

CENTRE FOR LONDON

London's Contribution in the UK

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**London's Contribution in the UK:
Centre for London's Levelling Up Project:
Phase 2 report**

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Summary

This second report of Centre for London's levelling-up project looks at London's contribution to the life of the UK. Our first report, on London's levelling-up challenges, was published in the summer of 2022 and can be read [here](#).

We believe that London and the UK can succeed together. Economic success is not a zero-sum game – and at a difficult time for the nation we need to make the best of all the assets and resources that we have. True levelling up – inside and outside London – would make for a more productive, more inclusive economy with higher growth. And while some of London's challenges are distinct, many are shared with other places across the country.

We are calling on government at all levels to recognise our mutual connections and dependencies across the UK: there is no benefit from divisive rhetoric about people and places at this time of great challenge.

Talking about London

- Talking about London in the context of levelling up can be challenging. It is hard to make the case for the capital's contribution to the UK while simultaneously arguing that it needs more investment – and harder still to do so in ways that don't antagonise people.
- Focus group research for this project shows that people both inside and outside London generally agree on the good and bad things about it; it also shows that there is little personal animosity towards Londoners. But messages about London's economic contribution to the UK are not viewed positively, and there is little trust that the government will succeed in levelling up the country.
- For a policy/political audience, the argument that London is currently the UK's only global city is important in making the case for investment. It would be very positive for the UK to develop other globally competitive cities, but this will take time.

London and the rest of the UK

- London makes a wide range of contributions to the UK as a whole – not just financial – and they are all important as we tell the story of our city. These contributions come from places and people across the capital.
- London's challenges and opportunities are distinctive, but not unique: many of them are shared with other places in the UK. Building and talking about these connections can counter unhelpful "us and them" narratives about London and the rest of the UK.
- London is not an island: there are deep social and family connections between people in London and those living elsewhere in the UK, with many people moving between the two.

London's economic contribution

- As a region, London is the biggest net tax contributor to the rest of the country. While it receives a lot of public investment for transport, subsidy per ride is low, and the majority of the cost of the Elizabeth Line was met from within London.

- Regional inequalities in investment should be fixed by increasing the UK's overall investment spending, not cutting funding to London.
- Different parts of London have different specialisms, such as fintech, life sciences and low-carbon technologies; many of these are highly integrated with specialist areas in other parts of the country.
- London is a major location for tourism and international investment. These both benefit other parts of the country – indirectly through tax take, and directly through “London plus” visiting and investing.
- London could make an even greater contribution if the government invested in productivity growth – particularly in lower-performing parts of the capital, and in skills.

London's social and cultural contribution

- London plays an important role in the life of the nation – particularly at moments of national ceremony such as the funeral of Queen Elizabeth II in September 2022.
- The capital's wide-ranging arts and cultural offer is an important draw for visitors nationally and internationally – but parts of it are under threat due to the government moving public arts funding away from London.
- In the last few years, London has had success in improving social mobility for its residents, particularly through its schools and universities. This shows what can happen when people in the capital and in national government work towards a shared goal – but this achievement is also under threat from lowered investment.

Where next?

- The future policy direction for levelling up is unclear, but the threat of cuts to funding for public services in London is still very real, and many people are facing deep hardship as a result of the cost-of-living crisis
- We are calling on national government to end divisive “us and them” rhetoric about London and the rest of the UK, and to reject the idea that growth is a zero-sum game. It is both possible and desirable for economies across the country to grow.
- We think London's friends and advocates should focus their communications on common opportunities and shared challenges with other parts of the UK, emphasising the case for shared growth.

1. How we talk about London's contribution



Why language and communication matters to levelling up

Talking about London in the context of levelling up is a challenge for the capital's advocates. It is difficult to outline London's contribution to the rest of the UK while at the same time arguing that it needs further investment. It is harder still to do so without antagonising people by sounding either plaintive or arrogant. This chapter looks at the messages that London's advocates might choose when talking to others in the country.

Our first report for this project, *Challenges for London and Londoners*, looks in more detail at portrayals of London by politicians and in the media – and what this means for the city and its people.

Talking about London: focus group research

In the summer of 2022, we ran a series of focus groups (with our research partners at Savanta and Toynbee Hall) to explore how people in London and other parts of England view the capital, its people and its challenges.¹ A detailed report on the discussions, including quotations from the participants, can be found at <https://www.centreforlondon.org/blog/london-england-views/>.

In summary:

- There was broad agreement within and outside London on the good and the bad things about the city. People were positive about jobs and opportunity, diversity, and the international importance of London. They were negative about the cost of living and visits, crowding, pollution, and crime.
- People both inside and outside London were aware of the issue of poverty in the capital – but Londoners tended to be more aware of its extent and its geographical spread. Some people felt that since London is home to a lot of rich people, it should be responsible for solving its own problems: we could see this as implicit support for devolution.
- Many people were suspicious of the government's levelling-up agenda, and people outside London were not very optimistic that it would make a difference in their area.
- People outside London were not very interested in arguments about London's tax contribution or the importance of its financial services sector. They were more interested in arguments about London's importance to the UK's international standing and ability to attract visitors.
- We did not find much personal animosity towards Londoners from people living outside London, or between Londoners living in different parts of the city.

Based on these focus groups and our wider work on this project, we have developed a set of suggestions for people who advocate for or talk about London to the public in other parts of the UK. These are outlined in the recommendations chapter at the end of this report.

London as a global city

The government's Levelling Up White Paper states an ambition to develop a global city in every UK region.² We believe that this is unlikely to happen in the short term – though of course other cities do have global connections, and it is both possible and desirable for them to grow their economies and attract more investment.

But as things stand, London competes with other global cities – and we believe that this message is key in talking to policymakers about the capital's needs and the contribution it makes. When international companies are deciding where to place their headquarters or major offices, the question is often London versus Paris or New York, rather than London versus Liverpool or Glasgow. Making London less attractive as a base for international companies probably means they will choose a different country rather than a different UK city. We believe there is a real risk that this could happen, thanks in part to post-Brexit changes but also to public spending decisions. When transport becomes more expensive and less reliable; when the public realm deteriorates and it becomes harder to recruit high-quality workers – then companies will move elsewhere.

Many of the challenges that London faces – particularly high property prices and the poverty that results from them – are similar to those experienced in Paris, New York and Singapore. They are the product of high concentrations of capital and jobs clashing with constrained housing supply: we discuss this further in our Phase 1 report for this project. In the long term, an effective regional growth policy could reduce this overheating, but we are unlikely to see such growth for decades. Governments have historically dealt with the negative effects of being a global city using measures which aim to compensate for the extra costs of living there – for example, higher levels of support through benefits, or subsidy of public transport. It makes no sense to remove these compensations before the country achieves a more equal economy between regions.

Paying for levelling up

Any “levelling up” worth its name will be expensive and last decades. A commonly cited analogy is the reintegration of East Germany into the modern German Federal Republic, profiled in full in the Institute for Government's research into levelling up.³ The original German Unity Fund spent roughly €140 billion in four years, followed by Solidarity Pacts I and II (€300 billion over 24 years), both focused on capital spending.⁴ This happened alongside federalisation of the reunified country, including the formation of tax-raising state governments and provision of substantial amounts of un-ringfenced finance.⁵

By comparison, the government's Levelling Up Fund contains £4.8 billion, much of which is previously pledged financing.⁶ Analysis from the Institute for Government (drawing on RSA estimates) suggests that even if the government met all five missions in the Levelling Up White Paper (on schools, skills, transport, broadband, and R&D) by 2030, it would only produce £20 billion in total economic benefits.⁷ If all those benefits were distributed outside London and the South East, that would only reduce the gap in average wages from 41 per cent to 39 per cent.⁸ To make more of a difference will cost a lot, and it will be impossible to achieve without tax revenues from London.

Recent government changes

At the time of writing (late October 2022) it is unclear what direction the new Sunak administration will take on levelling up and regional economic policy. It seems unlikely that the term “levelling up” itself will retain much traction – although the last few years have shown that it is difficult to make reliable predictions about political priorities.

Liz Truss and her team were highly focused on growth, and it is likely that this focus will continue, given the need to restore confidence in the economy even as tax changes are reversed. Investment Zones, which are planned to “cut back unnecessary bureaucratic requirements and processes and red tape that slow down development, cut taxes to back business, and, as a result, attract new investment to create jobs” were set up by the Truss government.⁹ These have been controversial due to concerns about the social and environmental impacts of deregulation,¹⁰ and their future direction is now uncertain.¹¹

Although we do not now expect an explicit anti-London agenda from government, the threat of reduced public investment in London remains very serious, while the prospect of meaningful economic development in the parts of the UK that are struggling the most feels distant.

2. The UK and London



London's role in the UK's key challenges

London plays an important role in addressing many of the challenges facing the UK and the wider world. Policy decisions that reduce London's productivity and creativity – by accident or by design – risk undermining the crucial contributions that London makes. Below, we look at some of the most important of these.

Net zero financing

London is an important centre for ESG and impact investment, especially for financing clean energy projects. Renewable energy projects often need a lot of capital in the beginning, much of it raised from private markets by specialists in climate finance. Nearly £5 billion was raised from green energy bonds in the UK in 2020, and the market for green investments is growing.¹² This funding supports projects across the UK, particularly clean energy projects such as windfarms.

Innovations in public transport

Transport for London introduced the Oyster Card in 2003 and contactless debit card payment in 2012. It was an early adopter for both types of system, which are now used widely across the UK and in other countries. TfL has entered into a private sector partnership that allows other cities to adapt its systems for their own network – with the money reinvested in London's transport system.¹³

Reducing car journeys

In the last few decades, London has made big strides in reducing car journeys. This has occurred through Greater London Authority (GLA) initiatives like the TfL cycle hire scheme, the Congestion Charge and the ULEZ; through borough projects like Waltham Forest's Mini-Holland scheme to support cycling; and through effective campaigning by voluntary and community groups. London's air pollution improved by five times the national average between 2016 and 2019,¹⁴ while cities across the UK (and indeed overseas) have implemented or are considering similar schemes.¹⁵

Supporting refugees

London has a proud history of welcoming refugees – going back to the Huguenots. Refugees from around the world have played a huge role in the life of the city, and continue to do so: some people argue for both humanitarian and economic reasons that London and the UK should be doing more to help them.¹⁶ Today, 31 per cent of Ukrainian refugees in the UK are hosted by London households,¹⁷ and many Londoners are involved in initiatives to support refugees and asylum seekers in their communities, such as Lewisham's Borough of Sanctuary.¹⁸

Life sciences

London is the base for a huge range of life sciences research institutions – from universities to small startups. These can be found across the city: GSK in Hounslow, DeepMind in Camden, and the London Cancer Hub in Sutton. 40 per cent of clinical trials in England take place in London and its regional network.¹⁹ Of course, other parts of the UK have brilliant life sciences expertise as well, and success in this sector is far from being a zero-sum game – we explore this further in the chapter on London's economic contribution below.

International students

There are over 150,000 international students in London, making up about one-third of the overall London student cohort.²⁰ Despite the political and economic challenges of recent years, the UK (and London in particular) remains a popular place to study.²¹ These students bring economic benefits to London and the UK, and they also enhance the country's soft power: building connections at the beginning of people's careers can bring economic, social and political benefits over many decades.

Sponsored Case Study: How BIG South London is levelling up locally

Business, Innovation & Growth (known as BIG South London) is a programme set up by the South London Partnership to promote local innovation and economic growth. It provides a case study of how locally based initiatives can foster collaboration between businesses and the higher and further education sectors in order to level up a region with lower-than-average productivity.

The BIG programme covers the five London boroughs that make up the South London Partnership: Croydon, Kingston upon Thames, Merton, Richmond upon Thames, and Sutton. The programme was launched in early 2021 to tackle the relative economic underperformance of these areas compared to the rest of London. In 2019, the Office for National Statistics found that outer south London was the least productive part of the city in terms of the gross value added per hour worked.²² More recently, the 2021 CBI scorecards found that parts of the BIG South London area had 34 per cent less GDP per capita than the London average.²³ The BIG programme aims to combat this by developing a strong local culture of research, innovation and collaboration that will enable local people to access high value jobs. To do so, the programme has partnered with fourteen education institutions, including nine universities and six further education Colleges, based across the sub-region. Research commissioned to inform the BIG programme found that there was low awareness among local businesses of what universities could do for them.²⁴ Through this partnership the BIG programme aims to raise this awareness, by providing a range of opportunities for local businesses to engage with the resources and knowledge bases of higher education institutions.



Image Credit: BIG South London



Image Credit: BIG South London

One way that BIG South London are doing this is through their Integrate scheme. BIG Integrate supports SMEs to nurture stronger and more locally sustainable supply chains. This scheme works by providing a programme of support targeted at owner-managers to improve their awareness, competitiveness and effectiveness in identifying and securing supply chain procurement opportunities. BIG Integrate also sets up local post-graduate students with intensive consultancy placements. This is a double win – the business gets access to the expertise and time of the student and the student gains valuable experience in a locally based SME. The BIG programme also includes seven business hubs with affordable and flexible workspaces for start-ups. BIG does not just provide these spaces, but also uses them to run schemes such as the BIG Design Laboratory. The Design Laboratory involves a programme of challenge-based events for academics, students, businesses and communities to collaborate with one another. At these events the participants co-design solutions to pre-identified challenges that are real problems faced by local entrepreneurs and businesses. The BIG Design Laboratory scheme aim to drive a sense of innovation and creativity within these workspace hubs whilst providing participants with transferable experiences and skills.

Having launched in January 2021, it is still early to evaluate the impact that the BIG programme has had on the economic success of south London. Future analysis will reveal the extent to which these opportunities for collaboration have enabled innovation and growth in the area. But it does set an example of good practice for other regions as a model for purpose driven collaboration and how to better utilise local knowledge assets such as universities to level up local economies.



Image Credit: BIG South London

3. Challenges and connections within the UK



Why challenges and connections matter to levelling up

Different areas in the UK are connected to each other in complex ways, and people move to and from London constantly. These dynamics are important when we look at current and future levelling-up challenges: they are also crucial to how people elsewhere in the UK perceive London (and vice versa).

London and the wider South East

It is impossible to separate the economy and communities of London from the economy and communities of the wider South East. Administrative borders around cities are artificial constructs – people living on either side of the border often have quite similar lives, and people living within London, within Kent or within Hertfordshire often have very different lives to each other.

Being close to London is an advantage to many people living in the wider South East – it provides access to jobs, places to study, cultural and leisure opportunities, and major airports and stations. But it also creates tensions and problems similar to those experienced by Londoners: high housing costs (especially for young people who cannot afford to live close to their families), congested roads, and crowded public transport.²⁵ Anecdotally, some people feel that proximity to London makes it harder for their area to have its own distinct identity – although this is by no means true of all places in the South East.

Major cities within the UK

Many of London's challenges – and indeed London's opportunities – are shared by other major cities in the UK. This includes transport factors like complex public transport networks, the need to update major stations, and issues with traffic congestion and air pollution. It also includes issues with housing costs and housing supply, as well as the need to respond to rapid changes in neighbourhoods.²⁶ Of course, there are shared successes too – London, Birmingham and Glasgow have all hosted major sporting events in the last decade.²⁷

The UK's cities have always learned from each other's experiences. To take just a few examples: in recent years people interested in violence reduction have looked to positive examples in Glasgow,²⁸ people interested in integrated health services have looked to Manchester,²⁹ and people interested in congestion charging have looked to London.³⁰ There are also specific examples of collaboration linked to similarities between particular areas: the recent Birmingham and Lewisham African and Caribbean Health Inequalities Review looked at the experiences of Black African and Caribbean communities in both local authority areas, making a series of recommendations to reduce health inequalities through action by a range of local bodies.³¹ 3ci (the Cities Commission for Climate Investment) works with local authorities, central government and organisations like Core Cities UK³² and London Councils³³ in order to support local authorities with financing to get to net zero.

Nonetheless, there are challenges to this sort of shared learning. Different devolution settlements mean that work in some policy areas is difficult to transfer (Greater Manchester's approach to health would not be possible in London, where the Mayor has no statutory health powers). And a levelling-up agenda that pitches areas against each other for funding and government support will not encourage collaboration between places: this is not to anyone's advantage.

City and regional devolution

The *Levelling Up* White Paper says that the government will “invit[e] other MCAs [Mayoral Combined Authorities] and the GLA to bid for sweeping further powers, through the new devolution framework”.³⁴ It is not yet clear what further powers might be available or how the bidding process would work, but it seems that the new devolution framework does not take London devolution much further and is primarily an opportunity for other Combined Authorities. Further devolution of powers or funding for London would require going beyond the framework. There are frequent calls for more regional devolution from organisations within London³⁵ and beyond,³⁶ including from some parts of the Conservative Party³⁷ – although the exact powers being asked for may vary. Some people also argue for more devolution to local authorities (or groups of local authorities) rather than to London as a whole. However, the *Levelling Up and Regeneration Bill* moves away from existing devolved powers, introducing National Development Management Policies that will take precedence over local plans.³⁸

Centre for London is currently working on a separate London governance project that will consider these issues in more detail.

Population movement within the UK

In the five years to 2020, an average of 228,000 people moved to London from elsewhere in the UK every year, while an average of 328,000 people moved from London to other parts of the UK. Despite the difference between these figures, the population of the city continued to grow – partly due to natural growth and partly due to a net inflow of overseas migrants.³⁹ London’s high rate of population churn means that there are many people living here who have lived elsewhere in the UK (and vice versa). Their experiences will shape their perception of London and its relationship to the UK – as well as that of their families and friends – in complex and varied ways. Our focus group work for this project showed that people who had lived in or close to London tended to feel more positive about it than those who had not.

The impact of the pandemic

We will probably never know the full story of what happened to London’s population during the main coronavirus waves – real-time data collection on population is always difficult, and the pandemic made it harder.⁴⁰ Specifically, some people are concerned about the accuracy of Census data over this period.⁴¹ At Centre for London we think it is likely, although not certain, that the usual flow of people moving out of London accelerated a little, and that the usual flow of people moving in slowed considerably. The international migration picture is further complicated by changes to the immigration system with Brexit in early 2020.

Between lockdowns, there was a pervasive media narrative about people leaving London for the countryside,⁴² prompted by a desire for more space and the ability to work from home. Some went so far as to predict “the death of the city”.⁴³ Rising house prices in some towns together with lower house price growth in London gave some credence to a change in housing preferences – at least among the relatively wealthy who could afford to make choices about where they work and purchase a home.⁴⁴ But predictions that London would suffer a significant population decline seem to have been misplaced: Census data shows that London’s population has grown over the last decade,⁴⁵ and rents are now rising sharply.⁴⁶

Social mobility and moving to London

Many people move to London for work, and most of the people who move here from elsewhere in the UK are from higher socio-economic backgrounds and tend to have lived in wealthier areas previously: people moving to London does not tend to drive social mobility.⁴⁷ Some of this group may feel

they have little choice but to move to London in order to pursue their career, even though other things being equal they would prefer to stay local. In our focus groups for this project, people living inside and outside London agreed that there is a lot of opportunity in the capital, but some people outside felt that it was not fair that people have to move to get it. People with low or no qualifications get little or no wage premium from working in London – they are unlikely to be able to afford to move here even if they would like to.⁴⁸

If levelling up works as intended, then more people would be able to choose where they live based on personal preference, not economic imperative. It is likely that this would address some of the negative perceptions that some people have about London, whether or not they chose to move here.

House prices and moving out of London

London is home to many of the UK's highest-earning people: mean earnings in the Royal Borough of Kensington and Chelsea are more than twice the national figure.⁴⁹ Some people are able to build significant wealth through work, investment or gains in property value, and they use this wealth to buy property elsewhere in the UK. This could be as either a main or a second home, and will often be in areas where average incomes are much lower, which can make housing unaffordable to local people in these areas.⁵⁰ The problem is more specifically about uneven distribution of wealth than it is about London *per se*, but it can nonetheless build resentment for the capital in parts of the UK.

More detail on London's housing challenge and possible solutions to it can be found in our Phase 1 report for this project, *Challenges for London and Londoners*.

What might happen next

Our previous report on London's levelling-up challenges discussed some factors that could make it harder for people on lower incomes (including many Londoners) to live in London.⁵¹ These included fewer affordable homes being built and reduced funding for both service delivery and public sector pay – potentially also leading to a shortage of key workers in the city. Unfortunately, the deepening cost-of-living crisis means that larger numbers of lower-income workers are likely to struggle.

4. London's economic contribution



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Why London's economic contribution matters to levelling up

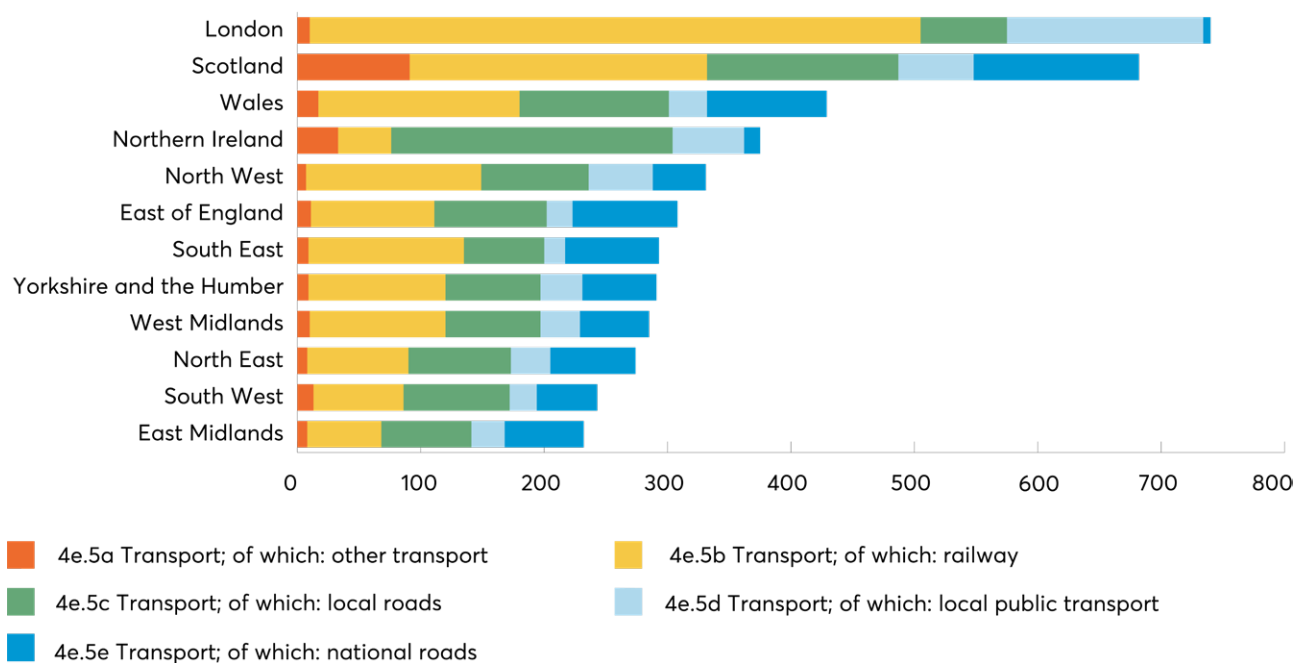
Strengthening economies outside London makes sense, but weakening London does not. Weak growth and national decline suit no-one. London's economic success is not inevitable: until the mid-1980s it was seen as a city in terminal decline, losing two million residents from 1942 to 1992.⁵² Its current success as a source of tax revenue and high-value supply chains could be lost if government does not support it – and in particular, if it does not support low-income workers to make their lives here.

Tax and public spending

Before the pandemic, London, the South East and East of England were the only regions of the UK to have net fiscal surpluses, with London's highest at £4,030 per head.⁵³ Even in 2021, when all regions were in net deficit due to lockdowns and the furlough scheme, London had the lowest deficit at £800 per head.⁵⁴ London does not absorb a disproportionate share of central government funding, and after the impacts of COVID-19 have receded it will almost certainly return to contributing a net fiscal benefit to the nation's public finances.

London's success is not only due to government spending: the size of the city, the depth of its labour market and its historic trading advantages all play a part. At the same time, deindustrialisation in other regions has pulled them down in relative terms. However, this is not to say that government investment cannot be put to work to reduce inequality within the UK.

Average regional per resident spending (all) per year between 2008 and 2019



Source: Open Innovations (2020). UK past spending. Retrieved from: <https://open-innovations.org/projects/jrf/ukpastspending/>

The capital's population size and its pre-eminence in many sectors within the UK draw a great deal of public investment into the city. In transport investment, for example, London received the highest amount of spending per resident of any region between 2008 and 2019 – more than twice the national average.⁵⁵ This is partially due to its size: only big cities need multiple train routes, which are significantly more expensive than other forms of transit. It is also due to the historic nature of some infrastructure: the London Underground network was begun in the 1860s by private companies and now needs a lot of maintenance simply to keep going. This can be seen below in Figure 2, which shows that the vast majority of the difference between London and the rest of the UK in transport spending between 2008 and 2019 came from spending on rail.⁵⁶ Despite this, the amount of funding London receives per passenger journey, is among the lowest of any UK region.⁵⁷ As described in the case study below, much of the capital funding needed for transport is raised within London.

London also receives a lot of research and development funding: London, Oxford and Cambridge together receive almost half of non-market research and development spending on R&D.⁵⁸ This is partly because there are existing highly skilled workforces in these areas, with many people trained through London's large and successful university system. However, although there is compelling evidence connecting R&D intensity to productivity and economic growth around the world,⁵⁹ the UK economy as a whole suffers from research and development (R&D) underinvestment. Despite recent recalculations by the Office for National Statistics that have revised the country's R&D investment to 2.4 per cent of GDP, rather than the previous figure of 1.8 per cent, this is slightly below the OECD average and significantly below global leaders in the field, like South Korea, Israel, and the USA.⁶⁰

In this context London's relatively high R&D intensity should be seen as an asset, a model for improving productivity around the rest of the UK. Levelling up offers an opportunity to bring the UK's public investment rate up to the OECD average, focusing on regions outside London and the South East without cutting the investment London needs to thrive. This also applies across types of investment – British gross capital formation is consistently two to eight percentage points below G7 countries.⁶¹

Simply shifting existing R&D projects around the country is unlikely to help. There is good evidence that concentrated innovation in particular areas, like London's Knowledge Quarter, delivers greater benefits than more distributed approaches.⁶² Rather than breaking them up, we need to make more of such places, focusing on existing specialities outside of London that have received insufficient investments. This will not be a panacea: the presence of new, high-tech industries in deprived areas can boost productivity, but it does not usually reduce poverty. State support will continue to be important for people living in poverty across the UK.⁶³

Transport example: Paying for the Elizabeth Line

Many of the arguments for redirecting transport investment out of London rely on flawed assumptions about its source. On top of a (pre-pandemic) net fiscal surplus to the Treasury, the city has self-funded much of its transport investment.

The Elizabeth Line cost just under £19 billion in total, initially to be funded by a rough three-way split between national government, passengers, and London's businesses and landowners.⁶⁴ As the project progressed, the burden shifted towards London's businesses, which paid nearly 40 per cent of the total end costs. The government and farepayers ended up contributing just over 30 per cent of the project each.⁶⁵ The government's contribution was based on calculations that increased economic activity in central London – facilitated by more and faster commuting – would repay this investment in time.

The GLA then created a Business Rate Supplement on London's businesses. This raised over £4 billion, including the borrowing it enabled, and continues to this day. This was matched with a new Mayoral Community Infrastructure Levy (MCIL) on new developments. Alongside boroughs' Community Infrastructure Levies (CIL), and the borrowing these enabled, around £2 billion in funding was unlocked including leverage.⁶⁶ An extra GLA funding package of £100 million was sourced from leftover MCIL and CIL capital,⁶⁷ and a £2 billion package from Transport for London was borrowed against future passenger revenues. The Elizabeth Line also received voluntary contributions from business interests in London, with developers paying towards some of the stations. The City of London Corporation contributed £250 million.⁶⁸ Selling excess land around stations after building was finished made £550 million.⁶⁹

When the project began to over-run in 2018, all central government grant funding stopped entirely. Since then, the Department for Transport has provided just over £2 billion in loans to the GLA and £750 million to Transport for London.⁷⁰ However, these are not a hand-out to London: the loans are at full commercial rates, repayable from tax revenues and fares. In fact, the Treasury will make a profit on the project's over-run. The national taxpayer has not spent any money on this stage of the project.

Taken together, this means that London itself has funded almost 70 per cent of the Elizabeth Line from its own finances. This is not a unique model – the Northern Line Extension was funded by local development alongside a Tax Increment Finance scheme.⁷¹ The success of the model suggests that successful levelling up across the country will require significant fiscal devolution to empower local policymakers. Every city and region should be given the choice to fund investment in this way – just as they should be given the freedom to raise revenue through road user charging and land value capture.

Business and supply chains

London is not an island. Money spent in London can benefit the rest of the country, since the city plays a vital role as a buyer within the UK. The key to London's success has been specialisation – in particular, in a selection of high-value services. Therefore, it relies on partners outside the city for many of its needs.

The nearly £19 billion spent on the Elizabeth Line was not simply sucked into London's economy: 62 per cent of the project's suppliers were based outside the city.⁷² The nine-car Class 345 Aventra trains running on the line were designed, built and tested in Derby; the steel door sets at many Elizabeth Line stations were manufactured in Poole; and a Leeds-based company was contracted to prepare the city's sewer networks for tunnelling. These are just a few examples:⁷³ many of the tens of thousands of jobs supported by the project were based outside the city. However, these kinds of arguments can (unintentionally) suggest that the current and historic distribution of labour across the United Kingdom is desirable. Rather than promoting this idea, we should read this data as indicating the profoundly intertwined nature of London's economy with the rest of the UK and vice versa, meaning that any policy that penalises the capital will affect the wider economy in myriad ways.

The benefits of London's supply chains do not just come from contracting heavy manufacturing to places with lower land prices. Supply chains around the country are often highly interdependent. Even London's financial and professional services industries, for example, are deeply entwined with manufacturing and service sector activities around the country.

Innovation in green industries is likely to be an important part of this

specialisation, and could help strengthen economies across the country. Patent registration data shows that areas outside London and the South East are increasingly specialising in clean innovation.⁷⁴ Spending on clean energy and biodiversity conservation has been shown to produce significantly larger multipliers than non-eco-friendly energy and land use activities. This shows the potential of the net zero transition to help reduce regional inequalities.⁷⁵

International investment

London is by far the biggest attractor of foreign direct investment (FDI) in the UK. In 2021 there were 444 FDI projects in the capital, which created more than 18,000 jobs.⁷⁶ This accounted for one-third of all FDI projects in England. The capital's technology sector is globally competitive in attracting international investment, making up more than one-quarter of all European venture capital investment in 2020.⁷⁷

London largely competes with other global cities (rather than other UK regions) for FDI, particularly in the financial and technology sector. If we want this to change, we need to make other cities in the UK globally competitive, not just nationally competitive – by enabling the growth of productive, high-value specialisms. However, there is no sustainable path to achieving this without maintaining London's international competitiveness as a recipient of FDI.

FDI into London also benefits the rest of the country directly through what London and Partners has called “London+ investment”.⁷⁸ 12.1 per cent of FDI projects in the UK stemmed from an investment in London, which created £7.6 billion in GVA and 38,000 jobs between 2003 and 2015. This accounts for more than 10 per cent of all FDI-supported jobs in the United Kingdom; Scotland benefited from the highest number of jobs created by “London+” firms. London+ investors, on average, made three more investments after their first investment into London.⁷⁹ If London is made less competitive internationally, there is little reason to assume that international investment will switch to other parts of the UK. Particularly in the aftermath of Brexit, it is far more likely that the UK will simply receive significantly less investment from abroad overall, harming the economy in London and beyond.

Tourism

London is the central hub for tourism into the UK. The benefits of this are redistributed through central government's taxing and spending, but also through “London+” tourism – where visitors begin in London and travel to other destinations in the UK.⁸⁰ In our focus group research described above, we found that this was the area of London's contribution that people outside the city talked about most. In 2019, before the COVID-19 pandemic, London was visited by nearly 22 million tourists – around 63 per cent of the total number who visited England and over 53 per cent of those who visited the UK. They spent nearly £16 billion in the capital, accounting for 63 per cent of all tourism spending in England and 55 per cent of tourism spending in the UK.⁸¹ This supported one in seven of all jobs in London – 700,000 people – and nearly 12 per cent of the city's economic output.⁸²

Of course, London's dominance of UK tourism is due in large part to the number of “national” tourist attractions in the city. In 2019, the capital hosted nine of the ten most-visited free attractions in England.⁸³ This has sparked complaints that London receives a disproportionate share of UK arts spending.⁸⁴ As Jack Brown has argued, this is partly a question of London's scale and status as a city – but it also ignores that many of these national institutions serve the wider public, both from the UK and elsewhere, far more than residents of their own city.⁸⁵

Tourists who visit London do not just stay in the city. London is the

UK's most significant gateway for visitors: 71 per cent of first-time holiday visitors to the UK come to the city.⁸⁶ This London+ tourism is estimated to contribute more than £640 million in spending a year, driven by the fact that these visitors spend between 24 and 64 per cent more nights in the UK than those who just visit one location.⁸⁷ On a less quantifiable level, it is also arguable that London's place as a world tourism site brings other, less tangible benefits to the UK. The soft power generated by millions of tourists a year visiting London, admiring its institutions, and returning to their home countries is immensely valuable. If London attracted fewer tourists in the long term, the effect on the rest of the UK would be significant.

Unlike other London specialisms that largely benefit the highly skilled, tourism provides a significant number of jobs to those less qualified than average. Data indicates that the sector has one of the highest training expenditures per employee, and quickly growing involvement with apprenticeships.⁸⁸ However, Brexit threatens the continued success of the tourism industry, creating widespread uncertainty around visitors' ease of access to the country.⁸⁹

Tourism is also highly dependent on aviation, an carbon-heavy industry with few feasible paths to decarbonisation in the short term. A sustainable alternative that could allow tourism to grow while shrinking its negative impact on the climate would be to encourage the growth of international rail to the United Kingdom, including journeys beyond London.

Productivity and skills

With certain changes, London could make even more of a contribution to the UK economy than at present. The city, like the rest of the country, is not uniformly productive – the outsized returns of the financial and professional services industries in London obscure areas of low productivity and, as a result, the low-wage insecure work discussed in Phase 1 of this project. Measured as GVA per hour worked, Wandsworth, Hackney, Newham, Redbridge and Waltham Forest all have productivity below the average for England.⁹⁰ In fact, since 2010 London's productivity growth has fallen behind the rest of the country, illustrating the long-term chilling effects of the 2008 financial crisis on the city.⁹¹

It will not be a simple task to level up productivity in London – but it is necessary. If we want London to power the extraordinary economic transformation of the country that levelling up entails, we need the city firing on all cylinders. This will require significant investment in education and skills, within the city as well as outside it. The success of London's universities has supported the capital's economic growth, but there is much more to do, particularly on further education.⁹² Skills are a major driver of productivity, so investment in education and training is well directed to address productivity shortfalls.⁹³ We discuss the improvement in London's school results between 2003 and 2011 below: a similar model of investment could have similar results across the country, especially if it focuses on technical and vocational education.

A levelled-up London would be a fairer and less deprived city. But crucially, it would also be a more productive city – well placed to power the transition to a stronger and more equal national economy. If we are serious about levelling up the United Kingdom, we must make best use of every asset we have.

5. London's social and cultural contribution



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Identity and national pride

Why identity matters to levelling up

London plays an important role in Britain's cultural life: it is home to the monarchy, national ceremonies, and many major sporting and artistic events. While this has positive benefits, there are also elements which are complex and contested, impacting how people outside London perceive it.

National and regional identities

Across the UK, people's identities are often complex and overlapping: they may see themselves as British, English, Scottish, Welsh or Northern Irish, or as being from a particular region or city. In many cases these identities are overlaid with identities from the countries that people (or their families) have come from. Polling data shows that Londoners are less likely than people elsewhere in England to identify as "English" – 63 per cent, versus 83 per cent in southern England and 84 per cent in the North.⁹⁴ For many Londoners, their "London" identity is more important than being English or British, with 46 per cent giving this as their primary identity⁹⁵ (although some people may identify more with sub-areas like south or west London).⁹⁶ This strong regional identity is by no means unique to London, and regional identities are particularly strong in Cornwall and (to a slightly lesser extent) Yorkshire.⁹⁷ In many ways shared identities can be a good thing, reflecting a strong attachment to place and perhaps a sense of shared values. However, they it may also make it harder to build bridges and connections between London and other parts of the UK.

Moments of national unity

London is home to many of the UK's key institutions and buildings: national government, the monarchy, Westminster Abbey, St Paul's Cathedral, the Cenotaph, and so on. This concentration of national institutions in London can be a problem: as we argued in our previous report, it can lead to "London" being used as a shorthand for national government, finance institutions, or other decision makers – thereby muting the experiences of Londoners who don't have money or power.⁹⁸ Yet it can also help to build feelings of pride and positivity about London. At a distance of ten years, the Olympic Opening Ceremony of 2012 stands out as a high-water mark of national pride centred on London: at the time, 64 per cent of people said it made them "proud to be British", with only 10 per cent saying it did not.⁹⁹

Other moments are important to national identity too, especially events associated with Remembrance, royal weddings, and jubilees. The lying-in-state and funeral of Queen Elizabeth II drew the country's attention, and the world's, to London. It was an immense feat of organisation as well as a huge moment in our nation's history – with 28 million people in the UK estimated to have watched on television¹⁰⁰ and 250,000 to have queued to see the Queen's coffin in Westminster Hall.

Culture and arts

Why culture and arts matter to levelling up

London is home to many of the UK's major cultural institutions, but it is also – like every part of the country – home to smaller places and organisations used by local communities. Strengthening cultural institutions outside London makes sense, but undermining London's own cultural offer does not: it is important to tourism, to the economy, and of course to local communities across the capital.

Culture and arts: London's contribution

It is impossible to separate the success of London's cultural and artistic communities from the success of the city as a whole. Museums, galleries and live performances are a key draw for many international tourists, with four in ten saying that this is their main reason for visiting.¹⁰¹ They are also an important draw for visitors within the UK: in 2019, the last full year before the pandemic impacted travel patterns, London recorded 12 million overnight visitor trips from within England, Scotland and Wales (not including the many people who visit for less than a day).¹⁰² The arts are profitable too: the screen industry in the "Metro London" area (London plus Bedfordshire, Hertfordshire and Surrey) contributes £18bn a year to the economy and employs about a quarter of a million people.¹⁰³ The sector has grown in London in recent years alongside growth in other areas of the UK: as we argue above, economic success does not need to be "either/or", and there is great potential for specialisation within as well as between industries.

Culture and arts: challenge and risk

More fundamental – though harder to measure – is the importance of arts to the lives of families and communities: to support learning for adults and children, to address challenges and change, to build relationships within and between groups of people, and also simply to have fun. Despite the concentration of major cultural hubs in central London, the proportion of people in London engaging with the arts in person at least once in the last year is the lowest of all UK regions – 68 per cent, compared to 87 per cent in the South West.¹⁰⁴

Although London receives a lot of funding from the Arts Council, much of it goes to central London's national institutions. These are major draws for visitors from elsewhere in the UK and overseas, but they aren't necessarily very accessible to Londoners themselves: they can take a long time for people in outer London to get to¹⁰⁵ and many have high ticket prices.¹⁰⁶ Cuts to London's arts funding – including the allocation of all additional Arts Council England funding over the next three years to places outside London, and the movement of £24 million of investment outside the city – risk making it even harder for low-income Londoners to access the arts.¹⁰⁷

6. Learning and social mobility



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Why social mobility matters to levelling up

In the last few decades, education has been a real success story in London. This is especially so for children from more deprived backgrounds, which has in turn increased social mobility in the city. There may be lessons from this success for the rest of the country – but it is clear that the improvement is in large part due to investment, and it is at risk if budgets decline.

Schools, colleges and universities

London achieves highly in the 2017 Social Mobility index (the most recent available), with 23 out of 32 boroughs ranked in the top 10 per cent for social mobility.¹⁰⁸ Although this is largely down to success during the school years, London's universities are also very successful in driving social mobility: according to the Institute for Fiscal Studies, all of the ten strongest universities for social mobility are in London.¹⁰⁹

This educational success is relatively new. In 2001, London was the lowest-performing region in England at GCSE level, and by 2013 it was the highest performing.¹¹⁰ This pattern has held true for the last two years compared to other regions in England: differing levels of disruption from coronavirus explain part of the difference, but the pattern was set well before the pandemic.¹¹¹ The gap in GCSE performance between children on free school meals and their peers not on free school meals is about half the size of the gap in the rest of England – though of course any gap at all should concern us.¹¹²

Researchers have different theories to explain this “London advantage” – some put it down to the success of targeted initiatives like the London Challenge, as well as the impact of broader schemes like Teach First and academisation.¹¹³ Others put it down to the different ethnic composition of London, and others to the beliefs and behaviours of students and parents.¹¹⁴ This makes it hard to say how far London's success is replicable in other areas – but it seems very likely that a combination of public investment and policy focus have made a real difference.

Working lives

Although social mobility in London is strongly driven by school and university achievement, its presence throughout adults' working lives is weaker. For example, although Newham was in the top 10 per cent of areas for social mobility, it was ranked 323 out of 324 in the adulthood life stage.¹¹⁵ Even with good qualifications, it can be hard for people from less advantaged backgrounds to get highly paid jobs, while high housing costs and long travel times make it difficult for people to move around within London to pursue a better paid opportunity. As discussed above, the people who move to London for work or study tend to be relatively well off. While London successfully drives social mobility for its own residents, it is not an engine of mobility for the UK as a whole. Moreover, it is hard to see it becoming one without first reducing the mismatch between property prices and incomes for lower-paid jobs. This is another argument for increasing productivity and job creation elsewhere in the country, but not for removing support from the Londoners who very much need it.

Recommendations and ideas

The last few months have seen unprecedented political changes for our country, and at the time of writing (October 2022) it is difficult to predict what will happen next. It seems very likely that the specific language of levelling up will fall out of favour, but the priority of creating stronger local economies that can support growth and productivity will remain – as will the challenges that come from inequalities between people and places. These recommendations are concerned with ways that leaders in central, regional and local government can work together to build success across the UK.

For central government

- Treat economic development as **growth-based, rather than zero-sum**: gains to productivity and growth across the UK do not need to come at the expense of London or any other place.
- Recognise that London is a net contributor of taxes and prioritise **maintaining the tax base**, especially from corporations.
- Allow London regional government to **raise more money from within the region** to fund public transport and other major infrastructure projects, as happened for the Elizabeth Line.
- Make decisions about funding and other support for public services based on **transparent, needs-based criteria**, and minimise the use of competitive funding pots.
- Prioritise **investment in skills** to build social mobility and economic growth across the UK, building on (but not undermining) the success of London's schools.
- Avoid public communications that focus on difference and division between regions or social groups: **unifying language is more helpful** at a time of serious national challenge.

Specific recommendations for addressing poverty and need in London appear in our Phase 1 report for this project, *Challenges for London and Londoners*.

For the GLA, London local authorities, and other London organisations

- Seek to **collaborate and learn with organisations in other parts of the country** – based on similar profiles within their populations, or similar economic opportunities.
- Where possible, avoid public statements about competing for public spending with other local authorities, and **emphasise connections and shared challenges** within and between London and other regions.
- Based on our focus group research, we advise organisations **talking about London** with a public audience across the UK to:
 - Emphasise London's diversity and its cultural offer when encouraging visits from people elsewhere in England.
 - Emphasise London's international and tourist status when speaking about its contribution to national life. Put less emphasis on London's tax/spending contribution or the role of the political and financial institutions based here.

- Point to shared values, shared moments of celebration and shared concerns between people who live in London and those outside the city.
- Acknowledge that London isn't perfect, and that it can be polluted and expensive – showing that Londoners and non-Londoners agree about these issues.
- Speak about the opportunity London offers – but recognise that this doesn't work for everyone, and that the city needs to be a better place for people on low incomes.
- Acknowledge and support calls for projects that bring opportunities closer to where people live, both inside and outside London.
- Speak about different places and people within London, using stories rather than statistics to talk about poverty and need.

This report raises questions about how power should be shared between central, regional and local government in London and beyond. Centre for London is planning to address these in a separate project on London governance in 2023.

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