jobs series

The peaks and troughs in London's growth have also become more marked than in the rest of the country. While the variability of growth fell in the rest of the UK in the 1990s cycle compared with the 1980s, the reverse was true for London.

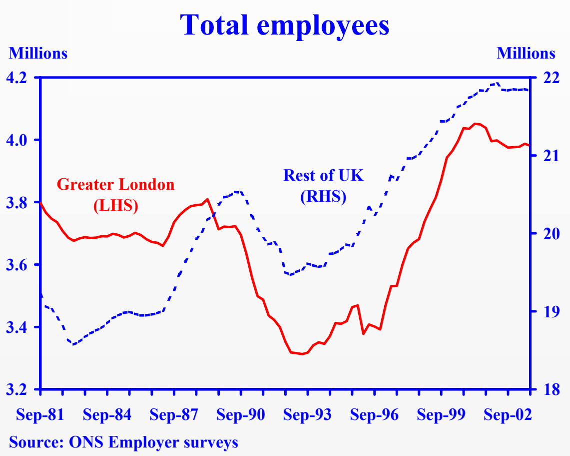
Variability of Growth – standard deviation of quarterly growth in employees

Cycle (trough to trough)	London	Rest of UK
March 1983-March 1993	0.72	0.51
June 1993 – September 2002	0.92	0.37

Source: OEF analysis of ONS Employee jobs series

In the early 1990s, problems of personal indebtedness and negative equity in housing hit London earlier and harder than elsewhere in the UK, compounding problems of overheating in Central London's property markets.

In the latest cycle, it was the end of the boom in stock markets, M&A activity and investment in high-tech companies that triggered the downturn in London. Much of the benefits of this recent boom accrued to Central London's financial sector and to associated professional and business services sectors. Not surprisingly, the bust also had its greatest impact on the same sectors.



Our approach

This report assesses the various economic linkages between London and the rest of the UK within the context of a number of thematic chapter headings:

- Chapter 2 looks at the role that London plays as a job creator for the rest of the UK;
- Chapter 3 complements this analysis by examining the demand that London generates for goods and services produced elsewhere in the country;
- Chapter 4 considers what goods and services London supplies to the rest of UK, and the impact of London's role in supplying specialised services to the UK;
- Chapter 5 reviews London's place as the financial heart of both the UK and increasingly the global economy, and considers what this means for the other UK regions;
- Chapter 6 considers the effects that flow to the rest of the UK from London's international role;
- Chapter 7 explores the related topic of London's impact on tourism in the UK;
- Chapter 8 assesses the links between the housing market in London and those in the rest of the country;
- Chapter 9 presents the conclusions of this report.

Unfortunately the data do not exist to allow measurement of all of the linkages that can be identified or hypothesised, nor is it possible to derive one single number that encapsulates London's impact on the rest of the UK. Indeed, such a concept would be flawed. London's economy exists within the context of the UK. It is in all probability one of the key drivers of growth and change in the UK, but as in all trading relationships it is also dependent on the specialisations of other UK regions. The purpose of this report is therefore to trace through the linkages, measure what can be sensibly measured, and to use qualitative assessment where hard numbers are hard to find - box 2 lists some examples of the different ways in which London's economy is linked to the rest of the UK economy through trade, employment patterns, asset prices and catalytic effects.

Box 2: Examples of the economic linkages between London and the rest of the UK

Trade	Employment	Asset Prices	Catalytic
Food & drink	Commuters	Housing	Market for capital
Building materials	Transport	Office space	Overseas tourism
Office equipment	Distribution	Distribution space	Outlet for UK talent
Printing			Magnet for foreign talent and skills
Specialist services			

CHAPTER 2: LONDON AS A SOURCE OF JOBS

Main points

- London provides 750,000 jobs for commuters from the rest of the UK, with the main effects felt in the South-East and East, though there may be small but important effects in more remote parts of the UK with airlinks to London (for example, weekly commuters from Inverness) that are rarely discussed;

- London is also a magnet for economic migration within the UK, often providing better paid jobs than are available for given skill levels in the migrant's home region.

- Jobs are also created through the dispersal of functions related to London's World City status and its role as a financial capital. Back office and customer support jobs in financial services provide a good example, but there may be others in support services to other dynamic London sectors such as printing for London's creative industries.

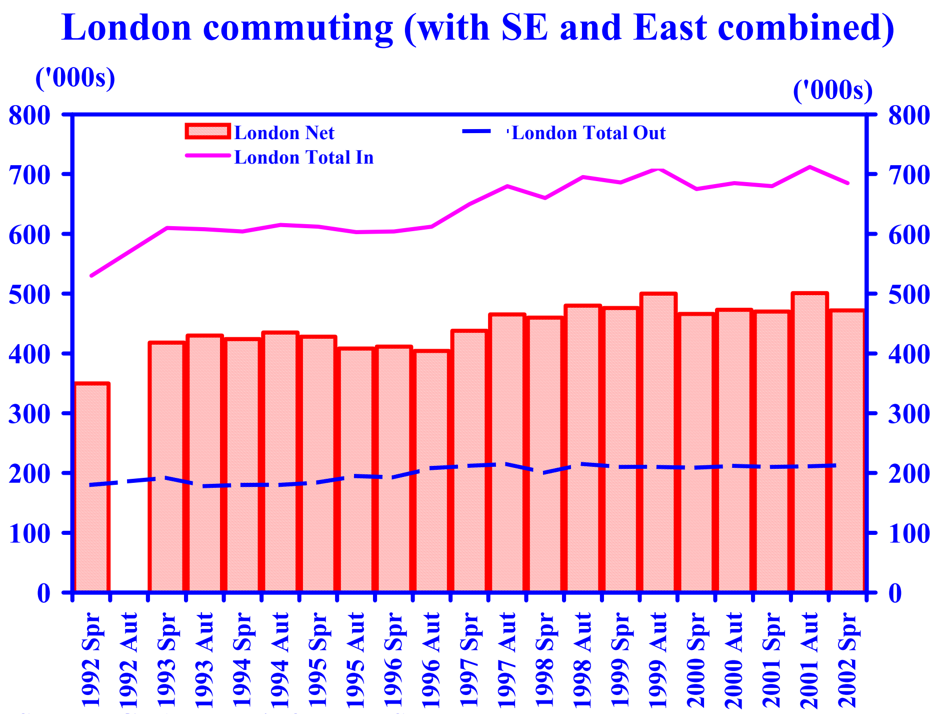
This chapter looks at the role that London plays as a source of jobs for the rest of the UK. It focuses specifically on jobs in London filled by commuters or migrants from elsewhere in the UK. There is also a discussion of jobs located elsewhere in the UK that are directly linked to London's core activities, for example back office or front line customer support jobs that are closely linked to the activities of London's financial services cluster but have been located or re-located in the rest of the UK rather than London. These are not necessarily the only ways in which London helps create jobs in other regions of the UK, and chapter 3, for example, looks at London as a source of demand for goods and services produced elsewhere in the UK, which helps support the jobs of those involved in producing these goods and services.

Jobs for Commuters

The most obvious way in which London acts as a source of jobs to the rest of the UK is for commuters whose main place of residence is outside the city but whose normal workplace is in London. There are around 750,000 commuters to London from the other regions on a daily or regular basis, accounting for around 17% of London's total employment of 4.4 million. Naturally most of these inter-regional commuters live in the regions that border with London, with the South East and East of England regions supplying over 90% of inbound commuters to London. However, there are perhaps a further 50,000 commuters from the South West, East Midlands, West Midlands and Yorkshire and Humberside while some people commute even further than this, sometimes on a weekly or occasional basis rather than every day. Box 3 looks specifically at what evidence is available on weekly commuting to London by air.

Commuting to London from other regions has grown strongly in recent years – up around 30% over the last decade. While there is also significant out-commuting, of around 250,000 from London to other regions, the net inflow into London has grown from under 400,000 commuters a decade ago to around 500,000 today.

Chart 2.1



Source: GLA analysis from LFS

42% of all inward commuters work in central London, the area that has seen the fastest increase in commuting over the past decade, fuelled by strong growth in financial and business services employment in the central business district. In contrast, commuting to the rest of inner London has been static, while commuting to outer London has increased only moderately.

The impact of commuters on the regional economies where they live is significant: commuters from the South East to London represent around 11% of workers who live in the South East, while for the East the figure is around 9%. In addition, while some of the spending by in-commuters will take place while they are in London during and after the working day, a significant proportion will be in their home region. Commuting therefore provides a strong transmission mechanism for burgeoning prosperity in London to translate into supporting employment in the neighbouring regions.

Box 3: Long Distance Commuting

Anecdotal evidence points to an increase in long-distance commuting to London on a weekly or occasional basis. Two processes may be at work. First, the combination of better, cheaper airlinks and information technologies that allows remote working for at least part of the week or year facilitates more distant commuting. Second, shortages of particular skills, combined with relatively high London wages, for example in the construction industry, attract tradesmen to spend periods of time in London, while maintaining their main residence in their home region.

This first effect may be important in supporting economic clusters in the rest of the UK that are linked to London clusters, such as the concentration of financial services businesses in Edinburgh and Glasgow. For example, the possibility of weekly or occasional commuting provides the assurance to highly skilled workers that they are not divorced from the deep labour market for their specialist skills in London if they decide to take a job in Scotland, making it easier for Scottish-based businesses to attract key workers. More widely, it allows individuals to meet the preferences of their families or partners to live far from London while they continue to work for much of the time in the city.

Weekly commuting may also be important in strengthening some remote rural areas. A relatively small number of weekly or irregular London commuters can have a significant impact on local spending, and so the fabric of local communities, in areas with sparse populations, such as rural Wales or Highland Scotland.

The data collected as part of the Civil Aviation Authority's regular air passenger surveys provide some indication of the extent of this type of commuting to London from airports in the rest of the UK. As the data do not identify commuters explicitly, any judgments based on the data are highly tentative. However, our analysis of figures from 2001 suggest that **there could be as many as 2,000 to 3,000 commuters of this type using air transport on a regular basis to get to a place of work in London**. Around 60% of these commuters travel from Scottish airports, with the balance shared between the North West (Manchester) and Northern Ireland.

Clearly, there are also some people who commute long distances, perhaps on a weekly basis, by other modes of transport as well, such as rail, coach and private car.

London's pivotal role in UK migration

London does not just provide jobs for the rest of the UK through daily or weekly commuting, it also provides work for those who move on a more permanent basis in order to take advantage of a job in London. For people living outside London who decide to take up a job in the capital, commuting and migration are simply two different ways of responding to the same phenomenon.

Of course, migration to and from London to the rest of the UK reflects a complex set of drivers, including the search for suitable jobs by young people, opportunities for promotion, life cycle decisions by young families moving to commuter areas and retirees moving out of the city, etc. Migration flows by age group (Chart 2.2) confirm the popular perception that many young people from the rest of the UK move to London at an early stage of their careers to take advantage of the job opportunities available, with a net inflow of people aged 16-24 into London. One consequence is

London's workforce has a significantly higher proportion of relatively young workers than the rest of the UK (Table 2.1).

Chart 2.2

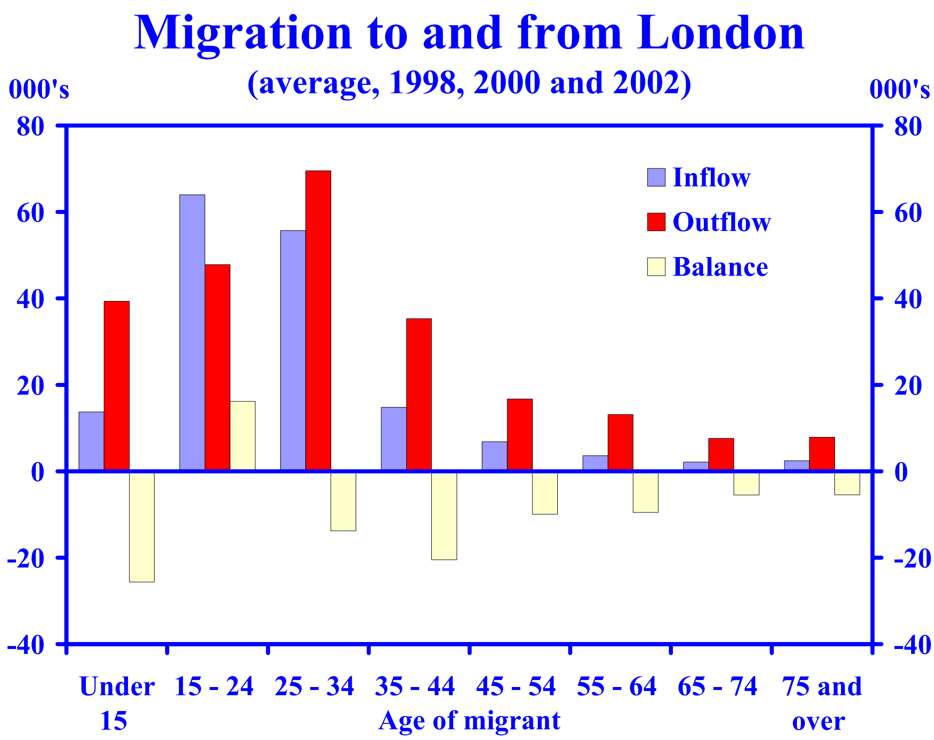


Table 2.1: London's Prime-Age Labour Force (2002)*

percentage aged	16 to 24	25 to 34	35-44	men 45-64 / women 45-59	men 65+ / women 60+
London	15%	28%	28%	27%	3%
Rest of UK	15%	23%	26%	33%	3%
% point difference	0%	5%	2%	-6%	0%

Source: Labour Force Survey
* The labour force includes those in employment and unemployment.

At the other end of the age spectrum, there is a net outflow of older people from London to the rest of the UK, including both working age groups (25--64) and people of retirement age (65+). Chapter 3 looks at the way that people who move out of London when they retire provide a source of demand across the rest of the country as they take with them and then spread the wealth they have built up in London from a mixture of higher life-time earnings and house prices.

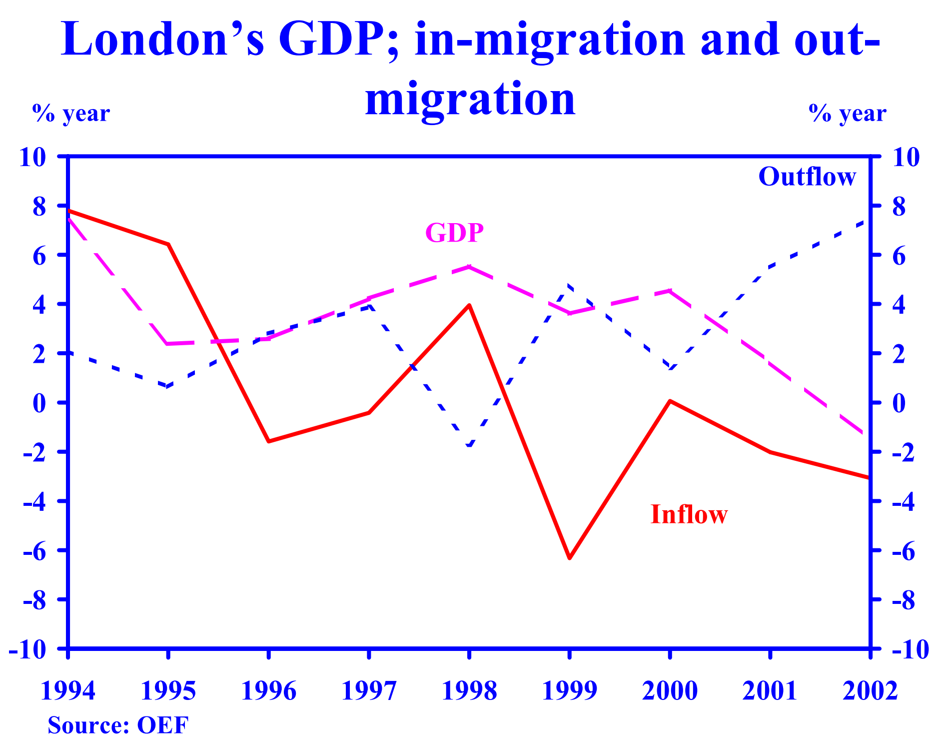
Generally, there is a significant net outflow of people from London to the rest of the UK. Nevertheless, London has been the most important destination within the UK for the inflow of international immigrants over recent years, and as a result overall net migration – adding both domestic and international together – has pushed up rather than reduced London's population.

Large two-way flows …

Among UK regions, London enjoys the second biggest gross inflow of population - after the South East - from elsewhere in the UK, and suffers the largest gross outflow. Over the ten years to 2002, gross annual inflows averaged around 160,000 against a gross annual outflow of around 220,000. In aggregate, these flows represent about 5% of the London population.

This inflow to London represents 12.7% of gross inter-regional migration flows in the UK, only marginally above London's current population share, while the outflow is around 17.4% of the internal UK flows. Both of these flows tend to vary according to overall economic conditions in London: in-migration falls during downturns and rises in subsequent upturns, and out-migration shows the opposite pattern. While both the inflow and outflow from London will involve individuals not engaged in the labour force – children, students, retirees - this relationship to the economic cycle suggests that UK migration to London is heavily influenced by job prospects.

Chart 2.3



… but a lot of it is "local"

It is, however, important to recognise that a large proportion of migration to and from London is accounted for by interchanges of population with the contiguous regions of the South East and East. For example, as Table 2.2 shows, just over half the gross inflow to London since the mid-1990s (84,000 out of 165,000) came from the two neighbouring regions, while 64% of London's outflow (145,000 out of 227,000) moved to these nearby and prosperous areas. Interestingly but coincidentally, net migration into these two regions is equivalent to the entire net outflow from London to the rest of the UK.

Other regions of the UK account for just under half the gross domestic inflow to London, and around a third of the gross outflow to the rest of the UK. However, the net balance is very close to zero for most regions, with the exception of an average annual net outflow to the South West of 6,000.

Table 2.2: Where London's UK migrants come from/go to

Annual Average 1995-2002 (000s)	**In-migration to London**	**Out-migration from London**	**Balance**
South East	54	87	-33
East	30	58	-28
South West	16	22	-6
West Midlands	11	10	1
East Midlands	10	11	-1
Yorkshire & Humberside	10	9	2
North West	13	11	2
North East	5	4	1
Wales	5	5	0
Scotland	8	7	1
Northern Ireland	2	2	0
Total	165	227	-61
of which South East & East	84	145	-61

Source: ONS, Focus on London 2003. Totals may not sum due to rounding

Some moves to the South East and the East driven by London jobs

Clearly, many people moving to work in London choose to live in the South East or East rather than in London itself. The data in Table 2.3 show that in 2000, the South East and East enjoyed an inflow of 165,000 from the rest of the UK excluding London – much the same magnitude of inflow as London received from the rest of the UK as a whole. At the same time, the two regions lost 187,000 people to regions other than London, the net effect being an outflow of 22,000 from the South East and East to the other, non-London regions.

Table 2.3: Where the South East & East's migrants come from/go to

(000s)	In-migration to the South East/East	Out-migration from the South East/East	Balance
South West	43	50	-7
West Midlands	21	23	-2
East Midlands	27	37	-10
Yorkshire & Humberside	19	20	-1
North West	21	21	0
North East	8	8	0
Wales	11	14	-3
Scotland	13	12	1
Northern Ireland	2	2	0
Total	165	187	-22

Source: ONS, Regional Trends, 37

There are no specific data on the extent to which migration to the South East and East from the rest of the UK excluding London is undertaken to facilitate working in London. However by applying a number of assumptions – see Box 4 – it is possible to estimate the number of UK migrants who take up jobs in London each year: we estimate this figure to be on average between 70,000 and 80,000 a year.

London – the Effects of Job Dispersal

"The "distillation" of financial services in London: What seems to be happening is that back-office and some middle-office activities are being moved to other (cheaper) centres, leaving the City with an increasingly high-octane blend of deal-makers, traders and market-movers." Centre for the Study of Financial Innovation (CSFI), *Sizing Up the City*, Corporation of London, June 2003.

"Relocating outside of established London clusters or London itself is perceived as a viable option for back-office, routine administrative procedures, and such labour processes could lend themselves to de-clustering. Many firms suggested that in order to make a substantial benefit in terms of lower buildings and labour costs, they would need to move some distance from London, perhaps outside the South East/UK altogether." Manchester Business School & Loughborough University, *Financial Services Clustering and its Significance for London*, Corporation of London, February 2003

Not all of the jobs that London's economy provides to the rest of the UK are necessarily located in London itself, and chapter 3 looks at the impact on the rest of the UK of the demand London provides for goods and services produced elsewhere in the UK. Furthermore, the location or re-location outside London of 'back-office' and/or customer support jobs which specifically support London's own office jobs also leads to jobs in the rest of the UK being directly dependent on London's economy.

Box 4: Jobs Taken by UK Migrants in London

Data on migration flows to and from the UK regions for different age bands allow us to estimate the number of people who might be in the labour market. Not all of these working-age migrants will move into employment or self-employment – some, for example, will be students, or at home caring for their families – and we therefore assume that the same proportion of working-age in-migrants participate in the labour market as for the indigenous London population. Note that this is likely to be a conservative assumption given the age structure of migrants to London and therefore provide a lower bound for our estimates of the numbers of jobs involved. Since most people will be unable or unwilling to move to London without a job, we also assume in the first instance that all of those participating in the labour market will be employed rather than unemployed.

To estimate the number of new jobs in London being filled by migrants from the rest of the UK, we also need to make an assumption about the proportion of migration movements that involve a change of job. While we can be relatively confident that migration from, say, the North East to London is likely to involve a change in employment location, the same cannot necessarily be said for moves from the South East and East to London or vice versa. A large number of these latter moves may simply reflect a decision about where to reside rather than a change of job.

We therefore present two possible estimates of the number of new jobs in London being filled by migrants from the rest of the UK:

- The narrower measure takes account only of migration to the greater south east (i.e. London, the South East or East) from regions of the UK outside the greater south east. In other words, it assumes that none of the moves between regions within the greater south east are because of "new" jobs in London. (We do make an allowance for commuting. It is not only migrants from outside the greater south east to London who may be taking up a new job in London. Migrants to the South East and East may be moving to these regions in order to commute to work in London. Similarly other migrants from these more peripheral regions may decide to live in London but commute to jobs in the South East and East. Accordingly the assumption has been made that migrants show the same commuting patterns as the overall work force in the three regions.)
- The wider measure makes the arguably more reasonable set of assumptions that 15% of the moves into London by individuals in the labour force involve people moving to a new job in London, while 5% of moves from the East to the South East or from the South East to the East involve "new" jobs in London.

Applying these assumptions to the average annual flows of in migration to London for the period 1995-2002 yields the following results:

Average London Jobs a Year for UK Migrants

	Migrants	Related jobs in London
Migration to London from regions of the UK outside GSE	83,000	53,000
Migration to SE and E from regions of the UK outside GSE	168,000	17,000
Narrow measure of new jobs in London filled by migrants		**70,000**
Migration to London from SE & E	84,000	9,000
Migration between SE & E	57,000	2,000
Broad measure of new jobs in London filled by migrants		**81,000**

Source: OEF estimates

This is in many ways typical of how city economies operate. Certain activities are concentrated within cities because of the efficiency gains this brings. However, costs are substantially higher in cities than elsewhere as a result of higher rents, congestion, transport costs, etc, and wages also tend to be higher in cities to compensate for the extra costs workers face in locating there. As a result, activities that do not need to locate in the city, perhaps because they do not benefit particularly from the potential agglomeration economies, will tend to locate or re-locate to cheaper places outside the city.

This effect is very apparent for activities related to London's cluster of financial and related services that do not themselves need to be located physically within the cluster. A wide literature has developed on economic clustering, recognising the mutual advantages that occur in some cases when firms in similar or related industries cluster together. These advantages stem from, among other things, the development of deep pools of labour with the basic skills that the industries require, interactions among individual firms within the cluster including transfer of knowledge among firms, and proximity to both suppliers and customers. Partly because of its World City status and its global financial capital, London is home to a number of often inter-locking clusters of economic activity, including financial services, legal support, accountancy services, business consulting, real estate management, media and creative services, and retailing.

It is also clear however, that specialist activities in London can give rise to activity in geographically distant cities, towns and regions, as firms seek to move support functions that are often people- or space-intensive, and thus expensive to maintain in London, to more cost-effective locations. The quotes at the start of this section, derived from survey work with financial services companies in London, indicate that this is a well-established theme. Locations such as Croydon, Bournemouth, Edinburgh and Glasgow are all viewed as beneficiaries of such trends, and Box 5 looks at specific developments in Glasgow illustrating the way in which the city is aiming to attract jobs re-locating from London.

One sign of the regions benefiting from this trend may be those that have seen above average growth in employment in financial and business services. Over the past ten years, Northern Ireland, the South East, and the North West have seen faster employment growth in these sectors than the UK average (Table 2.4).

Box 5: Back-office Dispersal: Glasgow – Strong Linkages to London

Scotland has long been a centre for the financial services industry. In recent years policy efforts by development agencies have begun to focus on the attraction of financial services activity to Scottish locations. The International Financial Services District (IFSD) in Glasgow – a public-private project with a total cost of over £500m – is an example of the initiatives to attract activity and jobs to Scotland. The promotional activity is broad-based in terms of the business types and functions targeted. However, there is at least implicit recognition that back-office and support functions offer the greatest potential for success, and that London is a crucial source of opportunities. Glasgow's IFSD was given its launch promotion at the London Stock Exchange, and the publicity surrounding it emphasises a cost base 40% less than in the south east of England.

The range of companies attracted to Glasgow also makes clear the importance of London's financial community as a source of jobs, with companies such as Barclays Stockbrokers, Lloyds TSB, NFU Direct, JP Morgan, Morgan Stanley and E-sure providing financial service sector jobs in the city. 2,000 jobs have been created in the IFSD since the scheme began in 2001, and the target is to attract 20,000 jobs by 2011.

Table 2.4: Employment growth in financial and business services (% change, 1993-2003)

Northern Ireland	63.8%
South East	45.6%
Greater London	35.3%
North West	34.1%
West Midlands	31.8%
Eastern	30.4%
Yorkshire & the Humber	30.0%
East Midlands	26.4%
South West	23.3%
Wales	20.9%
Scotland	18.1%
North East	8.9%
UK	**32.1%**

Source: OEF calculations

A slightly different picture emerges from looking specifically at call centres. Quite clearly, these centres do not cover the full range of activities related to London's financial and business services clusters that are likely to be located outside the city. Equally, not all call centre jobs will fall within the category being considered. Nevertheless, the importance of call centres to different regions of the UK economy does give some indication of the likely extent to which different parts of the UK are affected by this dispersal of jobs from London. On this measure, the North West and the South East again emerge as among the likely beneficiaries from this trend, with the North East, Scotland and Yorkshire & the Humber also having above-average shares of employees in call centres (Table 2.5).

Table 2.5: Employment in call centres, 2003
(share of total employees)

North West	Over 4%
North East	Over 4%
South East	3-4%
Scotland	3-4%
Yorkshire & the Humber	3-4%
West Midlands	2-3%
Wales	2-3%
East Midlands	2-3%
South West	1-2%
London	1-2%
East	1-2%
Northern Ireland	1-2%
UK	**3.1%**

Source: Contact Babel[3] / OEF calculations

A more indirect measure of the extent to which lower value-added jobs in financial and business services are moving out of London might be provided by productivity trends. One view holds that if it is the more labour- and space-intensive activities that are moving out of London, then output per head trends in the affected sectors should show faster growth in London than in the rest of the UK, as the most highly productive functions become more concentrated in London and the more labour-intensive activities move out. While this effect is not apparent in the data, it does not necessarily mean that the proposition is wrong. It is more likely that failure to identify an effect is due to the aggregate nature of the data which obscures trends in specific sub-sectors such as fund management or insurance.

Equally, more complex interactions may be at work and, as GDP per worker data show, the absolute level of labour productivity remains higher in London than in the rest of the UK. This suggests that in many activities within the sectors there is scope for catch up in terms of GDP/worker in the rest of the UK. Arguably the transfer of support activities to the rest of the UK, which has a heavy emphasis on information technology and new ways of working, could act as a catalyst and enable recipient regions to catch up with London in terms of productivity growth.

[3] Contact Babel, *UK Contact Centres in 2003*, August 2003

An alternative approach to this issue, at least for financial services, relies on examining what would happen in the rest of the UK if London were a "normal" financial services centre. Chapter 5 examines this in more detail and makes estimates of how much bigger the financial services sector is in the rest of the UK because of its links to London's pre-eminent global position. This provides a wider measure of the contribution of London's financial services to the rest of the UK economy than the job dispersal effect alone.

CHAPTER 3: LONDON AS A SOURCE OF DEMAND

Main points

- London companies and residents purchase an estimated £108 billion of goods and services a year from the rest of the UK, supporting 1.3 million jobs.
- Demand created by London-based commuters spending at "home" with income earned as a consequence of their employment in the London economy amounts to around £11 billion a year.
- London provides a pool of emigrants who are likely to live off their "London wealth" (higher lifetime income and housing wealth), so increasing spending in the rest of the UK. This age-related migration and the associated wealth effects result in increased spending in the rest of the UK spread over a long period.

As well as being a direct source of jobs for the rest of the UK, London also helps to support employment in the regions by providing a source of demand for the goods and services produced elsewhere in the country. There are a number of ways in which this occurs:

- London companies purchase intermediate goods and services produced elsewhere as inputs into their own production, and also buy investment goods produced elsewhere in the UK.
- London residents spend money on items produced elsewhere, as part of their normal consumer spending.
- London residents also spend money in other parts of the UK when on holiday, and chapter 7 looks more specifically at the economic linkages between London and the rest of the UK through tourism.
- London employees who live outside the city and commute into London spend a proportion of the incomes they earn in London in the regions they live in.
- People who have moved away from London when they retire will generate demand elsewhere in the UK based partly on savings accumulated while working in London.

In turn, the rest of the UK supports jobs in London through the purchases that non-London based firms and consumers make from London businesses, and chapter 4 looks at the economic linkages between London and the rest of the UK through London's role as a source of supply for other parts of the UK.

London's purchases from the rest of the UK

Companies and consumers located within London purchase (that is, import) goods and services from the rest of the UK for a variety of reasons:

- Companies buy intermediate products to help in the production process. For example, a business services company in London may buy paper produced elsewhere in the UK for normal office purposes.
- Companies also buy investment to expand productive potential. For example, a London financial services company may buy a computer system from a supplier elsewhere in the UK.
- Consumers buy a wide variety of products for consumption. For example, most of the food eaten by Londoners is produced outside the capital.

Surveys suggest that the majority of purchases by London businesses are from other firms within the London region, with around a quarter of purchases involving suppliers located in the same borough as the buyer and around a third of purchases from companies located elsewhere within London. Another third of purchases are from suppliers based elsewhere in the UK, and around 4% are from the Europe and the rest of the world (Table 3.1). This pattern of purchasing is slightly more directed towards dealing with local businesses within London as a whole (60% in total) than is the case with companies' sales (55% in total).

Table 3.1: Purchases (sales) by location of supplier (customer) 2002

Market Area	% of purchases	% of sales
Within borough	25%	26%
Elsewhere in London	35%	29%
Elsewhere in South East	9%	7%
Rest of the UK	25%	25%
Europe	3%	5%
USA	1%	1%
Rest of World	<0.5%	7%
Total	100%	100%

Source: The London Annual Business Survey 2003 (London Development Agency).

A more complete analysis of the impact of London's purchases from the rest of the UK would require inter-regional trade data or regional input-output tables. In the absence of this information, we have estimated the size of the relevant 'trade' flows by combining information about the size of each sector in the different parts of the UK with information from the national input-output tables about the flows of goods and services between the different sectors of the economy (see Box 6).

Box 6: Modelling trade between London and the rest of the UK

Different components of demand are based on the following assumptions:

- Industry. Input-output information by sector is available at the national level. To create input-output tables specifically for London (and the rest of the UK), we assume that for each industry sector in London and the rest of the UK, the value of purchases from each other sector required is in the same proportion to the sector's output as for the same sector across the UK as a whole. For example, if we know from the UK input-output tables that every £100-worth of output from the UK's financial and business services sector requires £5 of intermediate inputs to be bought from manufacturers of goods such as paper, office furniture, etc, then we assume that each £100-worth of output from London's financial and business services also requires £5 of inputs from these manufacturers, wherever they might be located.

- Consumers. Data on UK consumer spending by sector are available from input-output tables. This is combined with information on total spending by London consumers from the Regional Accounts.

- Investment. Data on UK investment spending by sector are also available from input-output tables. This is treated in a similar manner to consumer expenditure.

- Government and public sector. Purchases of intermediate and investment goods by the public sector are treated in the analysis in exactly the same way as such purchases by the private sector. Final consumption by the public sector is typically on output measured primarily by items such as employee salaries, and it is assumed that this spending does not produce imports and exports between regions.

These estimates of demand by London firms and consumers are then combined with assumptions by sector about the degree to which inputs are sourced locally. This local preference will depend on the ease with which different types of goods and services are tradable. For example, leisure services are likely to be sourced locally, whereas insurance policies are more likely to be purchased via the telephone or Internet where geographical location does not matter.

The degree of local preference for different types of goods and services is also used in our estimates of which regions London trades with most. For commodities with a low degree of local preference, we assume the pattern of trade between regions depends primarily on which regions produce most of the commodity in question, while for commodities with a high degree of local preference we assume that regions closest to London are likely to account for a bigger proportion of any trade not met within the capital itself.

Based on these assumptions, we estimate that in 2003:

- London spent approximately £108 billion on imports from the rest of the UK.
- Around 29% of companies' purchases of intermediate goods and services were from other regions of the UK; 30% of consumer purchases; and 37% of investment spending.
- Financial and business services products are the biggest components of this demand from the rest of the UK, followed by manufactured products (Table 3.2).
- The South East is the biggest beneficiary of London's demand for imports from the rest of the UK (Table 3.3). Of the £108 billion which London imports from the rest of the UK, around

£28 billion is sourced from the South East region (24% of the total). The East and the West Midlands are the next largest sources of regional imports to London.

Table 3.2: London's imports from the rest of the UK 2003

Sector	Imports (£ billion)
Agriculture	2.8
Mining and quarrying	2.2
Manufacturing	37.3
Electricity, gas and water supply	3.4
Construction	10.4
Wholesale and retail trade	6.0
Transport and communication	2.5
Financial & business services	42.1
Other services	1.1
Total	**107.8**

Source: OEF estimates

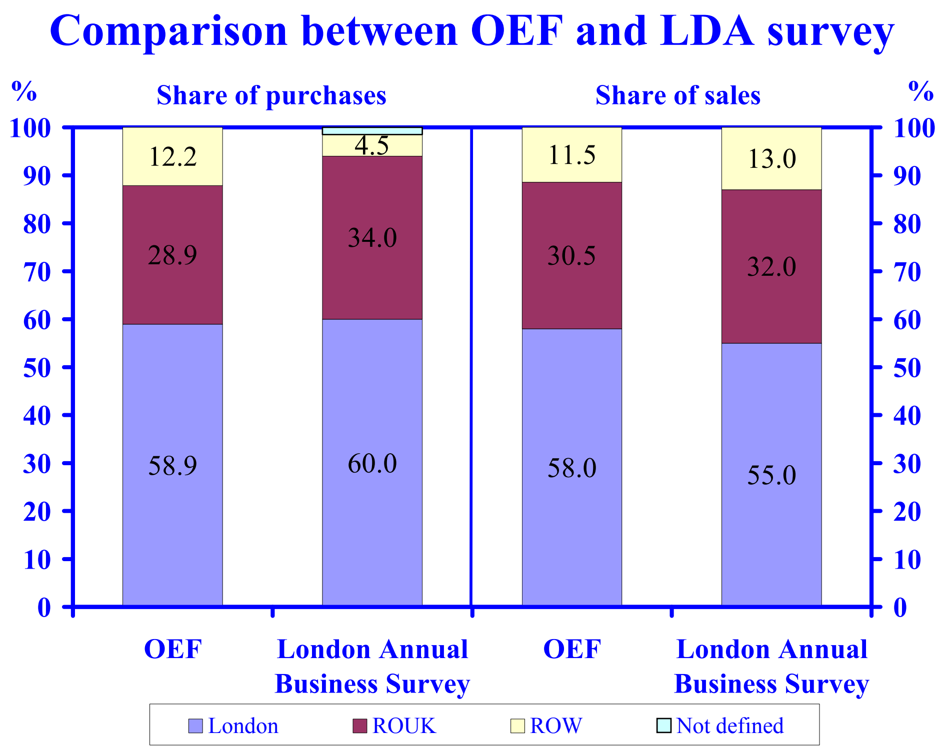
Table 3.3: London's imports from the regions 2003

Region	London Imports (£ billion)
South East	28.1
East	16.4
South West	10.5
West Midlands	12.8
East Midlands	8.8
Yorkshire and the Humber	7.6
North West	9.5
North East	2.6
Wales	4.5
Scotland	5.8
Northern Ireland	1.1
Total	**107.8**

Source: OEF estimates

Box 7: Comparing input-output estimates of trade with survey evidence

As a check on the plausibility of the assumptions made in our input-output modelling of London's trade with the rest of the UK, the results of our model are compared with the purchase and sales information from the London Annual Business Survey 2003 in the chart below. (Since the survey results only apply to purchases by businesses not by consumers, they are compared with the corresponding outputs from our model only.) The majority of results are very similar – our methodology leads to an estimate of almost 59% of purchases by London businesses from other businesses in London, for example, compared with 60% from the survey. Our estimates, however, suggest a rather stronger linkage between London firms and the rest of the world, purchases by London firms from the rest of the world accounting for 12.2% of the total by value in our results compared to the London Annual Business Survey of 4.5%. This may be a result of a different balance of firms of different sizes between the survey and the data underlying the input-output tables, it may simply be due to sampling variability, or it may reflect some over-simplification in the assumptions we have used to derive our estimates.



A more detailed indication of what London may be importing from the rest of the UK is provided by looking at sub-sectors of the economy that are under-represented in London (see Box 8: Box 9 in the next chapter provides a contrasting picture of London's specialisms in terms of sub-sectors that are over-represented in London). Not surprisingly, London is under-represented in a wide variety of manufacturing sub-sectors and other primary industries, where the city depends heavily on being able to purchase goods from the rest of the UK and elsewhere. London is also under-represented in sub-sectors within construction, wholesaling, food retailing – possibly contrary to popular perceptions - and a variety of other parts of the economy.

Box 8 London's Under-represented Sectors

Sub- Sector	Index
Manufacturing	
Processing of nuclear fuel	0.000
Other transport equipment (3)	0.131
Other non-metallic products (3)	0.148
Paper (2)	0.213
Basic metals (9)	0.220
Motor vehicles (3)	0.237
Rubber & plastic (5)	0.261
Textiles (2)	0.270
Machinery & equipment (10)	0.272
Manufacture: builders' carpentry/joinery	0.298
Communications equipment (3)	0.313
Chemicals & chemical products (7)	0.323
Furniture (5)	0.339
Medical & precision instruments (3)	0.364
Food & drink (12)	0.369
Manufacture of computers etc	0.408
Electrical machinery (4)	0.423
Agriculture	
MAFF/DAFF Agricultural data	0.028
Agricultural service activities	0.390
Oil & Gas	
Oil & gas extraction	0.254
Utilities	
Manufacture/distribution of gas	0.280
Production/distribution of electricity	0.475
Lodging, Bars & Canteens	
Other provision of lodgings nec	0.323
Bars	0.669
Canteens	0.539
Transport & Storage	
Freight transport by road	0.352
Other supporting water transport activ.	0.380
Non-scheduled air transport	0.464
Storage and warehousing	0.549
Other passenger land transport	0.596
Construction	
Renting: construction equip. & operator	0.388
Painting and glazing	0.589
Joinery installation	0.601
Erection of roof covering and frames	0.601
Floor and wall covering	0.645
Other construction involving special trades	0.671
Plumbing	0.706
Renting of construction equipment	0.697

Sub- Sector	Index
Business Services	
Packaging activities	0.401
Technical testing and analysis	0.704
Retailing & Wholesaling	
Retail sale of meat and meat products	0.479
Sale of motor vehicles	0.529
Other non-store retail sale	0.538
Wholesale of dairy produce/eggs/fats etc	0.551
Wholesale of metals and metal ores	0.560
Wholesale: hardware, plumbing etc	0.564
Wholesale of chemical products	0.570
Retail sale of fruit and vegetables	0.606
Sale of motor vehicle parts/accessories	0.620
Wholesale: other industry machinery etc	0.639
Retail sale of bread, cakes etc	0.683
Dispensing chemists	0.708
Maintenance and repair of motor vehicles	0.708
Wholesale: wood, construction materials	0.713
Retail: non-specialised food stores etc	0.731
Public Administration & Defence	
Defence activities	0.493
Compulsory social security activities	0.656
Fire service activities	0.724
Regulation: more efficient business	0.736
Health	
Veterinary activities	0.551
Social work activities with accom.	0.583
Hospital activities	0.750
Miscellaneous Services	
Operation of sports arenas and stadiums	0.555
Funeral and related activities	0.608
Other sporting activities	0.689
Other membership organisations nec	0.733
Education	
Primary education	0.655
General secondary education	0.746
Life Assurance	
Life insurance	0.690

Notes: Under-represented sectors defined as sectors with a specialisation index below 0.75 (i.e. accounting in London for less than 75% of the share of jobs they provide in the UK as a whole). Only sectors that would provide at least 2000 jobs in London if the specialisation index were 1 are included.
Figures in brackets after manufacturing sub-sectors are the number of disaggregated sub-sectors (at 4-digit SIC level) within that grouping that are 'under-represented' on this definition).
Source: OEF analysis of 2002 ABI

London’s annual purchase of £108 billion of goods and services from the rest of the UK is a major support for jobs in the other regions, just as purchases from London by companies and individuals in other parts of the UK (discussed in the next chapter) are a major support for London’s jobs. Allowing for average turnover per person in employment in the rest of the UK, we estimate that London’s imports from the other UK regions directly supports 1.3 million jobs.

The impact of commuters on demand

As discussed in chapter 2, London provides jobs for around 750,000 in-bound commuters. There are also around 250,000 out-bound commuters who live in London but work outside the capital. The spending power of these commuters generates additional economic linkages between London and the surrounding regions of the UK:

- In-bound commuters spend a proportion of their incomes in London, during and after the working day, on items such as lunches, shopping during lunch breaks, post-work entertainment, leisure and recreational activities, and so on. They also spend a considerable proportion of their incomes, earned as part of the London economy, back in the regions in which they live, for example on housing, weekend shopping trips, and so on.
- Conversely, out-bound commuters support the economies of other regions through their daytime spending.

Our estimates of the scale of these effects are derived by combining figures on the breakdown of consumer spending on different commodities with assumptions on the proportion of each category that is likely to be spent near the workplace compared to near the home. This leads to an assumption that for commuters around 15% of their spending is likely to be in the region where they work rather than where they live. Taking account of average spending per person and the numbers of commuters involved, we estimate that outbound commuters from London spend around £700 million a year in the surrounding regions where they work (see Table 3.4), directly supporting around 9,000 jobs (based, like the earlier estimates of jobs supported, on average turnover per person in employment).

A much more significant source of demand for the UK regions around London comes from the spending of commuters into London, who spend an estimated £11.1 billion a year of income earned in London within the rest of the UK. This supports an estimated 140,000 jobs (not all of which will necessarily be in the regions in which these commuters live, since some of the commodities they buy will themselves be imported from other regions of the UK).

Table 3.4: Consumer spending by London commuters (2002, £bn)

Commuter type	Spending in London	Spending in the rest of the UK	Total
Inbound commuters (living in the rest of the UK but working in London)	2.0 (15%)	11.1 (85%)	13.1 (100%)
Outbound commuters (living in London but working in the rest of the UK)	3.9 (85%)	0.7 (15%)	4.6 (100%)
Total	**5.9** (33%)	**11.8** (67%)	**17.7** (100%)

Source: OEF estimates

The impact of migration on demand

Chapter 2 discussed migration between London and the rest of the UK in the context of London as a source of jobs. Migration patterns also have an impact on the extent to which London provides a source of demand in the rest of the UK. In particular, the tendency for London to attract a net inflow of young people starting out on their careers and also to provide a net outflow of older people to the rest of the UK means that wealth accumulated within the London economy is continually being dispersed throughout the UK.

The most obvious example of this occurs as people approach retirement age. There are very few inward migrants to London of retirement age or over, and relatively few aged 45 or over. Conversely, there are significant numbers of people in both of these age groups who move out of London to other parts of the UK (see Chart 2.2). On average, these outward migrants take larger amounts of wealth out of the London economy to spend in other parts of the UK than is transferred the other way, since net wealth rises significantly with age. This tendency is reinforced by house price differentials. Since London house prices are significantly above the national average, people moving out of London to other parts of the UK are often able to release significant amounts of housing equity, which can then support spending in the regions into which they move. Indeed, in 2002 the typical (median) amount of housing equity owned by mortgage-holders in London was £133,500, twice the UK average of £52,700 (Table 3.5). This suggests that people moving out of London to other parts of the UK will often be in a position to realise significant amounts of housing equity.

Table 3.5: Average (median) amounts of housing equity, 2002

By Age:	
Under 34	£27,834
35-54	£60,785
55 and over	£74,689
By Region:	
London	£133,500
South East	£76,641
Yorkshire & the Humber	£38,885
Northern Ireland	£38,846
North West	£30,417
Scotland	£23,207
Wales	£20,534
UK	£52,659

Source: Council of Mortgage Lenders ('Housing Finance', Spring 2003)

CHAPTER 4: LONDON AS A SOURCE OF SUPPLY AND SPECIALIST SKILLS

Main points

- London's economy is specialised in a different range of activities from the rest of the UK, and London differs more from the rest of the UK than the regions differ among themselves. As a result, there is considerable opportunity for trade between London and the other parts of the UK, to the benefit of both London and the regions.

- At a broad level London specialises in finance, business & other services, and transport & communication. These sectors account for 72% (£89bn) of London's exports to the rest of the UK, and are more than equivalent to London's trade surplus with the rest of the UK of £17bn.

- Although London is the primary seat of government in the UK, and the Lyons review has highlighted the scope for further relocation of civil service jobs to the regions, London has a lower share of public sector jobs in total employment than most regions in the rest of the UK.

- Graduates make up 25% of the London workforce and 20% of all UK graduates are employed in London, but people with GSCE qualifications as their highest level of achievement are under-represented. Professionals, Managers and Associate Professionals are all heavily over-represented in the London (residents) workforce.

- Labour productivity in London is higher than in any other region of the country. This is a natural consequence of the concentration in the city of activities benefiting from co-location and able to afford the higher costs involved in being based in the city. This lead in productivity in London may also help raise productivity elsewhere, by operating as a facilitator and spur to businesses in the rest of the country via channels acting through London's trading links, emigration from London and imitation effects.

- London is the UK's central market place and regulatory centre, and provides the UK's market economy with the necessary infrastructure to be successful.

London acts as a source of supply for the rest of the UK by providing goods and services that would either not otherwise be available or where production at other locations would result in higher prices for purchasers in the rest of the UK. By so doing, London makes consumers better-off through increasing the choice they face, and reducing the cost of inputs to producers in the rest of the UK.

There are many aspects of the particular role that London plays in supplying goods and services to the rest of the UK. We focus in this chapter on the degree to which London's economy is uniquely specialised within the UK, and on a variety of particular London specialisms that are apparent from the data. These specialisms rely on the skills available in the London workforce, but the city's highly skilled and specialist workforce influences trends in productivity and competitiveness across the whole of the UK through a variety of channels.

In addition to London's sectoral specialisms and its related skills, we also discuss the impact of the roles that the city plays as a centre for government and regulation, and as a market place for buyers and sellers of a wide variety of products. Some specific aspects of the special role that London plays in supplying the rest of the UK with specific services are discussed in other chapters. Chapter 5 looks specifically at London's role as a financial services centre while chapter 7, which discusses London's place in UK tourism, highlights its position as a meeting place for national and international shows and events, and as the cultural heart of the UK.

London is specialised

London offers the opportunity for high degrees of specialisation, particularly in services. Partly this results from its role as a World City but deep labour markets and a concentration of demand for specialist services also lead to agglomeration economies and economies of scale. This means, for example, that producers in the rest of the UK have access to specialist resources more cheaply and of a higher quality than would likely be the case if London did not exist or if they had to buy these services from international suppliers.

There is also a sense in which London's specialisation itself drives specialisation in areas of comparative advantage in the rest of the UK. If London's economy were not so differentiated from the rest of the UK then there would be less scope for trade between London and the rest of the UK and thus less in the way of gains from trade. Just as trade between two nations benefits both, by allowing each country to increase its level of ultimate consumption above the levels it would enjoy without trade, so it is with London and the rest of the UK. Moreover, the greater the difference between economies in terms of their structures and specialisms, the greater the scope for trade gains. The rest of the UK benefits from lower costs of imports from London, compared with home production or imports from abroad, which makes individuals better off and provides a competitive advantage to businesses in the rest of the UK which buy cheaper and/or better inputs from London. London also benefits in the same way with its imports from the rest of the UK and taken together, these inter-UK trading links improve the UK's ability to compete internationally.

One way to illustrate London's specialisation – and thus the likelihood that it acts as an efficient source of supply for the rest of the UK – is to compare the city's employment structure with that of the rest of the country. Table 4.1 shows the results of this exercise at the level of broad industry groups. The differences are clear. London's employment is much more focused on financial, business and other services, and transport and communications than is the rest of the country, with financial and business services together accounting for nearly a third of employment in the capital compared with not much more than a sixth in the rest of Great Britain.

Table 4.1: London is different

Employment Shares 2002	London	Rest of GB	London - Rest of GB	Specialisation Index[4]
Financial Services	8.4%	3.5%	4.9%	1.98
Business Services	23.6%	13.8%	9.8%	1.54
Other service activities	7.0%	5.0%	2.0%	1.32
Transport, storage & communications	7.8%	5.8%	2.0%	1.28
Hotels and catering	7.4%	6.5%	0.8%	1.10
Public services, admin & defence	12.2%	14.3%	-2.1%	0.87
Wholesale and retail distribution; repairs	15.3%	18.4%	-3.1%	0.85
Health and social work	8.6%	11.4%	-2.8%	0.78
Construction	3.4%	4.7%	-1.3%	0.76
Manufacturing	6.0%	14.7%	-8.7%	0.45
Electricity, gas & water supply	0.2%	0.6%	-0.4%	0.33
Mining	0.1%	0.3%	-0.2%	0.27
Agriculture, forestry and fishing	0.1%	1.1%	-1.0%	0.07

Source: Annual Business Inquiry 2002

Not only is London different from the aggregate of the rest of the GB, it is also different from each of the individual regions, which tend to be much more like the rest of the country as a whole (excluding London), than they are like London (Table 4.2).

Table 4.2: Other regions are more like each other

Difference in employment shares from the rest of GB, 2002*

London	39.2%
Wales	18.0%
South East	15.7%
North East	14.3%
Scotland	14.1%
East Midlands	11.1%
Eastern	10.5%
West Midlands	9.1%
South West	7.5%
Yorkshire and Humberside	7.2%
North West	2.6%

Source: OEF calculations from Annual Business Inquiry
** Measured by the sum of the absolute differences of employment shares by sector between the region and the rest of GB. (So a region with identical employment structure as the rest of the UK would be shown as 0%.)*

This analysis of employment specialisation ties in with our analysis of London's trade with the rest of the UK. Chapter 3 discussed our estimates of London's imports from the rest of the UK, and these also allow us to estimate London's exports to the rest of the UK, since the difference between what is

[4] Measured as the share of London's total employment in the sector divided by the share of GB employment in the same sector.

produced in the city and what is consumed in London equals the difference between London's exports and imports. For each group of commodities, exports are estimated as the difference between production and imports on the one hand, and consumption in London (whether by businesses or consumers) on the other. These estimates (Table 4.3) show that financial and business services accounted for 53% of London's exports in 2003, with distribution and hotels, other services and manufacturing each accounting for around 10%. Exports are equivalent to around 80% of London's GDP.

Our estimates of trade between London and the rest of the UK suggest that the city runs an overall trade surplus (current account) of around £16.5bn (Table 4.3). This surplus is derived solely from the service sector of the economy, and underlines the extent to which London acts as the hub of financial and business services for the UK. Offsetting this trade surplus there must be a flow of "capital" from London to the rest of the UK. With estimates of £7.5bn to £17.5bn accepted as the likely range for London's net contribution to the public purse[5], it seems likely that a significant portion of the deficit that the rest of the UK suffers in its trade with London is offset by the working of the tax and public expenditure system in the UK, but it is also likely that some of the offset will be from flows of private capital (see Chapter 5).

Table 4.3: London's exports to rest of UK (RoUK) 2003 (£m)

Sector	Exports to RoUK	Share of Exports	Balance of Trade with RoUK
Agriculture	46	0.0%	-2,755
Mining and quarrying	228	0.2%	-1,979
Manufacturing	11,617	9.3%	-25,668
Electricity, gas and water supply	2,254	1.8%	-1,111
Construction	6,758	5.4%	-3,647
Distribution and hotels	14,280	11.5%	8,291
Transport and communication	10,383	8.3%	7,856
Financial and business services	65,656	52.8%	23,533
Other services	13,145	10.6%	12,011
Total	**124,367**		**16,531**

Source: OEF calculations

Similarly to the findings of the analysis of imports in chapter 3, the South East region is also the biggest recipient of London's exports (Table 4.4). Of the £124 million which London exports to the rest of the UK, we estimate that £33bn (26% of the total) goes to the South East. The East and the West Midlands are the next largest regional destinations.

[5] See LSE, *London's place in the UK economy 2003*, Corporation of London, October 2003

Table 4.4: London's exports to the regions 2003 (£m)

Region	Exports
South East	32.7
East	18.5
South West	11.8
West Midlands	13.0
East Midlands	9.0
Yorkshire and the Humber	9.1
North West	11.9
North East	3.3
Wales	4.9
Scotland	8.2
Northern Ireland	1.9
Total	**124.4**

Source: OEF estimates

The analysis of London's exports at broad sector level gives clues to areas where London acts as a source of supply to the rest of the UK and a quantification of the monetary value of that supply, but is too broad-brush to pinpoint exactly what these activities might be. Box 9 provides more detailed insights into London's specialisms, identifying 68 four-digit SIC code sub-sectors in the London economy, out of over 500 in total, where the city is heavily specialised (defined as an employment share 30% greater than for the GB) and where aggregate employment in London is in excess of 2,000. In addition, there are a further 25 sub-sectors each with employment levels below 2,000 which show as high a degree of specialisation in London as those shown in the box. The employment figures in brackets include these below-2,000 sub-sectors. In total, these specialised sub-sectors account for nearly 50% of all London jobs.

While London's prominent position in the supply of financial and business services is clearly demonstrated by the employment data, other areas of distinct specialism also emerge. London is clearly the supplier of media services to the rest of the UK, with news agencies, radio and TV, motion picture production and distribution, the music industry, magazines and book publishing all having more than two and a half times as big a share of jobs in London as elsewhere in the country.

Box 9: London's mass specialisms[6]

Sub-sector (employment)	Index
Media & entertainment (146,000)	
News agency activities	4.93
Motion picture and video distribution	4.72
Motion picture and video production	3.84
Radio and television activities	3.73
Artistic and literary creation etc	2.72
Operation of arts facilities	2.37
Other entertainment activities nec[7]	1.77
Museum activities	1.75
Motion picture projection	1.46
Gambling and betting activities	1.35
Capital & financial Markets (309,000)	
Security broking and fund management	4.53
Administration of financial markets	4.47
Other financial intermediation nec	4.25
Auxiliary to financial intermediation nec	2.90
Other monetary intermediation	1.88
Auxiliary to insurance./pension funding	1.80
Non-life insurance	1.79
Publishing (70,000)	
Publishing of sound recordings	4.25
Publishing of journals and periodicals	3.00
Publishing of books	2.77
Printing of newspapers	2.47
Publishing of newspapers	1.86
Other publishing	1.72
Other activities related to printing	1.44
Composition and plate-making	1.36
Transport (165,000)	
Scheduled air transport	3.53
Other supporting land transport.	2.11
Other scheduled passenger land transport	1.87
Other supporting air transport	1.87
Transport via railways	1.70
Activities of travel agencies nec	1.70
Activities of other transport agencies	1.68
Antiques (5,000)	
Retail sale: second-hand goods (inc. antiques)	1.54

Source: OEF analysis of 2002 ABI

Sub-sector	Index
Property (92,000)	
Buying and selling of own real estate	2.80
Management of real estate	1.83
Development and selling of real estate	1.67
Letting of own property	1.49
Real estate agencies	1.46
Business services (688,000)	
Advertising	2.56
Legal activities	2.17
Market research/public opinion polling	2.14
Business/management consultancy	1.94
Accounting/book-keeping activities	1.85
Other business activities nec	1.85
Photographic activities	1.82
Investigation and security activities	1.66
Labour recruitment	1.43
Secretarial and translation activities	1.38
Industrial cleaning	1.31
Architectural/engineering activities	1.30
IT & telecoms (143,000)	
Data base activities	2.28
Other computer related activities	1.61
Software consultancy and supply	1.42
Telecommunications	1.37
Wholesaling (56,000)	
Wholesale of perfume and cosmetics	2.14
Wholesale of clothing and footwear	1.98
Wholesale of electrical household goods	1.55
Wholesale: office machinery & equipment.	1.43
Wholesale of textiles	1.43
Agents: sale of machinery	1.35
Membership organisations (27,000)	
Professional organisations.	3.03
Business/employers organisations	2.59
Trade unions	2.05
Religious organisations	1.79
Manufacturing (13,000)	
Manufacture of jewellery nec	1.58
Manufacture of other outerwear	1.33
Manufacture of sugar, condiments, seasoning	1.30
Restaurants & catering (184,000)	
Restaurants	1.48
Catering	1.47

[6] Specialisation index greater than 1.3 and more than 2000 jobs in the sub-sector.
[7] nec= not elsewhere classified.

It is no surprise that the importance of London as a cultural and entertainment centre shows through, in terms of theatre (within the artistic and literary creation category), arts and museum facilities, and cinema. London also has roles in specialist wholesaling and retailing, covering areas as diverse as perfume, clothes (partly tying into London being one of the world's centres of fashion), white goods and antiques (second-hand goods), and in some areas of manufacturing, such as jewellery.

The traditional business heart of London comprises the financial markets, business services – including legal and accounting practices, business-related consultancy, photography and recruitment, etc – property management, and IT and telecommunications services. Business services in particular link into other areas of London's specialisms, and provide the supporting environment without which the city would struggle to compete internationally.

Within this grouping and ranking are sectors likely to supply the rest of the UK with products and services at a lower cost and of higher quality than would be the case if production were spread throughout the UK rather than concentrated in London. Many of these business activities are likely to be interlinked, both within many of the groups, and between them, and the word "clusters" has developed as a short-hand to describe such mutually reinforcing concentrations of inter-related businesses.

As an example of this, detailed analysis of both employment data and information on company location for the Department of Trade & Industry (summarised in Table 4.5) identifies the key clusters in London as financial services, publishing, photography, advertising, TV, film and radio, music, business services, computer and communications services, property and real estate, and tourism, travel & entertainment.[8] There is also a marked tendency for these activities to be skill-intensive, a subject that is covered in more detail below.

Within many of these areas, London acts as a centre for design and innovation for a broader UK industry. The city is seen as the top region in the UK in its capacity to absorb and exploit new knowledge through its highly qualified labour force (see below) and its concentration of skilled science and engineering professionals,[9] and this means that even in sectors (for example, within manufacturing) where London is poorly represented, the capital may still be involved in high value-added activities that are vital to the health of the wider industry.

[8] *Business Clusters in the UK – A First Assessment*, Volume 2 Regional Annexes London
[9] Department of Trade and Industry (DTI), *Competing in the global economy: the innovation challenge*, December 2003

Table 4.5: London's clusters

Cluster	Stage	Depth	Employment	Significance
Business Services	established	deep	Growing	international
Clothing	established	deep	Growing	international
Computer related services	established	deep	Growing	national
Financial services	established	deep	Growing	international
Property & real estate	established	deep	Growing	national
Travel, entertainment, tourism	established	deep	Growing	international
Creative industries				
Advertising	established	deep	Growing	international
Music industry	established	deep	Growing	international
Photography	established	deep	Growing	regional
Publishing	Mature	deep	Stable	international
TV, film, radio	mature	deep	Stable	international
Less significant Clusters				
Leisure software	embryonic	shallow	Growing	international
Web design / internet services	embryonic	deep	Growing	national
Jewellery	mature	deep	Stable	international
Pharmaceuticals	established	unknown	Growing	international
Biotechnology	embryonic	shallow	Growing	international
Oil / gas	mature	shallow	Stable	international
Antique dealing	established	deep	Growing	international

Source: Business Clusters in the UK – A First Assessment, DTI, February 2001

One aspect of London's supply to the rest of the UK that does not jump out from the analysis of the employment data is its role as the seat of government. A clue to this role comes from the appearance of membership organisations in the listing of London's specialisms – bodies such as the CBI or TUC are included within this grouping – with part of the reason for their headquarter presence in London being the easy access this gives to politicians and government departments.

While the Lyons review has highlighted the scope for more civil service jobs to be moved to regions outside London, it is worth noting (as shown at the broad sectoral level in Table 4.1) that the city's share of public sector employment is below the UK average. Despite being the seat of central government, and despite the view sometimes expressed in other regions that London gains an unfair economic advantage from spending on public sector and civil service salaries, the city's economy is actually less reliant on the public sector than the UK as a whole. At a finer-grained level of analysis of the activities grouped under the heading of public administration and defence, only the operation of the law courts and the sub-sectors encompassing the senior civil service have a slight over-representation in London compared with the rest of the UK.

Examination of data from industry associations allows a sharper focus on some of the areas where London acts as a source of supply to the rest of the UK:

- Data from the Law Society illustrate the central role of London within the professions. In 2003, London housed 27% of all private practice law firms in England and Wales, but 39% of private practice solicitors.[10] In addition, the nature of the profession differs in London from the rest of England and Wales. For example, in 2002 nearly 85% of the practices in the two countries had four or fewer partners, while only a tiny portion – just 1.7% – had 26 partners or more. Yet this latter group accounted for around 50% of gross fees of private practices, and 68 of the UK's 155 mega-offices are headquartered in London, pointing to a concentration of high value-added specialists operating from bases in the capital.

  London also plays a key role in the future of the legal profession, with around 50% of all legal trainees in England and Wales gaining a position with a London practice. This is greater than London's share of qualified private practice solicitors and may point to another role supplied by the city as a place for new entrants to gain on the job experience in highly skilled activities before moving out to other parts of the UK. This might be termed a "training dividend" for the rest of the UK, and is supported by plentiful anecdotal evidence (see sections on skills below).

- Information from the Institute of Chartered Accountants in England and Wales also paints a similar, if less detailed, story. London is home to 22% of member firms and accounts for 27% of working members of the institute (26% for those in practice and 28% for those working for businesses).

- Data from the Institute and Faculty of Actuaries shows that 22% of its combined non-student membership is London-based.

Another area of importance that is hidden within the available employment data is London's importance in leading the UK's voluntary sector. The city is home to over 70% of the head offices of the UK's top fifty charities in terms of fund raising.[11] In 1999/2000, the UK's largest 500 charities raised a total of £3.1bn through voluntary contributions. The top 50 charities accounted for 64% of this figure, and London-headquartered charities took a 46% share. Reasons for the importance of London for charity headquarters vary from a historical legacy of donated buildings in the city to a desire to be near to parliament and the draw of London's medical research cluster.

[10] Private practice firms employ 79.3% of solicitors in England & Wales holding a practicing certificate.
[11] Charities Aid Foundation, *Dimensions 2002 Annual Update of Charity Aid Foundation's Top 500 Fundraising Charities*, http://www.CAFonline.org

The major charities raise funds nationwide, but London-based headquarter staff are likely to play a major role in providing strategic direction, driving campaigns, administration and helping decide the uses to which the funds are put. Thus, as in parts of the commercial and public sectors, London provides the rest of the country with a significant management input in the voluntary arena.

Box 10: Top Ten London Headquartered Charities

Charity	Voluntary Income 1999/2000 (£m)
Cancer Research[12]	198.6
The National Trust	106.3
Royal Opera House Covent Garden	105.2
British Heart Foundation	88.8
Salvation Army	70.1
NSPCC	65.4
MacMillan Cancer Relief	59.5
Red Cross	56.7
Save the Children	53.5
Marie Curie Cancer Care	51.4

Source : Dimensions 2002 Annual Update of CAF's Top 500 Fundraising Charities, Charities Aid Foundation

Specialisms need skilled workers

London's specialisms need skilled workers. The mix of specialised activities and highly skilled workers provides the UK with a reservoir of skills that can be easily tapped via trade and thus disseminated to the rest of the UK through commercial interactions and the movement of people. Without London's unique set of circumstances – in particular, the clustering of firms in financial and business services - many of the specific skills available in London would be unlikely to have developed so far in the UK, reducing opportunity, choice and growth potential everywhere.

Skills are more than just educational attainment or accumulated experience, though both are critical inputs. In a twenty-first century economy, the ability to adapt, to continue learning, to adopt new methods and approaches, and to innovate are all important attributes for skilled workers. Nor are skills only about a thin veneer of top workers: they are important throughout the labour force. Increasingly, customer-facing skills are key to job success, whether for the banker or the waiter.

[12] Aggregate raised by the Imperial Cancer Research Fund and the Cancer Research Campaign, who merged to form Cancer Research UK.

The skills that develop and which are embedded in the London workforce benefit the rest of the UK in a number of ways:

- **Growth:** By enabling the specialisation of the London economy and providing it with the means to compete internationally, London's skills fuel the city's rapid growth, giving the UK as a whole a growth node that stimulates demand and creates jobs across the whole country.
- **Cost & accessibility:** The specialist skills available in London reduce the cost and increase the accessibility of specialist inputs for the rest of the UK economy. For example, London's skills in advertising and public relations are available to businesses throughout the UK without the barriers of different language, time zones or currency fluctuations, while the size and diversity of the sector in London ensures competitive supply.
- **Skills transfer:** London's pool of skills sets up opportunities for skills transfers through competitive activity, where businesses in the rest of the UK compete with London companies, and for transfers of skills and methods of working that often result from the relationships between customers in London and suppliers in the rest of the UK.
- **Labour mobility:** The two-way flows between the rest of the UK and London are large (see chapter 2). London's skill base provides an on-the-job training ground for talent from the rest of the country. The flow of new graduates to London is often noted as a negative influence of London on the other regions. Much less attention is given to the (bigger) outflow of migrants from London. Skills gained in London provide a distinct benefit for businesses and organisations in the recipient regions, and may even stimulate the business birth rate in regions and sub-regions where it is particularly low.
- **UK's international standing:** As a result of its international role, London's reputation has spread worldwide. The skills of its labour force, whether supplying services internationally or meeting the needs of leisure and business tourists, have a direct bearing in how the UK is viewed from abroad. In turn, this has an influence on how doing business with UK companies or physically investing in the UK is viewed. It is debatable whether the UK would have done so well in terms of foreign direct investment in recent years without the influence of London and the skills of its labour force.

London has more graduates

London's working age population, as well as being younger (see Table 2.1) than that of the rest of the UK, has a much bigger proportion of graduates. Around 25% of the London workforce possesses university degrees, compared with only 15% for the rest of the UK (Table 4.6). Thus nearly 1.4 million people of working age in London have a degree – 20% of the UK total and 50% more than would be the case on a population share basis. The ratio for postgraduate degrees is even starker, with nearly 8% of London's working age population holding these more advance qualifications, compared with around half that level in the rest of the UK.

Table 4.6: London's workforce 2003: more with degrees

	Degree or equivalent	Higher education qualifications	GCE A level or equivalent	GCSE grades A*- C or equivalent	Other qualifications	No Qualifications
Share of workforce						
London	24.7%	6.0%	18.5%	16.7%	20.2%	13.4%
Rest of the UK	15.0%	8.9%	24.9%	22.5%	12.7%	15.2%
% point difference	**9.7%**	**-2.9%**	**-6.4%**	**-5.8%**	**7.5%**	**-1.8%**
Number by qualification						
In London (000's)	1357	330	1016	918	1110	736
London's share of UK total	19.9%	9.3%	10.1%	10.1%	19.3%	11.7%
London's share relative to working age population share (UK=100)	**152**	**71**	**77**	**77**	**147**	**89**

Source: Department for Education and Skills; from the Labour Force Survey, Office for National Statistics

There is evidence that a slightly higher proportion of commuters into London have degree level qualifications than London's resident working age population, while commuters to London are substantially more likely to have GCE A-level or equivalent qualifications than the London population.[13] This is something of an offset to the relative dearth of this segment of the population living in London and may reflect housing affordability issues. Thus if higher educational attainment is a requisite for the development of specialist skills – as is the case for many jobs in financial services, law, accountancy, the media, and higher echelons of the Civil Service – then it is clear that London possesses the raw material in abundance. This educational advantage does not hold for what the mid-levels of educational attainment, where the city has an under-representation of people with GCSE or equivalent qualifications as their highest attainment. At the bottom end of the scale, London has an over-representation in the lowest/no qualifications category, though a higher proportion in this category is likely to have some level of educational qualifications rather than none at all.

Londoners are more likely to be professionals and managers

Data on the jobs that Londoners do also provide support for the abundance of highly skilled people in London (Table 4.7). Professionals, managers and associate professionals are all heavily over-represented in the London (residents) workforce, while all other occupational groupings are under-represented. Though it is outdated to equate skills solely with managerial or professional positions, this pattern is consistent with a picture of London as a centre that thrives on highly skilled labour working in a high cost environment, where the benefits of working closely with other highly skilled groups more than outweigh any cost disadvantages. The more routine and support tasks, other than those needed physically in London to make daily life function, have tended to move away from the city.

[13] *London Skills Survey 1998*, London Skills Forecasting Unit

Table 4.7 London: more professionals/less routine

	London (000s)	London's Share Relative to Working Age Population Shares (GB=100)
Managers & senior officials	645,000	119
Professional	594,000	131
Associate professional & technical	656,000	128
Administrative and secretarial	476,000	103
Skilled trades	279,000	64
Personal service	230,000	83
Sales and customer service	232,000	80
Process, plant & machine operatives	185,000	64
Elementary occupations	310,000	72

Source: Labour Force Survey

London provides a training ground

London acts as an educational and training centre for young UK talent in several ways. A number of highly regarded academic institutions are based in London, and Imperial College, the London School of Economics and University College, London are in the top six universities in The Times' ranking of the top 100. These help give London a disproportionately large share of UK postgraduate education. In 2001/02, nearly 19% of postgraduates entering employment or going on to further study in the UK had been studying at London institutions.[14] This compares with London's share of graduates entering employment or further study that year of 13.4% and London's population share of 12.4%. Of this London output of postgraduates, nearly 40% moved to jobs or to study in the rest of the UK, more than balancing the flow of postgraduates to the city from the rest of the country that year. In addition, Law Society data referred to above show that around 50% of aspiring lawyers in England and Wales go through their traineeships in London, well above the city's under-40% share of the legal profession.

London, with its rich mix of businesses and its highly skilled and experienced workforce, offers a hands-on training ground for UK talent, many of whom move to work in other parts of the country later in their careers. This process transfers skills from London to the rest of the UK and may be important in increasing the population of potentially successful entrepreneurs in parts of the UK where the business start-up rate is low. Support for this view can be found from data on working age migration to and from London. As shown in Chart 2.2, London is a net importer of young adults but a large exporter of prime age adults. As discussed elsewhere, some of this migration is driven by students moving to London or by life cycle-decisions that simply involve a move to one of London's neighbouring regions with a daily commute back to work in the city. However the flows are sufficiently large to suggest that a powerful diffusion of skills built up in London takes place every year. For example, the Countryside Agency reports that incomers from urban areas create up to two-

[14] Higher Education Statistics Agency, *First Destination Supplement 2001/02*

thirds of all new firms in rural areas, and even though many of these migrants have never run their own business before, they create an average of three rural jobs per migrant.[15] Londoners and other urban émigrés, with established networks of contacts and IT skills complementing other core competences, possess many advantages over an existing resident in establishing a new "exporting" business in a rural area.

London's skills are world-renowned

Evidence on how London's specialisms and skills affect its – and indirectly the UK's - international standing comes from recent survey work of international financial services businesses in the City. London scored just behind New York and well ahead of other European centres on its attributes in terms of flexibility of labour legislation, size of skilled labour pool, total cost of skilled labour and access to ancillary services. The theme of London as a training ground is also touched on in some of the findings.

> Virtually every skill required by international finance and its support services can be found in London. The fact that these skills can be had in people from many different nationalities and cultural backgrounds is an added plus. Many senior bankers described the pool as "exceptional". Ambitious and capable people tend to gravitate to London to gain work experience and advance their careers.[16]

Specialisms & skills influence the UK's productivity & competitiveness

The determinants of productivity growth are complex. At the micro-level, factors such as openness of the economy, the quality of its human resources, the depth of its labour markets, its flexibility in the face of shocks, the degree of competition faced by firms, agglomeration economies (that is, the benefits of proximity with other businesses), and endowments of infrastructure, varying from transport services to research facilities, have all been put forward as contributors to productivity growth. Whatever the determinants of productivity growth, it is clear that average productivity is higher in London than elsewhere in the UK (Chart 4.1).

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[15] Countryside Agency, Rural Economies Stepping Stones to Healthier Futures, March 2003
[16] CSFI, *Sizing Up the City*, Corporation of London, June 2003

Chart 4.1

Source: Regional Trends 38 and OEF calculations

Just as the determinants of productivity itself are contentious, so the influence of London's higher productivity on the rest of the country is hard to quantify. The discussion below seeks to illuminate channels that might transmit benefits and costs from London to the rest of the UK. London's productivity lead may act as a spur to the rest of the UK through a number of channels, as follows.

Supply effects:

- provision of cheaper, better quality inputs to the productive process
- competitive pressures
- emigrants from London bringing ideas, capital, skills and entrepreneurship
- pressure on wage rates in the rest of the UK for skills in demand in London, so encouraging the search for more productive ways of working.

Demand effects:

- opening up higher value added opportunities
- working with suppliers to improve inputs
- relocation of elements of the London "value chain", for example back offices, bringing new, improved work practices (see chapter 2).

Imitation effects:

- links with related but geographically distant clusters that rapidly adopt innovations (potentially a two way process)
- imitation of ideas and concepts pioneered in London.

Equally London may slow productivity growth in other parts of the UK by:

- monopolising the take up of new graduate talent and sucking in skilled labour
- increasing congestion and transport delays.

Box 9 identified London's specialisms. By far the majority of London's specialist activities produce "intermediate" products (that is, products that enter into the production chain rather than items that form part of the consumer's shopping basket). Business services, much of financial services, large parts of IT and telecommunications, property and wholesaling provide building blocks for the productive process. High productivity in London can therefore be expected to translate into lower cost inputs than would otherwise be the case. In turn this improves the ability of the users of these products – other London businesses and businesses in the rest of country – to compete.

Does London denude the rest of the country of talent?

In 2001/02 nearly 13,000 graduates from the rest of the UK moved to London for their first job, just under 10% of the total of graduates from the rest of UK who took up employment that year.[17] With the 13,000 London graduates who took up jobs in the city, this meant that London captured nearly 17% of UK graduates moving into jobs in 2001/02, in line with London's employment share but above its population share. London also exported graduates to jobs, with over 9,000 London graduates taking up first jobs in the rest of the UK. These figures are only a snapshot and may be biased downwards compared with the average of recent years given the cyclical difficulties faced by the London economy that year but, as with the movements of the population in general, they demonstrate a fluid interaction between London and the rest of the UK in terms of young talent.

The question is, would the UK be better served if graduates formed a higher proportion of the workforce outside London? There are a number of reasons for thinking that London's appetite for graduates is not a drag on the UK as a whole. Attracting the best new talent, who are likely to be most productive over their working lives, to the location where that talent will be best used is likely to maximise its contribution to the UK economy. Without the existing skills pool and the agglomeration and other effects present in London, it is unlikely that these new workers could achieve similar productivity levels in other parts of the UK. Recent academic work using French data placed particular stress on the tendency for highly skilled workers to gravitate to locations where there are already high concentrations of skilled workers and deep labour markets as a key determinant of productivity differences among regions.[18] A more even spread of highly skilled workers risks dissipating the gains that are made when highly skilled people work in close proximity to each other.

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[17] Higher Education Statistics Agency, *First Destination Supplement 2001/02*
[18] Combes, Duranton & Gobillon, *Spatial Wage Disparities: Sorting Matters!*

Equally there is evidence that graduates are sometimes under-utilised relative to their educational attainments. This is both a loss to the individuals concerned in terms of lower incomes, and possibly job satisfaction, and also to the nation as a whole given the public costs of higher education. For example, typical graduate salaries are lower outside London suggesting that there is no particular shortage of graduates for available jobs. As a recent report for the DTI commented:

> Basically, the knowledge economy in most regions is unbalanced. Job generation in knowledge-intensive sectors – even in a highly favourable economic period – was not keeping pace with the rise of a more highly qualified working age population, 25% of which was made up of degree-holders. In effect, we may have created a supply-driven knowledge economy – or one where employers lack the absorptive capacity for more qualified staff, including graduates.[19]

London's demand for skills helps provide opportunities for potentially highly productive workers that they might not be able to find without moving to London. This demand in itself probably increases the supply of highly qualified staff in the UK by making it more worthwhile for individuals to acquire the necessary skills. It can also help retain talent in the UK which, in the absence of suitable opportunities within the UK, might look for overseas opportunities – **a 'brain drain' to London from other parts of the UK may be a way of avoiding a 'brain drain' out of the UK altogether**.

Furthermore, any brain drain from the regions is often only temporary. As shown in chapter 2, London's population is fluid, with a large inflow of population from the rest of the UK but an even bigger outflow. Moreover the London workforce tends to be younger than that in the rest of the country, so while London attracts talent, it is also a place that turns that talent into highly productive workers, many of whom eventually move to other parts of the UK, taking both their education and their experience with them.

[19] *A Regional Perspective on the Knowledge Economy in Great Britain*, A Report for the DTI, Hepworth & Spencer, Local Futures

Market place and regulatory centre

London has long played the role as a central market place and home to the institutions that provide the trust and confidence for markets to function well. Financial markets and the related regulation provided by the Bank of England and the Financial Services Authority make up part of the subject matter for the next chapter.

Famous market places such as Smithfield and Billingsgate offer visible evidence of this function of the London economy, but, as the detailed employment data demonstrate, there is a diverse range of market-making functions carried out in London. This spans inputs into the production process such as fuels and minerals, sales of machinery and office equipment, to consumer staples – including clothing, textiles, and alcohol – through to white goods and luxury items such as perfume and cosmetics, and antiques (included in the second-hand goods segment). By providing an efficient means of bringing buyers and sellers together, London plays a significant, if unquantifiable, role in consumer choice and competitive supply for businesses and consumers in the rest of the UK.

Markets function best when the institutional setting fosters transparency and trust (see Box 11). London is home to many of the institutions that provide this glue for the operation of the UK's market economy, whether they have statutory powers or set standards via self-regulation. Examples include public sector bodies and agencies, such as the Financial Services Authority, Ofcom, the Civil Aviation Authority, the Food Standards Agency and the medical councils; private sector institutions including some of the livery companies and the Advertising Standards Agency; and membership bodies such as the Law Society, the accountancy and actuarial institutes, trade associations, the TUC, and the CBI.

Economic historians are increasingly placing emphasis on the institutional framework of a society as a determinant of economic growth and development. They also point to the nature of the interactions that take place between different institutions, commercial entities, technology and competition as influencing the ability of a society to innovate and grow. London is the meeting place of many of these factors in the UK, and the interactions that take place in London play a critical role in setting the "rules of the game" for the UK as a whole.

Box 11: Why Do Institutions Matter?

Economic History and Economic Growth

Attention to the institutional environment has become increasingly common in economic history and it has deeply enriched our understanding of how economies develop through time. Economic development is no longer regarded as a gradual, inevitable transformation from local autarky to specialization and the division of labor. Instead, development is seen as a response to the evolution of institutions that support social and commercial relationships. Economic growth thus depends on the degree to which the potential hazards of trade (shirking, opportunism and the like) can be controlled by institutions, which reduce information costs, encourage capital formation and capital mobility, allow risks to be priced and shared and otherwise facilitate cooperation. In early societies, agency problems were typically solved through kinship or other close social ties. Later, standardized weights and measures, units of account, media of exchange and procedures to resolve disputes (such as merchant law courts) supported the expansion of trade by lowering information costs. Capital markets could flourish only in societies where rulers could credibly commit not to expropriate private wealth. The growth of product and factor markets depends similarly on establishing secure property rights. Furthermore, as an economy industrializes, more and more commercial activity involves 'transacting': trade, finance, banking, insurance and management. Industrialization requires institutions to mitigate the costs associated with these transactions. Economic development, then, is institutional development. 'The central issue of economic history and of economic development is to account for the evolution of political and economic institutions that create an economic environment that induces increasing productivity'.

(Extracted from "New Institutional Economics" Peter Klein, University of Georgia)

Advertising Standards Authority – Not all regulation is from government

The UK advertising industry is respected and emulated around the world, not only for its creativity, but also for the powerful system of self-imposed controls it has developed".

Television and radio have been controlled through statute law since the start of commercial broadcasting in 1955. In 1961, to prevent similar statutory constraints being applied to advertising in other media, the industry developed the self-regulatory system and the first edition of the Advertising Code was published. The Sales Promotion Code was added in 1974 and the two Codes were brought together in 1995 into one comprehensive set of rules for advertisements and sales promotions. The eleventh edition of what is now called The British Code of Advertising, Sales Promotion and Direct Marketing, or The CAP Code, came into force on 4 March 2003.

The CAP Code is written by the advertising industry through the Committee of Advertising Practice (CAP). All the main trade and professional bodies representing advertisers, agencies, service suppliers and media owners are members of CAP. In addition to writing the Code, they agree to enforce it. But even if an advertiser is not a member of one of the CAP trade bodies, they will be required to observe the CAP Code and the rulings of the ASA Council.

How is the system funded?

The ASA's work is funded by a small levy on display advertising and direct mail expenditure. In order for the ASA to preserve its independence from the advertising industry, a separate body, the Advertising Standards Board of Finance, collects this income. The only cost to consumers is the price of a stamp, or the time spent online, to send a complaint. The ASA's budget for the year 2003 is just over £4 million.

Who decides whether an advertisement breaks the rules?

The ASA has a Council of 12 people who decide whether or not an advertisement breaks the CAP Code. The Chairman and most of the Council members are drawn from outside the advertising world and the ASA's Chairman advertises for new lay members from a wide diversity of backgrounds. The Chairman himself is appointed by the Board of the Advertising Standards Board of Finance (ASBOF).

A minority of the members work in advertising and can offer practical guidance on how the industry conducts itself. All members serve as individuals and do not represent any interest group or sector.

Source: http://www.asa.org.uk/index.asp

CHAPTER 5: LONDON'S FINANCIAL ROLE

Main points

- London is the principal international financial centre in Europe and home to one of the world's three largest financial markets in the world alongside New York and Tokyo. London financial markets and firms compete in a global market across national and geographical boundaries.

- There are also many linkages closer to home, and London's financial markets are highly dependent on the trading links with the rest of the UK. Support services, administration and back-office companies who service London's financial and business services benefit directly from these trade links, as do companies who provide complementary financial services. London's financial and business services firms buy £28 billion of goods and services from the rest of the UK, of which £19 billion is within the financial and business services sector itself.

- The clustering and concentration of financial firms in the City create positive externalities for the market. Clustering improves productivity by allowing companies to benefit from the labour and capital market spill-overs, leading to improved profits and/or a reduction in the price paid by consumers across the UK.

- The scale of the City and the nature and level of competition may reduce the costs of capital and/or the ease with which it is raised. Well over half of new businesses raising capital on the alternative investment market in recent years were from outside London. Measured in terms of borrowing costs (interest rate spreads), firms from the UK pay only half the spread of many EU countries.

- Many of these benefits would be lost to the UK if London did not exist. In an increasingly competitive global market, many companies would be more likely to move to other financial centres in the EU or further afield than to other centres in the UK.

This chapter focuses on London's key position in global and national financial services and examines how this impacts the rest of the country. The concentration of financial services activity in London leads to a sub-set of the job and trade linkages with other parts of the UK discussed in chapters 2 and 3. There are other important effects transmitted via better access to, and lower cost of capital for companies based elsewhere in the UK; potentially cheaper financial services for consumers; and the enabling role that London plays in specific areas of financial services, such as fund management, that allow other UK centres to specialise in aspects of financial services that would be less likely to exist in a UK without London as it currently is.

Financial services is a broad term, ranging from familiar high street bank and building society branches, through insurance and assurance to the operation of the capital markets, including the raising of capital both nationally and internationally via debt and equity issues and the trading of existing securities and derivatives. Financial services account for a significant share of employment and activity in every region, but as the analysis in chapter 4 on London's specialisms showed, activities such as broking, fund management, administration of financial markets and other aspects of financial intermediation are disproportionately concentrated in London. Retail financial services serving local consumers and companies are located across the country, but wholesale activities serving other financial sector companies and large corporates are concentrated in London. It is largely wholesale financial services, and international activities in particular, that make London's financial services different from the rest of the country. Indeed, in many international financial markets such as foreign equity trading, international bond issuance and trading, foreign exchange dealing, maritime & aviation insurance, and cross-border bank lending, the UK's market share is effectively synonymous with London's share of the market.[20]

Financial services in context

Of the 1.05 million people employed in financial services in the UK in 2003, 320,000 were employed in London (30% of the total). London accounts for one-third (32.7%) of the UK's total value-added in financial intermediation[21] (Table 5.1). The South East and the East are the next most important regions, contributing 15.2% and 10.8% respectively to the UK total. Financial intermediation is also important to the overall economy in each of these regions, accounting for 11.2% of the London economy, 6.0% in the East, and 5.3% in the South East. There are also strong centres in Scotland and the South West, both with 4.7% shares.

Table 5.1: Gross value added in the financial intermediation sector – by region (2000)

Country	Financial intermediation GVA (£m)	Financial intermediation % of UK total	Total Regional GVA (£m)	Financial intermediation % of Regional GVA
North East	867	1.9%	26,740	3.2%
North West	3,462	7.6%	84,058	4.1%
Yorks and Humber	2,604	5.7%	59,675	4.4%
East Midlands	1,653	3.6%	53,588	3.1%
West Midlands	2,598	5.7%	66,498	3.9%
East	4,935	10.8%	81,713	6.0%
London	14,964	32.7%	133,179	11.2%
South East	6,981	15.2%	132,147	5.3%
South West	2,895	6.3%	61,085	4.7%
Wales	1,089	2.4%	31,864	3.4%
Scotland	3,181	6.9%	67,150	4.7%
Northern Ireland	556	1.2%	18,414	3.0%
England	40,959	89.5%	698,684	5.9%
United Kingdom	45,785	100.0%	816,111	5.6%

Source: Regional Accounts

[20] International Financial Services London (IFSL), *International Financial Markets in the UK, November 2003*.

[21] 'Financial Intermediation' (Section J of the 1992 Standard Industrial Classification system) covers a wide range of activities, including the locally-delivered aspects of retail financial services, thus masking the extent to which London is different from the rest of the UK in this sector.

Supporting jobs through imports

There are significant trading relationships between London and the rest of the UK in financial and business services. In chapter 3, we estimated that London imported £42.1 billion of financial and business services in 2003 from the rest of the UK. In chapter 4, we estimated that London's exports to the rest of the UK in the sector amounted to £65.7 billion, leading to a sector balance of payments deficit for the rest of the UK of £23.6 billion (against an estimated overall deficit of just £16.5 billion). The size and strength of the sector in London also results in significant purchases of inputs from the rest of the UK of an estimated £19.5 billion in 2003, directly supporting 250,000 jobs outside London.

Access to capital

Trade is only one aspect of the relationship between London's financial services and the rest of the country - access to capital is another key linkage. Many companies located outside London raise money on the London debt and equity markets. There are nearly 2,000 companies with UK headquarters currently listed on the London markets, with an aggregate market capitalisation of nearly £1.4 trillion. Nearly half of these (two-thirds in terms of market capitalisation) have London headquarters (Table 5.2). In other words, companies with an aggregate market capitalisation of £445 billion have headquarters located in the rest of the UK, with the South East and Scotland prominent in terms of numbers and average market values of individual companies.

Table 5.2: Market capitalisation on LSE by region 2003

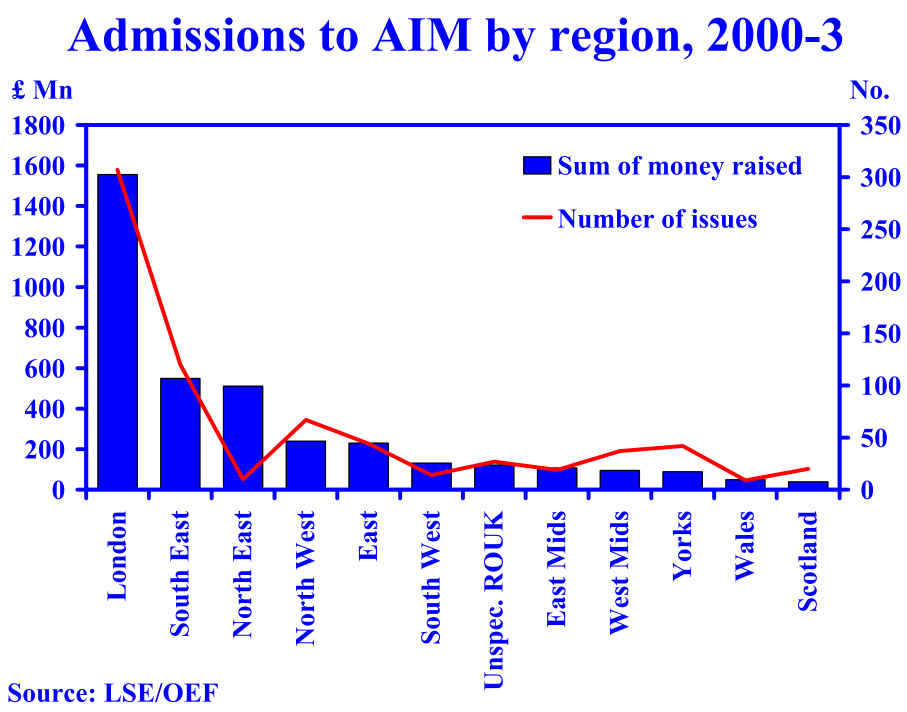
	No of companies	% of total	Market capitalisation (£bn)	Average mkt value (£m)
London	968	48.8%	918.4	949
South East	197	9.9%	176.1	894
Scotland	160	8.1%	112.9	705
East Anglia	150	7.6%	48.6	324
Yorks & NE	132	7%	30.2	229
Midlands	128	6.5%	36.2	282
North West	121	6.1%	15.3	126
South West	109	5.5%	24.0	220
Wales	19	1.0%	2.0	105
Total	1,984	100.0%	1363.7	687
UK excl London	1,016	51.2%	445.2	438

Source: London Stock Exchange (LandMARK)

During 2003, there were 169 new issues on the London Stock Exchange from UK-headquartered companies, raising £3.1 billion. Of these, 92 (54% of the total number of new issues), raising £2.1 billion (70% of the total capital raised), were headquartered outside London. These new issue figures tend to fluctuate considerably each year in both the number of companies raising money and the amount of capital raised. Nevertheless non-London companies remain a feature, and in 2002 they made up 58% of the total, even if their 38% share of capital raised was much lower.

The majority of new flotations in any one year are on the Alternative Investment Market (AIM),[22] and figures for this market give a truer reflection of the importance of London's financial markets in financing the growth of successful small and medium size enterprises in the UK regions, and thus to regional growth and dynamism itself. For example, AIM is popular with fledgling companies raising capital, and there is less of a tendency for smaller and medium sized companies to have headquarters in London when the main base for their underlying economic activity is elsewhere. Moreover, the disappearance of many regional stock exchanges has underpinned the advantage of the depth and breadth of London's markets over localised knowledge. Of the 716 UK companies admitted to AIM between 2000 and 2003, UK companies based outside London accounted for 57% by number and 58% by capital raised.

Chart 5.1



[22] AIM is the London Stock Exchange's global market for smaller, growing companies.

Lower costs of finance

Another way that companies from the rest of the UK might benefit from London's global financial pre-eminence is through lower financing costs. Competitive pressures, availability of a deep pool of skilled labour, the scope to offer specialist services and economies of scale all contribute to the efficient delivery of London's financial services, with benefits for both consumers and investors. For example lower costs– say in terms of interest rate spreads - will lead to higher UK investment over time than would be the case without London.

These effects are hard to quantify. However, an earlier study for the Corporation of London suggests the following rough estimates:

- increasing funds under management from $10 billion to $50 billion reduces unit operating costs from 0.3% to 0.1%. In other words, costs only rise by 67% as funds managed increase by 400%.
- doubling the size of insurance business typically produces a 10% fall in unit costs.
- doubling the size of banking business typically produces a 15% fall in unit costs.[23]

An analysis of the cost of borrowing in terms of the interest rate spread (the difference between deposit and lending rates) also suggests UK companies benefit from the performance of London's financial markets. Chart 5.2 compares deposit and lending rates across 21 European and OECD countries over the past decade (1991-2002). This shows that the interest rate spread in the UK is the lowest in the sample: at 2.26% the average spread in the UK is lower than the differentials for Japan (2.32%) and the US (2.8%), and significantly lower than for Germany (6.4%). It should be recognised that official figures on deposit and lending rates may be misleading, and in some European countries, relatively higher spreads may be offset by subsidised lending rates for many companies.

Disentangling which particular attributes of the London markets contribute to this lower spread is challenging, and there are likely to be a number of interrelated factors at work. Research by the World Bank has concluded that factors such as taxation, regulation, market structure, legal and institutional factors as well as the overall economy are all important in determining interest rate margins.[24]

Whatever specific influences may be at work in London, the fact that UK margin spreads are lower means that UK firms can secure finance from the London markets at a much lower mark up on deposit rates, on average, than in other countries, thereby deriving a source of competitive advantage.

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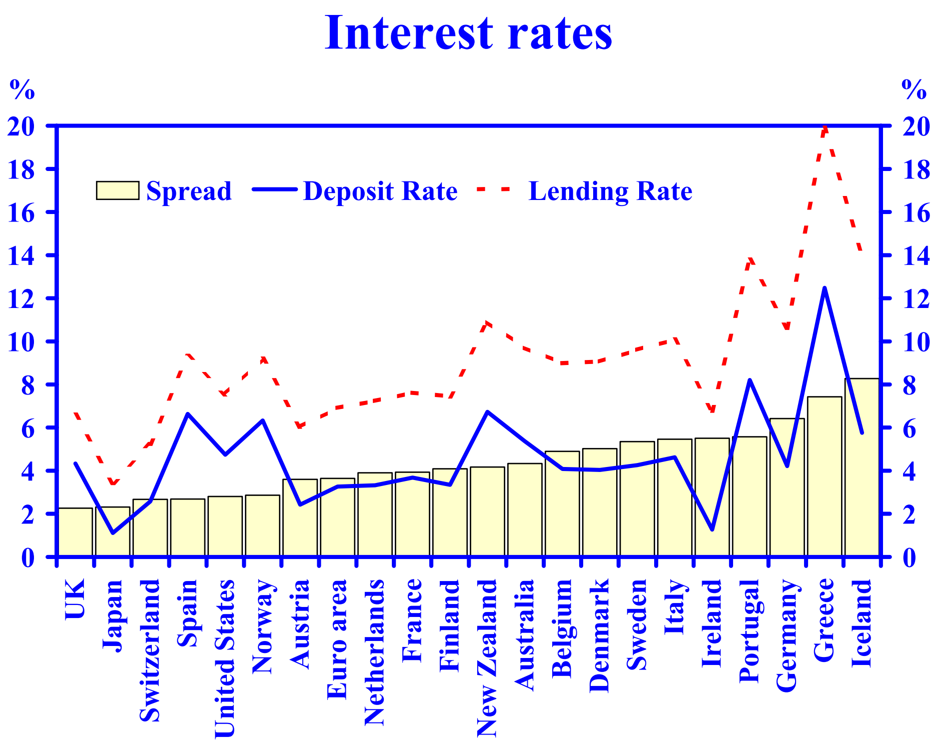
[23] cebr, *The City's Importance to the EU Economy 2004*, Corporation of London, January 2004.
[24] Asli Demirgüç-Kunt and Harry Huizinga, Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence, The World Bank (1997).

Chart 5.2[25]



Estimates of the impact on the rest of the UK of "no London"

The UK as a whole has some strong financial clusters outside London, such as Edinburgh or Manchester, but it is debatable as to whether these centres would generate as much of their GDP and jobs from financial services as they currently do were London not to exist, as it does, as an international financial centre on a much bigger scale than can be explained simply by the capital's own wider GDP. Box 12 looks at the extent to which financial clusters in the rest of the UK may be supported by the special nature of London's global financial markets.

[25] Deposit Rate usually refers to rates offered to resident customers for demand, time or savings accounts. Lending Rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector.

Box 12: London helping other financial clusters to flourish

Outside London, financial services activity tends to be concentrated around the regional capitals. Many provide customer support and back-office services to the London market but some also exist as financial clusters in their own right, providing specific products and services straight to market and competing directly with London and other global markets.

Scotland is the one of the best illustrations of this in the UK, with many strengths in different areas, as the following statistics collected by International Financial Services, London indicate:

- Scotland is second in Europe (to London) in terms of the location of headquarters for the top 30 largest banks in Europe;
- It has strengths in the retail and corporate sectors and expertise in pensions and the long-term saving;
- It is the 6th largest centre in Europe (and 15th largest in the world) in terms of the size of institutional equity portfolios.

Edinburgh is the most distinctive cluster within Scotland (and perhaps the rest of the UK). It is a centre for the fund management business, with Scotland as a whole having £327 billion in funds under management at the end of 2003. The London market may be supporting this and other clusters, providing key market infrastructure, and facilitating technology spill-overs and skills transfer from the capital to the regions. Many of the funds managed from Edinburgh, for example, will be traded on the London markets.

A comparison of the relative size of fund management centres, ranked by value of equities managed by institutions for 2000, is shown below.

Top global fund management centres

		2000 $ billion Assets under management
1	**London**	**2,461**
2	New York	2,363
3	Tokyo	2,058
4	Boston	1,871
5	San Francisco	726
6	Los Angeles	569
7	Paris	458
8	Philadelphia	419
9	Zurich	414
10	Denver	340
15	**Edinburgh/Glasgow**	**253**
36	**Manchester**	**81**
56	**Birmingham**	**32**
72	**Bristol**	**15**

Source: Thomson Financial Investor Relations, Target Cities Report 2000.

Simulations on OEF's detailed model of the London economy tease out what the impact on the rest of the UK might be if London's City-type activity were to cease. A specific feature of this model is the recognition that London's financial services industry fulfils an international and not just a national role, and that if jobs were not located in London they might be located in Frankfurt, Paris or New

York rather than elsewhere in the UK. So, for example, office rents in London not only have an effect on the model projections of London employment in financial services, they also have an effect on the model projections for overall UK financial services employment, and jobs are lost to the UK if companies choose not to locate in London. Our results suggest that around 40% of financial services jobs lost to London from the effects of developments that damage or constrain the financial services sector would be lost to the UK, with the remaining 60% being spread around the other regions.

This implies that if the financial services sector's share of London's employment were the same as for the UK, around 65,000 net financial services jobs would be lost to the UK in total, the South East and Scotland gaining the largest shares of the 91,000 jobs lost to London (Table 5.3).

Table 5.3: If London's unique financial services cluster did not exist

Region	**Change in financial services employment**
London	-154,000
South East	+17,000
East	+9,000
South West	+10,000
West Midlands	+8,000
East Midlands	+5,000
Yorkshire and the Humber	+9,000
North West	+11,000
North East	+3,000
Wales	+3,000
Scotland	+12,000
Northern Ireland	+2,000
Total	**-65,000**

Source: OEF model simulations

As in other prominent sectors in London's economy, many areas of financial services face location decisions that pit London against New York, Frankfurt, Paris and other international centres rather than the regions of the UK. And as is discussed in the next chapter, London's attraction for footloose activities brings distinct benefits to the UK as a whole.

CHAPTER 6: LONDON'S INTERNATIONAL ROLE

Main Points

- London is one of a handful of truly World Cities with a diverse population that attracts people, businesses and investment because of its international links, the high quality employment, education, and cultural opportunities it offers, and its role as a hub for physical and virtual communications.

- London is a magnet for foreign workers who meet the economy's need for both highly educated staff with specific skills and for workers to undertake more routine tasks that maintain the city's functionality. Since the early 1990s net international migration has added over 300,000 to the London's population, with financial and business services, in particular, playing a key role in attracting international highly qualified professional staff to the UK.

- London attracts business headquarter functions and is the location of choice for the European headquarters of international companies. The leadership role that headquarters play is a crucial driver of London's business service specialisms, including legal, accounting and media services, from which companies in the rest of the UK benefit. There are also pervasive linkages from headquarters activity to demand, business and investment opportunities, and skill levels in the rest of the UK.

- Surveys show London to be Europe's leading business centre and now a leading destination for inward investment projects. Its international reputation and transport links are a positive factor in attracting inward investment to the rest of the UK. In recent years the share of manufacturing projects coming to the UK has dwindled, while the number of service-oriented projects has climbed strongly. As with headquarter functions, it is unlikely that London's success has been at the expense of the rest of the country. In both cases London's unique attributes allow the UK to capture activities that would otherwise locate in other countries.

London is widely recognised as a World City. This chapter examines the meaning of this accolade and its implications for the rest of the UK. All countries have capital cities, many of which play the role of gateway to the rest of the world for the nation. Much of this normal capital city impact is implicit in the linkages between London and the rest of the UK discussed elsewhere in this report. For example, chapter 7 looks explicitly at London's role in tourism and how this impacts on the rest of the UK. The focus of this chapter, on the other hand, is on the truly international or global roles played by London that have an influence on the rest of the UK. In particular, this chapter examines the effects of London's attractions for international migrants, company headquarters and internationally mobile investment projects on other parts of the UK.

What does World City mean?

There is no straightforward definition of what is meant by World City. The term suggests openness to the rest of the world, a significant presence of globally facing activities and a multicultural population, all of which indicate its attractiveness as a place to live in world terms. So, a World City is likely to attract international migrants; contain a large and varied stock of foreign nationals; hold significant attractions as an international tourist destination; provide a base for international business management functions; foster a high degree of entrepreneurship; serve an international market place; possess internationally recognised seats of higher education; and provide a home for internationally recognised cultural assets. Few cities worldwide boast all these attributes. London, New York, Los Angeles, Paris, Hong Kong and, perhaps in the future, Shanghai might claim membership of this exclusive club. Both London and Los Angeles, for example, have net international migration of around 1% of their populations,[26] with over 300 languages spoken by pupils at London schools[27] and 224 spoken in Los Angeles,[28] while London and Paris rank at the top of international tourist destinations, each with around 13 million arrivals annually.[29]

The quantification of the impact of London on jobs and demand in the rest of the UK in chapters 3 and 4 take account of these influences in aggregate. Part of London's revival in recent years is due to its increasing status on the world stage, and the beneficial impact of London's revival on the rest of the UK is therefore partially due to spill-overs from London's global role.

An international magnet for people

Net foreign migration provides one indicator of this change in London's status and has also played an important role in boosting London's growth. From a position of near balance in the early 1990s, net foreign migration rose to 66,000 in 2000/01 (the last year for which there are official figures). As a result, international migration contributed 309,000 to the net growth of 359,000 in London's population in the ten years from 1991. Over this period 970,000 international migrants arrived in London, while 662,000 people moved abroad.

London is particularly important in attracting highly skilled international workers to the UK. As Chart 6.1 shows, there is a strong correlation between employment in London's financial and business services and the net migration of professionals and managers to the UK as whole. As one continental banker put it: *"If you want a Greek quant you'd look in London, not Athens"*.[30] This means that London pulls international talent into the UK that otherwise would not contribute to the UK economy

[26] 2001 data
[27] National Literacy Trust 2000
[28] Los Angeles Almanac, www.losangelesalmanac.com
[29] Association of London Government, *London Key Facts 2004*
[30] CSFI, *Sizing Up the City*, Corporation of London, June 2003

at all. Box 13 illustrates a view from outside the UK of just how international is London's labour market for key posts, but London also attracts immigrants who are less skilled and who undertake more routine tasks that maintain the city's functionality.

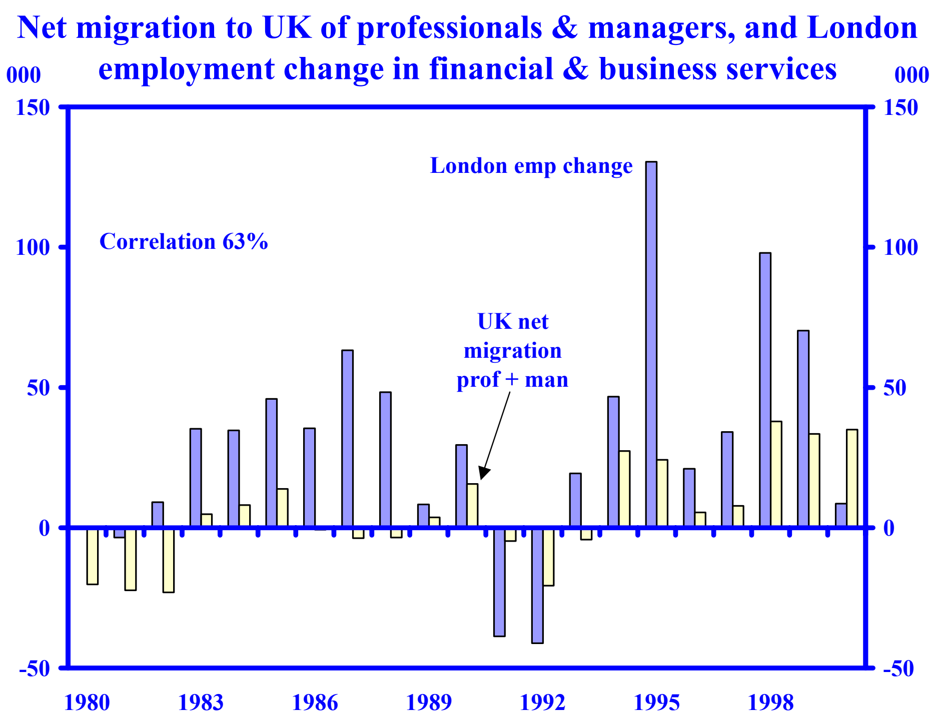
Box 13: London, Melting-Pot Of Managers: British Business Recruits Worldwide

"Great Britain wants to be and is like an international platform for business. The proof? The great number of foreign managers who exert their talents there. Because pragmatic British companies do not hesitate to recruit the best "professionals" from outside their borders.

"The international gotha of management has its capital: London. Indeed, the city accommodates more international managers than any other: the general manager of BT, Ben Verwaayen, is Dutch; that of Corus, Philippe Varin, is French; Luc Vandevelde, head of Marks & Spencer, that quintessentially British institution, is Belgian; Rod Eddington, the general manager of British Airways, is Australian; that of Barclays Bank, Matt Barrett, Canadian; and six months ago Vodafone named as its head here an Indian who made his career in the United States, Arun Sarin. Not forgetting the American president of Pearson, Marjorie Scardino, and the French general manager of its subsidiary company FT Group (owner of 'Les Echos'), Olivier Fleurot. Again, last week the AstraZeneca laboratory called upon Louis Schweitzer, the number one of Renault, to replace the Swede Percy Barnevikat the post of non-executive president. This small country presents such a sample of managers from the four corners of the planet. Even in the absence of statistics, the comparison with continental Europe hits the eyes: the labour market from which Great Britain recruits is the whole world."

Source: Les Echos, March 23, 2004

Chart 6.1



Source: ONS / OEF calculations

London's ability to attract international workers benefits the rest of the UK in a number of ways:

- It boosts London's GDP and hence both its demand for goods and services from the rest of the country, and its contribution to public finances. For example, we estimate that the net migration over the last decade has increased London's GDP by over 4%.
- It reduces the demands London companies would otherwise make for labour – particularly skilled staff – from the UK regions.
- The increase in immigration over recent years has added to London's already diverse population. The Census in 2001 showed that 29% (2.1 million people) of London's population belonged to ethnic minorities, and that there are resident communities in London of over 10,000 people from 34 countries.[31] This stock of international residents increases tourism to the UK by those whose primary reason for travel is visiting friends and relatives, while the cultural diversity of London helps attract both tourists and businesses alike.

London – the international business location

London is also the location of choice for the European headquarters of international companies. It is home to more headquarters than any other European location[32] and to more foreign banks than any other city:[33]

- 33% of Fortune Global 500 companies have their European headquarters in London, compared with 9% in Paris and 3% in Frankfurt.
- 27 companies in the FT Global 500 have headquarters in London, with a further eight located just outside the capital.[34] This means that London is headquarters for more than one in twenty of the leading global companies, and almost 8% of aggregate capitalisation within the FT Global 500 ranking, much greater than its 1% share of world GDP.
- 130 (26%) of the companies ranked in the FT European 500[35] have UK headquarters. Of these, 75 are located in London and a further 27 in the vicinity of London. By market value this gives London 23% of companies headquartered in Europe, a figure that rises to 26% if those in close proximity are included in the calculation. These figures compare with the UK's share of European output of around 16%, and London's share of under 3%.

As described in Box 14, company headquarters are a key driver in regional economies. The concentration of headquarters of international companies in or near to London creates a symbiotic relationship with a wide range of London's specialisms such as legal, accounting, design and media

[31] Greater London Authority, *Investing in London, The Case for the Capital*
[32] Cabinet Strategy Unit, *London Analytical Report*, July 2003
[33] Invest UK website
[34] *FT Global 500*, December 2003
[35] *FT European 500*, December 2003

services. Without the London effect, there seems little likelihood that so many international businesses would be headquartered in the UK. Their absence would undermine the market for specialist services that contribute to the efficiency and effectiveness of international and domestic businesses alike. In addition, it is unlikely that the UK would attract as much international talent, and the base for both economic growth and taxation would be impoverished

Box 14 What do headquarters do?

"Modern large company headquarters are primarily in the information business. They collect, produce, and disseminate information. Headquarters employees regularly gather data and intelligence from other employees, customers, competitors, and outside experts and consultants. They use the material they collect to generate solutions to complex and unpredictable business problems: those of managing the diverse elements in a farflung (sic) enterprise, identifying the best business strategies, developing and evaluating marketing campaigns, resolving legal issues, and turning out accounting and financial reports."

"The people who work in headquarters tend to be highly educated and highly paid—one reason that headquarters are considered so desirable for a regional economy. Headquarters also depend heavily on regular face-to-face contact with a network of outside suppliers of highly paid business services—investment and commercial banks, lawyers, accountants, advertising and media companies, and consulting firms. In addition, headquarters seem to benefit from congregating near one another. Studies suggest that business services firms are attracted to areas with a large market for their wares, leading to greater variety, higher quality, and lower prices. This means that headquarters and their business service providers tend to end up locating near each other. And they tend to cluster in areas that can attract and retain a highly-skilled professional and technical workforce, with the educational institutions and the cultural amenities that such workers and their families favor. Also important is convenient access to airports, highways, and state-of-the-art telecommunication to ease the cost and hassle of being in contact with people in the field."

"Headquarters generate revenue and jobs for local law firms, financial services providers, and advertising agencies. They contribute to travel and convention business. They remain a significant source of community involvement and corporate giving."

Source: "Get Me Headquarters!" Jane Katz, Federal Reserve Bank of Boston, Regional Review Quarter 4 2002

An example: AstraZeneca

Stanhope Gate in the heart of London is the location for the Corporate Office of AstraZeneca. With over 110 employees, it forms the base for most of the company's Executive Directors and members of the Senior Executive Team.

Global Functions. Many of AstraZeneca's key global functions of our company are led from Stanhope Gate, while their principal management and operational teams are on major sites in the UK, the USA and Sweden.

Examples of the many functions which have a strong presence at corporate headquarters are Finance, Treasury, Legal and Secretary's, Global Government Affairs and Policy, Investor Relations, Human Resources and Corporate Affairs.

Policy Making. AstraZeneca's work at Stanhope Gate is mainly focused on policy making and board support, although the location also means that some operational activities, such as Treasury and Government Affairs can be based appropriately close to the City of London, Government and Whitehall.

Source: AstraZeneca website

There is concern that too many UK companies have their headquarters in London to the detriment of the rest of the country. For example, the loss of headquarter functions has long been an issue in Scotland where policymakers were early to recognise the importance of these functions to regional dynamism. Sometimes moves are made voluntarily: in recent years, Dundee lost one of its few remaining quoted company head offices – Low & Bonar – to London because of the perceived benefits of a base in the city. In other cases, merger and take-over activity act as drivers of loss of headquarters from the rest of the UK. However, in a globalising world the question is no longer one of locating in the regions or London, but in the UK or other parts of the globe. Without London, the UK would be much less well positioned to attract these crucial building blocks of a modern economy to the detriment of living standards in this country.

London's image & specialisms help attract inward investment to the UK

The UK has long been the leading destination in Europe for inward investment projects, though in recent years the climate has deteriorated as a result of cyclical influences and increased competition from other countries. Nevertheless the number of projects coming to the UK remains well above the levels prevailing in the mid-1990s. A number of factors are thought to have contributed to the UK's success, including the English language; a flexible workforce; policy initiatives; and a large existing stock of foreign-owned investments. London's international role and prestige may be another, and perhaps overlooked, candidate for the list of contributory factors, both for investment in the rest of the UK and in the city itself.

London maintains a substantial lead in the rankings of the best European cities in which to locate a business, calculated each year by Cushman & Wakefield, Healey & Baker and based on their survey of senior executives in Europe.[36] Key factors driving inward investment identified by the survey include access to markets, availability of qualified staff and communication factors. London's pole position stems from its lead in terms of qualified staff; its access to markets and international transport links; its telecommunications; and the number of languages spoken. This international perception of London may well generate a halo effect for the UK as a whole that assists in attracting mobile investments to the rest of the country. International accessibility via London is just one specific attribute that has implications for the attractiveness of the rest of the UK, as well as for London itself.

There has been a change in the nature of inward investment coming to the UK in recent years (Charts 6.2 and 6.3). The share of manufacturing projects within the total has fallen dramatically, dropping from around 70% of all projects in the mid-1990s to around 30% in 2002/03. This change in the nature of inward investment to the UK, driven by the attractions of newly available low cost locations

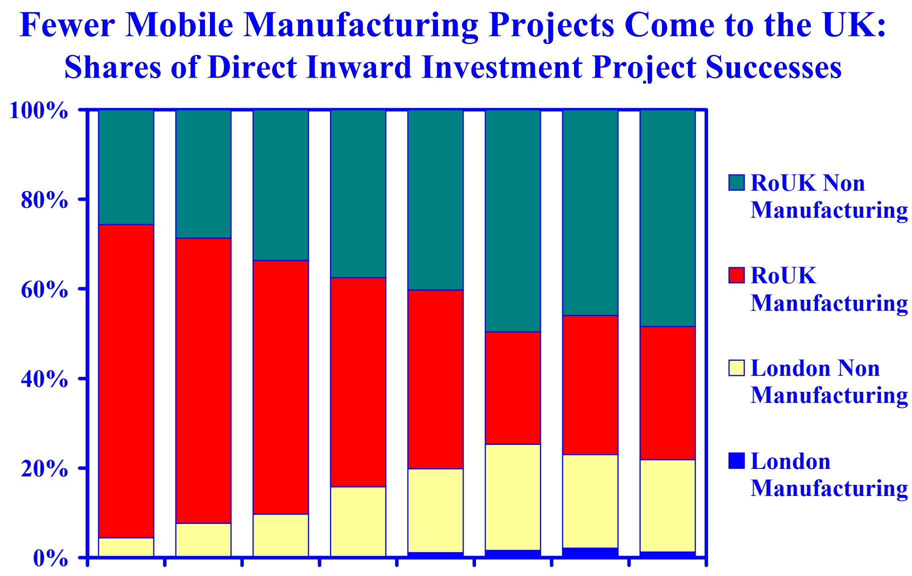
[36] Cushman & Wakefield, Healey & Baker, *European Cities Monitor 2003*

to much of manufacturing industry, has moved the focus of inward investment bodies to encouraging service sector projects to locate in the UK.

Coincident with the decline in the share of manufacturing projects within the total, there has also been a significant rise in the number of projects coming to the UK from 496 in 1995/96 to 709 in 2002/03 (having touched a peak of 869 in 2000/01). As shown in Chart 6.3, London has enjoyed a sharp pick-up in the number inward investment projects since the mid-1990s, from 23 in 1995/96 to 155 in 2002/03. However, this rise has not resulted in a drop in the number of projects going to other parts of the country, and over the same period inward investment projects to the rest of the UK rose from 473 to 554, underlining this country's overall success in an increasingly competitive marketplace.

These figures suggest that London has played a significant role in keeping the UK at the top of the European inward investment league tables, and Ernst & Young[37] estimate that the UK attracted 19% of all inward investment projects to Europe in 2002, well ahead of France in second place at 13%, with London the most successful European region.

Chart 6.2

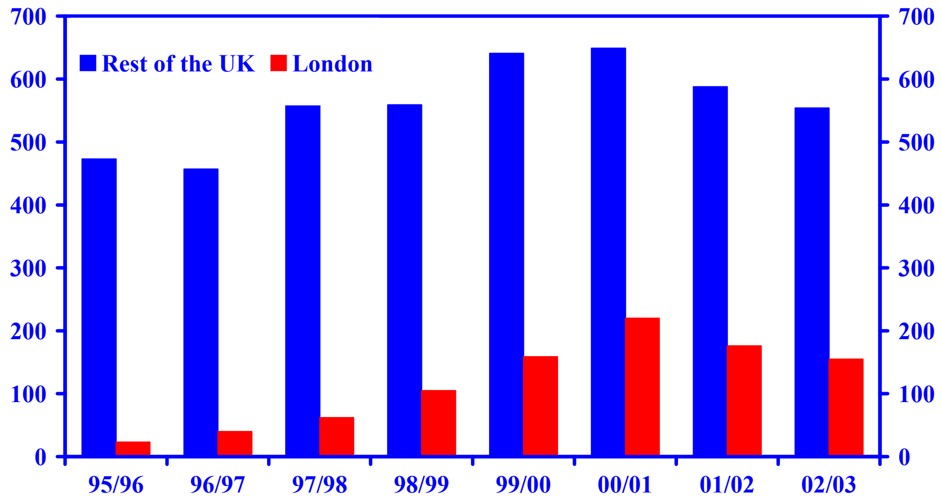


Source: Invest-UK, DTI

[37] Ernst & Young, *European Investment Monitor, 2003 Report*

Chart 6.3

Inward Investment Projects



Source: Invest-UK, DTI

The increase in London's share of inward investment projects into the UK raises the issue of whether this has been at the expense of the rest of the UK. If London is diverting projects that would have gone to other locations in the rest of the UK then it could be argued that London is depriving other regions of potentially higher value-added, higher productivity investments that would have facilitated improved economic performance and contributed to more regional dynamism.

London's higher cost base makes it unlikely, however, that projects that have a relatively free choice of location across the UK as a whole – say, in terms of the skills required – would be sited in London. More generally, attracting inward investment is now a fiercely competitive business, with most European nations operating specialist agencies to capture footloose investment. This suggests that few significant projects will be undertaken without careful consideration of the options, and that London's competitors are more likely to be Paris or Frankfurt rather than Glasgow or Manchester. As the case studies in Box 15 illustrate, it seems more likely that London's recent success has resulted in the UK securing projects that would have gone elsewhere, helping to build London's strengths and specialisms to the benefit of the UK as a whole.

Box 15: London First - London's Inward Investment Agency: Case Studies

The Collaborative UK

The Collaborative UK is the subsidiary of San Francisco-based New Media Collaborative. New Media Collaborative is in the business of interactive media: creating, producing and distributing interactive cross-platform content to media outlets internationally; and providing interactive production services and software solutions to the media and business communities.

The New Media Collaborative established The Collaborative UK in north London during the winter of 2003.

Why they chose London

"Our target market of entertainment and media companies are all based in London, therefore there was no second choice of location. Companies come to London because they know it is the key city to support a creative business and has the high-quality staff and resources that a company needs to succeed.

"Originating from the US, we still have many links to America, both for business and personal. Being based in London offers us an easy access to and from the US that some other European cities can't offer.

"I already had some experience of working in London, so I knew that it was the best place for The Collaborative UK to set up. London is one of the world's greatest cities, it is the hub of Europe, especially for Media," said Bridget Baiss, Director The Collaborative UK.

Istituto Marangoni

Since 1935 the Istituto Marangoni has been recognised as the leading fashion school in Milan, Italy. Every year over a thousand students from all over the world arrive for training in a common passion: the art of fashion. Young talent benefits from the expertise and long experience of Marangoni tutors in order to become the industry professionals of the future. The courses offered by Istituto Marangoni range from all sectors in the fashion industry, including creative, managerial and commercial.

In February 2003 Istituto Marangoni opened a new location in central London – its first outside Italy - in Fashion Street, Spitalfields, E1.

Why they chose London

"London is an extremely important creative centre for the fashion industry and represents an excellent cultural base where students can develop their skills. Through the synergies and the connections between our two locations, Milan and London, Istituto Marangoni decided to set up in London as our students can have the chance of studying in two of the world's centres of European culture."

"We see London as offering Istituto Marangoni the opportunity to start a new era and to carry the good work we have started in Milan to another creative city," said Paolo Parente, Director of Istituto Marangoni, London.

CHAPTER 7: LONDON'S ROLE IN UK TOURISM

Main points

- London's historical legacy, culture and range of facilities make it a key destination for both UK domestic and international tourists. Around half of overseas visitors only visit the UK because of the original draw of London. Without this, fewer overseas visitors would explore the rest of the UK.
- London residents provide a major source of tourism demand for other parts of the UK through the visits they make. The combined spending of both day and overnight visitors from London to the rest of the UK supports around 10% of the tourist economy (equating to around 150,000 jobs).
- There is a net inflow of tourism spending to London from the rest of the UK of around £1.6 billion a year, largely as a result of spending by day visitors to London. Excluding day visitors, inflows and outflows of overnight visitor expenditure are broadly balanced.
- For the overnight visitor segment, the regions of the South West, South East and Wales particularly benefit from London residents' tourism expenditure.

This chapter looks at the economic linkages between London and the rest of the UK as a result of tourism. On the supply side, the varied nature of London makes it a popular place to visit for many different social and demographic groups; while on the demand side, London residents, with their higher incomes and expenditure make a substantial contribution to the revenues of the tourism industry in the rest of the UK. We also explore the sense in which London acts as a gateway to the rest of the UK for overseas visitors, examining the role of London as a meeting place and as a visitor attraction.

The UK tourist sector

Tourism is a substantial industry in the UK. Domestic tourism in the UK generation business revenues of £58 billion a year, with £26.7 billion from 167.3 million visits of one night or more (overnight visitors) and £31.3 billion from day visits[38] (Table 7.1). Including expenditure by overseas visitors to the UK of £11.8 billion, total turnover in the UK tourist industry is nearly £70 billion a year.

[38] Day visits are defined as "leisure trips by British residents of three hours or more, which are not taken on a regular basis". These could take place between or within the same UK region.

Table 7.1: Turnover in the UK tourist sector (2002)

	Domestic overnight visitors	Domestic day visitors	Overseas visitors	Total
Visits (million)	167	1,261	24	--
Nights (million)	534	-	199	733
Expenditure (£ million)	**26,699**	**31,300**	**11,737**	**69,736**
Spend per visit (£)	£160	£25	£485	
Spend per night (£)	£50	£25	£485	

Source: UK Travel Survey (2002) and UK Day Visits Survey (1998)

This £70 billion turnover supports some 1.8 million jobs throughout the UK, of which around 350,000, or 19.4%, are generated in London (Table 7.2). Within overall tourism spending, international tourists undertake a much greater proportion of their spending in London (51.8%) than domestic tourists (11.1% for domestic overnight visits and 14.0% for leisure day visits). There is also a difference between London and the rest of the UK in terms of which elements of tourism support most jobs – London is relatively dependent on accommodation and restaurants, while the rest of the UK generates a relatively greater proportion of jobs from visitor attractions.

Spending by London residents as tourists

We estimate that London residents spent £2.9 billion during overnight visits to the rest of the UK in 2002, and £3.0 billion on day visits. This spending accounts for around 10% of the turnover of the UK tourism industry outside London, implying that London residents support some 150,000 tourism jobs in the rest of the country.

Table 7.2: Tourism-supported employment in London and the rest of the UK (2003)

		London	Rest of UK	London's share of UK
By origin of visitor	Domestic tourism	72,400	581,700	11.1%
	Day visits	116,700	716,300	14.0%
	International	159,100	148,300	51.8%
	Total	**348,200**	**1,446,300**	19.4%
By area of spend	Accommodation	65,200	205,100	24.1%
	Restaurants	87,300	341,500	20.4%
	Attractions	19,000	101,200	15.8%
	Other	176,700	798,500	18.1%
	Total	**348,200**	**1,446,300**	19.4%

Source: 'Employment Generated by Tourism in Britain', Caledonian Economics Ltd, 2003

The balance of payments in tourism

Residents in the rest of the UK also spend money as tourists in London. We estimate that there was an inflow of £2.8 billion of spending to London by overnight visitors from the rest of the country in 2002, and an inflow of £4.6 billion from day visitors. This implies that London ran a surplus of £1.6 billion a year in trade and tourism with the rest of the UK, largely as a result of spending by day visitors.

Table 7.3: The UK tourist sector (2002) Domestic and Day tourism

(£ million)	Domestic overnight visitors	Domestic day visitors	Domestic total
London inbound spend	2,818	4,617	7,435
London outbound spend	2,863	2,967	5,830
"Balance of payment"	45	-1,650	-1,605
Total spend in rest of UK	23,881	26,683	50,564
London outbound spend as % of total spend in rest of the UK	12.0%	11.1%	11.5%

Source: UK Travel Survey (2002); UK Day Visits Survey (1998); OEF estimates

The overall balance of payment figures mask differences by region (Table 7.4). The UK regions that benefit most from the exchange of tourists with London tend to be those that are popular for domestic tourism, with the South West the biggest net recipient at £323 million. In contrast, regions where London is the net recipient tend to be those that have smaller tourist economies, such as Yorkshire and Humberside, North West, Eastern and the West Midlands.

Table 7.4: Domestic overnight tourism – Regional flows to and from London

Region	London inbound spend	London outbound spend	Balance
East Midlands	£199	£162	-£38
Eastern	£294	£197	-£98
London	£132	£132	£0
North East	£109	£75	-£34
North West	£396	£282	-£114
Scotland	£290	£333	£43
South East	£387	£550	£163
South West	£243	£566	£323
Wales	£113	£222	£109
West Midlands	£275	£178	-£97
Yorks & Humber	£282	£112	-£169
Northern Ireland	£98	£55	-£42
Total (overnight visitors)	**£2,818**	**£2,863**	**£45**

Source: UK Travel Survey (2002) / OEF estimates

It is worth noting that on these estimates the South East is one of the highest net recipients of tourism expenditure vis-à-vis London. The reason for this is that London residents make around 4.2 million tourist visits per year to the region involving overnight stays while only 2.8 million visits are made in the opposite direction. Heavy commuting flows from South East to London is likely to be the main reason why inflows to London are much smaller than outflows. The 750,000 commuters who already travel into London from the South East on a daily basis will generally be familiar with London and, as a consequence, be less likely to choose it as a tourist destination. The balance of day trips is likely to be very different, however, with a large proportion of tourism from the South East to London being of that type.

London as a gateway to the UK

In addition to being both a destination for tourists from the rest of the UK and a source of tourists travelling to other regions of the country, there are important linkages between London and other parts of the UK's tourism industry as a result of the pattern of overseas visits to the UK:

- London acts as a gateway to the UK for the many overseas visitors who travel via London's airports.
- The city also acts as a draw to the UK for overseas tourists who would not otherwise come to the UK but might go on to visit other parts of the country while they are here.
- Even overseas visitors to London who do not visit other parts of the country generate benefits for the rest of the UK through their spending in London which subsequently has knock-on effects on the rest of the country, such as London's hotels and restaurants purchasing goods

and services from other parts of the UK, or wages paid to employees in the tourism industry in London who live outside the capital.

Some 49% of all overseas visitors cite 'London' as the main purpose of their trip to Britain, a figure which rises to 60% for holiday visitors (Table 7.5). This is similar to the proportion (48%) of overseas visitors who visit London (11.6 million of the annual total of 24.1 million visits). The figures for London's share of expenditure and nights by overseas visitors are 49% and 38%, respectively.

Table 7.5: Main purpose of visit to Britain (% shares)

	All	Holiday	Business	Visiting Friends	Visiting Relatives	Study
London	**49**	**60**	**26**	**21**	**6**	**18**
Family	11	7	-	9	76	1
Friends	9	7	2	63	7	1
Business	6	2	54	1	-	5
History / Culture	6	7	5	-	4	5
Learn language	3	1	1	-	-	35
Other education	3	2	-	-	1	23
Other reason	14	14	11	6	5	11
Total	100	100	100	100	100	100

Source: Survey Among Overseas Visitors to London (Summer 2002)
Note: Respondents were asked "for the single principal reason for their trip to Britain".

A proportion of overseas visitors whose main purpose in coming to the UK is to visit London will also make visits to other parts of the country, thereby creating spill-overs from London to the rest of the UK. We have found no evidence on the expenditure patterns of the 49% of visitors who cite London itself as the main purpose of visiting the city to make a robust estimate of this linkage, but taken at face value, UK tourism statistics appear to suggest that this effect is of declining importance, at least as far as visits involving overnight stays elsewhere in the UK are concerned. In 1998, 5.9% of overseas visitors recorded as staying in London, the rest of England, Scotland or Wales also stayed in another of these areas; by 2002, this figure had fallen to 2.6%, perhaps linked to the growing popularity of London per se as a destination for short-hop weekend visits as a result of the growing number of low-cost airline operators providing flights to and from the continent.

In terms of where spending is likely to occur at the city level, Box 16 shows the most popular UK cities for overseas visitors to visit. Cities such as Edinburgh and Birmingham are most likely to gain from those overseas visitors to London who subsequently move on to visit another part of the UK.

Box 16: Top UK towns and cities visited by overseas visitors

Overseas visitors to the UK are roughly split in size between London and the rest of the UK. 11.6 million visits are made to London and 12.6 million visits are made to the other regions of the UK.

However, a comparison across cities shows the dominance of London in a more striking manner. There are nearly 14 times more visitors to London than the next most popular destination (Edinburgh) and by the time the 10th position is reached (Newcastle), visits to London is some 50 times larger.

Overseas visits (000's) to the UK cities

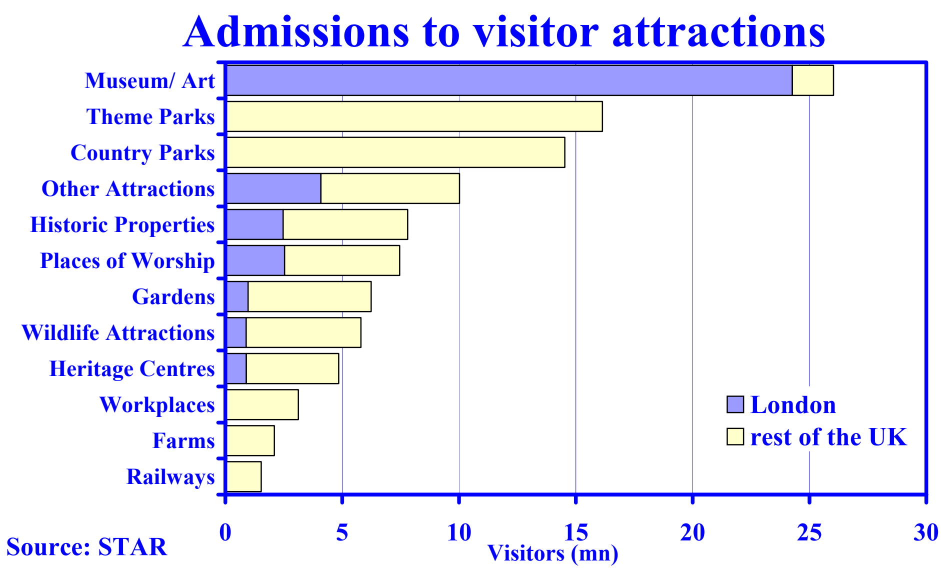
1	London	11,600	11=	Brighton	230
2	Edinburgh	850	11=	York	230
3	Birmingham	670	13=	Bath	200
4	Manchester	590	13=	Nottingham	200
5	Glasgow	400	15	Liverpool	190
6	Oxford	390	16	Inverness	180
7	Bristol	310	17	Coventry	160
8=	Cambridge	280	18=	Reading	150
8=	Cardiff	280	18=	Canterbury	150
10	Newcastle	240	20	Leeds	140

Source: 'Statistics on Tourism & Research' (STAR)

London as a visitor attraction

London stages events that would not otherwise occur in the UK, attracting international and domestic visitors to London who would not otherwise have come to the UK. The most popular type of attractions in London are museums and art galleries which, with nearly 25 million visits a year (Chart 7.1), account for 93% of all visits to museums and art galleries in the UK. London is much less important in terms of other attractions, such as theme and country parks which, for obvious reasons, tend to be located outside major centres of population.

Chart 7.1



London provides the UK with a broad-based concentration of entertainment and culture. The quality and range of theatres, museums, art galleries and visitor attractions give it a unique place within the UK. Detailed employment data by sector illustrate the extent to which London specialises in these activities compared with the rest of the UK (Table 7.6). The categories of activity that include theatres and arts facilities rank in the top twenty most specialised activities in the London economy (out of over 500 in total) – that is, in those activities where London is most different from the rest of the UK. Museums lie in the top forty, and cinemas, gambling and libraries all lie well within the top one hundred places.

Table 7.6: London's employment shares in cultural activities

Activity	London's Share of GB Employment Total 2002	Relative to London's Population Share 2002
Artistic and literary creation (includes performing live theatre)	41.7%	3.54
Operation of arts facilities (includes operation of theatres)	36.4%	2.86
Museum activities	26.8%	2.11
Gambling and betting activities	20.7%	1.63
Motion picture projection (includes cinemas)	22.3%	1.76
Botanical and zoological gardens etc	19.7%	1.55

Source: Annual Business Inquiry Employee Analysis 2002

As well as the traditional visitor attractions, London is also a very popular centre for exhibitions and conference centres. London has 11 out of 37 large indoor exhibition venues in the UK (Table 7.7), and 39% of the exhibitions held at these exhibition venues in 2002 took place in London's venues.[39] Outside London, most activity took place in the West Midlands where 208 exhibitions (25% of the UK total) took place in five venues, of which Birmingham NEC is the major direct competitor to London.

[39] Of the 823 exhibitions, 56% were trade exhibitions, 42% were public (consumer) exhibitions and 2% both trade and public. In terms of admissions, 27% were to trade exhibitions, 69% to public (consumer) exhibitions and the remainder of 4% to both trade and public.

Table 7.7: The UK conference and exhibition industry

	Number of exhibitions	Number of venues[40]
London	304	11
South East	36	3
South West	52	4
East Midlands	28	2
West Midlands	208	5
North West / Northern	45	3
Yorkshire	67	4
Scotland	73	3
Wales	9	1
N Ireland	18	1
Total	838	37

Source: UK Exhibition Facts Volume 14 – 2002, The statistical profile of the UK exhibition industry, Exhibition Venues Association

UK events covering an enormous range of business, consumer and leisure interests take place in London each year. Some are high profile such as the annual Boat Show, the Chelsea Flower Show or Wimbledon. Some are occasional, including certain Royal pageants. Some are still aspirational, such as London's bid for the Olympics. Just as importantly, there are innumerable other events, from company AGMs to trade events and conferences, which help account for some of the 3.9 million UK business visitors who spend more than a day in the capital each year (see chapter 7) and which explain why the DTI can report that London accounts for 53% of all UK jobs in conference organising and 46% of all jobs in exhibitions.[41]

Exhibition centres can have a significant impact on the economy, and direct employment is estimated to be of the order of 27,000 full-time jobs and a further 5,000 part-time jobs[42]. However, this does not capture much of the economic impact of exhibition centres. A recent economic impact study of Earls Court and Olympia estimated that 12,400 jobs were generated in London, and a further 3,400 in the rest of the UK, as a result of the activities associated with this exhibition centre alone, including off-site visitor spending (for example, on hotels, travel and food), and spending by exhibitors.

There are thus significant spillovers for the rest of the UK from activity associated with London exhibition and conference centres, and London is key for the 207,000 overseas visitors attracted each year to the UK by the exhibition industry,[43] and whose spending supports jobs throughout the economy.

[40] Permanently-covered indoor exhibition space with more than 2,000 square metres.
[41] *Business Clusters in the UK – A First Assessment,* Volume 2 Regional Annexes London
[42] Business Tourism Briefing. *An overview of the UK's Business Tourism Industry (2003).*
[43] British Tourist Authority (2001)

CHAPTER 8: LINKS BETWEEN LONDON'S HOUSING MARKET AND THE REST OF THE UK

Main points

- London includes the highest-priced local authority in the country (Kensington and Chelsea), where the average house price in the last quarter of 2003 was £690,000. Even the lowest priced borough – Barking – had an average price only slightly below the national average.

- The housing market in London is closely linked with that of the wider South East. The rates of increase in house prices between different regions of the country are similar in the longer-run. Over successive cycles, house prices have increased first in either London or the South East with other regions catching up gradually over time; the ripple takes time to reach the North.

- Migration flows may explain why house prices remain relatively similar between London and the South East. The gross population flows are very large and the housing markets are therefore closely integrated. It is more difficult to use migration as an explanation of why the North catches up.

In this chapter, the linkages between London's housing market and the rest of the country are considered. In particular, two features are highlighted: first, the relationship with neighbouring areas in the South East and, second, relative changes compared with the rest of the country. Inevitably, the patterns are tied closely to the population flows discussed in chapter 3.

Housing is the single most important asset in most households' portfolios. Although no direct estimates are available for London, estimates suggest that London accounts for around 20% of national housing wealth, even though the owner-occupied housing stock is only 12% of the total. London includes the highest-priced local authority in the country (Kensington and Chelsea), where the average house price in the last quarter of 2003 was £690,000.[44] Even the lowest priced borough – Barking - had an average price only slightly below the national average. These figures hold despite the fact that London includes the three most-deprived local authorities in the country according to the 2000 Index of Multiple Deprivation.

Since a house is an asset as well as a place to live in, the price of properties in different locations should be linked. If markets were fully efficient, the rate of return from investing in housing in London should equal the rate of return from investing in Liverpool or Newcastle. Although the evidence suggests that returns do differ in the short term,[45] the rates of increase in house prices between different regions of the country are, indeed, similar in the longer run, although the increase in London is slightly higher than in the North.

[44] Land Registry data.
[45] Transactions costs, search and information costs can all cause this to occur.

Table 8.1: House Prices by Region
(Average annual % change, 1973 Q4 - 2003 Q4)

North	Yorks & Humber	North West	East Mids	West Mids	East Anglia	Outer South East	Outer Metro	London	South West
8.9	8.5	9.2	9.3	9.2	9.2	9.5	9.6	9.9	9.7

Source: Nationwide

Table 8.1 shows the annual average percentage increases in nominal house prices since the end of 1973 in each English region, using the Nationwide index of house prices. Charts 8.1a - 8.1c show the ratio of house prices in London relative to three other regions – the South East, East Anglia and the North. Chart 8.1d brings them together. On average, prices of houses in London are 25% higher than in the Outer South East (Chart 8.1a) and, at no stage since the early seventies, has the mark-up exceeded 50%. Since London and the South East broadly correspond to an integrated labour market area with a common commuting area, the relatively small differential is, perhaps, unsurprising. By contrast, prices in London are, on average, twice as high as in the North (Chart 8.1c) and the price ratio reached three in each of the last two booms.

The graphs also illustrate an important phenomenon in spatial movements in house prices, commonly known as the 'ripple effect'. Over successive cycles, house prices have increased first in either London or the South East, with other regions catching up gradually over time.

Chart 8.1a

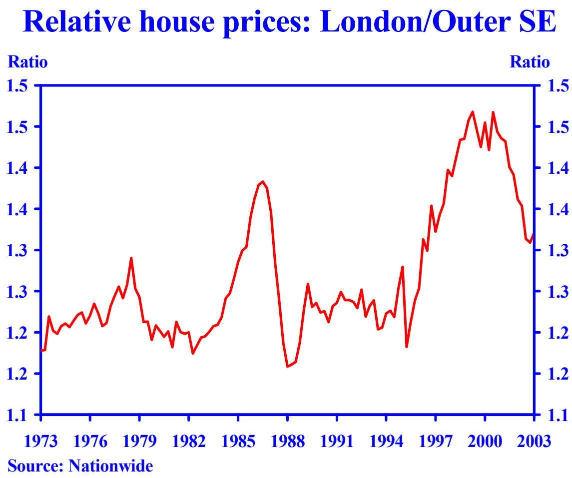


Chart 8.1b

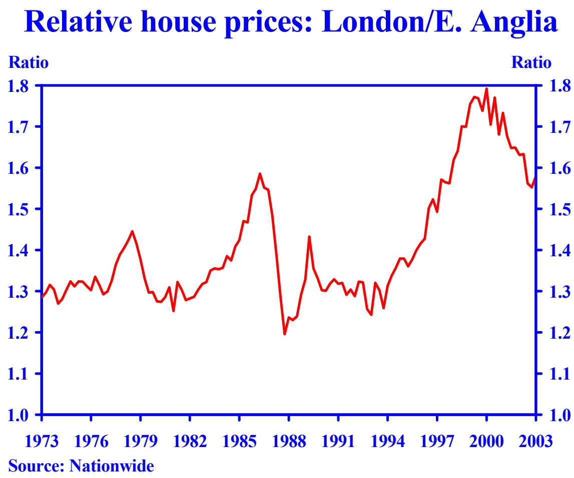
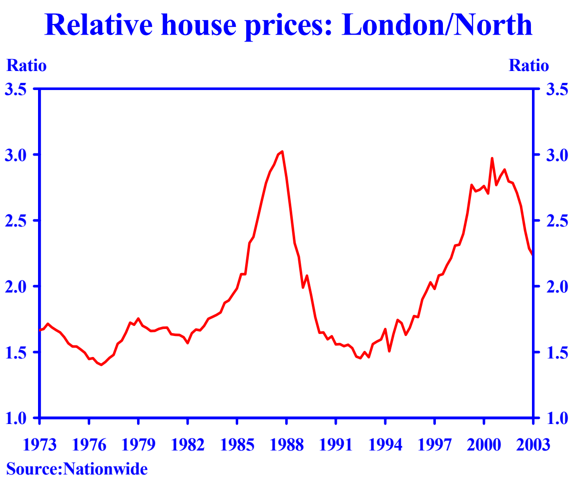
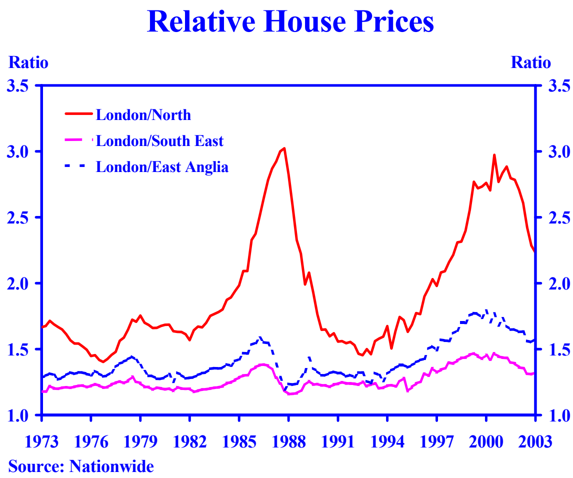


Chart 8.1c **Chart 8.1d**





The economics literature contains many examples of statistical tests of the relationships between house prices in different parts of the country.[46] Most of these studies broadly support the view that London has typically led the cycle in UK house prices - as the charts show, in boom periods house prices rise first in London or the South East, so that the ratio of house prices relative to other regions rises. This has been particularly evident in the latest boom since 1997. Furthermore, they show that in the latest boom the ripple has been more drawn out. Compared with previous cycles, it has taken longer for the North of the country to catch up. Only recently has the ratio of London house prices to those in the North begun to fall again.

However, providing convincing explanations of the mechanisms by which movements in London house prices 'ripple' through to other regions of the country is not straightforward. An obvious candidate is through migration. Chapter 3 discusses migration patterns and showed that, broadly, migration is characterised by North-South migration by young, high-skilled individuals towards the attractive London job market and a net outward shift of the older population from London towards the rest of the south. Typically, however, migration patterns are not reversed back towards the North. These flows may be able to explain the very close relationship between movements in house prices in London and the South East. The gross population flows between the two regions are very large and therefore the housing markets are closely integrated, but it is more difficult to use migration as an explanation of why the North catches up, given the much smaller population flows between it and London.

[46] Meen G and M Andrew (1998), *Modelling Regional House Prices: A Review of the Literature*, Report prepared for DTLR.

It may be, however, that the ripple effect partly occurs through equity transfer between regions. As was shown in Table 3.5, in 2002, London had the highest average level of equity release at £133,500, followed by the South East with £76,641. This suggests that, if a household moves from London to another area, it will have a very high level of equity to be transferred to another property. This will, in turn, increase demand in those areas and bid up prices. Eventually the effect will be spread over the country and the impact can be greater than will be evident from the population flows themselves.

An alternative argument is that the ripple effect simply reflects differential developments in regional economies rather than a direct link between the London housing market and those of the rest of the UK. House prices are very sensitive to income changes. As a guide, a 1% increase in income leads to an increase in house prices of more than 2%. Therefore, if incomes in London rise in a general economic boom before those in the North, its house prices still tend to rise faster as well. If London's economic cycle then turns down before that in the North, however, this will lead to a relative slowdown in prices, allowing the North to catch up.

Similarly, the ripple effect may be generated as a result of the different levels of debt gearing across regions. As Table 8.2 shows, although loan-to-value ratios are similar between London and the North, both for first-time buyers and moving existing owner-occupiers, the loan-to-income ratios differ considerably. In both London and the South East, loan-to-income ratios are markedly higher. This indicates that home-owners in London and the South East are potentially in a riskier position than households in the North if there is an unexpected increase in interest rates or a fall in income. A common change in mortgage interest rates across the country will not have the same impact. Consequently, it might be expected that housing demand and house prices will react more quickly to changes in interest rates in London and the South East. Furthermore, the continuing environment of low interest rates will be more beneficial to London home-owners and, potentially, explains why relative prices have remained higher and for longer than in earlier cycles.

Table 8.2: Mortgage Debt Gearing

	Existing Owner-Occupiers		First-Time Buyers	
	Loan to Value	**Loan to Income**	**Loan to Value**	**Loan to Income**
North	66%	2.32	80%	2.33
London	64%	2.52	76%	2.92
South East	58%	2.64	76%	2.97

Source: CML

One other avenue through which the London economy can impact on the general level of house prices elsewhere is through ownership of second homes. Relatively little work has been done on the significance of this link, due to data limitations. We have some idea from the Census, for example, of how prevalent second homes are in different parts of the country (Table 8.3), but the source does not identify the primary region of residence of the owners of these second homes. It is likely that Londoners provide a substantial proportion of the demand for second homes, but even in the regions where these are most common they account for less than one in fifty homes. The effect is likely to be strongest in the South West, where 1.8% of homes are second homes or holiday accommodation, followed by Wales at 1.2%, and weaker in the midlands and the north.

Table 8.3: Second homes by region

Area	**% of second homes**[47]
East Midlands	0.3%
East	0.8%
London	0.5%
North East	0.4%
North West	0.4%
South East	0.7%
South West	1.8%
West Midlands	0.3%
Yorkshire & the Humber	0.5%
England	**0.6%**
Wales	1.2%

Source: ONS Neighbourhood statistics (Census)

It is sometimes argued that the North/South divide and, in particular, the disparity in house prices between the two causes interest rates to be set at a level that is inappropriate, i.e. too high, for the North, and that this in turn depresses the northern economy relative to the South. The argument is that if house prices are rising rapidly in London and the South East, the Bank of England will raise interest rates even if the North is not booming. This argument ignores our earlier indicators that, over the long run, prices in the North and South rise at similar rates, although there is an issue over timing. As we have seen, under the ripple effect, prices in London typically rise before those in the North.

However, the Governor of the Bank of England, Mervyn King, has stated very clearly that this is not how the Monetary Policy Committee of the Bank of England operates. House prices are only one of an enormous range of indicators that the MPC takes into account, covering approximately one thousand variables. This is because the MPC is charged with achieving a general inflation target, not a target for house prices. Mr King states unequivocally:

[47] % of 'household spaces' that were unoccupied in the Census and classified as second residences/holiday accommodation.

> In recent months interest rates have risen. Some commentators claim that this was simply because of concerns about rising house prices, or more particularly because of the state of the housing market in the south east of England. Nothing could be further from the truth.[48]

In conclusion, there is little doubt that housing markets in London and the South East are closely allied. Since they constitute an integrated labour market area with good commuting linkages, this is unsurprising. Linkages between London and the rest of the country are slightly more tenuous. The interrelationships occur primarily through conditions in the broader regional economies and from differences in credit conditions.

From this, we cannot argue that house prices outside London are "too high". London does not, in itself, cause prices to be excessive elsewhere. House prices in all markets, whether national, regional or local reflect the underlying conditions of demand and supply. Indeed, it could be argued that population drift from the North to the South, particularly amongst the most skilled, would reduce prices in the North relative to the South. The more general point is that prices in the North reflect the pressure of demand (and supply shortages) in that particular market. Prices will rise according to the growth in the northern economy, the level of interest rates, and demographic trends for example. There is no automatic mechanism whereby price increases in London lead to excessive prices in the North.

[48] *Roof* (the magazine of *Shelter*), March/April 2000 p. 48

CHAPTER 9: CONCLUSIONS

This report has described the diverse linkages between London and the rest of the UK economy. These include:

Direct employment links - As London companies employ workers who live elsewhere in the UK and commute into the capital on a regular basis, or in back-office and/or customer support facilities in the regions that assist their London operations.

Trade links - As household, companies and government departments based in London buy goods and services from companies elsewhere in the UK, or London companies sell to customers in the rest of the country. London is particularly important as a supplier of key specialist services and as the UK's central market place and regulatory centre.

Financial links - As London's capital markets provide access to funding for companies throughout the UK.

Tourism links - As London residents take holidays or day trips to the rest of the UK, and those living in the UK visit London's attractions. London also attracts foreign visitors who might otherwise not come to the UK.

Housing links - There is a close relationship between house prices in London and the rest of South East of England, although it is less clear that there is a direct link between house prices in London and those in the North of the country.

It is not possible to quantify all of these linkages in terms of an overall contribution of London to the rest of the UK economy. Furthermore, the benefits of these linkages flow both ways – they are good both for the rest of the UK and good for London. In particular, the interactions between London and the rest of the country allow resources – labour and capital – to be allocated where they can be most efficient.

Concerns are sometimes raised that London denudes the rest of the UK of talent and capital that undermines regional development. However, most of the growth in London's population over the last decade has been through international rather than national immigration, while the city acts as a key training centre for the UK, with many young people starting their careers in the capital and then moving out to the regions once they have gained skills and experience. Moreover, there are a number of high value-added activities that would not take place in the UK if it were not for London. While there are substantial financial services clusters in Edinburgh, Manchester and Leeds, it is New York, Tokyo and Frankfurt that are the main competitors for the City's international banking services, rather than the other regions of the UK.

Many of the linkages between London and the rest of the UK reflect the city's role as the nation's capital and principal seat of government. However, London's position as a World City and a major global financial centre offers the UK benefits beyond those of most capital cities in Europe. London is the location of choice for the European headquarters of many international companies, and it is likely to have played an important role in enabling the UK to attract substantial inward investment and inflows of highly skilled international workers.

There are some questions around the links between London's economy and the rest of the UK that we have not been able to answer in this study. It is clear that London plays a key role as a growth pole for the UK as a whole, but what are the implications of constraints on London's growth for the rest of the country – say from labour shortages, aggravated by the availability of affordable housing and the capacity of the transport infrastructure? To some extent, lost opportunities for London will spill over into other parts of the UK, but significant opportunities for the UK as a whole may be lost to other international centres, which in time could weaken the UK economy's dynamism and long-term growth potential. How big is this potential loss if constraints on London are not eased? Without robust answers to this question, policy and investment decisions risk being made in a void.

The routes by which London's unique characteristics might interact with the rest of the country to influence developments in terms of productivity and competitiveness can be listed. However, we know little about which are the key linkages and how policy might be tailored to ensure that the rest of the UK gains most from the possibilities that London creates.

There is always a desire for more and better data. Chapter 2 presents some OEF estimates of trade linkages between London and the rest of the UK. Trade is a key linkage between the regions of the UK, yet there are no official data available on how the individual regions interact with each other. Even a snapshot via regional input-output data would give a better understanding of the dynamics of London's economy with the rest of the UK, and much else besides.

The relationship between London and the rest of the UK is an evolving story, important to both parties. Understanding the (changing) dynamics of the process will be important to framing public policy and initiatives, and informing private sector investment and business decisions alike.

The Corporation of London

The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the Corporation of London provides.

Older than Parliament itself, the Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and around it.

The Corporation, however, never loses sight of its primary role – the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility – and it seeks to perpetuate the City's position as a global business leader into the new century.

CORPORATION OF LONDON