



## London's growth deal: focusing on the centre

March 2014

### Introduction

Devolution is increasingly seen as part of the solution for promoting national and local economic growth, by helping places to move more rapidly and certainly towards fulfilling their economic potential. The Government sees cities as the priority for England's future economic development, and has prioritised city devolution for policy action.

Government cities policy has generated a series of policy innovations, including the creation of a Cities Minister post, two waves of City Deals, and the forthcoming Growth Deals across England. Whilst the jury is still out on the long-term impact of City Deals, those agreed in the Core Cities include reforms with potential long-term significance and impact.

For some time now London has been the elephant in the room in the recent devolution debate. Since the late 1990s the capital has become used to leading the way on self-governance, boasting an elected mayor, a city assembly, and an integrated transport authority. As London's arrangements have bedded in, its government at all levels is increasingly keen to progress to the next phase of devolution.

In 2013 the Government issued an explicit invitation for London to submit a Growth Deal proposal, setting a formal process in train.<sup>1</sup> English City Deals are in the process of creating an evolving set of bespoke agreements, devolving limited powers and resources to local authorities and to Local Enterprise Partnerships. The agreements reached with the largest English cities outside London in particular have set a precedent for future devolution in the capital. However, London needs the opportunity to make bespoke proposals for the next phase of devolution.

The London Finance Commission report added intellectual and policy weight in 2013 with proposals to tackle the capital's relative lack of financial autonomy. It identified a need for a new phase of reform to introduce fiscal devolution for London, building on progress made through the establishment of the GLA and an elected mayor, including tax-raising powers for the Mayor of London. The report asserts that London's city government "could readily wield more power and fiscal autonomy, and that this is required to allow the city to provide for a rapidly growing population".

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1. HM Government (2013) *Growth Deals: Initial Guidance for Local Enterprise Partnerships* London: HM Government

London has the strongest city economy in the UK, and the strongest growth record of recent times. It is in an unparalleled position to commit to ambitious targets as the basis for a devolution deal, offering the Government improved economic performance, a greater contribution to the national economy, and reduced demands on central revenues. In return, it would need a different type of Deal to those offered to date, reflecting the complex challenges created by growth and economic success.

This paper sets the context for London's Growth Deal by analysing the London economy; placing central London in the context of the wider city region and the national economy; and suggesting priorities for devolving policy levers and resources to London-level.

## Importance of central London

**There is a strong case for central London to be the focus of the London Growth Deal in order for the central London local authorities and the GLA to respond to the unique pressures and opportunities at the heart of the Capital.** These local authorities have the most in common of all London sub-regional groupings, and the strongest motivation to present a distinctive case to the Government for greater control of their own economies.

Central London is the focus of much of London's economic activity and dynamism. For example:

- Central London authorities house 44 per cent of London's jobs,<sup>2</sup> more than one million in 2011.
- London's businesses are located predominantly in the centre. For example, in 2010 the City of London housed an average of 26 small firms in every parcel of land the size of a football pitch.<sup>3</sup>
- The largest concentration of businesses in Britain is in the West End of London.<sup>4</sup>
- London's visitor economy, focused on central London, makes it the world's most popular tourist destination.
- London's Central Activities Zone (CAZ) is the largest retail location in the UK.
- Visitor numbers in 2011 were 30 million, and the tourism sector employed 14 per cent of the London workforce.<sup>5</sup>
- Central London's economy is knowledge intensive and diverse. Five growth sectors - financial services, professional services, business administration, arts and culture, and wholesale and retail business - are all concentrated within the London CAZ.<sup>6</sup>
- The largest number of start-ups firms in the capital are found in central London, despite higher costs which might be expected to reduce their numbers.<sup>7</sup>
- Jobs are increasingly concentrating into central London more than twice as fast as the average for other large UK cities.<sup>8</sup>
- Central London has a very high concentration of private sector services employment, accounting for 71 per cent of jobs in 2013, in comparison to contributions in Greater London and UK of 63 per cent and 51 per cent respectively.<sup>9</sup>
- Central London's total employment in 2013 was 2.4 million, which represents 45 per cent of Greater London's workers and 7 per cent of the UK total.<sup>10</sup>
- On average, central London's workers are more productive than those in Greater London and the rest of the UK. GVA per worker averaged £71,500 in 2013 measured in 2010 prices, 70 per cent higher than the national average.<sup>11</sup>

2. Central London Forward (2011) *Central London Economic Assessment* London: Central London Forward

3. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities

4. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

5. Mayor of London (2011) *The London Plan*, London: GLA

6. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

7. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

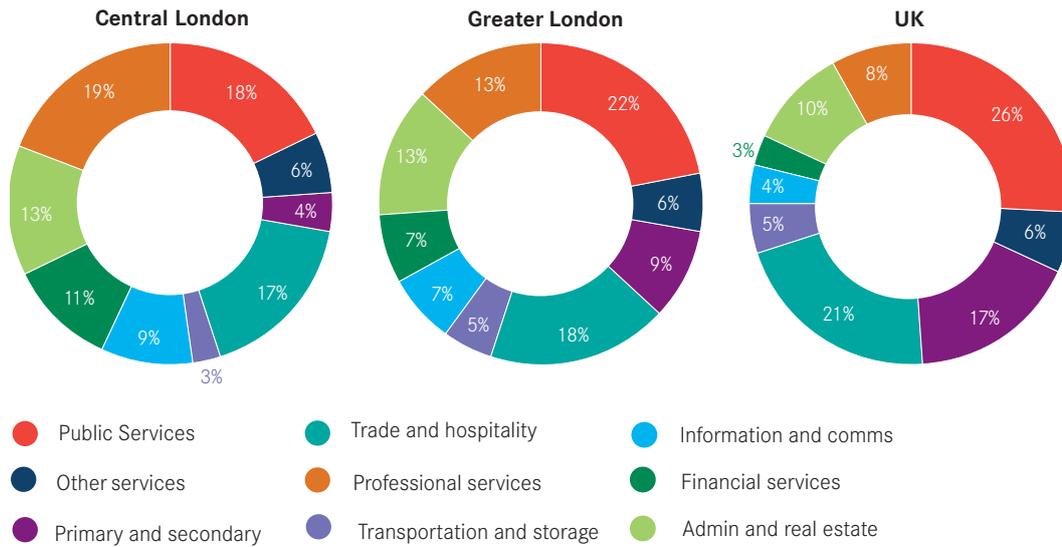
8. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities

9. Briefing on Central London Economy, Oxford Economics (2014)

10. Briefing on Central London Economy, Oxford Economics (2014)

11. Briefing on Central London Economy, Oxford Economics (2014)

**Figure 1: Employment Structure, 2013**



Source: Oxford Economics

The future growth and economic success of London requires central London to be successful. However, the pressures of success are also clear in central London. Increasing numbers of residents, commuters, businesses and visitors place growing pressure on capacity, from school places and public transport to pavements, while the costs of managing a night-time economy are greater than in any other UK city. Responding to these challenges is likely to deliver significant rewards. If London can better control the levers needed to support its growth this will benefit not only the Capital but the whole of the UK.

However, it is important to note that central London's or indeed Greater London's economic and governance challenges are not confined within the limits of the GLA boundary. The reach of the London economy goes far beyond any reasonable expectation of London governance and, more immediately, the area of built-up London and the London travel-to-work area stretch way beyond the GLA's control.

The Growth Deal for London needs not only to address the optimum scale for collaboration among boroughs and with the GLA, but look closely at mechanisms and incentives for collaboration with surrounding Local Enterprise Partnerships (LEPs) and local authorities both within and beyond the M25. Bodies such as the Coast to Capital LEP and the London-Stansted Corridor Consortium reflect the economic relationships that tie London to its economic hinterland, and this requires decisions on growth drivers such as housing, skills and transport to be made in partnership with places that supply and house much of the London workforce.

### Challenges and potential responses

Despite three decades of success, London's role as the main driver of the UK economy should not be taken for granted. Economic growth has brought new pressures to bear on the capital's workforce and its infrastructure. Just as the size and nature of the London economy is unique within the UK, and globally is only found among elite cities, the demands the city has to deal with are also on a different scale to other UK cities. Its population growth is bringing with it a wave of fresh challenges specific to London. The recently predicted shortfall in primary school places of 118,000 by 2016 indicates the scale of these pressures as they begin to work their way through the system.

The rewards for successfully tackling these major challenges are potentially very high. It is essential that London, and particularly the centre of the city where such a large proportion of jobs are based, continues to function well and to improve, physically, socially and environmentally.

Three areas in particular are priorities for London policymakers, representing particularly urgent challenges for the capital. They are also policy areas where the devolution process so far has paved the way for London to make specific proposals to government, developing approaches either already agreed or likely to be agreed with other UK cities.

## 1) London's housing

### **Challenge**

The supply of houses, for sale and for rent, is falling well short of the demand for new homes. The pressure on housing in London is very widely known and discussed. Average house prices in the capital have risen 20 per cent since the recession, against the national trend, indicating the scale of the affordability problem the capital is facing.

On average a house in London costs 12 times the average income, and London is not building anywhere near enough new houses for its rapidly growing population. While house prices go up, reforms such as the Affordable Rent model have the potential to reduce the ability of many to live in large parts of London. Those in work are also under pressure, with 19 per cent of working adults in London still in poverty.<sup>12</sup>

London faces a number of development challenges, including maintaining the success of the commercial core while spreading the load to other parts of the capital, but finding new ways to build the houses London needs is a pressing issue for all London boroughs. Housing is a core driver of economic growth, and the London housing crisis has the potential to choke further growth by pricing out both a significant proportion of the existing workforce and reducing future immigration and population growth.

### **Response**

London's need for housing is urgent, and requires measures that will remove barriers to development; deliver a more effective planning service to those wanting to build; free up sites for building; and coordinate London's financial strengths to focus directly on the problem. Measures for consideration as part of a devolution offer could include:

- Removing restrictions on councils' ability to borrow money against their existing housing assets to allow them to invest in new housing, and to align the housing borrowing cap with the Treasury's 'normal' prudential borrowing rules;
- Removing the need to obtain permission from the Secretary of State in order to borrow against the Community Infrastructure Levy, allowing greater forward funding of infrastructure needed to enable development;
- Allowing London Boroughs to decide whether to charge for planning and development related services, and how much, so they can recover costs, fund the resources needed to work on large developments, and provide businesses with a better planning service;
- Creating new partnerships with statutory agencies and consultees (for example English Heritage, the Environment Agency, Natural England and Sport England) taking account of growth strategies and priorities for an area as part of their advice, and offering 'fast-track' response targets to speed up major planning applications;
- Exempting central London boroughs from the newly relaxed regulations on change of use from commercial to residential, to prevent their particularly high residential property values from permanently undermining commercial capacity at the heart of the national economy;
- Supporting the GLA and boroughs to bring institutional investment into the private rented sector, helping to increase its size to meet demand;
- Implementing the Montague Report recommendations<sup>13</sup> on allowing covenants requiring new housing to be rented on a long-term basis, tackling land speculation and creating long-term stakes in places for investors.

12. Trust for London - <http://www.londonspovertyprofile.org.uk> Accessed 18 November 2013

13. Department for Communities and Local Government (2012) *Review of the barriers to institutional investment in private rented homes*, London: DCLG

## 2) London's jobs and skills

### **Challenge**

Across a whole host of economic indicators London has outstripped every other city in the UK over the past two decades. But, despite having the most successful regional economy in the UK, London's unemployment rate has been consistently higher than the national average for the last 20 years.

This long-term problem is driven by London's very competitive labour market and by the mismatches between the skills of many Londoners and the kinds of jobs available. Filling positions in London is easier than anywhere else in Britain, as employers are able to recruit from a global labour market. This means that jobs created in Islington, for example, do not necessarily go to Islington residents and are even less likely to do so if they require specialist skills which few unemployed residents possess.

Given the increase in the number of knowledge economy jobs is likely to continue, much more needs to be done to make sure that Londoners are equipped with the skills they will need to compete and access jobs in the growth sectors of the future, from e-business to developing technologies.

At the same time, continued population growth will further increase already high demand for housing, transport and other services. As public sector budgets to fund each of these continue to be squeezed, it seems inevitable that the cost to users will increase at a time when state support for low paid individuals is also being cut. This could have the impact of pricing out significant numbers of people from accessing job opportunities across the capital.

### **Response**

The coordination of nationally delivered skills and employment services at local level to improve their impact has been a theme of City Deals, and has been highlighted as a component of Growth Deals. Skills needs differ between areas of London, and the city would benefit from greater powers and resources to shape skills policies to meet the specific challenges in each place.

The London government and boroughs believe a locally coordinated approach will help to tackle long-term unemployment issues. The following measures could be included in a devolution offer:

- A new approach to skills funding to give the GLA and the boroughs more responsibility for coordinating spending across departmental funding streams, enabling them to link education, employment and welfare, and the ability to benefit from improved results achieved through local spending co-ordination and decision-making;
- Budgets for local skills support to be held by London authorities and sub-regions to be spent according to locally agreed priorities;
- Allowing London to incentivise skills provision by paying skills providers according to local need for courses;
- Greater coordination between London boroughs and Work Programme providers, to ensure alignment between local employment support programmes and other unemployment;
- Access to data on a London wide basis on employment needs and outcomes, to be shared among boroughs and with the Work Programme and JobCentre Plus (JCP);
- The creation of a formal partnership between the boroughs and JCP to better coordinate between JCP, employers and Further Education providers;
- Vocational skills budgets for 16-19 year olds and 19-plus to provide incentives for local providers to deliver training matching the needs of local employers;
- Devolve a proportion of the national skills budget to fund support for on the job training and for continued professional development, and city work experience funds to give young people access to placements in businesses across the city.

### 3) London's transport

#### **Challenge**

The 2011 Census population figures took the capital's transport planners by surprise. Much of Transport for London (TfL's) plans had been based on pre-Census estimates putting the Greater London population at 7.83 million people. The Census showed that this figure was in fact 280,000 people short of the real population of 8.11 million. These new numbers came on top of a 40 per cent growth in tube journeys since 1997, and a 14 per cent rise since 2007 alone. Various projections now expect the population to increase by a further 1 million over the next 20 years, meaning that demand will reach the levels seen during the 2012 Olympics every day of the working week.

TfL anticipates increasing rush-hour overcrowding on many central London underground and overground routes. Major infrastructure projects, such as Crossrail which will add 10 per cent capacity to the network, are expected to become immediately full on opening, as their extra capacity will be taken up by increased demand. Even the newest routes are struggling to cope with existing demand. Passenger numbers on the new London Overground service have increased by 150 per cent since it opened in 2011, with TfL having to bring its plans for longer trains forward in order to cope.

Public transport in London carries a much greater proportion of travel journeys than anywhere else in the UK and is essential to the functioning of the city's economy. But the size and complexity of the system means that the cost of maintenance and expansion continue to increase. It is clear that new approaches will be needed to future transport funding, and to the way that London addresses and manages transport demand, if this challenge is to be brought under control and London's needs met without taking the lion's share of the national transport budget.

#### **Response**

Transport investment and management at the right scale for London, reflecting the city's priorities, is essential to future growth. Transport funding in London requires a new approach, so the principle devolution asks from London should centre on the London Finance Commission's proposals for fiscal devolution, which would allow London to plan for and pay for its transport needs over a much longer window than the current brief funding period granted by the Government.

In addition the following measures could form part of a London devolution offer:

- The further integration of the GLA's transport, housing and land strategies to plan development more effectively;
- The devolution of some transport commissioning powers to boroughs, for example to unlock development;
- A role for the London government in deciding future rail franchises with national government. This would enable franchises to be specified, awarded and managed to help achieve growth and job outcomes;
- Introduce more formal collaboration between the GLA, boroughs and surrounding local authorities within the London travel-to-work area to plan jointly and strategically for future transport needs. The concept of the "Mayor's Wider London Boundary" (part of the case for TfL control of suburban rail franchises in the Mayor's Rail Vision) reflects how the mismatch between administrative boundaries and economic reality in London undermines transport planning.

## Governance

There is a clear appetite in London to develop new approaches to economic governance, and new partnerships through which parties with a shared interest in a particular area of London can work together. Sub-regional geographies are already developing, with business and local government groups working together across a number of sub-regional segments of the capital.

The governance requirements developed by the Government for City Deals and Single Local Growth Fund are based on the functional economic area as the optimum unit for managing policy intended to deliver local growth and investment. While London's own economic governance questions are particular to the city, the need for collaboration across local authority boundaries at a scale designed to effectively influence the local economy is highly relevant. The West End Commission's Final Report highlighted the problems caused by fragmented governance which breaks the centre of London, including the West End, into areas run by separate boroughs. It identifies this as the West End's greatest single challenge, and suggests that the solution lies in a devolution settlement for London. Any agreement would need to allow groups of boroughs to reach joint agreements with the Mayor on local investment and planning.

Existing sub-regional groups have not coalesced under the London LEP, in general because the LEP model was not designed with London in mind. London's own smaller groupings make more economic sense across such a large city than a single, central body, with less capacity to represent high concentrations of people and businesses. However, the Single Local Growth Fund does require governance arrangements that allow collaboration at functional economic scale.

Putative economic geographies need to be resolved as rapidly as possible to allow London to formalise its own solution to economic governance, matching other UK cities which are establishing new city region governance and combined authority arrangements.

It is important that the central London authorities play a role in agreeing these arrangements alongside the Mayor and the GLA. It is also essential that the Mayor recognises the need to instigate a new phase of devolution in London, and seizes the opportunity to actively champion the London Growth Deal proposal at the highest levels of government.

A London Growth Deal provides an important opportunity to establish long-term, sub-regional economic partnerships that are not constrained by local authority boundaries. There is no shortage of willingness among local government, business and third sector organisations in London to form the type of partnership that, in other parts of the country, has proved difficult to set up. Some existing sub-regional groupings, such as Central London Forward and West London, are more mature than others, and in a position to lead the way for London. To this end the London LEP should complement and work with these established sub-regions to design and deliver the London Growth Deal implementation plan.

## Summary

The scale and performance of London and its surrounding area mean that its growth needs and challenges are different to any of the UK's other cities. A detailed analysis of the characteristics of the London economy demonstrates its scale and reach. It also shows the extent to which central London is the wider city's engine of economic growth, with its businesses faring well in comparison to the rest of the country both before and after the recession. The vibrancy and dominance of the London economy is the basis of any case for greater autonomy. Greater control over growth decisions and investment would benefit both London and the UK if it helps the city receive the investment it needs to maximise its growth prospects and make a vital contribution to national economic growth, beyond its administrative boundaries and across the South East.

## Appendix: Analysing the London Economy

### Economic geography

The nature of the London economy can be assessed at a number of different scales. Each scale has different economic characteristics, and together they form a series of geographies which require their particular types of economic decision-making. central London, including the Central Activities Zone (CAZ). The 14 most central boroughs cover the former London County Council area - see map below. Eight authorities - Camden, the City of London, Islington, Kensington and Chelsea, Lambeth, Southwark, Wandsworth and the City of Westminster - are members of the Central London Forward partnership.

**Figure 2: The central London boroughs**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013

The Greater London Authority's remit and its boundaries encompass the whole of a much larger area consisting of 33 boroughs. However, London's economic footprint extends significantly beyond the reach of its governance arrangements. London's orbital motorway, the M25, is the boundary of a larger area than the GLA, while the continuous built-up area of the city - known as the Primary Urban Area (PUA), a definition created by the Department for Communities and Local Government - is larger again, extending to 46 local authority districts

The London travel to work area covers a slightly different group of authorities, also extending well beyond the GLA boundaries. However, the reach of the London economy is wider still, and is generally acknowledged to influence the whole of the South East to varying degrees, an area more than one hundred miles across, including cities as far away as Norwich and Southampton.

### Population

London's population is on a different scale to anywhere else in the UK, measuring at 8.11 million people in 2011. This figure is many times larger than the next biggest UK conurbation, Birmingham, which has a population of 2.26 million.<sup>14</sup>

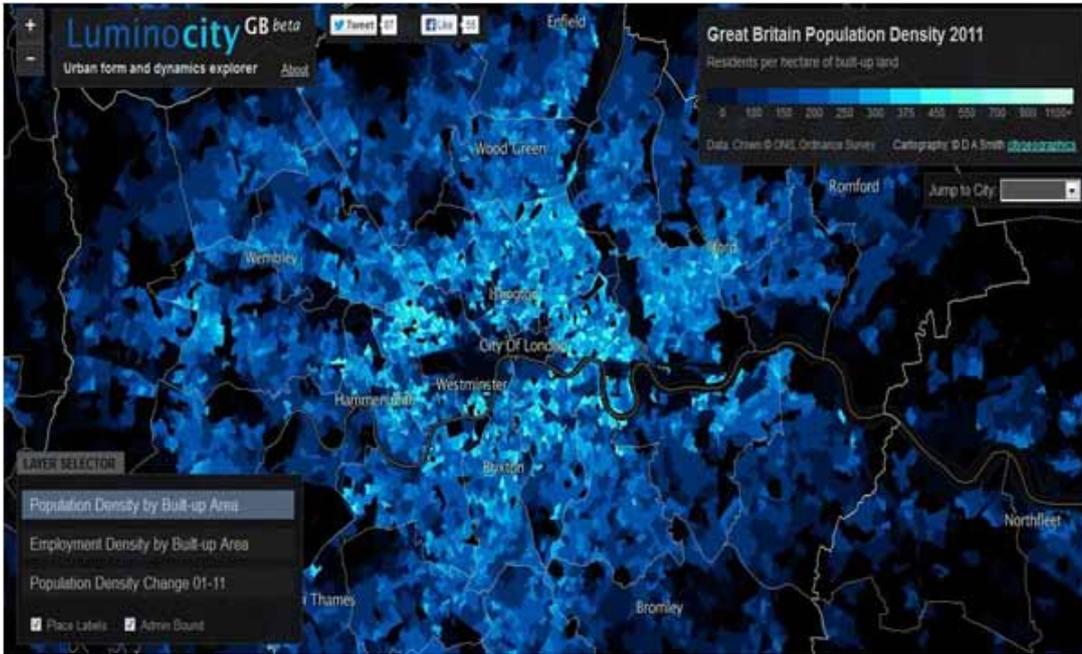
London's population is projected by the Greater London Authority (GLA) to rise to 8.7 million by 2016, and 10 million by 2030.<sup>15</sup> The large majority of London residents, 82 per cent, live outside central London.<sup>16</sup> As the map below shows, London's population is at its densest in the Central London boroughs, particularly in those areas surrounding the CAZ.

14. Centre for Cities (2013) *Cities Outlook 2013* London: Centre for Cities

15. Mayor of London (2011) *The London Plan*, London: GLA

16. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

**Figure 3: Population Density in Greater London by Ward, 2011**



Map copyright luminocitymap.org

London's fast-growing population, which began to recover from a long post-war slump in the 1990s, will soon pass its previous peak of 8.6 million reached in 1939. This population recovery has been driven particularly by population growth in the centre. As the map below shows, this trend continued during the 2000s with the fastest growing areas found predominantly in the central London ring around the CAZ.

The daytime population of central London boroughs is significantly higher than its resident population. These boroughs import significant numbers of workers daily – see below. The following map shows, public transport accessibility reflects the economic focus of the city on central London.

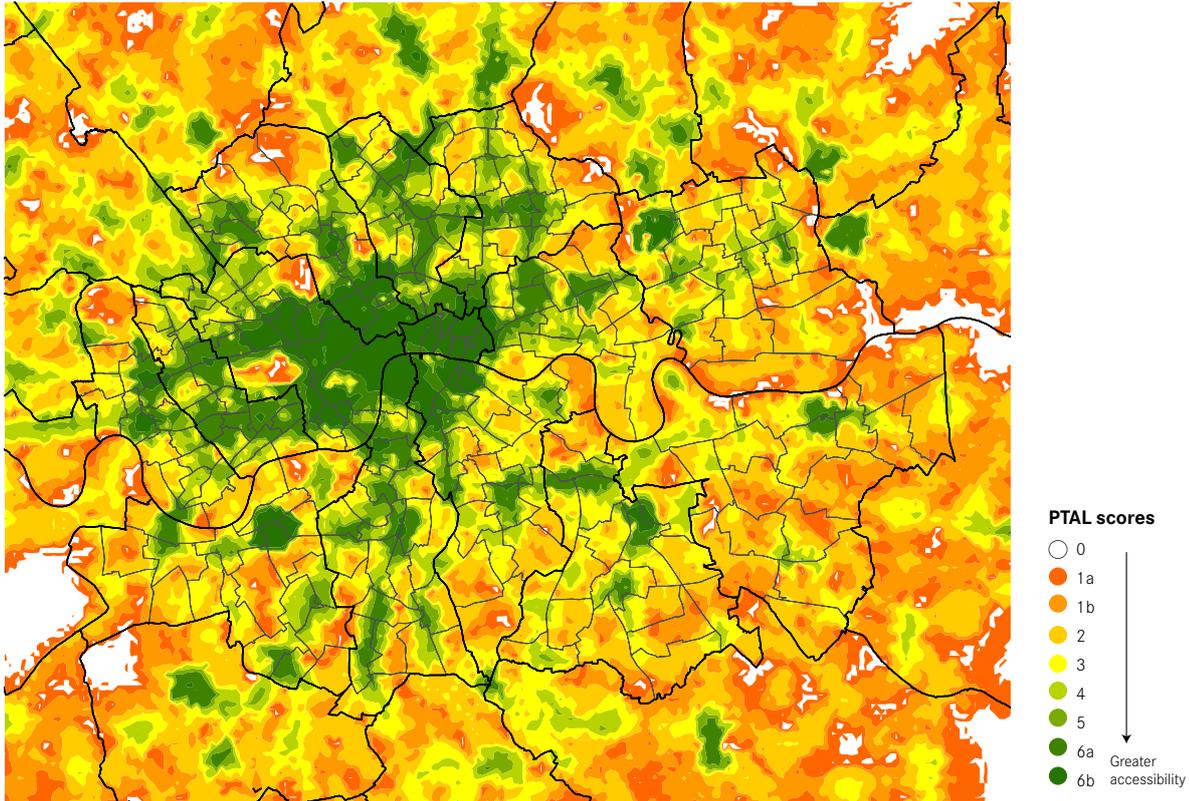
**Figure 5: Net inflow/outflow of population to London boroughs during the day<sup>17</sup>**



Sources: NOMIS 2012, 2011 Census, resident base; London Data Store 2012, Daytime population 2011, borough level; NOMIS 2012, Business Register and Employment Survey (BRES), New Private Sector BRES, employment status, 2010-11 data and Annual Business Inquiry (ABI), workplace analysis, 1998-2008 data; NOMIS 2012, Business Register and Employment Survey (BRES), 2011 data.

17. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

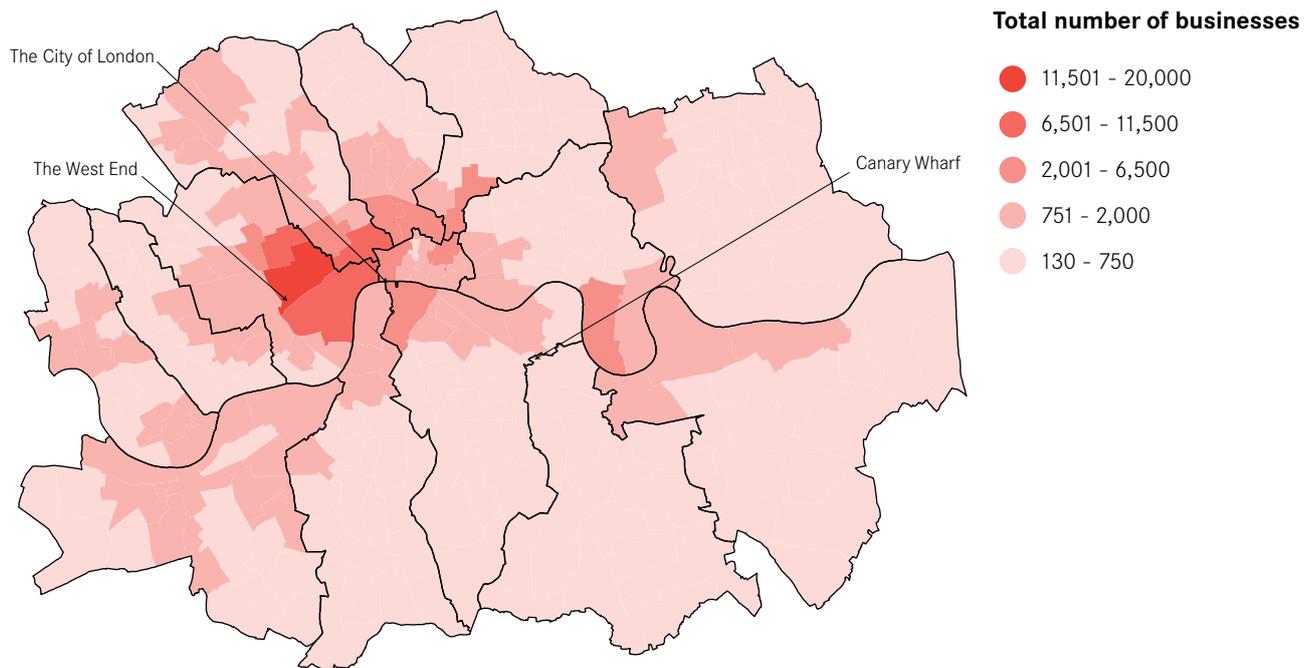
**Figure 6: Public transport accessibility in central London<sup>18</sup>**



**Employment and productivity**

The central London boroughs are home to 44 per cent of London jobs.<sup>19</sup> Businesses are located predominantly in central London – see map below.

**Figure 7: Business location in central London<sup>20</sup>**



Source: ONS, Contains Ordnance Survey data © Crown copyright and database right 2013.

18. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

19. Central London Forward (2011) *Central London Economic Assessment* London: Central London Forward

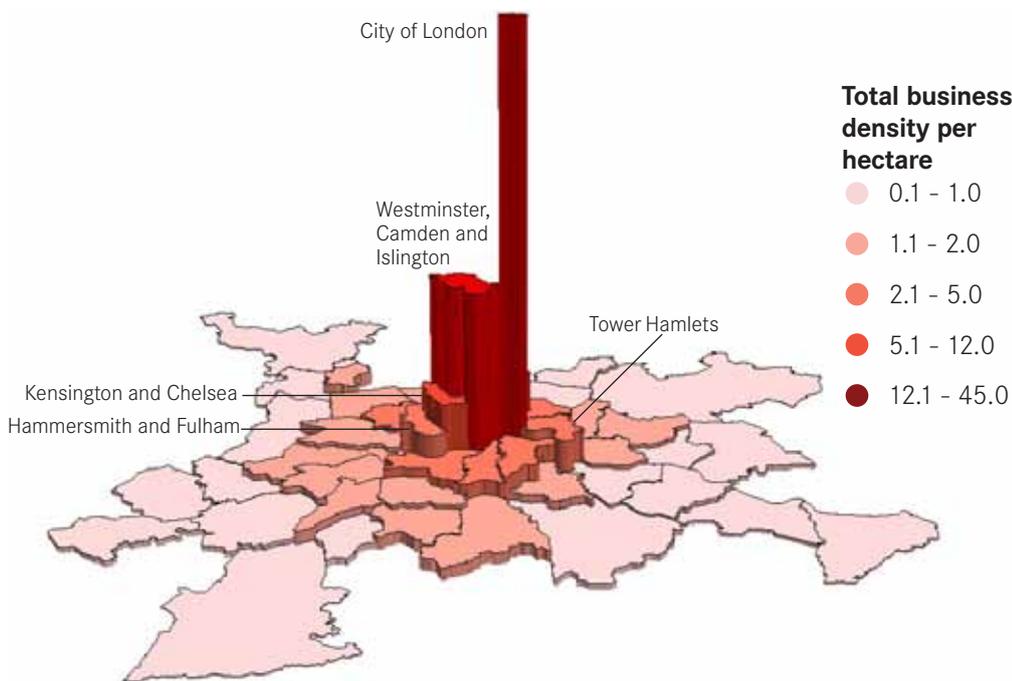
20. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

The sustained growth in the central London population has been fuelled by the jobs being created in the capital – 427,000 between 2003 and 2011 – and the average wage in the city, which is 30 per cent higher than in the rest of the UK. Between 2007 and 2011, despite the global economic crisis, London's GVA per head grew by 5.6 per cent.<sup>21</sup>

In the decade leading up to the financial crisis of 2008, for every new private sector job created in the North and Midlands, 10 were created in London and the South. London alone saw the creation of 320,000 new private sector jobs during this period, around 290,000 more than any other UK city, highlighting its critical role in the national economy. London's GVA grew by 12.4 per cent between 2007 and 2011, nearly double the next best performing region.

London's exceptional performance in creating jobs depends on central London, as the map below demonstrates. Business density is highest in central London and in 2010 the City of London housed an average of 26 small firms in a parcel of land the size of a football pitch. By comparison in Barking and Dagenham the same area of land housed less than one small firm on average.<sup>22</sup>

**Figure 8: Business density in Greater London by borough, 2010**<sup>23</sup>



Source: Contains Ordnance Survey data © Crown copyright and database right 2012, TBR Observatories, 2010 data and Census 2001 data

### Jobs in central London

Central London is home in 2011 to nearly 1.5 million jobs and dominates the economy of the capital. The table below shows the extent to which central London outperforms other UK cities in terms of absolute job numbers, with 10 times as many jobs in the centre as the next city, Glasgow.

London's jobs are also focused in the CAZ, as the maps below show. Private sector employment is concentrated in the centre, but particularly in the West End, City and its fringes and Canary Wharf.

The economic significance of central London increased before the recession, growing from 28 per cent to 33 per cent between 1998 and 2008. As the table below shows,<sup>24</sup> this 4 per cent increase in the share of jobs in the centre was well above the average increase for other large UK cities or for medium and small cities, both of which saw a decrease on average.

21. Central London Forward (2011) *Central London Economic Assessment* London: Central London Forward  
 22. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities  
 23. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities  
 24. Swinney, P. and Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities

**Figure 9: Jobs within central areas of UK cities, 2011<sup>25</sup>****Top 5 for total jobs**

	City	Number of jobs, 2011
1	London	1,444,228
2	Glasgow	140,928
3	Leeds	115,821
4	Manchester	115,388
5	Birmingham	111,719

Source: ONS 2013, Business Structure Database

**Figure 10: Centralisation of private sector jobs according to city size, 1998-2008<sup>26</sup>**

City Group	Percentage point change in share of private sector jobs in central areas
London	4.0
Large	1.8
Medium	-0.6
Small	-3.1

Source: ONS 2013, Business Structure Database

This trend continued during the recession, with London maintaining a higher level of centralisation than the average for other UK cities – see below. The centre of London is playing an ever-increasing role in driving the city's economy.

**Figure 11: Centralisation of private sector jobs according to city size, 2008-2011<sup>27</sup>**

City Group	Percentage point change in share of private sector jobs in central areas
London	1.4
Large	0.0
Medium	-0.6
Small	-0.9

Source: ONS 2013, Business Structure Database

Centre for Cities research has analysed the location of businesses in central London to understand the business demographics at the heart of the city.<sup>28</sup> Many more businesses are based in central London than in any other part of London, and the CAZ is the city's employment sector. The largest single concentration of businesses is in the West End, which includes the West End Ward itself, St. James' Ward (Mayfair and Soho) and Covent Garden and Holborn Wards. There is also, of course, a very large number of businesses in the City of London.

**Businesses by sector**

London's main specialisation is in financial and business services, which provided 34.7 per cent of jobs across Greater London in 2008. Two other sectors also play particularly significant roles in the capital's economy: public administration, health and education, which provide 22.2 per cent of jobs, and distribution, retail, hotels and restaurants which provide a further 21 per cent.<sup>29</sup> Employment as a whole is private sector-dominated, putting London in an advantageous position for growing its business base.

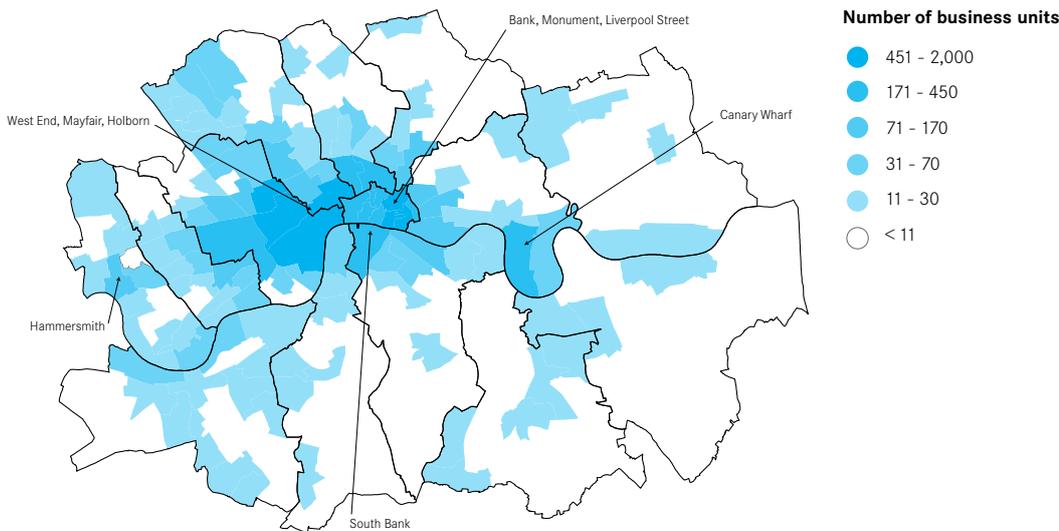
25. Swinney, P. and Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities26. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities27. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities28. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities29. Central London Forward (2011) *Central London Economic Assessment* London: Central London Forward

London's strongest sectors are also responsible for a significant proportion of the UK's employment with, in 2008, 31 per cent of the country's financial and insurance jobs, 29 per cent of its information and communication jobs, 26 per cent of its professional, scientific and technical jobs, 21 per cent of its real estate jobs, and 20 per cent of its administration and support services jobs.<sup>30</sup>

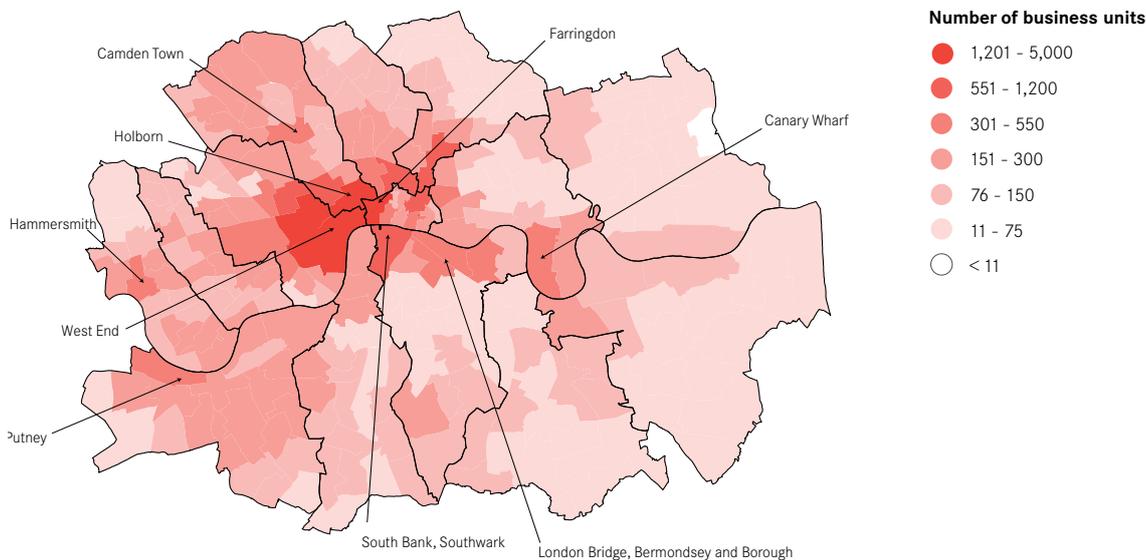
A breakdown of the total London business base by a wider group of five key sectors further reinforces the dominant role played by central London in the capital's economy. Financial services, professional services, business administration, arts and culture, and wholesale and retail business have their individual patterns of distribution but, as the maps below show, they are all concentrated within the London CAZ.

**Figure 12: Concentration of London business base by sector<sup>31</sup>**

**Financial services businesses**



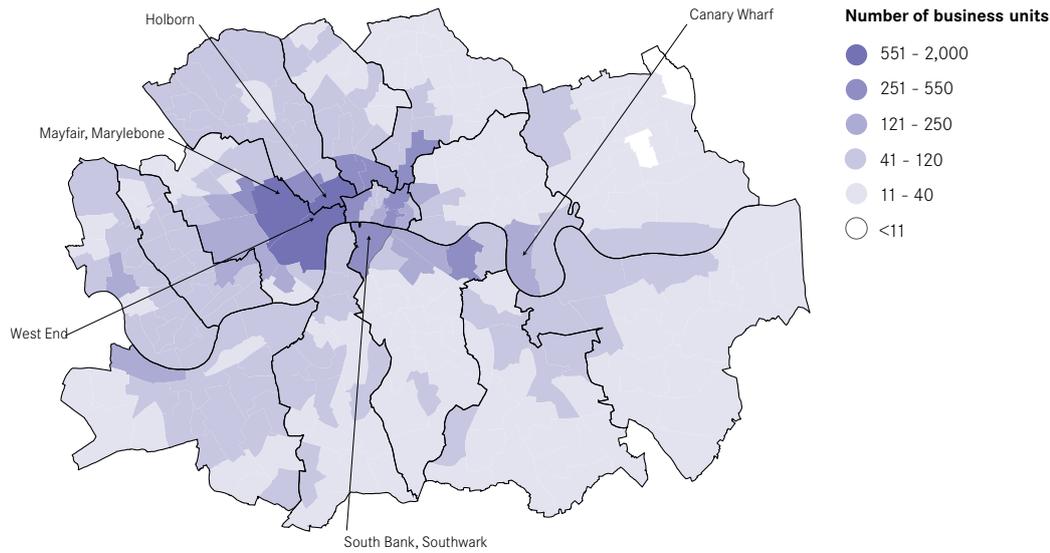
**Professional services business**



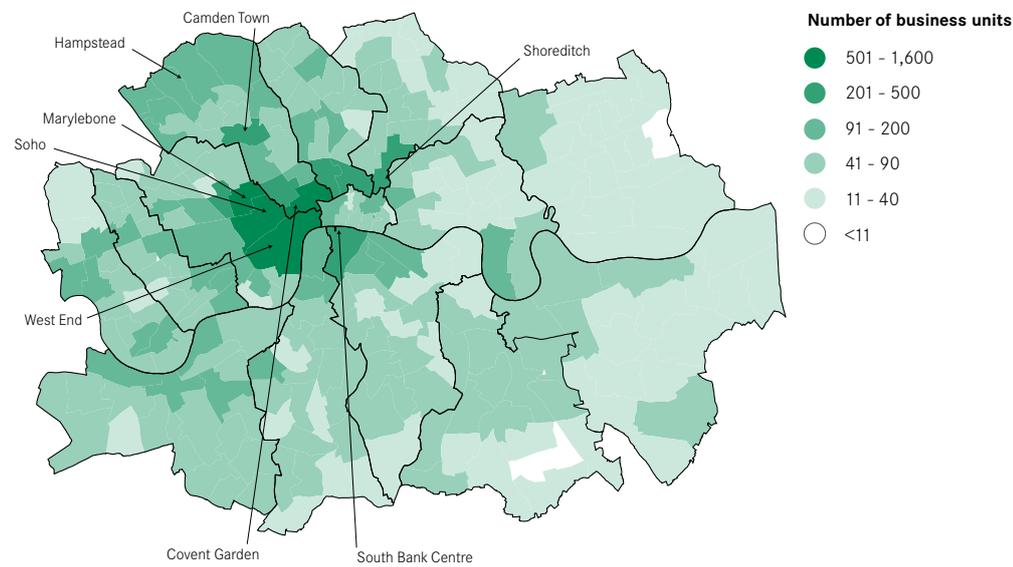
30. Central London Forward (2011) *Central London Economic Assessment* London: Central London Forward

31. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

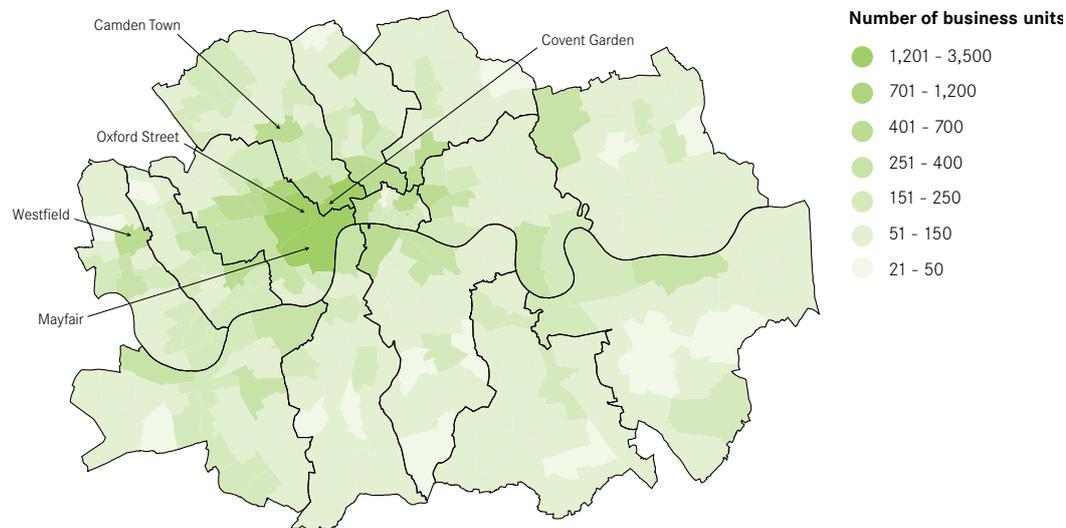
### Business administration businesses



### Arts, culture and other services businesses



### Wholesale and retail business



Source: ONS, Contains Ordnance Survey data © Crown copyright and database right 2013

The central London economy is predominantly based on Knowledge Intensive Business Services (KIBS), which account for 50 per cent of London's jobs.<sup>32</sup> As the table below shows, the density of private sector and KIBS jobs in central London is on a unique scale among UK cities.

**Figure 13: Density of private sector and KIBS jobs in UK city centres 2011 (jobs per hectare)<sup>33</sup>**

City Group	Density of private sector jobs in city centres (jobs per hectare), 2011	Density of KIBS jobs in city centres, 2011
London	379.8	193.5
Large	134.2	63.5
Medium	82.3	28.0
Small	61.0	19.5

Source: ONS 2013, Business Structure Database

These firms are attracted to locate among the UK's largest agglomeration of businesses.

London is also home to a visitor economy which is unique to the city, making it the world's most popular tourist destination, and its CAZ is the largest retail location in the UK. Visitor numbers in 2011 were 30 million, and the sector employed 14 percent of the London workforce.<sup>34</sup>

In contrast to Outer London town centres, the decline of which was highlighted earlier this year in a GLA report,<sup>35</sup> central London's retail and leisure economy is exceptionally strong. It is boosted not only by visitors to the capital, but by the footfall created by the large numbers of workers who commute to jobs in the centre every day. While this takes people away from businesses located in Outer London, it gives central London a huge market for its retail, leisure and entertainment businesses. The table below shows both the number of people working in central London, and the number not working but living within a mile of the centre. The size of the market available to businesses in central London dwarfs that of any other English city.

**Figure 14: Average contributors to footfall across cities by size, 2011<sup>36</sup>**

City Group	Non-working population within walking distance of the central area of a city	All jobs within the central area of a city
London	308,308	1,444,771
Large	68,686	88,955
Medium	33,467	22,010
Small	25,608	18,199

Source: ONS 2013, Business Structure Database; ONS 2013, Census 2011

Note: Walking distance is assumed to be one mile further from the defined boundary of the central area of a city. One mile was chosen after discussions with retail consultants. Scottish cities are excluded from this table as census output area population data by economic activity has not yet been released

## Business growth

The centre of London has continued to drive business growth since the recession, demonstrating its attraction to a wider range of employers than the financial services with which it has been most closely associated. Between 2008 and 2011 the City of London was the main driver of growth within central London. Both the employment and the business base of the City grew by 13.5 per cent despite weak national performance over the same period. Southwark enjoyed business base growth of over 5 per cent, most of which occurred in the wards neighbouring the City of London. Newham and Tower Hamlets also performed strongly. The ward with the

32. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities

33. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities

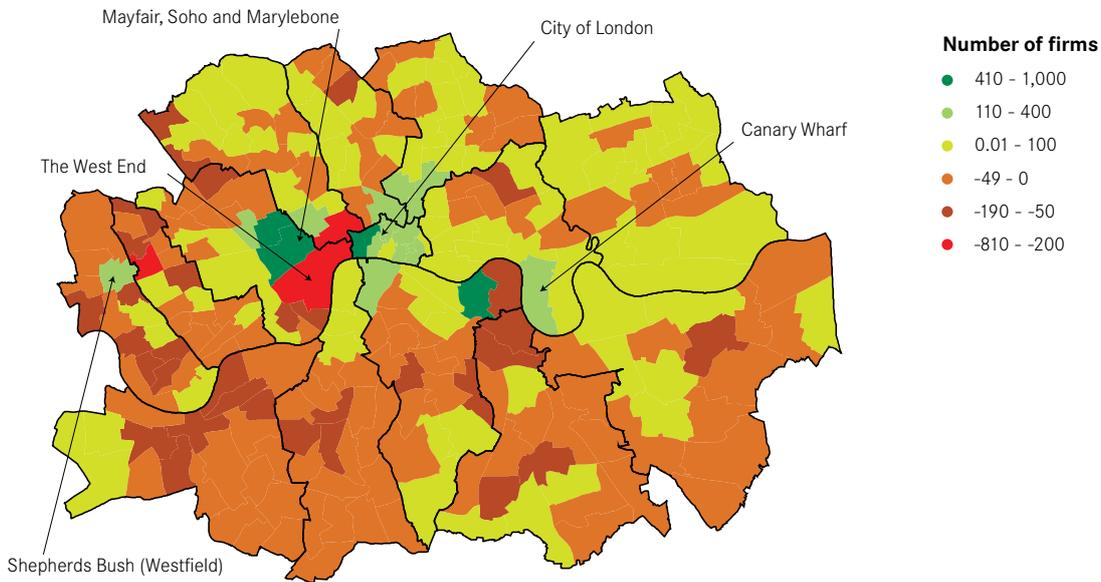
34. Mayor of London (2011) *The London Plan*, London: GLA

35. London Assembly Economy Committee (2013) *Open for Business – Empty Shops on London's High Streets*, London: Greater London Authority

36. Swinney, P. & Sivaev, D. (2013) *Beyond the High Street* London: Centre for Cities

highest business base growth in percentage terms was Canary Wharf, but a number of wards in both boroughs also saw good business base and employment growth.<sup>37</sup> The map below illustrates the absolute change in businesses.

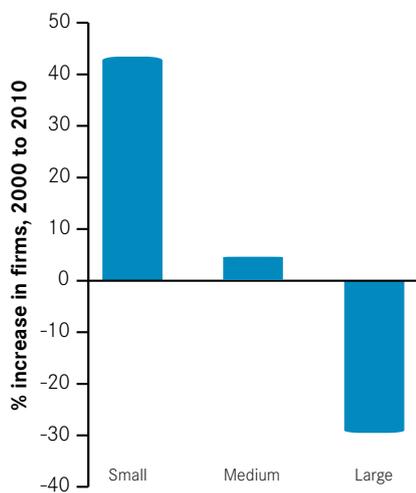
**Figure 15: Business base growth 2008-11<sup>38</sup>**



Source: ONS, Business Structural Database, Contains Ordnance Survey data © Crown copyright and database right 2013.

London's small firms – those with fewer than 50 employees – have played an increasingly important role in the city's economy over the past decade. As the bar chart below shows, between 2000 and 2010 the share of jobs in small firms grew by 6 percentage points, with half of London jobs were in small firms.

**Figure 16: The changing make-up of London's business base, 2000-2010<sup>39</sup>**



Source: TBR Observatories, 2000 and 2010 data

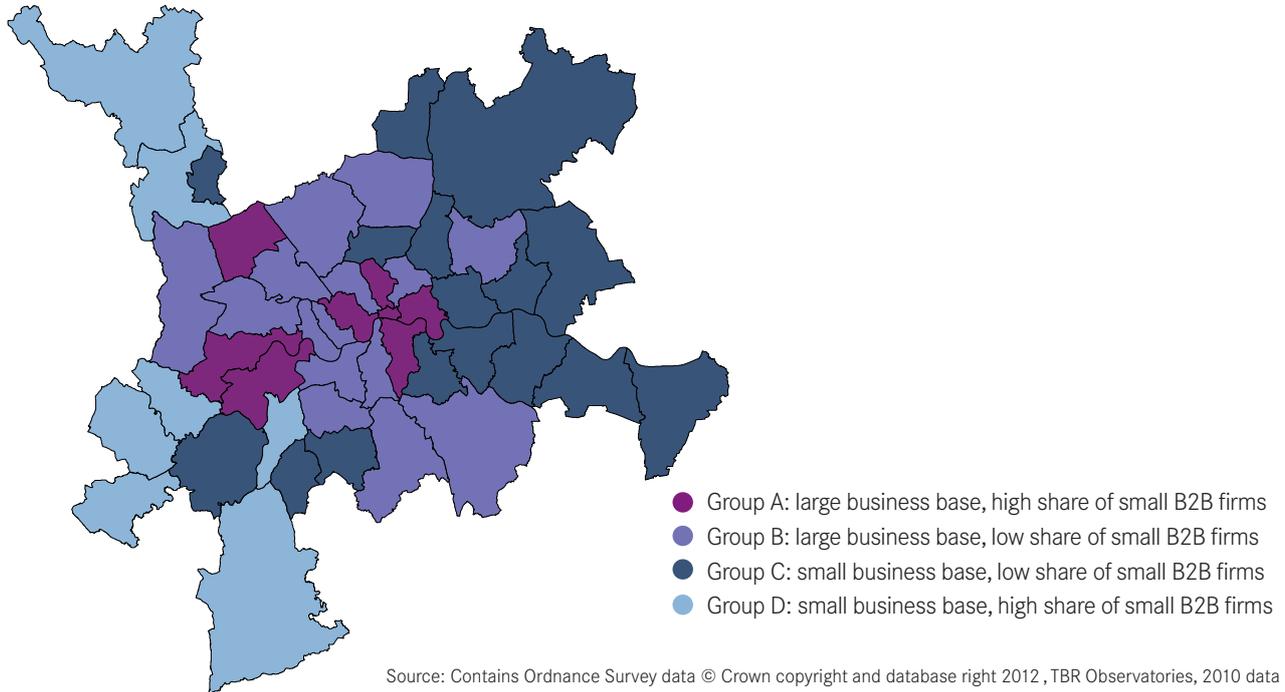
Small firms account for 97 per cent of the total number of businesses in London, and 50 per cent of Greater London's jobs.<sup>40</sup>

The number of small 'B2B' businesses (providing services to other businesses rather than selling direct to the public) in the CAZ is much larger than anywhere else in London. The map below analyses London's boroughs by the size of their business base and also shows their share of small B2B businesses. It shows that central

37. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities  
 38. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities  
 39. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities  
 40. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities

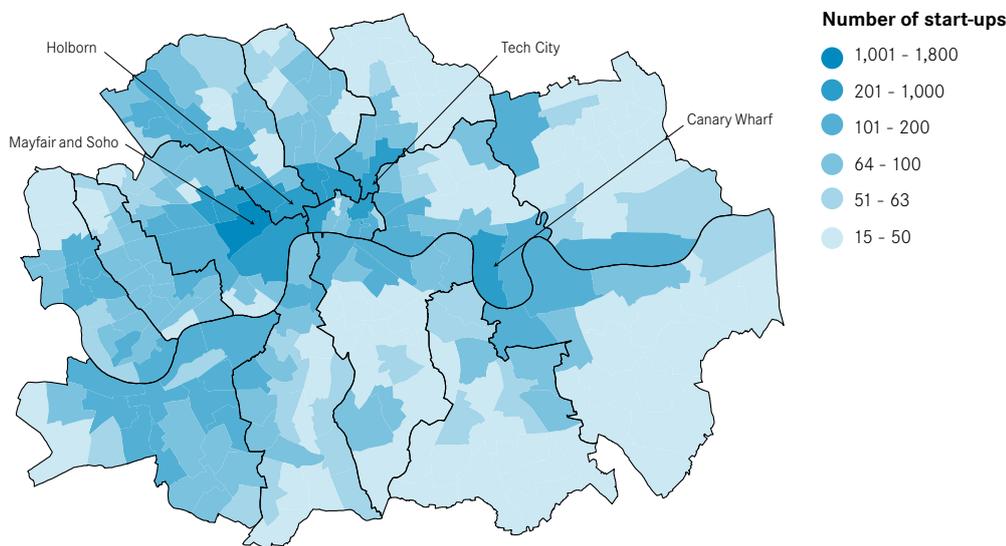
London boroughs have large business bases, and it also shows that much of the CAZ is also home to a high share of small B2B businesses.

**Figure 17: The spatial footprint of London's business base, 2010<sup>41</sup>**



Despite higher rents and factors such as congestion which might be expected to deter new businesses, the largest number of start-ups can also be found in central London – see map below.

**Figure 18: Total number of start-ups, 2011<sup>42</sup>**



Source: ONS, Business Structural Database, Contains Ordnance Survey data © Crown copyright and database right 2013

High concentrations of start-ups can also be found on the fringes of central London, particularly to the north.

41. Smith, R. Sivaev, D. & Swinney, P. (2012) *Size Matters*, London: Centre for Cities  
 42. Sivaev, D. (2013) *Inner London's Economy*, London: Centre for Cities

