Working Paper to Support the Outer London Commission

Sources of Endogenous Growth in Outer London: A Case Study of South West London

September 2009

LDA Planning and Strategy Team in conjunction with

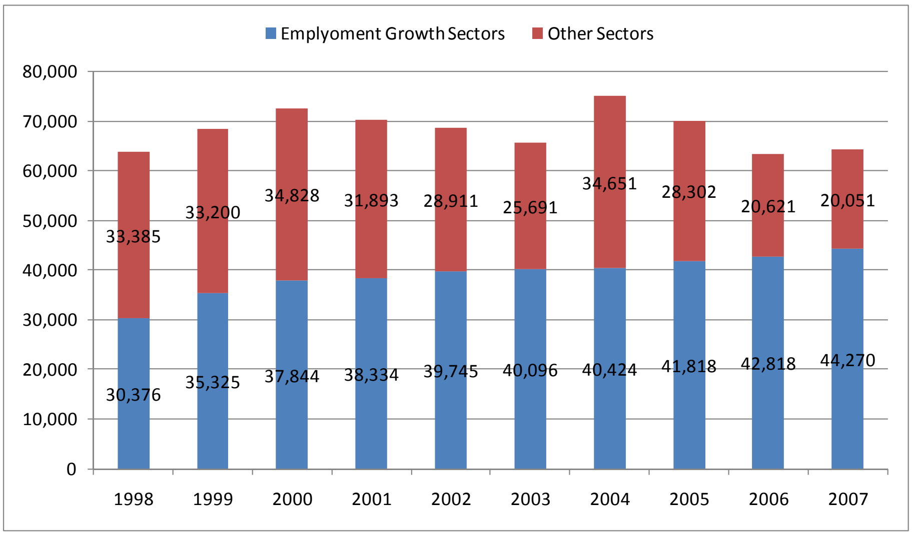
Innovación

Contents

1 Summary Headlines

✓ A number of industrial sub-sectors have been driving employment growth in Merton and south west London over the last 10 years. In Merton these 'dynamo' sectors have created just under 14,000 jobs since 1998 at a growth rate of 4% each year and in south west London they have created just over 31,000 jobs at a growth rate also of 4% each year. In contrast total employment has declined slightly over the same period.

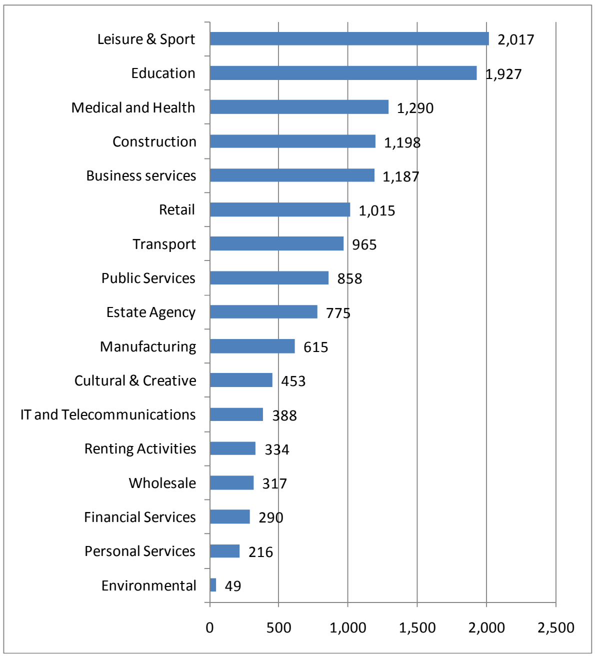
Employment Growth Sectors 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis

✓ In Merton the main internal or endogenous sources of growth have included sub-sectors in leisure and sport, education, medical and health, construction and business services. For south west London business services have been a much more dominant generator of employment growth, creating more than in three jobs in the sub-region.

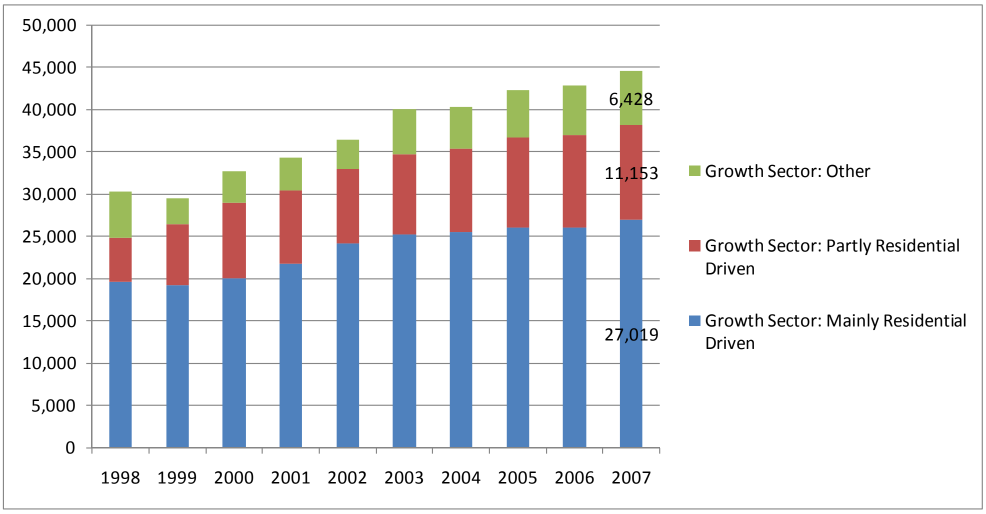
Jobs Growth in Employment Growth Sectors 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis. These are bespoke sectors so, for example, manufacturing, just includes selected manufacturing sub-sectors.

✓ Increasing residential demand linked to population growth has played a key role in the expansion of these sectors. In Merton more than 60% of the jobs growth has been related to sectors largely driven by residential demand and a further 25% linked to sectors partly dependent on residential demand.

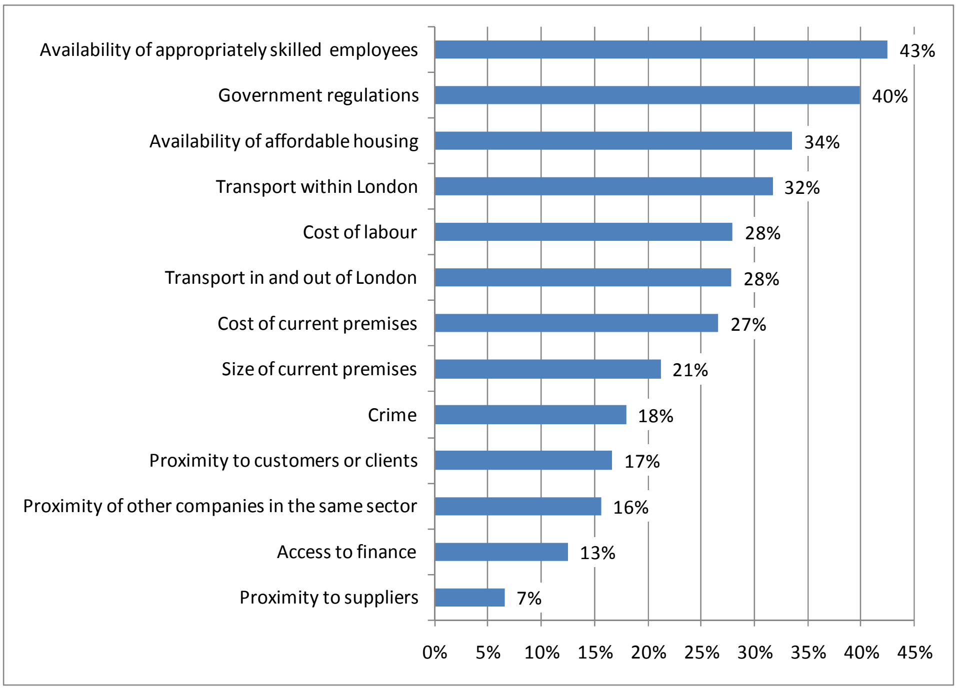
Residential Driven Employment 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis

✓ A range of business constraints could prevent the future growth of these sectors most notably a lack of skilled employees, government regulations, a lack of affordable housing and transport within London.

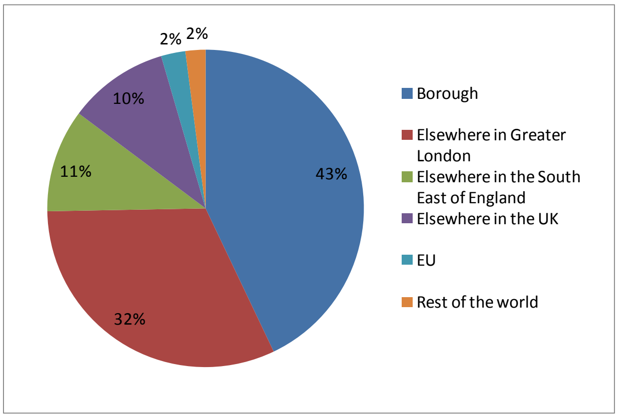
Business Constraints for firms in Kingston, Merton and Sutton 2007 (rated significant or very significant)



Source: London Annual Business Survey 2007, Innovacion Analysis. Sample of 330 firms.

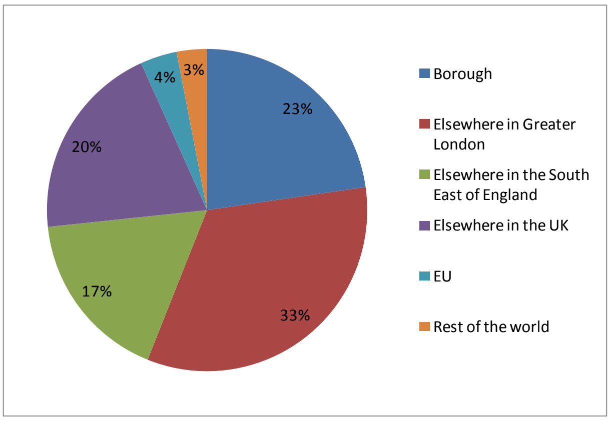
✓ Growing these sectors could also create wider economic benefits. There are important linkages to the local and regional economies with 43% of all sales by firms in south west London occurring in their borough (and a total of 75% within London) and 23% of supplies being sourced from within their borough (and a total of 56% from across London).

Sales Geography



Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms.

Purchasing Geography (Supply)



Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms

2 Key Findings

- ✓ Between 1998 and 2007, a period of zero net local employment growth in the boroughs of Kingston, Merton and Sutton, the population is estimated to have increased by 8% or 39,000 people. During this period of population growth the changing sectoral composition of the local economy is used to give an indication of the internal or endogenous sources of employment growth.

Borough level - Merton

- ✓ At a borough level in Merton between 1998 and 2007 some 51 industrial sub-sectors increased their employment indicating endogenous or internal sources of growth. In total these sub-sectors created 13,900 jobs, at an annualised rate of 4%, and increased their proportion of total local employment from 42% in 1998 to 65% by 2007. With just under three quarters of these sectors (36/51) showing above average levels of specialisation there is reason to conclude that these sectors have a degree of competitive advantage from their current location.
- ✓ The 51 growing sub-sectors in Merton can be grouped into 17 broader sectors. On this basis the five main sources of jobs growth in Merton between 1998 and 2007 were leisure and sport (2,020 jobs), education (1,930 jobs), medical and health (1,290 jobs), construction (1,200 jobs) and business services (1,190 jobs).
- ✓ There is also evidence of locally linked functions and supply chains which suggest a larger overall sector serving the demands of London's population. For example, as well as construction trade activities (e.g. plumbing and joinery) there is also the renting of construction machinery and the manufacture of concrete products for construction in Merton. Similarly, in addition to food retail and food outlets (e.g. restaurants) there is also a supply chain of food wholesale and food manufacture (e.g. bread and pastries).
- ✓ In Merton it is estimated that 8,600 of these additional jobs (62%) were in sectors largely driven by growing residential demand, 3,500 jobs (25%) were in sectors partly dependent on residential demand and 1,900 jobs (13%) were in other sectors, often linked to London's industrial specialisations (e.g. business services). This analysis suggests that by 2007 at least 57% of all local jobs in Merton were mainly or partly dependent on residential demand.
- ✓ The rising population partly explains why, between 2000 and 2007, the job density (the ratio of the number of local jobs to the resident working age population) fell in Merton from 0.68 to 0.58.

Sub-region – South West London (Kingston, Merton and Sutton)

- ✓ At a sub-regional level across south west London (Kingston, Merton and Sutton) between 1998 and 2007 some 52 industrial sub-sectors increased their employment indicating endogenous or internal sources of growth. In total these sub-sectors created 31,100 jobs, at an annualised rate of 4%, to increase their proportion of total local employment from 39% in 1998 to 54% by 2007. With two thirds of these sectors (33/52) showing above average levels of specialisation there is reason to conclude that these sectors have a degree of competitive advantage from their current location.
- ✓ The 52 growing sub-sectors in south west London can be grouped into 17 broader sectors. On this basis the ten main sources of jobs growth in south west London between 1998 and 2007 were business services (10,870 jobs), education (3,900 jobs), leisure and sport (3,800 jobs), transport (3,010 jobs) and estate agency (1,370 jobs).

- ✓ At a sub-regional level the expansion of business services has been particularly notable as a major internal source of growth creating more than one in three additional jobs and building on a long term strength of the London economy. With about 30% of the UK's business services located in London the capital has a significant specialisation in this sector. Creating more than 500,000 jobs since 1984 business services have been a major, long term source of employment growth in London.

- ✓ In south west London it is estimated that 13,500 of the additional jobs (43%) were in sectors largely driven by growing residential demand, 5,900 jobs (18%) were in sectors partly dependent on residential demand and 11,700 jobs (38%) were in other sectors, often linked to London's industrial specialisations (e.g. business services). This analysis suggests that by 2007 at least about 41% of all local jobs in the sub-region were mainly or partly dependent on residential demand. As a corollary, the 2007 London Annual Business Survey found 43% of sales by firms in the sub-region were within their borough boundary.
- ✓ The growing population also partly explains why, between 2000 and 2007, the job density (the ratio of the number of local jobs to the resident working age population) fell in Sutton from 0.69 to 0.60 and in Kingston from 0.88 to 0.81.

Constraints and Linkages

- ✓ The 2007 London Annual Business Survey and recent consultations highlight the main business constraints in the sub-region as the availability of appropriately skilled employees, government regulations, the availability of affordable housing, transport within the sub-region, relatively low levels of public investment and a comparative lack of intensified development including office provision in town centres. Together these indicate the likely constraints on the performance of endogenous sources of growth in the future.
- ✓ With just under 60% of firms in the sub-region obtaining their input supplies from firms in London there is potential for important multiplier effects to occur through the supply chain. If the growing firms can be expanded further through increased local residential demand and through linkages into London' sectoral strengths there is potential for enhanced local and regional effects.

3 Introduction

3.1.1 The LDA wished to explore the endogenous sources of future employment growth in Outer London. These endogenous or internal sources of growth have contributed to the underlying economic trends in Outer London but may have the potential to perform more effectively if various constraints on their performance or competitiveness were addressed.

3.1.2 Demand for goods and services in a local economy originate both from within that area and outside that area. The substantial and growing residential populations of Outer London areas are therefore important sources of consumer demand for local businesses.

3.1.3 Internal sources of growth are often analysed on the basis of employment levels in sectors (including the degree of specialisation) but may also be considered by firm size (e.g. clusters of small firms), functional strengths (e.g. HQ functions and networked relationships) and other attributes (e.g. unique R&D facility, very highly skilled residents).

3.1.4 It is important to be aware that constraints on the performance of these internal sources of growth occur at different levels: macro (e.g. bank lending, exchange and interest rates, drivers for the specific industry), meso (e.g. transport and congestion across a region / sub-region) and micro (e.g. labour and property costs and availability in a town centre location) as well as being bound up in competition from other locations. Within this context there is a need to be clear about the capacity to intervene and the relative importance of the constraints. For example, if banks are not lending to mid sized firms, making major changes to parking standards will arguably have little or no impact.

3.1.5 The multiplier or knock on effects of growth (e.g. indirect and induced effects) will depend on the nature of the local economy and its supply chains. There also can be softer, symbolic changes that fundamentally alter market perceptions (e.g. signature buildings, the need to underground power lines).

4 Approach

4.1.1 The following tasks were undertaken to identify endogenous sources of growth in Outer London. To include some of the boroughs in Outer London experiencing high levels of population growth case studies for a borough (Merton) and a sub-region (south west London - comprising a three borough grouping of Kingston, Merton and Sutton) were completed which looked at:

- Detailed sectoral employment (3 digit SIC data for 221 potential sectors) and population estimates were analysed for the period from 1998 to 2007.
- Using this sectoral approach endogenous sources of growth were identified from a detailed review of sectoral change in employment between 1998 and 2007 for the borough and sub-region. Sectors which had created more than 25 jobs over the period were analysed further. Those which had suffered employment loss were filtered out.
- The growing sectors where employment growth had occurred between 1998 and 2007 were then grouped into 17 sectoral clusters of more functional activity and termed **employment growth sectors**. These sectors were then considered by the extent to which residential growth was a factor in their expansion.

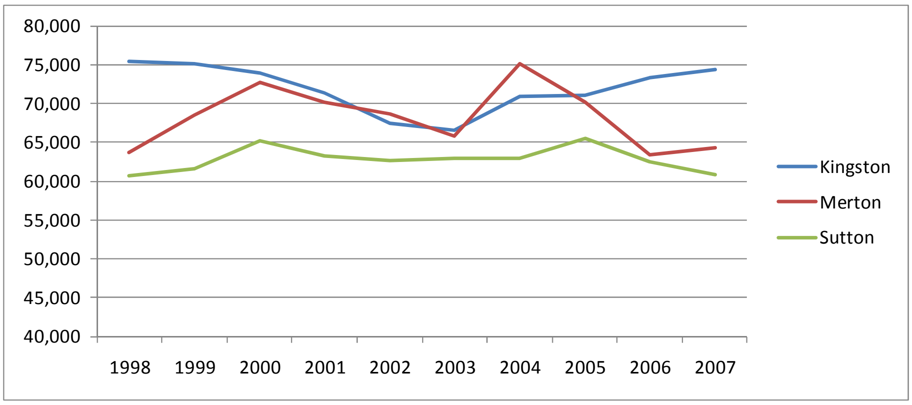
- o An indication of business constraints affecting firms in south west London were drawn from bespoke analysis of the London Annual Business Survey 2007 for the three borough area and from borough responses to the Outer London Commission's consultation process.
- o The economic linkages of firms in south west London were analysed from the London Annual Business Survey 2007 (e.g. markets, location of suppliers) and considered as a proxy for local multiplier effects.

5 1998-2007: Growing Population, Static Employment

5.1 Employment and Population 1998-2007

5.1.1 Between 1998 and 2007 total employment was largely static in south west London. In 2007 there were 388 fewer jobs than in 1998 (-0.2%). Over the business cycle from 2001 to 2007 employment performance was even weaker with the net loss of over 5,200 jobs (-2.6%) in south west London mainly concentrated in Merton (-5,900 jobs) and Sutton (-2,400 jobs). In contrast during this period employment in Kingston increased by 3,100 jobs (+4.6%).

Employment 1998-2007 in Kingston, Merton and Sutton



Source: ONS ABI

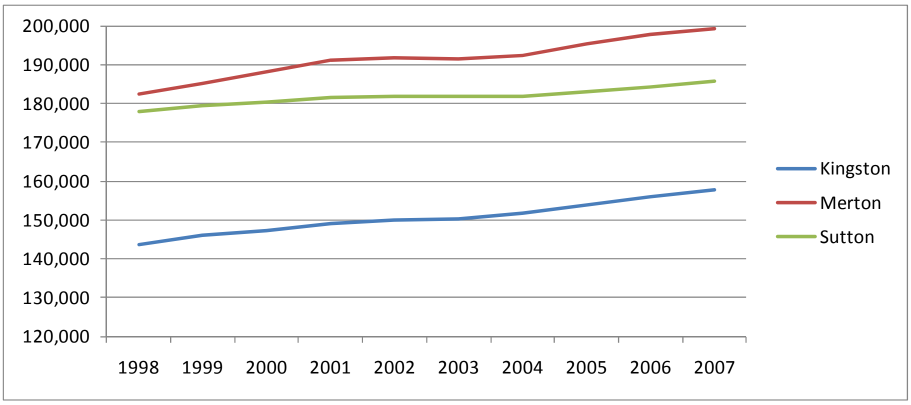
5.1.2 Between 1998 and 2007 - a period of basically zero local employment growth - the population of south west London is estimated to have increased by more than 8% or 39,000 people (at an annualised rate of just under 1%) to reach 543,100 by 2007[1]. Over the business cycle between 2001 and 2007 when 5,200 jobs were lost, the local population increased by some 21,500 people (+4.1%).

5.1.3 The effect of these trends is a fall in job densities[2] in the boroughs of south west London. Between 2000 and 2007 the job density in Merton fell from 0.68 to 0.58 – slightly more than one job per two residents – and from 0.69 to 0.60 in Sutton. A similar fall was experienced in Kingston, albeit from a higher starting point, from 0.88 to 0.81.

[1] Other data supports the scale of this population growth. For example between 2002/3 and 2007/8 the total number of people entering Wimbledon station grew from 5.9 million to 7.9 million, a 33% increase over 5 years (source: Office of Rail Regulator).

[2] Job densities show the number of jobs in an area divided by the resident working age population. The total number of jobs is a workplace measure and comprises employee jobs, self employment, government supported trainees and HM Forces. A job density of 1.0 would mean that there is one job for every resident of working age.

Population 1998-2007 in Kingston, Merton and Sutton

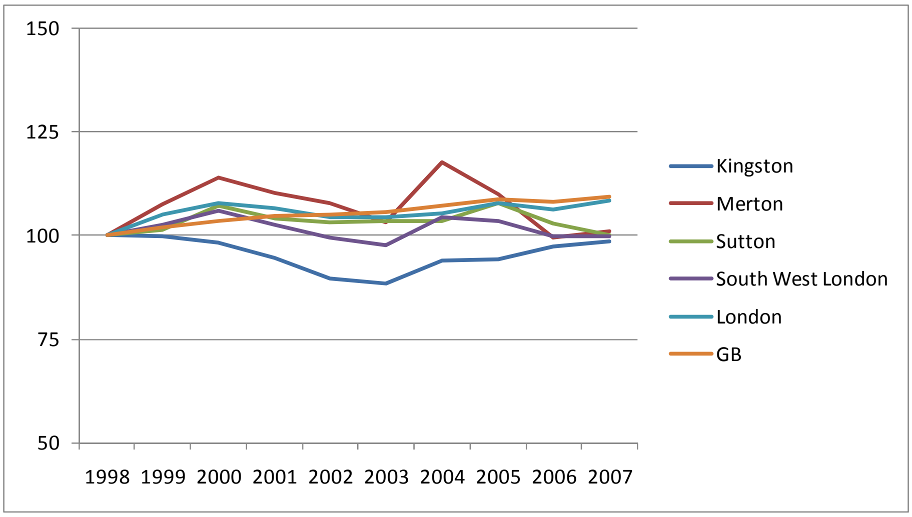


Source: ONS Census of Population

5.2 Relative Change in Employment and Population 1998-2007

5.2.1 South west London experienced a relative dip in employment between 2001 and 2003. However, comparatively employment appears to have fallen sharply in Merton from 2004 onwards[3] and also more gradually in Sutton.

Employment 1998-2007 in South West London, London and GB (Index 1998=100)

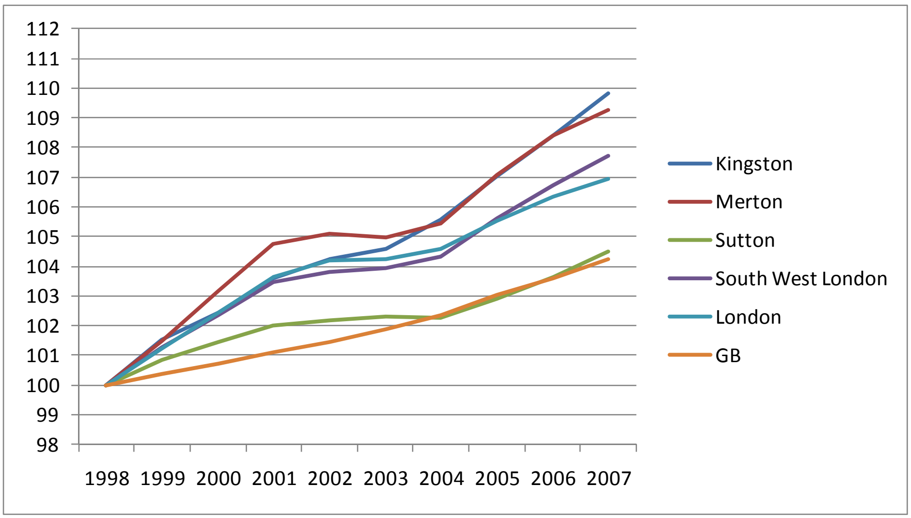


Source: ONS ABI

5.2.2 Comparatively the population of south west London has been growing rapidly between 1998 and 2007, at 0.83% per annum - about double the rate for GB (0.46% per annum) and above the average rate for London (0.75% per annum). By age band the highest relative growth is estimated to have occurred amongst 40 to 44 year olds (+34% or 11,600), 35 to 39 year olds (+15% or 6,300), 55 to 59 year olds (+26% or 5,900) and 45 to 49 year olds (+16% or 5,200).

[3] Employment data collected in the ABI by ONS is based on a sample so there can be a degree of volatility on a year on year basis.

Population 1998-2007 in South West London, London and GB (Index 1998=100)



Source: ONS Census of Population

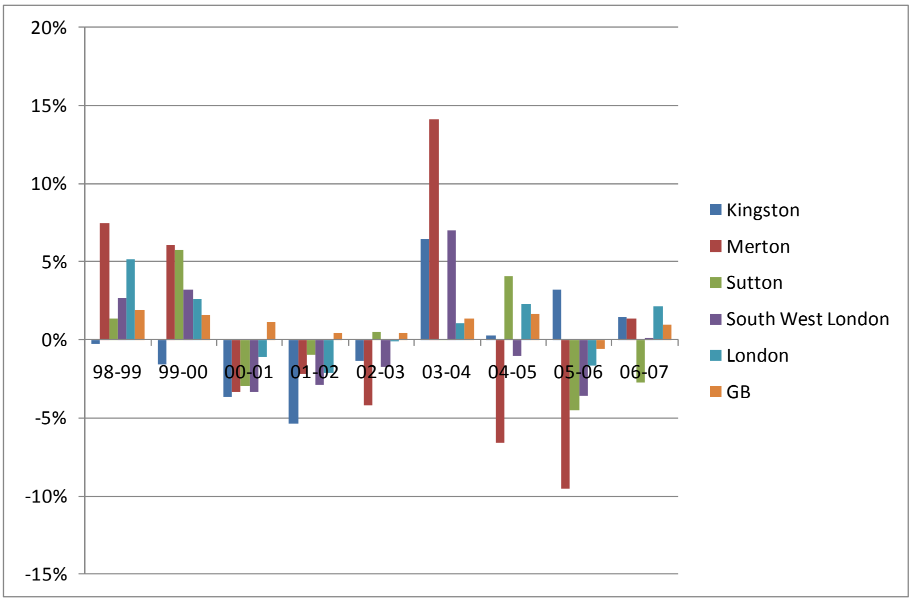
5.2.3 Between 1998 and 2007 the population of London is estimated to have grown by 491,400 (+7%) from 7,065,500 to 7,556,900 (ONS Mid Year Population Estimates). Some 59% of this growth has taken place in inner London boroughs (+289,000 or +12%) and the remainder in outer London boroughs (+202,100) at a lower rate (+4%).

5.2.4 In absolute terms the highest population increases were in Westminster (+49,400 or +27%) and Camden (+48,000 or +26%). In relative terms eight of the ten boroughs with the highest proportionate increase in population between 1998 and 2007 were in inner London. The two outer London boroughs in the top ten were in south west London: Kingston (8th with an additional 14,100 residents, +10%) and Merton (9th with an additional 16,900 residents, +9%).

5.3 Annual Change in Employment and Population 1998-2007

5.3.1 Employment fell by up to 4% in south west London in five of the nine years between 1998 and 2007.

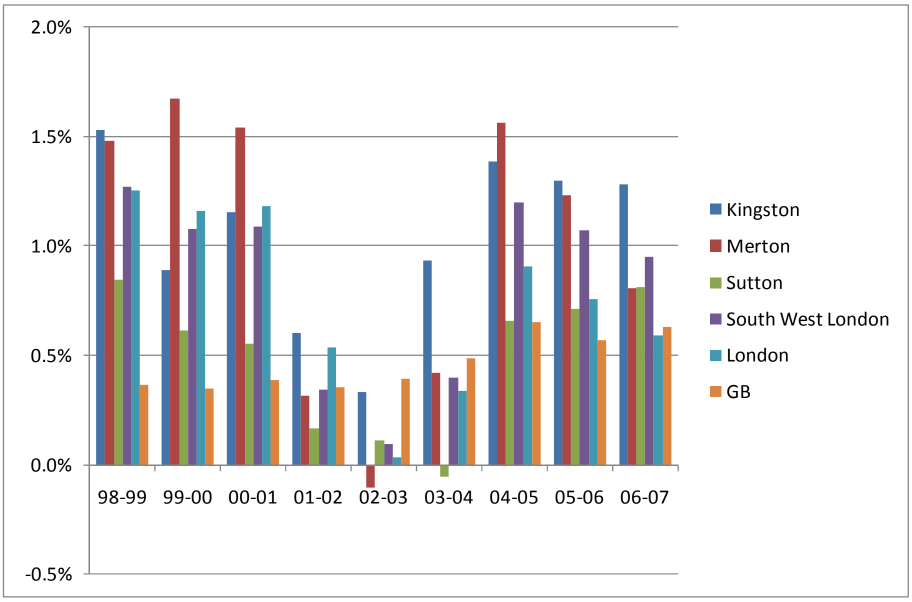
Employment Change 1998-2007 in South West London, London and GB (%)



Source: ONS ABI

5.3.2 Population grew strongly by more than 1% in south west London in five of the nine years between 1998 and 2007.

Population Change 1998-2007 in South West London, London and GB (%)



Source: ONS Census of Population

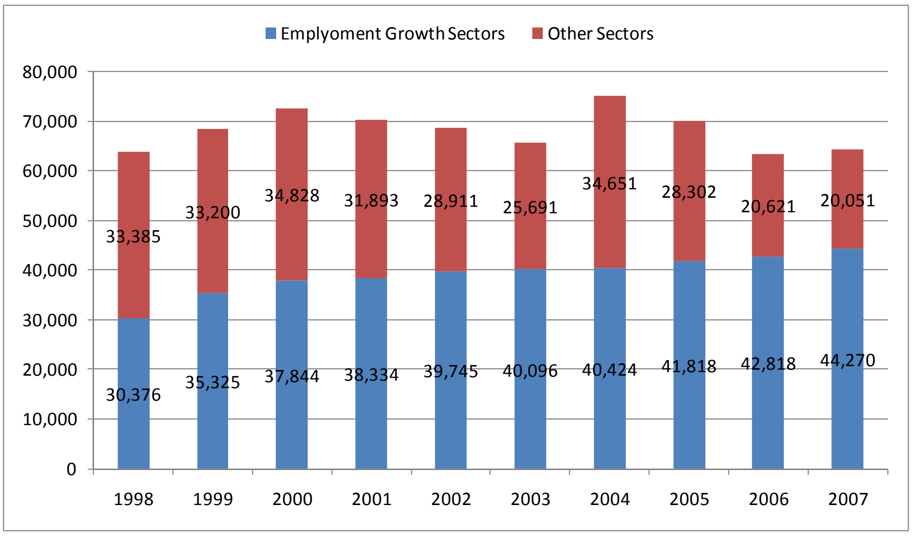
6 Employment Growth Sectors

6.1 Merton

6.1.1 Some 51 industrial sectors out of 221 sectors[4] in total showed positive employment growth between 1998 and 2007 in Merton. In gross terms these growth sectors when combined have grown by 46% between 1998 and 2007 providing an additional 13,900 jobs, at an annualised rate of 4%. In 1998 they provided 30,400 jobs but by 2007 they had expanded to provide some 44,300 jobs in Merton.

6.1.2 Their importance to the local economy has increased over time. In 1998 these sectors provided 42% of all jobs but by 2007 contributed 65% of all employment.

Employment Growth Sectors 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis

6.1.3 The top five sectors making up 40% of the other 'non-growth' sectors were social work with 2,800 jobs in 2007 (-1% since 1998), labour recruitment (1,540 jobs, -7% since 1998), civil engineering / structures (1,520 jobs, -10% since 1998), industrial cleaning (1,140 jobs, -66% since 1998) and architecture and engineering consultancy (1,080 jobs, -44% since 1998).

6.1.4 These 51 growing sub-sectors were grouped into 17 employment growth sectors. These sectors show strong linkages to the current and expanding residential employment in Merton (e.g. leisure, education, health, construction and retail) together with major economic strengths of London (e.g. financial and business services). Some 36 of the 51 sectors (71%) show specialisation levels above the national average (i.e. a location quotient of greater than one).

[4] Based on 3 digit SIC sectors which have created more than 25 jobs between 1998 and 2007.

Employment Growth Sectors in Merton (1998-2007)

Employment Growth Sector (based on sub-sectors only)	Employment 2007	Jobs Growth 1998-2007	Composed of the following Growing Sub-Sectors only (Positive Jobs Growth 1998-2007) with Index of Specialisation[5] (2007, v. GB)
Leisure & Sport	5,525	2,017	551 : Hotels 0.3 553 : Restaurants 1.1 554 : Bars 0.8 926 : Sporting activities 2.0 927 : Other recreational activities 3.1
Education	5,351	1,927	801 : Primary education 1.3 802 : Secondary Education 0.7 804 : Adult and other education 1.4
Medical and Health	2,797	1,290	851 : Human health activities 0.5 852 : Veterinary activities 1.2
Construction	2,380	1,198	453 : Building installation 2.0 454 : Building completion 1.3
Business services	4,719	1,187	741 : Legal, accounting, book-keeping and auditing activities; tax consultancy; market research and public opinion polling; business and management consultancy; holdings 0.9 748 : Miscellaneous business activities not elsewhere classified 1.7 912 : Activities of trade unions 14.0
Retail	7,625	1,015	503 : Sale of motor vehicle parts and accessories 2.7 521 : Retail sale in non-specialised stores 1.2 524 : Other retail sale of new goods in specialised stores 1.1 526 : Retail sale of not in stores 1.6
Transport	2,996	965	601 : Transport via railways 4.6 602 : Other land transport 1.3 631 : Cargo handling and storage 0.5 632 : Other supporting transport activities 0.6 633 : Activities of travel agencies and tour operators; tourist assistance activities not elsewhere classified 2.1
Public Services	2,895	858	751 : Administration of the State and the economic and social policy of the community 0.9 752 : Provision of services to the community as a whole 0.8
Estate Agency	1,251	775	703 : Real estate activities on a fee or contract basis 2.5
Manufacturing	1,080	615	158 : Manufacture of other food products 1.0 174 : Manufacture of made-up textile articles, except apparel 1.1 244 : Manufacture of pharmaceuticals, medicinal chemicals and botanical products 0.7 245 : Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations 2.6 266 : Manufacture of articles of concrete, plaster and cement 0.9 291 : Manufacture of machinery for the production and use of mechanical power, except aircraft, vehicle and cycle engines 1.2 321 : Manufacture of electronic valves and tubes and other electronic components 1.2
Cultural & Creative	930	453	921 : Motion picture and video activities 1.3 923 : Other entertainment activities 2.4 925 : Library, archives, museums and other cultural activities 0.7 732 : Research and experimental development on social sciences and humanities 5.6
IT and Telecommunications	2,066	388	642 : Telecommunications 0.2 721 : Hardware consultancy 1.8 722 : Software consultancy and supply 2.0 724 : Data base activities 2.8
Renting Activities	485	334	711 : Renting of automobiles 0.9 713 : Renting of other machinery and equipment 2.0
Wholesale	1,468	317	511 : Wholesale on a fee or contract basis 1.4 515 : Wholesale of non-agricultural intermediate products, waste and scrap 1.2 518 : Wholesale of machinery, equipment and supplies 1.0
Financial Services	593	290	671 : Activities auxiliary to financial intermediation, except insurance and pension funding 0.6 672 : Activities auxiliary to insurance and pension funding 1.1

[5] An Index of Specialisation or Location Quotient of greater than one indicates a sector where its size is above the what would be expected on the basis of the national average and suggests a sector that benefits from its current location (i.e. there is some comparative advantage in the current location).

Employment Growth Sector (based on sub-sectors only)	Employment 2007	Jobs Growth 1998-2007	Composed of the following Growing Sub-Sectors only (Positive Jobs Growth 1998-2007) with Index of Specialisation[5] (2007, v. GB)
Personal Services	1,754	216	930 : Other service activities 2.3
Environmental	355	49	900 : Sewage and refuse disposal, sanitation and similar activities1.4
Employment Growth Sector Total	**44,270**	**13,894**	
Proportion of Total Economy	69%		
Total Employment in Merton	64,321	560	

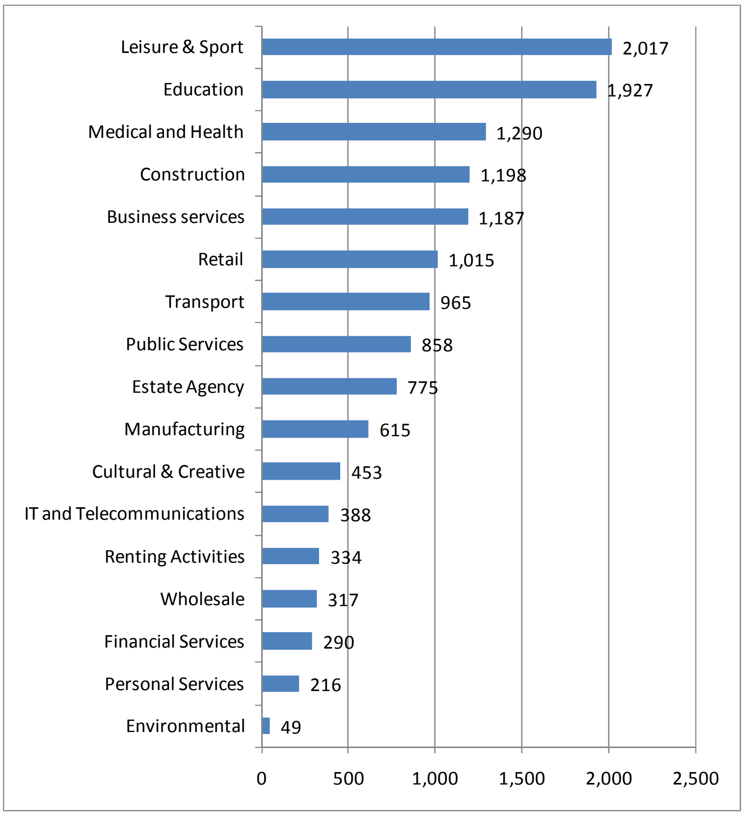
6.1.5 Two sectors added more than 1,900 jobs in the nine year period: leisure and sport and education.

6.1.6 The environmental or green sector in Merton is composed of jobs in environmental technologies including their manufacture (e.g. cooling and ventilation systems) and environmental services (e.g. recycling of waste and scrap, electricity generation and transmission and collection and treatment of sewage). While the sector in Merton is very small with just 360 jobs, mainly in waste management, the global market for low carbon and environmental goods and services (LCEGS) was worth £3 trillion in 2007/08. Of this the UK low carbon environmental goods and services (LCEGS) market is worth £106 billion and employs 880,000 people directly or through the supply chain. The UK LCEGS sector is one of the few areas of the economy expected to maintain positive growth rates through the downturn and is expected to grow by over 4% per annum up to 2014/15. Many of the jobs created will be skilled jobs, with average market value per employee well above the national average[6].

6.1.7 Through the retro-fitting of buildings, the roll out of energy from waste plants, the introduction of electric vehicles and the development of a decentralised energy network low carbon mitigation activities in London are estimated to be able to create 14,400 jobs across the Capital[7], perhaps with the potential for 200 to 300 of these jobs to be located in Merton. Green jobs will also develop in larger, local sectors where firms have low carbon ambitions (e.g. food logistics, the local construction sector).

[6] Innovas (2009) Low Carbon and Environmental Goods and Services: an industry analysis
[7] LDA/GLA – Prospectus for London, Low Carbon Capital (March 2009)

Jobs Growth in Employment Growth Sectors 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis. These are bespoke sectors so, for example, manufacturing, just includes certain manufacturing sub-sectors but not all.

6.1.8 Four of these employment growth sectors, comprised of selected sub-sectors, each now make up more than 7% of total employment in Merton.

Employment Growth Sectors in Merton (1998-2007)

Broader sectors (comprised of growing sub-sectors only)	Employment 1998	Employment 2007	Proportion of Employment 2007	Jobs Growth 1998-2007	Jobs Growth 1998-2007 (%)	Proportion of Employment Sector Total Growth 1998-2007 (%)	Growth Rate 1998-2007
Leisure & Sport	3,508	5,525	8.6%	2,017	57%	15%	5%
Education	3,424	5,351	8.3%	1,927	56%	14%	5%
Medical and Health	1,507	2,797	4.3%	1,290	86%	9%	7%
Construction	1,182	2,380	3.7%	1,198	101%	9%	8%
Business services	3,532	4,719	7.3%	1,187	34%	9%	3%
Retail	6,610	7,625	11.9%	1,015	15%	7%	2%
Transport	2,031	2,996	4.7%	965	48%	7%	4%
Public Services	2,037	2,895	4.5%	858	42%	6%	4%
Estate Agency	476	1,251	1.9%	775	163%	6%	11%
Manufacturing	465	1,080	1.7%	615	132%	4%	10%
Cultural & Creative	477	930	1.4%	453	95%	3%	8%
IT and Telecommunications	1,678	2,066	3.2%	388	23%	3%	2%

Broader sectors (comprised of growing sub-sectors only)	Employment 1998	Employment 2007	Proportion of Employment 2007	Jobs Growth 1998-2007	Jobs Growth 1998-2007 (%)	Proportion of Employment Sector Total Growth 1998-2007 (%)	Growth Rate 1998-2007
Renting Activities	151	485	0.8%	334	221%	2%	14%
Wholesale	1,151	1,468	2.3%	317	28%	2%	3%
Financial Services	303	593	0.9%	290	96%	2%	8%
Personal Services	1,538	1,754	2.7%	216	14%	2%	1%
Environmental	306	355	0.6%	49	16%	0%	2%
Employment Growth Sector Total	**30,380**	**44,270**		**13,890**	**46%**		**4%**
Proportion of Total Economy	48%	69%					
Total Employment in Merton	63,761	64,321		560	1%		0.1%

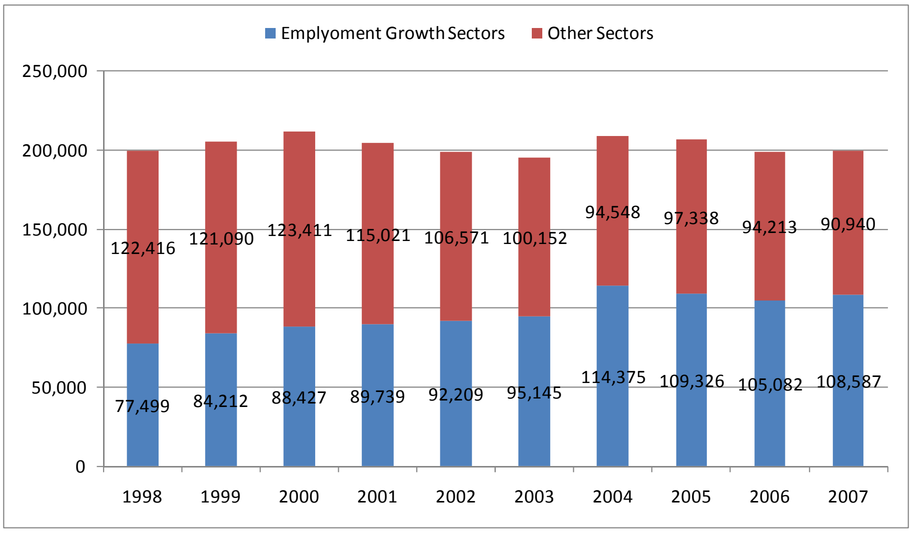
6.2 South West London

6.2.1 To investigate changes at a sub-regional scale the sectors driving employment creation were examined for the three boroughs of Kingston, Merton and Sutton, approximating to a wedge of south west London.

6.2.2 Within this area some 52 industrial sub-sectors out of 221 showed positive employment growth between 1998 and 2007. In gross terms these growth sectors when combined have grown by 40% between 1998 and 2007 providing an additional 31,100 jobs, at an annualised rate of 4%. In 1998 they provided 77,500 jobs but by 2007 they had expanded to provide some 108,600 jobs in the three boroughs during a period when total employment declined marginally.

6.2.3 Their importance to the three borough area has increased over time. In 1998 these sectors provided 39% of all jobs but by 2007 contributed 54% of all employment.

Employment Growth Sectors 1998-2007 in Kingston, Merton and Sutton



Source: ONS ABI, Innovacion Analysis

6.2.4 The top five sectors making up 48% of the other 'non-growth' sectors in south west London were health with 14,700 jobs in 2007 (-1% since 1998), specialised retail (11,130 jobs, -11% since

1998), social work (8,340 jobs, -2% since 1998), miscellaneous business activities (5,050 jobs, -27% since 1998) and software consultancy and supply (4,570 jobs, -3% since 1998).

6.2.5 These 52 growing sub-sectors were grouped into the same 17 employment growth sectors used for Merton. Again these sectors show strong linkages to the current and expanding residential employment in the sub-region (e.g. leisure, education, health, construction and retail) together with major economic strengths of London (e.g. financial and business services). Some 33 of the 52 sectors (63%) show specialisation levels above the national average (i.e. a location quotient of greater than one).

Employment Growth Sectors in South West London (1998-2007)

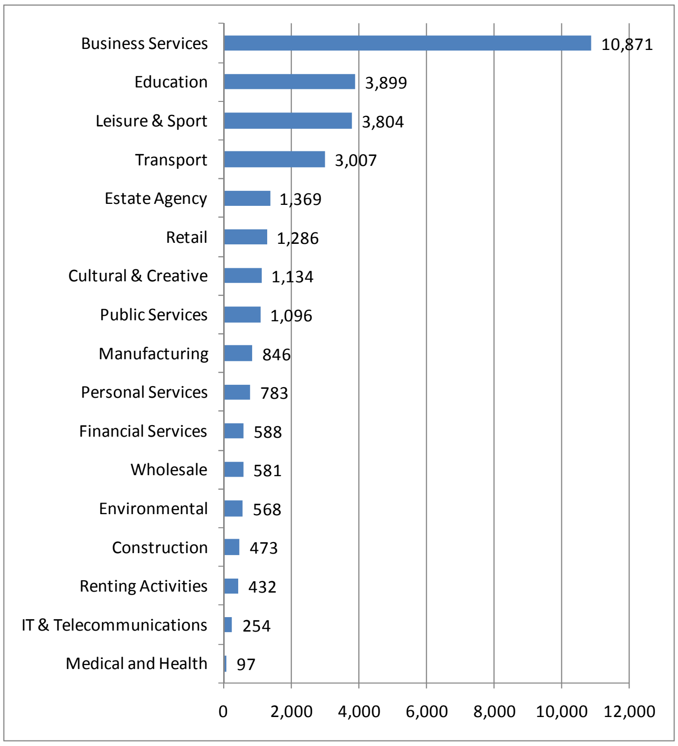
Employment Growth Sector (based on sub-sectors only)	Employment 2007	Jobs Growth 1998-2007	Composed of the following Growing Sub-Sectors only (Positive Jobs Growth 1998-2007) with Index of Specialisation[8] (2007, v. GB)
Business Services	24,657	10,871	741 : Legal, accounting, book-keeping and auditing activities; tax consultancy; market research and public opinion polling; business and management consultancy; holdings 0.97 743 : Technical testing and analysis 0.62 745 : Labour recruitment and provision of personnel 2.54 746 : Investigation and security activities 1.02 912 : Activities of trade unions 5.48
Education	17,654	3,899	801 : Primary education 1.07 802 : Secondary Education 0.82 803 : Higher education 0.85 804 : Adult and other education 1.12
Leisure & Sport	16,527	3,804	551 : Hotels 0.26 552 : Camping sites and other provision of short-stay accommodation0.35 553 : Restaurants 1.16 554 : Bars 0.80 555 : Canteens and Catering 1.17 926 : Sporting activities 1.56 927 : Other recreational activities 1.31
Transport	5,826	3,007	601 : Transport via railways 1.76 602 : Other land transport 1.02 612 : Inland water transport 2.93 622 : Non-scheduled air transport 4.74 632 : Other supporting transport activities 0.67
Estate Agency	3,214	1,369	702 : Letting of own property 0.56 703 : Real estate activities on a fee or contract basis 1.64
Retail	12,308	1,286	503 : Sale of motor vehicle parts and accessories 1.30 521 : Retail sale in non-specialised stores 1.25
Cultural & Creative	2,606	1,134	732 : Research and experimental development on social sciences and humanities 1.90 921 : Motion picture and video activities 0.96 923 : Other entertainment activities 2.28 925 : Library, archives, museums and other cultural activities 0.69
Public Services	6,162	1,096	751 : Administration of the State and the economic and social policy of the community 0.93
Manufacturing	1,620	846	157 : Manufacture of prepared animal feeds3.44 205 : Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials 1.36 244 : Manufacture of pharmaceuticals, medicinal chemicals and botanical products 0.30 245 : Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations 3.59 266 : Manufacture of articles of concrete, plaster and cement 0.39 334 : Manufacture of optical instruments and photographic equipment1.76 342 : Manufacture of bodies (coachwork) for motor vehicles: manufacture of trailers and semi-trailers 0.18

[8] An Index of Specialisation or Location Quotient of greater than one indicates a sector where its size is above the what would be expected on the basis of the national average and suggests a sector that benefits from its current location (i.e. there is some comparative advantage in the current location).

Employment Growth Sector (based on sub-sectors only)	Employment 2007	Jobs Growth 1998-2007	Composed of the following Growing Sub-Sectors only (Positive Jobs Growth 1998-2007) with Index of Specialisation[8] (2007, v. GB)
Personal Services	4,027	783	930 : Other service activities 1.71
Financial Services	1,543	588	671 : Activities auxiliary to financial intermediation, except insurance and pension funding 0.36 672 : Activities auxiliary to insurance and pension funding 1.09
Wholesale	3,780	581	511 : Wholesale on a fee or contract basis 1.22 513 : Wholesale of food, beverages and tobacco 1.00 515 : Wholesale of non-agricultural intermediate products, waste and scrap 0.93
Environmental	1,099	568	372 : Recycling of non-metal waste and scrap 1.51 900 : Sewage and refuse disposal, sanitation and similar activities 1.22
Construction	5,815	473	453 : Building installation 1.50 454 : Building completion 1.14
Renting Activities	953	432	711 : Renting of automobiles 1.07 713 : Renting of other machinery and equipment 1.08
IT & Telecommunications	535	254	721 : Hardware consultancy 1.31 724 : Data base activities 1.95
Medical and Health	261	97	852 : Veterinary activities 0.92
Employment Growth Sector Total	**108,587**	**31,088**	
Proportion of Total Economy	54%		
Total Employment	199,527	-388	

6.2.6 More than one in three new jobs were in the business services sector. Just under 10,900 jobs were added in business services with three other sectors creating more than 3,000 jobs (education, leisure and sport and transport).

Jobs Growth in Employment Growth Sectors 1998-2007 in South West London



Source: ONS ABI, Innovacion Analysis. These are bespoke sectors so, for example, manufacturing, just includes certain manufacturing sub-sectors but not all.

6.2.7 One sector (business services as defined by growing sub-sectors only) now makes up more than 12% of the sub-regional economy and three other employment growth sectors, comprised of selected sub-sectors, each now make up more than 6% of total employment across the three boroughs.

Employment Growth Sectors in Kingston, Merton and Sutton (1998 - 2007)

Broader sectors (comprised of growing sub-sectors only)	**Employment 1998**	**Employment 2007**	**Proportion of Total Economy 2007**	**Jobs Growth 1998 - 2007**	**Jobs Growth 1998 - 2007 (%)**	**Proportion of Employment Sector Total Growth 1998-2007 (%)**	**Growth Rate 1998 - 2007**
Business Services	13,786	24,657	12.4%	10,871	79%	35%	7%
Education	13,755	17,654	8.8%	3,899	28%	13%	3%
Leisure & Sport	12,723	16,527	8.3%	3,804	30%	12%	3%
Transport	2,819	5,826	2.9%	3,007	107%	10%	8%
Estate Agency	1,845	3,214	1.6%	1,369	74%	4%	6%
Retail	11,022	12,308	6.2%	1,286	12%	4%	1%
Cultural & Creative	1,472	2,606	1.3%	1,134	77%	4%	7%
Public Services	5,066	6,162	3.1%	1,096	22%	4%	2%
Manufacturing	774	1,620	0.8%	846	109%	3%	9%
Personal Services	3,244	4,027	2.0%	783	24%	3%	2%
Financial Services	955	1,543	0.8%	588	62%	2%	5%
Wholesale	3,199	3,780	1.9%	581	18%	2%	2%
Environmental	531	1,099	0.6%	568	107%	2%	8%
Construction	5,342	5,815	2.9%	473	9%	2%	1%
Renting Activities	521	953	0.5%	432	83%	1%	7%
IT & Telecommunications	281	535	0.3%	254	90%	1%	7%
Medical and Health	164	261	0.1%	97	59%	0%	5%
Employment Growth Sector Total	**77,499**	**108,587**		**31,088**	**40%**	**40%**	**4%**
Proportion of Total Economy	39%	54%					
Total Employment	199,915	199,527		-388	-0.2%		0.0%

7 The Role of Residential Demand

7.1.1 South west London's sizeable and growing population[9] is an important source of demand for products and services from the employment growth sectors. GLA Economics[10] has calculated that an additional 23 jobs may be created for every 100 additional residents and an independent review[11] suggests this might be a conservative calculation.

7.1.2 To consider the drivers of demand it is useful to investigate the importance of residential or population demand in the growth of the 17 employment growth sectors in south west London since 1998.

7.1.3 The employment growth sectors can be classified as having been largely driven by residential growth, been partly driven by residential growth or being other sectors (that are generally more related to London's inherent industrial specialisation). While there is a degree of judgement involved the following categorisation is suggested as reasonable:

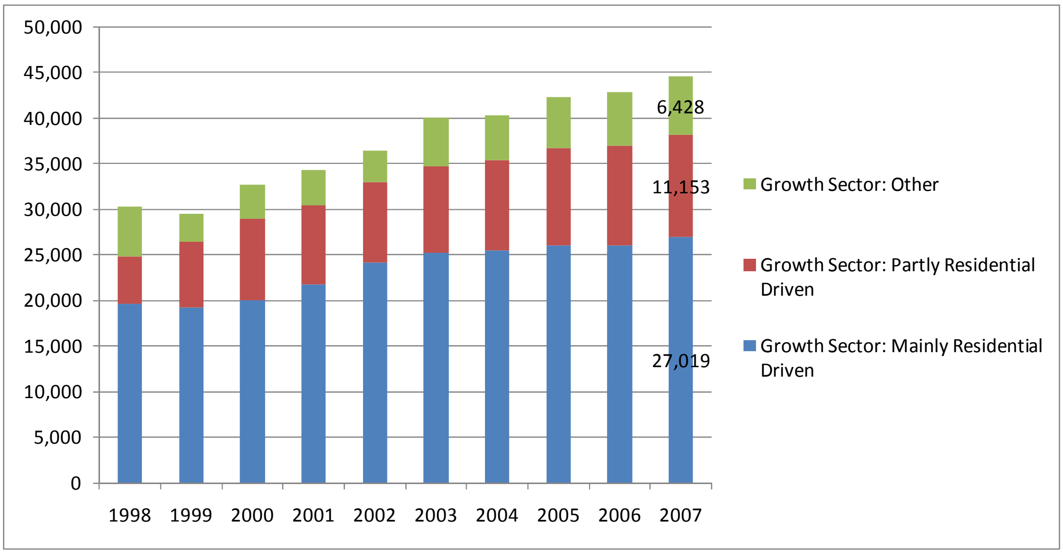
- Largely residential driven: Leisure & Sport, Education, Medical and Health, Public Services, Estate Agency, Personal Services, Cultural & Creative and Retail.
- Partly residential driven: Construction, Transport, Wholesale, Manufacturing, Environmental, Renting.
- Other sectors: Business services, IT and Telecommunications, Financial Services.

7.2 Merton

7.2.1 Of the additional 13,900 jobs created in employment growth sectors in Merton between 1998 and 2007 8,600 (62%) were in sectors mainly driven by residential growth, 3,500 (25%) were in sectors partly driven by residential growth and 1,900 (13%) were in other sectors. By 2007 this led to 57% of all local jobs being partly or mainly linked to residential or population demand.

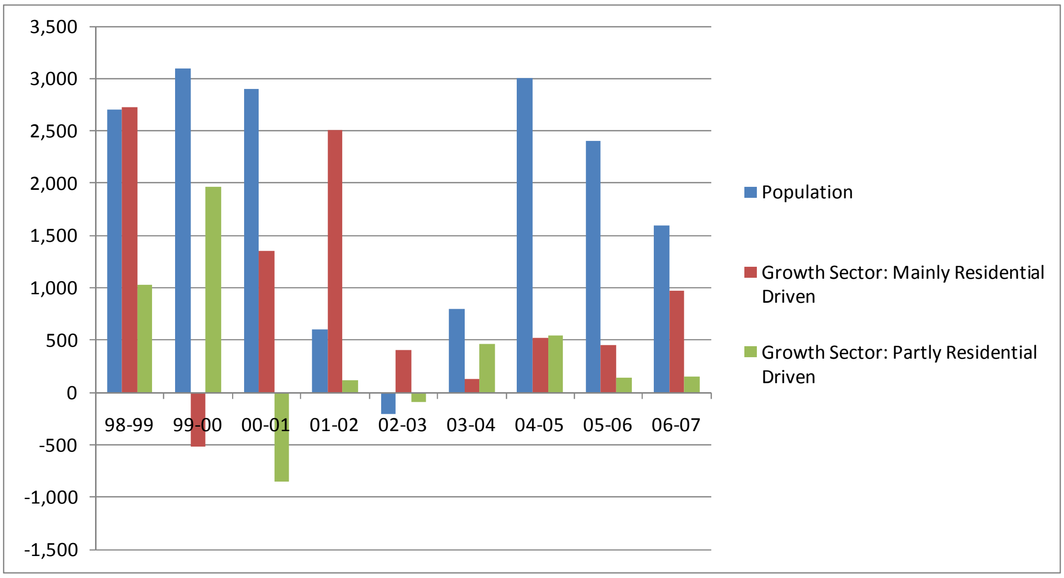
[9] Between 1998 and 2007 the highest relative growth rates were amongst 35 to 60 year olds in Merton according to ONS.
[10] GLA Economics – More Residents, More Jobs? – January 2005
[11] Batty, UCL/CASA (2007) More residents, more jobs? The relationship between population, employment and accessibility in London, A Review of the Report from GLA Economics

Residential Driven Employment 1998-2007 in Merton



Source: ONS ABI, Innovacion Analysis

Population and Employment Change 1998-2007 in Merton

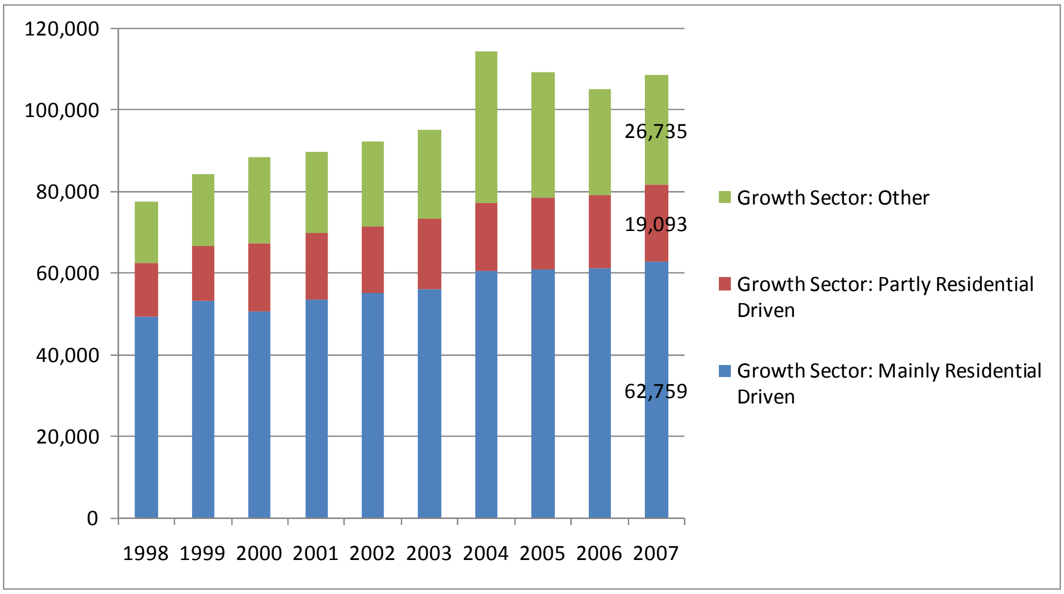


Source: ONS ABI and Census of Population, Innovacion Analysis

7.3 South West London

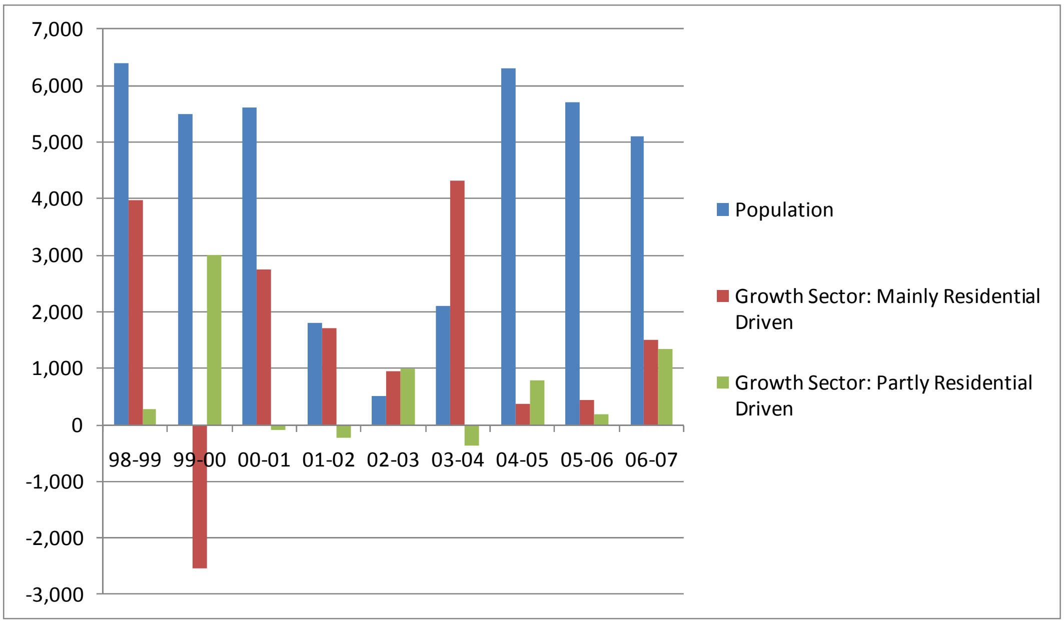
7.3.1 Of the additional 31,100 jobs created in employment growth sectors in the south west London sub-region between 1998 and 2007 13,500 (43%) were in sectors mainly driven by residential growth, 5,900 (18%) were sectors partly driven by residential growth and 11,700 (38%) were in other sectors. By 2007 this led to 41% of all local jobs being partly or mainly linked to residential or population demand.

Residential Driven Employment 1998-2007 in Kingston, Merton and Sutton



Source: ONS ABI, Innovacion Analysis

Population and Employment Change 1998-2007 in Kingston, Merton and Sutton



Source: ONS ABI and Census of Population, Innovacion Analysis

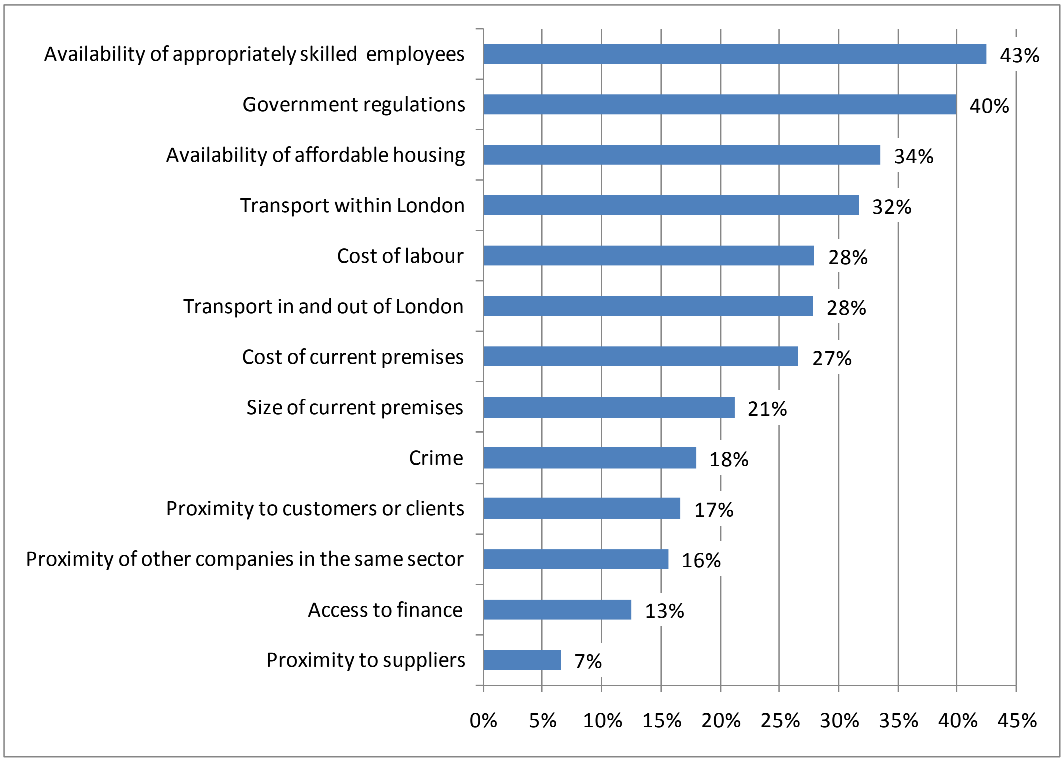
8 Business Constraints

8.1.1 Business constraints can be considered on an individual firm basis (aggregation of responses to the London Annual Business Survey) and from the views of local agencies and partnerships.

8.2 London Annual Business Survey 2007

8.2.1 While the prevailing economic conditions were very different in 2007, the most recent London Annual Business Survey investigated a range of key issues for London's businesses. In 2007 the main business issues for firms in Kingston, Merton and Sutton were the availability of appropriately skilled employees (43%) and government regulations (40%) followed by the availability of affordable housing (34%) and transport within London (32%).

Business Constraints for firms in Kingston, Merton and Sutton 2007 (rated significant or very significant)



Source: London Annual Business Survey 2007, Innovacion Analysis. Sample of 330 firms.

8.3 Outer London Commission Consultation

8.3.1 Responses to the Outer London Commission Consultations from South London Local Authorities and partnerships in 2009 identified the following issues as holding back the sub regional economy and town centres in outer south London:

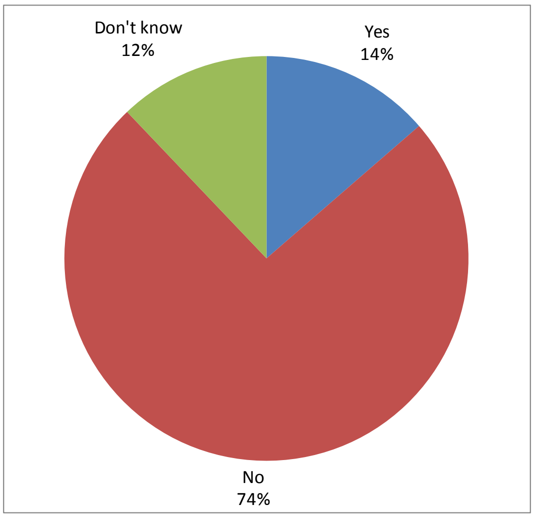
o The lack of a proactive and interventionist policy approach and relatively lower levels of per capita investment from the public sector in Outer South London.

- Poor public transport accessibility across the sub-region resulting in a sub-optimal labour market with poor orbital connections between its centres and other employment locations and business disbenefits from road traffic congestion. Short-comings in transport connections and accessibility generally to and within town centres are recognised as being the missing ingredient limiting the growth potential of their employment base (e.g. Kingston).
- Constraints restricting the intensification of housing, business and employment in district and town centres including a failure to co-ordinate transport projects, a relatively narrow economic and property mix (retail and leisure), the need for better urban realm and design and better centre management (including crime reduction).
- A lack of office-based economic activity at some of the most accessible town centres
- While knowledge based business activity could be developed at other centres offering specific competitive conditions this is dependent on improvement in hub/interchange accessibility. While Kingston has well established retail and leisure economies and an expanding cultural base development of the commercial sector has been hampered by comparatively poor transportation links.
- A lack of attractive and accessible business development locations (e.g. upgrading to 'Industrial Business Park' condition) and sites which are attractive to new knowledge-based innovative economic activity, allied with appropriate business support.
- A patchy higher education base across South London and the need for employability and skills programmes to meet the needs of local firms.

9 Economic Linkages

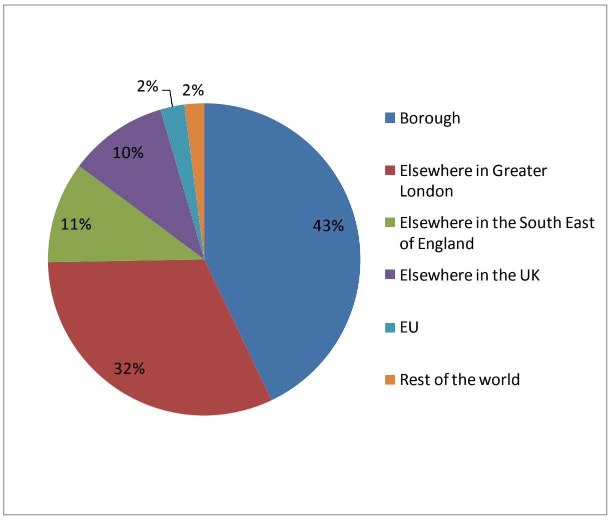
9.1.1 Firms in Kingston, Merton and Sutton are highly dependent on local business with on average 43% of sales occurring within their borough boundary. In total three quarters of their sales are within London. Only one in seven firms export with, on average, 17% of their total sales being achieved in the European Union, 3% in the rest of Europe, 4% in the USA and 6% in the rest of the world.

Exported in last 12 months?



Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms.

Sales Geography

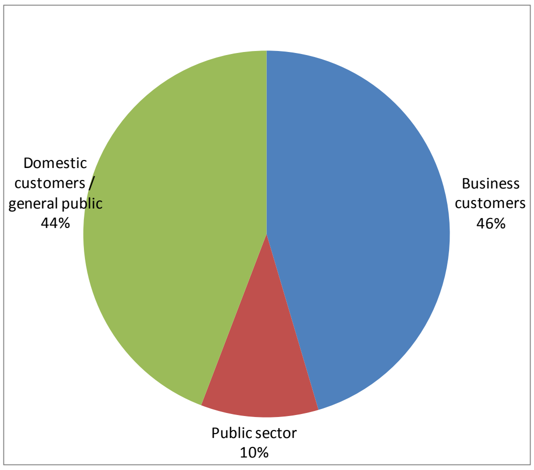


Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms.

9.1.2 Business customers (46%) and domestic customers (44%) are equally important components of total sales activity for firms in Kingston, Merton and Sutton.

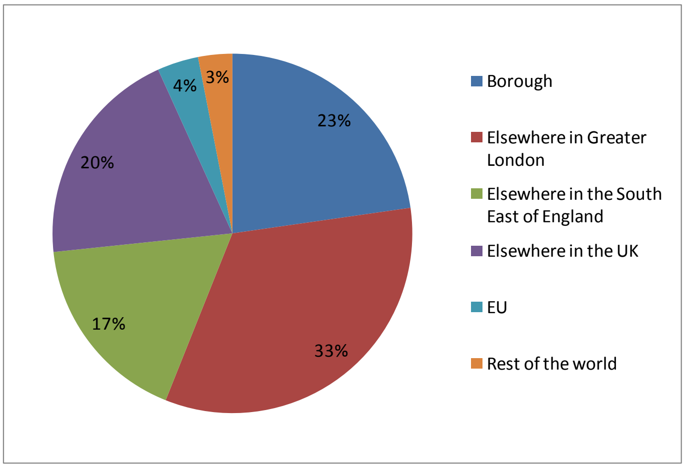
9.1.3 In terms of supply linkages for firms in Kingston, Merton and Sutton just under one quarter of inputs come from their local borough (23%) and one third from elsewhere in London. The rest of the UK (20%) and the south east (17%) are also important sources of supply.

Customers



Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms

Purchasing Geography (Supply)



Source: London Annual Business Survey 2007. Firms in Kingston, Merton and Sutton. Sample of 330 firms