

An Economic Development Plan for London

LONDON
ENTERPRISE PANEL

London First

Discussion Document
June 2014

Our goal is an economic development plan for London that is robust, ambitious and leads to change

- **A robust fact base and framework** to guide policy and investment choices for London
- **Ambitious, achievable priorities** for London's future that helps the city maximise its economic potential in a changing world
- **Strong support and consensus** among the broad range of business and political leaders who will champion and deliver the plan



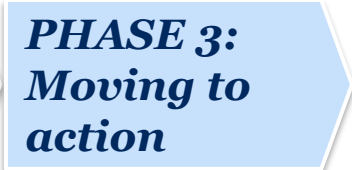
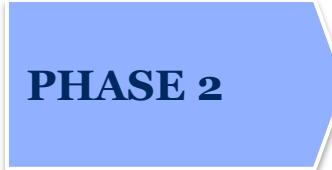
With a focus on jobs and GVA growth for London 2036



- In the context of London Plan population projections we seek to maximise
 - **2036 GVA**
 - **2036 Jobs** (recognising that this will be a mix of higher-, middle- and lower-income jobs)
 - **Economic resilience** (e.g., diversity of sectors, competitive strength)

- We will be aiming for a set of actions that **achieve these goals in tandem**, with some that will be more jobs-focused, and others more GVA-focused
- Inputs including infrastructure, quality of life etc. will be **valued for the contribution they make** to these goals
- The economic development plan is **one piece of a wider puzzle**
 - The focus of this work will be on identifying actions to drive jobs and growth
 - There are broader goals for London (e.g., social, environmental) that are addressed by other bodies and strategies
 - The Mayor and GLA will need to integrate these in creating the overall strategy for London

The timeline is designed to lead to publication at the end of 2014



- Phase 1 actions**
- Build the factbase across 5 lenses for London
 - Complete and integrate feedback from first round of engagement with over 150 of London's leaders
 - Hold up for potential answers for London
 - Create interim report for further testing

- Phase 2 actions**
- Integrate feedback from stakeholder events held over the summer
 - Finalise themes and priorities for London
 - Produce final report for publications
 - Prepare launch event

We have consulted a wide range of stakeholders across business, the public sector and academia



Public sector and infrastructure



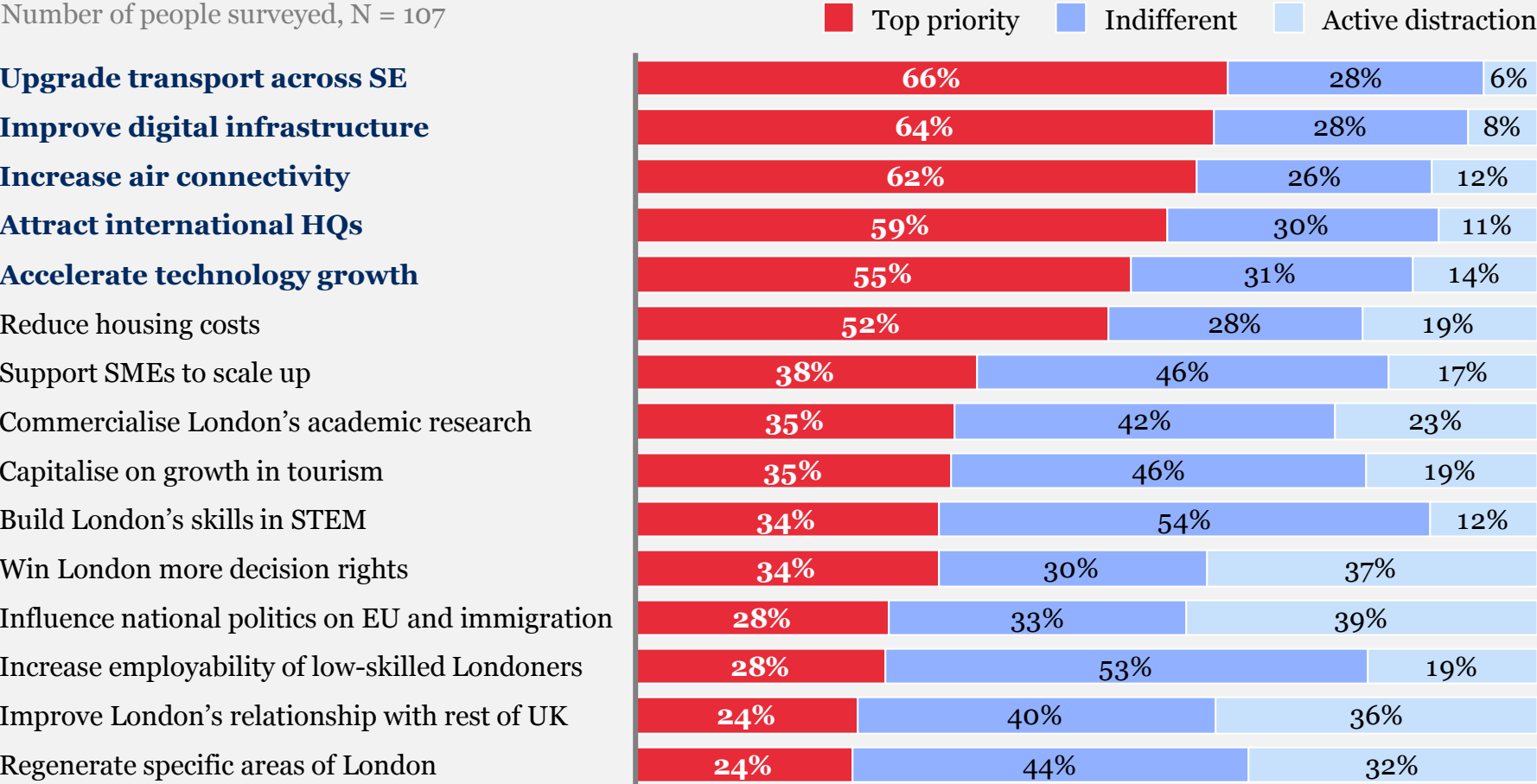
Social sector and academia



For these stakeholders, connectivity and technology were amongst the top priorities

Output from card sort exercise

Number of people surveyed, N = 107



SOURCE: At our breakfast and dinner events, we asked stakeholders to prioritise the above list of issues into three categories: issues London needs to make a top priority; issues London can afford to be indifferent about; issues that are an active distraction to London

We have used five lenses to look at London's strengths and weaknesses

- London's recent growth has been highly dependent on the City – sustaining growth may require new engines
- Post-crisis growth is coming from tourism and entertainment and creativity and technology

- Compared to international peers, London has been indecisive in driving major infrastructure projects
- To capture future GVA growth opportunities, international connectivity and digital infrastructure will be critical
- From a jobs perspective housing costs are a key issue for low income jobs in particular

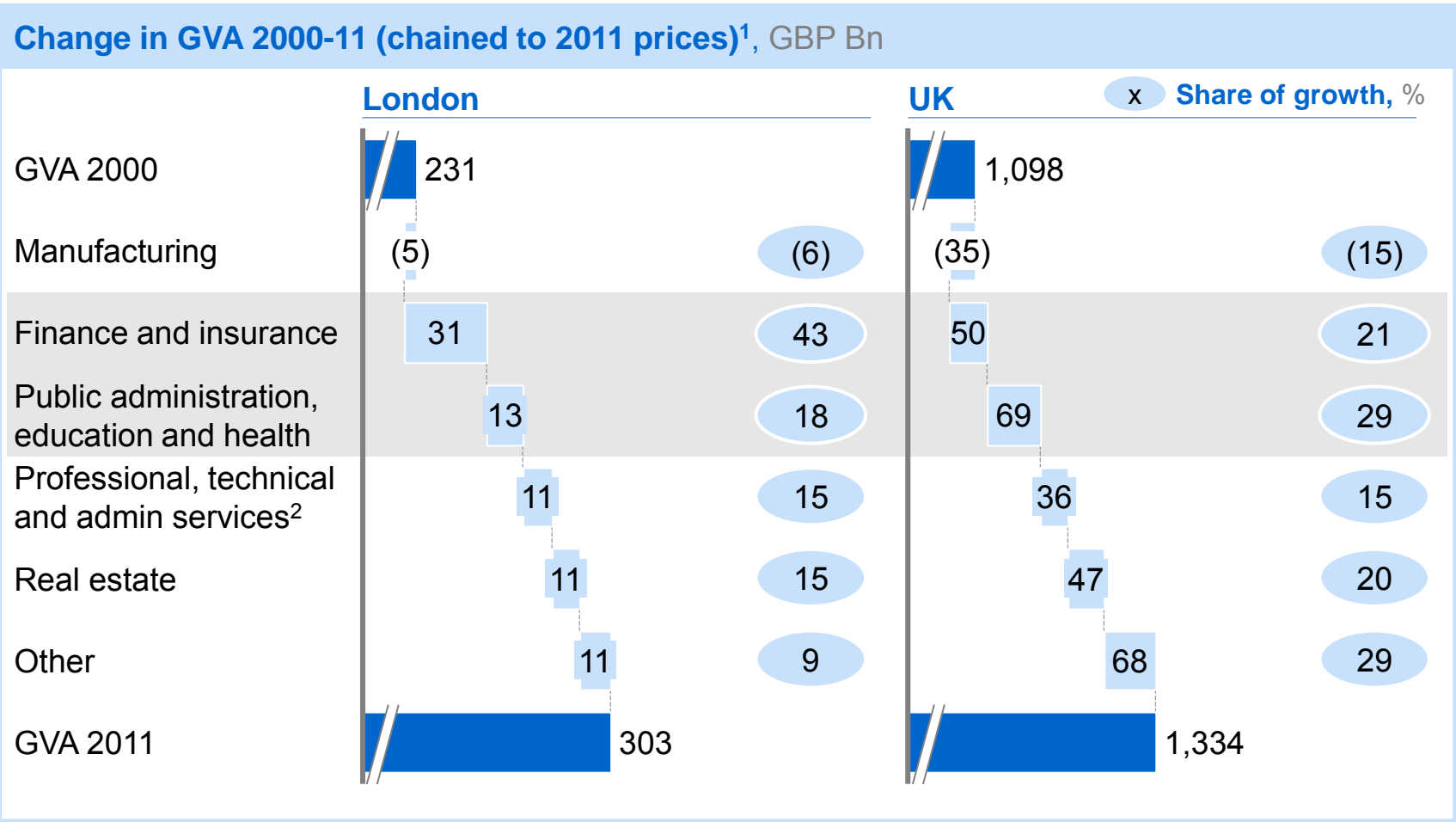
- London has a higher proportion of graduates than any other city and is well placed to compete in a world where high-skills jobs are growing
- However, lower-skilled workers are not benefiting strongly from London's growth today risk being further squeezed



- London has a world leading position as a business-friendly city attracting international subsidiaries
- However, London faces potential threats from the national policy environment, particularly if the gap with other UK cities widens

- London has an exceptionally strong position in academic research which it commercialises increasingly well
- The entrepreneurial scene is also strong but faces strong competition from the US as companies scale up

Almost half of London's GVA growth since 2000 was driven by financial services

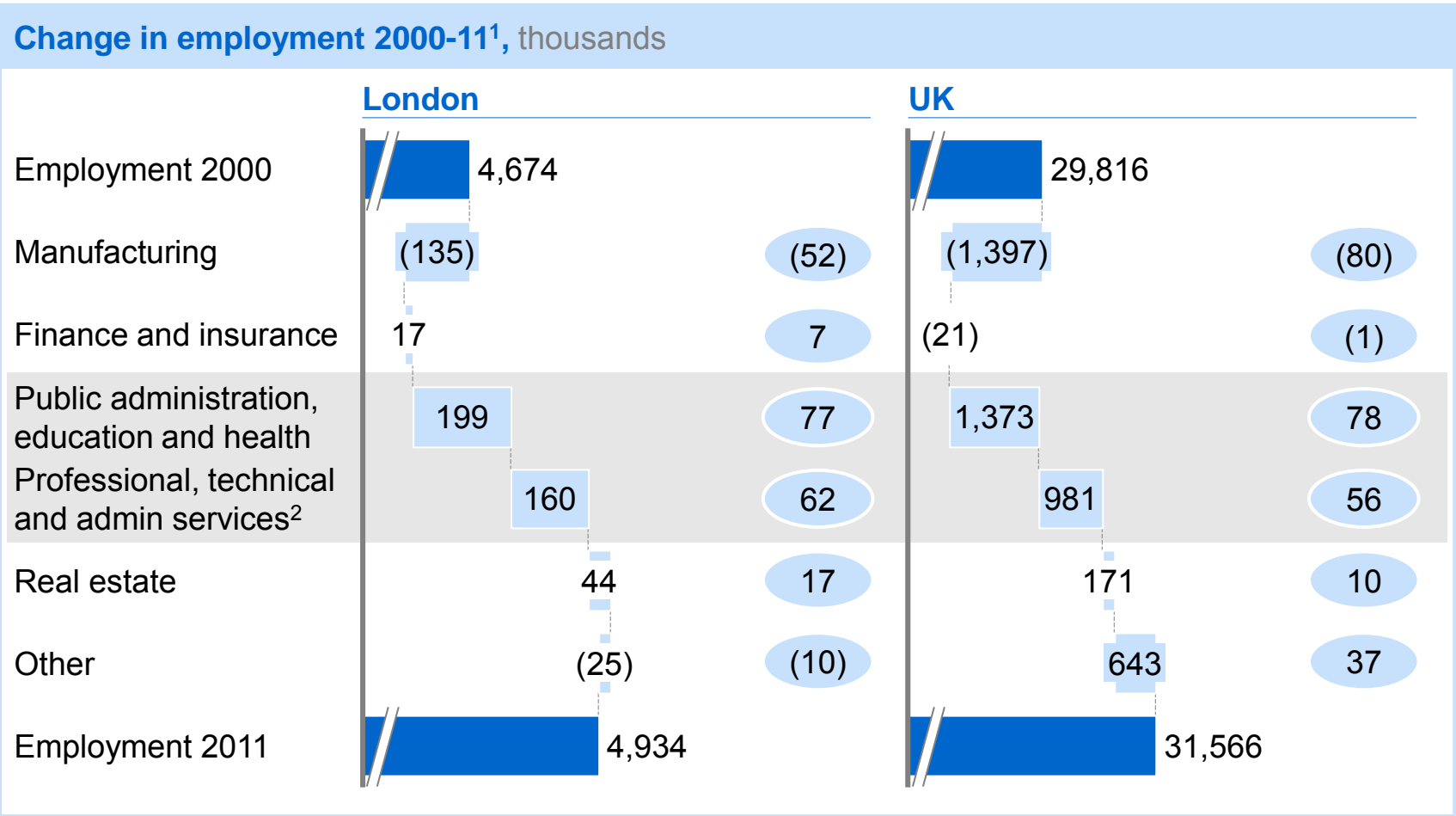


¹ GVA chained to 2011 prices (country level deflator used). Based on workplace methodology for allocating to regions. "London" defined as per NUTS 1, includes greater London. Industry classification based on SIC 2007

² Includes professional, scientific and technical activities and administrative and support service activities

Jobs growth was historically generated by business services

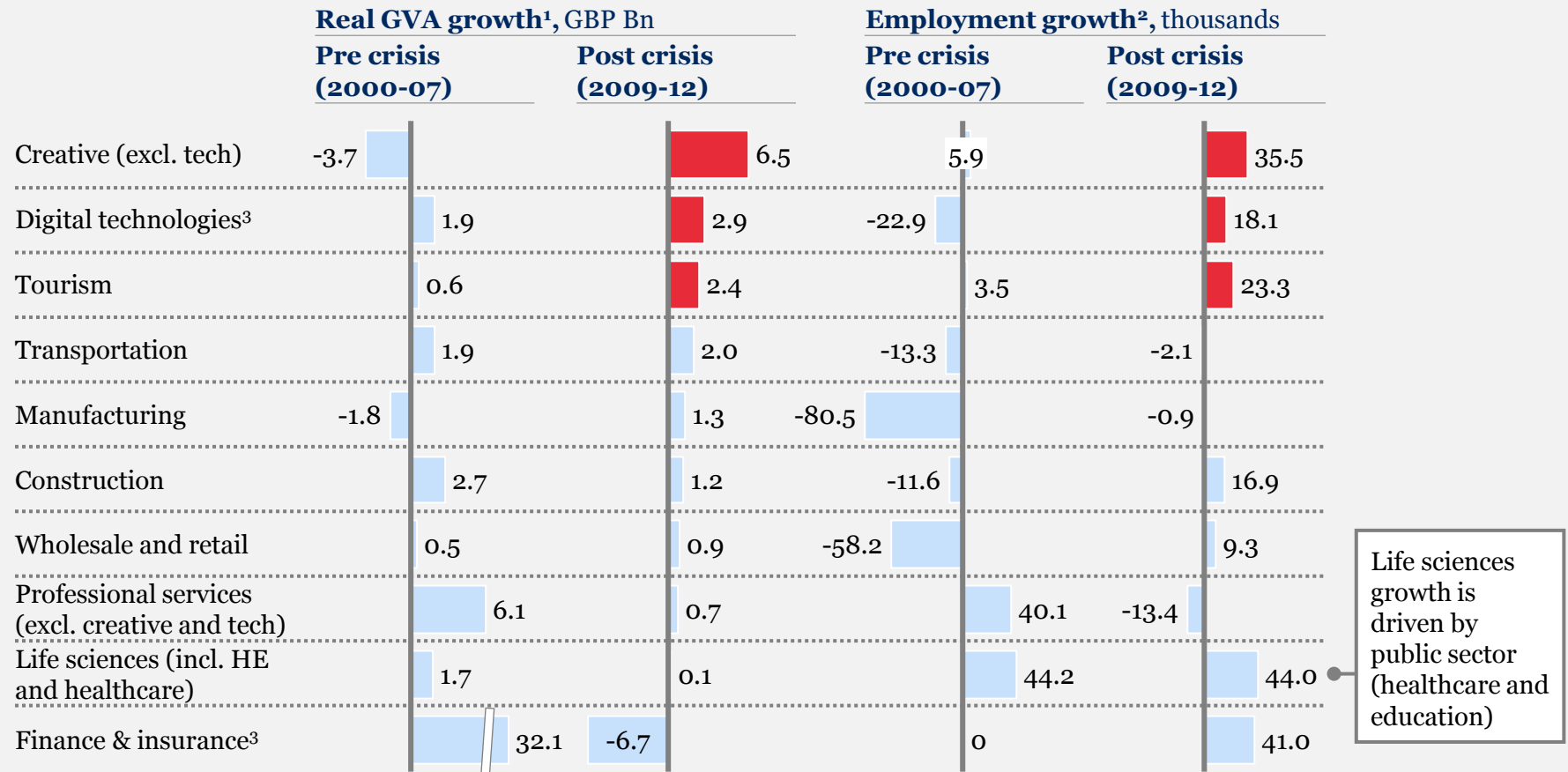
x Share of growth, %



¹ "London" defined as per NUTS 1, includes greater London. Industry classification based on SIC 2007; 2011 employment for London consists of: 1.1m in distribution, transport, accommodation and food, 1.1m in business services, 1.1m in public admin, education and health, 400k in information and communication, 400k in finance and insurance, 300k in construction and 600k in other ² Includes professional, scientific and technical activities and administrative and support service activities – for London, 91% of growth driven by professional, scientific and technical activities

Post the crisis, the emerging growth platforms seem to be creative, tech and tourism

Breakdown of London's growth

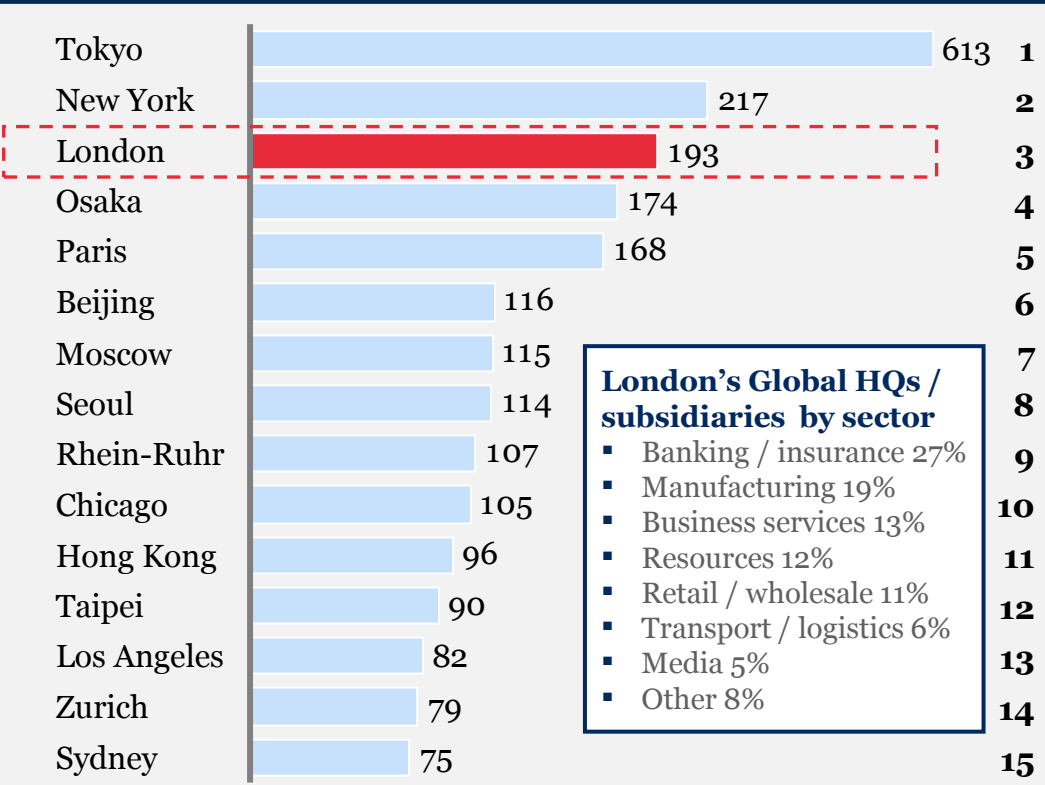


1 Chained to 2011 prices. Based on the Annual Business Survey, scaled to London according to employment, considering also relative productivity (adjusted at the BIC level based on ONS regional GVA data). Regional productivity data only available to 2011, so 2012 assumed to be same as 2011
 2 Employment is workplace based, and excludes sole traders and entrepreneurs, except for financial services and real estate
 3 Data based on WFJ from ONS, and only available to 2011

London attracts more foreign subsidiaries than any other city in the world

Top cities globally 2010

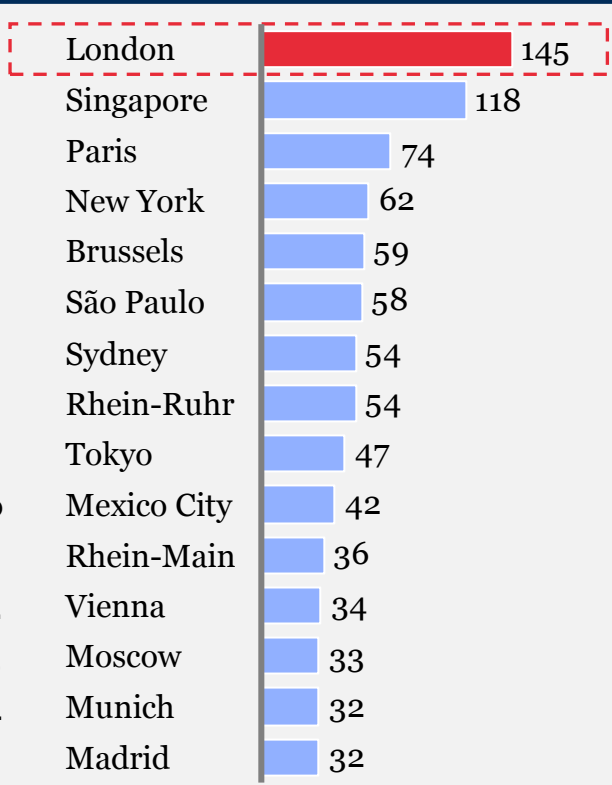
Global Head quarters²



London's Global HQs / subsidiaries by sector

- Banking / insurance 27%
- Manufacturing 19%
- Business services 13%
- Resources 12%
- Retail / wholesale 11%
- Transport / logistics 6%
- Media 5%
- Other 8%

Foreign subsidiaries



Other 380 cities 1,667

Total 4,011

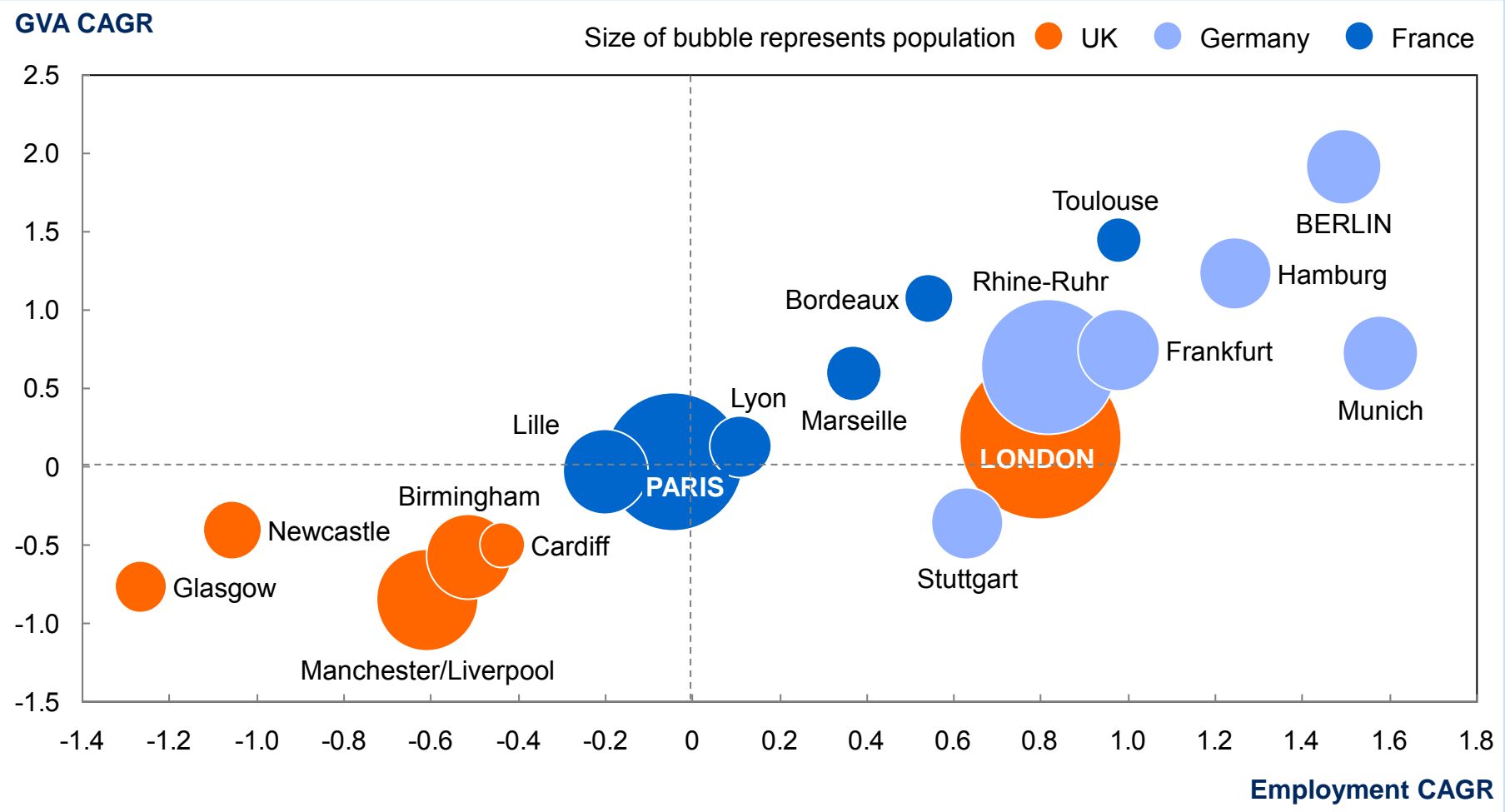
Other 150 cities 218

Total 1,376

² Companies with revenue of \$1 billion or more in 2010 or closest available year.

The economic gap between London and other UK cities is growing

GVA and employment growth among European cities, 2007 to 2012, %



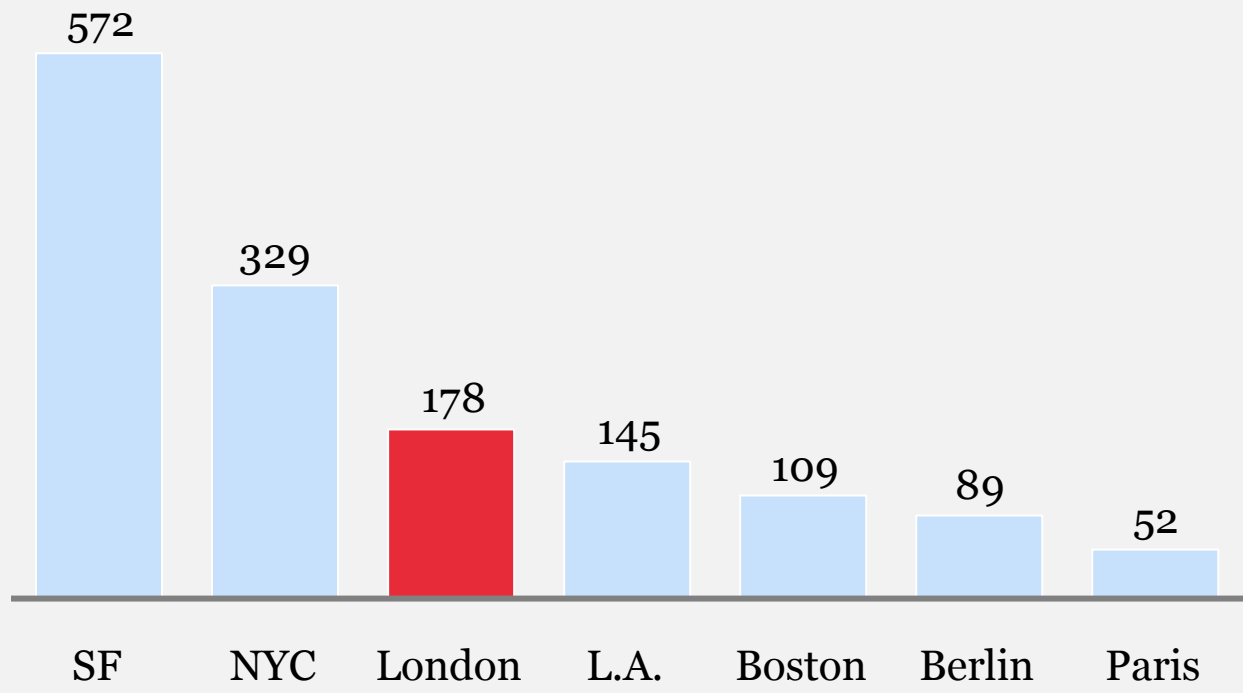
1 Metropolitan regions based on NUTS3 data and on the spatial analysis of ESPON'S (2007) Study on Urban Functions

London has emerged as the tech innovation hub of Europe, lagging only New York and Silicon Valley

Seed funding in London and peer cities

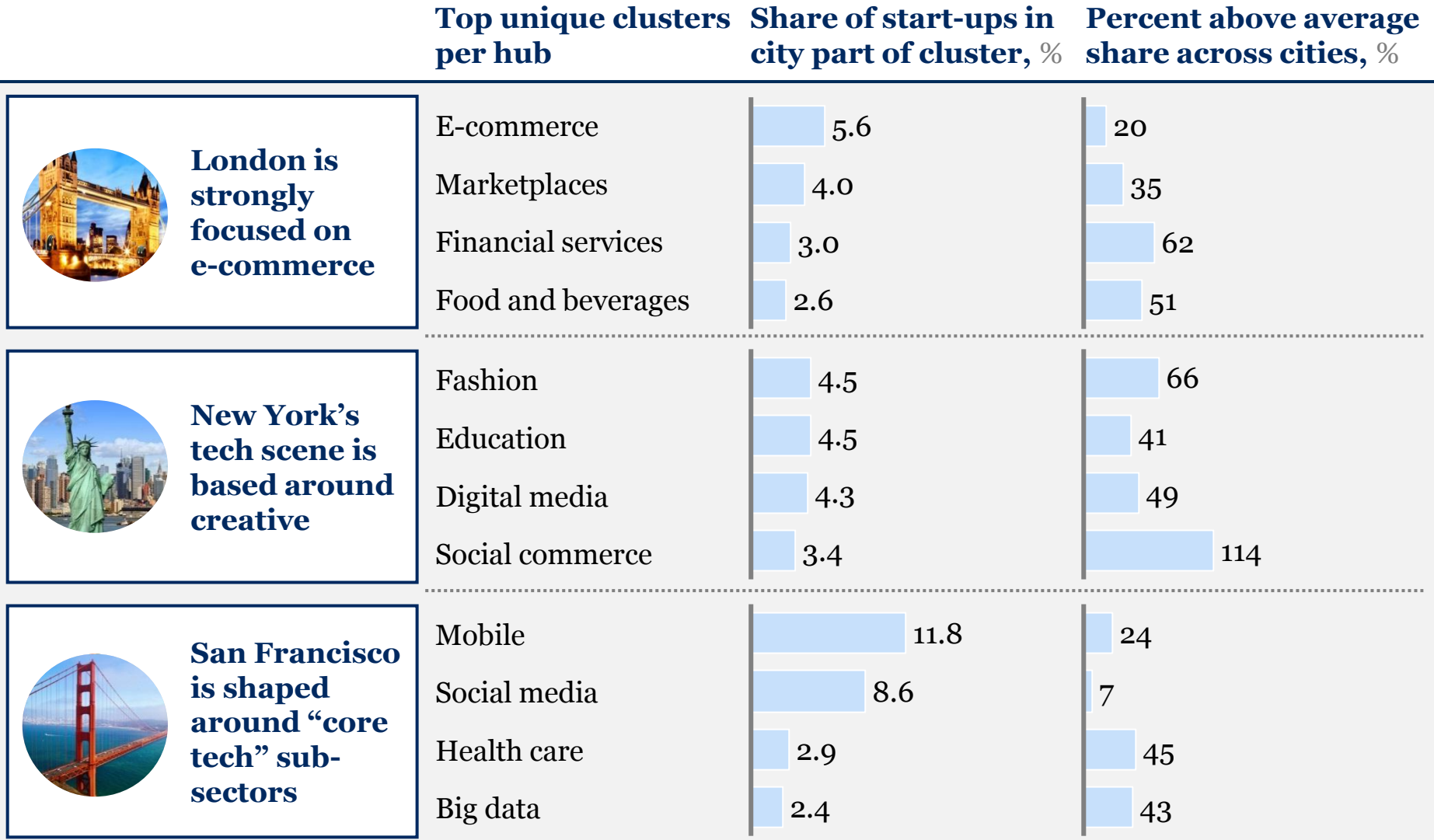
Seed investments per location of target

Deal volume, 2011-13



- Entrepreneurial activity per city is difficult to accurately benchmark, and seed funding does not show the full picture
- For example, the number of new businesses are hard to compare due to differences definitions and regulations of new businesses

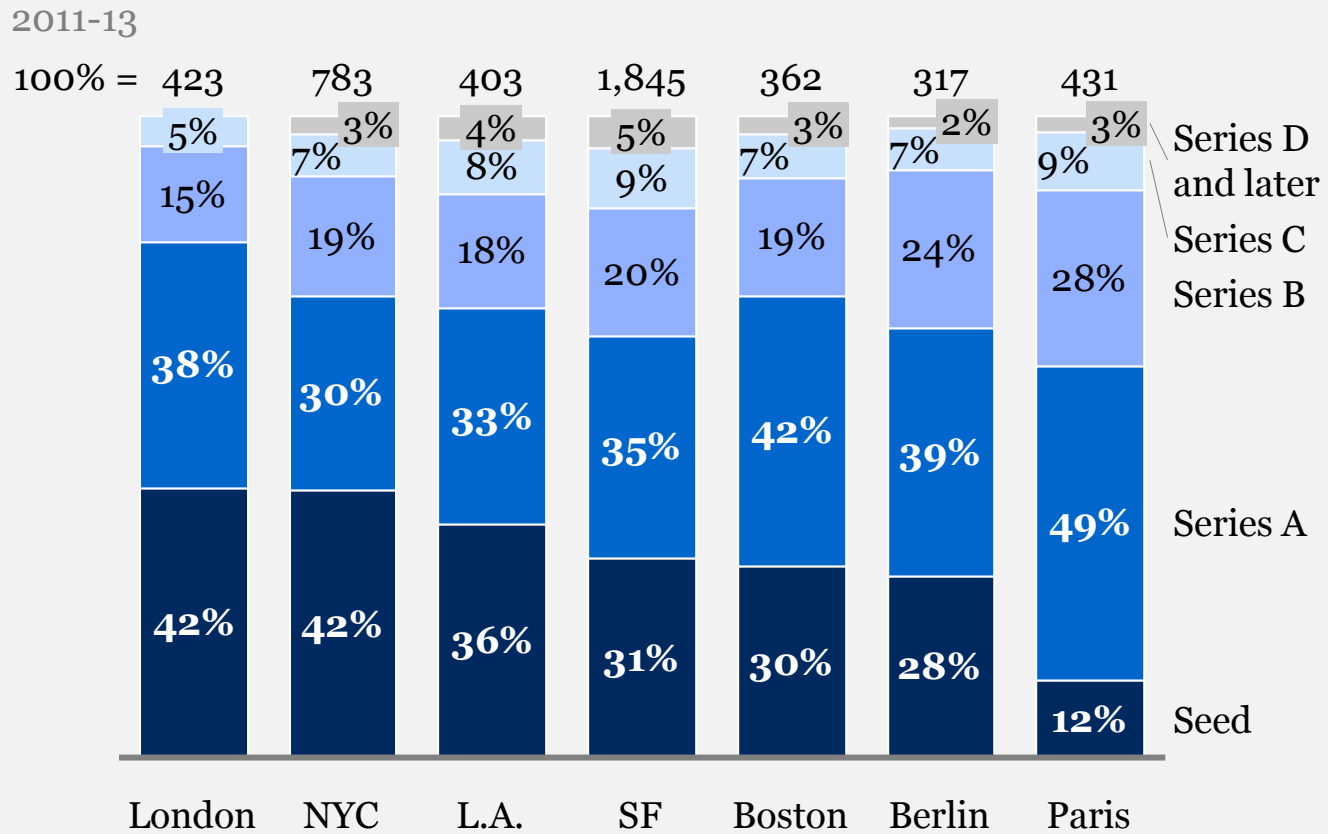
London has particular strengths in tech businesses that are strongly connected to the wider economy



SOURCE: SocialGenomics; Angellist; team analysis

However, VC data suggests London's tech scene is still focused on early stage companies

Number of VC deals by location of target¹



Potential drivers

- Start-ups can achieve higher valuations in US than UK?
- The VC network is larger and more established in US, and mentors are able to add more value?
- Start-ups can access more customers in US than in UK?

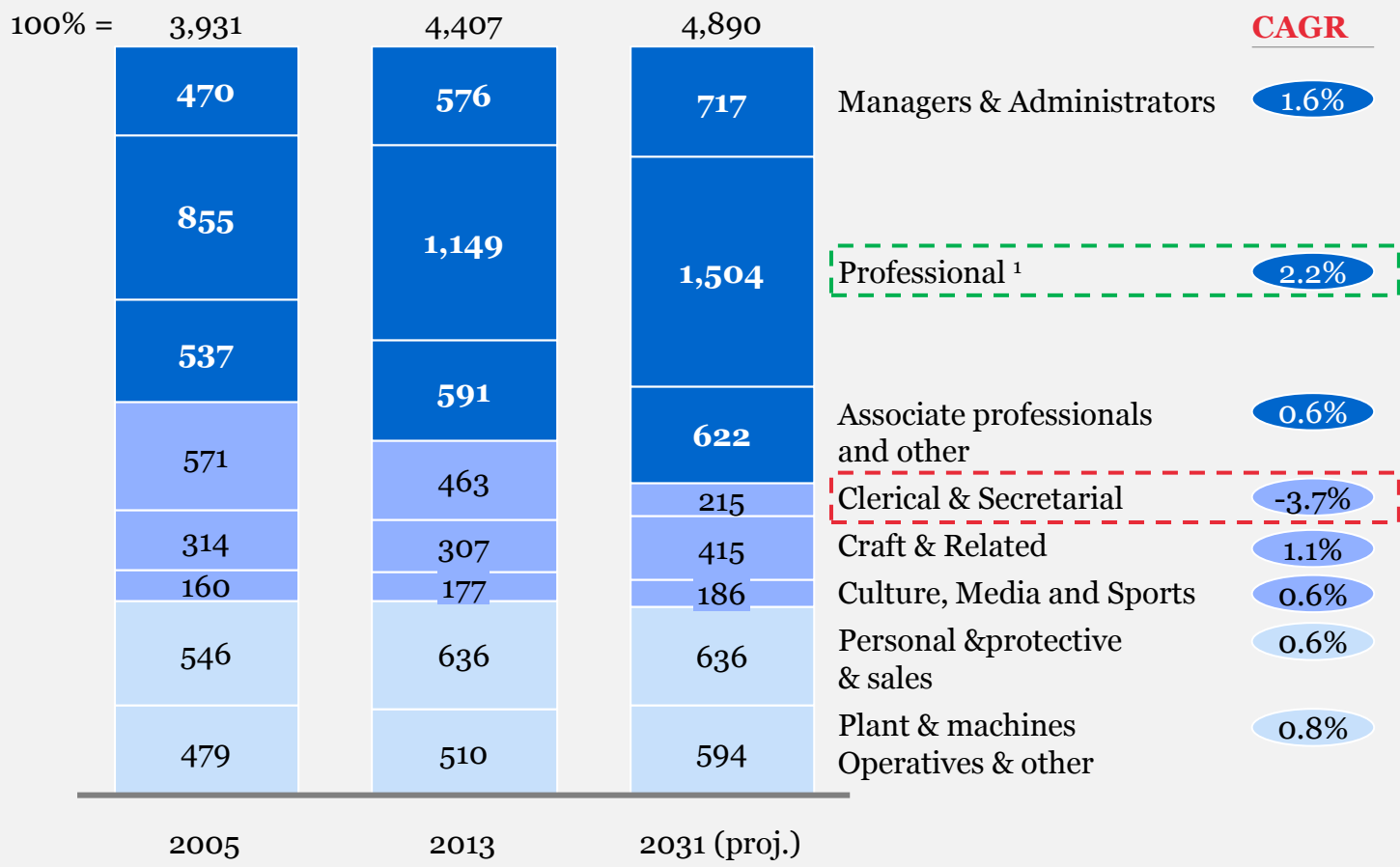
¹ Totals include all announced VC deals, but breakdown includes only deals where funding round is disclosed, representing between 36% and 70% of total deals

High-skill jobs are growing while lower-skill jobs are under pressure

Thousands Employees

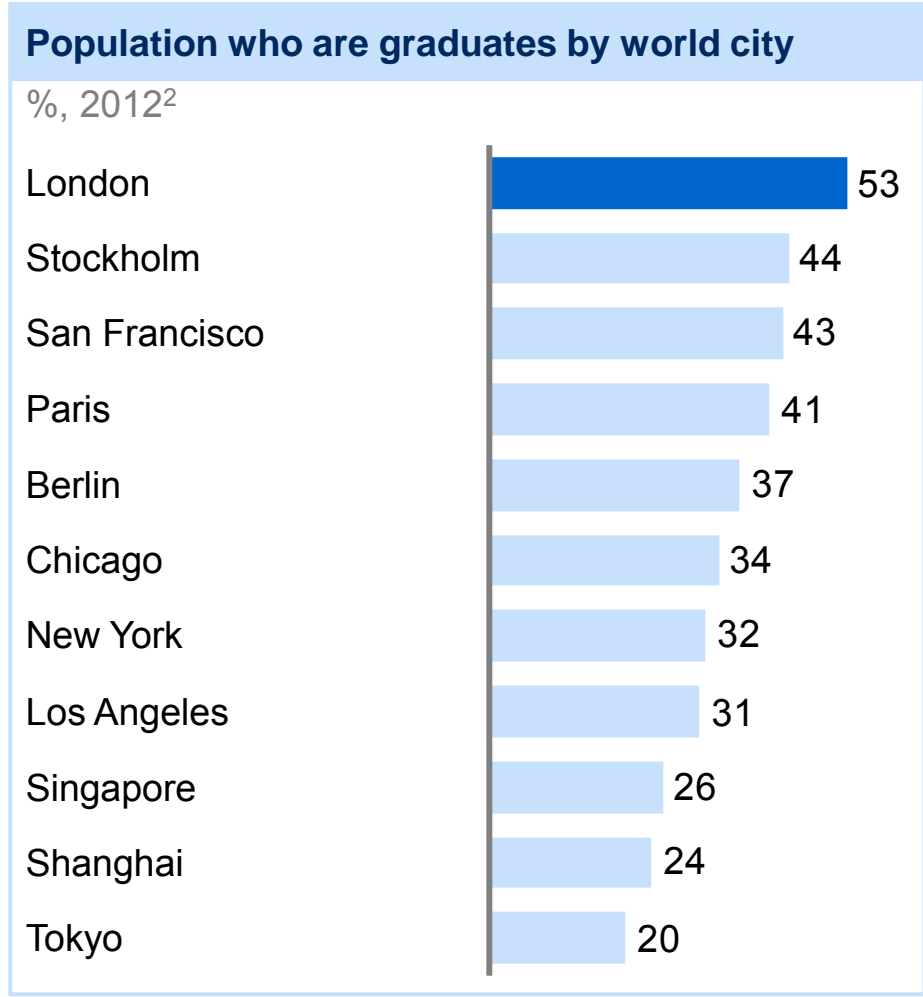
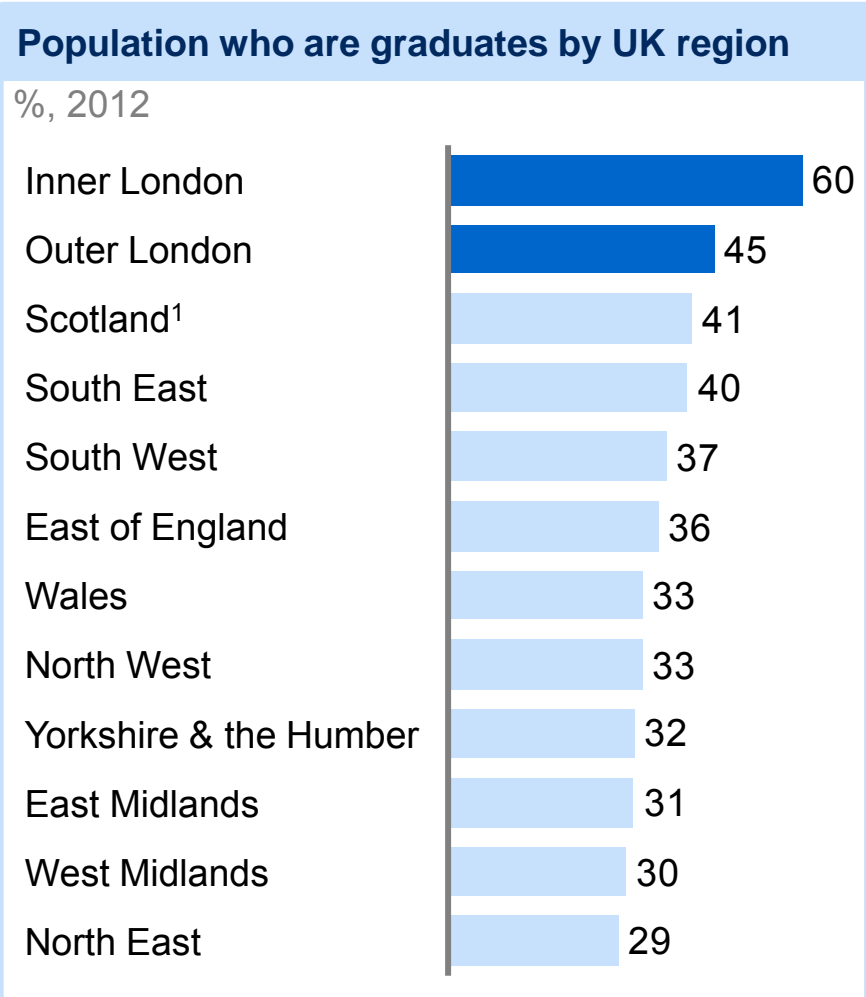
Low skilled Medium skilled High skilled

Employees in London by occupation over time



¹ Most occupations in this major group will require a degree or equivalent qualification, with some occupations requiring postgraduate qualifications and/or a formal period of experience-related training.

London has a very highly-skilled population with the highest percentage of graduates of any major city



1 Source only looks at those above the age of 21, as some graduates living in Scotland can gain a graduate level qualification by the age of 20 thus may be slightly understated

2 Most recent data source used, see below for exact year

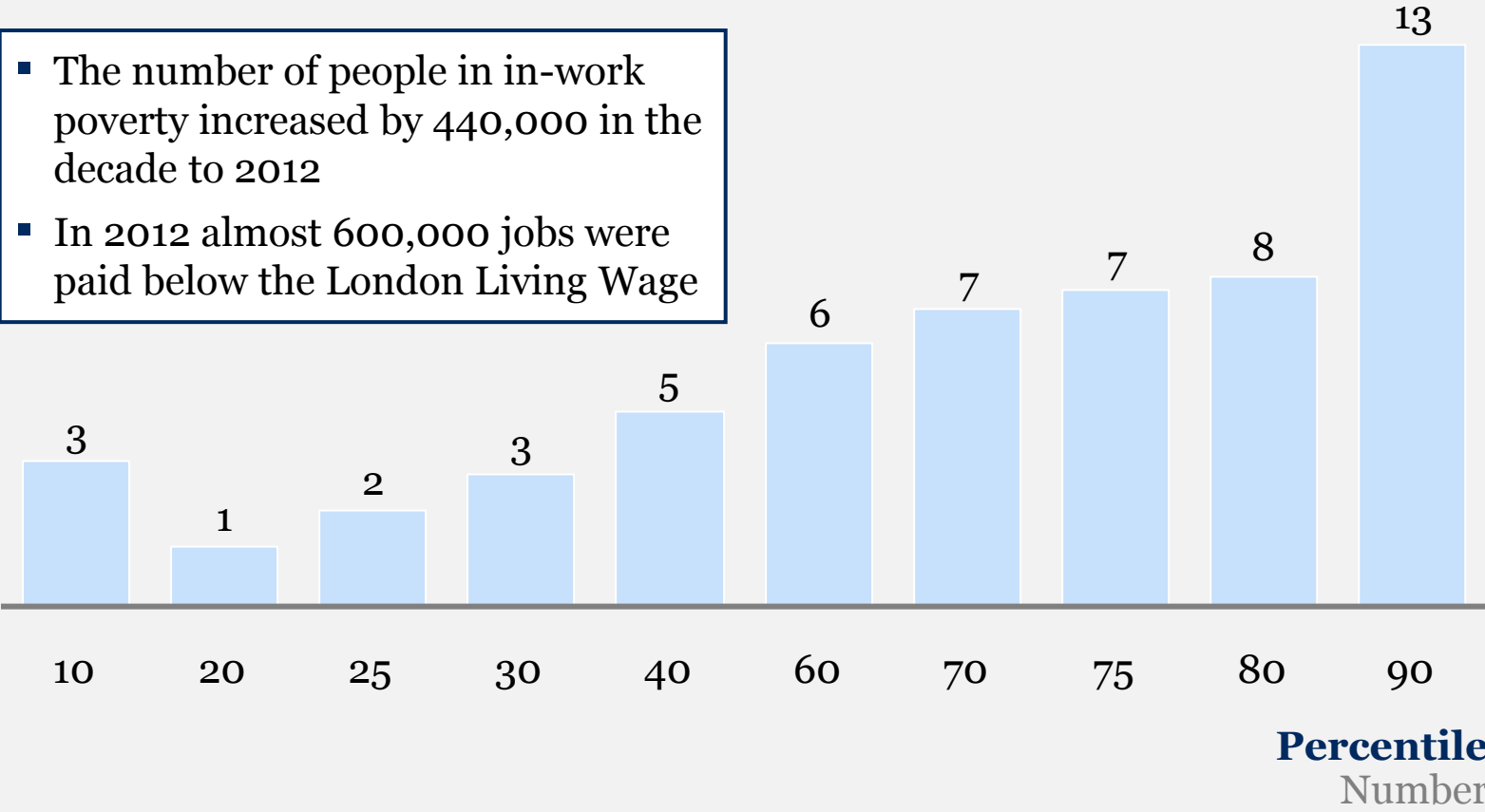
SOURCE: Annual Population Survey person datasets ONS (2013), Eurostat (2012), US census data (2010), Moody's Analytics (2011), Japan's National Census (2010), CEIC (2010), Singapore statistics Population Trends (2012)

Low skilled workers have not benefitted significantly from London's economic growth

Overall change in salary of employed Londoners over 13 years, by wage percentile, %, 2000 - 2013

Percentage change in real gross salary by percentile¹

- The number of people in in-work poverty increased by 440,000 in the decade to 2012
- In 2012 almost 600,000 jobs were paid below the London Living Wage

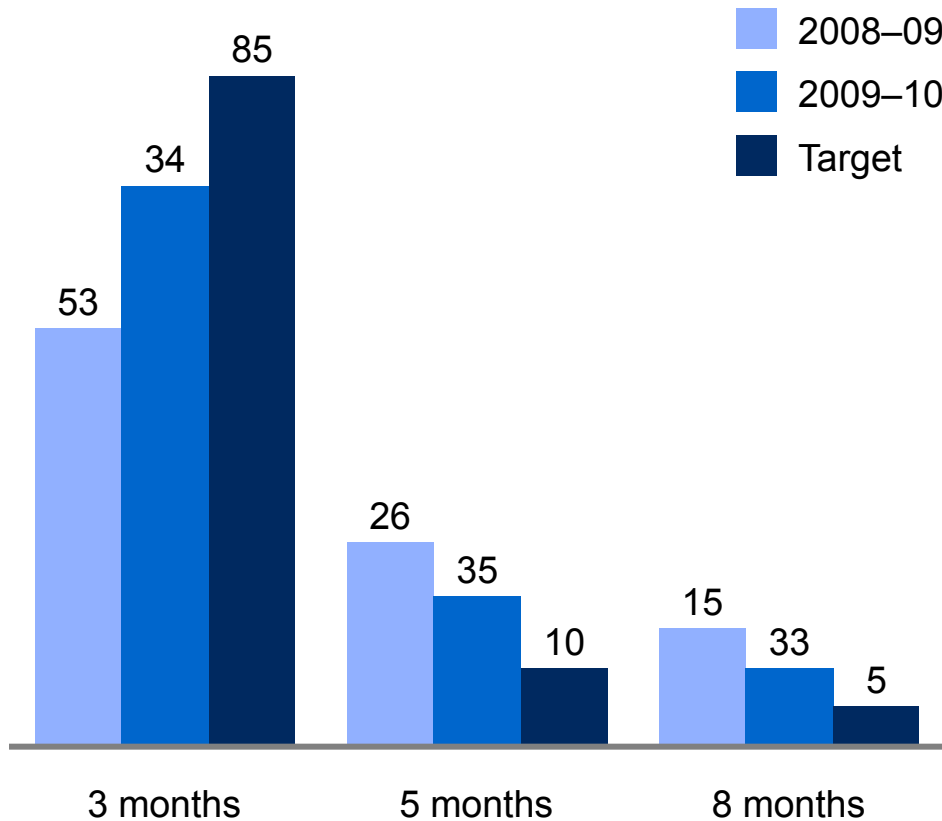


¹ Percentage change in wages over total period, based on Greater London Area working adults' gross earnings, adjusted for inflation

London can act fast when the will is there, but others are driving improvements in speed more consistently

New South Wales sharply improved infrastructure approval times...

% of projects determined within specified time

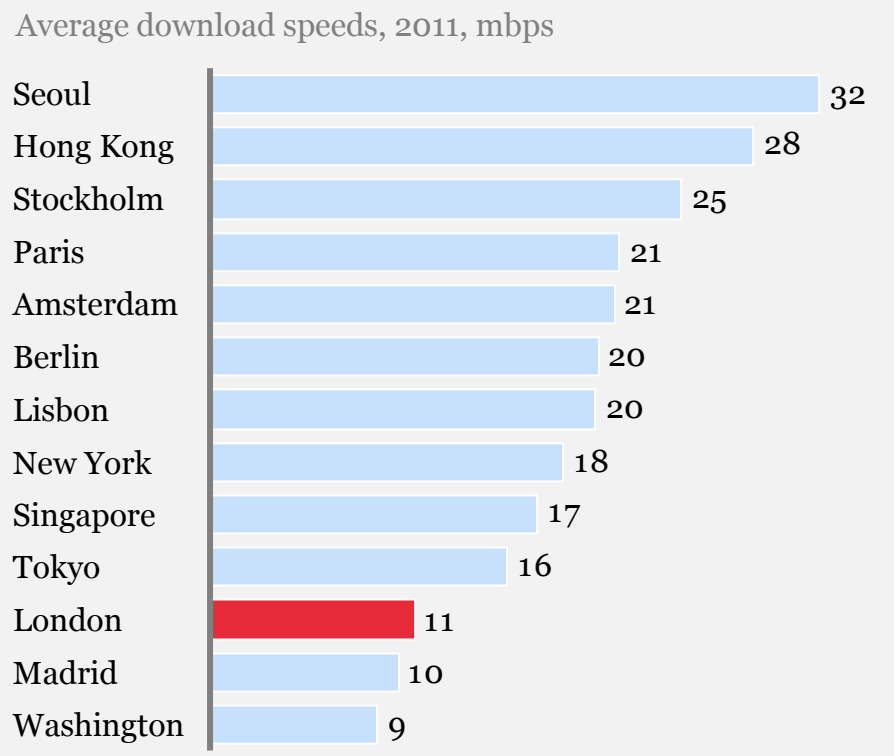


...By rationalising the decision-making process

- The national government **delegated decision rights more clearly**
 - NSW given power on final decisions
 - Independent agency subsequently established to help identify and prioritise key projects
- A **new integrated planning system harmonized processes** across agencies and tiers of government
 - Unnecessary referrals eliminated
 - Bi-lateral agreements signed with neighbouring states
- The state government created **metrics, benchmarks and performance monitoring** to track approval times
 - Regular status updates published to drive accountability

London's digital infrastructure today lags global leaders, who are implementing ambitious visions

Internet download speeds



- **52% of firms say digital networks are inadequate**
- **Indoor mobile coverage is relatively poor**

Singapore: 'Smart Nation' vision

- **"Smart Nation"** plan launched in 2005 to **transform Singapore** into an **ICT powerhouse** by:
 - **Doubling the value ICT** adds to the economy, to US\$26 billion
 - **Tripling ICT exports** to US\$60 billion
- Closing in on associated **digital infrastructure targets** after investing **US\$500 million**
 - **100%** of homes and firms connected with **optical fibre** (95% achieved)
 - **Computer access** for every child



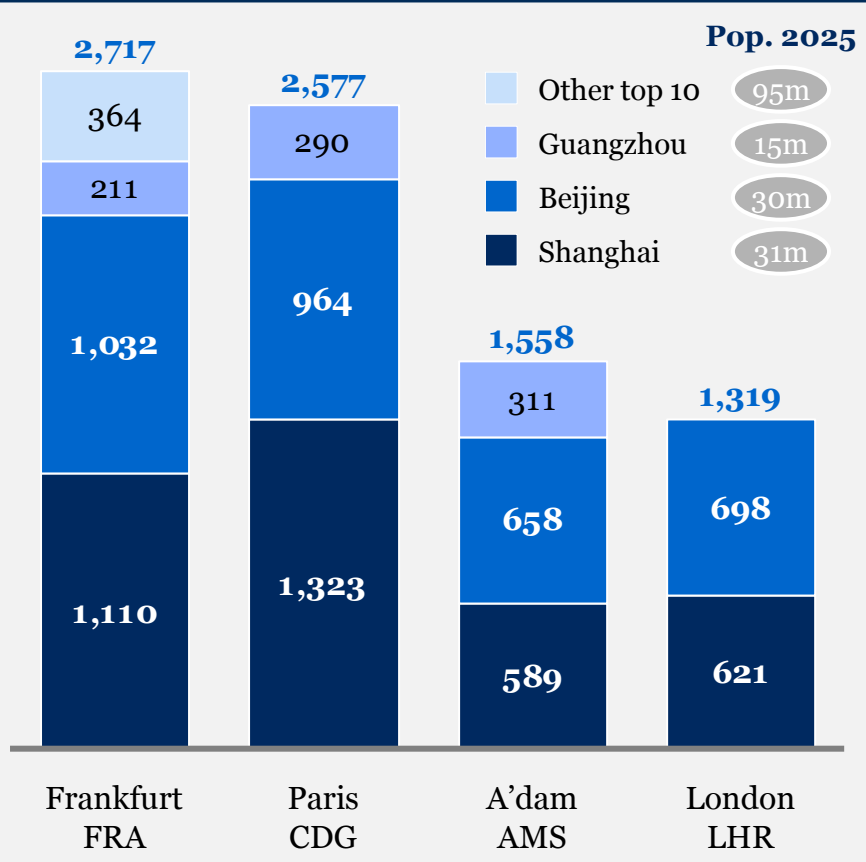
Los Angeles: Universal gigabit broadband and Wi-Fi

- Seeking a private sector partner to fund and deliver **universal gigabit fibre broadband** for every home, business and government building
 - Estimated investment of **\$3-5bn funded by customers** paying for higher speeds
 - **Free access up to 5mbps** paid for by advertising
 - Free **Wi-Fi hotspots** in public areas
- LA is also providing **iPads** to all **650,000 school students** at a cost of \$1bn

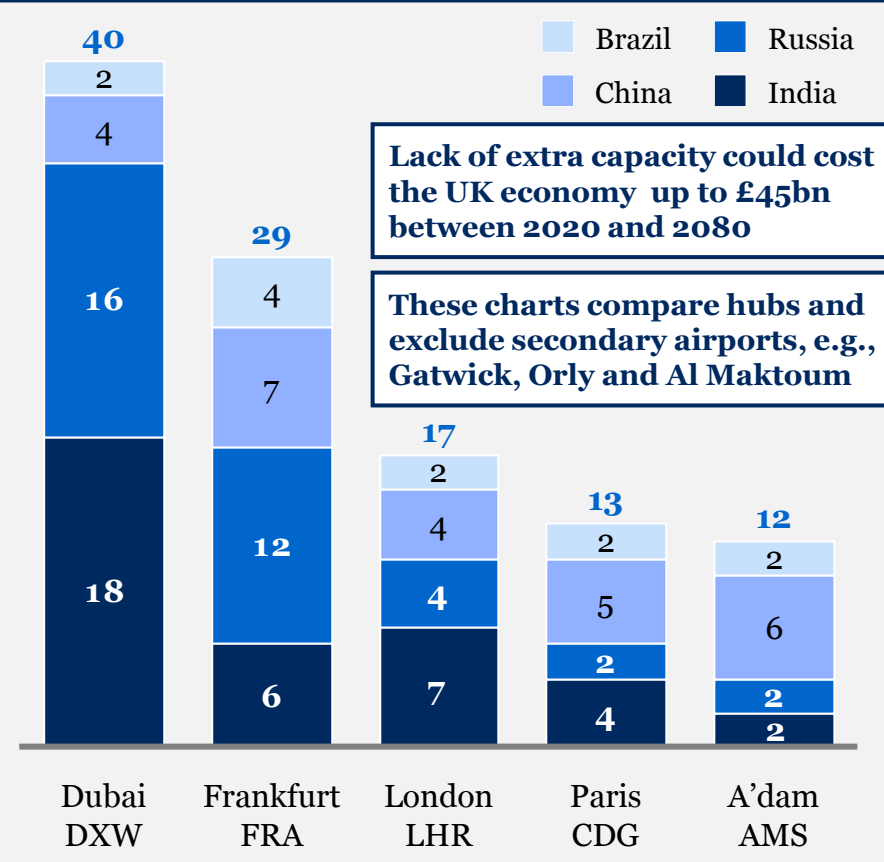


Other hub cities like Dubai and Frankfurt have much better connections to emerging markets

Annual flights to top Chinese mainland cities, 2011



Number of BRIC destinations served at least daily, 2013



Lack of extra capacity could cost the UK economy up to £45bn between 2020 and 2080

These charts compare hubs and exclude secondary airports, e.g., Gatwick, Orly and Al Maktoum

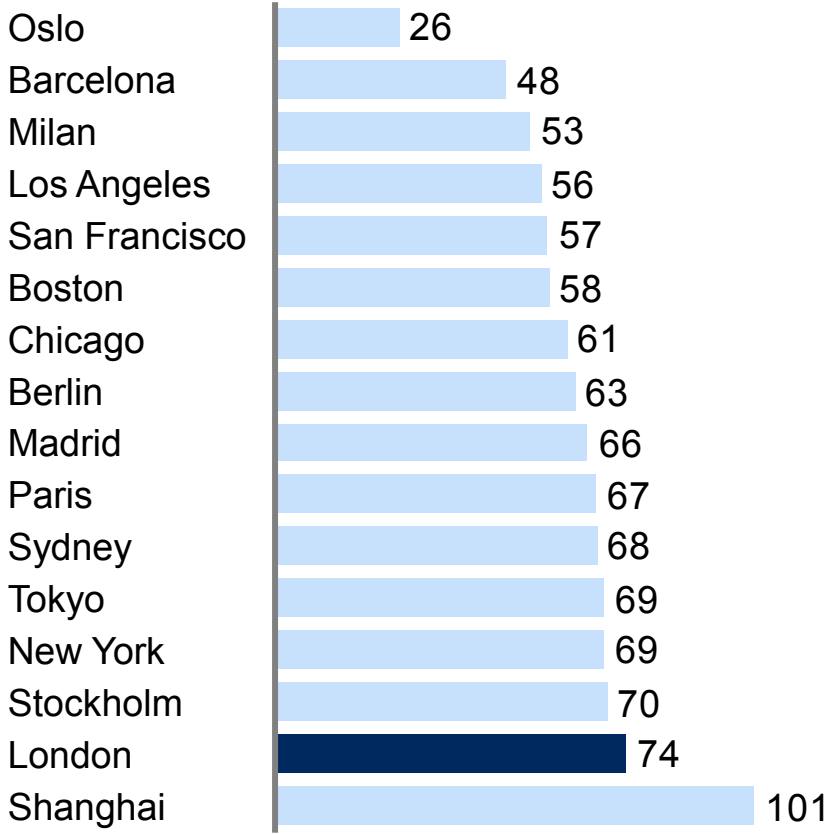
MOVING IN: AON, GLOBAL HQ (2012)
"The move provides greater access to emerging markets"

MOVING OUT: KPMG, EU HQ (2011)
"Frankfurt's superior connectivity is a major advantage"

Housing costs risk pricing lower income workers out of the city, given typical willingness to commute for low pay jobs

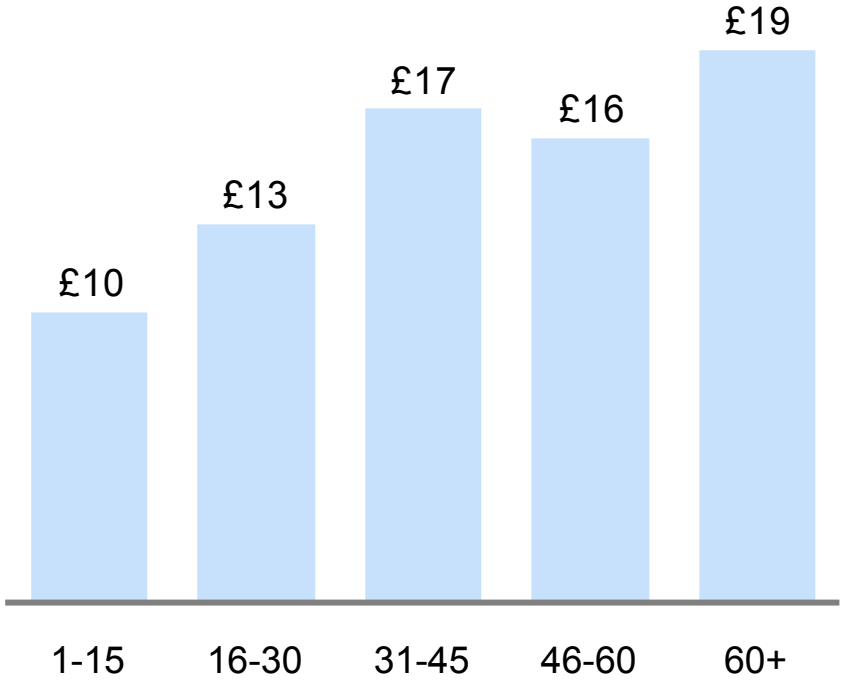
Daily commuting time by city

Average trip to and from work, 2010, minutes¹



Willingness to commute by hourly income

Median hourly income by travel time (one way), 2009, minutes / £



High skill workers are 3 times more likely than low skill workers to commute over 60 minutes

¹ 2010 data except for Europe (2006) and Tokyo (2005)