

London Links

The geography of financial services in the capital and beyond

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01.

Executive summary

Financial services are widely recognised as playing an important role in the national economy. That they are centred in London is also well known. But the role that both this sector and related professional services plays elsewhere in the country, and the links that these activities have with the capital, are less well understood.

This report explores these questions. It finds that financial services and related professional services play an important role in a number of other cities across the country, in terms of exports, jobs and productivity. For example, financial services account for 58 per cent of exports in Edinburgh, 12 per cent of private sector jobs in Ipswich and are the most productive sector in Cardiff.

The links that the jobs in these sectors have with London-headquartered businesses are significant – overall these businesses accounted for just under 220,000 jobs in other British cities in 2017. This meant that just under 40 per cent of all of urban Britain’s finance and related jobs were in a London-based firm.

These links vary across cities, both in terms of their number and their nature. While not everywhere had strong links with London, a number of cities had a large share of financial services jobs in particular in London-headquartered firms.

These jobs vary in their nature. In cities such as Brighton, Leeds and Bristol, this large share of jobs tended to be in high-skilled activities. Cities such as Sheffield, Sunderland and Swindon also had strong links to the capital, but the types of jobs tended to be lower-skilled activities, suggesting that the jobs they have attracted have tended to be more back office in their function. This reflects the relative benefits that different places offer to businesses, with Leeds offering a more highly-skilled workforce than Sheffield, for example.

Both the performance of financial and related services across the country and their links to the sector in the capital show that the fortunes of these activities do not just have implications for London. And so as the UK looks to change its trading relationships with the world, a deal for financial services will be important for a number of cities and not just the capital.

02.

Introduction

The financial services sector plays an important role in the national economy. In terms of jobs, it accounts for 3.5 per cent of all of Britain's roles, but in terms of output, it accounts for 6.6 per cent of economic activity. This reflects its position as one of the most productive parts of the national economy. It also plays a particularly important role for Britain's trade with countries abroad. It accounts for 16 per cent of all goods and services the UK sells abroad, and 39 per cent of all services exports.

However, the role of financial services and other professional services related to it varies across the country. While London plays a leading role for the financial services industry, there is currently a lack of clear evidence for the contributions made by other cities to financial exports and jobs, and the relationship between London's strengths and the performance of other cities.

Understanding these gaps in the evidence has a particular urgency due to the uncertainty of how Brexit will change financial services exports. If financial services play an important role in city economies across the UK, then changes to both the regulatory regime for financial services and trade deals that may result will have consequences for cities outside of London.

Public data shows us that two thirds of financial services jobs are outside of London, but that the capital remains the vital global centre for financial services firms. The purpose of this briefing is to better understand the geography, structure and organisation of financial and professional services across the UK to do three things. The first is to provide a first look into the export of financial services by UK cities. The second is to investigate the nature of financial services across UK cities. And the third is to look at the links that London-based firms in these sectors have across cities to understand the relationships between them.

03.

The role of financial and professional services in cities

This section looks at what the contribution financial services and related professional services industries make to exports, jobs and productivity across British cities. It shows that, while London plays a big role in the UK's financial and related professional services industries, this sector also plays an important role in many other cities too.

Exports

Britain's financial exports are overwhelmingly produced in cities. While cities account for 53 per cent of all goods exports, they account for 75 per cent of all services exports, and 82 per cent of financial services exports.

Box 1: Methodology to calculate city exports

This briefing uses export data from 2015 to investigate goods exports, services exports, and financial services exports distinctly:

Goods exports of each type are matched with the industrial category that produces that type (e.g. exports of the type "Plastics in primary forms" are paired with the category "Manufacture of plastics products"). Regional export data of these types is then allocated by employment in their matched industrial categories across each region's local authorities. This is then used to build up to the city (Primary Urban Area) level to identify how much cities are exporting of each type of goods.

Services use the same goods methodology, using the new experimental exports data by region and destination, albeit in broader industrial categories (e.g. "Real estate, professional, scientific and technical" covers a much larger share of employment than "Manufacture of plastics products").

However, this services data excludes transport, travel (which are not

relevant to this report) and financial services. As financial services export data by region by destination does not exist, regional financial services export data from the Pink Book was allocated across Census data on employment in professional, managerial, and technical jobs (those most likely to be associated with exports) in financial services by local authority.

Financial services exports in this section include financial and insurance services, but other activities associated with finance such as consulting are in the 'Real estate, professional, scientific and technical' category due to limitations with the experimental data.

London is dominant in the national share of financial exports, generating 47 per cent of the country's financial services sold overseas, compared to the next largest financial exporters of Edinburgh and Manchester with 4 per cent, Birmingham with 3 per cent and Leeds and Glasgow with 2 per cent.

Although London is the leader in financial services exports in absolute terms, it is not the city most reliant on them. Financial services are a larger share of overall exports in Edinburgh, Cardiff, York, Northampton and Leeds than in London.

This trend is even sharper for services exports. Financial services are a larger share of services exports in 28 cities above London (see Figure 1), including Northampton, Edinburgh, Leeds, and Doncaster.

In some of these cities, financial services represent a high share of a low absolute number of services or total exports. Finance in Stoke, although accounting for a 43 per cent share of services exports, only amounts to 5 per cent of all exports due to the city's manufacturing strengths. Similarly, even though 28 per cent of Exeter's exports are financial services, the city's total exports amount to less than £350 million a year.

Nevertheless, while a change in the UK's trading relationships – both positive and negative – for financial services would in aggregate affect London the most, there would be substantial consequences for many other British cities.

Figure 1: Financial services exports, 2015

Rank	City	Total exports (£m)	Total services exports (£m)	Total finance exports (£m)	Finance's share of total exports (%)	Finance's share of services exports (%)
1	Cardiff	£1,686	£1,128	£914	54%	81%
2	Northampton	£1,375	£530	£400	29%	76%
3	Leeds	£3,303	£1,564	£1,115	34%	71%
4	Edinburgh	£4,031	£3,240	£2,251	56%	69%
5	York	£423	£262	£181	43%	69%
6	Ipswich	£782	£323	£220	28%	68%
7	Swindon	£1,401	£537	£350	25%	65%
8	Bournemouth	£2,294	£873	£537	23%	61%
9	Bradford	£1,678	£502	£306	18%	61%
10	Bristol	£3,698	£1,672	£1,011	27%	60%
11	Norwich	£1,385	£651	£392	28%	60%
12	Newport	£1,403	£381	£228	16%	60%
13	Birmingham	£12,557	£2,916	£1,745	14%	60%
14	Swansea	£1,811	£454	£268	15%	59%
15	Gloucester	£669	£213	£125	19%	59%
16	Coventry	£3,159	£458	£268	8%	58%
17	Sheffield	£2,663	£759	£432	16%	57%
18	Leicester	£1,682	£646	£346	21%	54%
19	Sunderland	£3,958	£406	£207	5%	51%
20	Peterborough	£2,020	£401	£190	9%	47%
27	London	£108,151	£76,324	£31,344	29%	41%

Source: HMRC, UKTradeInfo.com 2018; ONS; Regional Gross Value Added (Balanced) by Local Authority in the UK; ONS, NOMIS, Census 2011, Business Register of Employment Survey 2017, Regionalised estimates of UK services exports 2017; Estimating the value of services exports by destination from different parts of Great Britain, 2017

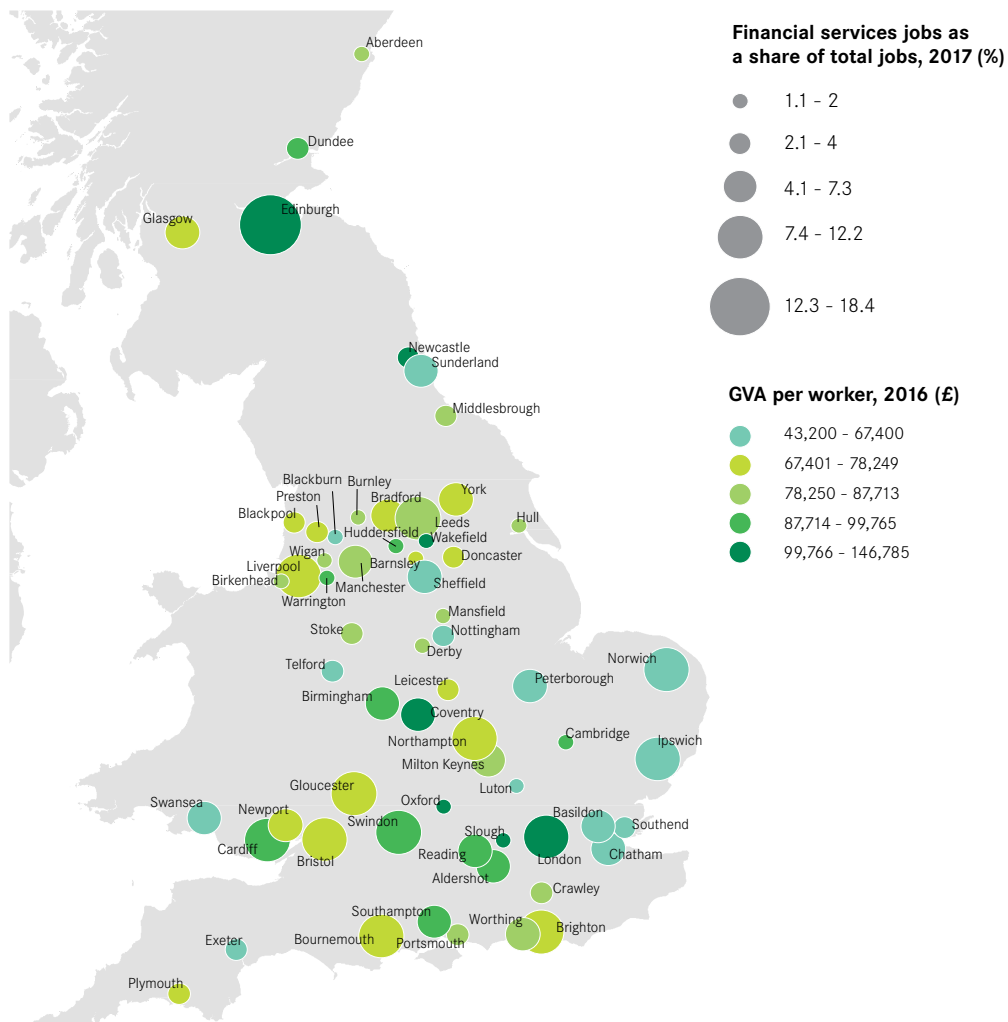
Productivity and jobs

Financial services are one of the most productive sectors in British cities. While the average output per worker in a British city was £58,900 a year in 2016, this was almost twice as much at £114,700 in financial services.

The role financial services plays across Britain varies. In terms of all private sector jobs, the share that it accounts for across cities ranges from just over 1 per cent in Aberdeen to 18 per cent in Edinburgh.

Importantly, the nature of these jobs – in terms of what they do – differs too. One way to see this is to look at how productivity of the financial services industry varies across Britain,¹ as shown in Figure 2.

Figure 2: Financial services output per worker and share of all jobs



Source: ONS Regional Gross Value Added (Balanced) by Local Authority in the UK; Business Structure Database, 2018.

¹ Data is not broken down to show productivity of the output of the associated professional services sector, which is bundled into the broader sector group of “real estate, professional, scientific, and technical services” in the subnational data.

London has the most productive financial services sector, producing £146,800 for every worker in 2016. This was followed by cities to its west and north (for example Slough on £112,000 and Oxford on £117,600) and Scotland (e.g. Edinburgh, £111,000), and in a few cities in the North (e.g. Leeds on £87,100). In contrast, there appears to be a belt of low productivity finance stretching east out of London up the coast through to Norwich (£62,900), while the lowest productivity cities are Sunderland on £53,700 and Exeter on £43,200. That there is so much variation within the same sector shows that the nature of financial services looks very different across cities, reflecting how functions within the same sector are split across different locations.

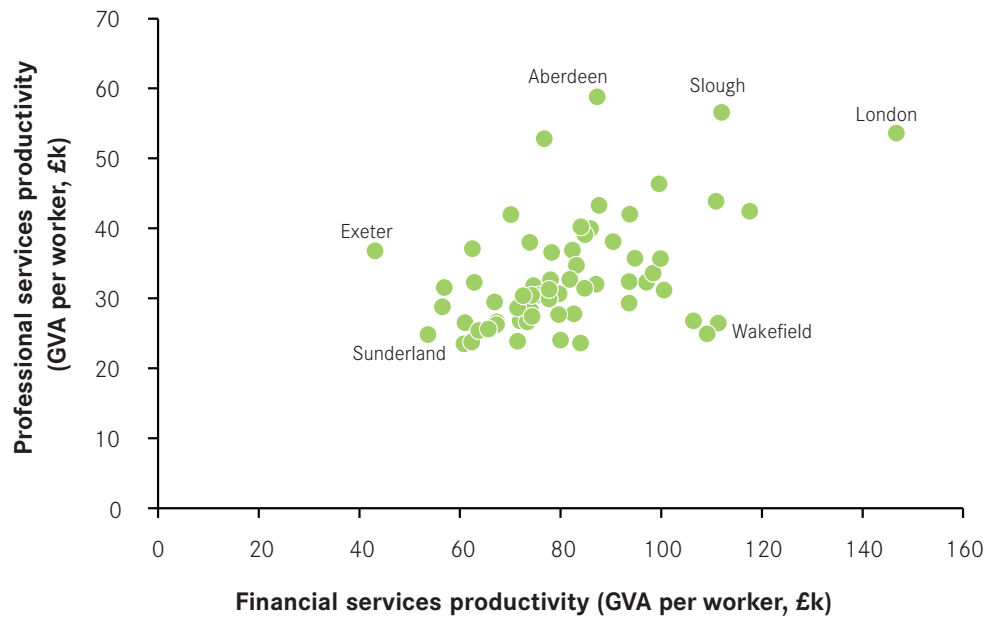
It is important to note here that, while financial services productivity is low in a number of cities compared to London, it is still one of the most productive sectors in these cities, so plays an important role within them.

Looking at business services, which include professional services associated with finance,² shows that there is a positive relationship between the productivity of financial and business services (see Figure 3). Like financial services, this in part reflects differences in the composition of business services across cities (i.e. more professional and fewer support services in more productive cities).

This again indicates that certain cities play specific roles in the UK economy, with higher-value activities across financial and professional services tending to locate in specific cities. For instance, cities with more jobs in venture capital, are also more likely to have more employment in roles like strategic consulting. In contrast, those cities that play back-office functions for finance, such as call centre operations, are also more likely to perform similar functions for related sectors. This split in tasks results from the relative advantages that different places offer to business, which is discussed in more detail later in the report.

² The same data on the productivity of professional services associated with finance is not available at the city level. Business Services is available, a broader grouping which includes both financially associated and other professional services (e.g. consultants along with architects) as well as supporting services (e.g. security guards).

Figure 3: Productivity of financial and professional services, 2016



Source: ONS; Regional Gross Value Added (Balanced) by Local Authority in the UK 2017; Business Register of Employment Survey 2017



04.

London's links to other cities

This section looks at the links that London's financial and associated professional firms have to jobs in other cities across Britain. It finds that these links are strong with a number of other cities, but this is mainly dominated by finance, with links in other professional services being less prominent.

London's role in the UK economy

London plays a significant role in the UK economy. In addition to the export data above, it accounts for 26 per cent of output and it raises 30p of every tax pound generated for the Exchequer.¹ In terms of jobs, it was home to just over 21 per cent of all of Britain's jobs in 2017.

The influence of London-headquartered firms spreads beyond the capital. Around 1.9 million jobs were based in such businesses in 2017, accounting for 5.8 per cent of British jobs outside of London. Together, this meant the total share of jobs either based in or linked to London across the British economy was 29.5 per cent.

London's financial and associated professional services links to other cities

In total, **all London-headquartered businesses accounted for 1.9 million jobs elsewhere in Britain in 2017, with just over one million being in cities.** This amounted to around one in every eight private sector jobs in cities outside of London.

Financial and related professional services accounted for 16 per cent of this total (152,000), of which two thirds were in financial services (99,000). These jobs were overwhelmingly based in cities - 70 per cent of all London-linked jobs in finance and associated professional services were in other urban areas.

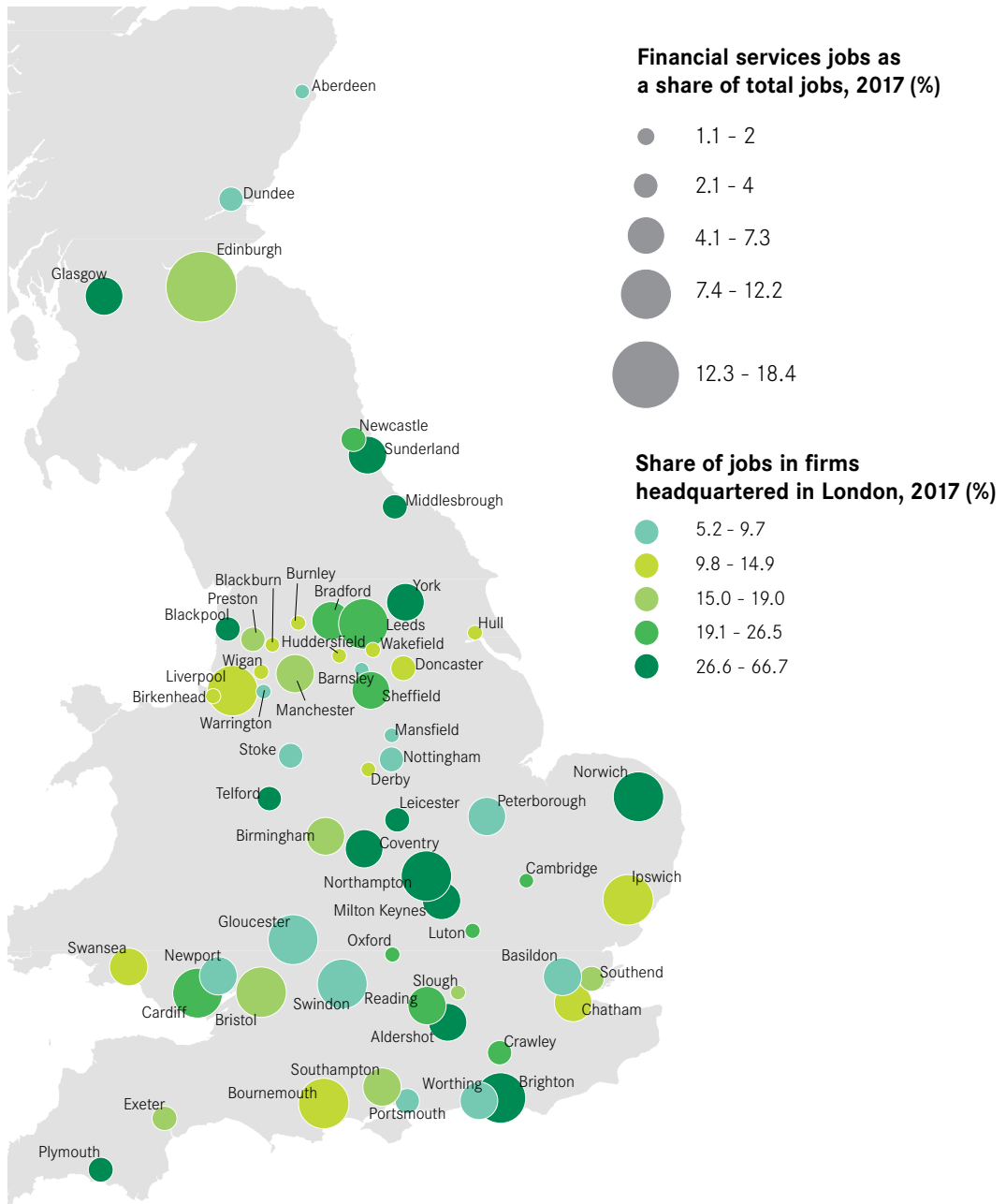
London's financial firms in particular play a prominent role in the economies of other cities. Just over one in five finance jobs in other cities was in a London-headquartered business. But this varies across cities (see Figure 4). In Norwich, two thirds of financial sector jobs in the city worked for a London-headquartered business. It was closely followed by Telford – although finance plays a small role in the city's economy (2.7 per cent of all jobs), 65 per cent of finance jobs were linked to the capital – and by York (53 per cent).

In contrast, other cities have much weaker financial services links to London. The lowest was Warrington with 5 per cent, but cities with considerable financial sectors like Bournemouth and Gloucester also had small direct links with London, at 9 per cent and 11 per cent respectively.

The Scottish cities of Edinburgh, Dundee, and Aberdeen also all appear to have smaller financial services links with London, perhaps due to Edinburgh's own strengths in financial services. Glasgow proves to be the exception, with 29 per cent of its financial services jobs linked to London. The size of a city's financial services sector does not appear to play a large role in determining the city's links to London, nor does geography (see Figure 4). Cities such as Gloucester and Swindon have much weaker links than cities like Brighton and Norwich where finance plays as important a role. Meanwhile, some cities with fairly small financial services sectors such as Plymouth and Telford have financial service sectors that are much more reliant on London-based firms.

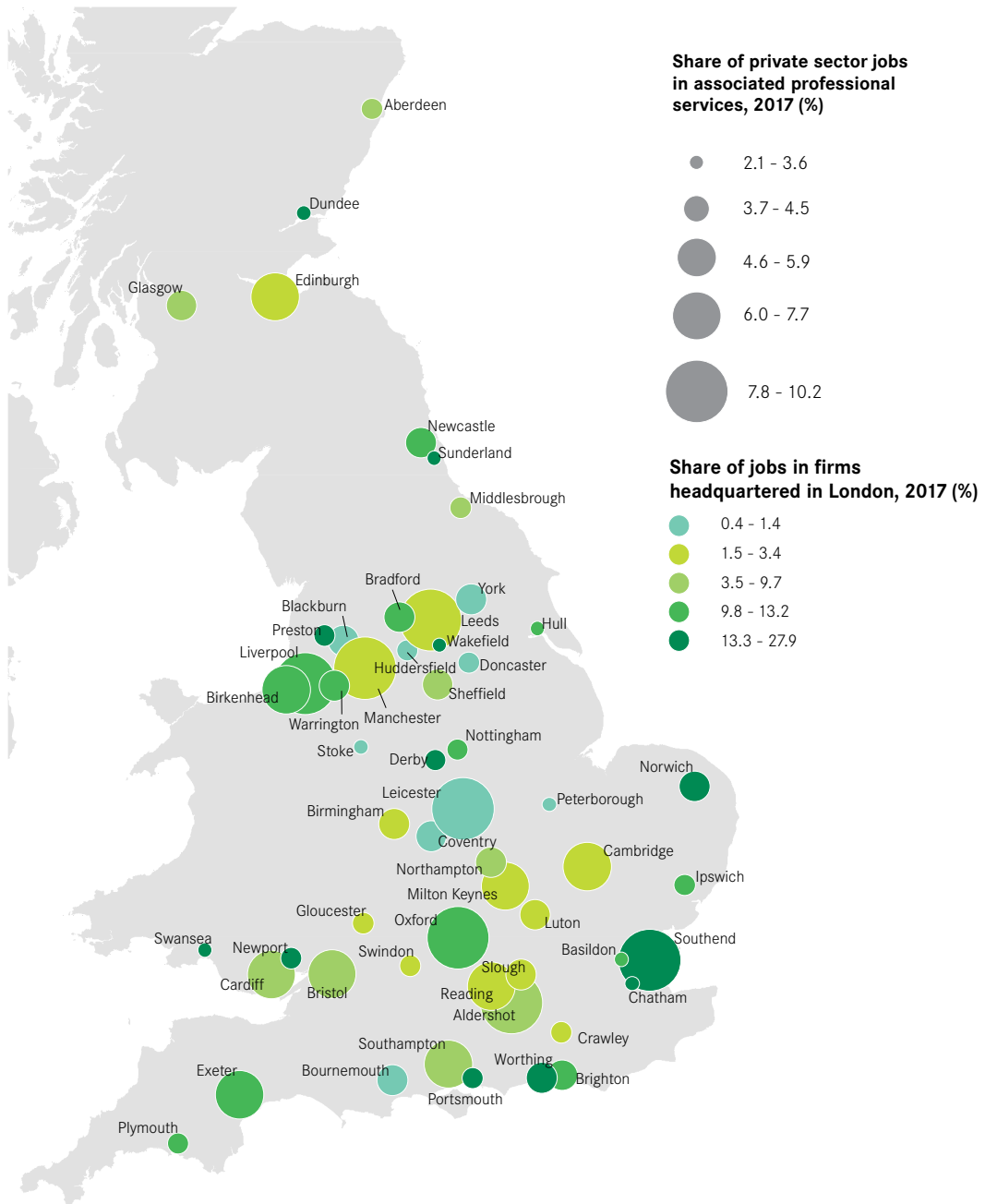


Figure 4: Employment and share of sectoral employment of financial services jobs with London HQs



Source: ONS, Business Structure Database, 2017

Figure 5: Employment and share of sectoral employment of associated professional service jobs in firms with London HQs



Source: ONS, Business Structure Database, 2017. Note: Some cities are missing as the release of their data would be disclosive - these are Barnsley, Blackpool, Burnley, Mansfield, Telford and Wigan.

The role that London's related professional services sector played in terms of employment in other cities tended to be much smaller than that of finance – while 22 per cent of financial employment outside London was in London-based firms, this figure was 10 per cent for associated professional services jobs. There was also not a clear association between links to London in finance and in associated professional services. In contrast to its smaller financial services links, it was highest in Gloucester, where 28 per cent of all jobs reported to a London HQ (see Figure 5). Once again there was no clear geography to this.

For related professional services, there does seem to be a slightly closer relationship than finance has between size of city and links to London. Cities like Leeds, Manchester and Birmingham all have closer links to London than many other cities, and the first two also have professional services as a large share of total employment. Gloucester had the closest links, followed by Swindon and Milton Keynes (both 25 per cent) and Cambridge (21 per cent). Unlike finance, a number of cities had no or very few links to London in this sector, including Burnley, Mansfield and Wigan.

The nature of work in London-based financial and associated professional services firms differs across cities

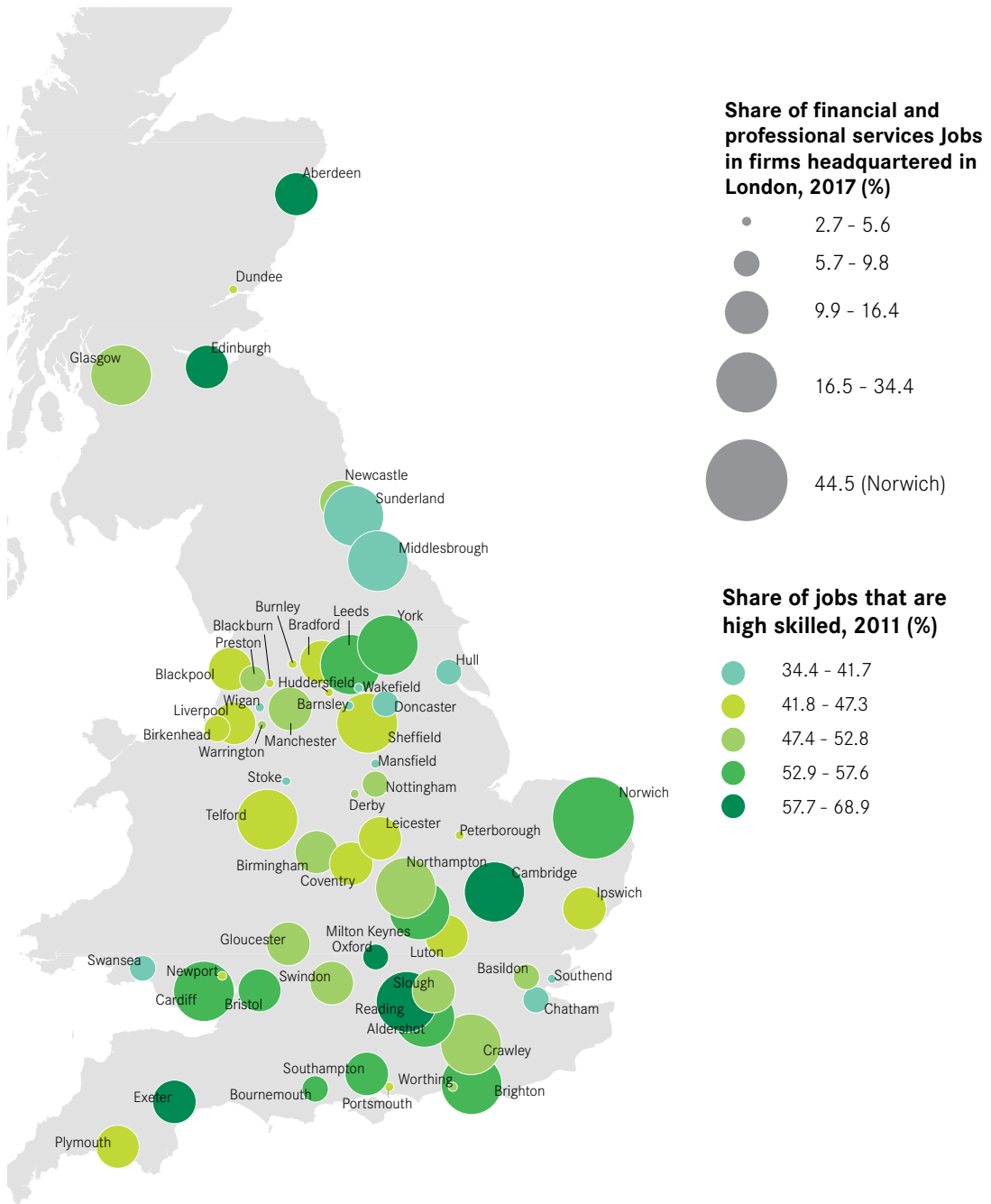
Looking at data by sector reveals little of the skill level or types of jobs linked to London or their economic performance. Barclays, for example, has its investment banking activities in Canary Wharf, but its call centre activities in Sunderland.

Using data on the occupations in these sectors across cities gives an estimate of the skill levels of London-linked jobs. **Over half of finance and related professional services jobs in cities were high skilled,**³ suggesting overall that London finance and professional firms play an important role in providing high-skilled employment in other cities.

However, there is no association between the productivity of finance in cities and London's links with the financial sectors of these cities. Instead, reflecting the variation in productivity shown above, the nature of the jobs linked to London varies across cities, as shown in Figure 6. Note that London links are now represented by size rather than colour.

3 The share of Management, Professional, and Associate Professional roles in Financial Services, Real Estate, and Business Services in each city from the Census 2011

Figure 6: The size and estimated occupational composition of financial and associated professional services jobs linked to London



Source: ONS; NOMIS, Census 2011, Business Register of Employment Survey 2017, ONS Business Structure Database, 2017

Some cities close to London such as Milton Keynes and Aldershot have a combination of high productivity, a large share of finance jobs connected to London, and high-skilled financial jobs – the larger, darker circles. A few other cities such as Edinburgh and Leeds also show evidence of this mix of jobs and output in financial services.

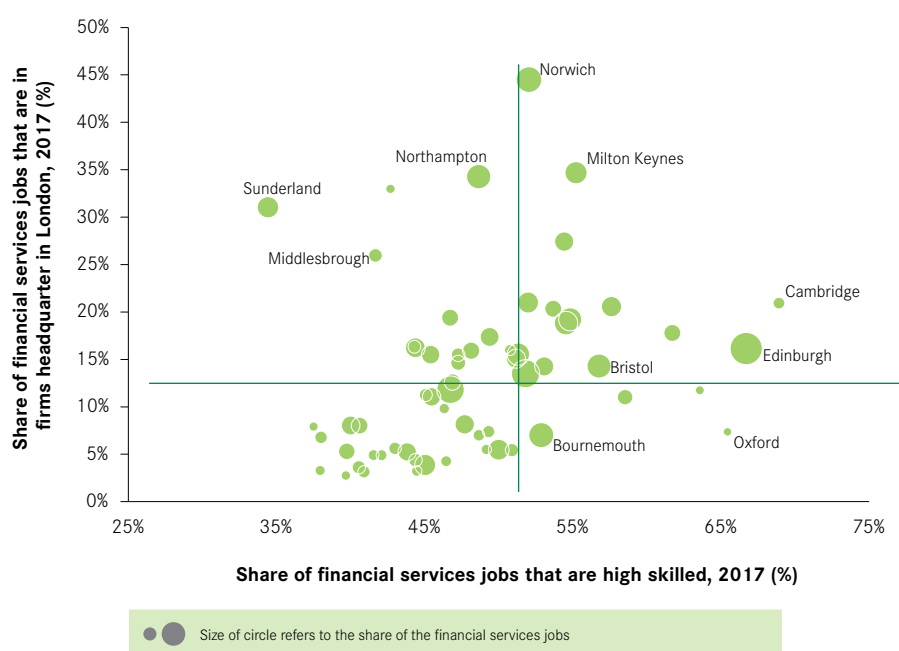
In contrast, while many cities such as Telford and Middlesbrough also have a high share of their financial and associated professional services workforce linked to London, a much greater share of these jobs is in lower-skilled occupations – the large, lighter circles. This suggests that financial employment in these cities plays a supporting role, such as retail bank sales or customer services, to high-knowledge and high-value added financial and associated activities in London.

Splitting cities into quadrants helps to classify the nature of their financial services links to London. As Figure 7 shows:

- Cities such as Reading, Cambridge and Edinburgh have both relatively strong links to London, and these jobs tend to be higher skilled.
- Cities such as Sunderland, Middlesbrough and Northampton have a large share of London-linked jobs, but a high share of these jobs are estimated to be lower skilled.
- Very few cities have both small links but higher-skilled jobs – just Oxford, Aberdeen, Exeter, and Bournemouth fall into this group.
- Finally, many cities such as Liverpool, Preston, and Newport fall into the final category of having weaker links and the jobs that are present tend to be lower skilled.

Each city's quadrant can be found in the Appendix.

Of the cities in the high-skilled, close-links quadrant, only three (Reading, Cambridge, and Aldershot) have lower financial services employment than the UK average. This suggests that in cities with close links to London and more high-skilled jobs in finance, those links are important drivers of cities' high-skilled employment.

Figure 7: Financial services jobs in cities and their links to London

Source: ONS; NOMIS, Census 2011, Business Register of Employment Survey 2017, ONS Business Structure Database, 2017

Box 2: Financial services and the Core Cities

As is the case for all cities, London's links to the Core Cities varies.

Most of the Core Cities have between 15 and 22 per cent of their financial services jobs linked to London. This is slightly lower than the non-London urban average of 22 per cent. The exceptions to this are Nottingham at 7 per cent and Glasgow at 29 per cent. This is still less than smaller cities such as Blackpool and York that have 34 and 53 per cent of their financial services jobs linked to London.

As noted earlier, Core Cities play a more prominent role in associated professional services. Cities like Leeds, Birmingham, Manchester and Cardiff all have above-average shares of associated professional services in their economy, and their London links in that sector are above average (10 per cent) too at 18, 14, 14, and 13 per cent respectively.

Across both financial and professional services, the characteristics of these roles change across these cities with no clear pattern, although the Core Cities do appear to be underperforming. While Bristol is above the average with 57 per cent of these jobs being high skilled, and Leeds and Cardiff match the national average at 55 per cent, this figure is lower at 45 per cent in Liverpool, and the other Core Cities trail the national average too.

The drivers of variation in financial and associated professional services sectors across cities

Variation in performance of the same sectors across cities can be explained by the benefits that different cities offer to businesses. High-productivity cities offer a number of benefits, including access to a large pool of high-skilled workers and a network of high-value businesses. There is a cost to accessing these benefits, such as higher costs of office space and more congestion. For example, one in two residents in London has a degree (the fifth highest of all UK cities), but the capital has by far the most expensive commercial space of any city.⁴ The patterns of productivity above suggest that these businesses are prepared to pay these costs to access the benefits that particular cities offer.

Lower-productivity cities also offer a number of benefits. While they do not offer as much access to knowledge (i.e. high-skilled workers and a network of high-knowledge businesses), they do offer access to lots of workers and cheaper land. For example, in Middlesbrough, just under one third of working age people have a degree (42nd out of 63 cities), while it has the seventh cheapest commercial space of any city in England and Wales – per square metre, space costs one fifth of the cost in London.

The result of this relationship between places, skills, and exports is that the nature of work within a sector is divided across geography. Higher-skilled activities that require access to knowledge locate in the cities that can provide access to knowledge. More routine activities that do not require this access instead locate in lower-cost locations.

⁴ McDonald R & Bessis H (2018), *City Space Race: Balancing the need for housing and office space in cities*, London: Centre for Cities

05.

Conclusion

While it is widely acknowledged that financial and related professional services play an important role in London's economy, this report shows that they also have a prominent role in a number of other cities, in terms of the exports they generate and their productivity.

Within this, London-headquartered businesses play an important role in these sectors elsewhere in the country. In cities such as York and Norwich, for example, over half of their finance jobs are in companies with a headquarters in the capital.

Importantly though, the nature of these activities differs across cities. In Edinburgh and Bristol, for example, many of the jobs in London-headquartered businesses tend to be in higher-skilled activities. In contrast, while these businesses also make an important contribution in terms of jobs in cities such as Northampton and Middlesbrough, these jobs tend to be lower skilled. This shows the varying relationship between the capital and these cities, with the latter in particular providing back-office functions to financial activities in London.

As the UK prepares to leave the European Union, the nature of future trading relationships across the world will have implications for exports of all goods and services. While London undoubtedly plays a large role in Britain's financial and associated professional services sectors, this report shows that the terms of a deal on financial services will have implications beyond the capital too.

Appendix

Definition of sectors

Financial services

- 64 : Financial service activities, except insurance and pension funding
- 65 : Insurance, reinsurance and pension funding, except compulsory social security
- 66 : Activities auxiliary to financial services and insurance activities

Associated Professional Services

- 69 : Legal and accounting activities
- 70 : Activities of head offices; management consultancy activities

Typology quadrants

Stronger London links, higher-skilled jobs

Aldershot, Brighton, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Milton Keynes, Norwich, Reading, Southampton, York

Stronger London links, lower-skilled jobs

Birmingham, Coventry, Crawley, Gloucester, Luton, Manchester, Middlesbrough, Northampton, Plymouth, Sheffield, Slough, Sunderland, Swindon, Telford

Weaker London links, higher-skilled jobs

Aberdeen, Bournemouth, Exeter, Oxford

Weaker London links, lower-skilled jobs

Barnsley, Basildon, Birkenhead, Blackburn, Blackpool, Chatham, Derby, Doncaster, Dundee, Huddersfield, Hull, Ipswich, Leicester, Liverpool, Mansfield, Newport, Peterborough, Portsmouth, Preston, Southend, Stoke, Swansea, Wakefield, Warrington, Wigan, Worthing

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