



THE CASE FOR LONDON

LONDON'S LOSS  
IS NO-ONE'S GAIN

THE MAYOR OF LONDON'S  
SUBMISSION TO  
SPENDING REVIEW 2004



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# Foreword

The Case for London sets out to explain why the capital deserves greater public investment and spending. It is based on London's role as a key driver of the UK economy, its status as the country's capital city, its scale, its diversity and its age.

Since I was elected Mayor, my vision has been to develop London as an exemplary sustainable world city. Following the restoration of city-wide strategic government, we have achieved real and significant improvements in many aspects of life and work in the capital. However, the costs of delivering services in London are significantly higher than anywhere else in the UK; and as employment and population grow over the coming decades it is important to ensure that the opportunities created here are matched by residents' ability to access them.

Physically, London's transport infrastructure has not kept up with the city's developing needs. Public sector

investment and spending on transport is essential to ensure the capital's continued economic success. Socially, the dynamics of change and the barriers that prevent individuals entering work have created disparities between many communities and ethnic groups.

But this case is not just about London. Expenditure in the capital benefits the UK economy as a whole and helps the government achieve national policy objectives. At the same time, investing in London provides immediate and visible returns – London currently contributes significantly more money to central government than it receives. It is right that London – as the UK's wealthiest region – should make an appropriate contribution. But this should not be at the expense of the investment it needs to deliver its full potential and ensure its future contribution to national growth.

The sums involved mean that traditional central government methods of investment and spending are unlikely to meet London's needs completely. Instead, we need new and more flexible methods of financing.

I believe we have already demonstrated a first-rate track record in turning investment into improved services. With the right level of funding, we will continue to do so, to the benefit of both London and the UK as a whole.



*Ken Livingstone*

**Mayor of London**  
March 2004

# Executive summary

This submission to the government's Spending Review 2004 demonstrates that expenditure in London benefits the UK economy as a whole and helps the government achieve many of its national policy objectives – including alleviating unemployment and poverty. At the same time, investing in London provides immediate and visible returns: London currently contributes significantly more money to central government than it receives in spending, and further investment would strengthen this contribution.

Equally, a failure to invest adequately may have significant repercussions. London, which has higher productivity than anywhere else in the UK, is a world city that has become a highly attractive location for global businesses. No other UK city can match London; and a lack of investment or spending in London could result in such

businesses relocating outside the UK completely.

London's success in the world economy also represents an opportunity for the rest of the UK. It brings financial resources through London's position in world markets. It attracts to the UK highly skilled people and entrepreneurs. And it helps generate highly productive activities and businesses.

If the UK is one of the world's top destinations for foreign direct investment, this is in large part because of London. Such investment, which is heavily concentrated in the industrial sectors in which London excels, is attracted by the concentration of economic activities that characterises the capital. As London attracts private sector investment, this in turn enables growth in other UK locations and drives up UK productivity as more productive, foreign-owned

establishments exert competitive pressure on incumbent UK companies.

The UK economy cannot afford for London to be allowed to falter. We must continue to drive and support the city's success and the growth that it projects.

The density of occupation and activity in London provides significant benefits. It enables the creation of 'deep' markets, where it is easier to search for a job and the matching of jobs to people can be done more effectively. It gives businesses the opportunity to exploit economies of scale. Networks of people, activities and skills are more readily formed, generating spillover benefits in other parts of the country. And the concentration of activity lowers the cost of moving goods to and from the market place.

Because of this agglomeration – the coming together of

activities and people – London has significantly higher output per head than other parts of the country and earnings are consequently higher. Companies' profits are also higher, which partly compensates them for any higher costs that arise as a by-product of successful agglomeration. However, such costs create a dynamic of their own: as costs rise, activities must become more productive. This results in competitive pressure, which acts to make firms more effective and more able to compete in wider markets. London's productivity levels are 25 per cent higher than the national average and are closer to US levels than to UK or EU averages. This dynamic occurs across all sectors in London, and even spreads outside London, helping to raise productivity in the rest of the UK.

Public sector investment and spending in London is required to ensure the infrastructure necessary for London's continued economic growth and success. For example, the Strategy Unit recently concluded that London has a transport infrastructure that has not kept step with the city's developing needs over the last 50 years. In addition, it said that London's public

services faced substantial challenges because of the city's unique characteristics.

It is not just in infrastructure and services that the capital faces challenges. The dynamics of change and the barriers that prevent individuals entering work have created deprivation in many communities. The reverberations of the loss of 750,000 manufacturing jobs are still felt in some parts of London, while in others a combination of low skill levels, modest wage prospects, discrimination and the availability and cost of childcare also produce significant difficulties. In London – and especially in Inner London – big incomes for some are perfectly compatible with high levels of poverty for others, be they children, working age adults or pensioners.

Rates of child poverty in London are higher than anywhere else in the country, with 48 per cent of children in Inner London living in poverty. Low employment rates do not help, with a third of Inner London children living in workless households. Indeed, families with children in the capital are uniquely disadvantaged: London's employment rate for households without children is similar to the national

average. If we are to bring Inner London up to the employment rate of the rest of the UK, it will require an increase of 207,000 jobs.

Persistent disparities in welfare between ethnic groups are an issue for all parts of the UK, but take on added urgency in London, the most ethnically diverse of the English regions with 29 per cent of all Londoners and 41 per cent of all children from a black and minority ethnic group. The fact that black and minority ethnic communities account for 80 per cent of the projected increase in London's working age population makes the challenge even more acute.

It is important to ensure that as employment and population rise, the opportunities are matched by residents' ability to access them. This applies both to existing communities and to the young people and immigrants who are attracted to London's opportunities. Our projections suggest that both employment and population can be expected to grow substantially in London over the coming decades, with projected rises of 636,000 jobs and nearly 800,000 people between 2001 and 2016. These increases have important implications for public investment and spending.

It is only too easy to throw money at a problem and waste it. The successful application of policy and the efficient use of resources require clear and cogent analysis of the issues. While it has not been possible to cover every aspect of public spending, or set out detailed and fully costed policy proposals in every area, this Case for London provides both a description and an analysis which supports the call for greater investment in London in some key areas, based on both the need for, and effectiveness of, such spending. Over the short life of the Greater London Authority, we believe that we have demonstrated a good track record in delivering improved services. With the right level of funding, we can continue to do so.

Quite properly, London pays more in taxation than it receives in public expenditure (often called the capital's tax export to the rest of the UK). Estimates suggest the tax export from London in 2001 was in the range of £9-£15 billion. Increasing spending and investment in London will not necessarily reduce this contribution. Rather it will provide the support the capital needs to continue to generate the output and activity that provides this tax export to the rest of the UK.

Moreover, investment in London is also central to achieving success in national government strategies in a number of areas, including transport, crime and poverty (especially child poverty). Box 1 illustrates many of these targets.

Summaries of the case for investment and funding in a range of areas are set out below.

### Transport

The concentrations of population and activity that underpin London's economic strength are highly dependent on an efficient transport network able to deliver a workforce from their highly dispersed homes to areas of high-density employment. The conventional benefit to cost ratios of improvements to London's transport network are high.<sup>1</sup> Even so, they understate the full return on the investment because such analyses do not fully take into account wider economic benefits from agglomeration, dynamic effects and regeneration.

To make London's projected growth both possible and sustainable, transport infrastructure has to keep up and improve. This will require substantial levels of investment as set out

in Transport for London's (TfL) Business Plan. These investments are supported by TfL's Value for Money document, which conservatively puts the transport benefits of the TfL Business Plan, above the baseline scenario, at over £40 billion. These additional benefits – in terms of time saved and improved conditions for public transport and road users – will accrue over the next 30 years. Given the long lead times to delivery of major projects, such investment needs to begin now. If it does not, the capacity constraints of the transport network – which have already started to deter firms from locating in London – will seriously jeopardise London's potential for future economic growth.<sup>2</sup>

Buses are the only mode of public transport that have the flexibility to meet demand in the short term. London's bus network has already shown that it can respond quickly to growing demand (the increase in bus use nationally is entirely due to the rapid growth in bus use in London). But London's bus network needs additional resources to lock in these benefits and continue to facilitate London's economic growth until improvements in the Underground and other major projects come on stream.

Failure to invest in London's transport infrastructure will result in losses to both the London and the UK economy. For instance, failure to invest in Crossrail will mean the country misses out on an increase in GDP of more than £19 billion. Similarly, failure to invest in and fully support TfL's Business Plan, over and above the indicative levels of Government funding, will also result in a lost opportunity to generate an increase in GDP.

One of the tools that TfL is seeking to use for the management of more complex and capital-intensive projects is Prudential Borrowing. TfL's current Business Plan envisages the need to invest an additional £1 billion a year in London. Without the ability to borrow, or to utilise alternative methods of funding, the transport system London requires will not be put in place.

TfL has shown that it is capable of successfully managing large-scale projects, such as the bus improvements project and the introduction of congestion charging. This should provide confidence that future investment will be effectively managed and produce the desired results.

## Poverty and worklessness

Not everyone has benefited equally, or in some cases at all, from London's past success: addressing London's poverty and worklessness as a separate issue is therefore of great importance.

For the government to meet its goal of reducing poverty and worklessness, more progress will have to be made addressing specific London factors. For example, the percentage of women with children in employment, including but not just lone mothers, is lower in London than the rest of the country. All minority ethnic groups in London have lower employment rates than whites. And the structure of London's economy means that employment opportunities for people with low skills are much more restricted than elsewhere in the UK.

Enhancements to policies to make work pay in London would improve work incentives for both parents and the low skilled. Childcare is a crucial factor in determining the ability of some people to enter work. Yet the provision of affordable childcare is constrained by the complexity of current arrangements. We propose that the funding system in London should be

simplified via the establishment of a single London Childcare Fund.

## Housing

London's growing economy and population has led to an increased demand for housing that has not been matched by adequate supply. As a result, from the first quarter of 1995 to the first quarter of 2002, London house prices rose by 149 per cent, compared to 87 per cent for the whole of the UK.

High house prices have created an overwhelming need for affordable housing, both to accommodate a backlog of 112,200 households and to reduce overcrowding and homelessness. The lack of affordable housing for intermediate and key workers has led to outward migration and understaffed public services. The interim report of the Barker Review emphasises that most new housing should be affordable.

Housing supply can be increased by providing incentives to encourage the delivery of more housing, modernising the house building industry, changing the tax system to encourage institutional investment and investing in flagship public projects. Most importantly,

subsidies should be focused on increasing supply and making supply more responsive to market conditions, rather than on inflating demand.

### Education

London's schools currently require more resources than other parts of the country to account for the greater challenges they face:

- A higher share of pre-school children than the country as a whole.
- A higher incidence of child poverty.
- A higher share of pupils for whom English is an additional language.
- A higher share of pupils with Special Education Needs.
- Greater pupil mobility.

London's secondary schools provide more value added between key stages 3 and 4 than any other region.

### Health

There is a wide variation in health across areas of London. The capital has a higher incidence of HIV, a higher prevalence of tuberculosis and lower rates of immunisation against tetanus, polio and meningitis than the rest of the country. Over a quarter of patients are on London's hospital waiting

lists more than six months, greater than the national average. London treats 163 cases per 1,000 people, below the national average of 173 cases.

### Recruitment and retention of key workers

London has higher teacher vacancy rates than the rest of the country. The turnover rate of teaching staff is over 20 per cent per year in Inner London and around 18 per cent in Outer London – the highest rates in the country. While London teachers' pay has increased recently, this still does not reflect the higher costs of living in London. Research shows that in 2003 the cost of living in London was 17–20 per cent higher than in Edinburgh and 23–30 per cent higher than in Manchester. The relative cost of living in London is particularly high for the lowest income groups.

The size of London's healthcare workforce is declining. The King's Fund has highlighted the challenges facing recruitment in London's health sector – including high staff turnover and poor staff retention, higher vacancy rates, dependency on temporary staffing and an ageing workforce, especially among general practitioners.

The key to solving the problem of recruiting and retaining key workers is to compensate these workers financially for the relatively high cost of living in London. The Chancellor is supportive of regional wage flexibility and wants pay review bodies for the public sector to have frameworks with a stronger local and regional dimension.

Increasing London teachers' wages to reflect London's higher cost of living fully would add between £194–£362 million per year to London's education budget. Increasing London nurses' and medical practitioners' wages to reflect London's higher cost of living would add around £238–£394 million per year to London's healthcare budget.

### Crime and community safety

While there has been significant progress in reducing crime in recent years, London suffers disproportionately from some of the crimes most costly to society (robbery and violence against the person, for example). Resources should be devoted to reducing these costly crimes as well as maintaining the existing focus on other types of crimes.

When compared to other parts of the country London faces additional costs for policing:

- higher costs of living
- more organised crime
- the size, concentration and heterogeneity of London's resident and transient population
- being home to a number of well-known royal, political and other important buildings, London is inevitably a terrorist target.

Levels of worry about crime and incivility (eg anti-social behaviour, street drug-dealing and use, litter, rubbish and graffiti) in London are high. Such fears disproportionately affect communities where there is economic deprivation, black and minority ethnic communities, women and homeless people.

A commitment to increase police resources to enable an improved level of neighbourhood policing would reduce public fear of crime (as research, and early results from the Bexley Reassurance pilot, indicate), discourage crime and anti-social behaviour and build productive relationships between police and local communities.

The Metropolitan Police Service's Step Change programme, which would enable ring-fenced neighbourhood policing, is forecast to have an annual

cost of around £340 million by 2010.

### Environment

London's growth will place further pressure on its environment, not least in dealing with the quantities of additional waste that will be generated. Without proper investment, the quality of London's green spaces, its water and its air will all suffer.

London has an important role in helping the country meet national priorities. It currently has some of the highest measures of air pollution, is below the river quality objective target and only 8 per cent of London's waste is recycled. Government should consider appropriate changes to existing legislation to enable the establishment of a single waste disposal authority for London.

### Financing investment

Failure to invest in London will harm both London and the rest of the country. Investment pays back: the relatively high productivity of London means that delivering economic success in the capital increases the UK's output and generates tax revenues. It has been conservatively estimated, for example, that Crossrail will deliver a net present value

of £7.6 billion of tax revenues over the next 30 years. And tax revenues contribute to the rest of the UK as well as to London.

Traditional central government methods of investment and spending are unlikely to be able to meet London's needs completely. Instead, new and more flexible methods of financing need to be considered. Indeed, the Strategy Unit's recent report noted that London had limited autonomy to use its resources to solve London-specific problems, despite having high levels of need. It stated that both New York and Tokyo, comparable world cities, were much more financially autonomous than London.

In April 2004, capital expenditure in local government will be fundamentally changed by the introduction of the Prudential Borrowing regime, which provides an opportunity for London to make more effective and flexible use of financing. Government has confirmed its intention that this will allow a wider range of financing structures.

Alternative means of financing could include bond financing, land value capture and providing the power to set business rate levies.

**Box 1: London's potential impact on the government's national targets**

National target	London impact
<ul style="list-style-type: none"> <li>• Reduce the number of people killed and seriously injured on roads by 40 per cent by 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Under TfL's full Business Plan, this target would be met in London. It will not be met under the cuts currently proposed.</li> </ul>
<ul style="list-style-type: none"> <li>• Increase bus and light rail usage by 12 per cent by 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Bus usage increased by 30 per cent in London between 1999/2000 and 2003/04.</li> </ul>
<ul style="list-style-type: none"> <li>• Reduce congestion in large urban areas below 2000 levels by 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• TfL's full Business Plan shows congestion would be 4 per cent lower than would be achieved under baseline funding.</li> </ul>
<ul style="list-style-type: none"> <li>• PSA target to halve the number of children in poverty by 2010 and eradicate child poverty completely by 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• Given that nearly half of all Inner London children live in poverty, progress in London is crucial to meeting this target.</li> </ul>
<ul style="list-style-type: none"> <li>• PSA target to increase employment rates and reduce unemployment rates over the economic cycle.</li> </ul>	<ul style="list-style-type: none"> <li>• London has low rates of employment and high rates of unemployment.</li> </ul>
<ul style="list-style-type: none"> <li>• PSA target to increase the employment rates of disadvantaged areas and groups, such as ethnic minorities and the low-skilled, and significantly reduce the difference between their employment rates and the overall rate.</li> </ul>	<ul style="list-style-type: none"> <li>• Around half of Britain's minority ethnic population live in London and the capital has low rates of employment among those with relatively low levels of qualifications.</li> </ul>
<ul style="list-style-type: none"> <li>• PSA target to reduce the proportion of children in households with no one in work.</li> </ul>	<ul style="list-style-type: none"> <li>• London has low rates of employment among mothers.</li> </ul>

### National target

- Achieve a better balance between housing availability and the demand for housing, promote high density housing and encourage investment focused on brownfield land.
- By 2010, bring all social housing into decent condition with most of this improvement taking place in deprived areas.
- PSA target to raise attainment for 14-19 years in schools and colleges.
- PSA target to reduce inequalities in health outcomes by 10 per cent as measured by infant mortality and life expectancy at birth by 2010.
- PSA target to reduce crime and the fear of crime.
- Combat serious and organised crime; counter terrorism and the threat of terrorism.
- Joint DEFRA-DfT PSA target to meet National Air Quality Strategy targets.

### London impact

- Policies set out in the *London Plan* are critical to meeting the national objective.
- More than 260,000 London Council owned homes still do not meet the government decent homes standard.
- London's secondary schools provide more value added between key stage 3 and key stage 4 than any other region.
- The average life expectancy in London, for both men and women, is close to the national average, but this masks wide variations within London.
- London suffers from more crime than the rest of England and Wales and has a high fear of crime.
- London is a target for terrorism and has a high level of serious and organised crime.
- London has a below average level of air quality.

# Introduction

This submission considers the need for public investment and spending in London. It starts by giving an overview of the London economy and how its success supports other parts of the country. It illustrates that investment in London produces high returns and benefits the economy as a whole. Next, it examines the infrastructure needed to support London's growth and the extent to which success depends on this investment. The submission considers both the physical and social infrastructure requirements, covering not only transport but also the issues of poverty and worklessness, housing, education, health, police and environmental quality.

The need for investment in London's infrastructure is inextricably linked with the spending and investment necessary to ensure effective public services. As a result, the submission covers both economic and social reasons

for more investment and spending.

Throughout the submission, areas are identified where current governance structures act to hinder the delivery of public services and where further reform would be advantageous. The document also considers the balance between the taxation raised from, and the spending on, London.

The capital contributes between £9-£15 billion net to the Exchequer each year. This means between 7.5 per cent and 18 per cent of the revenues raised in London are exported to other parts of the country. While London wants to be in a position to continue contributing to growth across the UK, it will be unable to do so without better investment in its own infrastructure.

Finally, the submission concludes by summarising

the main recommendations from the various sections of the case and by bringing together the various ways in which financing of the investment and spending in London could be achieved.

This submission stands alongside other contributions, from Transport for London, the Metropolitan Police Service, the Association of London Government and others, in arguing London's claims.

A shorter version of this submission, *The Case for London*, is also available from the GLA.

# Chapter 1:

## London, the UK and the World

London benefits the economy as a whole. The concentration of activities and people in London – called agglomeration – raises productivity and fosters specialisation, which attracts businesses from around the world, raises the UK's level of productivity and competitiveness and attracts foreign direct investment (FDI), which frequently permeates to other regions of the UK.

Over the last decade, London has reinvented itself and grown strongly, taking advantage of its comparative strength in dynamic industries, like financial and business services, where agglomeration effects are strong.

Investment in London not only yields high returns in its own right, it is also necessary to maintain London's global attractiveness. A failure to invest appropriately in the capital will damage not just London's economy, but also the economy of the UK as a whole, just as the lack of investment in cities in general over the last 30 years or so has pulled down the UK's rate of economic growth.

### Introduction

This chapter considers the benefits that derive from agglomeration and the relationship between the London economy and the rest of the UK.

### London's economy

Like many other parts of the country, over the past 30 years London has lost most of its manufacturing

base. Over the same period, it has seen a continuous growth in employment in the key financial and business service sectors and is now more distinctive in this respect than other parts of the country.<sup>3</sup> Research shows that the Central London finance and business services cluster is one of the most competitive in the world.<sup>4</sup>

London has also become a UK centre for the creative,

media and cultural industries, which have built on existing strengths, such as the capital's cultural assets, as well as building new concentrations of activity around, for example, the BBC in White City and commercial TV in Camden.<sup>5</sup>

The Corporation of London has mapped some of these main centres, illustrating their proximity to each other.<sup>6</sup> This work shows how traditional centres of finance

and the law are close to, and linked with, newer areas of computing and support services as well pockets of media activity.

### Agglomeration

By definition, the densities of both employment and population are higher in cities than in other areas. Parts of Central London are the densest in the UK, with employment density reaching 117,000 jobs per square kilometre in the City of London. Only London has boroughs with more than 5,000 people per square kilometre.<sup>7</sup> Research at Loughborough University<sup>8</sup> has shown that there is only one city around the world that compares with London on all the dimensions for which data can be compiled, and that is New York. Both cities are centres of finance and commerce; centres of culture, knowledge and creativity; centres of communication; centres of power and influence; and world visitor and tourist centres.

In London, like New York, the concentration of people and business activity has benefits that make locating in the city worthwhile. These benefits were first discussed in the economics literature

at the turn of the twentieth century.<sup>9</sup> Four main reasons for cities – or concentrations of activity more generally – were identified and hold good today:

- There is the ability to create deep markets: that is, markets in which there is a lot of choice. This may be particularly relevant to labour markets, where job search can be easier and the matching of jobs to people can be more effective. Access to deep pools of skilled labour is frequently cited by companies as one of the top two factors in deciding where to locate, along with access to markets.<sup>10</sup>
- There is the ability to exploit economies of scale – not just in production, but also in marketing and sales. This can also extend to the ability of specialists to exploit a niche, which would be impossible in a small market.
- There are network benefits from bringing people, activities and skills together. These may be knowledge networks, which enable universities to get together with business. They may be of ideas – cultural activities that provide excitement and innovation. They may be in finance – the ability to find

someone who is interested in what you have to offer.

- The concentration of activity lowers the transport costs of moving goods to and from the market place.

But agglomeration is a dynamic process and London is not a static city. Indeed, its size and variation are precisely what makes change possible. It has reinvented itself on many occasions. Its most recent reincarnation is in the recovery from the decline of manufacturing employment. Although 750,000 manufacturing jobs were lost in London between 1973 and 1999, they were replaced by service sector jobs – which have gone on growing. As a result, employment trends are positive across the city and only a collapse in business services will prevent further growth.<sup>11</sup> It is also why much of the expansion of employment is expected to happen in the central area. This is where the benefits of closeness can be most easily absorbed and exploited.

Nor is the trend towards agglomeration showing signs of reversing. In spite of the invention of railways, telegraph, the telephone – and now email and broadband – more of the globe's population live in cities than ever before. It is apparently the case that

the more it becomes possible to communicate at a distance, the more we want to get together to work out how to use new advances.

Agglomeration creates benefits for those who get together that can be substantial. London has significantly higher output per head than other parts of the country (Figure 1).

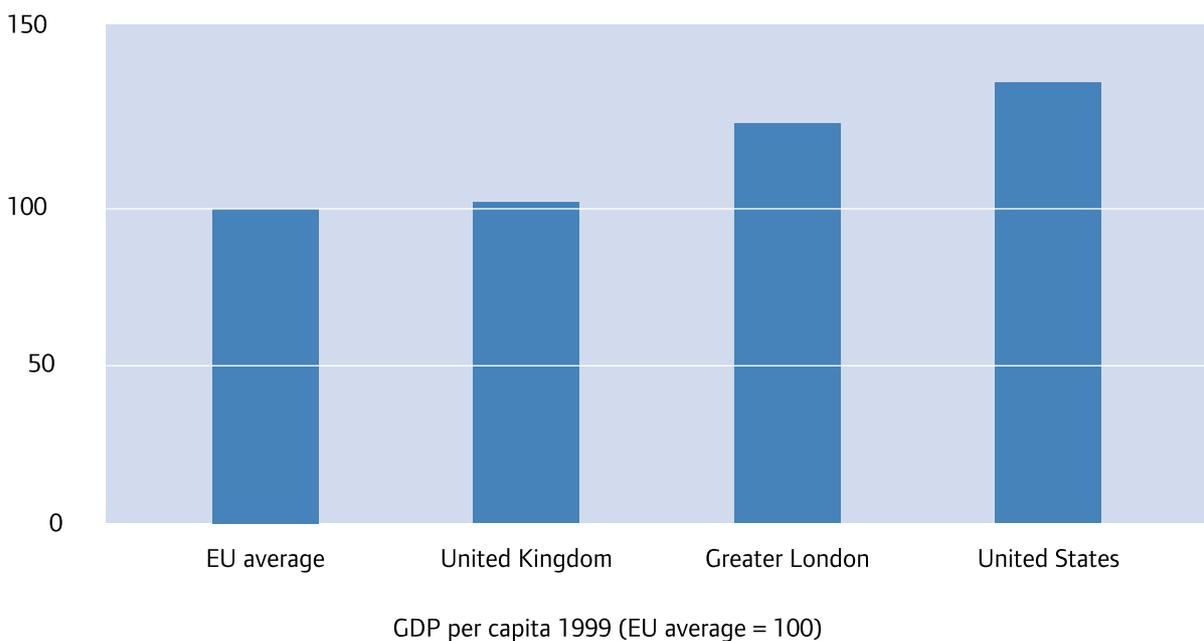
This higher productivity results in higher earnings. Profits are also high and this partly compensates firms for the higher costs of being in a large city, including not only the costs of commuting, but

also those associated with the relative scarcity of land. This creates a dynamic of its own. As costs rise, activities must become more productive. This may drive out some activities that cannot keep costs down or where competition is intense and this is one of the reasons why London's manufacturing sector has been squeezed. But it also results in a pressure to perform that can make firms more effective and more able to compete in wider markets. It is because there is an agglomeration of financial activities that London has the capacity to innovate in financial products that is one

of its main strengths. This in turn gives it global strength and influence. Global markets in turn provide the impetus for continued investment, as well as competitive pressure.

But a similar process occurs in sectors that compete in a more restricted geographic sense. Even restaurants in London face more competition than they do in most locations. They need continually to innovate, to find new markets and to make sure they are well presented. Slipping standards will quickly lead to failure. These are businesses whose main markets are local, but

**Figure 1: GDP per capita**



Source: London Analytical Report, Prime Minister's Strategy Unit, July 2003

competition can still be intense. Density of activity is associated with accessibility (ie the number of people able to access a given place within a set amount of time). In order for dense employment or population to be possible, places must be accessible. Work done by Colin Buchanan and Partners<sup>12</sup> has shown that the greater the number of people who can access a given ward, the higher its employment density, once a certain threshold of accessibility has been reached. Similar conclusions have been reached in studies on the potential impact of the Thames Gateway Bridge.

Estimates of the impact of agglomeration on output are not yet widely available. They also require detailed data sets, which are not always in existence. Estimates need to control for a number of factors. For instance, activities and individuals may be attracted to the city, but would still be more productive than the average if they were elsewhere. However, estimates so far available suggest that increasing employment in Central London by around 30,000 people may improve the productivity of those already employed in London by something between £50-£300 a head per year when discounted over time.<sup>13</sup> While more work must be

done to refine these estimates, other research is supportive. Using very detailed data, recent French research identifying only those people who had moved locations and the wages that they had commanded as a result has suggested that a 1 per cent increase in density increases earnings by 2 per cent<sup>14</sup> (this assumes that people would have had the same skills and abilities if they had not moved, which is probably too strong an assumption).

Agglomeration is not the same as clustering, although there is clearly a relationship between these two concepts. Indeed, one of Porter's clusters<sup>15</sup> might be generated by the process of agglomeration. But a cluster can also be dispersed, since the key concept of a cluster is a set of supply relationships. Agglomeration is rather a process that operates continuously on all the activities within a particular location.

The agglomeration benefits outlined here cannot easily be replicated elsewhere in the UK. Agglomeration is an external benefit for the rest of the UK arising from London's status as a world city.

An obvious case is financial services, where the City of

London has invested for a long time in its skills and compact size. Now the advent of Docklands as a financial centre has borne fruit both as an extension and alternative centre, helping to keep costs down and provide the large new offices major banks and investment houses require.

The creative industries, broadly defined, benefit enormously from the spillover effects generated by proximity. These range from dense labour markets offering choice to both workers and employers, to opportunities to build niche businesses and exploit knowledge transfer.

Creativity – and increasing value added – applies as much, if not more, to individual firms as to industries. Even sandwich bars can increase their value and productivity under the spur of high costs and discerning customers, as the success of companies such as Pret à Manger show.

Allowing continued expansion and exploitation of high value ideas is crucial to the continued success not only of London but also the UK.

### **Population and employment growth**

Population and employment projections suggest that the

opportunity for London, and the UK as a whole, to benefit from further agglomeration effects are good.

Projections for London have been prepared for the London Plan, which has been drawn up as part of the Mayor's statutory requirements. The Plan has been subject to an Examination in Public, at which the Panel supported almost all its conclusions. The projections suggest that London's population will rise by 800,000 between 2001 and 2016. This reflects evidence of birth rates and migration. Similarly, employment increases of 636,000 over the same period are based on the historical pattern of employment change.

While offering opportunities, such growth presents a challenge to London's labour market. It is clear that many Londoners, notably women with children, the low skilled and many from ethnic minority communities, are currently not enjoying the full benefits of London's vibrant economy.

### London and the South East

London should not be considered as distinct or separate from the rest of the UK. At one level, integration between London and the surrounding regions is provided by commuters. While

some people living in London commute to neighbouring regions, a much larger number travel in the opposite direction. Over 1 million people arrive in Central London each day and 500,000 cross into London from other regions.<sup>16</sup> As a result, these workers are likely to spend the majority of their earnings outside Central London. If Central London suffers from lower growth this will affect people and businesses outside London. Integration also happens in business, particularly along the Western Corridor, where a raft of high technology, and especially computer, industries have developed. Many of these businesses started small in Central London and moved out. Some arrived to take advantage of Heathrow and the first business parks in the UK and most have deep relationships with businesses within London. The Western corridor is where 'out-commuting' is best established.

A further development of this kind of symbiosis is hoped for in the East with the Thames Gateway.

### London and the UK

London's economy is closely integrated with that of the rest of the UK. Estimates show that London businesses buy £60 billion of intermediate

goods from outside London and consumers buy another £30 billion.<sup>17</sup> London also has capital city functions and head office locations for many UK businesses.

It can be argued that periods of economic success and the ability to exploit opportunities are associated with successful cities. Because of their concentration of skills, creativity and resources, cities are a forcing ground for the development and implementation of the new ideas that ultimately drive the whole UK economy. For example, when computers first came on the scene, installations were located in the centre of cities, where the highly qualified staff and managers needed to develop their use could work with them. Once established as a tool, computer installations moved out to the rest of the country.

For nearly a generation, the UK had a policy of reducing density in cities and of moving people and jobs to new towns. Cities were seen as being unhealthy, overcrowded, congested, polluting, expensive and undesirable. Strategies of public investment gave no weight to the agglomeration effects outlined earlier and this may have contributed to the relatively poor

economic performance of the UK. It is only relatively recently that policy (for instance changes to the planning policy regulations) has been re-evaluated and has recognised the benefits of cities and ways of making them work. It is crucial that we continue to take account of these benefits.

### London and the world

Whatever the criteria used to define world cities – including their role as financial centres, the availability of networks, the extent of international business and their creativity – London passes the test.

More businesses in London see international markets as key than in any other UK city.<sup>18</sup> London is also the UK base for many of the multinationals operating here. Given the world city status of London, many of these businesses would not readily relocate elsewhere in the UK. If they feel they have to leave London, they are likely to leave the country completely. London's loss would be very unlikely to result in a gain for another region of the UK; and, since the government's aggregate tax take is around 40 per cent of GDP, the government will derive a substantial direct financial loss from any reduction in growth caused by firms in London

locating to other countries.<sup>19</sup> London's world status should be seen as an opportunity not a threat to the rest of the UK. The ability to be at the forefront of the world economy brings resources in several ways. It brings financial resources through London's position in world markets. It also brings valuable human resources, in the form of both highly skilled people coming to take up jobs and enterprising people coming to the UK as migrants. FDI introduces new knowledge by bringing in new technologies, processes and systems and upgrading the skills of the indigenous employees. It also forces competing indigenous firms to adapt to new competitive conditions and become more efficient.

World status magnifies difficulties as well as opportunities. Alongside London's international business and world quality assets are areas of deprivation and poverty. In part, this can be ascribed to the very dynamism of the city, which can leave behind groups of people without the means to participate in the labour market effectively.

Policy responses have to be careful not to undermine dynamic reactions from workers, businesses and residents, which improve

opportunity and productivity in general. On the other hand, we need to help those affected by the fall out or attracted by opportunities that prove hard for them to access. This means tackling the barriers that prevent individuals from entering work and exiting poverty.

Investment is attracted to London by the capital's attributes and opportunities, and this in turn enables growth in other UK locations. The UK is one of the top world destinations for FDI. London makes a major contribution to attracting FDI to the UK because such investment is heavily concentrated in sectors in which London excels (financial services, transport and communication services, real estate and business services) and because FDI is attracted by the agglomeration and clustering of economic activities that characterise London.

Given the role of agglomeration and clustering in attracting foreign investment, it is important not to pursue economic policies that might result in an outflow of existing foreign investment away from London to other areas. The inflow of foreign investment through the City benefits not only London, but also the UK economy as

a whole through a variety of channels, including potential productivity spillovers. For instance, foreign-owned establishments may be more productive and exert greater competitive pressure on incumbent UK firms, spurring them on to greater productivity improvements themselves. Moreover, recent research showed that nearly 60 per cent of companies undertaking FDI in London planned to expand their operation beyond London over the next three years.<sup>20</sup>

### Investment in London

London's continued success requires expansion and development of its infrastructure to match the opportunities being created. For example, transport investment is vital for the positive agglomeration effects of London to be maximised. While there is a very high concentration of jobs in Central London, in contrast to cities such as Paris the UK capital's housing is highly dispersed. The combined economic geography of dispersed residential areas, and highly concentrated jobs, means that good transport links are crucial to London's economy.

As this submission shows, investing and spending in other areas, besides transport, is also crucial not only to maintain London's position as a world city that is attractive to business, but also to ensure that London operates effectively, and to the benefit of all Londoners. In the chapters that follow, therefore, the submission considers the need for investment and spending in both the physical and social infrastructure of London.



## Chapter 2: Transport

London's economic strength is underpinned by the success of its highly concentrated centres of business activity. But this agglomeration effect depends on an efficient transport network to deliver a workforce from their dispersed homes to areas of high-density employment. The conventional benefit to cost ratios of improvements to London's transport network are high,<sup>21</sup> but the full benefits are understated if wider economic benefits from agglomeration, dynamic effects and regeneration are not incorporated.

To deliver and sustain London's projected growth, transport infrastructure has to keep up and improve. This requires substantial levels of investment, as set out in TfL's Business Plan. Given the long lead times to delivery of major projects, this investment needs to begin now or capacity constraints – which have already started to deter firms from locating in London – will seriously jeopardise London's future economic growth.<sup>22</sup>

Buses are the only mode of public transport with the flexibility to meet demand in the short term. London's bus network has already shown that it can respond quickly to growing demand, but it needs additional resources until improvements in the Underground and other major projects come on stream.

### Introduction

This chapter considers some research on the issue of accessibility and the effect that improved transport links can have on employment. It addresses the current level of transport provision in London and the likely impact of London's forecast growth on the transport system. The chapter then considers key transport projects, focusing on Crossrail in particular, TfL's

good record in managing major transport projects and possible alternative funding arrangements.

### Accessibility

Many factors determine the decisions of both firms and individuals to locate in any given area. One key factor is accessibility. For firms, improved accessibility increases the number of potential employees,

customers and suppliers and hence is likely to encourage investment and expansion. Accessibility is also important to individuals, because their economic and social welfare is dependent upon the opportunities or choices available to them. Transport enables people and businesses to access jobs and services. Accessibility therefore links transport supply with wider policy objectives, such as economic targets.

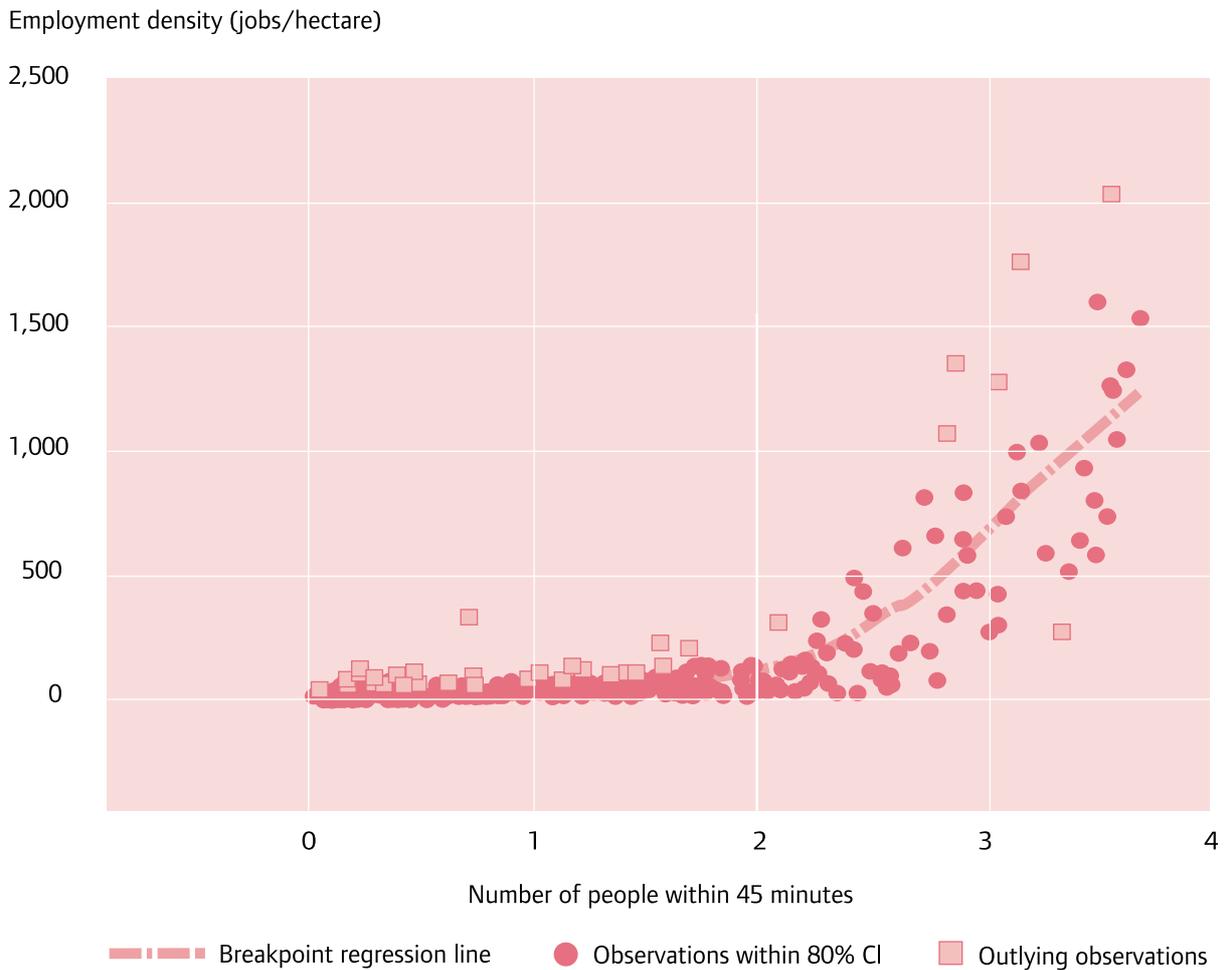
Accessibility relates the distribution of opportunities available (such as employment) to the transport options that can be used to reach them. It is often measured in terms of the opportunities that can be reached within a defined time limit: for example, accessibility can be measured as the number of jobs available within 30, 45 or 60 minutes.

Recent research<sup>23</sup> has looked at rail, tube, DLR and tram access<sup>24</sup> and compares employment and population densities to accessibility to employment and population for every ward in London. The model used simplified the calculation of access to the rail network by using estimated walk travel times only; it did not incorporate the full bus network. It was found that at low levels of

rail accessibility, employment density increased with growth in accessibility, albeit at a relatively low rate. At high levels of accessibility, the correlation between employment density and accessibility was much stronger (Figure 2).

The research also found a statistically significant relationship between population density and

**Figure 2: Accessibility and employment density in London wards**



Source: *Transport and Accessibility*, Colin Buchanan and Partners, 2003

accessibility, though the correlation was weaker than for employment density.<sup>25</sup>

The evidence for a positive, statistically significant, relationship between accessibility and employment densities and population densities is also supported by reports<sup>26</sup> that focused on the Eastern side of London only.<sup>27</sup> These pieces of research were carried out in the context of the possible impact on employment and population of the Thames Gateway Bridge and Silvertown crossings<sup>28</sup> on the Thames Gateway. The research looked at both rail and road accessibility and found that increased accessibility implied higher potential employment. Many other factors, including the wider economic environment, the availability of sites, and so on, would influence whether such potential was actually achieved.<sup>29</sup>

These conclusions are also supported by studies at the national level, which have found that good accessibility is a necessary but not sufficient condition for economic development.<sup>30</sup>

All this research supports the common sense view – shared by developers – that good

accessibility is a necessary requirement for economic regeneration in London. Better accessibility from an improved transport network in London will help achieve the government's aim of a high and sustainable level of employment by increasing employment potential in the areas affected.

### Transport in London

Central London is already highly dependent on public transport, with over 85 per cent of people arriving by rail, underground and bus in morning peak hours (7am to 10am).<sup>31</sup> Each day more Londoners access their jobs by public transport than the total for the North East, the North West, the East and West Midlands, and Scotland and Wales combined.<sup>32</sup>

However, London also has the most acute traffic congestion in the UK, and severe overcrowding on the Underground and rail networks, which have deteriorated owing to decades of insufficient investment. Since 1970, London has added just 38km of rail to its rail and metro network. This compares to Paris, a city that since 1980 has not been growing significantly, which has added 85km to its rail and metro

networks.<sup>33</sup> During the 1990s, there was some rail expansion in London (National Rail and London Underground frequencies and the Jubilee Line Extension). However, this capacity has been used up through London's growth:

- Three million passengers use the Underground each day – a similar number to the entire national rail network.
- London's buses carry 5.9 million passengers a day – a third of all bus passengers in England and Wales.
- London and the South East account for almost half of all overland rail passenger kilometres and two-thirds of all passenger journeys. Since 1992, passenger trips by bus and light rail (including London Underground) have increased by over 36 per cent in London, compared to just 8 per cent in Great Britain as a whole (including London), although growth in peak travel has been smaller (Figure 3).

It is not just public transport in London that is congested. There are approximately 11 million car/motorcycle trips made every day on London roads and average morning peak network speeds on London's roads are around half the English average.<sup>34</sup>

In addition, over 5.9 million walking and cycling trips are made every day in London. Without increased investment, London’s transport system will deteriorate, damaging the capital’s international competitiveness.<sup>35</sup> Financial services businesses are deeply concerned with the state of London’s public transport, believing that it lags well behind New York and Paris and imposes huge costs on the City.<sup>36</sup> There is growing evidence that the strain on London’s transport system is already affecting business decisions on where to locate.<sup>37</sup>

Addressing London’s transport problems requires not only effective use of the existing

system, but also increased investment in major new projects to enable London’s forecast growth to occur.

**Making the most of the existing system**

TfL is working to maximise the efficiency of the existing system through:

- Aggressively pursuing the benefits promised by the Public-Private Partnership (PPP) infrastructure companies in terms of improved Underground capacity and reliability.
- Ensuring increased efficiency and effectiveness from bus operators through enforcement of the new quality contracts.

- Improving conditions on the road network for all types of traffic, as managed by the new Directorate of Traffic Management.
- Continuing to pursue the benefits to all types of traffic from the clearer roads resulting from congestion charging, and considering the possibility of extending the geographical scope of this scheme to include the western part of Central London.
- Ensuring greater public confidence in minicabs by licensing them so they can play a greater role in London’s public transport system.
- Providing much-improved travel information so people can take full

**Figure 3: Growth in passenger trips on bus and light rail (including London Underground) 1992/93 to 2002/03**



Source: GLA Economics. Data from Department for Transport, Transport Statistics Great Britain 2003, and ONS, Regional Transport Statistics 2003

advantage of the travel options available to them.

- Taking forward travel planning and other initiatives to help change the behaviour of the travelling public in ways that reduce the pressure on the system.

TfL is also committed to reducing costs in central functions in order to release resources for investment in frontline functions, with a programme to achieve a total of £400 million in efficiency savings by 2009/10 (see TfL's Business Plan for more detail).

TfL has already made significant progress. Congestion charging has helped to improve the efficiency of the road network in Central London, allowing bus users and motorists to get to their destinations faster across London. Substantial improvements to the bus network have induced much greater use of buses, which now run much more reliably in a less congested central area.<sup>38</sup> In the last few years, London has seen the biggest increase in bus ridership since the Second World War and customer satisfaction is at the highest level ever recorded.<sup>39</sup> Between 1999/2000 and 2003/04, bus use in London increased by 30 per cent, yet

in the rest of the country use of the buses is either stagnant or declining.

Buses also have significant social inclusion benefits. The Social Exclusion Unit has recognised that buses are the most important mode of transport for people on low incomes. The report identified buses as the key transport service to improve in order to reduce the transport barriers to people on low incomes accessing key services.<sup>40</sup> Buses are also important because they supply affordable transport for key workers – a crucial issue in London.

### Improving security and safety

For many sectors of the population, effective use of the transport system is constrained by safety and security concerns. TfL recognises this and has undertaken to improve security on London's transport network through varied projects such as increasing visible policing. The new Transport Operational Command Unit has seen the development of a partnership between TfL and the Metropolitan Police, deploying police officers, traffic wardens, police community support officers and civil staff.

In addition, the Transport Policing and Enforcement Directorate was formed in 2003 to encompass the Transport Operational Command Unit with the specific aim of reducing passenger fear of crime on TfL's public transport services.

Other measures include improving lighting, CCTV (for example, more than 2,400 buses have been fitted with cameras and remote CCTV monitoring has been installed at a number of bus stands) and licensing minicabs. These will be particularly beneficial in meeting the concerns of London's women about using public transport. TfL is also investing in Borough schemes to tackle personal security problems on local streets and in town centres.

### The need for additional investment

London's population and level of employment are projected to increase significantly between 2001 and 2016 with more than 800,000 new residents and 636,000 new jobs. The strain on London's existing transport network is expected to increase as London grows. In particular, Central London (including the Isle of Dogs) is likely to be the fastest

growing component of employment growth, driving a rise in the demand for trips across all modes of public transport of 2 million a day by 2016.<sup>41</sup> This will mean 39 per cent more passenger kilometres in the morning peak on rail and Underground, and 31 per cent more on buses. Failure to deploy the necessary investment to meet demand will see a system that will relatively quickly struggle to cope. By 2016, the proportion of crowded links on the Underground, for instance, is forecast to rise from 17 per cent to 31 per cent of the network.

It is not only peak time travel where demand is forecast to grow. In addition to growth in finance and business services, which are clustered in Central London, the creative industries and services such as leisure facilities and the retail sector are growing rapidly both in clusters in areas such as the West End, and in town centres across London. With them comes an increasingly dynamic evening and weekend economy.<sup>42</sup> This is reflected in the rapid growth in off-peak demand – for example, on the Underground late-evening demand is up 51 per cent over the last decade, compared to a 26 per cent growth in overall demand.

London draws almost 30 million tourists spending £15 billion each year into the economy, on which around 275,000 jobs depend. London is also the main gateway to the rest of the country, with more than half of overseas visitors to the UK spending time in the capital. The health of London's tourism is critically dependent upon expanding evening and weekend transport provision to accommodate shopping and leisure trips as well as for those working in the tourism industry.

This requires expansion of the 24-hour bus network, the regulation of the minicab trade and measures to improve personal safety and security when travelling at night. Tourism also requires the creation and maintenance of safe and attractive streets and public spaces – along the lines of the part-pedestrianisation of Trafalgar Square, for example.

The rail network is also an issue of great importance. London is the leading transport hub for the UK with around two-thirds of national rail journeys beginning or ending in the capital.<sup>43</sup> The performance of London's transport network has a direct impact on the

overall effectiveness of national transport operations.

The London and South East share of the Strategic Rail Authority (SRA) subsidy has been falling sharply over the last few years. In 2002/03 London and South East Train Operating Companies<sup>44</sup> received only £65.2 million out of a total SRA subsidy bill of £1,320.9 million. This means that in 2002/03, London and the South East only received 4.9 per cent of the national subsidy despite accounting for almost half of all passenger kilometres and two-thirds of all passenger journeys. This is despite the obvious need for investment to address the severe overcrowding and unreliability currently experienced on London's rail network as well as the forecast growth in demand for rail services. In addition, reports show the value for money of the government rail subsidy in London is higher than in any other part of the country.<sup>45</sup>

Turning to London's road network, a high percentage is in poor condition. Without additional investment, roads and bridges can only be maintained in their current state. Additional investment would not only halt deterioration of the roads,

but also clear the maintenance backlog and help achieve the government target that all the country's principal roads should be in a 'state of good repair' by 2012.

Major projects being undertaken on the road network include the A23 Coulsdon Town improvement, the A406 Bounds Green, Regents Park and Golders Green schemes, and town centre improvements at Wandsworth, Catford and Purley Cross. More details of these can be found in TfL's Business Plan.<sup>46</sup>

TfL also plans to continue investing in walking and cycling schemes in order to increase the level of walking and cycling in line with the government's national targets. Examples of pedestrian enhancement schemes and planned cycling schemes can also be found in TfL's Business Plan.<sup>47</sup>

The bus network provides a significant proportion of overall public transport capacity across London. A large proportion of public capacity growth over the next five years, before major rail projects become operational, will need to be met by buses. As a result, TfL's Business Plan proposes an increase of 50 per cent in total capacity on the bus system by 2016.

While this investment will help alleviate capacity constraints in the short term, further investment in London's transport infrastructure will be required. Major projects such as Crossrail and Thames river crossings, and upgrades to the Underground and National Rail systems, are key to increasing capacity in the long term.

### The need for major projects

Unless significant transport investments are made now, London risks jeopardising its position as a global economic centre and a world city. In order to maximise London's predicted growth potential over the next ten to 15 years it is necessary not just to maintain and upgrade existing networks, but to provide the sort of step change in accessibility that research has suggested is vital in order to enable effective economic development.

It is crucial to invest in London's transport networks to enable the high densities of employment, so vital to agglomeration, to be accessed by Londoners. Many of the transport projects, including Crossrail, allow for higher densities of employment and residence than would otherwise be the case, increase quality of life by reducing travel times, and

contribute to the regeneration of town centres by making possible the necessary concentrations of business activity and residents. The TfL Business Plan lists the following proposed major projects in London.<sup>48</sup>

### Trams and light rail

- West London Transit
- Cross River Transit
- Tramlink extensions
- DLR Woolwich extension
- DLR London City Airport extension
- DLR Dagenham Dock extension
- DLR Stratford extension
- DLR three-car upgrade.

### Busways

- Greenwich Waterfront Transit
- East London Transit.

### River Crossings

- Thames Gateway Bridge
- Silvertown Link.

### Other London-wide improvements

- Underground PPP
- Congestion Charging – Western Extension  
Bus capacity increases
- General Frequency improvements on national rail
- Interchanges, stations and terminals
- Walking and cycling improvements
- Road network improvements (eg A13).

National Rail schemes not funded by TfL's Business Plan, but crucial to accommodating future growth, are:

- Crossrail
- East London line extension
- Thameslink
- Channel Tunnel Rail Link
- Other National Rail improvements (eg the overground network).

While investment in all the schemes listed above is important, the costs and benefits of two of the biggest projects are outlined in more detail here.

### Crossrail

Crossrail forms a vital element in supporting and developing London's success and prosperity. Business support for the scheme is overwhelming:

*'This is the single most important new piece of infrastructure for London. The benefits of an east-west rail link will spread well beyond the capital.'*

Jane Calvert-Lee,  
Director, CBI London

*'Crossrail will generate thousands of jobs and, for many Londoners, make travel something to be enjoyed rather than endured, as at present. Although all legitimate concerns must be*

*heard, Crossrail must not suffer the same fate as Terminal Five, which has been plagued by constant delays and an overlong public enquiry. The government must act quickly to ensure that the Crossrail vision becomes a reality.'*

Peter Bishop,  
Chief Executive, London Chamber of Commerce

According to the Crossrail Business Case Summary, the objectives of Crossrail are to:

- Support the wider transport, planning, social and environmental objectives of the government's Ten-Year Plan, the Mayor's Strategies for London, the Strategic Rail Authority's Strategic Plan and the Mayor's London Plan.
- Relieve congestion and overcrowding on the existing National Rail and Underground networks and support the development of a network of strategic interchanges.
- Facilitate the continued development of London's primary finance and business service activities, which are now located in both the City and Docklands.
- Facilitate the improvement of London's international links, including Heathrow.

- Facilitate the regeneration of priority areas, such as the Thames Gateway and the Lea Valley.
- Provide improved east-west rail access into and across London from the East and South East regions.

The benefits of Crossrail are expected to be:

- Time savings experienced by users of Crossrail, for example, the time needed to travel from Heathrow to the City will fall from 74 to 52 minutes (a reduction of 30 per cent).
- Increased capacity and relief from overcrowding for passengers using Crossrail and other services:
  - Crossrail is forecast to be used by 158,000 passengers in the morning peak period in 2016 (7am to 10am).
  - It will increase rail/Underground capacity by 9 per cent across the central cordon and 20 per cent across the City cordon.
  - It will cut forecast congestion on the Underground by 17 per cent and on London National Rail by 11 per cent.
- Quality benefits, including improved mobility impaired access.
- Reduction in highway congestion arising from a shift to public transport.

The capital cost for Crossrail is estimated at £7 billion at first quarter 2002 prices, on the basis of external benchmarks for similar projects such as the Jubilee Line Extension. In accordance with HM Treasury guidance, another £3 billion is added for optimism bias. The total operating and maintenance/renewal costs for Crossrail are estimated to be around £200 million per year at first quarter 2002 prices.

With a reasonable private sector contribution, and sensible assumptions about fare revenues and tax generation, Crossrail is expected to repay the public sector investment that it needs. The benchmark Crossrail scheme has a transport benefit-cost ratio of 2:1 after applying optimism bias on both capital and operating costs. It is estimated that the investment in Crossrail will create GDP benefits of at least £19 billion in net present value terms.<sup>49</sup> This will generate tax revenues of approximately £7.6 billion – sufficient to repay much of the initial investment.

Sensitivity analysis has also been carried out to test the vulnerability of the scheme to unavoidable future uncertainties, including levels of demand growth,

future network capacity and project costs. The results of the sensitivity analysis show that in all cases the benefit-cost ratio remains above one, indicating that the economic benefits of the scheme are robust.

Crossrail will also have significant regeneration benefits. It is estimated that Crossrail would potentially attract 56,000–110,000 jobs because of development activity within key regeneration areas directly served by the route. Some 45,000–78,000 of these estimated potential jobs would be in the Thames Gateway (excluding employment growth in the Isle of Dogs). Furthermore, it has been estimated that residents of regeneration areas, who are currently unemployed or economically inactive, would take up 14,000–26,000 net additional jobs.

#### **Thames Gateway Bridge**

The Thames Gateway Bridge has recently had support confirmed by government with a commitment in principle to up to £200 million of PFI credits. It is one of three river crossings in east London outlined in TfL's Business Plan, forming part of a package of planned improvements to transport in east London intended to

support regeneration and development in the Thames Gateway Area and the eastwards thrust of the London Plan.

The crossings were proposed in the Mayor's Draft Transport Strategy in July 2001.

Following public consultation on the document they were detailed in the final London Transport Strategy as:

- A rail crossing at Woolwich consisting of a tunnel carrying the Docklands Light Railway (DLR).
- A bridge between Beckton and Thamesmead, known as the Thames Gateway Bridge (TGB), which would have two dedicated lanes for public transport.
- The Silvertown Link – a crossing between North Greenwich and Silvertown.

The Bridge will be located in the London part of the Thames Gateway – a priority area for regeneration and development for central government, the Mayor and the local authorities. It is a key location for delivering the government's Sustainable Communities Plan and the Mayor's draft London Plan and is the location for London's bid to host the 2012 Olympics. Car and other vehicle users would pay a toll to use the Bridge, with a higher toll for non-local users. The economic appraisal for the Bridge yielded

a high benefit-cost ratio of 5.1:1 before any allowance for regeneration benefits.

### Contribution to national targets

Investment in London's transport network is also necessary in order to make progress towards many of the government's national transport targets.

The Department for Transport (DfT) has set out targets for public transport usage, road safety and maintenance and the condition of the bus fleet in its ten-year transport plan, which was updated in 2002. As a result of the increased bus usage noted earlier, TfL is already making a decisive contribution to meeting the national target of increasing bus and light rail usage by 12 per cent in 2010. In addition, on light rail, the DLR has achieved nearly a 50 per cent increase in usage between 1999/2000 and 2002/03.

TfL's full Business Plan will halt the deterioration of London's road network and address the road and bridges maintenance backlog. TfL has also made good year on year progress reducing road casualties; the number killed and seriously injured on London's roads has fallen from 6,117 in 2000 to 5,650

in 2002. It is expected that under the full Business Plan TfL will meet government targets for both a 40 per cent reduction of adults killed and seriously injured and a 50 per cent reduction of children killed and seriously injured by 2010.

However, the Business Plan requires further investment in London's transport infrastructure, without which there is little chance of meeting these and other government targets. The government's first step in providing the necessary transport investment funds should be the restoration of nearly £200 million cut from the government transport grant currently indicated for 2005/06, followed by the sustained increase in ongoing funding identified in the TfL Business Plan, which amounts to a total of £1 billion per year from 2005/06 onwards.

### TfL's ability to manage major projects

TfL has demonstrated its ability to manage large-scale projects, delivering on time and on budget both the upgrading of the bus system and the introduction of congestion charging.

In 2002/03, London Buses introduced the largest single programme of bus service

improvements in the last 50 years.<sup>50</sup> As a result, both the quality and quantity of bus services across the whole of London have been significantly improved. The programme has included: providing additional capacity to Central London in the peak to support the congestion charging scheme; bringing more than 300 extra buses into service so that many new areas are covered and new links provided; 15 more night bus routes; Sunday services on 20 new routes; and an increase in the number of 24/7 services.

In addition, probably the highest profile demonstration of TfL's successful delivery has been the introduction of the congestion charging scheme, to plan, on 17 February 2003. The scheme has also been extremely successful in delivering the traffic improvements for which it was designed:

### Targets

- Reduce traffic by 10-15 per cent
- Reduce congestion by 20-30 per cent
- Increase average speeds by 10-15 per cent.

### Six-month results<sup>51</sup>

- Reduced by 16 per cent
- Reduced by 30 per cent
- Increased by around 17 per cent.

While certain business organisations have expressed concern about the business impacts of the congestion charging scheme, the balance of evidence suggests that any costs of the scheme, which are likely to be small compared to the benefits, are mostly a matter of redistribution within London as opposed to an outright loss to London. The scheme demonstrates again TfL's capacity to deliver major projects that have a significant impact.

TfL's excellent delivery track record should provide the government with confidence that any extra funding provided to TfL will be used effectively to improve London's transport network, which itself will provide economic benefits to both London and the rest of the UK.

### The relative value of investing in London

Overall, the benefits of investment in public transport in London tend to be higher than anywhere else in the UK. This is partly because public transport is more heavily utilised in London and partly because there are greater externalities to overcome in London from private car use than in the rest of the UK. These externalities include congestion and poor air

quality, which affect both the environment and people's health. Investment in London in the schemes outlined in TfL's Business Plan, as well as investing in national rail, will provide high returns. For example, research for TfL suggests that small expenditures on London Rail offers returns of 4:1,<sup>52</sup> well above other areas of the country.

In addition, TfL's Value for Money document conservatively puts the transport benefits of the TfL Business Plan, above the baseline scenario, at over £40 billion. These additional benefits – in terms of time saved and improved conditions for public transport and road users – will accrue over the next 30 years.

Moreover, traditional cost-benefit analysis of transport projects may well understate the actual benefits. A conventional cost-benefit analysis of transport projects compares the time savings of users at two different moments, with and without the project. This approach risks missing out the impact of changes in the behaviour of firms and individuals. It does not, for example, include the opportunity cost of growth that fails to occur because firms and/or people are deterred from making

economic transactions by high transport costs.

### Financing

One of the tools that TfL is seeking to use for the management of more complex and capital-intensive projects is Prudential Borrowing. In April 2004, local government capital finance will be changed by the introduction of the Prudential Borrowing regime, which will require local authorities (including TfL) to apply a new Prudential Code for local borrowing practices to show that their capital finance plans are prudent. The government retains reserve powers to limit local government borrowing, but the expectation is that the new regime will enable use of a wider range of financing structures. TfL's Business Plan already assumes that a number of the projects are treated as PFIs – which is separate from Prudential Borrowing – but there are many other capital projects in the Plan that could potentially benefit from the introduction of Prudential Borrowing. These could include bus priority projects, major infrastructure projects, road and bridge maintenance projects, and London Underground station upgrades and congestion relief projects. TfL is continuing to discuss this opportunity with government.



# Chapter 3:

## Poverty and worklessness

The GLA fully supports the government’s commitment to reducing poverty and increasing employment. For the government to meet its national targets, more progress has to be made in London. This means addressing specific aspects of poverty in the capital, many of which arise from factors affecting a wide cross-section of the capital’s population, not just those living in poverty.

Greater regional and local flexibility in tax credit and benefit policy is needed to improve work incentives for parents and people with low skills. The Childcare Tax Credit needs to be improved to enable more households to purchase full-time childcare. The childcare funding system in London should be simplified with a single London Childcare Fund, and the childcare component of the Working Tax Credit should be expanded.

Pensioner poverty in London is above the UK average, and the higher cost of living in the capital is not reflected in pension levels. The government should consider options to ensure that the Pension Credit takes account of differences in purchasing power between regions.

### Introduction

The issue of poverty cuts across traditional distinctions between ‘deprived’ and ‘affluent’ areas. Disparities in economic growth between regions, which are rightly the focus of increasing policy concern, do not correspond in any simple manner to differences in poverty rates. Income figures for London demonstrate graphically that high output and earnings for

some are perfectly compatible with many others – children, working age adults and pensioners – experiencing high levels of poverty.

London is thus a city of great disparities. The incomes of the wealthiest fifth of the population are more than seven times higher than those of the bottom fifth – in the rest of the country, the difference is less than five times.<sup>53</sup> This is especially true

of Inner London, which is ‘by far the most deeply divided part of the country, with the highest proportions of both rich and poor people anywhere’.<sup>54</sup> While some Londoners are enjoying the benefits of the capital’s economic success, it is passing others by.

The government is committed to reducing poverty (child, working age and pensioner) and worklessness, which it

views as both economically inefficient and socially unjust. The most radical and notable commitment in this area is the eradication of child poverty within a generation. The GLA fully supports the priority that the government attaches to reducing poverty and worklessness. The commitment of the GLA and its functional bodies to helping deliver national anti-poverty aims is demonstrated by various initiatives including:

- The introduction of concessionary fares pilots for people moving from benefits to Working Tax Credit (GLA, TfL, LDA and Jobcentre Plus).
- The Mayor's Childcare Strategy (GLA, LDA).
- Jointly commissioning the report Making Work Pay in London with the Association of London Government (GLA, LDA).
- The contribution of £3.125 million to the Neighbourhood Nurseries Initiative (LDA) and other childcare initiatives.
- The Tackling Poverty in London consultation and conference on the role of London government in addressing poverty (GLA).
- Introducing annual monitoring of the poverty reduction impact of GLA group policies (GLA).

- Making tackling barriers to employment central to the 2003 revision of the Mayor's Economic Development Strategy (LDA).
- The publication of an extensive range of GLA research reports on different aspects of poverty and social inclusion in the capital (GLA).

The GLA believes that joint working between local, regional and central government agencies in London has an important role to play in addressing poverty. The cooperation between TfL, JobcentrePlus, LDA and the GLA in developing the concessionary fares pilot scheme is one example of the kind of partnership working that can be developed. Similarly, the proposed creation of a regional childcare partnership promises to develop working relations between different levels of London government and between agencies. These relationships, coupled with a strong focus on the regional and sub-regional processes that drive poverty and worklessness in London, will become increasingly important if the regeneration investment required to deal with London's population growth over the next few years is also to contribute to the aim of reducing poverty in the capital.

## Worklessness and poverty

There are strong links between worklessness and child and working age poverty in both London and the UK. Helping individuals to move into work helps lift them, and any children they may have, out of poverty. For example, HM Treasury reports<sup>55</sup> that, for eight out of ten people in the bottom 20 per cent of the income distribution, getting a job moved them out of low income.

Future pensioner poverty is also significantly increased by individuals having suffered worklessness during their working lives. Someone from the bottom 20 per cent of the distribution of working life earnings has a 40 per cent chance of being poor as a pensioner, compared to a 9 per cent chance for someone from the top 20 per cent.<sup>56,57</sup> But tackling pensioner poverty will also require actions to assist today's pensioners whose working life has ended.

Parts of London suffer especially high rates of worklessness. In 2001, Hackney, Haringey, Newham and Tower Hamlets, uniquely among local authority districts in Great Britain, all had employment rates that were below 60 per cent (Figure 4). However, disadvantage in London is not confined to

pockets of deprivation. High rates of disadvantage on a number of indicators characterise the great majority of adjacent electoral wards in an area stretching across most of east and central Inner London, both north and south of the river, and extending across the Inner London boundary into wards in the east and north (Barking and Dagenham, Waltham Forest, Greenwich and Enfield). Disadvantage is a generalised characteristic of this area, rather than a problem confined to a number of discrete pockets (although even the most affluent boroughs include some pockets of disadvantage).

### Child poverty

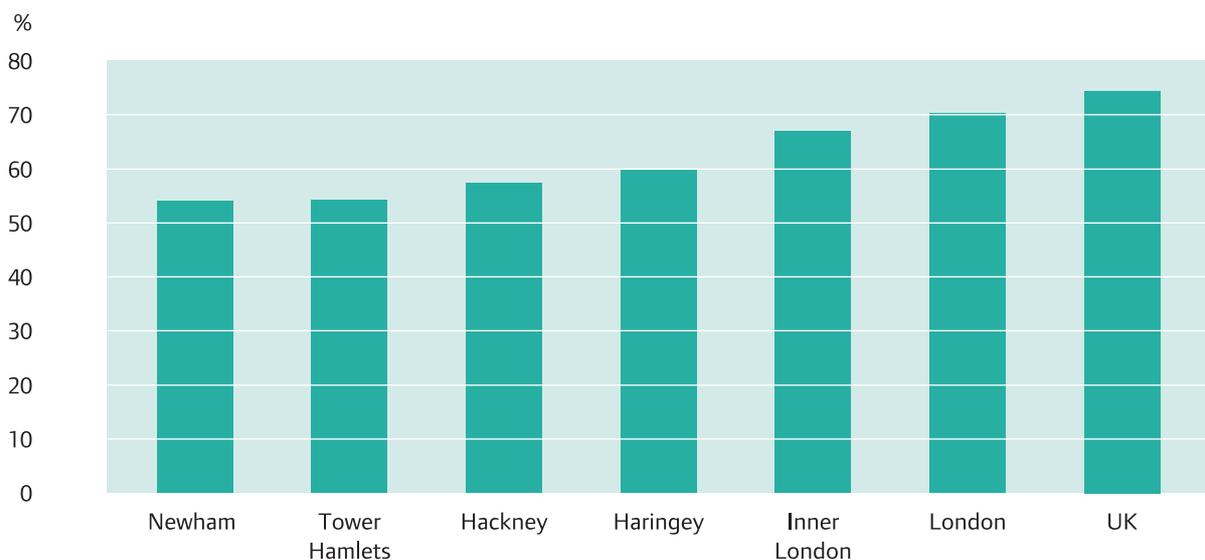
This year marks a crucial benchmark in the government’s long-term campaign to eliminate child poverty. It is the year by which the target of reducing the number of children in poverty by a quarter is to be achieved. The indications so far are that this target will probably be met, provided the rate of progress over recent years is maintained.<sup>58</sup>

The 2004 Spending Review will need to consider what further actions are necessary to meet the next target, the halving of child poverty by 2010. Given the significant

time lags between making a policy change and seeing the full impact, any further policy changes needed to achieve the 2010 objective will need to be in place before the end of the period covered by the 2004 Spending Review (2007/08). The Spending Review will also need to consider new Public Service Agreement (PSA) targets for Departments to advance the 2010 policy aim, and indeed to clarify that objective (Box 2).

Will further policy changes be necessary to meet the 2010 target? Some of the measures introduced by government since 1999 are likely to continue to reduce poverty,

Figure 4: Working age employment rates 2001



Source: Annual Local Area Labour Force Survey 2001/02

as individuals carry on responding to the increased incentives to enter work. In addition, April 2003 saw further major changes with the introduction of new tax credits, with total expenditure on tax credits rising from £9.8 billion to an estimated £13.1 billion.<sup>59</sup> It will be essential for tax credits and benefit rates to rise at least as fast as median incomes if ground is not to be lost.<sup>60</sup>

At the same time, the continuing impact of the existing policy framework may be offset by other factors. For example, the increases in employment achieved so far are likely to be tilted towards those households which were best positioned to benefit from

overall employment growth in recent years, meaning that the average level of labour market disadvantage among households in poverty in 2004 is probably higher than it was in 1998.

Moreover, not all of the types of labour market changes which have contributed to the decreases in worklessness over the last few years can be expected to continue to show the same impact over time.

Part-time employment accounts for much of the increase in lone parent employment in recent years: a large proportion of the gains from this route may already have been made.

Demographic trends in combination with disparities

between regions and between ethnic groups may also tend to offset improvements. While the total number of children is forecast to reduce by 7 per cent over the period 2001-11, the child population of London will increase over the same period.<sup>61</sup> London has the UK's highest regional child poverty rate, so poverty in London has a significant impact on the national child poverty rate, an impact that will tend to increase with London's share of the child population. If reductions in child poverty *rates* in London are not associated with reductions in the *number* of children in poverty in the capital, London may become more important in determining the national rate. (Some evidence that something like

## Box 2: SR2004 PSA targets and the aim of halving child poverty by 2010

Some issues with regard to the 2010 child poverty target remain to be resolved. It is not clear at this stage whether the target is to be understood in terms of the numbers of children in poverty or the percentage of children in poverty. It is also not clear whether the 2010 target will be measured using the government's current definition of poverty – 60 per cent of median household income – or one or all of the new measures set out in the recent report by the DWP. In this chapter, we have assumed that:

- The 2010 objective will be measured in terms of the existing relative income measure.
- The baseline continues to be 1998/99.
- The objective is to halve the child poverty rate rather than the numbers of children in poverty.
- Income for this target is measured both before and after housing costs. Our view is that after housing costs is the appropriate measure but we have assumed that both the before and after housing costs bases will continue to be used (Annex 1).

this may already be happening is presented below.)

Ethnic minority groups, which generally have younger population age structures, will account for an increasing proportion of the child population, particularly in London. While there is every reason to expect the existing policy framework to contribute to reducing disparities between groups, the baseline remains very high for some groups. For example, 41 per cent of black Caribbean children, 47 per cent of black non-Caribbean children and 69 per cent of Pakistani/Bangladeshi children were living in poverty in 2001/02

(after housing costs), compared to 27 per cent of white children. The target of halving child poverty by 2010 will not be met in London without major reductions in welfare disparities between ethnic groups.

With regard to the longer term aim of eliminating child poverty by 2020, the people who will be parents in 2020 currently include large numbers of children who are living in poverty as well as large numbers of younger adults who face high levels of disadvantage – notably younger members of ethnic minority groups and residents in inner city areas (two groups

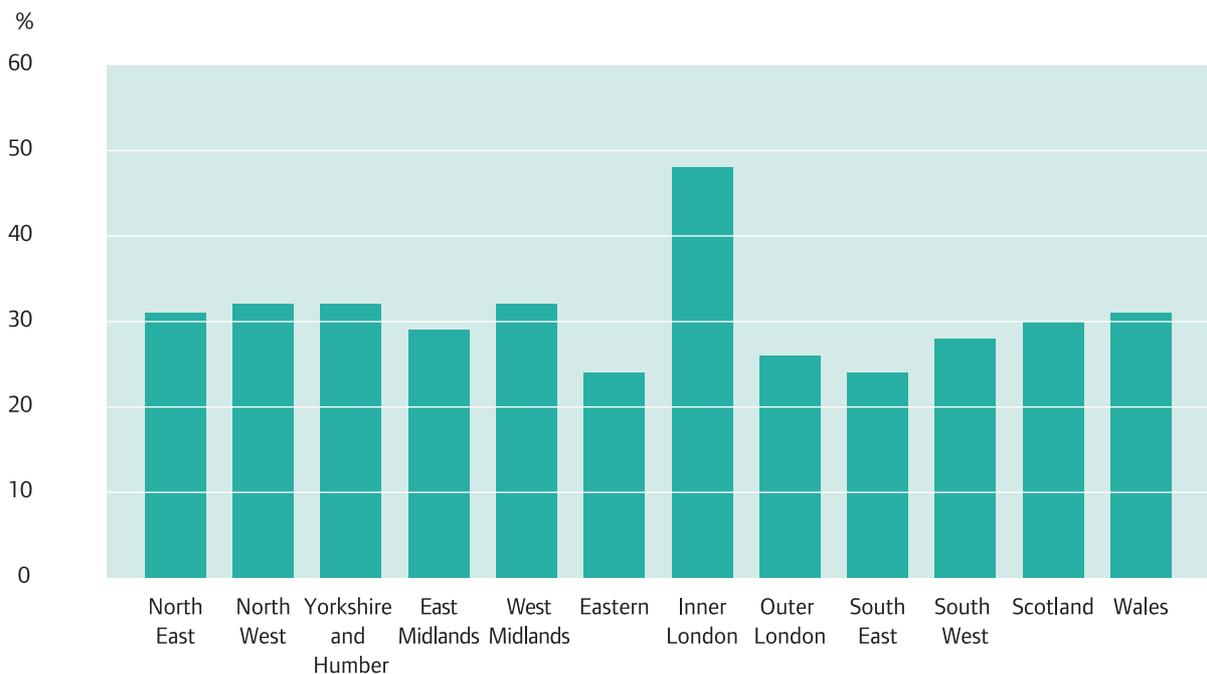
which overlap considerably). The future fortunes of children and young people in these groups will have a major impact on future poverty levels, and policies to address the long-term impacts of early experience of poverty may need to be given greater priority.

**Poverty in London**

**Levels of child poverty in London**

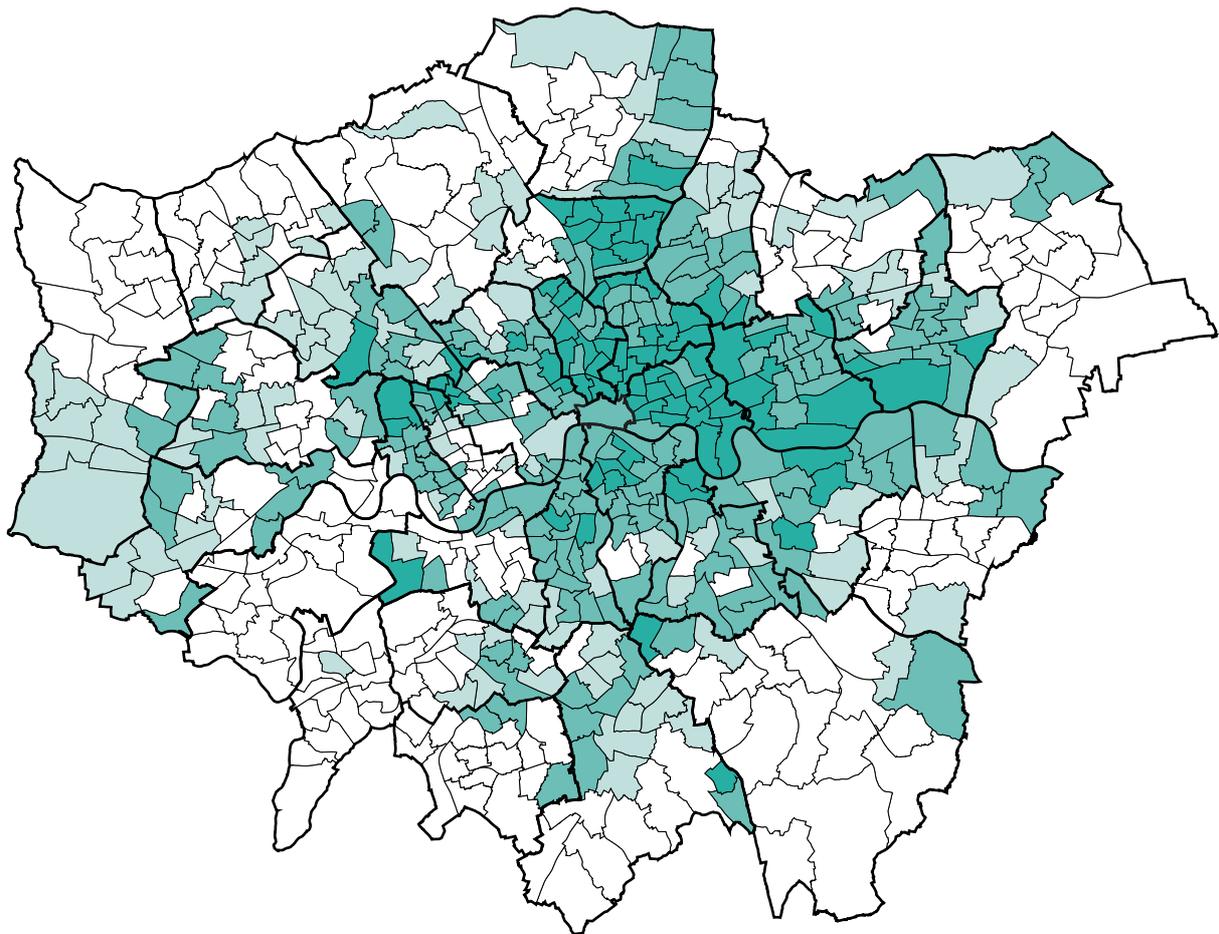
Thirty-five per cent of London’s children live in families whose income is below 60 per cent of median income after housing costs, the highest proportion of any English region. But the overall

**Figure 5: Children in poverty 2001/02**



Source: *Households below average income, Department of Work and Pensions*

**Map 1: Distribution of workless households with children as a percentage of all households with children**



Percentage of households with dependent children

- |                    |                      |
|--------------------|----------------------|
| ■ 35 to 46.6 (89)  | ■ 16.6 to 22.7 (110) |
| ■ 22.7 to 35 (198) | □ 0 to 16.6 (228)    |

Average England and Wales: 16.6%  
Average Greater London: 22.7%

Source: GLA

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Greater London Authority LA100032379 (2004)

child poverty rate for the Greater London region results from the combined effect of very different sub-regional rates in Inner and Outer London. After housing costs, the child poverty rate in Inner London is 48 per cent, compared to 26 per cent in Outer London and 30 per cent nationally. Figure 5 shows the rates in Inner and Outer London compared to English regions outside London.

The income data on which child poverty figures are based do not allow detailed mapping. However, as the gap in poverty rates between Inner and Outer London

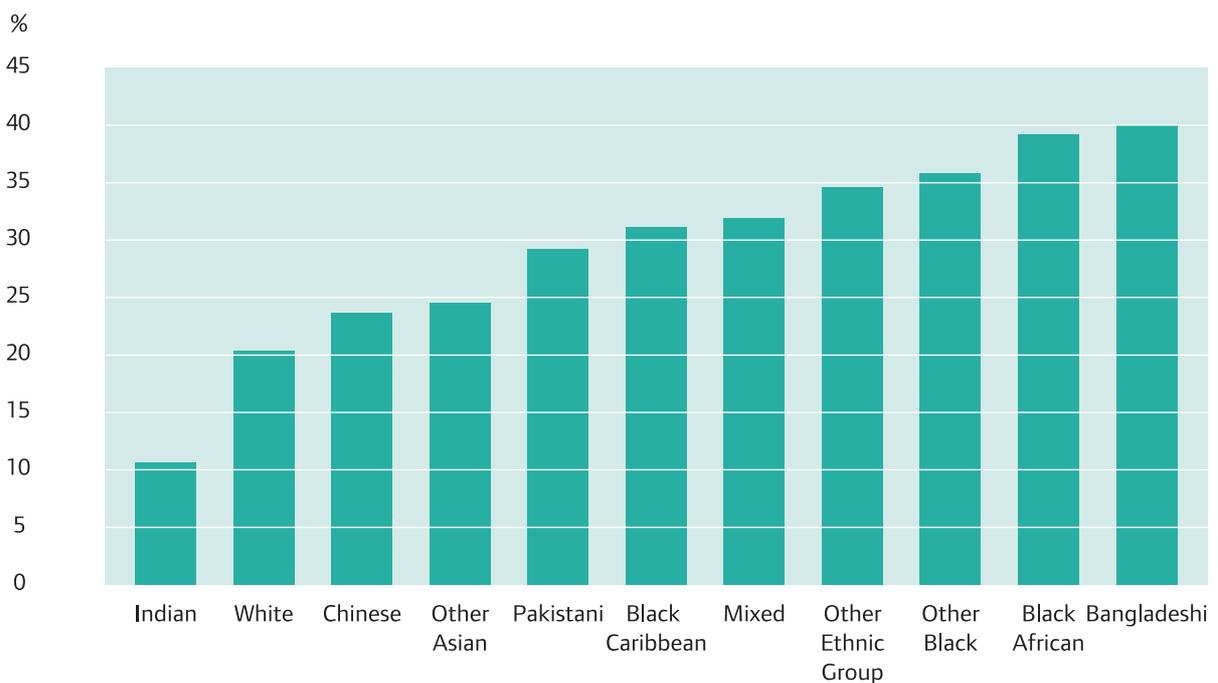
illustrates, the spatial distribution of child poverty is important. If variations in worklessness are taken as a proxy for variations in child poverty, Map 1 indicates that child poverty in London is not confined to pockets of deprivation. All of the shaded areas are above the national average of 17 per cent, and the darker shades show areas that are above the London average of 23 per cent. In the very darkest areas, over a third of children are in workless households.

The darker shaded areas take in almost the entire area of Central and East Inner

London, both north and south of the river and extending far into the adjacent Outer London boroughs. While there is variation in the level of worklessness within this area, high levels of worklessness are not confined to those areas in East Inner London that are usually regarded as exemplifying urban deprivation. There is also a major concentration of worklessness in the west of the capital, taking in large parts of Brent, Ealing and Hammersmith and Fulham.

Forty one per cent of children in London and 53 per cent in Inner London belong to a

**Figure 6: Children in London living in workless households by ethnicity**



Source: Census 2001

black or minority ethnic group. The very significant disparities between the incidence of child poverty across London's different ethnic communities and, within communities, between Inner and Outer London is a key aspect of poverty in the capital. Figure 6 shows the percentage of children in workless households by ethnic group in London. For most groups, 30 per cent or more of children are in workless households, but the differences are very great. At the same time, it is not only minority ethnic children who face a high risk of being in a workless household. Twenty

seven per cent of white children in Inner London are in workless households compared to 16 per cent nationally.

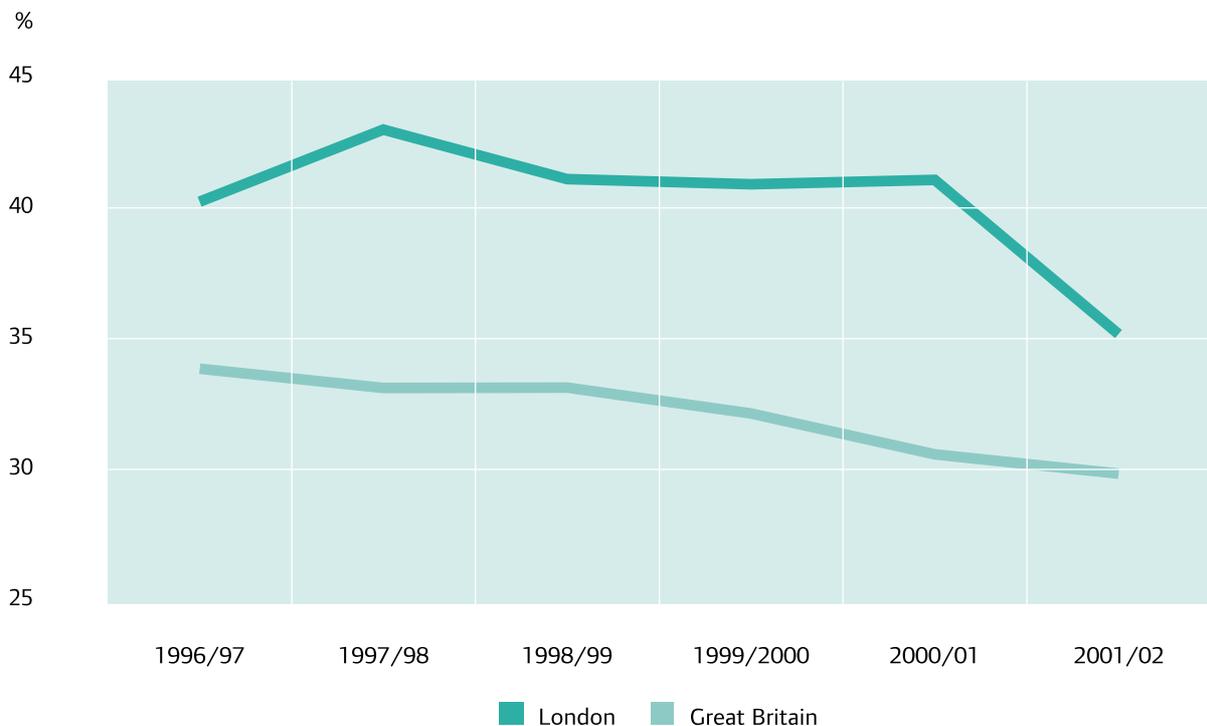
**Is child poverty falling in London?**

In the five years to 2001/02 the percentage of children in Great Britain living in poverty gradually declined by around 4 percentage points (Figure 7). In London, it stayed broadly constant until 2000/01, when there was a sharp decline of some 6 percentage points in the following year.

This is encouraging, but several more years' data

showing falling child poverty will be needed before we can be confident that London has indeed begun to move away from the exceptional position it held in the 1990s. Income data is less reliable at regional than at national level, so there must be some uncertainty about the extent of the reduction. The data on worklessness presented below does not indicate such a substantial change over this period, although it is of course possible that in-work poverty fell more than out-of-work poverty or that increases in benefit rates and tax credits had a particularly strong

**Figure 7: Children in households with income below 60% of median household income**



Source: Households below average income, DWP  
 Note: After housing costs; including self-employed

impact on out-of-work poverty in London.

### The importance of worklessness

High levels of worklessness among households with children are central to explaining the exceptionally high rates of child and working age poverty in London. These rates partly reflect the generally low level of employment in the capital, which has the second lowest employment rate in Great Britain. As the Treasury and Department of Work and Pensions note,<sup>62</sup> London has been one of the regions that have seen the smallest increase in its employment rate since 1997, and that for London to achieve an employment rate in line with the national average would require an additional 226,000 Londoners to be in employment – 207,000 of them in Inner London.

Equally importantly, low employment for individuals in London seems to be more likely than elsewhere to translate into high numbers of households with children where *nobody* is employed. For example, while the employment rate across Greater London area is slightly higher than in the North East of England, the percentage of households with children

with no adult in employment is higher in London.

Population growth can offset improvements in employment in London. At national level, the percentage of households with children which were workless fell from 15 per cent to 13 per cent between Autumn 1998 and Autumn 2003. London showed a similar reduction – 22–20 per cent – but from a higher baseline. But, while the *rate* of worklessness in London is lower now than in 1998, the change in the *number* of workless households with children in London is not significant. There is no evidence that there were fewer workless households with children in London in the autumn of 2003 than there were in the autumn of 1998. This reflects population change in London: the estimated growth in the number of households with children in London was some 60,000. Strong growth in the number of households with children would seem to have offset the relatively modest fall in the rate of worklessness. As noted above, London's child population is set to continue to grow while the national child population falls: in the light of demographic projections, significant further falls in the rate of worklessness in

London would be necessary just to keep numbers at their current level.

### Comparing areas

As with child poverty, the rate of worklessness among households with children across the Greater London area reflects strong disparities between Inner and Outer London. According to the 2001 Census, the rate in Outer London was slightly higher than the England and Wales average at 18 per cent, while the rate in Inner London was 31 per cent (Figure 8). Again, because of the relative size of Inner and Outer London, Outer London accounts for a slightly higher number of workless households than Inner London.

There are only nine out of 354 local authority districts in England in which 30 per cent or more of households with children have no adult working. Five of these are Inner London boroughs (Tower Hamlets, Islington, Hackney, Newham and Haringey). There are a further 16 local authority districts in England where between 25 per cent and 30 per cent of households with children are workless. Ten of these are in London (although one of these is the City of London, which is very small in population terms).

In all these local authority districts, other than those in London, the rate of worklessness for households without children is also high. This is consistent with the picture at national level, where the percentages of households with and without children which had no adult in employment were almost identical at 15 and 16 per cent respectively. (Pensioner-only households are excluded from this analysis.) In London, the rate of worklessness for households without children is seven

percentage points lower than for households with children. This gap rises to over 11 percentage points in Inner London. No local authority district outside London shows this disparity to any similar extent.

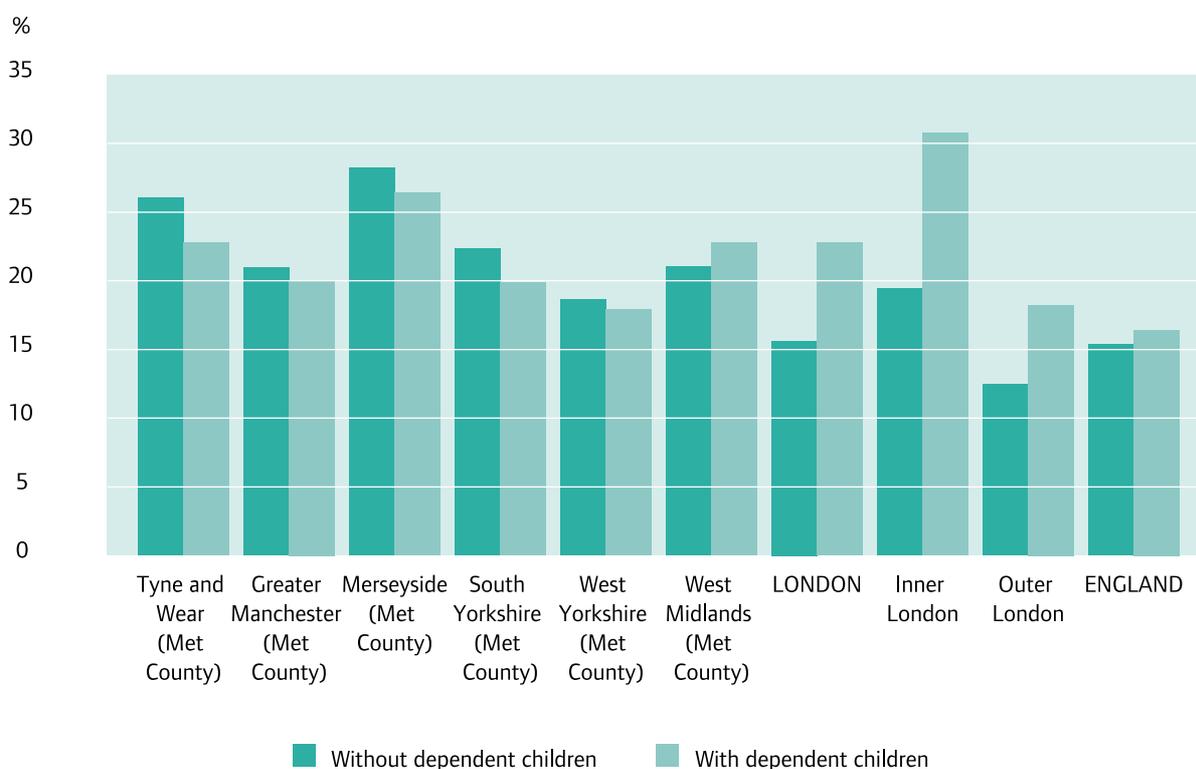
A particular concern therefore is that households with children in London have poorer labour market outcomes than households without children, a pattern which seems to be unique to the capital.

### Lone parent and couple households

The high level of worklessness in London in part reflects a relatively high percentage of lone parent households, coupled with rates of employment for lone parents in Inner London that are low even compared to lone parents in other regions.

Fifty-two per cent of lone parent households in London are workless, compared to 42 per cent nationally (Figure 9). Couple households with children in London also have

**Figure 8: Workless households excluding pensioner households**



Source: Census 2001

higher than average rates of worklessness, particularly in Inner London where 14 per cent of couples with children are workless, compared to only 5 per cent nationally. This has a major impact on the percentage of children in workless households, as non-lone parent households account for twice as many households with children in Inner London as lone parent households.

**Pensioner poverty**

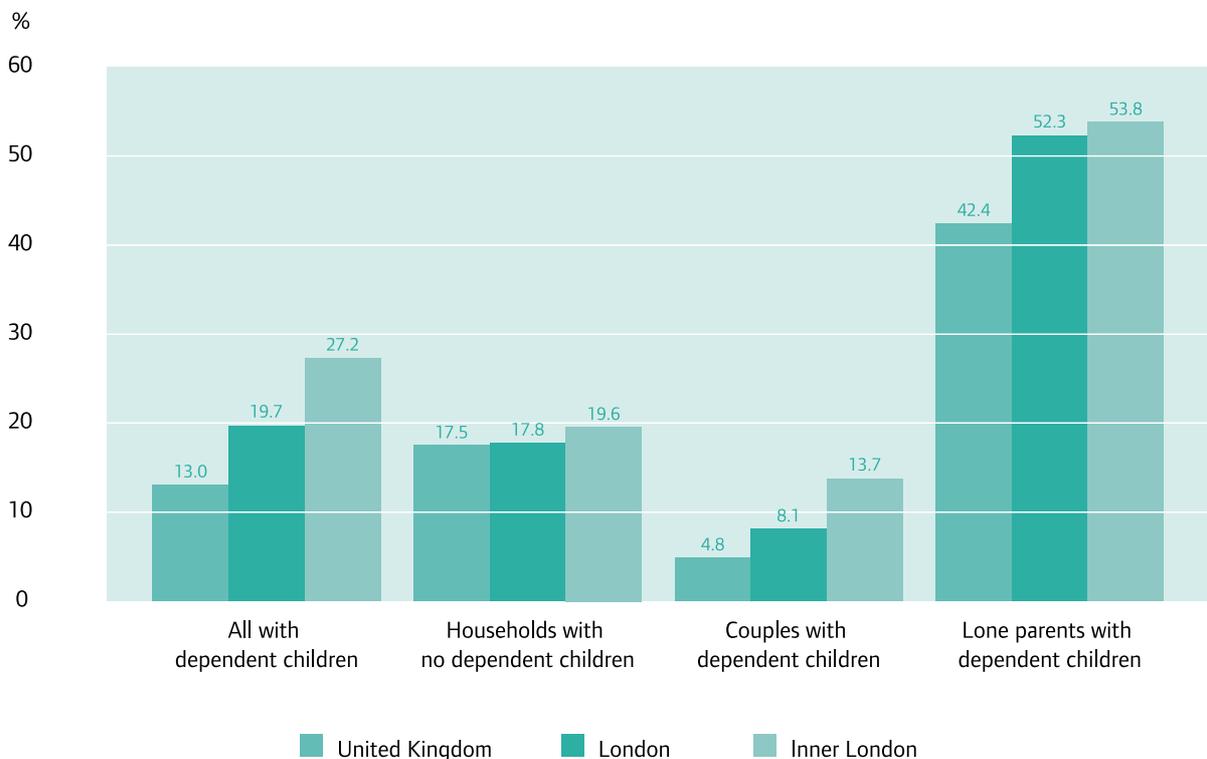
Pensioners as a group have a higher risk of being in poverty

than working age adults. At 35 per cent, Inner London had a higher percentage of pensioners living in poverty in 2001/02 than any region or country of Great Britain (compared to 22 per cent in both Outer London and Great Britain as a whole). After housing costs, single pensioners living alone have a particularly high risk of low income in Inner London, compared to both Outer London and Great Britain. This is compounded by the relatively high proportion of Inner London

pensioners living alone, some 43 per cent compared to 33 per cent nationally.

Pensioners living in rented accommodation have the highest risk of low income after housing costs, at both London and national levels. However, the risk is significantly higher in London, and affects a higher proportion of the population. 38 per cent of London pensioner households, and 60 per cent of Inner London pensioner households, are in rented accommodation,

**Figure 9: Working households**



Source: ONS, Labour Force Survey household dataset, Autumn 2003 (commissioned tables)

compared to 27 per cent in England and Wales.

This picture of considerable poverty in London is supported by the fact that pensioners in London had, in May 2003, the second highest rate of receipt of the Minimum Income Guarantee of any of the regions and countries in Great Britain, only the North East had a higher rate (Figure 10).

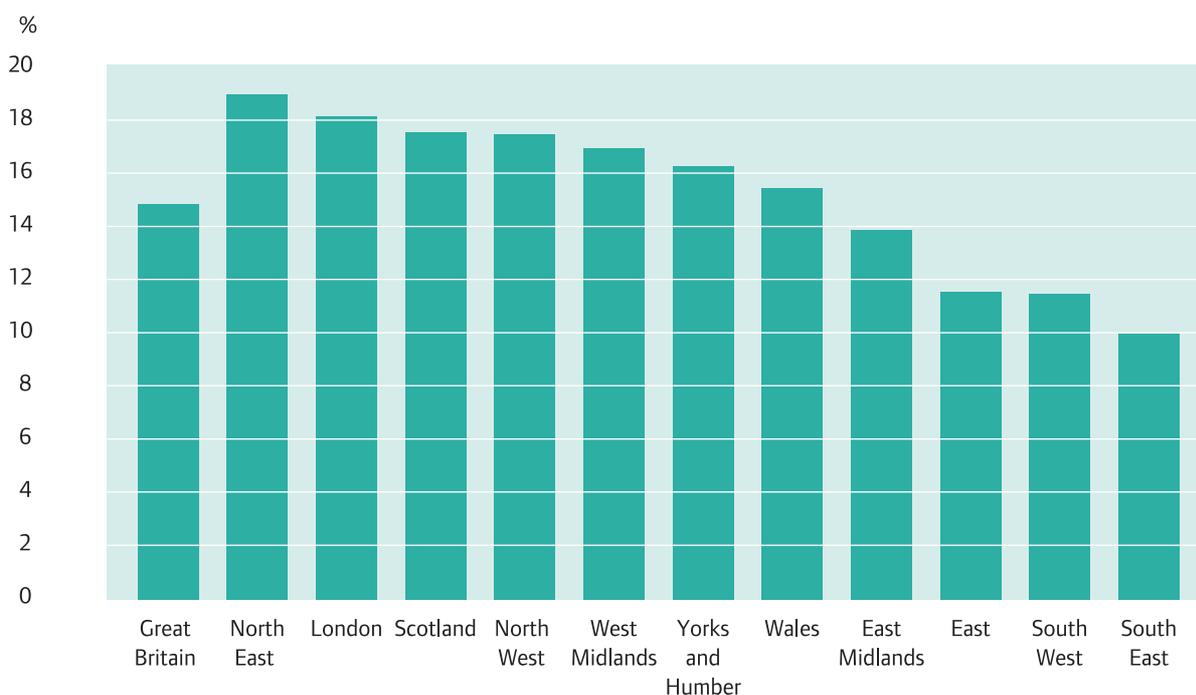
People on low incomes during their working lives are much more likely to end up in poverty in retirement. Those aged between 50 and the state pension age now are the pensioners of the

next decade, and have little time to build up savings and assets for their retirement. For this reason they should be a particular priority group, especially since the proportion of the people in this age group in employment in Inner London – at 58 per cent – is well below the average for England and Wales of 66 per cent. Within Inner London, Hackney, Newham and Tower Hamlets have particularly low rates of employment for this age group. For the first two of these boroughs only half of those people aged between 50 and the state pension age are in employment, while for Tower Hamlets this rate is just

43 per cent. On this basis, future pensioner poverty in Inner London represents a considerable challenge.

While the Pension Credit will greatly improve the welfare of lower income pensioners generally in the UK, there must be concern that purchasing power varies between geographical areas. Pensioners in London face the same relatively high costs for goods and services as other Londoners. It should also be a matter for concern that so many of those aged 50 to retirement age in Inner London are not in employment, with the implication that they will

**Figure 10: Minimum Income Guarantee claimants as a percentage of the 60+ population**



Source: GLA, *Low incomes among older people in London, 2003*

be on low incomes after retirement age.

### Worklessness in London

Worklessness is not only a waste of people's skills, it also represents a loss of output and tax revenues. There is also a solid social rationale for reducing worklessness as a key priority for government (Box 3).

Many potential themes could be discussed in the context of worklessness in London.

This section looks at the following which all have specific London features:

- Employment of women, especially women with children, including lone parents.
- Disparities in labour market outcomes between people of different ethnic origins.

- Employment opportunities for people with relatively low skill levels.

### Women's employment

Poverty in London in part reflects trends that affect a wide cross-section of the population, not just those living in poverty. A particularly important feature of London's labour market are the rates of employment for women

### Box 3: Social consequences of worklessness

Unemployment has significant effects on an individual's wellbeing:

- The impact of unemployment on reported happiness is large – greater than becoming divorced.

Higher unemployment leads to higher crime:

- A 1 per cent increase in unemployment leads to an increase in property crime of 1-2 per cent.

Unemployment adversely affects an individual's health:

- Those who have been unemployed for longer than 12 weeks have four to ten times the prevalence of depression, anxiety and physical illness.

Experiencing unemployment has long run, scarring effects:

- A year of unemployment prior to reaching 23 years of age increases the time men spend unemployed in the next ten years by 18 per cent or around 21 months. The equivalent figures for women are 8 per cent or ten months.

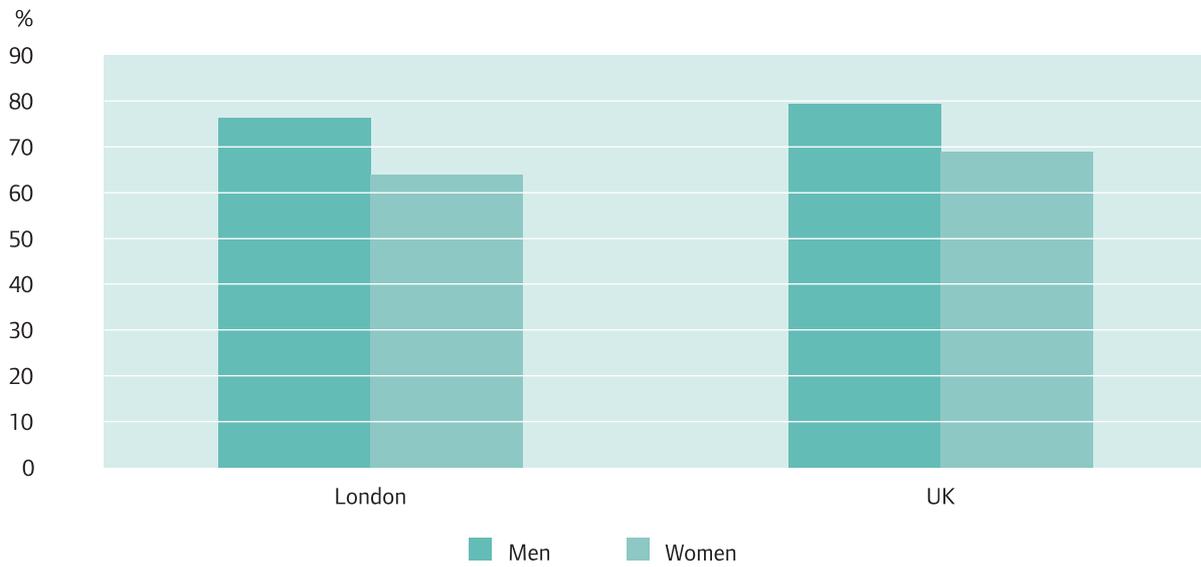
Getting a job lifts people out of poverty:

- For eight out of ten people in the bottom 20 per cent of the income distribution, getting a job moved them out of low income.

There are strong links between an individual's work history and subsequent pensioner poverty:

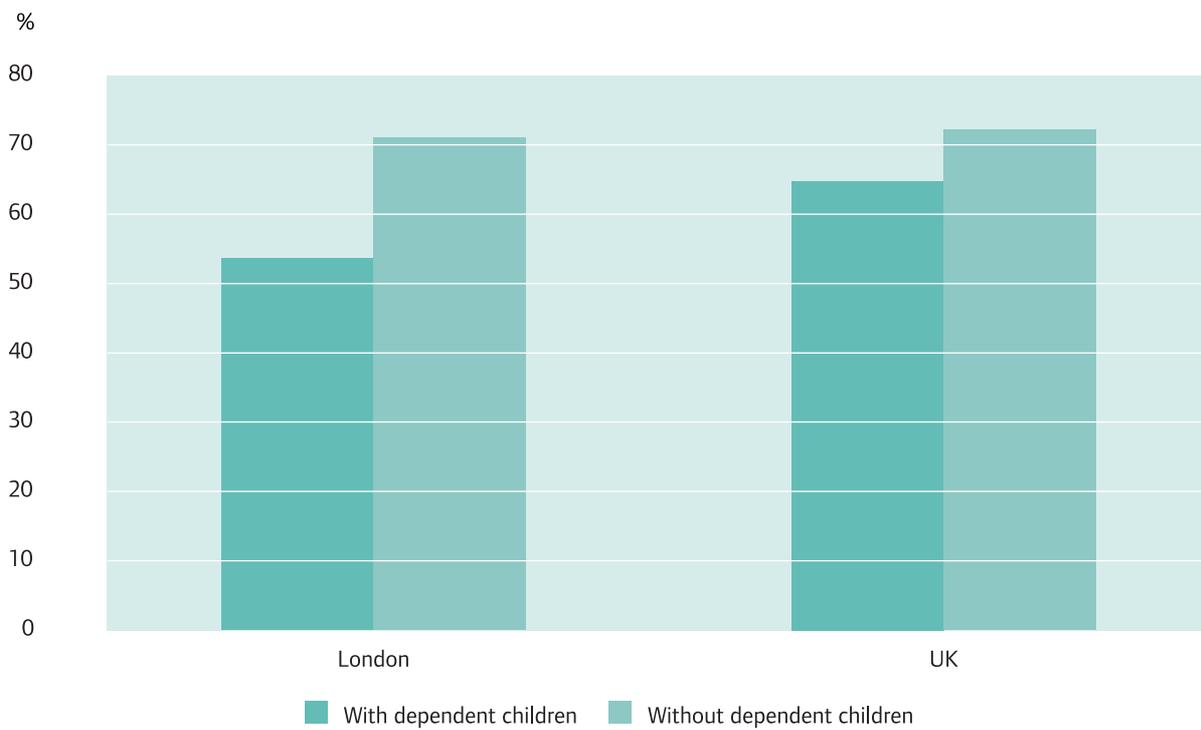
- Someone from the bottom 20 per cent of the distribution of working life earnings has a 40 per cent chance of being poor as a pensioner, compared to a 9 per cent chance for someone from the top 20 per cent.

**Figure 11: Working age employment rates by gender  
London and the UK 2001/02**



Source: Annual Local Area Labour Force Survey 2001/02

**Figure 12: Employment rate of women  
London and the UK 2001/02**



Source: Annual Local Area Labour Force Survey 2001/02

which, are significantly lower than at the national level (Figure 11).

This difference is a result of the position of women with children. The employment rate for women with dependent children in London is more than 10 percentage points below the national average (Figure 12). In contrast, the employment rates for women without dependent children are very similar in London and in the UK generally. This echoes the findings in relation to workless households noted above.

A similar picture emerges for lone parents in London.

Lone parents living in London, particularly Inner London, are appreciably less likely to be in paid work than the average lone parent in England and Wales (Figure 13). This gap, which has opened up since the late 1980s, is associated with a national increase in the number of lone mothers working part time that has passed London by.

A significant part of this gap appears to be due to London-specific factors.<sup>63</sup> For instance, the negative impact of having more children and low levels of qualifications on the probability of working is much greater in London than elsewhere, while living

in London may reduce the employment rate of lone parents by as much as 10 percentage points.

In London, those with child caring responsibilities seem to face higher barriers in accessing employment opportunities than elsewhere in the UK. Evidence suggests that three barriers are important in this regard: the cost and availability of childcare; the lack of part-time or flexible employment opportunities that would allow women with children to combine work and childcare responsibilities; and the impact of both housing and childcare costs on the economic gain

**Figure 13: Lone parent employment rates**



Source: Census 2001

for those moving off benefits into employment.

### Childcare

The 2002 GLA London Household Survey reported that 28 per cent of women of working age who were not working put this down to an inability to find or afford childcare. Average nursery and childminder costs in London are well above those prevailing in England as a whole (Table 1).

In the last 15 years London has seen childcare places increase at only half the rate

of that experienced across the rest of Britain<sup>64</sup>. The rate of day nursery provision is still slightly higher in Inner London than in England as a whole, representing 14.5 per cent of under fives, compared with 13.9 per cent in England (Table 2). But it does not make up for the shortage of childminders. The rate of childminder provision is twice as high in England as in Inner London. In Outer London, provision of both day nurseries and childminders is below the England average. Out of school places are available for

19 per cent of five to seven year olds in Inner London and less than 15 per cent in Outer London, compared to the England average of 17 per cent.

No less important than the overall supply of childcare places is the affordability of those places. There is a negative impact on the gains to employment from high childcare costs in London (in combination with high housing costs).<sup>65</sup> The main policies to addressing affordability are the Childcare Tax Credit and partially funded

**Table 1: Typical weekly childcare costs 2003 (£)**

	Nursery (under 2)	Nursery (over 2)	Childminder (under 2)	Childminder (over 2)
Inner London	168	152	139	139
Outer London	154	136	138	133
England average	128	119	118	112

Source: Daycare Trust

Note: For a full-time nursery or childminding place and 15 hours a week for after school club place in England

**Table 2: Rates of daycare provision June 2003**

	Nursery places per 100 aged under 5 %	Childminder places per 100 aged under 8 %	Out of school places per 100 aged 5 to 7 %
Inner London	14.5	3.3	19.2
Outer London	10.3	6.3	14.6
London	12	5.2	16.4
England	13.9	6.6	17

Source: DfES

investment programmes through Surestart and the Neighbourhood Nurseries Initiative. Important as both these schemes are, they are not sufficient to address the affordability issue.

The targeting of deprived areas through Surestart is intended to maximise the benefit of investment to lower income groups. The question is whether this succeeds in its intended aim. In many wards in London, the economic position of households with children does not correspond to that of the majority of households. In other cases, income polarisation can mean that demand for nursery places in deprived wards will largely come from households that are more affluent. Relatively low levels of geographical segregation by income at ward level in London, a positive aspect of life in the capital, may undermine attempts to reach poorer households by providing services in deprived areas.

The Childcare Tax Credit does not provide the level of support required to meet childcare costs for those in high cost areas and those with high needs (eg full-time or near full-time care). The maximum payment is 70 per

cent of eligible costs, up to a maximum weekly cost of £135 for one child and £200 for more than one child.

Households therefore have an incentive to spend very little on childcare, by keeping down the number of hours worked, by supplementing formal care with informal arrangements, or – should this be possible – by buying more hours at very low prices.

Over half of all awards go to households with part-time workers; and half of all awards are for households with eligible costs of less than £60 a week (Inland Revenue Childcare Tax Credit Quarterly Statistics October 2003). The emphasis on part-time working seems disproportionate, especially when only those households where someone is working 16 hours a week or more are entitled to Childcare Tax Credit at all (so many part-time workers are excluded).

The cost of the Childcare Tax Credit to the Exchequer has been estimated at a relatively modest £344 million a year (Interdepartmental Childcare Review). Childcare providers are increasingly using the £135 maximum for the Childcare Tax Credit as a benchmark for affordability. However, this

is not an affordable price for those moving into lower paid employment.<sup>66</sup>

In addition to the cost and availability of childcare, a lack of family-friendly and flexible work opportunities is a particular barrier for women in London with children.<sup>67</sup> The proportion of part-time jobs in London is low at 25 per cent compared to 33 per cent in the rest of Great Britain.<sup>68</sup> In London, especially central London, relative to the rest of Great Britain women are less likely to fill the available part-time jobs.<sup>69</sup>

This double distinctiveness of London acts to reduce employment opportunities for women with child caring responsibilities. Part-time working is less of an option for women with children in London who wish to combine work with childcare, and other forms of flexible working are likely to be more important.

### Black and minority ethnic groups

With nearly a third of London's working age population belonging to a black or minority ethnic group, disparities between ethnic groups are a particular cause for concern. In 2001, the employment rate of white

Londoners was 75.7 per cent, but rates for people from black and minority ethnic groups ranged from 31-67 per cent (Figure 14).

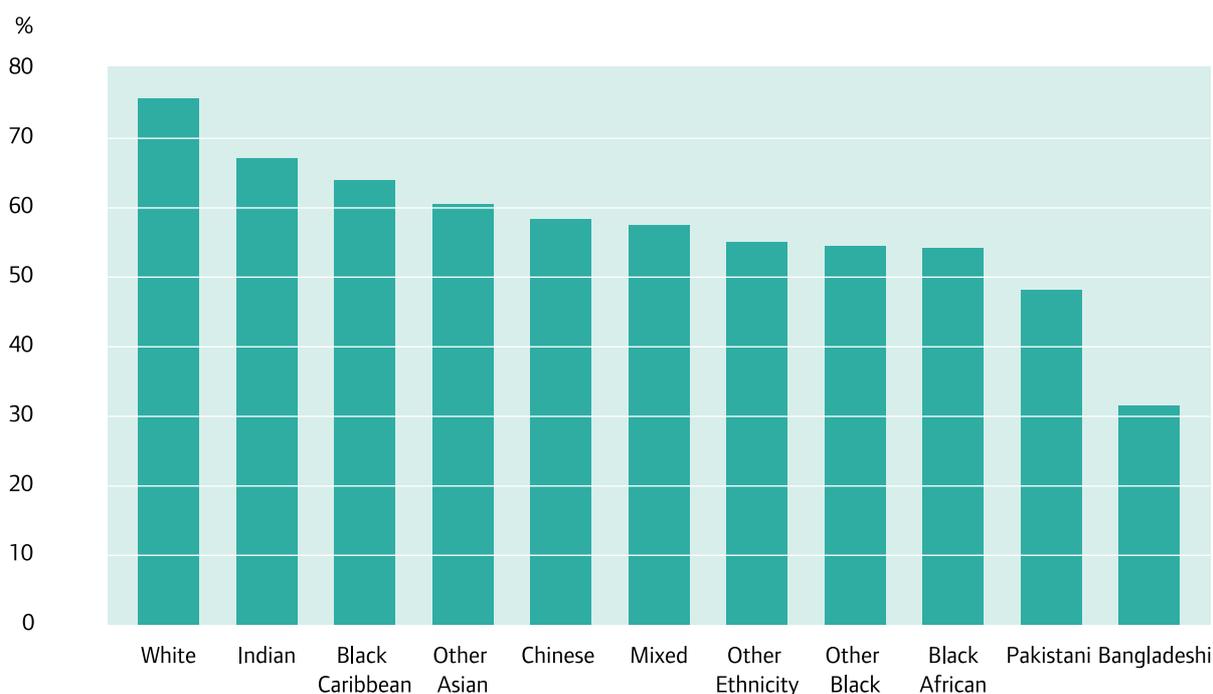
As with child poverty, worklessness among households with children is particularly concentrated among London's ethnic minority groups. Children in most black and minority ethnic groups show significantly higher risks of being in workless households than white children. This combination of high risks and high population shares means

that worklessness in London has a more marked ethnic dimension than in other parts of the country. This needs to be seen in terms of the diversity of minority populations within the capital and not just the percentage of workless households accounted for by all minority groups taken together. No single ethnic minority group accounts for more than 8.3 per cent of London's child population (and that percentage relates to the Black African group, which itself incorporates a particularly diverse set of populations).

Some characteristics common to many minority groups can help explain variations in labour market positions, including generally younger population age structures, living in inner city areas, and the experience of discrimination. There are also relevant factors that vary considerably between groups, notably in the history of immigration and household structure.

London's unique mix of minority populations is therefore as important in understanding poverty and

**Figure 14: London employment rates by ethnicity**



Source: Annual Local Labour Force Survey 2001/02

worklessness in the capital as the position of all minority groups taken together.

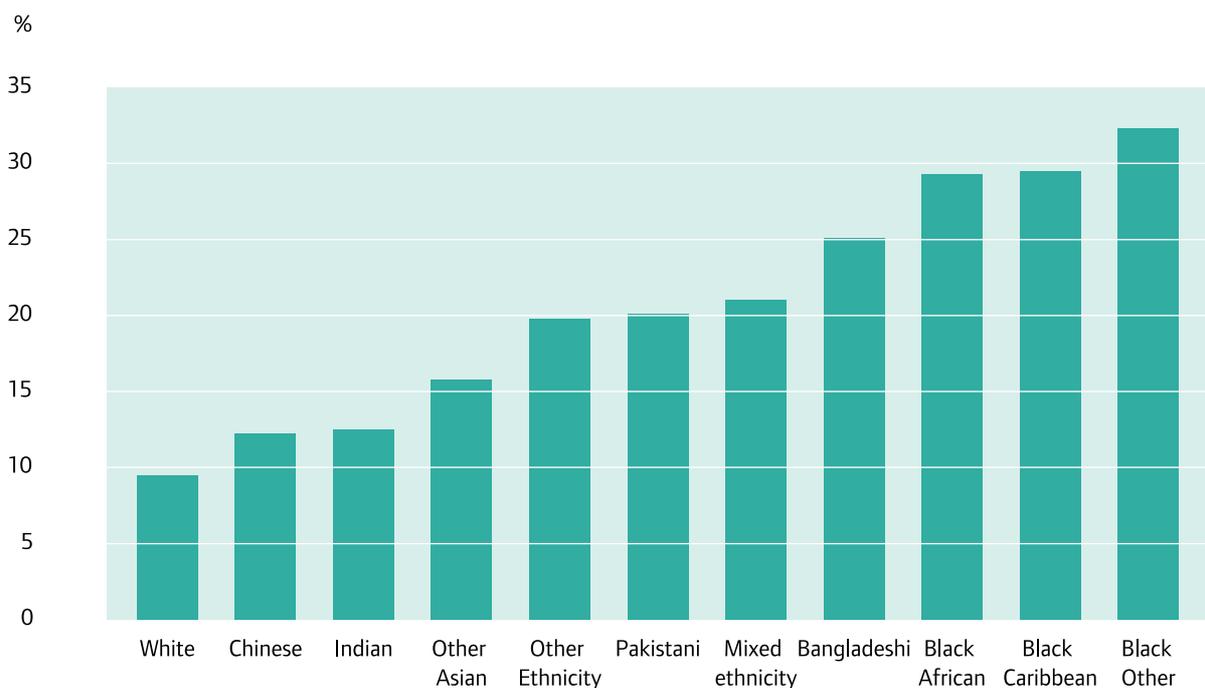
With ethnic minorities having younger populations, youth unemployment rates are of particular concern – especially in the light of long term child poverty reduction, as young black and minority ethnic Londoners will account for a large proportion of London’s future parents. All young people from minority ethnic groups have higher unemployment rates than their white counterparts, although there are striking differences between groups (Figure 15).

Allowing these existing disparities between groups to continue is not an option for London. Ethnic minority groups form an increasing share of London’s population, up from 20 per cent in 1991 to 29 percent to 2001. They are projected to account for four-fifths of the forecast growth in London’s working age population by 2016. Already, we face the appalling statistics that more than half of London’s black children and three quarters of children in the Bangladeshi and Pakistani communities in London are living in poverty.

In addition to being less likely to be in work, relative to whites individuals in minority groups are less likely to be in the higher managerial and professional occupations and more likely to be in lower paid occupations. Consequently, on average the pay levels of black and minority ethnic individuals are below those of white Londoners (Figure 16).

Differences in levels of qualifications held do not in general explain this disadvantage in the labour market. Most minority ethnic groups – including Indians, Black Africans and Chinese – are better qualified on average

**Figure 15: Unemployment rates of young people (16-24 years) in London by ethnicity**



Source: Census 2001

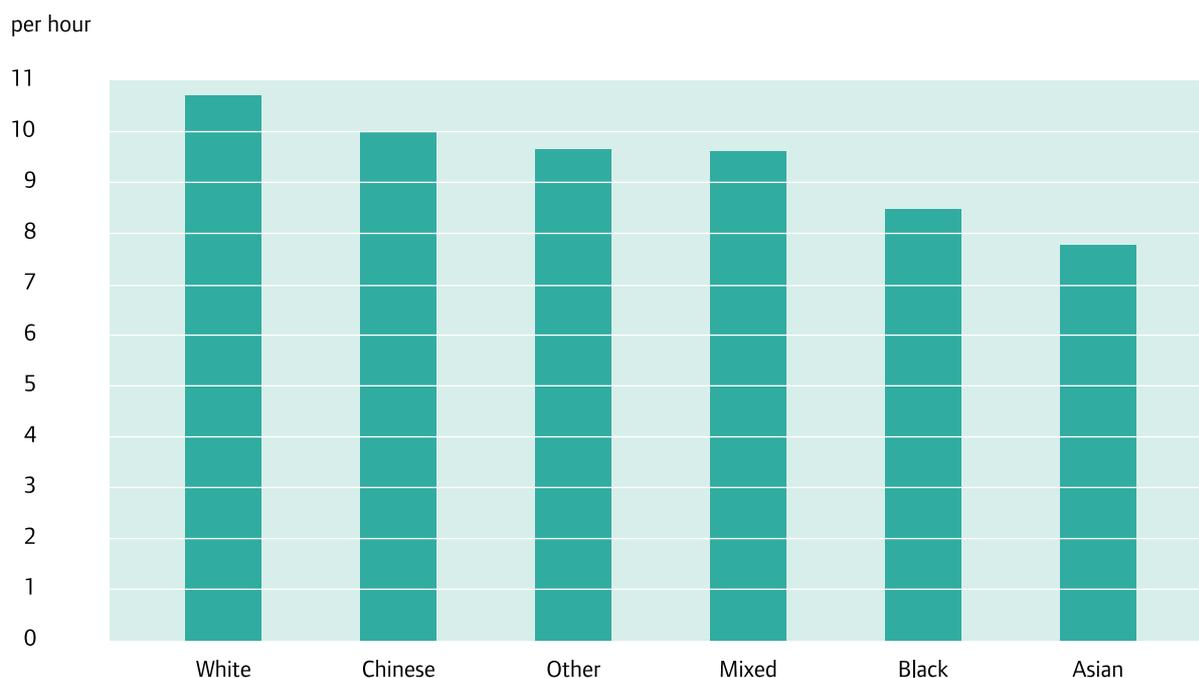
than whites. There are, of course, partial exceptions. Bangladeshis in London have both a higher proportion of people with no qualifications and a lower proportion with higher level qualifications (level 4 and above) than whites. Black Caribbeans have a lower proportion with higher level qualifications than whites and roughly the same proportion with no qualifications. There is a long history of (mainly US) research, which has found that, at best, only part of the racial differences in employment and earnings outcomes can be attributed to differing average characteristics, such as

differences in qualifications or age structure, between different ethnic groups.<sup>70</sup> More recent studies of the UK have similarly found large unexplained ethnic disparities in labour market outcomes.<sup>71, 72, 73</sup>

If these disparities cannot otherwise be explained, could they be the result of discrimination? By its very nature, the extent of discrimination is difficult to determine. Research has found that ethnic minority job applicants are disproportionately likely to fail to get jobs they apply for, even when class, education and location have been

accounted for.<sup>74</sup> The same research also reports that when prompted in discussion groups there was a general perception among many ethnic minority individuals in London that race discrimination does exist in the workplace, although very few say they have personally experienced it. Similarly, in the household interviews conducted as part of a major study of London, very few respondents identified themselves as direct victims of discrimination.<sup>75</sup> However, some who strongly denied experience of discrimination later gave clear examples of it without apparently being aware of any contradiction.

**Figure 16: Median pay in London by ethnicity (£)**



Source: Annual Local Area Labour Force Survey 2001/02

**Employment opportunities for people with relatively low skill levels**

In the UK over the 1980s and 1990s, people with no or low educational qualifications have seen substantial declines both in their pay relative to those with some educational qualifications, and in their employment prospects.<sup>76</sup>

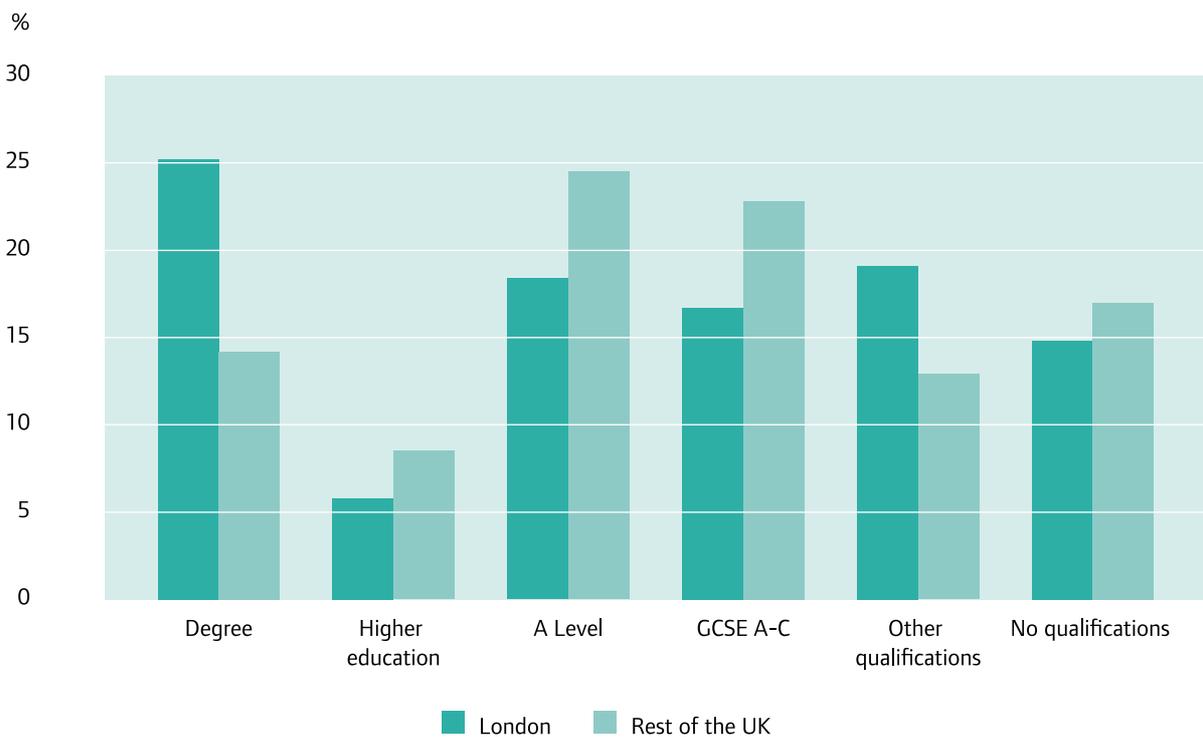
London’s population of working age is in general rather better qualified than that in the rest of the UK (Figure 17). In particular, the proportion of working age Londoners with a degree is almost double that in the rest

of the UK. London also has a somewhat lower percentage of the working age population who have no qualifications at all.

This might suggest that declining employment opportunities for people with low skills is a less severe problem in London than elsewhere. But in fact, the structure of the London economy is such as to increase the labour market penalty that people with low skills face in the capital. As the Corporation of London has argued,<sup>77</sup> a continuing characteristic of London relative to other parts

of the UK is its limited – and thus expensive – space. High value added activities clustering together to enjoy the benefits of agglomeration both create these higher costs and generate the profits to pay for them. Industries producing relatively standardised products or offering routine services find these activities substantially more expensive in London than in other parts of the UK. This creates an incentive to move these routine activities, in offices as much as factories, to other parts of the UK and indeed abroad.

**Figure 17: Highest qualification of people of working age**



Source: Annual Local Area Labour Force Survey 2001/02

Employment opportunities for people with low skills in London therefore have a greater tendency than elsewhere in the UK to be restricted to services, such as retailing, leisure, hotels and restaurants, which are impossible to move elsewhere. As a result, the demand for low skilled labour is likely to be lower in London than in other parts of the UK.

This argument is backed up by Figure 18, which shows the ratio of the employment rate of Londoners with different levels of qualifications relative to a comparable group living elsewhere in the UK. This ratio increases as the

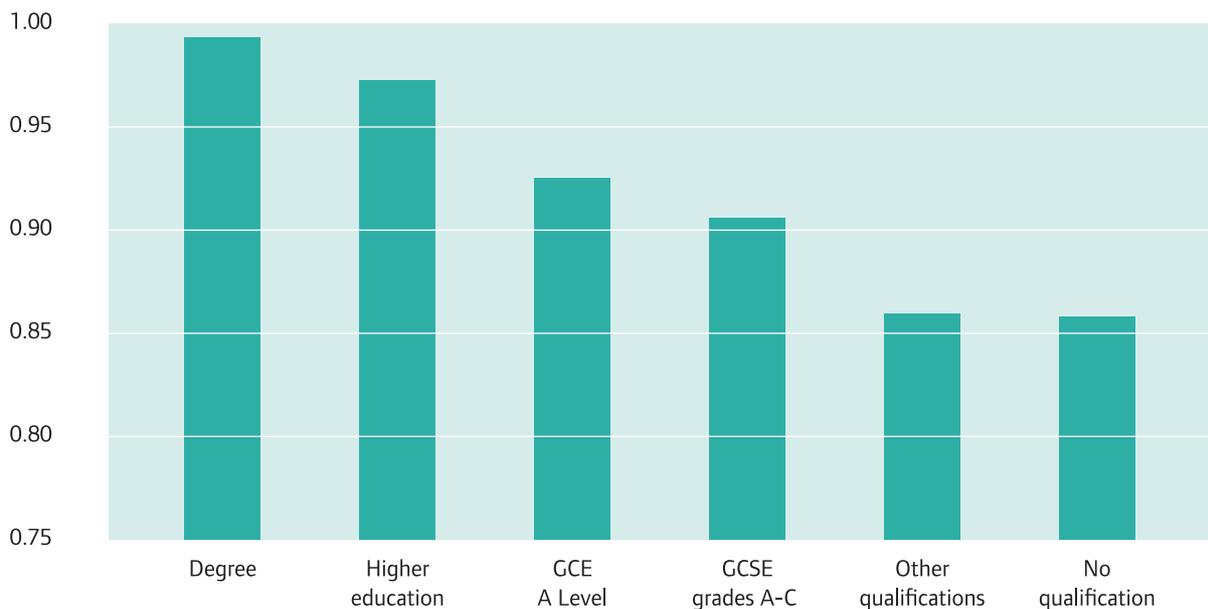
level of qualifications held increases, suggesting that those with no or low levels of qualifications experience particularly low levels of employment in London relative to other parts of the UK. Similarly, seven out of the ten areas of the UK with the lowest employment rates for people with no qualifications are in London.

Recent research reports that the jobs taken by the less skilled after a spell of worklessness are concentrated in wholesaling, retail, hotels, restaurants and manufacturing.<sup>78</sup> These are sectors of relatively low growth. Employment growth

between 1997 and 2001 in these sectors combined was just 9 per cent compared to overall employment growth of 13 per cent in London.<sup>79</sup>

In the year to February 2003 only 6 per cent of job starts in London were by people with no qualifications, compared with 10 per cent nationally. In addition, just 9 per cent of job starts in London were by people with qualifications below level 2 compared with 16 per cent nationally. At the same time, those seeking low skilled work in London face a high degree of competition – there were 12 potential job seekers for every job

**Figure 18: Ratio of employment rate by highest qualification London/rest of the UK**



Source: Annual Local Labour Force Survey 2001/02

started by someone with no qualifications.<sup>80</sup>

The extent of the fierce competition for low skilled work is reflected in levels of pay. For most occupations, average earnings in London are 15–25 per cent higher than in the rest of Britain. The jobs where this London premium falls below 15 per cent are all relatively low skilled ones and, in the worst case, shelf fillers are actually paid 10 per cent less in London than outside.<sup>81</sup>

### Conclusions and policy proposals

Two themes have consistently emerged from the analysis set out in this chapter:

- Households with children – including but not only lone parents – have poor labour market outcomes in Inner London. This is a distinctive and unwelcome feature of London’s labour market.
- London’s diverse ethnic composition is of crucial importance in understanding the relatively high rates of worklessness among ethnic minority households with children. London’s successful economic performance has not reduced these disparities.

Clearly these two themes overlap, as black and minority ethnic groups account for such a high percentage of London’s child population. However, they do not coincide: rates of worklessness for households with children in all groups, including white groups, are extremely high in Inner London.

Poverty rates in London exceed national levels because of a range of factors that affect not just those living in poverty. For example, lone parents in London have particularly low employment rates, but so do all women with children in London. Employment rates are low for those with lower skill levels, but they are also significantly lower than the national average at all skill levels below tertiary level qualifications.

Without significant improvements to the employment rates of lone parents and other mothers and substantial reductions in the incidence of child poverty in London, and especially Inner London, it is extremely unlikely that the government will meet its national targets in these areas. Action is required in the areas of making work pay, childcare and flexible working.

London has continued to have the lowest take-up rate of tax credits of all regions, with 14 per cent of all families benefiting, compared to an average of 20 per cent in England and Wales (Figure 19).

Policies on making work pay need to take more account of the distinctive features of London’s labour market and society. This includes taking account of the relatively low levels of part-time working in London. Women with children in London are much less likely to work part-time than elsewhere in Britain, and this contributes to the low overall employment for both lone parents and women in couples. The evidence indicates that for lone parents in particular, part-time work is not currently an option, and increasing lone parent employment will probably depend much more on full-time than part-time work in London.

We do not argue that all the tax credit components should be varied to reflect regional and local differences in in-work costs (eg childcare, transport). Such variation of the working elements of the tax credits might help improve the attractiveness of low paid employment opportunities for those with

low skills levels in London. However, there would be costs involved in such a radical departure from a national system, including unpredictable effects on labour markets and administrative difficulties (which might be far from negligible given the history of tax credits so far).

We believe the focus should be maintained on ensuring that the tax benefit system makes moving into work worthwhile and sustainable. This does demand an element of regional/local flexibility to address those problems arising

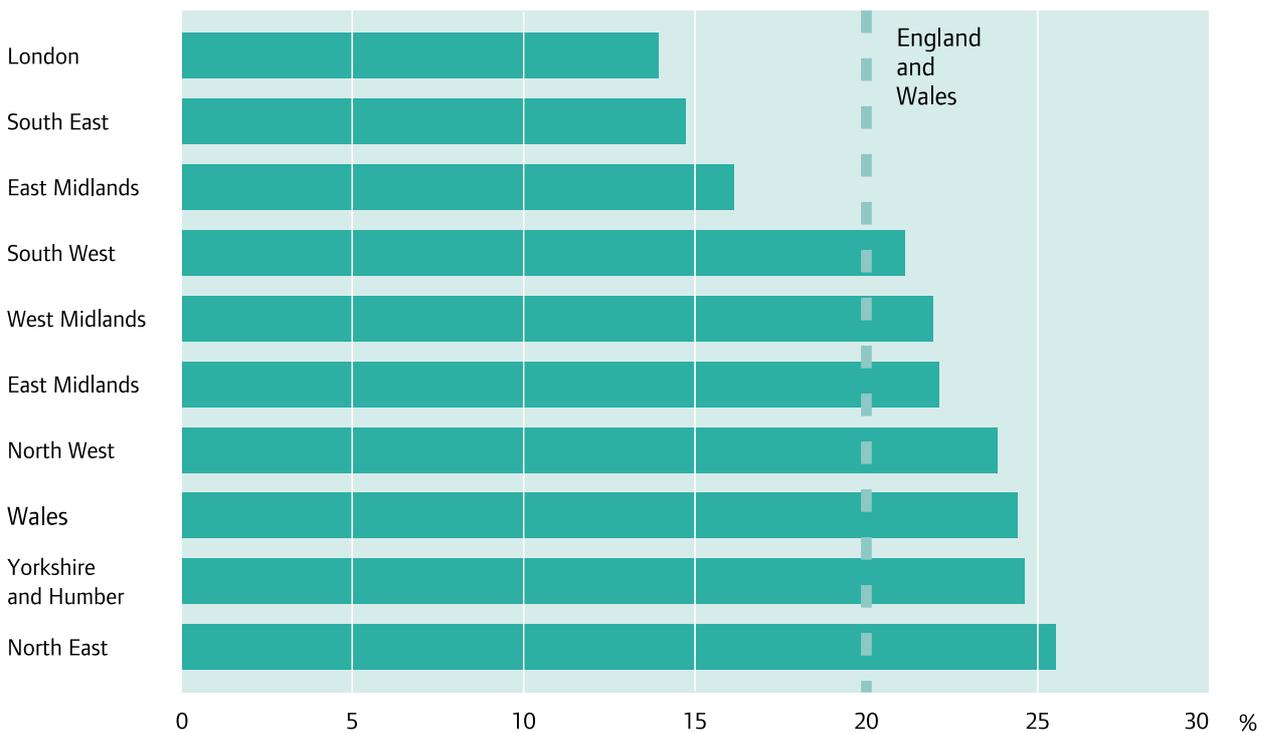
from the interaction of different parts of the tax benefit system that undermine the effectiveness of tax credits in London.

The 2003 Pre-Budget Report acknowledged the problem of work incentives in London and announced an important initiative to address part of this problem in the form of a £40 a week in-work credit from April 2005 for London parents who have been out of work for more than 12 months. This important and welcome initiative represents an important real step forward in the fight against child

poverty in London. However, this in-work credit will be limited to the first year of employment, and will not benefit those parents who have been out of work for less than a year but who experience repeated short, unsustainable periods of employment.

Additional policy measures are in our view therefore justified. For instance, there is a need for more use of earnings disregards for Working Tax Credit and/or Housing Benefit in order to improve the gains from employment in high cost

**Figure 19: Percentage of families in receipt of both Working Tax Credit and Child Tax Credit by region July 2003**



Source: GLA, *The London Childcare Strategy 2003*

areas and to make employment sustainable for all low income parents in London. The tax credit system also needs to ensure better gains to employment for parents who need to work full-time. The existing 30 hour element in the Working Tax Credit is only worth £620 a year, and a significant increase in this element is the most obvious way to make full-time work more accessible and sustainable.

As well as measures to improve work incentives, action to increase the affordability and availability of childcare is required – for both lone parent households and couple households, which have relatively high risks of poverty when only one parent is working. The demand side subsidy provided by Working Tax Credit should be seen as complementary to supply side funding through the Neighbourhood Nurseries Initiative and investment in regeneration.

The Childcare Component of Working Tax Credit is at present mainly suitable for those who require relatively few hours of formal childcare a week, and this is reflected in the size of awards. Not all households are in a position to benefit from part-time employment or have access to informal

care, and in London the proportion is particularly low. Moreover, earnings levels in London will tend to take more households above the withdrawal threshold for Working Tax Credit, making childcare less accessible. Increased access to full-time day-care and better support for those who can use part-time care is essential to increasing employment for all mothers in London.

Increasing the coverage of the childcare component from 70 per cent would make some improvement for those on the lowest incomes. We also believe that it is necessary to look at aligning childcare tax credit entitlement with the number of hours purchased or the number of hours worked in order to make it easier for more women to enter employment at over 16 hours a week. Possibilities might include reducing the taper or increasing the percentage of costs covered as hours increase. The existing threshold of £200 a week for those needing childcare for more than one child should be raised: again, aligning this with the number of hours worked or purchased would be sensible.

We agree with the conclusion from the Inter-Departmental review of Childcare that there 'are far too many

uncoordinated programmes relating to childcare which have their own funding streams'. The existing system of funding for investment in childcare provision and training suffers from lack of coordination and competing priorities. Bringing at least some of the existing funding streams for investment in infrastructure and training together in an integrated childcare fund would reduce the costs involved in matching funding from different sources (eg Surestart, regeneration funding). An integrated childcare fund would also contribute to a clearer pan-London strategic focus on increasing both provision and training where they will do the most good. The London Childcare Partnership will provide the vehicle for such a focus, provided it is properly resourced. We propose that the funding system in London should be simplified via the establishment of a single London Childcare Fund.

Programmes of investment in childcare provision should be expanded beyond the 20 per cent most deprived wards. Childcare providers should be funded to ensure that the cost of full-time places to low income households does not rise above £100 a week.

Over the longer term, the Mayor favours a universal childcare system with extensive public funding. Work undertaken at national level by PricewaterhouseCoopers has indicated that the long-term economic benefits of such a programme would outweigh the costs, regardless of the gains in terms of equity. This work has been replicated for London and indicates that the cost of universal provision (with 70 per cent Exchequer funding) would be £670 million in earlier years (falling in later years).

The employment opportunities of ethnic minority individuals in London need to be improved. The Strategy Unit's report on Ethnic Minorities concluded that ethnic minority young people are under-represented in the subsidised employment option of the New Deal for Young People (NDYP). Research has shown that where members of ethnic minority groups obtained access to the employment option, they were significantly more likely to be employed subsequently than if they had participated in any other option. For this reason it is important to ensure that ethnic minority individuals are able to gain fair access to the employment option of NDYP and other welfare to work

programmes and options from which they are likely to benefit.

We also believe there is considerable scope for intervention in deprived areas before people leave compulsory education. A programme of engagement by public and private sector employers, together with Jobcentres, could ensure that all final year pupils in deprived areas have the prospect of sustainable entry-level employment opportunities when they leave school. This may prove as effective as targeting those who have already experienced long term unemployment.

Part of the reason that ethnic minority young people are under-represented on the employment option of NDYP may be discrimination by employers. Hard proof is difficult to come by but there is evidence that suggests discrimination still holds back people of minority ethnic origins. Rigorous enforcement of anti-discrimination legislation and tackling racist attitudes in society are of course a priority. In addition, one way of overcoming possible employer prejudice would be the use of something like the Work Trials programme, which allowed employers to take on

long term unemployed individuals for a trial period of up to three weeks. The evaluation of Work Trials showed it had been extremely effective and had raised the employment rate of participants by 30 to 40 percentage points after six months.<sup>82</sup> An approach such as this would show employers the talents of some groups, such as ethnic minority individuals, that they might otherwise discount.

Pensioner poverty is a serious issue for London. While the Pension Credit will greatly improve the welfare of lower income pensioners, there must be concern that purchasing power varies between areas. Pensioners in London face the same costs for goods and services as other Londoners, although most pensioners do not face the same levels of owner-occupied housing costs. The Pension Credit should reflect variations in purchasing power between regions.

## Chapter 4: Housing

Since 1995, London's growing economy and population has led to an increased demand for housing that has not been matched by adequate supply. As a result, from 1995 to 2002, London house prices rose by 149 per cent compared to 87 per cent for the whole of the UK.

High house prices have created an overwhelming need for affordable housing,<sup>83</sup> to accommodate a backlog of 112,200 households and reduce overcrowding and homelessness. Lack of affordable housing for intermediate and key workers has led to outward migration and understaffed public services.

Housing supply can be increased by providing incentives for delivery of more housing, modernising the house building industry, changing the tax system to encourage institutional investment and investing in flagship public projects. Most importantly, subsidies should be focused on increasing supply and making supply more responsive to market conditions, rather than inflating demand.

### Introduction

This chapter starts by looking at some general background on housing in London and the likely effects of projections for London's population and households. It then investigates some of the effects on London of the unresponsiveness of housing supply to changes in house prices, before looking at affordable housing and the quality of the existing

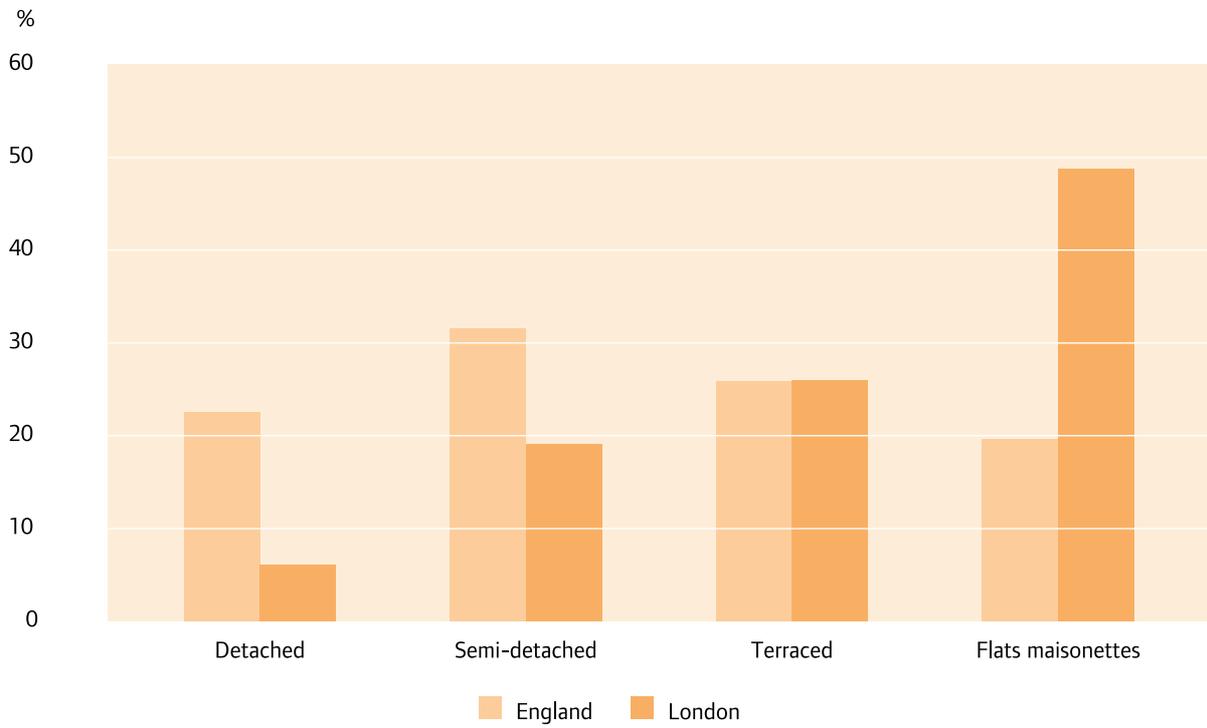
housing stock. The chapter concludes by looking at some potential solutions to London's housing problems.

### London's housing market

London's growing economy and population create intense pressures on housing provision – particularly for households on low to middle incomes. Most of the housing stock in London was built at the start of the 20th century and is

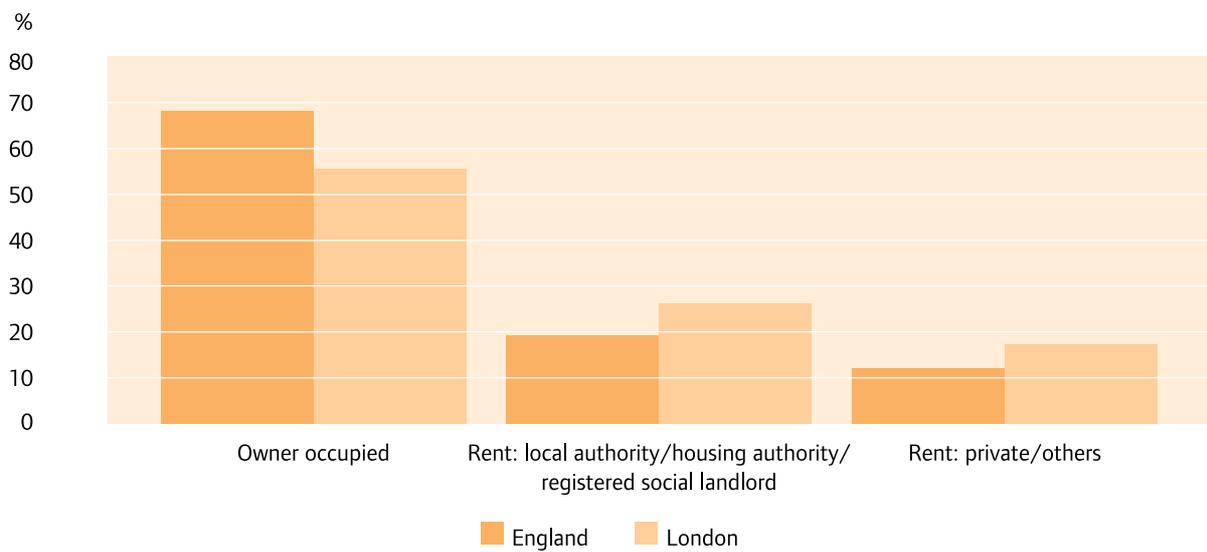
older than the housing stock of England as a whole. Nearly 30 per cent of private housing and about 14 per cent of London's social housing stock was built before 1919, compared with 24.5 per cent of private and about 6 per cent of social housing in England.<sup>84</sup> New housing supply is only 1 per cent of the total supply in London in an average year.

**Figure 20: London households by type of accommodation**



Source: Census 2001

**Figure 21: London households by type of tenure**



Source: Census 2001

London's dwelling stock was put at around 3.1 million in 2002.<sup>85</sup> This accommodates a population that is currently about 7.3 million and is projected to reach 8.1 million by 2016. Average annual net migration for 1997–2002 is now estimated at 26,000 a year (Table 3).<sup>86</sup> There are 3.07 million households in London, giving an average household size of 2.35, just under the England and Wales average of 2.36. Unfulfilled demand is placing upward pressure on prices – in the 2003 Annual London Survey, 48 per cent of all respondents considered 'the lack of affordable housing' as a major problem in terms of quality of life.

There are some significant differences in housing patterns between London and England. The most prominent are the higher proportion of households in London living in flats (Figure 20) and the lower proportion in owner occupation, as against both social and private rented tenures (Figure 21).

### Population and household projections

London's population has grown at an increasing rate since the 1980s. The net outward migration of the early 1990s was reversed in the late 1990s, although London continues to experience substantial out-migration to the rest of the

UK. This mainly comprises households with families moving back to their home counties.

In recent years, asylum seekers, job migrants and visitors requesting residence have become a significant factor in the growth of London's population. Nearly half of international immigrants to the UK move to London, where there is already a housing shortage.<sup>87</sup> Little or no data exists on how they meet their housing needs. However, there is a strong correlation<sup>88</sup> between wards with a high percentage of ethnic minorities and overcrowded households in London and these have

**Table 3: Greater London migration 1991–2002 (thousands)**

	International migration			UK migration			Total
	In	Out	Net	In	Out	Net	Net
	thousands						
1991/92	103.7	91.3	12.4	153.9	208.2	-54.3	-41.9
1992/93	98.1	70.8	27.3	149.9	200.4	-50.5	-23.2
1993/94	109.5	74.2	35.2	152.7	203.4	-50.7	-15.5
1994/95	111.1	80.1	31.0	166.6	207.8	-41.2	-10.1
1995/96	130.5	69.8	60.7	168.8	208.9	-40.1	20.6
1996/97	121.2	79.6	41.6	168.5	217.7	-49.2	-7.6
1997/98	151.5	97.1	54.4	169.5	221.5	-52.0	2.4
1998/99	197.1	101.3	95.8	167.6	220.1	-52.5	43.3
1999/2000	210.4	106.4	104.0	163.3	233.2	-69.9	34.1
2000/01	227.2	109.5	117.7	163.6	232.2	-68.6	49.1
2001/02	208.2	109.5	98.7	156.0	254.2	-98.2	0.5
Annual average 1997–2002	198.9	104.7	94.1	164.0	232.2	-68.2	25.9

Source: ONS 2001 (revised) and GLA 2003, 2002 Mid-Year Population Estimates

historically been the primary destination of new immigrants.

The EU enlargement in 2004 (eight Eastern European and two Mediterranean countries) could result in up to 335,000 migrants to current member countries.<sup>89</sup> London is likely to receive a significant number of these migrants. With further implications for promoting access and tackling homelessness and overcrowding, and putting more pressure on the relative costs of renting and buying.

The supply of new housing has to consider the type and quantity of housing to meet the needs of different households. While the overall number of households is forecast to increase by 336,000 by 2016, an average of 22,400 a year, the number of single person households is projected to increase significantly (Table 4). However, the Barker Review clearly states it would be wrong, given rising incomes, aspirations and expectations, to assume that smaller households will demand smaller housing.

## Main issues

### Housing supply

London's economic growth has not been matched by increased housing supply. On average only 20,722 homes per year were completed between 1987 and 2001,<sup>90</sup> less than 1 per cent per year of existing stock. This was not nearly enough to prevent rapid house price and land value inflation. Between 1983 and 2002 London house prices and residential building land prices increased by 456 per cent and 624 per cent respectively. This under supply of housing has a

**Table 4: Greater London household projections by type of household (thousands)**

	1991	1996	2001	2006	2011	2016	2001-16 change
	thousands						
Married couple households	1,245	1,134	1,113	1,026	963	916	-196
Cohabiting couple households	195	245	284	352	401	429	146
Lone parent households	191	231	268	295	316	332	64
Other multi-person households	299	329	310	335	361	384	74
One person households	882	957	1,049	1,130	1,208	1,298	248
<b>Total households</b>	<b>2,811</b>	<b>2,896</b>	<b>3,023</b>	<b>3,139</b>	<b>3,249</b>	<b>3,359</b>	<b>336</b>
Private household Population	6,731	6,850	7,206	7,481	7,744	8,006	801
Average household size (number of people)	2.39	2.37	2.38	2.38	2.38	2.38	n/a

Source: DMAG, GLA

Note: The figures are based on latest estimates of household types at 2001 Census – adjusted to mid-year – and then used to benchmark a household projection to 2016. The underlying population projection is the GLA Provisional Central Projection. The underlying household projection is still reliant on headship rates as used in the DETR 1996-based projection.

causal effect on the other key housing problems in London, identified below.

In London, much like the rest of UK, housing supply is largely unresponsive to house price increases (Figure 22).

There are a number of reasons for this, including the opportunity cost of land, the risk averse nature of the house building industry and planning regulations.<sup>91</sup> Whatever the reason, this market failure has significant direct and indirect effects.

**Direct effects**

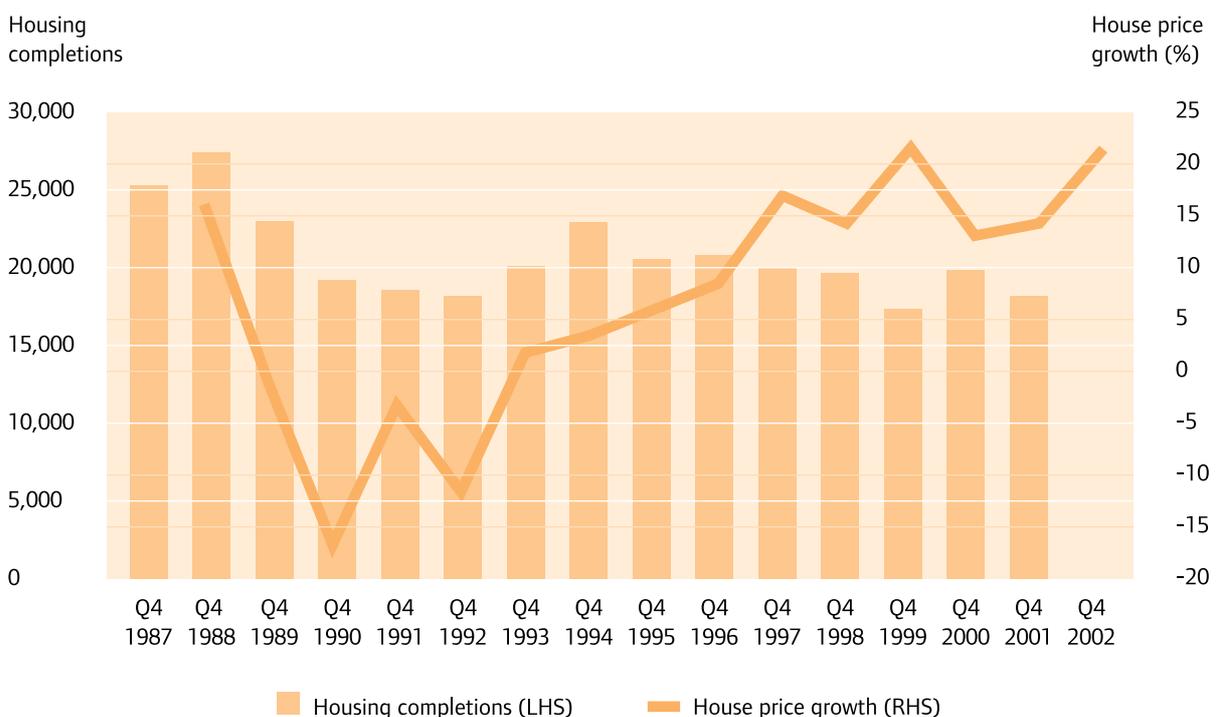
High house prices have negative effects on social

welfare. They contribute to homelessness and rough sleeping, an over reliance on temporary accommodation, overcrowding and the inability of low to middle income households to meet their housing aspirations.

- Homelessness and housing need – in London, there were nearly 62,748 households living in temporary accommodation in November 2003, which is the highest ever level.<sup>92</sup> There is an overall need for affordable housing both to accommodate a backlog of 112,200 households and to account for growth in the numbers of households.<sup>93</sup>

- Overcrowding – there are 522,000 overcrowded households in London, around 17 per cent of all households.<sup>94</sup> This has significant effects on health and family breakdown, and feeds into further homelessness and social disorder problems.
- Intermediate housing and key workers – lower and middle-income households who are not eligible for social housing are unable to take the first step on the housing ladder in London. This can undermine London’s economy and the delivery of key public services.

**Figure 22: Housing completions and house price changes in London**



Source: GLA housing provision survey 2001 and Nationwide regional quarterly house prices, average annual fourth quarter change

**Indirect effects**

Housing shortage, through its effect on house prices, affects labour mobility – for instance, it impedes households from low house price regions, and first time buyers, from moving to take up employment opportunities in high house priced regions. Housing shortage also reinforces spatial patterns of disadvantage, as people on low to average incomes find it hard to move away from lower cost areas. It also leads to longer commuting times. In Autumn 2002, people working in Central London travelled for an average of 57 minutes compared to 23 minutes for the rest of Great Britain.<sup>95</sup>

House price to income ratio, an indicator of affordability,

is considerably higher for London compared to other regions (Table 5). Buying an average-priced home in London requires a single gross salary of over £62,055 assuming the lending limit is restricted to 3.5 times income.<sup>96</sup> However, the average annual London salary is £32,448.

Given that it is the failure in supply that is currently the major cause of London's housing problems, the 'first-best' solution would be to reform the housing supply side to make it more responsive to market conditions. However, in practice, the supply side is at present relatively inflexible, although performance in London could certainly be improved.

In these market conditions, demand-side measures – such as the provision of equity loans to key workers – will not only be relatively ineffective in meeting need, with large deadweight costs, but will also lead to further rounds of house price and land price inflation, exacerbating the problem for those on equivalent incomes who are not in the favoured occupations. Therefore, solutions which work directly on the supply side and are targeted at particular groups will be necessary, alongside reforms to make the housing market and the development process work more efficiently in London.

**The Barker Review**

The interim Barker Report, Review of Housing Supply – Securing our Future Housing

**Table 5: House price to income ratio**

Region	Average house price Q4 2002 (£)	Average income of households (£pa)	House price to average income ratio
London	221,537	46,288	4.8
South East	152,555	38,478	4.0
South West	124,508	29,626	4.2
Eastern	125,154	33,819	3.7
West Midlands	94,402	31,857	3.0
East Midlands	88,724	29,350	3.0
North East	62,089	27,405	2.3
North West	69,372	28,625	2.4
Yorkshire and Humber	66,958	27,832	2.4

Source: *Can't Work, Can't Buy*, Joseph Rowntree Foundation, 2003

House prices: Halifax prices for four/five room dwellings

Incomes: Family Expenditure Survey 1998/99 to 2000/01 (uprated to 2002/03)

Needs, highlights clearly the importance of increasing housing supply in the UK. It also identifies the social and macroeconomic impact of housing undersupply. The review's estimate suggests that if real house prices had risen in line with the European average since 1975, the UK would be £8 billion better off. These benefits can be quantified in terms of a lower level of unemployment, a higher surplus for homeowners and greater revenues from more sales for house builders and homeowners.

The Barker Review also estimates that increasing market supply by 145,000 homes per year could reduce house price inflation to the European average of 1.1 per cent. However, in reality for London, house prices across all the different sub-markets that exist would not stabilise even if the current new provision were doubled. The key issue for London is affordability, and this needs to be tackled directly through increasing the supply of affordable housing. The interim report of the Barker Review reinforces the point that most new housing should be affordable.

### **Affordable housing and sustainable communities**

While new affordable housing – both social and

intermediate housing – is the most essential part of the package of increased supply, there is no economic incentive to the private sector to fund social housing. Private developers already bear a cost from building social rented housing, even when fully grant assisted, through the provision of land. The best that can be said is that, in less favourable economic conditions, the certainty of public investment can boost the viability of schemes.

Intermediate housing provides a much more attractive investment option for private sector business. Again, there is a cost to the developer, who loses the opportunity to build housing at full market rates; but at least the risk of losing further value through any adverse (perceived or otherwise) effect associated with wholly social housing is much less. Including intermediate housing in mixed-use schemes ensures the presence of local people with disposable incomes, but generally without second homes. These people are more likely to be in the area throughout the week, using local shops and services, than those on the highest incomes. Thus, the intermediate market can help make communities viable in the face of current trends, which have served to polarise communities between the top and bottom end of

the income scale.

The London Housing strategy has a target of 50 per cent affordable housing in all new building. This proportion is split into 70 per cent social housing and 30 per cent intermediate housing (in terms of units) on all new developments.

In terms of *where* to build, the focus should be on increasing supply by achieving higher densities throughout London, not just in Inner London. Many Outer London centres have high levels of transport accessibility, where high densities – and even some car free housing – are both possible and desirable. This would support economic development because research has confirmed that, where populations have grown in areas of Outer London, so economies have also grown, focused on service sector jobs.

At the same time, a significant proportion of housing capacity in London is in areas where there is limited transport and social infrastructure. High-density housing makes public transport investment and the maximised use of existing infrastructure more viable. It also helps preserve natural land for amenity purposes. Sustainability principles mean that we should first use planning policy to focus

investment on brownfield land in places such as outer town centres. The market will not invest in historically unattractive locations of its own volition.

There are also arguments that developing primarily in lower cost areas would prove more cost effective. However, there is no strong social argument to demonstrate why the relocation of social housing to outer areas to achieve greater returns in terms of units would be desirable. The economic cost is likely to outweigh any economic benefits that might be derived. The bad experience of the peripheral council estates around Glasgow and Edinburgh is a case in point.

New social housing should be part of mixed tenure schemes to help create sustainable communities, rather than building large social housing estates. Around the margins, estate renewal can create more of a mix in social housing concentrations, but this must not be at the expense of losing social housing units, which would worsen, not ameliorate, the existing problems.

### **Decent homes and housing investment**

Long term under investment in housing meant that, by

2001, 34.7 per cent of London's private sector housing and 40.7 per cent of its social housing did not meet decent homes standards. This was higher than the England average of 32 per cent and 37.7 per cent for private and social sector housing respectively.<sup>97</sup>

The poor quality of these houses has significant knock-on effects. For example, research has shown that there is a link between poor housing and ill health. Some research by Shelter in 2000 found that as much as the NHS in Wales spends £50 million every year on conditions caused by poor housing. Other research showed that 85 per cent of children in damp housing had experienced at least one respiratory problem in the previous two months, as compared to 60 per cent of children in non-damp housing.<sup>98</sup>

From what data there is, it would appear that the greatest proportion of substandard homes is in the Council sector (there is insufficient data to accurately disaggregate the social housing figure into Council and Registered Social Landlord's (RSL) stock). At April 2003, London Councils estimated that they owned more than 260,000 homes that still did not meet

the government decent homes standard.<sup>99</sup> More than £300 million was spent on tackling the decent standard in 2002/03, with over 28,000 homes brought up to the standard and a further 46,000 receiving work to prevent them from falling below the standard. Over 170,000 homes have either already transferred to an Arms Length Management Organisation (ALMO) or are bidding to do so in round four of the ALMO programme, to enable Councils to access the resources to help meet the standard.

Nevertheless, over half (53 per cent) of Council homes in London are below the decent standard. It would cost more than £2 billion to bring all these up to the decent homes standard by 2010. Yet at the same time, the review of funding allocation mechanisms phased in over the three years from 2002/03 has, other things being equal, resulted in a cumulative shortfall of £128 million over these three years. Further, the reductions in Management and Maintenance Allowances will reduce the funding available to support housing management and the decent standard by a further £167 million per year by the end of the transitional period.

Total housing capital investment in London in 2002/03 was £716 million, which is likely to rise significantly to over £1 billion in the following three years (£1,016 million, £1,039 million and £1,071 million respectively). However, investment in the stock by London councils is set to drop in 2004-06, as direct Housing Investment Programme (HIP) allocations to councils are cut and resources are targeted to new supply and key workers.

An additional investment of £1 billion would also be needed to make habitable the 183,050 private sector homes (ie 8 per cent of the total) currently unfit for living. Local authorities invested only £77 million in private sector housing in 2002/03, and are thus unlikely to make significant inroads in this area without major shifts in resources or ways of working.

### Potential solutions to London's housing problems

#### Solutions for increasing supply

- Providing incentives for the delivery of more housing.
- Targeting more resources (plus private sector investment) on land assembly and remediation for new housing developments.

- Stretching capital further by prioritising investment in new and innovative schemes that employ public sector assets to deliver affordable housing at low subsidy.
- Creating greater profit incentives from housing development; and taxing land appreciation costs at the capital gains level to deter landowners from holding on to unused land.

Many of these tools could be used to secure more investment in the Thames Gateway area.

The government's policies for delivering sustainable communities include £446 million over the next three years for Thames Gateway. Three options for new housing development have been developed:

- Current government proposals for 59,500 units in the London Thames Gateway by 2016 as part of 120,000 units distributed throughout the entire Thames Gateway area.
- LDA/GLA/Thames Gateway London Partnership proposals for over 91,000 residential units in the London Thames Gateway by 2016.
- 59,500 units by 2012 as the first phase of developing at least 91,000 units, which

implies a different spatial housing distribution than if 59,500 was the ultimate target, as in the first option.

The LDA has commissioned some preliminary work to investigate possible funding options for taking forward the Thames Gateway.

#### The house building industry could be modernised by:

- Bringing in more players and creating greater profit incentives from housing development as opposed to land banking.
- Improving skills in the construction and professional services sectors (in both public and private organisations). According to the Egan report, the proportion of trainees in the workforce has declined by 50 per cent since the 1970s, exacerbating the skills shortage.<sup>100</sup> Moreover, the Latham report stresses the importance of skill retention in the industry.<sup>101</sup> There is a need for a stable macroeconomic environment and long-term employment security in the house building industry to prevent skills leakage following each recession.
- Encouraging innovation in the construction technologies and capital intensive methods of production that are

necessary to speed up development; the Egan report shows that industry research and development has fallen by 80 per cent since 1981 and capital investments are down by a third compared to 20 years ago.

- Increasing institutional investment in residential property by introducing a tax-transparent property investment vehicle that would encourage greater institutional investment and increase housing supply, in particular in the private rented sector, tied to improved standards (the role of the private rented sector is vital to improve labour mobility).
- Investing in flagship public realm projects in key centres outside the centre of London to provide investment catalysts for development and pilot schemes to ensure highest quality design, including environmental sustainability measures; measures should also facilitate changes in use of buildings, for example converting offices to homes.
- Giving the GLA strategic control over public housing investment in London, bringing London into line with arrangements for regional governance elsewhere in England.<sup>102</sup>

### Solutions for making better use of existing resources

- Concentrating subsidy on supply – tackling recruitment and retention of key workers primarily through regional pay (see section on health and education services) and ensuring that all key worker housing programmes focus on new supply and not demand subsidies; prioritising existing capital investment on the supply of new affordable housing (socially rented and intermediate) over the first phase (five years) of the London Housing Strategy, saving resources in the second phase (second five years) to tackle other issues such as decent homes.
- Funding for social, environmental and physical infrastructure, including transport infrastructure (especially Thames Gateway) in large sites not in town centres and brownfield sites in order to attract further housing development and create new areas of housing that people value and want to move to.<sup>103</sup>
- Clarifying the role of all agencies involved in land assembly and preparation to improve efficiency. In low value areas there is limited capacity to fund infrastructure from the current development value;

a mechanism is nevertheless required to ensure the future value arising from infrastructure provision is captured, to contribute to meeting the costs.

- Promoting both high density housing in those Inner London and Outer London centres with good links to transport and jobs and medium density housing in less accessible areas. Boroughs should follow London Plan guidance (and government objectives) on appropriate increases in density.
- Reviewing the use of industrial/employment land – making better use of underemployed or low density land for housing and other uses; and reforming the planning system to generate greater certainty, but not necessarily fewer obligations, for developers.
- Right to Buy – stemming the loss of affordable housing by converting the Right to Buy in London into a portable discount.

Government expenditure on housing needs to be targeted on increasing supply, not inflating demand. This is particularly relevant to public sector workers, since the high level of housing costs in London is one of the main factors causing difficulty in recruitment and retention.

# Chapter 5:

## Public services in education and health

In London, it is particularly difficult to recruit and retain key workers in important public services such as education and health. London has the highest teacher vacancy rates than the rest of the country, and the size of London's healthcare workforce is declining.

The key to solving this problem is to compensate these workers financially for the relatively high cost of living in the capital. Research shows that in 2003 the cost of living in London was 17–20 per cent higher than in Edinburgh and 23–30 per cent higher than in Manchester. The relative cost of living in London is particularly high for the lowest income groups.

Increasing London teachers' wages to reflect fully the higher cost of living would add £194–362 million a year to London's education budget (a 7–13 per cent increase). Increasing London nurses' and medical practitioners' wages to reflect the higher cost of living would add £238–394 million a year to London's healthcare budget (a 3–5 per cent increase).

### Introduction

This chapter looks at the provision of education and health in London and the higher cost of living in the capital. It begins by looking at the general level of expenditure on education and health in the UK and then focuses on education, briefly examining some of the factors that impact on the cost of supplying education in London. It then considers

the performance of schools in London, spending on London schools and some specific issues relating to education in London before ending with some policy considerations.

The chapter then turns to the health service and briefly considers some of the factors specific to healthcare provision in London and the performance of the capital's health service. It looks at the resources available for

healthcare provision in London and the problems of recruitment and retention of healthcare workers.

While the chapter provides an overview of London's needs in these fields, its main focus is on the implication of existing wage differentials. It considers the cost of living in London and the general problem of recruitment and retention of key public sector workers. The chapter

concludes with an illustrative example of how much more spending would be required to rectify existing wages for key health and education workers.

### Spending on education and health in the UK

The government has a commitment to delivering high quality public services through sustained investment.<sup>104</sup> Public spending on education as a percentage of national GDP has grown recently to 5.1 per cent in 2002/03 and, more strikingly, public spending on health with personal social services has grown to 7.8 per cent in 2002/03 (Figure 23).

The government is committed to increase spending on health by 7.2 per cent per year in real terms up to 2007/08. This is projected to raise the share of total UK health spending to 9.4 per cent of GDP.<sup>105</sup>

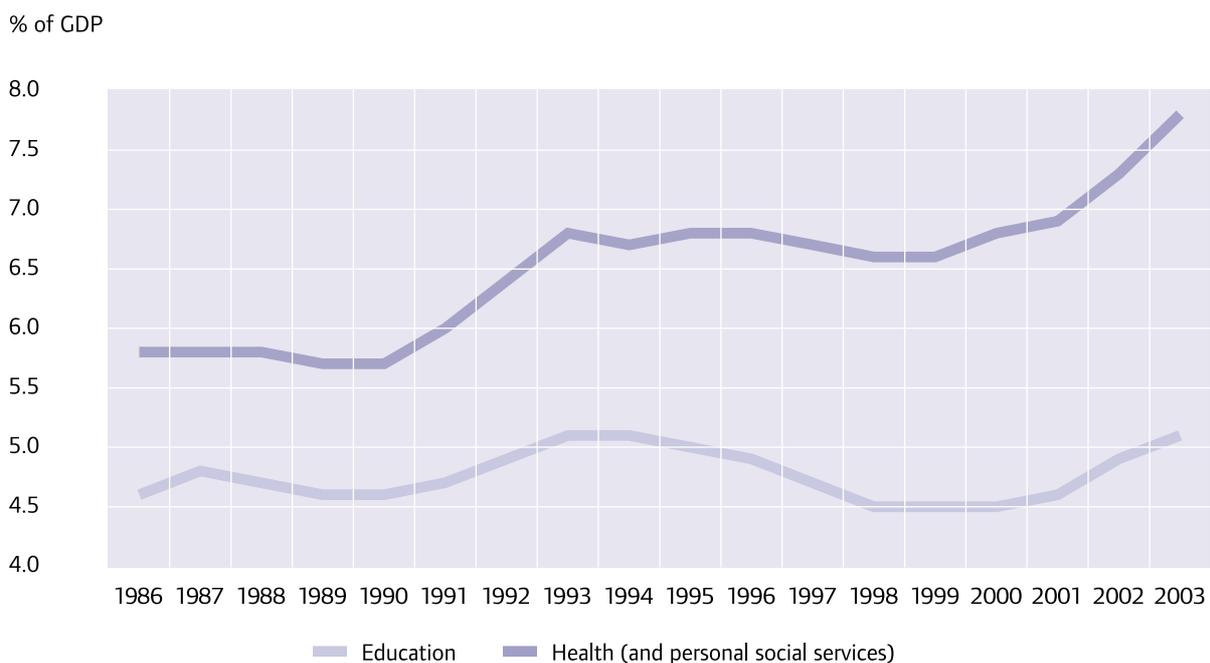
### Factors affecting spending on education in London

London is not the only location facing the needs and higher costs discussed below, but such needs and cost issues need to be borne in mind when considering the funding of education and health services in London.

### London's child population

The prime determinant for spending on schools is simply the number of children of nursery age, primary school age and secondary school age. Greater London is home to over 16 per cent of England's pre-school children, 14 per cent of primary school age children, and 13.5 per cent of secondary school age children (Table 6). The share of England's children living in London is less than London's total share of the population, and the proportion of London's population of school age is also less than that for England as a whole. In London, 14.7 per cent of the population are 4-16 years

Figure 23: Public spending on education and health



Source: Public expenditure statistical analysis, HM Treasury

old, compared to 15.5 per cent for England as a whole. But the proportion of pre-school age group of 0-4 years is greater in London than in England as a whole.

All that apart, the population of school age children in London is rising and this increase is projected to continue. In 2001, there were 10 per cent more children in London than there were in 1991, placing an increasing demand on London's schools. The number of children is projected to grow by a further 6 per cent by 2011 to over 1,620,000 children. The most rapid growth is currently occurring in pre-school age groups, which means that there will be additional pressure on London's schools over the coming decade.

### Educational needs in London

As shown earlier, London has England's most severe and highest incidences of child

poverty.<sup>106</sup> As well as income measures, deprivation can also be illustrated through eligibility for free school meals. In Inner London, over 37 per cent of pupils in both primary and secondary schools are known to be eligible for free school meals. The averages for England as a whole are 17 per cent for primary schools and 15 per cent for secondary schools.<sup>107</sup>

London's diverse population means its education system must adapt to needs that are very different from elsewhere in England. The proportion of pupils from ethnic minority backgrounds is much higher in London, especially in Inner London where ethnic minorities make up nearly two-thirds of pupils (Tables 7, 8). Similarly, there is a much higher share of pupils in London for whom English is a second language – almost half of those in Inner London's primary schools, compared to 11 per cent nationally.

London also has a higher proportion than the national average of pupils with Special Educational Needs. Inner London, where almost one in five pupils are registered as special needs, has the highest rates of any region.

There is little evidence on how meeting these specific needs adds to the costs of delivering education. However, pupils for whom English is an additional language perform on average less well than pupils for whom the first language is English. Within ethnic groups, there is a wide range of educational attainment but, on average, black, Pakistani and Bangladeshi pupils perform less well than white pupils throughout schooling.<sup>108</sup>

Pupil mobility between London schools and London LEAs is also a significant additional cost. There are three factors associated with this:

**Table 6: London's child population**

Age of children	Inner London		Outer London		London		England	
	Numbers of children	% of population						
0-4	190,200	6.9	287,800	6.5	478,000	6.7	2,926,500	6.0
5-11	228,400	8.2	400,300	9.8	628,700	8.7	4,429,600	9.0
12-16	151,700	5.5	278,000	6.3	429,700	6.0	3,182,700	6.5

Source: Census 2001

- Pupil mobility in the capital is associated with a lower level of attainment and with economic and social disadvantage.
  - Pupil mobility is uneven across London. Over 45 per cent of pupils aged over five enrolling in Newham in January 2003 had been admitted during the course of, rather than at the start of, the school year. By contrast, only 16 per cent of pupils in Kingston and 11 per cent of pupils in Havering were admitted in this way.
  - Schools with high levels of casual admissions need strategies that take account of the induction and other needs of the pupils involved. These schools also need the resources to implement those strategies.
- On the one hand, London faces greater costs in educating its children than elsewhere in the UK. On the other, investing in children is important in order to give them the best possible opportunity for a healthy and productive life. Poor educational outcomes are strongly linked to poor future labour market outcomes, which themselves are linked to poverty. Better educated and more highly skilled people are more likely to be in work, earn more and contribute more productively to the economy and society. Indeed, wealth creation occurs through the knowledge, skills and enterprise of the population. Therefore, providing London's children with an effective education today will alleviate to a great

**Table 7: Primary school pupils (%)**

	Inner London	Outer London	England
Ethnic minority*	62	37	15
English as a second language	49	27	11
Special Educational Needs	19	17	16

\*Mixed, Asian, Black, Chinese and Any other ethnic group

Source: *Schools in England, DfES 2003*

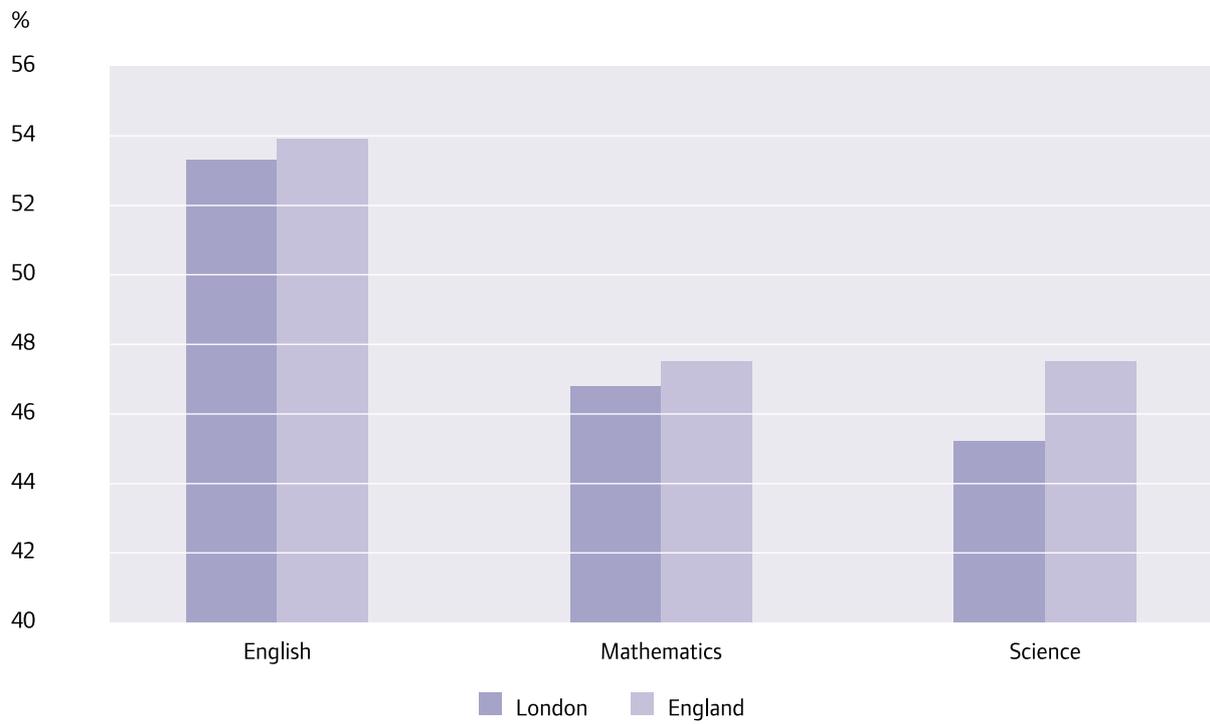
**Table 8: Secondary school pupils (%)**

	Inner London	Outer London	England
Ethnic minority*	62	36	12
English as a second language	46	26	9
Special educational needs	20	14	15

\*Mixed, Asian, Black, Chinese and Any other ethnic group

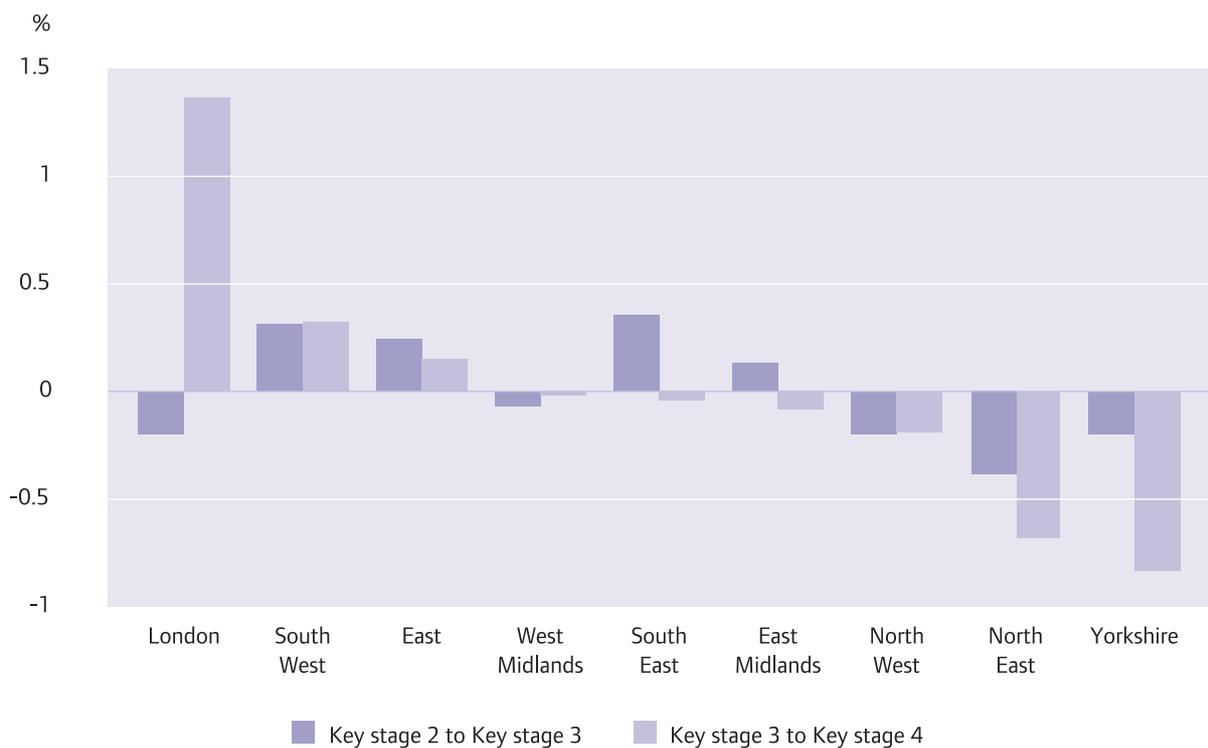
Source: *Schools in England, DfES 2003*

Figure 24: GCSE attainment in London and the UK



Source: Regional Trends 2002, Department for Education and Skills

Figure 25: Measures of added value



Source: Department for Education and Skills 2003

extent the need in future for some of the remedial spending set out in other parts of this publication, such as the poverty and worklessness chapter.

### Educational attainment in London

The levels of educational attainment in London's schools are mixed. GCSE pass rates in Outer London are better than the average for England but in Inner London are much lower. Overall, in the headline indicators of GCSE pass rates A\*-C, London attains lower pass rates across the core subjects (Figure 24).

London's performance on 'value added' – the progress pupils make between key stage levels of assessment – is similarly mixed. The Strategy Unit's recent Analytical Report cited DfES research showing that in secondary schools, between key stage 3 and key stage 4, London achieved a score of 99.9 compared to an English regional average score of 98.5. Investing in London's education between these two stages provides more added value than in any other region (Figure 25). However, between key stage 2 and key stage 3, the English regional average score is 99.8 with London lower and among the poorer performing regions.

### Resources for the supply of education

London has over 600,000 primary school pupils, taught by over 28,000 teachers in 1,860 schools (Table 9). London's primary schools are 40 per cent larger than the English average, reflecting higher population densities. The numbers of pupils per teacher is slightly less than the English average.

London has 418,000 secondary school pupils, taught by almost 27,000 teachers in over 400 schools (Table 10). London's secondary schools are only a little larger than the English average, with Inner London schools slightly smaller. The numbers of pupils per teacher is less than the English average, particularly in Inner London.

London's independent sector makes up over a fifth of the independent sector in England as whole. Over 120,000 pupils attend over 450 independent schools in London. This is over 10 per cent of London's pupils, rising to over 14 per cent in Inner London, compared to 7 per cent for England as a whole.

### Spending on schools in London

The total budget for schools in London in 2000 was over £2.8 billion. The budget for primary schools was £1.4

billion and for secondary education was over £1.3 billion. Out of a schools budget for England of £17.5 billion, London received nearly 16 per cent of the English total.

This share illustrates the higher levels of spending per pupil in London. Spending per pupil in Inner London is around 20 per cent higher than in Outer London, which in turn is more than 10 per cent higher than in other metropolitan areas. These spending differences are consistent across both primary and secondary schools (Table 11).

On this basis, London has a 10-20 per cent advantage over the rest of England in terms of spending per pupil. The issue is whether this is enough to cover the higher costs of providing education in London.

By far the largest share of spending is on staff costs, which are considered in more detail later in this chapter.

### Other issues for education in London

The London Challenge, which argues that London faces large, unique challenges in raising attainment, identifies three elements that are essential to transform London's schools:

- Building academies and other new schools.
- Developing successful changes already underway.
- Ensuring that existing schools succeed.

New schools not only meet the need for extra places in London, but can also introduce more innovation in education and stimulate wider change in the local area. The London Challenge therefore seeks to develop investment plans, both with LEAs to invest in new academies (either as new schools or as replacements for existing schools) and by enabling new providers to bring forward new schools.

The London Challenge promises to work with partners to ensure that London's schools have, 'the systems, structures, plans and staffing they need to make rapid progress'. It establishes the government's ambitions to invest in London's secondary education, including the desire that every London school should be able to achieve specialist status. DfES believes specialisation allows schools to develop real excellence in an area of strength and so extend parents' and pupils' choices. Through the Specialist Schools Trust, DfES will support LEAs in developing specialism plans. As part of this new specialist system,

there are plans for 30 new academies in London – state funded independent schools supported by external sponsors. It is intended to build these in areas of deprivation and historically poor standards.

DfES's national consultation, *Building Schools for the Future*, sets out an agenda for building and renewing schools across the UK, with a growing budget for capital investment that reaches £5 billion by 2005/06. The consultation document acknowledges that the costs of school buildings programmes will be higher and that London may need

**Table 9: Primary schools (numbers)**

	Greater London	Inner London	Outer London	England
Pupils	606,878	223,601	383,277	4,165,845
Teachers	28,673	11,134	17,539	189,546
Schools	1,862	708	1,154	17,861
Pupils per teacher	21.2	20.1	21.9	22
Pupils per school	325.9	315.8	332.1	233.2

Source: *Schools in England, DfES 2003*

**Table 10: Secondary schools (numbers)**

	Greater London	Inner London	Outer London	England
Pupils	417,600	127,526	290,074	3,307,056
Teachers	26,939	8,780	18,159	1,89,546
Schools	407	133	274	3,436
Pupils per teacher	15.5	14.5	16	17.4
Pupils per school	1,026	959	1,059	962

Source: *Schools in England, DfES 2003*

a special approach, but does not yet indicate what these additional costs are.

### Policy proposals

The focus of the London Challenge is on developing excellence and extending choice. It seeks to address poorly performing schools, the lack of enough top quality heads, fragile staffing, the need for more strategic direction and support, and raising the attainment of black and minority ethnic pupils. Extending the London Challenge approach to primary and early years education would pull together existing resources and initiatives. Increasing the flexibility of funding and enabling the pooling of budgets currently used to tackle educational under-attainment (eg SureStart, Children's Centres and extended schools) would achieve economies and deal more effectively with the complex problems affecting educational attainment. In addition, focusing more resources on Inner London schools would help to address their relative under-attainment.

### Healthcare in London

London has a lower share of its population over the age of 64 years than England as a whole (Table 12). At the same time, while

London's total population is projected to grow, the numbers of people over the age of 65 is expected to decline a little from 892,000 in 2001 to 826,000 in 2011 (Figure 26), when the share of older people would be 10.8 per cent (as compared to 12.4 per cent now).

All other things being equal, this should help London in providing healthcare, given that healthcare spending is focused more on older people (Table 13).

### London's health needs

London Divided<sup>109</sup> highlights particular health indicators associated with deprivation in London. Average life expectancy in London, 76 years for men and 81 years for women, is close to the national average, but this masks wide variations within London. In many areas of London, male life expectancy is 73 years and female life expectancy 79 years. In comparison to the rest of the country, London is notable for the incidence of HIV infection. In 2001, 15,000 people resident in London were diagnosed and treated for HIV, or 57 per cent of the total for the UK. London also stands out in its prevalence of tuberculosis relative to the rest of the country. In 2001, there were

over 2,700 reported cases of tuberculosis in London – a rate of 38 per 100,000 people or over three times the national average. The proportion of children immunised by their second birthday is lower in London than in England as a whole.

London's immunisation against tetanus, polio and meningitis is 88 per cent compared to 93 per cent for England.

### Areas for improvement

There is scope for improvement in the performance of the health service in London, which on many indicators is below that of other English regions. For example, the overall number of people on London's hospital waiting lists is over 139,000 – 13.6 per cent of all those on waiting lists in England. Over a quarter of patients are on hospital waiting lists in London more than six months, which is greater than the average for England (Table 14).

London's hospitals have around four beds for every 1,000 people living in the capital. This is higher than the average for England (3.7). However, London treats only 41 cases per available bed – lower than the English average of 46 and lower than

**Table 11: Spending per pupil (£)**

	Inner London	Outer London	Metropolitan Areas	Counties
Primary education	2,560	2,170	1,960	1,900
Secondary education	3,400	2,840	2,590	2,490
Special education	14,910	13,280	10,810	5,190

Source: CIPFA 2002

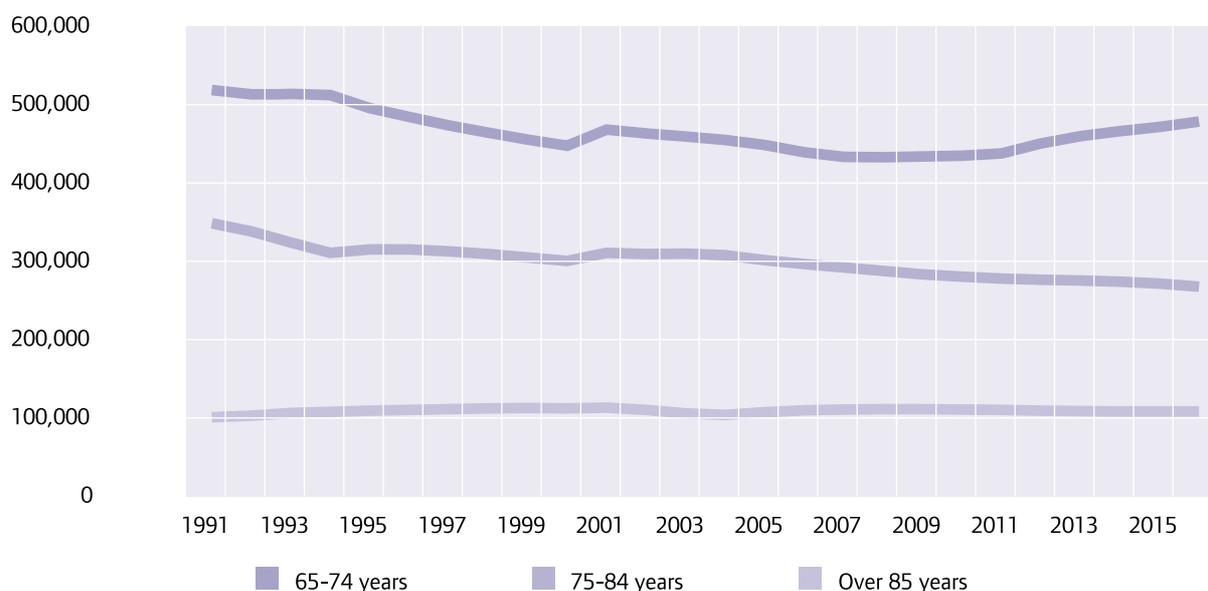
**Table 12: London's older population**

	Inner London		Outer London		London		England	
	Numbers	% of population	Numbers	% of population	Numbers	% of population	Numbers	% of population
65-74 years	153,300	5.5	314,800	7.1	468,100	6.5	4,102,700	8.3
75-84 years	97,400	3.5	213,300	4.8	310,700	4.3	2,750,900	5.6
85 years and above	33,300	1.2	79,700	1.8	113,100	1.6	954,000	1.9

Source: Census 2001

**Figure 26: Projected numbers of older people in London**

Numbers of older people



Source: The London Plan, GLA 2003

any other NHS regions (Figure 27).

At present, London treats 163 cases per 1,000 people. This is slightly below the average for England of 173 cases per 1,000.

### London's health service resources

Five Strategic Health Authorities, supervising a range of Primary Care Trusts, Hospital Trusts and Mental Health Trusts, oversee provision of NHS services in London. There are 57 hospital NHS Trusts in London.

Together these handle over 1.1 million ordinary admissions a year, over 500,000 day case admissions and over 2.5 million accident and emergency attendances (Table 15).

Almost 133,000 people are directly employed by NHS hospitals and community health services in London. This represents 184 staff per 10,000 inhabitants, compared to a national average of 170. Similarly, in most categories of NHS staff, London has more staff per 10,000 residents than in England and Wales as a whole (Table 16). However,

in many specialised areas hospital services are supplied to non-residents such as commuters and tourists. This may place extra demands on London's health service. Although London has higher numbers of staff per 10,000 residents across most hospital occupations, this is not matched in primary care. Here, including health visitors and community nurses, London often has a poorer ratio than the average for England.

London has 4,000 GPs in some 1,700 practices. The average list size for each GP is almost 2,000 people, 8 per

**Table 13: Cost of healthcare by age group**

	£s per head
Births	2011
Age 0-4	461
Age 5-15	183
Age 16-44	295
Age 45-64	410
Age 65-74	785
Age 75-84	1391
Age 85+	2256

Source: IFS, 2000

**Table 14: NHS hospital waiting lists 2002**

	London	England
Less than 6 months	74.50%	76.70%
6 months or longer	25.50%	23.30%
Total patients waiting	139,200	1,021,600

Source: Focus on London 2003, Department of Health

cent larger than the English average. The proportion of practices with a single GP is much higher in London than it is nationally (Table 17).

**Spending on healthcare in London**

The NHS spent over £37 billion in England in 2002. Data on regional health

spending is hard to break down, but it is possible to draw some comparisons on the share of spending that comes to London. Over £7.5 billion is spent on healthcare in London, 20 per cent of the total for England.

The largest share of health spending is through NHS Trusts. These represent

£6.4 billion in London, over 85 per cent of health spending. This is slightly more significant than for England a whole, where NHS Trusts represent 83 per cent of spending (Table 18).

The structure of spending in NHS Trusts and Primary Care Trusts in London differs somewhat from that in

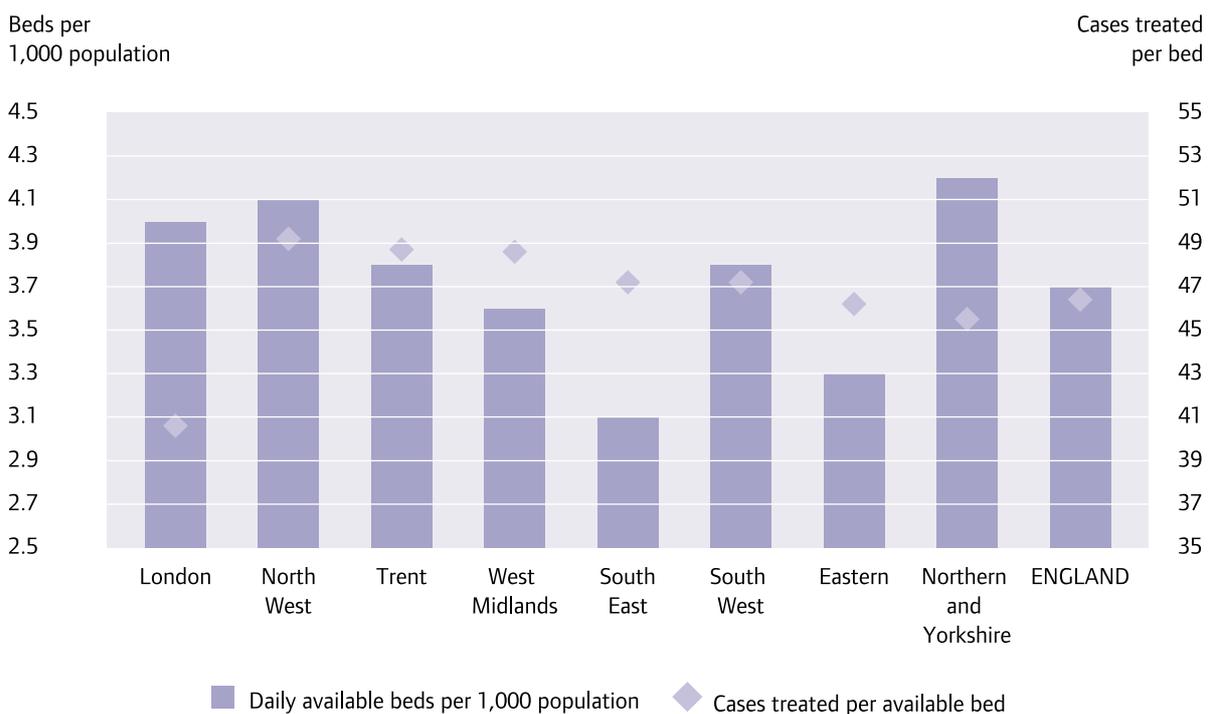
**Table 15: Hospital activity in London 2000/01**

Ordinary admissions*	1,157,000
Day case admissions	523,000
Outpatient attendances	7,958,000
Accident and emergency attendances	2,548,000

\*Consultant episodes (note that one patient may have more than one consultant)

Source: Focus on London 2003, Department of Health

**Figure 27: NHS hospital activity inpatient treatment by bed**



Source: Regional Trends 2003, Department for Education and Skills

England as a whole (Table 19). In NHS Trusts, over two thirds of spending is on staffing – with the wage bill in London taking a slightly smaller share than in England as a whole. However, London accounts for two-fifths of England's spending on external contract staff in NHS Trusts; and London NHS Trusts spend more on purchasing healthcare services from non-NHS bodies. In Primary Care Trusts, the story is similar. London spends a lower share on salaries and wages, just under a half of spending, but much of this difference is offset through purchasing healthcare outside the NHS and external contracting of staff.

### Recruitment and retention of teachers in London

There are a range of areas where London faces greater pressure on education and

healthcare services than the rest of the country. However, while these are important, the most pressing issue for both education and healthcare is the recruitment and retention of staff.

The London Challenge states that staff in London schools are less likely than nationally to be specialist teachers in the subject they teach. In addition, 2 per cent of teaching posts in London are vacant compared to 0.9 per cent nationally, and 3.5 per cent of posts are filled temporarily compared to 1.7 per cent nationally.

The turnover rate of teaching staff is over 20 per cent per year in Inner London and around 18 per cent in Outer London. These are the highest rates in the country and compare to an average for England of around 15 per cent.

At over 10 per cent, both Inner and Outer London also have the highest 'wastage rates' for teachers either leaving the profession or going to schools in other regions. The London Challenge states, 'many teachers do not stay in London in the long term. When they want to buy a home and settle down they often leave the city'.

Employment in schooling has been increasing rapidly in London. In 1997, there were 76,500 people working in London's primary education and this increased by 21 per cent to 92,700 in 2001. This is faster growth than in England as a whole, where employment grew by 16 per cent. Over the same period, employment in secondary education in London grew by 23 per cent (51,800 in 1997 to 63,700

**Table 16: NHS hospitals and community health staff 2001**

	London*	England*
Hospital staff		
Consultants	6.1	4.5
Registrar group	4.7	2.5
Junior grades	5.4	3.8
Qualified nurses	48.1	39.7
Community health		
Health visitors	2.3	2.1
District nurses	2.3	2.2
Other community nursing staff	8.6	9.4

Source: Department of Health

\* Selected occupations, rate per 10,000 residents

**Table 17: General practitioners in London 2001**

	London	England
Number of GP practices	1,691	8,187
Number of GPs	3,962	27,843
% of practices with one GP	42%	29%
Average list size (numbers)	1,985	1,841

Source: Focus on London 2003, Department of Health

**Table 18: Health expenditure 2002 (£millions)**

	London	England	London %
Health authorities	487	3,494	14
NHS trusts	6,429	31,073	21
Primary care trusts	593	2,663	22
Total	7,510	37,229	20

Source: Department of Health

**Table 19: Spending shares (%)**

	NHS trusts		Primary care trusts	
	London	England	London	England
Salaries and wages	66.3	68.0	49.2	55.8
Clinical supplies	14.4	13.3	10.5	5.4
General supplies	2.9	2.6	2.0	1.8
Establishment expenses	2.7	3.2	3.3	4.3
Premises and fixed plant	5.3	5.3	4.0	3.9
Miscellaneous	2.8	2.6	8.0	9.4
Use of fixed and capital assets	3.5	3.8	3.8	3.1
Healthcare from non NHS	1.3	0.8	18.1	15.4
External contract staffing	0.8	0.4	1.0	0.6

Source: Department of Health

in 2001), compared to 30 per cent in England as a whole. London has 12 per cent of England's primary school employees and 12 per cent of secondary school employees.

London teachers' pay has recently increased significantly. The 2003 pay settlement established a new Inner London pay scale and provided for a 10 per cent increase in Outer London weighting on top of general pay increases. Most importantly, it almost doubled the threshold payment for experienced teachers in Inner London. A new Chartered London Teacher accreditation is being proposed to the Schoolteachers' review body to give a further increase to the salaries of London's teachers.

The average wage for teachers in London is 9 per cent higher for primary school teachers and 8 per cent higher for secondary schools (Table 20). This is less, however, than the 31 per cent premium that London has for overall wages.

The higher wage for teachers in London is affected by London weighting, which is intended to reflect the higher cost of living in London. This is worth £3,000 per year (£58 per week) for teachers in Inner London and £1,975 per year (£38 per week) for teachers in Outer London. This weighting is equivalent to around 6-10 per cent of the average wage for London's teachers.

#### Recruitment and retention of health service staff in London

Employment in healthcare has been declining in London. In 1997, there were 154,900 working in London's hospital activities. This decreased by 6 per cent to 145,800 in 2001. Over the same period, employment in medical practices grew by 2 per cent, from 21,400 to 21,900.

The fall in employment in human health activities in London contrasts with that for England as a whole, where between 1997 and 2001 employment grew

7.5 per cent (from 1,004,200 to 1,078,700) in hospital activities and 11.5 per cent (from 137,200 to 153,000) in medical practice activities. London has 13.5 per cent of England's hospital employees and 14 per cent of medical practice employees.

Nurses account for 45 per cent of NHS employees in London and doctors 10 per cent. This differs slightly from the national average – 46 per cent nurses and 8 per cent doctors. In both London and nationally, up to 30 per cent of employees work in management and administration.

The King's Fund's In Capital Health studies the challenge facing London's healthcare workforce. It highlights ten key issues that it is believed London must address to achieve staffing improvements (Table 21).

The average wage for medical practitioners in London is comparable with the average for medical practitioners

**Table 20: Teachers' gross weekly wages**

	London	England	Difference
Primary teachers	£614	£562	9%
Secondary teachers	£652	£605	8%
All occupations	£637	£483	31%

Source: NOMIS/New Earnings Survey 2003

**Table 21: The King's Fund: Meeting the challenges of London's healthcare workforce**

Staff turnover	Staff turnover rates are higher in London than the England average, especially among inner city and teaching trusts. This is up to 20 per cent per year for registered nursing staff compared to 13 per cent for England. Each time a nurse leaves, the turnover cost is an estimated £5,000.
Vacancy rates	Staff vacancy rates are much higher in London. They are highest among health professionals and lowest among support staff. The high level of vacancies prevents quality of care and leads to use of temporary staff.
Recruiting new staff	London is a training ground for health care professionals but it struggles to retain staff within a few years of qualification. The British Medical Association found only 21 per cent of students who graduated from London medical schools were still living in London in 2002.
Recruiting experienced staff from within UK	London's health care labour market is disconnected from the rest of the UK. It is believed that the higher cost of housing deters NHS staff from elsewhere in the UK moving to London.
Recruiting staff from overseas	London is more reliant than the rest of NHS on recruiting overseas trained staff to fill vacancies. Up to 12 per cent of London's nurses are from overseas compared to 3 per cent for UK.
Retaining staff	A survey by the Royal College of Nursing found nearly 60 per cent of London's nurses said the availability of affordable housing was extremely or very important, compared to 30 per cent for the UK.
Attracting back staff	The NHS has launched campaigns to attract back staff who have left. In 2001/02, over 600 nurses returned to work in London but this is a lower proportion of nursing returners that in other parts of the country.
Temporary staffing	London is much more reliant on temporary staff and external agencies to supply them than rest of the NHS. Over half of all NHS nursing agency expenditure is in London. The Royal College of Nursing reports that half of NHS nurses have a second job.
Ageing workforce	London has an older workforce for GPs but a much younger age profile overall. The NHS in London therefore has a very disparate age profile.
Equal opportunities	London's NHS workforce is more ethnically diverse but is not fully representative of London's ethnic population.

across England (Table 22). The average wage for nurses in London is 9 per cent higher than it is for nurses across England. In both cases, though, wages are significantly below the 31 per cent premium of the average London wage over the average English wage.

The London weighting NHS nurses receive, which is intended to reflect the higher cost of living in London, is worth £2,365 per year (£45 per week) for a nurse in Inner London and £1,685 per year (£32 per week) for nurses in Outer London. This weighting is equivalent to around 6–9 per cent of the average wage for London’s nurses. The proportion of vacancies for medical occupations is generally higher in London than for England, although this varies between London’s health authorities (Table 23). South East London has consistently higher vacancies than other areas. The vacancy rates for medical consultants are lower in London than in the rest of England. It is

among nurses and supporting technical and therapeutic staff that London’s vacancy rates are much higher.

### Cost of living in London

A major reason for the significant recruitment and retention difficulties of key workers in London is the high cost of living in the capital compared to other regions – and even cities – in the country. Recently commissioned work by GLA Economics carried out by Oxford Economic Forecasting (OEF)<sup>110</sup> calculated that, based on the average composition of household spending across the UK, in September 2003 the cost of living in London was 17 per cent higher than in Edinburgh and 23 per cent higher than in Manchester. If the comparisons are based purely on the relative importance of different items within the average spending pattern of Londoners, the cost of living in London is 20 per cent higher than in Edinburgh and 30 per cent higher than in Manchester.

Even though housing is very important, it is by no means the only factor leading to a higher cost of living in London. Excluding housing altogether it was found that the cost of living in London was 10 per cent higher than in Edinburgh and 7 per cent higher than in Manchester. The cost of living in London is still 8 per cent higher than in Edinburgh and 6 per cent higher than in Manchester if both commuting *and* housing costs are excluded.

The relative cost of living in London is particularly high for the lowest income groups (Table 24), who in London are more likely to be public sector employees.<sup>111, 112</sup> Different income groups typically spend different proportions of their overall household budgets on the main groups in the Retail Price Index (RPI). The Expenditure and Food Survey looks at how spending on these RPI groups differs with income. This information enabled OEF to calculate the

**Table 22: Healthworkers' gross weekly wages**

	London	England	Difference
Medical practitioners	£1,207	£1,211	0%
Nurses	£508	£465	9%
All occupations	£637	£483	31%

Source: NOMIS/New Earnings Survey 2003

relative cost of living in London, Manchester and Edinburgh for varying levels of income.

Using a slightly different methodology, the Office for National Statistics (ONS) has recently published regional price data based on typical household shopping and home ownership costs.<sup>113</sup> These data showed that in 2003, depending on the method of calculation, it cost between 17.6 per cent and 20.4 per cent more to live in London than in the North East, the cheapest region in the UK. However, the methodology used by the ONS underestimates the cost of living in London. For example, the relative price index for fares and other travel costs is lower in London than the national average and therefore lowers the overall price difference between living in London and living in other regions.

The reason for the ONS underestimate is that they do not make a specific adjustment for the cost of commuting, so their standard methodology for price level comparisons produces a counterintuitive result for fares and other travel costs. As the ONS methodology is based on pricing the same consumption bundle in different places, it actually suggests that the cost of commuting is lower in London since the average price per mile of a journey in London is often lower even though the overall cost per journey is higher once the longer average journey length is taken into account. Therefore, the ONS regional fares and other travel costs price index makes the overall regional consumer price index an inappropriate measure of the cost of living in London. For the ONS regional price index to become a more appropriate measure of the cost of living in different

regions, it would need to include an adjustment for the cost of commuting.

In general, a comparison of the cost of living should not reflect the impact of different costs that arise from people choosing to buy different goods and services. However, commuting costs are an exception because there is less of a choice involved. Commuting is a requirement for those living and working in London. To take into account the capital's extra commuting costs, the OEF study calculated the relative cost of living without commuting costs in London, Edinburgh and Manchester and then calculated an adjustment reflecting the additional cost of commuting in each city. Using this more realistic methodology for estimating a cost of living index OEF calculated that fares and other travel costs added 2.4 per cent to the cost of living in

**Table 23: NHS vacancy rates (%)**

	England	North West London	Nth Central London	North East London	South East London	South West London
All medical	4.7	4.5	2.8	4.7	6.8	2.3
Consultants	4.7	3.4	1.8	3.2	6.0	2.5
Nurses	2.9	6.1	6.5	3.7	7.3	3.0
Technical	3.1	5.4	5.2	4.2	7.8	4.5

Source: Department of Health, Vacancies Survey

London compared with Edinburgh and 1.3 per cent compared with Manchester.<sup>114</sup> Consequently, the ONS's regional consumer price index for 2003, which shows that it costs between 17.6 per cent and 20.4 per cent more to live in London than in the North East, the cheapest region in the UK, is likely to be a significant underestimate.

The size of the difference between the cost of living in London and the cost of living in the rest of the UK is also demonstrated in a report by NERA (National Economic Research Associates).<sup>115</sup> For brevity, the NERA report called the rest of the UK the provinces and this

terminology will be used when commenting on the NERA report. Overall, NERA calculated that the cost of living in London relative to the provinces is 30.7 per cent higher using provincial expenditure weights and 22.1 per cent higher using London expenditure weights. These figures included owner-occupied housing, council tax and the costs and value of time for commuter journeys. The actual cost of living for an individual will depend on their household circumstances and consumption of housing in particular. NERA's estimate for the cost of owner-occupied housing meant that it accounted for around half

of the difference between their calculation of the overall cost of living in London and the overall cost of living in the provinces.<sup>116</sup>

### Recruitment and retention of key workers

The key to solving the problem of recruiting and retaining key workers in London is to compensate these workers financially for the relatively high cost of living in London compared to other regions and cities.

The rationale for regional weighting of pay is straightforward: without regional pay the ability of London to attract staff of the

**Table 24: The relative cost of living in London by income decile**

		% differences in cost of living in London compared with		
Income decile	Weekly disposable income (2001/02)*	Edinburgh	Manchester	
Poorest	1	Less than £111	18	30
	2	£111-£166	18	32
	3	£166-£223	18	29
	4	£223-£290	17	26
	5	£290-£361	18	26
	6	£361-£437	17	24
	7	£437-£527	17	22
	8	£527-£644	16	21
	9	£644-£850	17	21
Richest	10	More than £850	17	22
Average			17	23

Source: *Cost of Living Comparisons Between London, Edinburgh and Manchester*, Oxford Economic Forecasting, 2003

\*ONS Family Spending Survey 2001/02

right quality in the required quantity in, for example, education and health, becomes extremely difficult. Regional pay already exists in the form of London weighting, but current levels are not high enough to prevent difficulties in recruitment and retention, which are reflected in higher levels of vacancies.<sup>117</sup>

At present, there is a growing and complex array of cost-of-living, regional weighting and recruitment and retention supplements to key workers' pay packets. It would help if the current complexity was simplified and London weighting enhanced along the lines proposed by the government. For instance, the Chancellor of the Exchequer's budget statement on 9 April 2003 contained a commitment to introduce measures to ensure that pay systems in the public services become more responsive to differences in labour market conditions between the UK's regions. This commitment was further elaborated in the Chancellor's statement on UK membership of the Single Currency on 9 June 2003 where he stated that 'remits for pay review bodies and for the public sector including the civil service will, within their nationally determined frameworks, include a

stronger local and regional dimension...'.<sup>118</sup>

A radical solution to help ease the high cost of living problem for key workers in London would be to make the pattern of public sector wages across regions the same as in the private sector (ie to match the pay differentials in the public sector to the pay differentials, area by area, in the private sector). The Report of the London Weighting Advisory Panel, commissioned by the London Assembly and issued by the London Weighting Advisory Panel in June 2002, recommended that London weighting in the public sector should be set by private sector comparison, since negotiation and pay-setting in the private sector produces the premium needed to attract and retain employees of the right quality in London.

This does not mean matching salary levels, but it would mean matching the percentage differentials between the different regions. For example, if, on average, secretaries in the private sector in London were paid 20 per cent more than secretaries in the private sector in other regions, then secretaries in the public sector in London should also be paid 20 per cent more than secretaries in the public sector in other regions.

A recent report<sup>119</sup> has calculated that the private sector worker premium in London compared with private sector workers in the rest of the England is approximately 33 per cent for those employed in Inner London (excluding the City) and 11 per cent for those working in Outer London. These figures are based on previous work<sup>120</sup> carried out for the London Assembly with the additional methodological approach of trying to take account of grade drift, accelerated promotion and piecemeal payments in London, as well as the official London weighting, before applying the London premium.

The existing public sector premiums for working in London were calculated as approximately 24 per cent for Inner London and 15 per cent for Outer London. For the report's preferred methodology, the findings suggest that allowances for public sector employees in Inner London would need to be around 50 per cent greater than those currently being paid to the employees considered in the study.<sup>121</sup> In aggregate, these new allowances would increase the Inner London salary bill by just over 7 per cent.

A previous report by NERA<sup>122</sup> calculated regional private

sector wage relativities of a similar magnitude for Inner London, but of a significantly higher magnitude for Outer London. NERA concluded that the best approach to calculating what regional wage relativities for public sector workers should be was to focus on private sector employees, as the regional wage relativities for these workers reflect the underlying advantages and disadvantages of each region. To isolate the impact of the region alone on private sector regional wage relativities (ie to ensure a like-with-like comparison) NERA controlled statistically for other explanatory variables such as qualifications, composition of workforce and occupations region by region. NERA's preferred method involved using Labour Force Survey (LFS) data because, unlike New Earnings Survey (NES) data, the LFS includes the low paid and potential explanatory variables of wage relativities.<sup>123</sup>

Using a five-year sample of LFS data covering the period 1996-2001 NERA calculated that compared with Tyne and Wear, the regional effect for weekly wages in the private sector was: 65.5 per cent in Central London; 37.8 per cent in Inner London; and 23.5 per cent in Outer London.<sup>124</sup> NERA's choice of Tyne and Wear as the base region

against which other regions were compared was arbitrary. However, Tyne and Wear should not be seen as an atypical non-London region. Excluding London and the rest of the South East, the outlying regions that NERA could have chosen were South Yorkshire, where the private sector wage relativity was calculated as 3.6 per cent lower than Tyne and Wear, or West Midlands where the private sector wage relativity was calculated as 5.0 per cent higher than Tyne and Wear.

A further reason why recruitment has become increasingly difficult in public sector jobs in London has been the dramatic fall in public sector wages relative to private sector wages in London. In 1994, London men on average earned 10 per cent more in the public sector than in the private sector. However, by 2001, they were earning 7 per cent less. In 1994, London women on average earned just over 20 per cent more in the public sector than in the private sector. However, by 2001, they were earning only 2 per cent more.<sup>125</sup>

Graduates seem to have been most affected by the relative decline in public sector pay. Male graduates in the public sector in London earn 26 per cent less than male graduates in the private sector in

London. Female graduates in the public sector in London earn 12 per cent less than female graduates in the private sector in London.<sup>126</sup> Real wages in London have been increasing in the public sector by around the same as they have been in other regions, while private sector wages have been increasing at a much faster rate in London than in the rest of the country. Higher private sector wages have directly affected the cost of living in London (eg by increasing the demand for housing, which has raised housing costs for all Londoners) and hence increased the difficulty of recruiting and retaining public sector workers in London.

#### Addressing London's education and health service wage gap

Using 2003 New Earnings Survey data, the average wage differential for all jobs in London compared to England as a whole is 31 per cent (Figure 28). Research shows that this differential roughly equals the difference in the cost of living in London.

London weighting provided to public service employees such as teachers and nurses means that they are paid, on average, 9 per cent more than their colleagues across England. However, this is less than

the 20-30 per cent additional costs of living in London.

Moreover, while teachers earn above the average all employee wage in England (around 16 per cent more) and nurses slightly below the average all employee wage (around 4 per cent less), within London nurses' and teachers' wages are significantly below the average London wage (teachers by 4 per cent and nurses by 20 per cent). It is clear that these occupations are relatively disadvantaged in London.

The disparity emerges in the form of much higher vacancy rates. The vacancy rate for nurses in London is almost

double that for England and the vacancy rate for primary teachers is nearly three times that for England. So long as this market failure persists, with the wages of education and healthcare professionals so much lower in London in relative terms than in the rest of the country, then the specific challenges and needs facing London's public services will remain.

**Illustrative calculations on wage differentials**

Some simple calculations that illustrate the potential costs of increasing the wages of key staff in London's schools and healthcare system to account more fully for the additional cost of living in London (Table 25).

If London teachers received a 20 per cent premium to the average wage for teachers in England as a whole, rather than the current 9 per cent, this would cost an extra £92 million for primary schools and £102 million for secondary schools. A 30 per cent premium would cost an extra £176 million for primary schools and £186 million for secondary schools.

Similarly, in healthcare, increasing nurses' London salary premium to 20 per cent (rather than the current 9 per cent) would need £92 million extra. To increase it to 30 per cent would need £175 million. For medical practitioners, the increase in costs would be £146 million for a 20 per cent

**Figure 28: The earnings gap in London's public services**

	NES earnings gross, weekly			Cost of living	Vacancy rates		
	London	England	Difference		London	England	Difference
<b>Nurse</b>	£508	£465	+9%	<b>20% to 30% London premium</b>	5.3%	2.9%	+82%
<b>Primary teachers</b>	£614	£562	+9%		4.6%	1.6%	+188%
<b>All employees</b>	£637	£483	+31%				

Sources:

Earnings: New Earnings Survey, Nomis

Cost of Living: ONS, Oxford Economic Forecasting, National Economic Research Associates

Vacancies: Nurses from Dept of Health, Vacancies Survey. Teachers (all classroom teachers) from DfES Research and Statistics

London premium in salary compared to the rest of England and £219 million for a 30 per cent premium.

effective services, this is an essential step to meeting the health and education challenges that London faces.

These illustrative calculations suggest that London's education budget would need to be approximately 7-13 per cent higher and London's health budget approximately 3-5 per cent higher in order to make London as attractive to work in as other locations. Since these services rely on the quality of staff to provide

**Table 25: Wage estimates**

	Education		Healthcare	
	Primary teachers	Secondary teachers	Nurses*	Medical practitioners**
Numbers in London	28700	26900	34500	11600
England wage (gross average weekly)	562	605	465	1211
Wage bill (if England wage) (£)	838,728,800	846,274,000	834,210,000	730,475,200
Current London premium	1.09	1.08	1.09	1
Calculated current London wage bill (£)	914,214,392	913,975,920	909,288,900	730,475,200
Improved London premium of 20%	1.2	1.2	1.2	1.2
Wage bill with London premium of 20%	1,006,474,560	1,015,528,800	1,001,052,000	876,570,240
Improved London premium of 30%	1.3	1.3	1.3	1.3
Wage bill with London premium of 30%	1,090,347,440	1,100,156,200	1,084,473,000	949,617,760

Source: GLA Economics

\* Qualified nurses

\*\* Consultants, registrars and junior grades

# Chapter 6: Crime and community safety in London

There has been significant progress in reducing crime in recent years, but London still suffers disproportionately from some of the most costly crimes to society (eg robbery and violence against the person). Resources should be devoted to reducing these crimes and maintaining the existing focus on other types of crime.

London faces additional costs compared to other parts of the country, including higher costs of living, more organised crime, the size, concentration and heterogeneity of the population, and the additional cost of protecting London from the threat of terrorism.

Levels of worry about crime and anti-social behaviour are high in London. Such fears disproportionately affect communities where there is economic deprivation, black and minority ethnic communities, women and homeless people.

A commitment to the Metropolitan Police Service's (MPS) Step Change programme, which would enable ring-fenced neighbourhood policing, would discourage crime and anti-social behaviour, reduce fear of crime, and build productive relationships between police and local communities.

## Introduction

This chapter looks at crime and community safety in London. It starts by considering recent trends in crime in England and Wales and London. The chapter then looks at the prevalence of crime in London, comparing it with other, similar areas. The chapter then looks at the economic costs of crime before considering the resourcing of the MPS,

evidence from a few crime reduction programmes and the MPS's proposed Step Change programme.

## Recent trends in crime

There are two main sources of statistics on crime: police recorded crime and survey-based measures of crime. Police statistics, commonly referred to as recorded crimes, provide a good measure of trends in well-

reported crimes; and they can also be used for local crime pattern analysis. However, within England and Wales, for the offences it covers, and the victims within its scope, the British Crime Survey (BCS) gives a more complete estimate of crime since it covers both unreported and unrecorded crime and provides more reliable data on trends.

Using the BCS, England and Wales as a whole has seen a 25 per cent fall in total crime in the five years between 1997 and 2002/03. Burglary has fallen by 39 per cent over this period, vehicle related thefts by 31 per cent, and violence by 24 per cent (due to reductions in domestic and acquaintance violence). The risk of becoming a victim of crime is at an historic low (around 27 per cent), which is a third lower than the risk in 1995 (40 per cent).

London has shared in some of this overall reduction in crime. Between March 2001

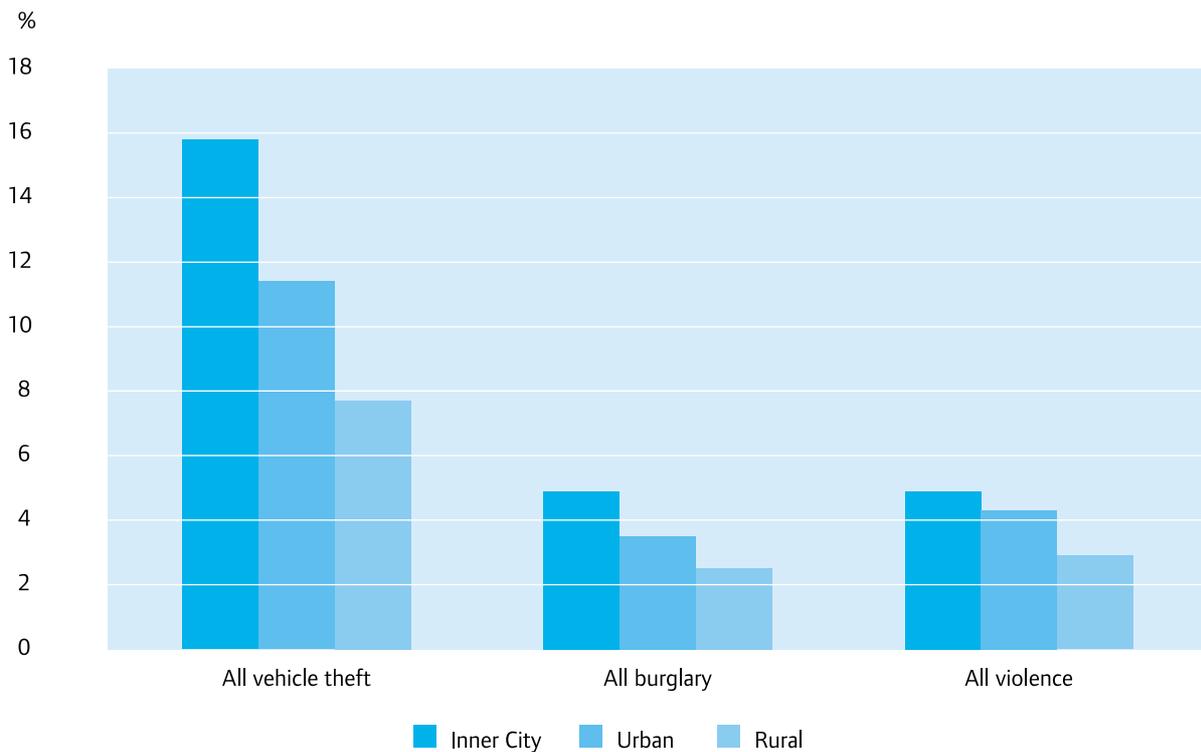
and August 2003, burglary has fallen by 17 per cent and vehicle crime by 14 per cent. In Autumn 2003, burglary in London was at its lowest for 25 years. In addition, between March 2001 and August 2003 the total number of street crimes in London fell by over 10 per cent.

**London compared to other urban areas**

Given that statistics show that crime rates are dependent on such characteristics as socioeconomic, demographic and geographic make up

(eg as population density increases, crime rates, in general, also increase) it is informative to compare London with other similar areas. The Home Office has released data comparing the performance of police forces throughout England and Wales with other Most Similar Forces (MSF). However, it should be noted that the policing in the City of London could not be accurately compared with other areas. Also, the Home Office comparisons are made using police recorded crime figures which, as noted earlier, do not include all crimes as some are not reported. This

**Figure 29: Percentage of victims (once or more) of selected crimes by area**



Source: BCS 2002/03

is particularly important where the propensity to report crimes varies across urban areas.

Crime statistics show that the highest recorded crime rates are mostly in metropolitan police forces and other forces that include large conurbations. Both the BCS and police statistics suggest that crime is lower in rural areas (Figure 29).

The MPS has reduced burglary and vehicle crime recently and, compared with its MSF, the MPS had fewer incidences of burglary and vehicle crime (for burglaries 24.9 per 1,000 households compared to 29.6; and for vehicle crimes 23.8 compared to 24.9). Despite the recent falls in street crime achieved by the MPS in London, the MPS did have a greater incidence of robberies (5.8 per 1,000 households as compared to 4.5 in MSF areas).

In the MPS area, residents were slightly more worried about violence than residents in MSF areas (29 per cent as opposed to 27 per cent); and the percentage of residents perceiving disorder as being high was greater in the MPS area (34 per cent as compared to 29 per cent).

The MPS was arguably more efficient than its MSF

benchmarks – losing only 9.7 days for each officer every year (compared to 10.3 in MSF areas). Moreover, a joint GLA/MPA/MPS three-year initiative to increase efficiency and the effectiveness of the MPS is projected to realise £47 million worth of efficiency savings, alongside other benefits, by 2005/06.

### Drugs and other crimes in London

Researchers from the LSE recently stated that one of the mediating factors in the relatively high levels of personal, or violent, crime in London was the larger drugs industry in Greater London. They argued that this was indicated by rates of cocaine/crack seizure – 3.8 times the national average in 1999; and seizure of other drugs – 60 per cent above the national average.<sup>127</sup>

There is strong evidence of a link between illicit drugs and crime. Offenders who commit certain types of crime, especially acquisitive crimes, are disproportionately more likely to be drug users – and particularly problem drug users – than the general population.

Home Office research shows that there is a clear relationship between drugs and crime. One study that

looked at four separate areas in England (one of which was South Norwood, London) found that 69 per cent of arrestees tested positive for at least one drug (excluding alcohol). This is much higher than the incidence of drug use in the population as a whole.

Over 40 per cent of arrestees said they thought that their drug use and crime were connected. Of this 40 per cent, 70 per cent cited the need for money to buy drugs as the reason for their drug use being connected to offending. Over two-thirds of the highest-rate offenders (20 offences a month or more) reported using heroin or crack/cocaine. The report found clear evidence that as drug use increased, involvement in criminal behaviour tended to increase. Overall, the research findings suggest that drug use, especially heroin and crack/cocaine, is associated with higher levels of both prevalence (the proportion of the population involved) and incidence (the rate of offending of those involved) of offending.<sup>128</sup>

London has, by far, the greatest prevalence of Class A drug use of all the regions in the UK (Figure 30). A recent report by the Home Office<sup>129</sup> found that London had higher levels of use of both Class A<sup>130</sup>

and any illicit drug than the national average. Comparing 1996 and 2001/02, BCS estimates showed that London saw an increase in use of Class A drugs. Small wonder London has been dubbed the ‘drugs capital of the United Kingdom’.<sup>131</sup>

Based on data on numbers entering treatment, drug seizures and on health implications of drug use, it is estimated that there may be between 280,000 and 506,000 Class A problem drug users in England and Wales.<sup>132</sup> Around a quarter of these (70,000 at the lower estimate) live in London.

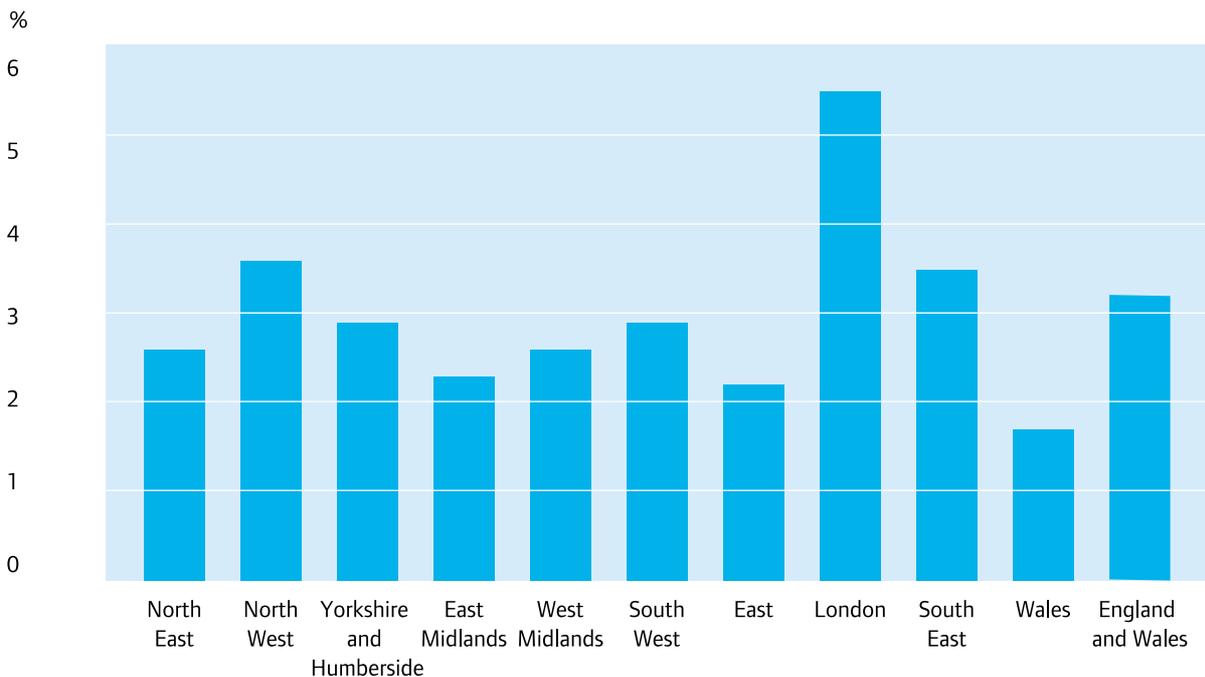
Drug users from elsewhere in the UK and Europe are attracted to London by its anonymity, the guarantee of a plentiful supply of drugs and its diverse range of drug services.<sup>133</sup> In London ‘many residents – especially the young, transient students and tourists – seem to pursue a lifestyle of permanent nomadism’.<sup>134</sup> This makes it easier for suppliers and dealers to ‘disappear’ in London, compared to some other European cities.

There is a strong relationship between poverty and deprivation and problem drug use. The government’s

Drug Strategy points out that drug problems ‘are most serious in those communities where social exclusion is acute. Where people are grouped together in areas of high unemployment, crime, fractured families and poor housing, drug misuse grows and its effects are magnified’.<sup>135</sup>

Moreover, a study of 389 homeless people in London found that 83 per cent had used a substance other than alcohol in the previous month and almost half had used heroin or crack in the same period.<sup>136</sup>

**Figure 30: Class A drug use in the last year by region**



Source: Home Office

If homeless people make up a disproportionate number of drug users, London has disproportionate numbers of homeless people: during 2000/01, London had a quarter of all cases of homelessness and half of all rough sleepers in England.<sup>136</sup>

In total, the economic costs of problem drug use in the capital are estimated to be at least £725 million and the total economic and social costs over £2.5 billion.

### Other threats/crime

The National Criminal Intelligence Service (NCIS) conducts an annual assessment of the threat from serious and organised crime. The latest assessment found that London was one of the most important distribution hubs for a range of drugs (including heroin, cocaine powder and ecstasy). It stated that London was a significant base for a number of major cocaine traffickers.<sup>138</sup>

Moreover, the report found that London is an important centre for brokering and trading rough diamonds and a potential target for smugglers trying to pass illicit rough diamonds into the legitimate market. Intelligence suggests that some serious and organised criminals involved in smuggling both Class A

drugs and people into the UK also smuggle diamonds.

The NCIS assessment found that the UK continues to be an attractive destination for migrants from all over the world, so much so that some are prepared to risk their lives to get to the UK. Many serious and organised criminals involved in immigration crime are also involved in other serious and organised criminal activities.

The report found that the number of prostitutes who are trafficking victims, especially in London, is a cause for concern. It also found signs that criminals from the Balkans are seeking to gain control of the vice trade in the UK. They are doing so particularly by taking over ownership of brothels and saunas, and they are prepared to use violence. Serious and organised criminals also make use of illegal immigrants to commit various types of organised low-level crimes, including aggressive begging and pickpocketing, particularly in large cities such as London.

The NCIS threat assessment also noted that the size and scope of the financial markets in the UK, especially the City of London, meant they were attractive to criminals in the UK and overseas looking to

launder and invest their criminal proceeds.

Each of these factors raised by the NCIS threat assessment illustrates how London faces particular problems as compared to other parts, and cities, of the UK.

While the NCIS threat assessment does not cover terrorist threats, and while London has been subject to terrorist attacks in the past (eg IRA attacks), the threat from international terrorism has increased recently, most notably since September 11, 2001. Being the capital city and home to a number of well-known political and other buildings, London has a number of likely targets for terrorists. As a result, the recent increased threat of terrorism has increased the cost of policing London. One obvious example is the cost of putting in place extra security measures at Heathrow airport.

### Effect of crime on other areas

Some surveys – though not all – have shown that crime is an issue for businesses in London. In autumn 2002, for instance, members of the London Chamber of Commerce and Industry stated that crime came within their top five areas of concern.

Similarly, crime can have an effect on tourism. A recent survey of visitors to Westminster found that the vast majority said that they felt very safe or fairly safe in Westminster during the day (over 90 per cent in total). But the number feeling very safe or fairly safe outside after dark fell to just over a half. The survey also examined issues that were perceived to be a problem to visitors. Fear of crime and safety in Westminster was cited by 12 per cent of visitors as a problem, although only one in 20 felt that it was a major problem.<sup>139</sup>

Any sustained rise in crime, particularly violent crime, could adversely affect both

tourism and the willingness of business to locate, or continue to do business, in London.

### Fear of crime in London

Despite falls in some types of crime in the recent past, there is a high fear of crime in London. Moreover, according to the BCS, levels of worry about burglary, car crime and violent crime were higher in London than in England and Wales as a whole, with the highest levels of worry recorded in Inner London.

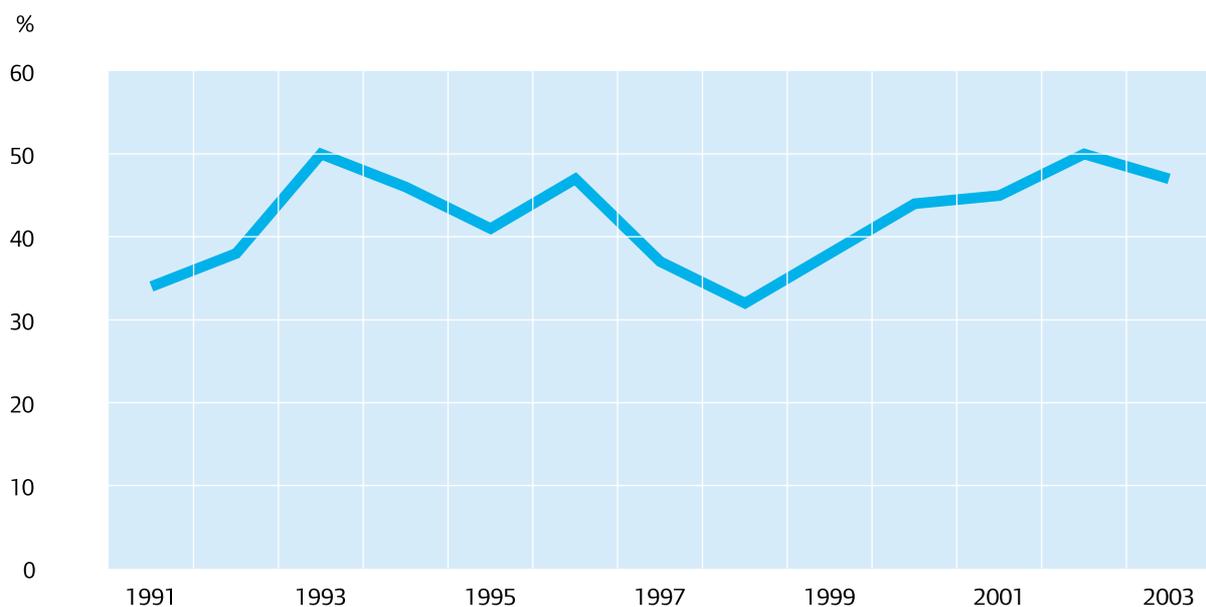
The Association of London Government's Survey of Londoners 2003 found that crime was rated as the main issue of concern by around

half of Londoners surveyed. Past results from the survey show that concern about crime has increased by around 15 percentage points among Londoners since 1998. Concern about crime is currently close to its highest level since the survey began more than ten years ago (Figure 31).

In particular, concern about crime had increased over the past five years among younger people (aged 18-34), to the extent that as a group they are now more worried than older people.

Similarly, the 2003 Annual London Survey conducted by Mori found that one in five Londoners thought fear of

**Figure 31: Londoners who say crime is their main issue of personal concern**



Source: Association of London Government: Survey of Londoners 2003

crime was a major problem in the capital, down from 32 per cent in 2002, a reduction that may be a result of the increased number of police in London in the past two years. Mori also saw a reduction in the proportion of Londoners who thought that safety and crime was the worst thing about living in the capital, down from 52 per cent in 2001 to 38 per cent in 2003. However, groups such as women and older Londoners still report extremely high rates of fear and concern about their safety and security in the capital. Ten per cent of women in London never go

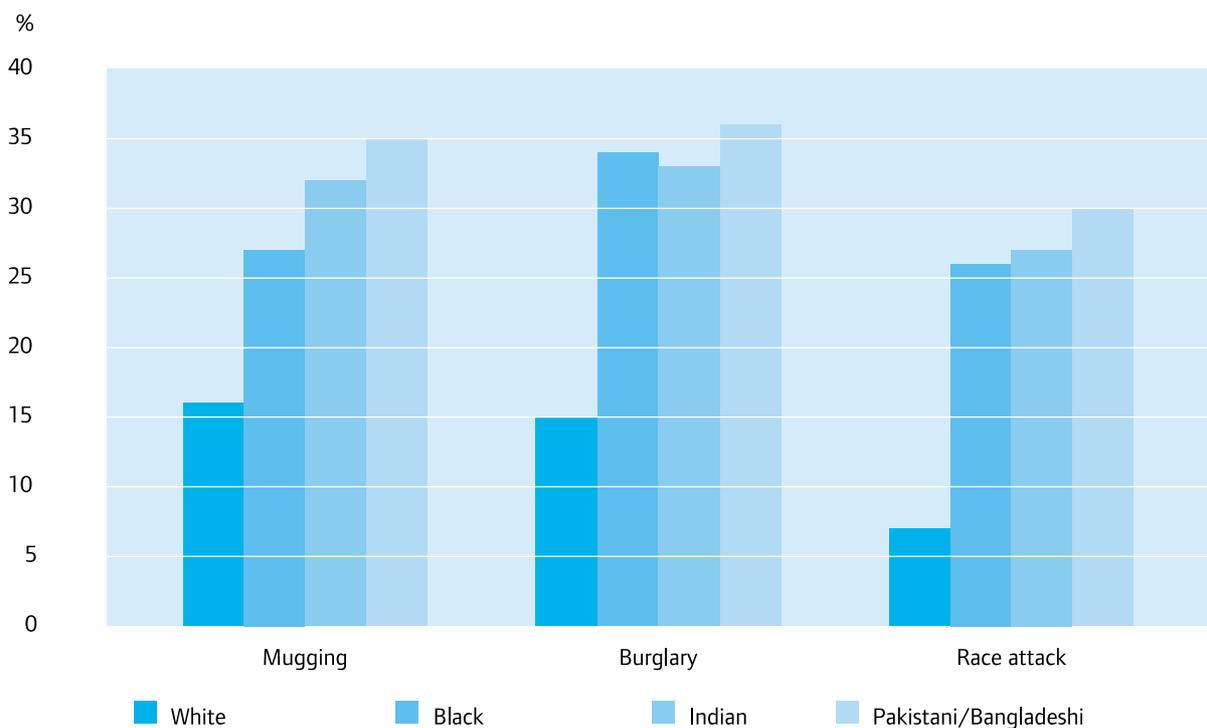
out in the evenings because they feel unsafe. Sixty-one per cent of Londoners said more police around on foot would most improve safety in the area.

Despite this very recent fall, crime and the fear of crime disproportionately affect communities where there is economic deprivation, black and minority ethnic communities, women and homeless people. For instance, in its report, the Strategy Unit found that fear of mugging, burglary and race attacks was very high among London’s non-white ethnic communities (Figure 32).

In addition to the high level of fear of crime, other evidence suggests that concerns about incivilities – for example, problems associated with disorderly teenagers, street drug-dealing and use, litter, rubbish and graffiti – have increased in recent years.<sup>140</sup>

While it may seem a minor issue, studies have found that people connect these incivilities with a sense of direct threat to personal safety and with the prevalence of crime in the area more generally. This type of research is one of the factors behind the current

**Figure 32: Anxiety about crime in London by ethnicity**



Source: Policing for London Study and 2000 BCS merged

reassurance programme which aims to reduce levels of actual and perceived risk of crime to tolerable levels. This programme is aimed at so-called signal crimes or signal disorders which are criminal incidents, or physical or social disorders that are interpreted by members of the public as a warning signal about their level of security. Pilot sites are currently operating in the boroughs of Bexley, Enfield, Merton and Kensington and Chelsea. The aim of the programme is to improve the public's sense of security and their confidence in policing; and to reduce anti-social behaviour and other signal crimes.

Given this fear of crime, and incivility, it is perhaps unsurprising that the proportion of BCS respondents perceiving high levels of disorder was significantly higher in London compared with the whole of England and Wales, and was highest in central boroughs of the city. This finding is supported by analysis of the 2000 BCS, which found that perceived levels of incivility were important: people who think that their area has high levels of disorder, litter and graffiti tend to be more anxious on several measures of fear.<sup>141</sup>

### Costs of crime

Cost of crime estimates can help to prioritise resources, focusing them on policies that have the biggest impact on the harm caused by crime. Looking at the costs of crime helps concentrate attention on the most cost-effective solutions, ensuring due account is taken of both the effectiveness of crime prevention measures and the relative seriousness of different offences (rather than looking simply at the aggregate volume of crime). For instance, the relative importance of violent crime in comparison with other, property crimes is marked. Violent crimes constitute only about a quarter of total crimes by volume, but generate nearly three-quarters of the total economic costs of crime.

In estimating the costs of crime, it is important to consider the full range of costs. Costs are incurred in anticipation of crime (such as security expenditure and insurance administration costs); because of criminal events (such as property stolen and damaged, emotional and physical impacts and health services); and in response to crime and tackling criminals (costs to the criminal justice system).

The Home Office has produced guidance on the economic and social costs of crime that draws on previous research. There are a number of assumptions that go into estimating the costs of crime, all of which are detailed in the Home Office report.<sup>142</sup> For the purposes of this document we have adopted the Home Office assumptions, while noting that such cost estimates depend very much on the assumptions used.

The average costs of crime vary widely between different categories of offence; and even different crimes within the same offence category are likely to have vastly different costs.

Focusing on property crimes, the Home Office study finds that the most costly crimes are theft of vehicles, costing around £4,700 per incident (1999 prices). Burglaries cost an average of £2,300 and criminal damage around £500.

Personal crimes are far more costly on average than property crimes. Homicides have been estimated to cost at least £1 million, with other violence against the person costing on average £19,000 per incident. Robberies incur costs of almost £5,000 on average. Common assault is

the least costly personal crime, with an average cost of around £500.

With regard to the economic and social costs of Class A drug use, problem drug users account for almost all economic and social costs (99 per cent), and drug-related crime accounts for around 88 per cent of total economic and social costs. Total economic and social costs for problem drug users are around £35,455 per user per year.<sup>143</sup>

These costs are not comprehensive. They are best estimates; but are inevitably imprecise. In addition, the estimates do not include important costs such as the fear of crime or impacts on quality of life. Different social, economic or geographic groups might experience different costs for an identical crime; for instance, elderly people may suffer greater psychological costs than other members of society.

Despite the sensitivity of such cost estimates to the assumptions used, the Home Office's research shows that personal crimes – from which London suffers disproportionately – are the most costly. This suggests that the cost of crime to London is greater than is suggested

by simple comparisons of volumes of crime. Considering recorded crimes only, and applying the Home Office's cost of crimes, the cost of crime to London in 2002/03 was around £5.9 billion (with the costs in England as a whole around £28.1 billion).

These estimates are low compared to other estimates of the total cost of crime to society because the figures in this calculation consider recorded crimes only – so do not cover all crimes. However, this exercise shows that, while on a number of crimes per 1,000 population basis London experiences 34 per cent more crime than the rest of England, the costs of crime in London are 55 per cent higher than in the rest of England. In other words, if recorded crime in London was reduced to the average of England and Wales, the cost to the capital would fall by just under £2 billion.

### **Costs of crime reduction and community safety**

According to HM Treasury PESA figures for 2001/02, just under £3.9 billion was spent on London for law, order and protective services (this equates to around £539 per capita). This accounted for just under 21 per cent of all spending

in England on such services. While this figure is higher than London's percentage share of population, it does include spending on non-police services such as prisons, immigration and citizenship and fire services.

It is not possible, therefore, to compare spending on police services in London with the rest of the country using HM Treasury figures. CIPFA figures look at expenditure on police forces across the country and therefore provide a better comparison. The CIPFA figures show that in total, London (including the City of London) will receive just under £2.3 billion for police services in 2003/04 (around £300 per capita) – more funding per population than any other police force in England and Wales. This is to be expected, as London faces additional costs to policing when compared to other parts of the country.

One additional cost is the higher wages paid to police in the capital to compensate for the higher costs of living in London. Given that police services are very labour intensive, this will cause police services to be more expensive in London, compared to elsewhere in the country, for a given number of police officers.

There are other reasons why the costs of reducing crime in London will be higher than elsewhere. The presence of organised criminals in London will necessitate more frequent use of surveillance and other expensive means of collecting evidence; and may lead to other costs such as witness protection. The size, concentration and heterogeneity of London’s resident and transient population further increase the costs of policing. As the capital city, London provides the focal point for political demonstrations, is a magnet for leisure activity on a large

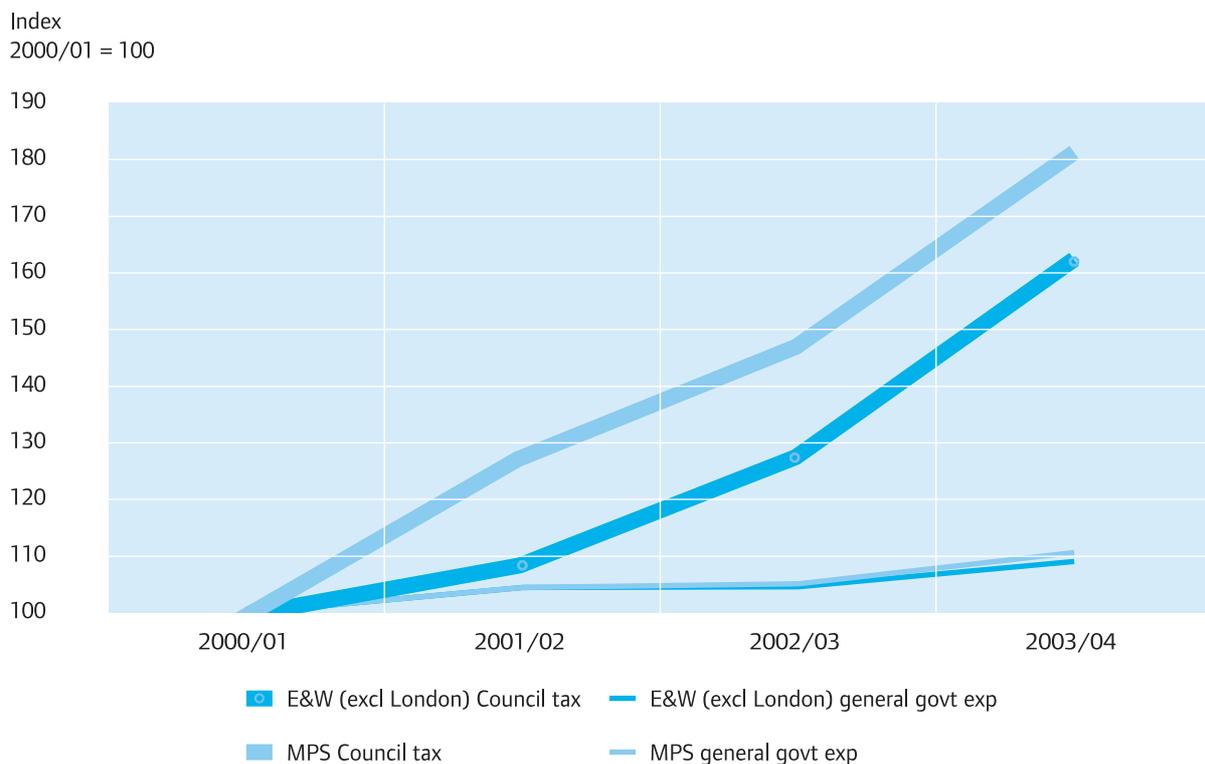
scale and is, inevitably, subject to the threat of a terrorist attack. Each of these factors increases the cost of policing in London as compared to other parts of the UK.

Looking at the funding of police services, Figure 33 shows the change in funding of police services over the past four years in England and Wales (excluding London) and the change in funding for the MPS. Central government expenditure has increased by around 10 per cent over the past four years for both the MPS and the

rest of England and Wales. At the same time, funding of police services from local council tax has increased at a much greater rate than central government funding.

For the MPS, council tax funding of the police service has increased by over 80 per cent in the last four years; whereas it has increased by over 60 per cent in the rest of England and Wales. As a result, a much greater proportion of police service funding for 2003/04 will be accounted for by local council taxes – as opposed to central government funding – than

**Figure 33: Change in funding for police services in England and Wales compared to London**



Source: CIPFA

was the case in 2000/01. In 2000/01 council tax funding accounted for 13.3 per cent of the MPS's funding; in 2003/04 the figure will be 20.1 per cent. The increase in funding from council taxes between 2000/01 and 2003/04 totals just under £200 million.

This increase in spending has led to a significant increase in the numbers of police officers in the past few years, reversing the previous decline. The number of police officers in the MPS fell from 26,700 in 1997/98 to 25,430 in 2000/01, but has subsequently grown to reach 30,000 this year.

### Evaluation of crime reduction schemes

While little work has been done estimating the costs of reducing different types of crime, a study into the costs of reducing burglaries found that the overall cost of each burglary prevented was about £300 in very high-crime areas<sup>144</sup> and about £900 when risks were at the lower end of the scale. (As might be expected, it was cheaper to prevent a burglary in areas with higher burglary risk.)

This study also evaluated nearly 300 of the 500 schemes to prevent domestic burglary undertaken as part

of the Safer Cities Programme. It found that the average financial cost of a burglary to the state and the victim was about £1,100 (excluding any non-financial costs, such as psychological costs). Marginal cost estimates, per extra prevented burglary, ranged from £1,100 in the highest risk areas to about £3,300 in the lower-risk ones.

Overall, this study shows that, at levels of risk typical of cities, preventative action is worth implementing because the benefits outweigh the costs.

In terms of reducing the fear of crime, research shows support for the deployment of local officers in order to make people feel safer. For example, early results from the MPS Reassurance Project pilot sites – where officers have been specifically deployed on community-based policing – have identified some early indicators of success. In Bexley, over a period of 9 months the perception of the public within one pilot area has shifted from 24 per cent feeling safe at night to 93 per cent.

### The Step Change Programme

The Step Change programme is aimed at increasing

police resources to levels sufficient to enable the MPS to deliver ring-fenced neighbourhood policing, as well as more officers working on serious crimes and specialist operations such as murder, gun crime and child protection.

Without a neighbourhood policing element, the complexity and transience of London's population makes it difficult for the police to engage effectively with communities in order to reduce crime and the fear of crime. Therefore, providing resources sufficient to facilitate neighbourhood policing would make the public fear crime less (as evidenced by research and the early results of the Bexley Reassurance pilot), discourage crime and anti-social behaviour and build productive relationships between police and local communities.

The MPS estimate that to make London the safest major city in the world would require an increase in numbers towards 35,000 police officers and police community support officers. This would involve a net increase of over 4,000 people and by 2010/11 would have an annual cost of around £340 million (plus a total capital cost of around £180 million).

### **Other implications and funding issues**

The MPS accounts for almost half of all assets recovered from organised crime. London should be allowed to keep more of these proceeds to fund capacity building for community engagement in crime and disorder reduction partnerships, neighbourhood policing and to support further action to tackle organised drug crime.

Such a change would also give London greater flexibility to decide how to make best

use of funds at the regional level – directing resources to areas of most importance to London. This would help to reduce the tension between nationally set crime targets and the pressing crime issues for London (for instance personal, rather than property, crimes).

In addition, Home Office funding streams for crime and disorder could be streamlined into one pot and funding certainty granted for more than one year. This would enable London to focus on, and better address, long-term problems.

Strengthening regional partnerships to pool resources and fund initiatives could address region-wide problems and counteract the tendency for borough-based schemes simply to displace crime to neighbouring areas.

More resources should be focussed on building and strengthening the partnerships already in existence in emergency planning and ensuring the resilience of London to terrorist attacks.

# Chapter 7:

## Environmental protection

London's growth will place further pressure on its environment, not least in dealing with the quantities of additional waste that will be generated. Without proper investment, the quality of London's green spaces, its water and its air will all suffer.

London has an important role in contributing to national priorities. It has some of the highest measures of air pollution, is currently below the river quality objective target and only 8 per cent of London's waste is currently recycled. Government should consider appropriate changes to existing legislation to enable the establishment of a single waste disposal authority for London

### Introduction

This chapter covers the key objectives of the UK's sustainable development strategy. It looks at climate change, air quality, road traffic, river water quality, wildlife, land use and waste, identifying the significance of each of these issues to London.

### The UK Sustainable Development Strategy

The UK Sustainable Development Strategy: A Better Quality of Life<sup>145</sup> sets out the importance of

environmental protection alongside economic growth and social progress. The strategy gives the government's priorities for environmental protection and the headline indicators for measuring environmental change. The strategy specifically addresses:

- climate change.
- air quality.
- road traffic.
- river water quality.
- wildlife.
- land use.
- waste.

London is home to over 7 million people and is a key

centre of economic activity. A high quality environment is itself an important economic asset and changes in London's environment directly affect the quality of life of London's residents and workers. They also affect the progress that the UK can make towards its national sustainable development objectives.

### Climate change

#### National priorities

The Sustainable Development Strategy sets out objectives to reduce emissions of greenhouse gases. DTI and DEFRA have a PSA to reduce

greenhouse gas emissions by 12.5 per cent from 1990 levels and move towards a 20 per cent reduction in carbon dioxide emissions by 2010. Carbon dioxide accounts for about 85 per cent of greenhouse gas emissions, most of which are caused by energy production. Because of the sharp increase in road traffic, transport has been the fastest growing source of carbon dioxide in the UK. Emissions have been relatively stable in recent years due mainly to improvements in the fuel efficiency of vehicles, improvements in the energy efficiency of industry, and a decrease in the use of coal relative to oil and gas.

### London's significance

London produces 8 million tonnes of carbon dioxide each year (Table 26), 6 per cent of the national total. However, this carbon dioxide data attributes emissions to the region in which they take place, which is not necessarily where the end user is located. For example, emissions come from power stations outside London that deliver power to the capital's electricity consumers. Encouraging the more efficient and cleaner use of energy in London will reduce carbon emissions in other regions. Moreover, Londoners' use of public transport is of particular benefit to progress on this priority.

### London's needs

The Mayor's Draft Energy Strategy: Green Light to Green Power, establishes London's proposals to use and supply energy efficiently and in particular to increase the proportion of renewable energy. These include reducing carbon dioxide emissions in London by 20 per cent, increasing the use of renewable energy, using planning guidance to encourage energy efficiency, developing programmes to address fuel poverty, and introducing more fuel efficient technologies in London's transport fleet.

**Table 26: Carbon dioxide emissions 2000**

	Total emissions (million tonnes carbon)	Emissions per head (kg carbon)
North East	17	6,800
North West	16	2,400
Yorkshire and Humber	23	4,700
East Midlands	15	3,500
West Midlands	8	1,600
East of England	13	2,300
London	8	1,100
South East	19	2,400
South West	7	1,500
England	127	2,600

Source: National Environmental Technology Centre

## Air quality

### National priorities

The national objective is to reduce air pollution and improve air quality through the longer term. The joint DEFRA-DfT Public Service Agreement is to meet National Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1-3 butadiene.

### London's significance

DEFRA measures air quality in terms of days when air pollution is high. In urban areas in 2002, air pollution in the UK was recorded as moderate or higher on 20 days on average per site. In urban areas of England this rises to 23 days a year and for a selection of London sites it rises higher still to 26 days. In some parts of Central London this can rise to over 50 days and even in suburban London a number of sites remain above 30 days a year. Improving air quality

in London can make a major contribution to meeting the national targets for air improvement.

### London's needs

Cleaning London's Air: The Mayor's Air Quality Strategy aims to improve air quality such that air pollution no longer poses a significant threat to human health. Over 70 per cent of Londoners believe poor air quality affects their quality of life and London has up to 1,500 hospital admissions every year caused by breathing problems related to air pollution. The strategy focuses on reducing emissions of nitrogen dioxide and airborne particles as these pose the greatest threat to health in London.

Road transport is the major source of these emissions (Table 27), which can therefore be reduced by encouraging people to use public transport rather than

their cars. London's buses are now the cleanest fleet in the country in terms of their emissions (although owing to their numbers they contribute 20 per cent of London's total vehicle emissions). The Mayor and TfL are making substantial investments in reducing emissions from London's buses, taxis and emergency vehicles.

### Road traffic

#### National priorities

Transport 2010: The 10-Year Plan states that rates of growth in road transport should be reduced, with an absolute reduction where environmental damage is greatest. The DfT has specific service agreements over 2000 to 2010 to reduce congestion in large urban areas in England below 2000 levels, secure improvements in rail punctuality, achieve a 50 per cent increase in rail use and enhance access to local public transport.

**Table 27: Greater London emissions 1999**

Pollutant	Total emissions (tonnes)	% of emissions in London	
		Road transport	Industry
Carbon Monoxide	173,400	94	1
Nitrogen Oxide	68,100	52	11
Sulphur Dioxide	3,600	36	43
Particles	2,700	69	22

Source: Green Capital, 2003

**London's significance**

London is less dependent on motor vehicles than any other region of the country. Just 8 per cent of vehicle kilometres travelled in England are in London. Over the last decade the 6 per cent rate of growth in London's motor vehicle traffic has been much less than the 18 per cent rate of growth for England as a whole (Table 28). Despite this, much of Outer London remains largely dependent on cars – 80 per cent of all London's car journeys begin and end in Outer London, where there is less public transport and consequently smaller scope to reduce traffic congestion.

**London's needs**

London's projected growth

will result in an increased demand for travel that will put even more pressure on London's roads and public transport. Reducing traffic congestion on roads is one of the ten key priorities of the Mayor's Transport Strategy. However, reducing road traffic also requires substantial investment in improving the capacity and quality of London's public transport – issues that are addressed elsewhere in this document.

**River water quality****National priorities**

The national assessment of river quality objectives sets the level of water quality that a river should achieve in order to be suitable for its agreed

uses. The Government has set a target to increase the proportion of river length where water quality is good or fair from 82 per cent in 1997 to at least 91 per cent in 2005.

**London's significance**

In 2002, 31 per cent of London's river length was of good chemical quality (Table 29) and up to 87 per cent either good or fair – below the national target. Similarly, 30 per cent of London's river length was of good biological quality and 82 per cent good or fair. These results are significantly below the average for England. However, London has made considerable improvements in its river quality over the past decade and sustaining the

**Table 28: Road traffic 2002**

	All motor vehicles (billion vehicle kilometres)	% increase 1993-2002
North East	19	17
North West	55	20
Yorkshire and Humber	40	19
East Midlands	39	20
West Midlands	48	17
East of England	54	18
London	33	6
South East	85	21
South West	46	20
England	419	18

Source: DfT

rate of these improvements will be important if national targets are to be met.

### London's needs

Connecting with London's Nature: The Mayor's Biodiversity Strategy highlights London's needs in terms of the Thames and London's other waterways. The Mayor has created the Blue Ribbon Network to establish the principles concerning the use and management of waterways and neighbouring land. This includes measures to encourage river-related development and to help create riverside habitat and access.

### Wildlife

#### National priorities

The national objective is to reverse the long-term decline in populations of farmland and woodland birds. Birds are regarded as indicators of the state of wildlife because they are wide-ranging in habitat distribution and tend to be

high in the food chain. DEFRA has a specific PSA to care for the country's natural heritage, to preserve biological diversity by reversing the long-term decline in the number of farmland birds by 2020, and to bring into favourable condition nationally important wildlife sites.

#### London's significance

Overall, London supports over 300 types of bird and 1,500 species of plant. The capital contains many sites of international importance for biodiversity, including two Special Protection Areas, 37 sites of Special Scientific Interest, and a number of Important Bird Areas recognised by the Royal Society for the protection of Birds. Furthermore, there are protected sites of borough importance, countryside conservation areas, local nature reserves and areas protected as Green Belt that are part of a network of Green Corridors.

### London's needs

Connecting with London's Nature: The Mayor's Biodiversity Strategy points out that, while London is an urban region, its wildlife and biodiversity are important not only ecologically, but also economically in terms of tourism and environmental jobs. Supporting wildlife and biodiversity projects will require sustained funding with continued grants to the relevant agencies.

### Land use

#### National priorities

The government's objective is to re-use previously developed land to protect the countryside and encourage urban regeneration. Development within existing urban areas contributes to the revitalisation of communities and enables people to live near amenities and employment.

By 2008, 60 per cent of additional housing in England needs to be provided either

**Table 29: River lengths of good quality 2002**

	Chemical quality		Biological quality	
	% rated good	% change 1990-2002	% rated good	% change 1990-2002
London	31	18	30	19
England	65	22	68	8

Source: Environment Agency

on previously developed land or through the conversion of existing buildings. Similarly, the Office of the Deputy Prime Minister, in *In Sustainable Communities – Building for the Future*, has priorities to develop green spaces in urban areas.

### London's significance

Although it is an urban region, two-thirds of London's 1,600 square kilometres is occupied by green spaces or water. Around a third of this is private gardens, another third is parks or sports-use and the remaining third is wildlife habitat. In addition to the Green Belt, which forms 22 per cent of London's land and helps prevent the spread of urban areas, London is unique in designating 10 per cent of London's area as Metropolitan Open Land within the built environment, creating spaces such as Richmond Park and Hampstead Heath.

Almost a third of London's land is legally protected as sites of metropolitan, borough, or local importance. However, London also has over 700 hectares of vacant brownfield sites. London has remained consistently above the national average in the share of its homes that are built on previously developed land (Table 30) thereby playing a key role in meeting the agenda for Sustainable Communities.

### London's needs

The London Plan sets out the spatial development strategy for land-use in London. The Plan, which protects the environment by resisting development on Green Belt and Metropolitan Open Land, anticipates growth in London's population and the implications this has for housing. In particular, the Plan argues that new residential development needs to achieve higher densities to maximise the use of scarce land. The

Plan also calls for better use to be made of empty properties.

## Waste

### National priorities

To reduce the environmental impact of waste, the national objectives and DEFRA's Public Service Agreements seek to move away from disposal to waste reduction, reuse, recycling and recovery. The Waste Strategy 2000 for England and Wales sets a target to recycle or compost at least 30 per cent of household waste by 2010 and to recover value from 45 per cent of municipal waste.

### London's significance

London produces 17 million tonnes of waste each year, of which 26 per cent (some 4.4 million tonnes) is municipal waste removed by councils. London produces up to 14 per cent of all the household waste in the country – which in terms of volume per person is less

**Table 30: Percentage of new homes built on previously developed land 1989-2001**

	1989-1993	1998-2001
	%	%
London	86	90
England	52	57

Source: ODPM

Note: Excluding conversions

than the average for England. 73 per cent of London's waste is landfill, which is mostly sent to the South East and East of England by rail, Thames barges, or road. These sites have limited capacity and London's current dependence on landfill is unsustainable. Some 19 per cent of London's municipal waste is incinerated. The remainder, just 8 per cent, is recycled – which is lower than the English average of 12 per cent (Table 31).

### London's needs

Rethinking Rubbish in London: The Mayor's Municipal Waste Management Strategy sets the policy for household waste in London on the premise that London will need to redirect how it manages its municipal waste. The strategy complements the national waste strategy. New projects to improve recycling performance in London have been established by the London Recycling

Fund, but the collection of more recyclables requires more reprocessing facilities to be built in London.

Managing municipal waste in London costs more than £360 million a year and this cost is rising in real terms. The cost per household of collecting domestic refuse in Inner London is higher than anywhere else in the country and some 33 per cent higher than in other metropolitan areas (Table 32).

**Table 31: Household waste and recycling 2001**

	kg/person	
	Total household waste	Household waste recycled
North East	522	27
North West	575	51
Yorkshire and Humber	507	45
East Midlands	522	71
West Midlands	506	51
East of England	521	90
London	487	44
South East	528	94
South West	524	85
England	522	65

Source: DEFRA

**Table 32: Refuse collection costs**

	Spending per household (£)			
	Inner London	Outer London	Metropolitan Areas	Districts
Cost of refuse collection	96	55	72	40

Source: Waste Collection and Disposal Statistics 2001/02, CIPFA

The Mayor's Municipal Waste Management Strategy identifies that, while waste *collection* is best placed under the control of local authorities, the optimum way to achieve sustainable waste *management* in London is for waste disposal to be the responsibility of a single authority. This would enable new facilities to be built

strategically. It would allow equal access to all reuse and recycling centres across London. And it would limit waste being transported all over London to disposal and treatment facilities. Appropriate changes to existing legislation should be considered in order to establish a single waste disposal authority.

# Chapter 8:

## Financing London

London pays more in taxation than it receives in public expenditure (often called the tax export to the rest of the UK). London's tax export in 2001 was estimated at £9–£15 billion. Even if London's public expenditure increased significantly, the capital would still provide a 'tax export' to the rest of the UK.

### Introduction

This chapter looks at both the general level of government spending on London and the contribution to government finances made by London. The chapter concludes by considering the difference between the amount London receives in expenditure and the amount it contributes in taxes.

### Public spending on Londoners

Given the shortage of information on, and the flexibility of, spending allocation systems, and the fact that the distribution of some resources by government is to areas that do not easily fit regional or

local authority boundaries, it is difficult to aggregate government expenditure at the regional level. However, information on general government expenditure broken down by regions is available from some relatively recent work by the ONS and from HM Treasury through its Public Expenditure Statistical Analyses (PESA).

### ONS: sub-regional government accounts

The ONS<sup>146</sup> analysed the regions from which general government had drawn funds and the regions that had received government expenditure for the 1998 calendar year. ONS claim that these estimates are the first set of economic statistics that

comprehensively cover general government (ie central and local government) expenditure at a sub-regional level. Indeed, a recent report by the LSE<sup>147</sup> stated that the exercise undertaken by the ONS was by far the most comprehensive of its kind yet undertaken.

Table 33 sets out, by region, the destination of general government expenditure (termed current transfers). With the exception of Northern Ireland, London received more than any other region in social benefits (ie housing benefits, council tax benefits and social security benefits). London also received twice the UK average of other current transfers. This category

includes subsidies (rail subsidies, other economic subsidies, housing subsidies, health subsidies and cultural subsidies), interest paid, international co-operation and miscellaneous current transfers. London received just over 15 per cent more in social transfers in kind (eg spending on education, health and culture and recreational facilities). In total, London received just over 30 per cent more than the UK as a whole from general government expenditure (£5,480 per

head as compared to £4,226 per head).

### HM Treasury PESA figures

While the ONS analysis looked in detail at total levels of taxation and expenditure in London, HM Treasury breaks down what it terms 'identifiable expenditure' by region and by type.<sup>148</sup> The PESA figures do not attribute some types of spending, such as debt interest payments, to regions. This is slightly different to the ONS work, which

attributes all government spending to regions.

HM Treasury figures show that in each region, social protection (which covers, for example, pension benefits, unemployment benefits, disability benefits, income support and housing benefit), health and personal social services, and education are the main areas of government expenditure, involving some £12 billion, £10 billion and £7 billion respectively in London in 2001/02 (Table 34).

**Table 33: General government current transfers to regions 1998**

Region	Current transfers (£ per head)			
	Social benefits other than social transfers in kind	Social transfers in kind	Other current transfers	Total current transfers
North East	2,280	1,565	437	4,281
North West	2,228	1,560	577	4,365
Yorkshire and Humber	1,974	1,499	599	4,072
East Midlands	1,771	1,403	468	3,642
West Midlands	1,929	1,494	542	3,965
East	1,621	1,487	602	3,710
London	2,329	1,786	1,365	5,480
South East	1,595	1,299	697	3,592
South West	1,732	1,434	594	3,760
United Kingdom	1,984	1,558	684	4,226
England	1,931	1,504	697	4,133
Wales	2,195	1,716	460	4,371
Scotland	2,121	1,886	634	4,642
Northern Ireland	2,756	1,866	822	5,443

Source: ONS

Table 35 shows identifiable expenditure per head by region in 2001/02. It includes a column that shows for each item of expenditure the percentage difference between spending in London and spending in England as a whole.

Overall, government spending per head in London is 17 per cent higher than the average for England (and 21 per cent higher than the average for England excluding London). This HM Treasury derived figure is lower than the difference calculated by the ONS research (of around

30 per cent). However, as noted earlier, the two analyses cover slightly different spending bases. They also cover different periods. Nevertheless, both analyses show that London receives more expenditure per head than England or the UK as a whole.

In London, as in all regions, the single biggest element of government expenditure is social protection (ie social security). However, while it is the single biggest component of expenditure in London (accounting for £1,730 per head), the rate is below the

average for England as a whole (£1,809 per head).

The second largest component of expenditure in London, at £1,513 per head, is health and personal social services. Spending on this component in London is 24 per cent above the average in England (£1,224 per head).

Spending in London on education, the third largest component, is around 16 per cent higher than the average spend in England (£946 per head as compared to £815 per head).

**Table 34: Expenditure by region and function 2001/02 (millions)**

	North East	North West	Yorkshire and Humber	East Midlands	West Midlands	South West	Eastern	London	South East	Total England
Education	2,220	5,731	4,193	3,284	4,368	3,593	3,951	6,799	5,968	40,107
Health and personal social services	3,294	8,606	5,974	4,623	6,297	5,610	5,851	10,874	9,067	60,196
Roads and transport	388	1,020	750	686	810	705	957	2,738	1,522	9,577
Housing	170	477	280	80	181	188	17	1,419	225	3,036
Other environmental services	564	1,319	923	689	878	792	831	1,413	1,234	8,642
Law, order and protective services	1,045	2,685	1,768	1,403	1,823	1,642	1,722	3,873	2,690	18,651
Trade, industry, energy and employment	594	1,091	803	465	654	498	473	821	769	6,169
Agriculture, fisheries, food and forestry	167	433	568	387	401	329	554	363	558	3,760
Culture, Media and Sport	304	575	674	297	468	397	402	871	579	4,566
Social Protection	5,666	13,991	9,421	7,343	9,810	8,795	8,919	12,437	12,597	88,979
Central administration and miscellaneous	153	327	215	185	218	220	225	584	328	2,454
Total	14,566	36,256	25,569	19,442	25,908	22,768	23,901	42,192	35,537	246,138

Source: HM Treasury

Together, social protection and health and personal social services account for around 55 per cent of total spending in London (and over 60 per cent of spending in England). Including education raises the share of spending accounted for to over 70 per cent for London and over three-quarters for England as a whole.

The largest disparities between London and the rest of the country in terms of spend per head relate to housing, where spending in London is over three times that spent in England as a whole, and road and transport, where spending in London is almost twice the England average. Spending on central administration is also markedly higher in

London, as might be expected given the concentration of central government institutions in the capital.

### Reasons for differences between regions

While such expenditure per head figures provide a broad indication of the differences in spending across regions,

**Table 35: Expenditure per head by region and function 2001/02 (£)**

	North East	North West	Yorkshire and Humber	East Midlands	West Midlands	South West	Eastern	London	South East	Total England	London*
Education	882	851	844	787	829	728	732	946	745	815	1.16
Health and personal social services	1,309	1,278	1,203	1,107	1,196	1,137	1,085	1,513	1,132	1,224	1.24
Roads and transport	154	152	151	164	154	143	177	381	190	195	1.95
Housing	68	71	56	19	34	38	3	197	28	62	3.18
Other environmental services	224	196	186	165	167	160	154	197	154	176	1.12
Law, order and protective services	415	399	356	336	346	333	319	539	336	379	1.42
Trade, industry, energy and employment	236	162	162	111	124	101	88	114	96	125	0.91
Agriculture, fisheries, food and forestry	71	70	125	102	84	73	114	55	75	84	0.65
Culture, Media and Sport	121	85	136	71	89	80	74	121	72	93	1.30
Social Protection	2,251	2,078	1,897	1,759	1,863	1,782	1,653	1,730	1,573	1,809	0.96
Central administration and miscellaneous	61	49	43	44	41	45	42	81	41	50	1.62
Total	5,793	5,391	5,158	4,666	4,926	4,620	4,442	5,874	4,444	5,012	1.17

Source: HM Treasury

\* Index comparing London with England

spending will vary from region to region for a variety of reasons, including differences in costs, political choices in expenditure, demographic and sectoral differences, as well as financial need.

The data (ONS and HM Treasury) show that on a per capita basis London receives more general government expenditure than other regions, but it does not necessarily follow that public services in London are better funded than in other regions.

The section on cost differences showed that costs in London were between 17 and 30 per cent higher than

other similar cities in the UK. All other things being equal, for the same level of service provision we should therefore expect the cost to be higher in London than in other parts of England.

A variety of factors lie behind the higher cost of providing services in London. For many public services (eg health, education and police services) one of the largest components of spending is wages. In London, many of the public services increase wages above the levels in the rest of the country through London weighting. This increased wage bill means the cost of supplying public services in London will be higher than in

the rest of the country for the same level of provision.

Other factors include London's diversity (eg greater proportions of ethnic minorities and higher levels of deprivation), and the demands this places on the educational system; the volume of daily commuters and tourists, which puts a greater strain on resources as compared to other regions; the greater concentration of national services, such as museums and other cultural centres; and the demands of the city's national and international status. All of these factors generate extra funding requirements that place a further demand on

**Table 36: Public expenditure as a proportion of regional output 2001/02**

	GVA	Public expenditure	Expenditure as a % of GVA
	£ billion	£ billion	%
North East	27.7	16.8	60.6
North West	87.6	41.8	47.7
Yorkshire and Humber	61.9	29.5	47.7
East Midlands	55.4	22.5	40.6
West Midlands	68.8	29.9	43.5
East	75.1	27.6	36.8
London	162.5	48.7	30
South East	127.4	41	32.2
South West	63.6	26.3	41.4
Wales	33.1	19.7	59.5
Scotland	69.2	36.5	52.7
Northern Ireland	19.1	12.9	67.5
United Kingdom	851.4	353.4	41.5

Source: *London's Place in the UK Economy, Corporation of London 2003*

the capital's resources as compared to other regions.

To this end a recent report by academics at the LSE argued that HM Treasury's PESA figures were likely to exaggerate the expenditure on London because, while all other regions are a mixture of urban and rural areas which together form a region, London is entirely urban. The report stated that if London were combined with the more rural areas surrounding it (South East and Eastern region) then that region's identifiable

expenditure per head in 2001/02 would have been £4,945 compared with an England average of around £5,012. This comparison also takes no account of the cost differences between London and the rest of the country.

Similarly, a recent report on London by the Strategy Unit found that, while regional funding needs were generally calculated using national formulae (which account for factors such as, among others, population size and the cost of providing services), London's true

needs might not be fully reflected by such formulae. The report noted that the formulae take no account of transience and little account of mobility in setting funding levels – both factors that impinge disproportionately on London.

The LSE report also considered public spending in the context of the scale of the regional economy. Table 36 compares HM Treasury estimates of public spending by region with official regional Gross Value-Added (GVA) figures.

**Table 38: General government resources derived from regions 1998**

Region	Resources (£ per head)						
	Taxes on				Social contributions	Other resources	Total resources
Products	Production	Income	Other				
North East	1,489	192	1,368	220	907	287	4,462
North West	1,567	232	1,627	248	981	316	4,971
Yorks and Humber	1,652	219	1,624	226	973	285	4,979
East Midlands	1,690	257	1,826	250	1,045	303	5,371
West Midlands	1,679	247	1,731	243	1,051	289	5,239
East	1,784	277	2,503	270	1,192	313	6,340
London	1,712	576	3,089	241	1,413	397	7,427
South East	1,839	285	2,746	290	1,211	320	6,691
South West	1,748	235	1,893	276	997	313	5,461
United Kingdom	1,673	292	2,062	253	1,090	325	5,695
England	1,700	296	2,156	255	1,114	319	5,840
Wales	1,501	209	1,324	195	863	323	4,416
Scotland	1,600	333	1,829	306	1,075	346	5,489
Northern Ireland	1,390	185	1,293	145	832	453	4,298

Source: ONS

In 2001/02, public expenditure represented just 30 per cent of London's GVA, below all other regions. Indeed, in only two other regions (East and the South East) is the share below 40 per cent. Therefore, compared to the size of its economy, London receives less government expenditure than any other region of the UK.

### Taxing London and Londoners

A greater focus on regional government in the UK and a continuing concern about inter-regional economic differences has created a debate about the balance between the level of public expenditure and the amount paid in taxes in each region. It is widely acknowledged that London pays more in taxation than it receives in public expenditure. This is sometimes called the capital's tax export to the rest of the UK. The size of the difference between taxation and public spending cannot be calculated with certainty; however, the sums involved are significant.

As noted earlier, the ONS recently analysed the regions from which general government had drawn funds as well as the regions that had received government expenditure

in 1998. Table 37 sets out, by region, the source of income for general government (termed resources).

London contributed to general government (on a £ per head basis) almost double the amount of taxes on production than the UK as a whole. London also contributed 50 per cent more than the UK as a whole in taxes on income. In total, London contributed over 30 per cent more in resources to general government than the UK as a whole (£7,427 per head as compared to £5,695 per head).

Considering taxation and spending together, Londoners made a net contribution to the UK government finances of almost £2,000 per head (or over £14 billion in total).

LSE calculated that this tax export from London in 2001/02 is likely to be in a range £7.25-£17.45 billion, and that London paid between 16.5 per cent and 17.4 per cent of UK taxation, while receiving some 14 per cent of public expenditure.<sup>149</sup> Recent tax policies, such as higher stamp duty, will probably have tilted the tax burden towards London to an even larger degree: the report states that the tax export, which has been conservatively calculated and probably

underestimates the flow of resources from the capital, may have exceeded £20 billion.<sup>150</sup>

More recent work by GLA Economics<sup>151</sup> estimates that London's tax export in 2000 was in the range £12-£19 billion and in 2001 was in the range £9-£15 billion. GLA Economics' estimates are broadly in line with those from the LSE, and suggest that this contribution to the rest of the country is broadly stable.



# Conclusion

Investment and spending in London benefits the country and the economy at large. The need for London to compete in global markets in many sectors, for instance, acts as a spur to boost competitiveness and productivity in other sectors as well as in other regions of the country. But despite its success and its positive impact on the rest of the country, London suffers from a lack of investment and spending in some areas.

More investment in transport is required to make up for past underinvestment and to ensure London's future growth is both possible and sustainable. More spending to address London's high levels of worklessness would help reduce poverty in the capital. More investment in housing would help alleviate London's problem of affordable housing for key public sector workers. More investment in health and

education would help address the London-specific recruitment and retention problems of workers in these services. More investment in policing would help address the highest crime rates in the country and the high levels of fear of crime. More investment or spending on environmental measures in London would help to achieve national targets for water and air quality. Indeed, progress on a wide range of the government's national targets requires effective action and results in London.

Many of the problems highlighted in this document, particularly for transport, require significant amounts of investment and should be considered separately from the issue of annual expenditure. Nevertheless, every year London currently contributes many billions of pounds more, by way of taxation, to the government than it receives in spending.

As a result, this document should not be considered as a simple request for more spending but as a case for a more productive redistribution of the money London contributes every year.

Given all these factors, investment in London is likely to yield greater returns than investment in other parts of the country and would be a more effective outcome for the UK's capital city.

## Transport

The government's first step in providing necessary transport investment funds should be the restoration of nearly £200 million cut from the government transport grant currently indicated for 2005/06, and provide sufficient funds – roughly £1 billion per year – for TfL's Business Plan.

Projects that should be supported in order to

safeguard the future growth of London include Crossrail. The capital cost for Crossrail is estimated at £7 billion (first quarter 2002 prices) on the basis of external benchmarks for similar projects, such as the Jubilee Line Extension. In accordance with HM Treasury guidance, another £3 billion is added for optimism bias. The total operating and maintenance/renewal costs for Crossrail are estimated to be around £200 million per year (first quarter 2002 prices).

The benchmark Crossrail scheme has a transport benefit-cost ratio of 2:1, after applying optimism bias on both capital and operating costs. It is estimated that the investment in Crossrail will create GDP benefits of around £19 billion in net present value terms, generating tax revenues of approximately £7.6 billion – sufficient to repay much of the investment.

Investment in other transport schemes outlined in TfL's Business Plan and supported by the Value for Money documents is also required.

### Poverty and worklessness

Enhancements to policies to make work pay in London would improve work incentives for both parents

and the low skilled. This could be achieved through the increased use of earnings disregards on Working Tax Credit and/or Housing Benefit, for example.

The provision of affordable childcare is constrained by the complexity of current arrangements. We would propose that the funding system in London should be simplified via the establishment of a single London Childcare Fund.

The Work Trials programme allowed employers to take on long term unemployed individuals for a trial period of up to three weeks. Such a programme might be one way of overcoming employer prejudice with regard to individuals from black and minority ethnic groups. The evaluation of Work Trials showed it had been extremely effective at raising the employment rate of participants.

### Housing

Solutions to London's housing market problems could include: providing incentives to encourage the delivery of more housing; modernising the housebuilding industry; changing the tax system to encourage institutional

investment; and investing in flagship public projects. Most importantly, subsidies should be focused on increasing supply and making supply more responsive to market conditions, rather than on inflating demand.

### Health and education

London has high vacancy rates and high rates of turnover for teachers and health sector workers.

The key to help solving the problem of recruiting and retaining key public sector workers in London is to compensate these workers financially for the relatively high cost of living in London. The Chancellor is supportive of regional wage flexibility and wants pay review bodies for the public sector to have frameworks with a stronger local and regional dimension.

### Crime and community safety

Investment in the Step Change programme would enable ring-fenced neighbourhood policing in 624 areas across London – leading to a reduction in crime and the fear of crime. The programme is forecast to have an annual cost of around £340 million by 2010.

## Environment

Government should consider appropriate changes to existing legislation to enable the establishment of a single waste disposal authority for London.

## Financing London

Failure to invest in London will harm not only London but also the rest of the country. The high productivity of London means that delivering economic success here increases the UK's output and hence generates tax revenues, helping to pay back some of the initial investment in London.

However, traditional central government methods of investment and spending are unlikely to be able to meet London's needs completely. Instead, new and more flexible

methods of financing should be considered. Indeed, the Strategy Unit's recent report noted that London had limited autonomy to use its resources to solve London-specific problems, despite having high levels of need. It stated that both New York and Tokyo, comparable world cities, were much more financially autonomous than London.

This submission we have highlights areas where alternative means of financing can help to provide the level of investment and spending necessary for London. Prudential Borrowing, for instance, would offer increased flexibility to borrow money, or to enter into PFI contracts (on or off-balance sheet) without government approval but possibly subject to an overall limit on borrowing. Obviously, the limit set on such borrowing

would need to be at a level that enables essential infrastructure projects supported by both national and regional government to happen. Such borrowing would also help to spread the cost of schemes over time more effectively, reducing the burden on current taxpayers. Other financing options include bond financing, land value capture and providing the power to set business rate levies. Each of these could help to provide the investment and spending required in London and would bring funding arrangements for London more in line with arrangements elsewhere in the world.

Alternative funding arrangements could also help to rectify the lack of investment and spending in other areas.



# Annex 1: The government's child poverty objective

The government's objectives are to reduce the number of children living in poverty by a quarter by 2004, with 1998/99 as the base year, and to halve child poverty by 2010 as intermediate stages in achieving the longer term aim of eliminating child poverty altogether by 2016. The 2004 objective is a joint Treasury/DWP PSA target.

The intermediate objectives for 2004 and 2010 differ. The first is clearly a numerical target; the second could be read as referring to either the number or the percentage of all children living in poverty. The latter can also be referred to as the *risk* or the *incidence* of poverty for children, or (as here) simply as the child poverty *rate*.

Whether the 2010 objective is read as referring to a number or a rate is not simply a technical issue, because the number of children in Great Britain is declining. The latest

national projections indicate a fall of 7 per cent (or some 778,000) in the under-16 population between 2002 and 2011.<sup>152</sup> Other things being equal, this purely demographic change would reduce the number of children in poverty. Even if the child poverty rate were to remain entirely unchanged, the number of children in poverty would fall by the same percentage as the total number of children in the population. (However, in London, where the child population is rising, the opposite would occur.)

Progress towards zero per cent poverty needs to be measured in percentage terms. So the 2010 target only makes sense if it means halving the rate of child poverty, which is how we will interpret it here.

A further complication lies in the measures of poverty to be used in monitoring progress. For the 2004 PSA

target, the measure is 60 per cent of median (equivalised, disposable) household income on both a before and after housing costs basis. This makes a substantial difference to the numbers affected, although results so far indicate that the 2004 target is achievable on both measures. There is a strong London dimension to this issue, as the difference between poverty rates before and after Housing Costs is far more marked in the capital for reasons which are explored below.

It is also not known whether the 2010 target will be assessed using the 60 per cent median measure or one of the new measures of child poverty set out in the recent DWP report *Measuring child poverty*. The report states 'the details of the PSA targets that will achieve [the 2010 objective]... will be set as part of successive Spending Reviews.'

### Measures of low income before and after housing costs

The DWP annual Households Below Average Income report presents poverty figures both before and after housing costs. The difference between poverty rates before and after housing costs is most pronounced in London, where the child poverty rate rises from 21 per cent to 35 per cent once housing costs are included. In Inner London the difference is even more marked, the before housing costs child poverty rate being 30 per cent compared to an after housing costs rate of 48 per cent.

This does not necessarily mean that high housing costs are a direct cause of income poverty, in the sense that poverty results from people paying more in housing costs than they can afford, pushing

their incomes below the poverty threshold.

In fact, the direct impact on household incomes makes a minor contribution to explaining why the two measures differ so much in London. The households which make the difference here – that is, households which are poor *only* after housing costs – are predominantly in receipt of housing benefit. At national level, of children who are not poor before housing costs but *are* poor after housing costs, some 61 per cent are in households in receipt of housing benefit. In London, this percentage is higher (73 per cent), as would be predicted given higher rents and housing benefit receipt in London.<sup>153</sup>

If people are entitled to housing benefit, they are in most cases already on a low

income, and it is not their housing costs that explain why their incomes are low. It is these households which account for most of the difference between before and after housing costs measures of poverty. The percentage of children in households whose housing costs push them below the poverty threshold and *who would not otherwise be poor* is relatively low – about 3 per cent of all children in London. Most children in poverty in London are poor regardless of housing costs.

A child poverty measure which gives a lower rate the higher the percentage of children living in households in receipt of housing benefit is not a sensible one. For this reason, it is important that future PSA targets do not exclude the after housing costs measure.

# Acronyms

ALMO	Arms Length Management Organisation
BCS	British Crime Survey
CCTV	Closed Circuit Television
CIPFA	Chartered Institute of Public Finance and Accountancy
DEFRA	Department for Environment Food and Rural Affairs
DfES	Department for Education and Skills
DfT	Department for Transport
DLR	Docklands Light Rail
DMAG	Data Management and Analysis Group (in the Greater London Authority)
DTI	Department for Trade and Industry
DWP	Department for Work and Pensions
EU	European Union
FBS	Financial and Business Services
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HIP	Housing Investment Programme
HIV	Human Immunodeficiency Virus

LDA	London Development Agency
LEA	Local Education Authority
LFS	Labour Force Survey
LSE	London School of Economics
MIG	Minimum Income Guarantee
MPA	Metropolitan Police Authority
MPS	Metropolitan Police Service
MSF	Most Similar Forces
NCIS	National Criminal Intelligence Service
NDYP	New Deal for Young People
NERA	National Economic Research Associates
NHS	National Health Service
OEF	Oxford Economic Forecasting
ONS	Office for National Statistics
PESA	Public Expenditure Statistical Analyses
PFI	Private Finance Initiative
PPP	Public Private Partnership
PSA	Public Service Agreement
RSL	Registered Social Landlord
SR2004	Spending Review 2004
SRA	Strategic Rail Authority
TfL	Transport for London
UK	United Kingdom
US	United States

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