Response to Susan Hall AM, Chairman of the London Assembly Economy Committee

01/10/2018

This note provides information in response to the letter dated 18 September 2018 from Susan Hall AM to Mary Harpley, Chief Officer, Greater London Authority, regarding London & Partners. Further information is provided in annexes to this paper and in embedded links throughout.

Benefit of L&P activity

Request

"Any documents setting out how the claims set out in the London & Partners' Annual Review 2016/17 have added £340 million to London's economy and supported or created 10,112 jobs in the 2016/17 year were arrived at, including any breakdown of projects contributing to these calculations, the value of each of those projects in terms of gross value added and jobs created, and the role played by London and Partners in their delivery"

Response

In recent months we have been working to improve how we evaluate our impact. We have worked to ensure that our data are both robust and presented in an understandable way which allows the widest number of stakeholders to scrutinise our effectiveness.

The concept of additionality remains central to our evaluation - we survey all the investors we bring into London and ask them what impact we have had on their decision to invest here so that London & Partners' intervention can be quantified.

Our 2016/17 annual review showed that we added £340 million to the London Economy and supported 10,112 jobs.

£340 million represents Gross Value Added (GVA) across all our activities. It is calculated as the impact of our activity – that is, the measurable effect of the output. I attach at **Annex A,** a flow chart which we will shortly publish that summarises how this calculation is made.

To take the example of Foreign Direct Investment (FDI), the economic impact measurement is based on new jobs created, that is, the number of people these businesses expect to employ during their first three years in London. This is converted to GVA by using average GVA per job, which is sourced from the ONS and calculated by GLA Economics.

The resulting GVA estimate is then discounted to reflect investors' over-optimism and to account for displacement when those employed with the new investor have left another London business.

Finally, the additional economic impact – or 'additionality' - is assessed by applying an average percentage factor. This factor is based on previous investors' statements of London & Partners' influence on their decision to invest in London – it is a way of ensuring that we do not over-estimate the impact we have on any project (and therefore activity as a whole). The lower the assessment of London & Partners' impact, the less GVA we claim.

This is a deliberately conservative calculation, and claims only direct benefits, excluding supply chain and other effects.

To break the £340 million figure down further, we attribute £147 million to leisure tourism, £104 million to trade and investment, £40 million to business tourism, £26 million to international students, and £24 million to international events.

I attach at **Annex B** the FDI projects that have contributed to these results. I cannot share identifying details because of client confidentiality, however we have included the project value in GVA and the sector. We also include at Annex B the same information for 2017/18 to support the committee's consideration of London & Partners performance over time.

Spending

Request

"Any documents setting out a breakdown of all spending by London & Partners above £250 in the past five years, including the current financial year, and a detailed description for each item explaining what it was used for."

"Any documents setting out London & Partners' spend on staff salary, marketing/public relations, consultants, temporary staff, social media, communications and entertainment, for the past five years broken down by year."

Response

We are unable to provide spending broken down to each instance over £250 in the past five years. We previously committed to the Assembly that we would publish details of all contracts over £150,000. We have done so here on our website.

Regarding our spend on staff salary, marketing/public relations, consultants, temporary staff, social media, communications and entertainment over the past five years; we do not break down our finances in this way.

However, below is a breakdown of spend using the categories we have in our business plans in the five years to 2017-18. These are aligned to our key audiences and we hope support the Committee in understanding what activity London & Partners has spent its budget on. Salary costs are included within the relevant category. However, a separate breakdown of salary costs is contained in our audited accounts which can be found on our website here.

London and Partners spending by category

Business Line	**17/18 £'000**	**16/17 £'000**	**15/16 £'000**	**14/15 £'000**	**13/14 £'000**	**Totals £'000**
Marketing including Leisure Tourism	6,290	5,703	5,816	5,488	6,071	29,368
Conventions + Congresses	2,399	2,448	2,266	2,052	2,201	11,366
Major Events	761	512	420	468	604	2,764
Trade + Investment	5,290	4,909	3,416	3,183	3,547	20,345
Higher Education	507	440	296	303	373	1,919

Research and Insights	922	941	918	622	555	3,958
Operations	6,101	5,258	4,350	4,254	3,929	23,892
Total Costs	**22,270**	**20,211**	**17,482**	**16,369**	**17,279**	**93,612**

The below notes are intended to further explain these categories.

- **Marketing including Leisure Tourism** includes the costs of all marketing and communications activity across the organisation, including those specifically for leisure tourism which is predominantly made up of campaign activity and our always-on digital activity through the visitlondon.com website and social media.
- **Conventions and Congresses** includes the costs of running the London Convention Bureau and bidding for major conventions and congresses. Conventions are a major source of economic activity, and in 2017/18 accounted for £55 million of L&P's GVA. They are considered to have strong additional longer term benefits by promoting London to international businesses communities in a targeted way.
- **Major Events** includes the costs of bidding for major sporting and cultural events and promoting them to international audiences to enhance London's reputation. In 2017/18 the costs of this activity increased reflecting the impact of some specific events won by London.
- **Trade & Investment** includes the costs of our FDI activity to attract new international companies to establish in London. Since 2015-16, this has included the development of our EU funded programmes to encourage scale-up companies to expand internationally and small and medium sized companies to grow in London. This budget line includes the majority of the costs of our international offices including the opening of new offices which commenced in 2017/18.
- **Research and Insights** includes the costs of primary and secondary research to inform our strategy and activities as well as the evaluation of our programmes. The increase in costs since 2015/16 is due to detailed segmentation research, work on the Tourism Vision and increase in staff in this area. The costs continued at this level in 2016/17 and 2017/18 for the same reasons as well as work in response to the referendum result when detailed information was required.
- **Operations** includes all the costs of running the organisation including rent, rates and service charge of our London and overseas offices; our IT, HR and finance functions as well as the costs of running our commercial operations to generate revenue which is reinvested in the promotion of London. The increase in costs over the last two years is to support the increase in scope within the organisation including additional staff to manage the compliance of EU funded programmes, the costs of new overseas offices, increase in depreciation of capital costs for technology transformation costs and the refurbishment of the London office. 2017/18 also includes marketing strategy consulting, severance costs for restructuring and other change costs in HR. There are also additional staff within our commercial division whose work relates to our Visit London App.

Brexit Assessment

<u>Request</u>

"Any documents setting out London and Partners' assessment of the impact of Brexit since the referendum of 23 June 2016 and the impact on London's economy, and on London & Partners."

<u>Response</u>

London & Partners have referred to both internal and external sources while seeking to understand the implications of Brexit. In general, our own analysis draws similar conclusions to that of other organisations. We attach at **Annex C** a paper which summarises our own analysis of potential Brexit impacts, and in addition summarises wider analysis on the issue.

Board Papers

Request

"Copies of the agendas and minutes for the past five years for the London & Partners Board."

Response

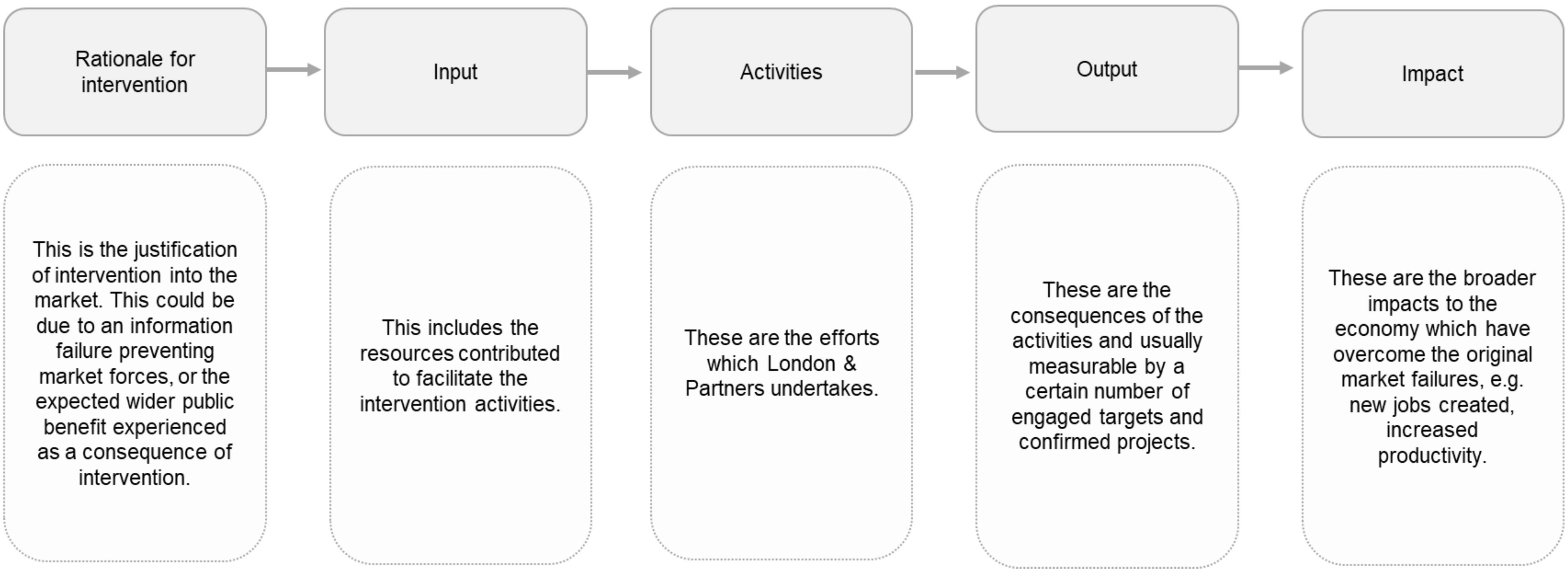
London & Partners is a private non-profit company with commercial interests, as such we are not able to share these documents for reasons of commercial confidentiality and to ensure that the board is able to fully perform its governance role. This is in line with normal practice for company boards. However, you can find published summaries of our Board Minutes since February 2017 here.

Annex A – Calculating GVA

The below charts illustrate the logic of GVA calculation, and provide an applied example.

Impact Evaluation

Logic Chain



Foreign Direct Investment

Example: Contestable FDI client

Rationale for intervention

EdTech company from Canada

- Information failure in Canada
- Positive externalities of FDI (knowledge spill-overs, competition)

Input

- 1 sales manager based in San Francisco
- 1-2 business development managers in London

Activities

- Introduction to potential clients and legal advisors
- Support navigating local business culture
- Commercial property advice

Output

Our impact: additionality question asked

Impact

150 jobs

x

Displacement (79%)

x

3 years **Persistence**

x

Additionality (28%)

£5.8m GVA

Annex B – FDI projects

2016-17	**Total**
ICT (FDI)	£43,115,349
Financial Services (FDI)	£31,298,500
Transport (FDI)	£6,680,625
Creative Industries (FDI)	£4,855,454
Construction (FDI)	£2,696,925
Retail (FDI)	£2,853,518
Business Services (FDI)	£2,428,406
Energy (FDI)	£1,868,010
Food and Drink (FDI)	£1,901,613
Leisure & Entertainment (FDI)	£4,645,200
Life Science & Healthcare (FDI)	£1,938,593
Industrials (FDI)	£2
Public Administration (FDI)	£95,783
2016-17 Total	**£104,377,979**

2017-18	**Total**
ICT (FDI)	£72,189,370
Business Services (FDI)	£19,661,985
Financial Services (FDI)	£18,780,484
Energy (FDI)	£7,908,933
Food and Drink (FDI)	£3,163,107
Creative Industries (FDI)	£1,924,323
Industrials (FDI)	£1,818,506
Leisure & Entertainment (FDI)	£1,209,920
Environmental (FDI)	£1,170,960
Construction (FDI)	£916,900
Transport (FDI)	£742,175
Retail (FDI)	£653,354
Life Science & Healthcare (FDI)	£113,745
Public Administration (FDI)	
2017-18 Total	**£130,253,763**

Annex C – Brexit impact analysis

Brexit & London's Reputation – Summary

September 2018

Summary

Evidence suggests that within the focus areas for London & Partners, namely: inward investment, trade, tourism and higher education, the EU referendum vote has had an impact on London's international reputation, but the city still ranks as one of the most attractive cities across our core target audiences.

This note sets out the current quantitative and qualitative data available to London & Partners in relation to this question.

While business sentiment has taken the largest hit, in large part due to the uncertainty created, the perception of London from the perspective of students and leisure tourists has been limited.

Business Audiences

FDI

Local Business Insights from London & Partners' International Offices

The notes below summarise anecdotal, qualitative sentiment collected from London & Partners international in-market teams.

- Overall, business sentiment has followed the initial readings post-referendum, which saw European markets impacted much more heavily than developed global markets like USA, India and China.
- However, as we head toward March 2019 the need for practical solutions means that the issue is starting to rise in importance for businesses looking to trade or expand overseas. Business tourism is expected to be particularly hit.
- London remains an attractive city to invest with much of the value proposition holding true. However, uncertainty is leading to a softening of the pipeline with businesses either pausing or actively pursuing alternative models (eg. dual-locations).
- Sectors of interest and strength that appear to transcend borders and Brexit include Digitalization, A.I., Fintech, Creative Services, Life Sciences, Blockchain & Cyber-security.
- The call from our offices is for a long term, reassuring narrative about London's global position, with past and current successes and a bold, exciting future.

Specific insights by market

- **France**: Sentiment for London remains strong, given the strong historic links. Discussions focus on practical matters and while emotionally business leaders are seen to be on our side, there is a need for reassurance as the parameters are redefined.

- Paris is working hard to win business from London and improve their position as an entrepreneurial & financial hub. We remain in strong collaboration e.g. on leisure tourism to attract US visitors. Concerns remain about continued access to UK markets.

- **Germany**: Seen to have taken the largest hit in sentiment with uncertainty now moving to pragmatic solutions. Strong belief in the strength of the local economy and that solutions will be found to issues like passporting. Strengths include the UK market & ease of set up; challenges include expense/value.

- **North America**: London remains on the investment shortlist with Brexit not high on the list of concerns at the moment, given more pressing challenges over US relations with China, Europe and Canada. As we head toward March 2019 there is an expectation that interest in the outcome will increase. When mentioned, key concerns are around the financial /value proposition and access to talent.

- **China**: Largely unaffected with London remaining highly regarded, with a strong global position and full of opportunity. Economic growth, rise of tier 2 cities, growth in air connectivity and rise in affluence have all encouraged a more international outlook. There is an opportunity to update perceptions, to blend the old /cultural history with modernity and dynamism.
- European markets are very active in promoting to Chinese investors and tourists, and further competition comes from South East Asia. Sectors of interest include Artificial Intelligence, Clean/Green Tech and investment in Smart, Urban landscapes.

- **India**: A similar status throughout the last two years; Brexit is not proactively mentioned. Businesses are aware but not consumed by it. With India well on track to be one of the largest global economies, our historic connections and general warmth leaves London in a strong global position. Like in China, they see their competition is growing from the East. The challenges when mentioned are around perceptions of difficulties with immigration/ visas.

Other Research

London and Partners Brexit Survey:

- London and Partners has conducted 2 waves of research with London based international companies and businesses considering moving to London since the referendum. The last completed phase was conducted in Aug 2017 (as a '1 year on' research piece) with 212 completed responses. It concluded that:
  - 39% of respondents said that the decision to leave the EU made no difference on their likelihood to invest in London, versus 37% who said it had a negative impact.
  - 56% said that they were delaying their decision to invest in London as a result of the uncertainty.
  - Of 'pipeline' investors (those considering London) - the UK's decision to leave the EU had a negative impact on the likelihood of investing in London for 37% of businesses surveyed.
  - Of those, the majority will be looking at alternative locations in Europe (78%). 33% said that they will be looking at reducing the planned investments in London, as per last year result.

L&P EU Business Sentiment Research

- Research conducted in February 2017 to understand the impact to business of the UK referendum vote to leave the EU in key European markets
- Consisted of 508 online interviews with C-suite business executives in France, Germany, Spain, Ireland & the UK, split across digital, tech & creative, life science, retail, leisure & hospitality & financial services sectors. The sample was equally split between those located in London & those considering London within next 3 – 5 years.
- The research concluded that:
  - 61% overall optimistic about future growth prospects for London
  - When asked how the referendum impacted their view of London as a business destination, 22% were positive, while 28% were negative - meaning half said it made no difference
  - EU business leaders place the UK in their top three most attractive markets for future trade and investment, alongside USA and Germany
  - EU businesses still see London as a global hub (at 64%), tech hub (63%) and financial hub (61%)
  - Majority of EU businesses agree that they would like to see continued or closer collaboration with London businesses.

EY UK Attractiveness Survey 2018

EY's Attractiveness Survey published in June 2018 - showed that:

- UK:
  - Since the 2016 referendum, the UK's attractiveness for FDI has decreased.
  - The latest survey data shows that 36% of respondents thought UK's attractiveness for FDI over the next 3 years will decrease. The resulting net -5% of respondents showing the net decrease in attractiveness is also the lowest result of the survey.
  - Since March 2016, the proportion of investors with a negative view of the UK's medium-term prospects has almost doubled, and the 2018 figure is more than four times higher than the average result from 2010 to 2015.
- London:
  - The survey also showed that London has now dropped below Paris as the most attractive European city in which to locate projects for the first time in the history of the survey.
  - Although London's attractiveness was higher in 2018 compared to 2017 (34% to 32%), Paris' attractiveness increased more strongly from 27% to 37% in the same corresponding period.
  - London's score has now declined sharply from a high of 54% back in 2014.

FDI investment into London from fDi Markets

- Analysis in September 2018 of data published by fDi Markets (part of the Financial Times Ltd) a leading source of data on global FDI flows showed that:
  - London's market share as a percentage of FDI projects coming into Western Europe has decreased from a high of 11.7% in August 2016 to 9% in January 2018, whilst Paris' (the

second largest destination for FDI in Europe) share for the same corresponding period has increased from 4.9% to 6.9%.

Global Financial Centres Index (GFCI 24) – Sept 2018

- London has lost its place as the world's leading financial centre in the latest Global Financial Centres Index report (GFCI 24, Sept 2018) published by Z/Yen.
- London has dropped to 2nd place behind New York (just two points head of London), although both centres fell slightly in the ratings;
- Hong Kong is now only three points behind London
- Of London's European competitor cities - Zurich, Frankfurt, Amsterdam, Vienna, and Milan all moved up the rankings significantly.
- Surprisingly however, despite some evident success in attracting new business, Dublin, Munich, Hamburg, Copenhagen, and Stockholm fell in the rankings.

Reputation Institute – City Reptrak study 2018

- Published by the Reputation Institute, the City RepTrak report was published in August 2018 & is a global survey based on more than 12,000 ratings, collected in the G8 countries, which ranks the world's 56 most reputable cities. It ranks cities by attractiveness to visit and live, whether it has stable and well-developed institutions, and its overall business environment.
- The report indicated that taking in a broad spectrum of factors, London's international reputation has remained consistent since the referendum
- London fluctuated between 11th in the world in 2015, to 22nd in 2016, jumping 6th in 2017 and then 17th in 2018.
- Having reached the top ten in the year after the EU Referendum Vote, as well as ranking relatively highly the next year, indicates Brexit has not diminished the way people view London as a city as a whole.

TRADE

London Chamber of Commerce - Capital 500 survey

- In June 2018, LCCI published its 'Two years on from the EU referendum' report, based upon findings from their quarterly Capital 500 surveys.
- Every quarter since the EU referendum, ComRes has interviewed over 500 London business decision makers on topics including Brexit. In addition, ComRes polled more than 1,000 London business decision makers (excluding sole-traders) in April-June 2017 on behalf of LCCI and London Councils. Key findings included:
- Two of the most substantial drops in Capital 500 figures following the referendum have been in the balance for expected growth of the UK & London economies over the next 12 months. There has also been a substantial decline in the figures for expected profitability and turnover.
- Company prospects have largely remained in negative territory since the first poll after the referendum; every quarter since has seen more or the same proportion of businesses expecting their overall situation to worsen than improve over the next 12 months.
- Expectations for overall employment levels, on balance, have also dropped. This is in line with a marginal dip in businesses' recruitment efforts. In the eight quarters before the referendum, an average of 18% of businesses reported they were trying to recruit, falling to 14% in the eight quarters after.

- The post-referendum decline in investment plans (for both capital investment & training) has been comparatively modest, although figures before the referendum, on average, do continue to be substantially higher than after the referendum.
- Businesses' sales, both domestic and internationally, also dropped after the second quarter of 2016. Domestic sales balance has been positive in only one of the last nine quarters, having previously been positive in the majority of quarters. Export sales have declined but not (yet) turned negative (which may be in part due to favourable exchange rates for exports).

CBI London Business Survey – April 2018

The latest edition of the CBI's London business survey was carried out between Jan-Feb 2018, with 176 responses, many directly from CEOs of leading companies. Key findings included:

- Business optimism is slowly recovering in the capital. Nearly a quarter of firms (22%) feel more optimistic about the economy over the next six months compared with only ten percent in Q3 last year. This is promising and by a small margin, is the fastest rise in optimism since 2015.
- Uncertainty over the UK's future relationship with Europe continues to be the biggest issue for firms (66%). Over a third of firms (35%) report to having a contingency plan in place post Brexit with just over a quarter of firms (26%) planning to produce one in the future.
- The majority (63%) of firms stated they currently have no plans to move any part of their operation abroad, 27% indicated they are now planning to move part of their operations overseas, with a small number (5%) planning on moving all operations abroad.

OCO UK SME Brexit Survey 2018

- Trade & Investment specialists OCO conducted research with 1,002 UK based SMEs (including 299 in London) between May-June 2018. The report concluded that:
    - 53% of companies report having grown their business abroad in the period since the referendum – both by growing business with existing customers and attracting new ones
    - 73% of those companies already operating internationally have made preparations for business post Brexit
    - Companies based in greater London have by far the highest levels of optimism, almost double that of some outlying regions elsewhere in the UK
    - Knowledge intensive sectors where the UK has global strength are amongst the most optimistic of all. The IT/computing sector's positive outlook is double that of the manufacturing sector
    - Despite the optimism shown in many sectors, the majority of companies believe that business practices will become more difficult overall after the UK leaves the EU with difficulties in market access, increases in operating costs and greater tariffs the challenges causing companies the greatest concern. Regulation is the most commonly cited issue spanning all of the business sectors.
    - 2/3 of companies operating internationally are considering establishing additional presence outside of the UK
- Europe remains the market of highest priority, and has seen no greater decline than any other region of the globe. 44% of companies state they are actively considering various markets outside of Europe, with the US the market of most interest.

Students

L&P Student Sentiment Survey:

- Research conducted in Feb-March 2017 with 2,517, online interviews with considerers of international study across eight markets: China, India, Malaysia, United States, France, Germany, Italy and Spain. The survey showed that:
  - 45% of those polled said they weren't more or less likely than in 2016 to study in London.
  - Additionally, 31% said they were more likely to study in London
  - 23% said they were less likely, indicating that the referendum had no influence in choosing London as a place to study.
  - Europeans said that Brexit had a negative impact on considering London as a place to study at a far higher rate than non-EU potential students, at 33% compared to 12%, respectively.

British Council – As Others See Us Research

- Research conducted by the British Council with a weighted sample of 18-34 year olds with a minimum of secondary education across all 19 countries of the G20 with the objective of understanding what contributes to educated Millennials' appraisal of a country's attractiveness.
- Fieldwork was conducted between May-June 2016 (with a final sample size of 20,594) & a second wave in Sept-October 2016 (sample size of 19,010). The report concluded:
  - Brexit has a net negative impact on UK attractiveness in EU countries but more positive impact globally
  - Brexit has a net negative impact on EU countries' trust in the UK Government but more positive impact globally
  - Modest increases in perceptions of global power and a decline in openness
  - High awareness of Referendum, but two in five wrongly say UK is outside of the EU already
  - Brexit has a negative impact in EU likelihood of studying in the UK
  - No change in the UK's overall attractiveness

Red Brick – The Brexit Effect Research

- A survey of 219 international students currently studying in the UK, conducted in November – December 2016. It concluded that:
  - 59% believe that International Students are less welcome in the UK following the Brexit vote
  - 74% believe that graduates from overseas are less welcome to stay in the UK following the Brexit vote
  - 73% believe that the UK will be a less prosperous place to work and study when it leaves the EU. But the majority back the value of a UK degree
  - 64% said Brexit has made the UK less desirable place to study (28% said no impact)

  - 57% say studying in the UK will be more affordable 28% more likely to book more expensive student accommodation and 50% are more likely to pursue further study in the UK when they graduate, all are benefits of a weaker sterling

Hobsons – International Student Study 2017

- The Hobsons' International Student Survey was undertaken with pre-enrolment international students at the beginning of 2017, with responses provided by just under 28,000 prospective international students who were identified to be considering studying in the UK. Globally however they spoke to 62,366 respondents with 196 nationalities represented. The report found that:
    - 68.5% of prospective students say the EU referendum results had little impact on their interest to study in the UK
    - 11% were more inclined to study in the UK as a result of Brexit while almost 13% said it has made them less interested
    - Those students negatively impacted by Brexit, 60% said it was because they now found the UK less welcoming
    - The weakened pound and national welcome campaigns could be responsible for the shift in attitude, according to the survey

Tourism

London & Partners

- Additionally, London & Partners conducted online research consisting of 1,750 interviews (250 interviews each in: UK, USA, China, France, Germany, Spain and Italy) in Sept – Oct 2016, to measure leisure tourism sentiment towards London.
- It showed that Brexit had a positive effect on likelihood of visiting – partly as a result of a drop in exchange rates making London cheaper to visit.
- 60% of respondents said they were more likely to visit, versus 7% saying less likely to visit, with those less likely coming primarily from the EU.
- Only 3% of respondents said they would not visit London as they felt less welcomed as a result of the referendum.

Tourism Sentiment Survey (Visit Britain):

- According to Visit Britain's 2018 survey, which looks at sentiment towards Britain as a whole, but does reflect attitudes towards London (75% of those said London would be their most likely destination within Britain), people are not put off from visiting the UK.
- Overall, the balance of likelihood to visit the UK in 2018 stands at +13%, with the majority, 60%, saying that the referendum results plays no role in their decision to visit Britain.
- There was a minor negative impact on travellers' overall opinion of Britain, but this was primarily driven by EU countries, with some concerned about potential policy changes as a result of Brexit.