MAYOR OF LONDON

18 DEC 2017

Len Duvall AM
Chair of the EU Exit Working Group
City Hall
The Queen's Walk
More London
London SE1 2AA

Our ref: MGLA311017-2581/
MGLA031117-3220

Date: 15 DEC 2017

Dear Len,

Thank you for your letters of 30 October and 2 November following my appearance before the London Assembly's EU Exit Working Group on 19 October. I was grateful for the opportunity to explain in detail the work I have been undertaking in ensuring London's voice and concerns are heard and understood throughout the Brexit negotiations.

Financial Services Sector

You are right to highlight in your letter of 30 October the current challenges Brexit poses to the UK's financial services sector. I have been abundantly clear that remaining in the single market is the best way to ensure that our finical institutions can retain passporting rights. I have also made repeated calls for a status-quo transition deal to be agreed as soon as possible to reduce the risk of financial jobs leaving London as early as next year. I will keep pressing these points in my regular meetings with the Secretary of State for Exiting the EU, Rt Hon David Davis MP, and I will continue to advise how government can mitigate the risks associated with their current ambition to leave the single market.

European Structural and Investment Funds

I will continue to press the Government for more details on their proposals for the UK Shared Prosperity Fund. I have stated repeatedly that this should be fully devolved to London, based on fair measures of need, of at least the value of current EU programmes and be simple to administer. I enclose a copy of the joint letter Cllr Claire Kober, Chair of London Councils, and I have sent to the Communities Secretary, Sajid Javid MP on this issue. With regard to your point about the LEAP, as Chair, I remain fully supportive of this key partnership body. The Government have also expressed a firm commitment to Local Enterprise Partnerships across England and will be working with the LEAP to agree a set of more clearly defined activities and objectives in early 2018. This will allow us to assess whether the LEAP is appropriately resourced and structured.

MAYOR OF LONDON

Brexit engagement

I routinely speak with businesses from across London's economy to determine what they need from the Brexit negotiations, and my Brexit Advisory Panel of senior business leaders continue to provide insight and support that helps inform my engagement with the Government on these issues. I continue to meet regularly with David Davis to press both the specific needs of London's key economic sectors and the cross cutting issues of trade and access to talent that effect businesses across the capital. I also work closely with my Deputy Mayors for Environment and Energy, and Policing and Crime to press government on the key areas of environmental protection and London's security that Brexit threatens. My promotional agency, London & Partners, continues to attract investment into the capital and with its increased overseas presence will be reaching a much larger audience. I also maintain contact with the devolved administrations and am building strong links with the Metro Mayors to work on areas of common cause. I am not, however, minded to publish a plan of action, as you suggest, given the regular discussions I am having, but I will give your suggestion further consideration.

Law enforcement and security

In response to the point in your letter about pressing for current law enforcement and security arrangements to be maintained, I stand by the six security 'red lines' that I believe must be held to in the Brexit negotiations in order to keep the British public safe and I will continue to press ministers to demonstrate that security is at the forefront of Brexit negotiations. Leaving the EU without a deal on these complex security issues, such as the European Arrest Warrant, Europol, and EU Passenger Name Records, is simply not an option.

Thank you again for inviting me to appear before your Committee and I have asked my office to ensure the speech and other papers I agreed to share with you are passed to the Principal Committee Manager. I would also like to reassure you that, like you, in the months ahead I will continue to lobby hard for government to secure a Brexit deal that protects London and the UK's economy. A no-deal or no transition scenario would cause serious harm to both.

Yours sincerely,

Sadiq Khan
Mayor of London

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Rt Hon Sajid Javid MP
Secretary of State for Communities and Local Government
Department for Communities and Local Government
2 Marsham Street
London SW1P 4DF

Date: 13 DEC 2017

Dear Sajid,

UK Shared Prosperity Fund – London

We write to set out our shared London position on the above proposed new fund. We welcome the government's commitment to provide a much-needed replacement for European Structural and Investment Funds. It should be fully devolved to London, based on fair measures of need, of at least the value of current EU programmes and be simple to administer. Further details are set out in the attached paper.

As there is no prospect of a new domestic fund regime being ready at the point of UK exit from the EU, the Government should also extend its current guarantee to honour EU programme commitments from March 2019 until the end of the 2014-20 EU programme period.

Such an extension would provide stability, and match the end of the seven-year EU budget period which the UK has already agreed to fund. It would thus maximise the UK's opportunity both to benefit from the seven-year programme and reclaim funding; securing best value for taxpayers.

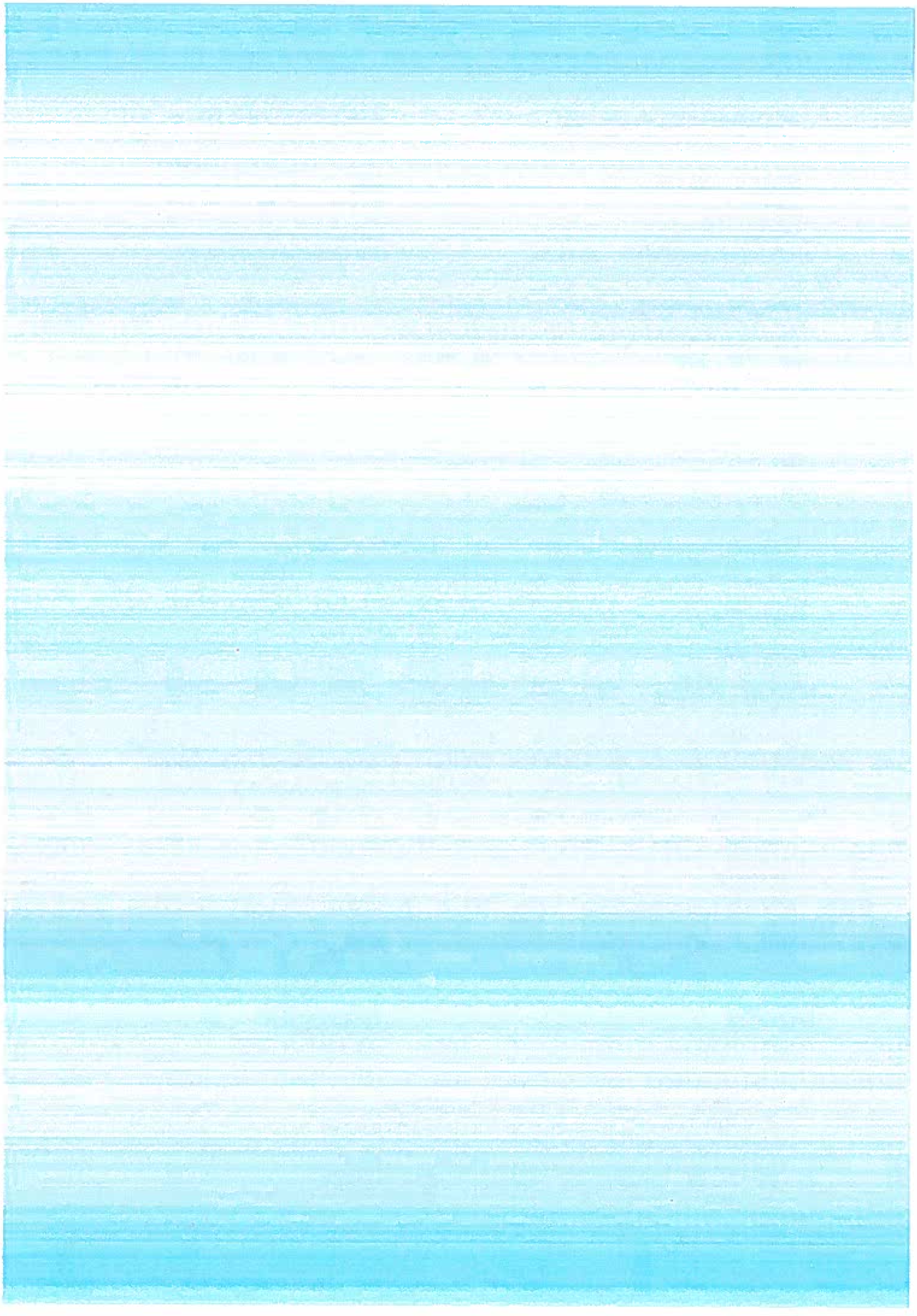
Our teams would welcome the opportunity to discuss the paper further, ahead of the consultation on a future fund that we understand is intended for next year.

Yours sincerely,

Sadiq Khan
Mayor of London

Cllr Claire Kober
Chair, London Councils

Cc: Rt Hon Philip Hammond MP, Chancellor of the Exchequer
Rt Hon David Davis MP, Secretary of State for Exiting the European Union
Rt Hon Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy
Rt Hon David Gauke MP, Secretary of State for Work and Pensions
Rt Hon Greg Hands MP, Minister for London and Minister of State for Trade Policy



The UK Shared Prosperity Fund – London's Requirements

Introduction

This paper sets out London proposals for the UK Shared Prosperity Fund (UK SPF), which will replace European Structural and Investment Funds after Brexit. This paper presents the jointly held views of:

- The Mayor of London and the Greater London Authority; and
- London Councils, representing the 32 boroughs of London and the City of London.

London is different. It is both a region of the UK and by far the largest of England's 38 Local Enterprise Partnership (LEP) areas, with over 8,900,000 people and a quarter of England's Gross Value Added.

Moreover, London's regional governance arrangements, with the boroughs working in partnership with the Mayor and the Greater London Authority, have been in place for nearly two decades, meaning that structures have bedded down and regional capacity built to a much greater degree than in other cities in England. This is reflected in London's autonomy managing European Structural and Investment Funds (ESIF). The GLA is 'Intermediate Body' for both the European Social Fund (ESF) and the European Regional Development Fund (ERDF), and five of the six local Co-Financing Organisations (CFOs) in England are based in London.

London's political leaders have an ambitious vision for London and its communities and the UK SPF will play an important part in delivering this. This includes:

- Delivering an ambitious devolution agenda – the government's Work and Health Programme has been devolved to London boroughs working in sub-regional partnerships and the Adult Education Budget will be devolved to the Mayor of London by 2019/20.
- Exploring a London-wide business rates pilot pool for 2018/19 that will facilitate collective investment through a strategic investment pot, designed to promote economic growth and lever additional investment funding from other sources.
- London government is also close to agreeing a health devolution deal with national government that will allow local areas to opt-in to detailed devolution proposals in relation to health and social care integration, prevention and reinvestment of capital estate receipts.
- Ensuring London remains the world's top global business city – crucial not just for the city's prosperity but for the UK as a whole. We need to support innovation and business investment (particularly in important and growing sectors), alongside digital and physical infrastructure. We need to deal effectively with London's changing relationship with the world after Brexit, maintaining London's openness, exports and access to talent where possible.
- Accommodating growth with inclusive or 'good' growth principles – investing in social and environmental infrastructure in order to unlock people's potential and ensure that all Londoners as well as the rest of the UK can benefit fully from the London's economic growth. We want to create a more inclusive and sustainable form of growth.

This vision will help the government deliver the aims and objectives of its Industrial Strategy.

We therefore welcome the government's commitment to a replacement United Kingdom Shared Prosperity Fund that can be used to address the significant challenges and opportunities around employment, skills and growth within the capital. This paper presents London's key requirements for the UK SPF and outlines a clearly evidenced rationale for each. Our four requirements are:

1) London's share of the UK SPF be fully devolved to London.
2) Allocation of the UK SPF be based on a fair measure of need, not regional Gross Value Added.
3) London to receive at least as much funding as currently via EU programmes.
4) UK SPF administration be much simplified by comparison with EU programmes.

1) London's share of the UK Shared Prosperity Fund fully devolved to London

Management of ESIF funding in London is already devolved by government to the GLA, which has been granted 'Intermediate Body' status. The LEP's London ESIF Committee has strategic oversight of how ESIF is spent in London; and the Mayor takes the final decision to commit funds. So any centralisation would be retrograde.

UK SPF should:

- Be devolved across the UK to local areas so that decisions sit much closer to the communities supported;
- Allow devolved areas to determine how best to target this funding;
- Focus on locally-determined impact and outcomes (within a broad, high level national framework if desired); and
- In London, be sufficiently flexible and responsive to enable:
    - Links to be made with other devolved funds, such as the Adult Education Budget and Work & Health Programme, and integration with other local services, including local government and voluntary provision;
    - New and innovative approaches to be tested to deal with entrenched problems to support public service reform, with a mix of shorter and longer-term funding;
    - Changes to be made in response to impact and evaluation data; and
    - Ease of access for providers of all sizes and sectors.

There are clear benefits of devolving funding:

- Devolution of funding encourages **greater partnership working between different services.** When funding is devolved local actors have much greater 'buy in' to services and incentives to work together. For example, London's ESF Troubled Families (TF) programme was designed by London Councils and has largely avoided the problems experienced by the previous centrally-designed ESF TF programme. As boroughs were involved from the outset, clear ways of working between borough families' teams and ESF providers were included.

Centralising the UK SPF would hamper London's ability to integrate and align it with other local budgets, including newly devolved funding such as the Work and Health programme and Adult Education Budget, but also existing locally controlled funding through the GLA, boroughs, LEAP (London's LEP), and local NHS provision.

- Devolution of funding will **drive innovation and increase performance** through the resultant pluralism of approaches that will be used. This pluralism will drive experimentation and innovation. Whilst some ideas will succeed and others will fail, the constant testing will drive up standards overall. We suggest that central Government should only set broad priorities for funding, and that local areas should determine precisely what local priorities are and how they can be achieved. There should be public transparency about performance so that local areas can learn from each other and drive up performance across the country.

  London has a strong track record of using EU funds innovatively, transparently and without major compliance issues. For example, our innovative ERDF-backed 'Financial Instruments' have created successful recyclable loan and equity investment funds for small businesses and green infrastructure; attracting attention and awards from across the world. Our ERDF projects harness our big world-class research institutions to help entrepreneurs and vice-versa; and sell London digital and creative innovation here and abroad

Our innovative approaches apply equally to skills and employment. The GLA ESF Co-Financing Organisation's 2007-13 ESF programme was the first to trial 12 month sustained job outcomes, before DWP. In the current round of ESF programmes, London has again looked to develop innovative ideas like supporting boroughs and Clinical Commissioning Groups to co-design employment support for people with mental health conditions which integrated with NHS services. Evaluation of the current ESF programme is currently underway. Interim findings will be available in early 2018, and can be shared with government.

- Devolution of funding allows local areas to **better react to local needs.** London in particular is different to other LEPs. While most LEPs split their ESIF allocations equally between ESF and ERDF, London has a 75% : 25% split in favour of ESF. This reflects London's below average employment rate, and its share of some of the most deprived wards in the country (often adjacent to the wealthiest). If future funding were to mandate a split between employment and skills support and business / low carbon programmes, or prioritise one over the other; then London would be unable to invest in the most beneficial way.

  In terms of employment and skills funding, London has different priorities to most other parts of the UK. For example, higher living and childcare costs keep lone parents out of work. London has a high proportion of the population from BAME groups, so targeted support for these communities is especially valuable. And the high costs of living in London, coupled with low wages and insecure work, means that London suffers disproportionately from poverty, including in-work poverty. London also has a high proportion of its workforce who are EU nationals and migrants.[1] As such, it is likely to be particularly vulnerable to changes in migration patterns that might be brought about by Brexit. Only with devolved funding can London react to particular challenges.

The **benefits of devolution can be diluted where local control is not complete.** The majority of London's current ESF programmes were locally designed but were procured and are being managed by the national co-financing organisations – Department for Work & Pensions, Education & Skills Funding Agency and the Big Lottery Fund. There are many examples of CFOs not being willing to implement locally-designed projects in the way the LEP intended; and /or of local intentions being 'lost in translation' when implemented by national organisations. For example, ESFA failed to procure an evaluator for our innovative pilot programme supporting gang members, meaning there will be no impact analysis or independent evaluation of it. Such evaluation was at the heart of the project, but ESFA priorities lay elsewhere.

London has the capabilities and track record to deliver a fully devolved programme, as the rest of this section will show.

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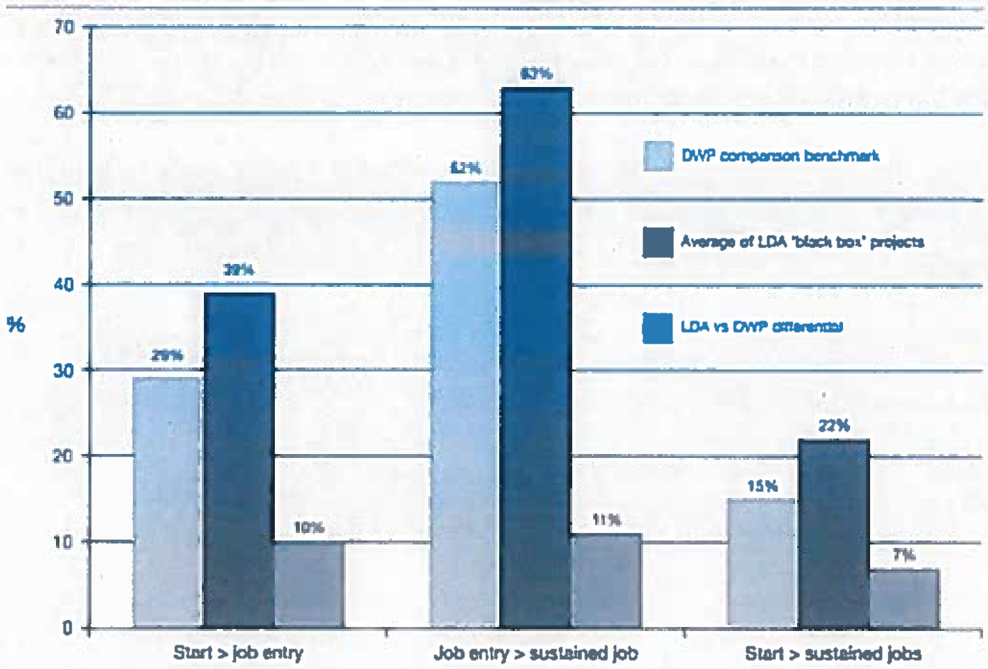
[1] The London Business Survey (2016) report that nearly one in three of London's workforce is non-UK born and 90% of London businesses recruit EU citizens (69% also recruit non-EU workers). London employs a higher proportion of EU nationals than the UK as a whole across all sectors.

In particular, London has **robust commercial and technical capabilities**, and our performance has been consistently high. The GLA has overseen innovative and compliant European programmes, despite their disproportionately rigid audit and compliance regimes.

Our strong systems have ensured **better results** in London. For example, independent research has found that the London Development Agency (LDA)/GLA CFO programmes significantly outperformed similar DWP programmes investing the same amount of money (see chart below).[2]

Comparing 'black box' project performance



Source: P Bivand and L Gardiner, *Assessing the LDA's Labour Market Programme Performance: final report to the London Development Agency*, Centre for Economic and Social Inclusion, 2011

Moreover, **current governance arrangements in London are already fully transparent and accountable.** All Mayoral and official decisions within the GLA are published online[3], as are LEP decisions and papers. LEP and associated committees are recruited openly and competitively, and reflect London's diverse communities and stakeholders. London would develop robust governance arrangements for a devolved Shared Prosperity Fund based on the same principles of transparency and democratic accountability.

[2] http://cpag.org.uk/sites/default/files/121114%20We%20can%20work%20it%20out%20final.pdf, p.55

[3] https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC

2) Allocation of the UK Shared Prosperity Fund based on a fair measure of need

We believe that growth and prosperity should be shared throughout the UK, and that funding should be divided between areas based on need. Gross Value Added[4] is not an appropriate metric with which to split funding, as it takes no account of the residents of any given locality, only the economic activity. While London is a highly productive economy it also has on many measures higher rates of disadvantage and poverty than the country as a whole. Funding should be divided fairly across local areas on the basis of this need.

Allocating funding via GVA would mean penalising those residents of Tower Hamlets, one of the most deprived Local Authorities in the UK[5], who live in close proximity to both Canary Wharf and the City of London. This is one of the most productive localities in the world. But most people working there live in wealthier parts of outer London and the Home Counties; meaning the economic output generated is shared across the Greater South East region.

In our view, **the Index of Multiple Deprivation (IMD) presents a better basis on which to divide funding**, as it incorporates the primary elements which determine peoples' quality of life, including income, employment, education, health, crime, housing and the living environment.

The IMD shows that, despite London's productivity, it also includes areas of significant deprivation and therefore needs a fair level of investment from the UK SPF. For example, London has the highest number of deprived LSOAs of any region in in England[6]. Moreover, half of London's boroughs[7] contain areas that fall within the 5 per cent most deprived areas of England. The City of London and Richmond are the only local authority areas within London with no areas in the most deprived 20 per cent of England.

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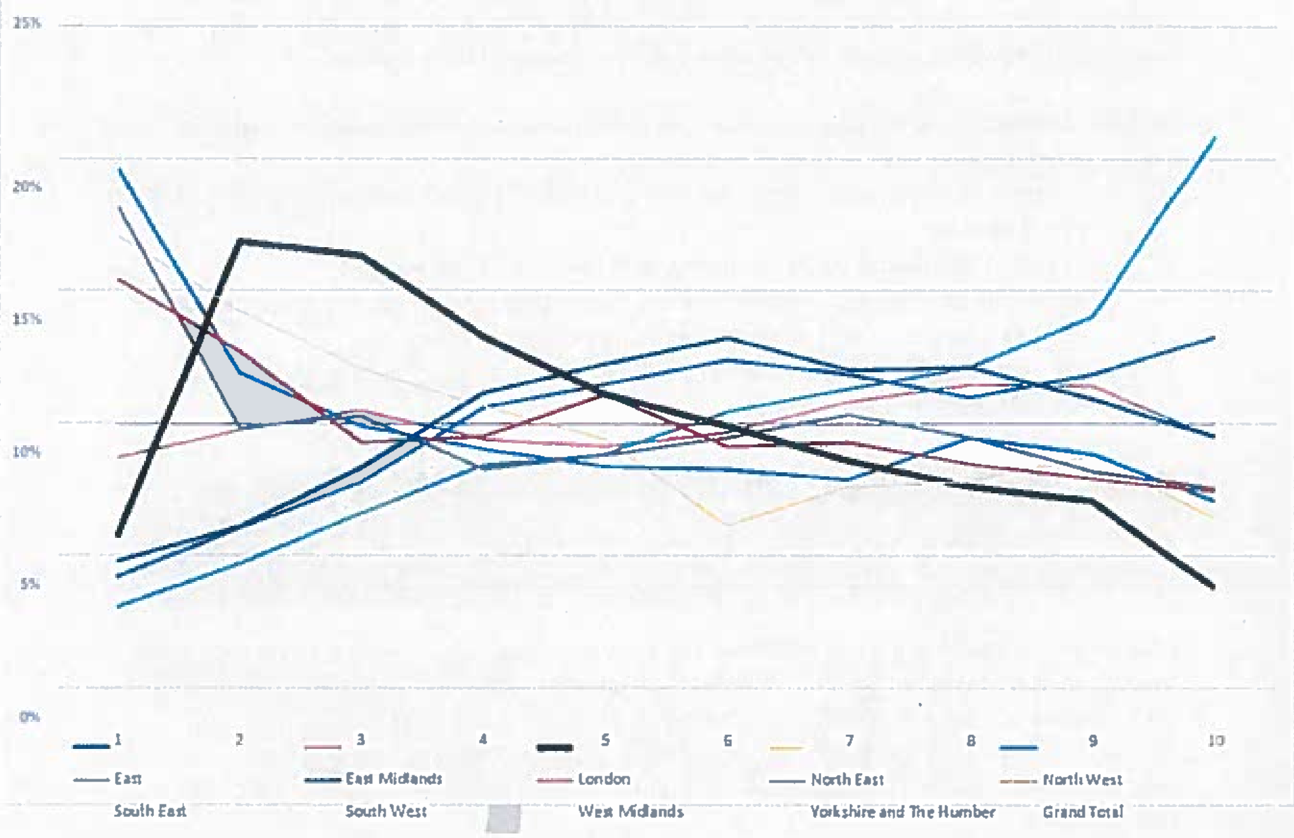
[4] Gross Value Added (GVA) is a measure of the increase in the value of the economy due to the production of goods and services.

[5] Only 18 out of the 152 Local Authorities in England have a higher proportion of LSOAs in the 10% most deprived than Tower Hamlets.

[6] Deprived defined as being in the most 30% deprived

[7] Barking & Dagenham, Brent, Croydon, Ealing, Enfield, Hackney, Haringey, Islington, Kensington & Chelsea, Croydon, Lambeth, Lewisham, Newham, Tower Hamlets, Waltham Forest and Westminster

Proportion of LSOAs in deciles of multiple deprivation (where 1 is the 10% most deprived LSOAs and 10 is the least 10% least deprived)



High levels of deprivation are strongly related both to:

- Higher levels of unemployment / lower employment rates in London compared to the UK as a whole, particularly for some subgroups; and
- Higher levels of poverty, including in work poverty, than the UK as a whole, in part driven by higher living costs (especially housing costs).

The number of Londoners claiming Jobseekers Allowance (JSA) is currently low. But this masks a long-standing well-known structural employment problem in London.

The disability employment gap[8] in the capital has remained wide for over a decade and currently stands at 26.5 per cent. There are over 280,000 Londoners claiming Employment and Support Allowance (ESA) – where someone is out of work because of a disability or health condition – and the numbers claiming this benefit have remained stubbornly high, unaffected by economic cycles. In addition, a third of all JSA claimants have been out of work for a year or more. The proportion of JSA claimants who are long-term unemployed has increased in recent years in the capital.

[8] The gap between the employment rate among disabled people and non-disabled people

Furthermore, over the last three years London's unemployment rate among 16 to 24 year olds has remained high at 16.3 per cent: the second highest among UK regions. Long periods of unemployment at the beginning of an individual's career can have a long term 'scarring' effect - making it more likely that they will be unemployed again in the future, and dragging down wages and job progression over the course of their lifetime.

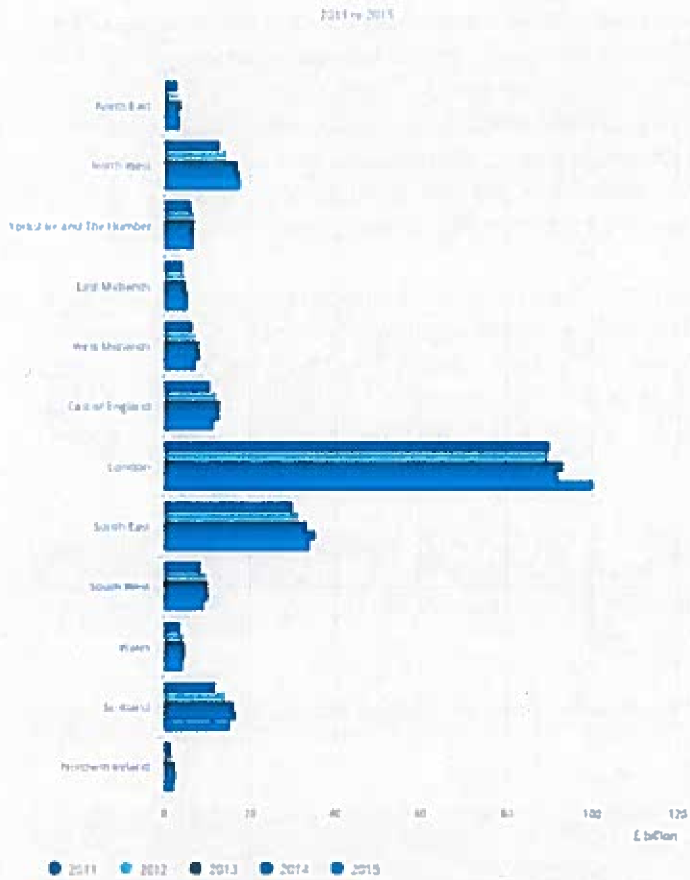
As demonstrated in more detail in Annex 1, in many respects London's labour market is worse than the country as a whole. For example:

- London has a lower employment rate and higher unemployment rate than the UK as a whole;
- London has higher youth unemployment than the UK as a whole;
- Parental employment rates in London, particularly for women, are lower than the UK as a whole, in part as a result of higher childcare costs; and
- Poverty levels among London's population after taking account of housing are higher than the UK as a whole.

UK SPF should also look to complement other government policies, notably the Industrial Strategy. The Industrial Strategy Green Paper notes that the aim of the UK's Industrial Strategy is to "improve living standards and economic growth." Clearly, in order to achieve greater growth and prosperity nationally, London cannot be left out of the picture.

London's businesses are a key source of UK exports, particularly service exports (see chart below). As the UK leaves the EU it will be crucial to ensure that the London businesses are able to thrive and remain globally competitive. Part of this is ensuring that the new and innovative businesses are able to grow and enter the export market, and that the agglomeration benefits of a global city like London are not stifled by any other structural weaknesses.

Total value of service exports from the UK by NUTS 1 area



Source: UK Balance of Payments - The Pink Book; International Trade in Services

https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/estimatingthevalueofserviceexportsabroadfromdifferentpartsoftheuk/2011to2015

Without a fair allocation of UK SPF, there are particular issues in London that will affect its ability to contribute to the UK's prosperity. The first is a shortage of workspaces, which up until now have been successfully supported through London's ERDF programme. Shared workspaces are crucial for London's entrepreneurial creative and digital sectors, amongst others. Estimates suggest that London's open workspaces host 31,000 people, generating £1.7 billion in GVA. In some cases, open workspaces have generated an additional £40.80 for every £1 invested – far higher than DCLG's guidance of £5.80 per £1 of regeneration investment.[9]

However, these successes are under threat without continued funding. In particular, London's booming property market is pushing up rents for workspaces, and employment space outside London's most central economic area is being lost through permitted development rights, which allow the conversion of office space to residential use with

[9] https://www.london.gov.uk/sites/default/files/valueofworkspace-ippr2016.pdf

minimal planning requirements their tenants. Moreover, decreased local authority funding has led to sharp rent increases for council-owned property in some areas.

There are also particular opportunities specific to London. London is home to some of the UK's best universities and ERDF funding has been used to help translate the expertise of London's HEIs into profitable and innovative businesses. For example, ERDF funds London South Bank University's Investment Escalator, which is supporting nearly 600 SMEs to grow.[10] Other projects are run by Kings College London, UCL, Brunel University, the University of West London and the University of the Arts, London. Without similar funding, the expertise and innovation of London's HEIs may not so easily come to the market.

Support for enterprise is also important in terms of social inclusion, and many of London's current EU programmes look to ensure disadvantaged groups are given opportunities. For example, Enterprise for Everyone, run by the East London Small Business Centre, supports clients with ambitions and aspirations to start up a business, and works with SMEs during their early stages, including social enterprises and entrepreneurs wishing to set up social enterprises

This section has shown that, despite London's high GVA, it suffers from severe deprivation. Moreover, London's contribution to the UK's prosperity and its exports cannot be taken for granted without continued investment. A fair allocation of the UK SPF, probably based on IMD, is needed to tackle these challenges.

3) **London should receive at least as much money as it does currently via the European Structural & Investment Funds**

A reduction in local growth funding would **hit the most deprived people the hardest.** ESF is particularly effective at targeting those groups Jobcentre Plus does not access, such as economically inactive people who are not claiming benefits. It is natural that DWP focuses its employment support on its customers, namely active benefit claimants. But many of the most disadvantaged people in society do not engage with DWP employment support, and without other support these groups are unlikely to be able to move out of poverty.

For example, ESF in London has invested in support for economically inactive BAME women from particular communities, such as Bangladeshi, Pakistani and Somali women. These groups are unlikely to receive support through Jobcentre Plus, but targeted ESF-funded interventions are one way of providing support to them. Similarly, there are no work-related requirements for many carers, who therefore receive no labour market support and as a result find it extremely difficult to return to work. Again, London's targeted ESF programme looks to help this group avoid their skills atrophying.

Reduced public finances in London for both central and local government means that there is considerably less capacity in mainstream funding or other budgets to support these groups. For example:

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[10] http://www.lsbu.ac.uk/case-studies/investment-escalator

- National funding for the Work and Health Programme is 70 percent less than that previously allocated to the Work Programme; the key employment programme that preceded it.

- Reductions in local authority spending means that the focus is on meeting statutory obligations for young people but often very little else. During the last and current spending review periods (2010 – 2020), London boroughs will see a 63 percent cut in their core funding from government. Recent research highlights that council youth service budgets across London have been reduced by £22 million between 2012/13 and 2016/17 and funding to voluntary sector youth work has gone down by an average of 35 per cent (where information was provided).[11]

- Funding allocations for adult further education (FE) and skills in England have fallen by 14% in real terms between 2010/11 and 2015/16. In the same period, the Adult Skills Budget, excluding Apprenticeships, fell by of 57%.[12] The fall in FE budgets mean that funding is largely spent delivering statutory entitlements.

- The 2011 Education Act shifted responsibility for careers guidance from local authorities to schools, with no additional funding and in 2012 the duty was extended to colleges. Under the reforms, the government funded Connexions service was dismantled at a national level and the National Careers Service was launched in April 2012 with only web and phone-based advice for under 19s. Around £200m nationally was removed from local government funding and did not reappear in schools budgets to support the new duty. The loss of this funding was reported to the *House of Commons Education Committee Careers guidance for young people: The impact of the new duty on schools*[13].

This means that ESF funding has become an increasingly important element of the provision for unemployed young people and adults. Without it, support for the most disadvantaged is likely to completely or nearly dry up, or be funded solely through the voluntary and community sector.

4) The UK Shared Prosperity Fund should be administratively simple

Whilst ESIF programmes in London have been innovative and achieved much, it is also true that the complex audit-heavy funding model designed by the European Commission, and sometimes further over-bureaucratised by the UK government; has meant that programmes have not always met their full potential. Too much energy is spent ensuring compliance against a wealth of programme guidance. This focus on spending money in a compliant way can be to the detriment of driving performance and innovation.

The design of the UK SPF presents an opportunity to build on the best elements of ESIF, whilst revamping the administration. The UK SPF should significantly reduce the bureaucracy associated with running the programmes. This should:

[11] https://www.london.gov.uk/sites/default/files/london_lost_youth_services_sian_berry_jan2017.pdf
[12] http://researchbriefings.files.parliament.uk/documents/CBP-7708/CBP-7708.pdf
[13] https://publications.parliament.uk/pa/cm201213/cmselect/cmeduc/632/632vw.pdf

- At the most, provide a set of 'light touch', minimum standards guidance and regulation outlining how funding is spent. The more this is specified centrally, the less well local areas will be able to use budgets flexibility and join up with other funding streams;
- Not specify payment mechanisms that local areas are mandated to use;
- Require that only limited Management Information be submitted to central government, with any submissions just providing headline data;
- Have no requirement for match funding. While local areas may wish to use UK SPF to leverage additional funding, this should not be a centrally specified requirement; in part because local actors have relatively limited other funds to invest in similar activity given funding cuts outlined in the section above.
- Significantly reduce audit and monitoring requirements, to bring them into line with other domestic funds.

Nevertheless, some elements of the way ESIF funding is designed are to be welcomed. In particular, ESIF funding allocations are fixed for seven years, allowing local areas to plan over longer periods. While allocations of this length may not be possible in future given the frequency of government Spending Reviews, allocations should allow for at least medium-term planning in local areas.

The ESF evaluation regime invests heavily in counting results for the European Commission. Evaluation in the UK SPF should instead focus on building stronger evidence base of what works, with a focus on conducting robust impact analysis. Good practice should be shared between local areas in order to drive up standards across the system. Government should track programme results in a way that puts as little burden as possible on providers and local areas; for example, it should build a platform to use HMRC Real Time Information (RTI) to look at the incomes of participants.

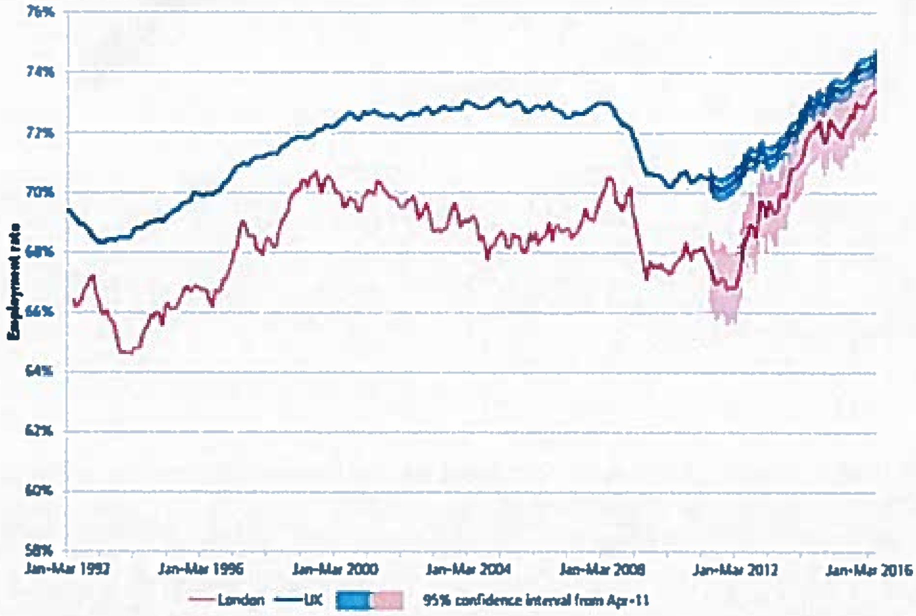
Conclusion

The UK Shared Prosperity Fund presents the UK with an opportunity for local growth funding to drive local economies, reduce inequalities and help disadvantaged people to contribute to the economy as best they can. However, to realise the potential of this fund, we consider that the four principles set out above must be applied.

Annex 1 – Analysis of London labour market and poverty levels compared to the UK averages

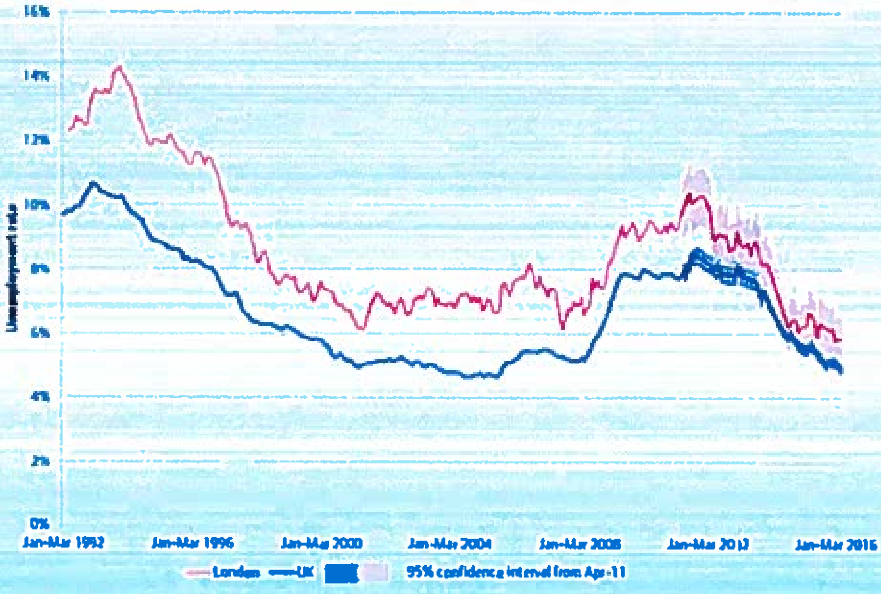
London has had a lower employment rate than the UK since 1992. For example, in the three months to May 2016, the UK's employment was 74.4 per cent – 1 percentage point above London. Similarly, London's *un*employment rate is 1 percentage point higher than the UK rate (see charts below).

Employment rates in London and the UK, residents 16-64 years, three-month rolling average, 1992 to 2016



Source: ONS Labour Force Survey

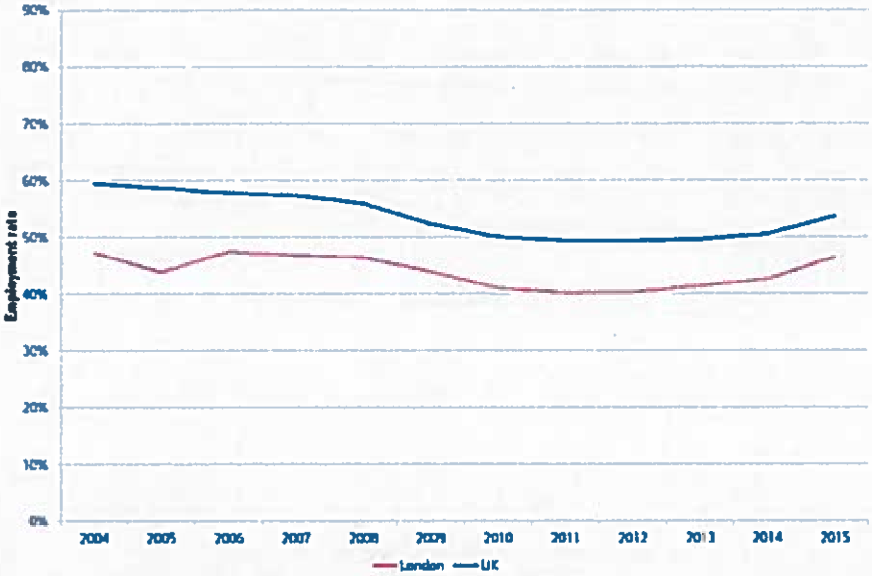
Unemployment rates in London and the UK, residents aged 16 years and over, three-month rolling average, 1992 to 2016



Source: ONS Labour Force Survey

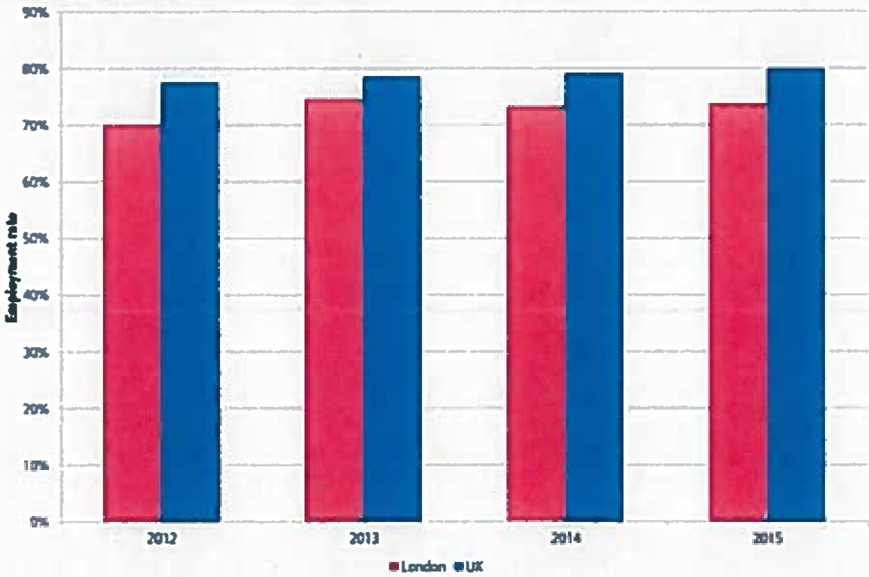
Some particular groups have lower employment rates in London than the rest of the UK. This includes young people, where the employment rate in London is 7.3 percentage points lower in London than the rest of the UK, and also parents with dependent children, whose employment rate was 6.1 percentage points lower in London than the UK as a whole in 2015. For the latter, higher costs of childcare are likely to make work pay less in London than other regions with lower childcare costs.

Employment rates for the 16-24 age group for London and the UK, residents, 2004 to 2015



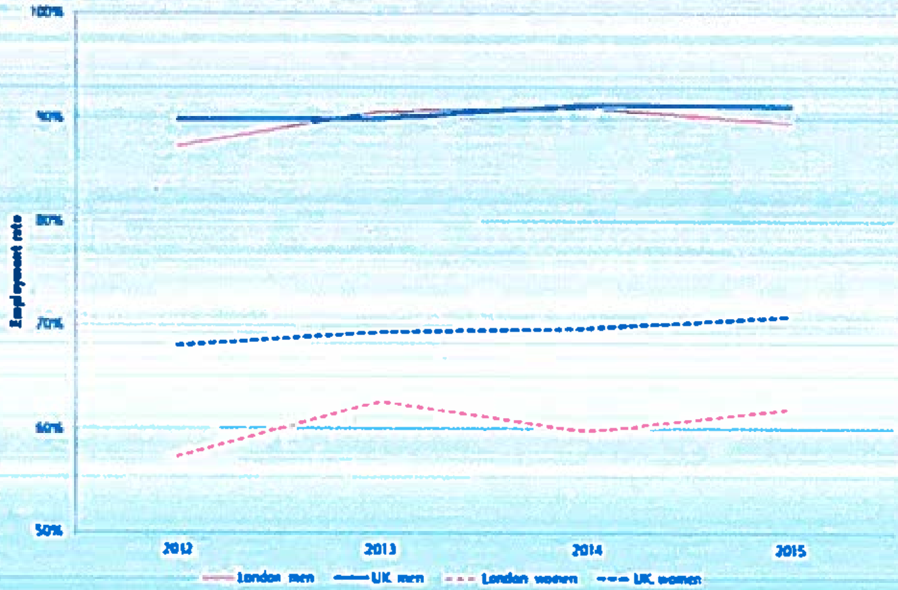
Note: January to December periods and has been reweighted in July 2016
Source: ONS Annual Population Survey

Employment rates of parents with dependent children in London and the UK, residents aged 16-64 years, 2012 to 2015



Note: April to June periods.
Source: ONS Labour Force Survey household datasets

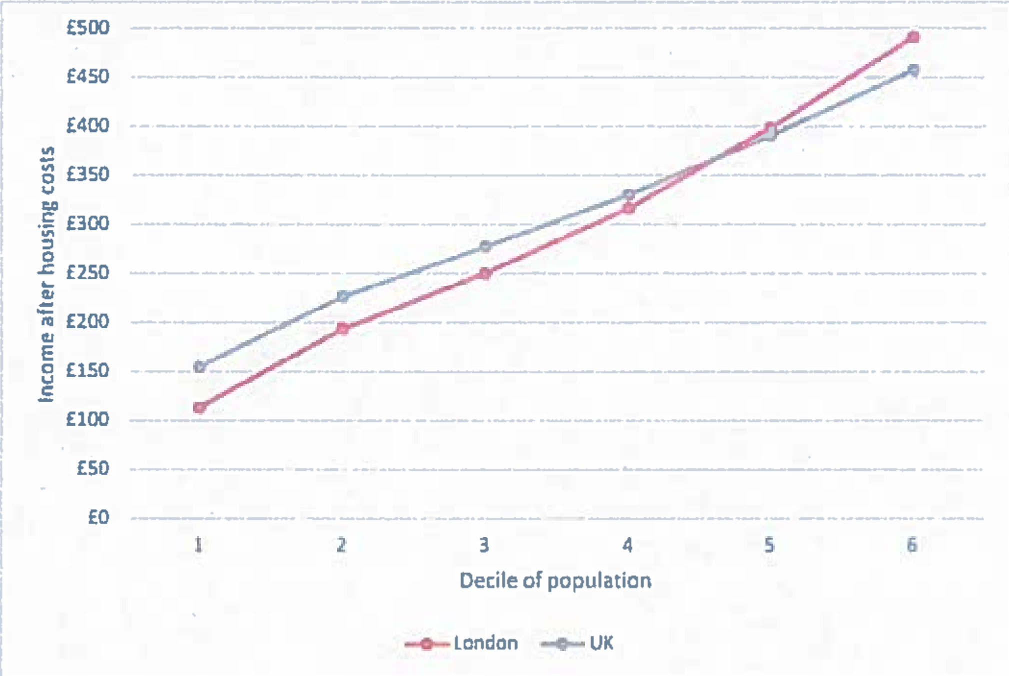
Employment rates of parents with dependent children by gender for London and the UK, residents aged 16–64 years, 2012 to 2015



Note: April to June periods. Source: ONS Labour Force Survey household datasets

Moreover, poverty levels among London's population after taking account of housing are much higher than the UK as a whole. Up to a third of all inner London residents are in poverty by this measure and nearly a quarter of outer London residents – both are higher than any other UK region. The chart below shows that, after housing costs, Londoners in lower income deciles, have lower income than those in the UK as a whole.

Equivalised net household income after housing costs



Source: DWP Family Resources Survey, 2011/12-2013/14 (three year average), all households, adjusted for inflation using ONS RPI All Prices Index

Poverty is a problem that is only getting worse in London. Between 2008 and 2015 London's nominal median gross hourly wage increased by 8.4 per cent. This was the slowest rate of increase across all 12 UK regions (with the average rate of growth 11.5 percent for the UK). This coupled with the rise in costs over the same period, with increases in housing costs, transport costs, childcare costs and fuel costs have all combined to reduce the affordability of living in London in recent times.

Having said that, the richest population deciles in London have incomes in excess of any other region, meaning that London is, by a distance, the most unequal region in the country.