2026: London's place in the UK economy

SMF commissioned research for London First

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Preface

London First was set up nearly 25 years ago to make London the best city in the world to do business. At its conception the viability of London as a world city was in question. Now London is at the front rank of global cities, with the ability to grow further and to spread growth and highly skilled jobs throughout the UK.

This report takes an optimistic look ahead, if we get the industrial policies right we can continue to create high skilled jobs at the rate we were before Brexit. So this report looks at what that future will be like so we can better prepare for it, especially playing into the government's industrial strategy.
25 years ago no one talked of the London economy, there was the City and the West End. Now there are hotspots of innovation across the capital, from finance in the City to tech in the east to creative in Soho – there is barely a square of the monopoly board which isn't now as costly as Park Lane.
London has seen its economy expand in both size and diversity, all the while raising the skills level to the point where we arguably house the greatest concentration of talent in the world. And this is projected to rise even further by 2026. All this requires plenty of servicing and, as the research identifies, there is already £126bn a year in goods and services that London effectively buys in from the rest of the UK.

But this activity is not confined to London. As the report shows, in towns like York and Cardiff a tenth of jobs come from companies headquartered in London. Firms like HBCS, KPMG, JP Morgan and many others are increasingly basing substantial UK operations outside the capital, two thirds of financial service jobs, three quarters of tech, comms, creative and almost three quarters of professional service and science related jobs are located outside of London – so the London economy is a reflection of the whole economy and the need for ever greater collaboration is evident. And because of the similarities between London and the rest of the UK, all parts of the country will need more highly skilled people, particularly in technology, law and finance. In short, when it comes to skills, Brexit, migration and industrial strategy, there is a very common cause to pursue between London and the rest of the UK.

For us to achieve the future we depict, we all have a role to play. Businesses and government needs to do more to spread future employment growth around the UK, to help build the skills necessary around the country. We also need to build the infrastructure that knits our country together; and we need to ensure the migration system is consistent with our vision and is backed up by an industrial strategy that benefits every part of the country and every part of the economy.
London First will use this early thinking to open up conversations with National and Local Government, businesses and entrepreneurs about what they want from the London economy of the future.

We thank Danny Lopez and the team of entrepreneurs and experts that led this process. We wanted to test our thinking with the disrupters and the innovators of the future. Our industrial strategy and our Brexit stance must reflect the needs of future workers, future sectors and not just incumbents.

Will Higham, Director of Campaigns, London First

Foreword

London is home to world class digital, tech and creative industries which benefit from the wealth of talent from across the UK and globally. For a business like Blippar, London was the obvious place from which to start because of the unique mix of industries, talent and innovation on our doorstep. This is not however something we can take for granted.

Earlier this autumn, the business organisation London First asked me to chair a taskforce of entrepreneurs and experts to lead a piece of work we hoped would feed into both the new industrial strategy and future Brexit negotiations. Amid all the detail, conflict and vested interests we felt it was important to highlight the issues we think matter most.

This report has been written within a positive and constructive context. It seeks to build on the dynamism of London's workforce, a strength that has set us apart from so many other capital cities for centuries. We have tried to focus on the big questions that need to be addressed, as well as our strengths and the reasons why we should remain optimistic about the future ahead.

We have carried out this work with the whole of the UK in mind. We show that growth in London does not necessarily come at the expense of the rest of the country. In fact, it is important to understand that there are huge synergies between our nations and regions and that a roadmap for the capital should be developed in true partnership with the rest of the country.

At a time of uncertainty, when emotions are running high, there is more debate than there is action. We hope this report will provide a helpful contribution to the discussion but more importantly, be a catalyst for positive action.

I would like to thank the Social Market Foundation, the members of the taskforce and London First for their contribution in pulling this report together and I look forward to working with all concerned to ensure London and the UK fulfils its potential in the years ahead.

Danny Lopez, Chief Operating Officer, Blippar

Introduction and summary

Since the vote to leave the EU, there has been an understandable focus on economic risk to London and the UK. Nevertheless the long-term opportunities created by the London economy are still likely to be very substantial, especially if the UK continues to be an open, trading nation.

This research, commissioned by London First, explores London's potential, focussing on the job opportunities London could generate in the years ahead. It examines the interrelationships, connections and complementarities between growth in London and growth in the rest of the UK, showing that the two go hand in hand. It then sets out the key questions and challenges that London and national policymakers need to answer to generate the conditions for London to fulfil its potential in the years ahead.

We find that London's workforce is highly skilled, with over 60% having higher education qualifications or equivalent, and a majority working in managerial and professional roles. Based on official Government projections, we develop a scenario for London's jobs growth over the coming ten years, achievable if policymakers are able to maintain a growth-friendly environment as the UK leaves the EU. Under this scenario, we estimate that 300,000 brand new jobs could be created over ten years, mostly in high skilled work. Taking into account the need to fill vacancies as people retire and leave the workforce, London could see 2.5 million job openings over the next ten years, or around 250,000 jobs a year, and most workers in these areas are expected to have degree-level qualifications. For context, this is equivalent to around two-thirds of the current number of annual first degree graduates domiciled in the UK.

At the same time, we also find that demand for high-skilled workers is set to expand across other parts of the UK, driven by ongoing technological change and trade, leading firms to focus on knowledge-intensive products and services. In this context, it is hard to see how such jobs in London and in the rest of the UK will be filled without some level of high-skilled migration, or a substantial expansion in higher education participation and adult learning above and beyond current expected trends.

There are striking similarities in the skills needs of London's economy and the rest of the UK. London growth is correlated with wider UK growth, and there are substantial similarities and interdependencies across regions of the UK. Sectors that are important to London also employ large numbers of workers across the rest of the UK. Two-thirds of financial services jobs are outside of London, as are 72% of technology, communications and creative jobs, and almost three-quarters of professional services and science-related jobs. Commuting patterns and longer-term population flows both into and away from London show the deep connections between London's economy and the rest of the country.

London businesses provide jobs and investment across both London and the UK more widely. For instance, London-headquartered businesses are responsible for 22% of private-sector employment in York, 19% of private-sector employment in Cardiff, and 19% in Cambridge. The average share across 62 different cities excluding London is just under 12%. There are also dense supply chain networks, with London a net "importer" of £126bn worth of goods and services from the rest of the UK.

In the final chapter of this report, we discuss implications for policymakers in four key areas:

- **Migration:** Restrictions on skilled migration will make it difficult to fill high skilled jobs demand. This is not just a London problem: all regions of the UK are expected to see substantial growth in demand for higher skills over the next ten years. Designing a flexible system that also works well for business will be important. Regional work permits could be considered, although there are complexities around public services that would need to be worked through. Beyond this, Government must also be wary of the detrimental effects of lack of certainty and perceptions of being made unwelcome among non-UK workers who are already here. Providing reassurances to such workers, and ensuring an efficient process for those wishing to apply for residence is vital to ensure that the UK does not lose many of the high-skilled workers it already has.
- **Making the most of skills in the UK:** It is also important that we do more to develop the skills we have in the UK. There has been much welcome focus on equipping young people. But much demand over the coming ten years is set to be driven by the need to replace those retiring. We should do more to help those in older age groups wishing to work for longer to do so. Workplace adaptations, flexible working, leave for carers, upskilling and guidance are all important elements of making this happen.
- **Infrastructure**: Infrastructure is vital in connecting people to job opportunities and businesses across the UK to each other. Investment in transport, housing, and digital will all make it easier for businesses to recruit the people they need and work with suppliers and customers up and down the country. This will help regions across the UK achieve their growth potential, and deepen economic links across regions.
- **Industrial strategy and trade negotiations:** London has substantial shared interests with the rest of the UK. The EU is the main destination for goods exports for all regions of the UK, and maintaining strong links to EU markets is important for the country as a whole. Furthermore, key services export sectors for London – financial services, technology, professional services and tourism - are important for regions outside London too. For instance, 55% of British financial services exports is estimated to come from outside London. Ensuring a climate that is supportive of these sectors is not just important for London, but would be a positive for the UK as a whole.

Chapter 1: London's Potential

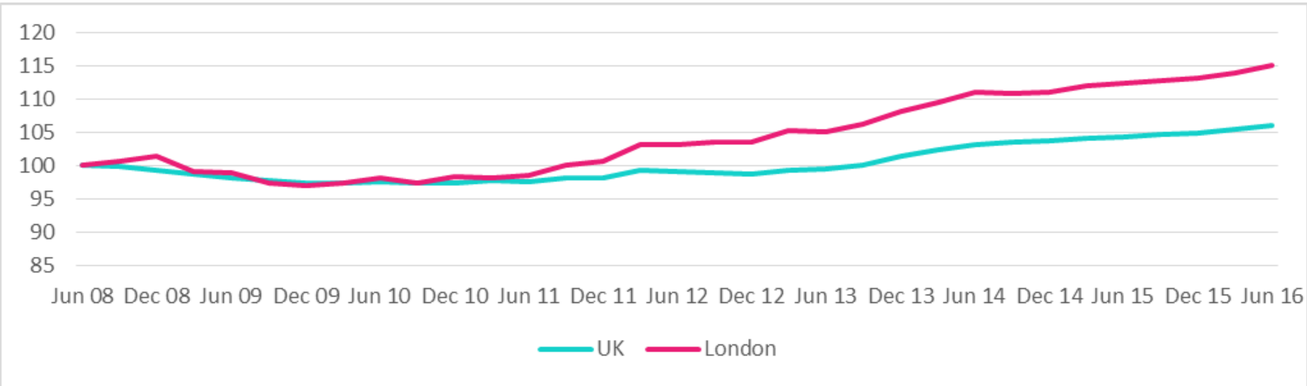
Key points

- **London is home to 5.7 million of the UK's 34 million jobs.** It has seen continued growth in jobs since 2011, recovering relatively quickly from the last downturn.
- **It is a highly skilled workforce,** with the majority of the workforce holding higher education qualifications or equivalent (62%), and in managerial, professional or associate professional occupations (58%).

London today

London is home to 5.7 million of the UK's 34 million jobs.[i] It was an especial success story after the last downturn in 2008-09, recovering quicker than average compared the UK as a whole, and delivering consistent jobs growth since 2011. London how has 15% more jobs than it had before the last recession.

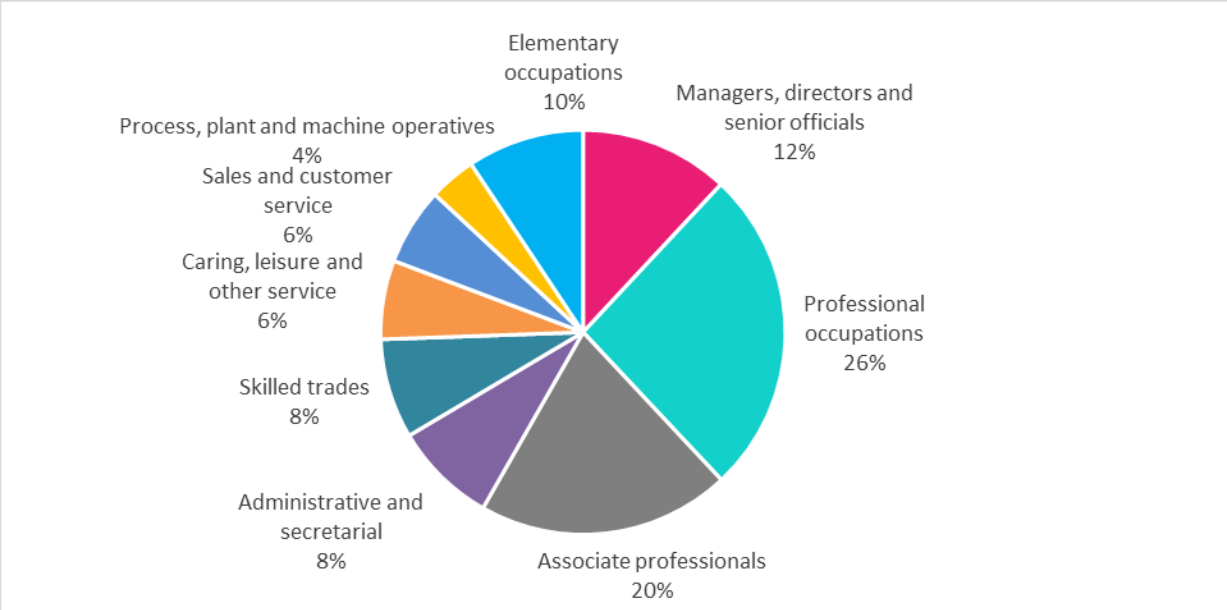
Chart 1: Jobs growth in London and the UK (2008=100)



Source: Calculations based on ONS, Workforce Jobs by region and industry, September 2016 release. Number of jobs indexed to 2008.

On average, earnings in London stand at £671 a week, the highest in the UK (median earnings, pre-tax 2016).[ii] London has a highly-skilled workforce, with 58% of jobs being managerial, professional or associate professional occupations, as shown in the chart below.

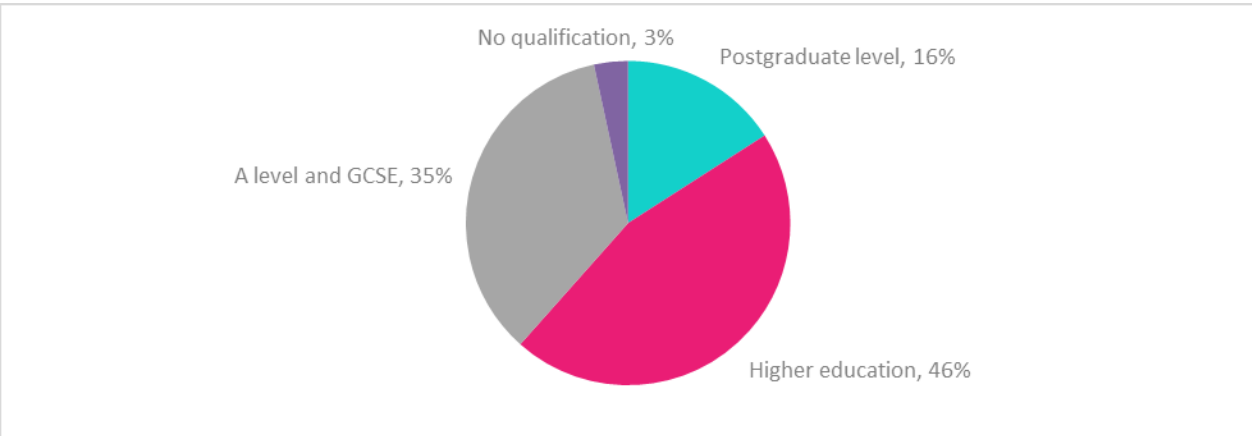
Chart 2: London jobs split by occupation type, 2016



Source: Calculations based on UKCES, Working Futures

Unsurprisingly given the types of jobs available, **62% of those employed in London have some form of higher education or equivalent, including postgraduate level**.[iii] Just over a third have A-level or GCSE level qualifications only, and only 3% have no qualifications. London is particularly attractive to non-UK workers, with 13% of its workers born in the EEA. On average, EEA workers have higher qualifications compared to the UK-born population.[iv]

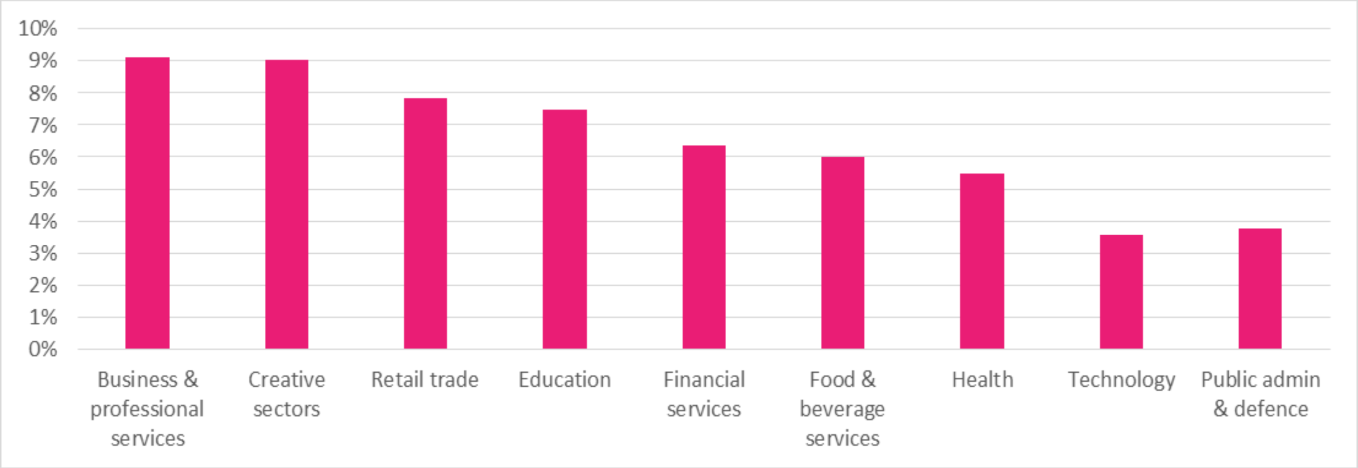
Chart 3: London jobs split by qualification level, 2016



Source: Calculations based on UKCES, Working Futures. Note: higher education or equivalent; includes QCF4 and above

A wide variety of sectors make up London's jobs. The chart below shows the largest industry areas as a proportion of total workforce in 2016. Particularly important job areas for London include business & professional services (9% of jobs), creative sectors (9%) and retail (8%).

Chart 4: London jobs split by industry area, 2016 (largest industry areas only)



Source: Calculations based on UKCES, Working Futures. Financial services include people working in finance, insurance and auxiliary financial activities. Business and professional services includes legal, accounting, head offices and management consultancy. Technology includes people working in computer programming and information services industries. Creative sectors include people working in the following industries: advertising, architectural & related activities, arts, entertainment broadcasting, film, music, libraries, museums and publishing. We have not included creative occupations in non-creative sectors.

London in 10 years' time

The nature and type of jobs are changing over time across the UK and in advanced economies, and a number of trends are expected to continue over the coming years. For instance, it is expected that the continued introduction of new technology, and especially automation, will affect what types of workers firms will need to recruit, increasing demand for high-level skills focussed on creativity and innovation.[v] International trade has tended to encourage firms to specialise and to compete through focussing more on knowledge-intensive products and services, again favouring high skills levels.[vi]

There is an increasing trend of technology convergence, creating new markets and novel applications of technology. An example is bioinformatics, which draws on a range of disciplines across computer science, statistics, biochemistry and physics. Sub-sectors at the intersection of the creative industries and hi-tech industries have grown especially well, at around 8% a year in the early 2010s.[vii] With a thriving tech and creatives sector, London could be especially well-placed to take advantage of these trends.

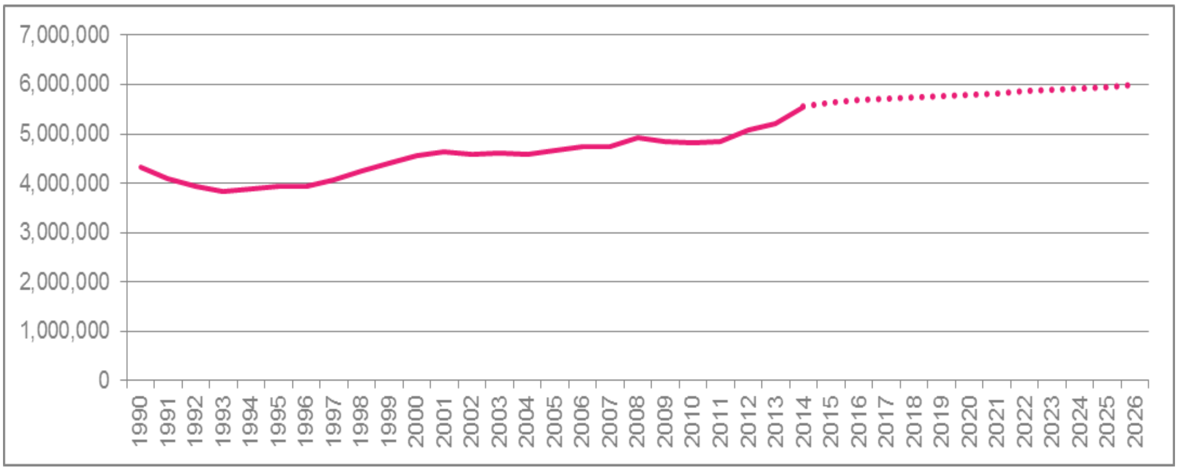
We have produced a scenario of the types of jobs that show the highest growth in 10 years' time.[viii] The analysis is based on the UK Commission for Employment and Skills (UKCES) Working Futures labour market projections.[ix] The UKCES data draws on the full range of official statistics to provide an employment baseline by sector, occupation, and local area, and uses economic modelling to forecast how these different dimensions are likely to evolve. These job forecasts are used to inform Government policy.

The most recent Working Futures projections were published in April 2016, before the EU referendum. They therefore do not account for the effect of Brexit on jobs growth. Since the referendum vote, near-term economic growth forecasts have been revised downwards as uncertainty has set in over the UK's future trade, regulatory and migration arrangements. A range of assessments as to the long-term effect of Brexit have been published predicting a range of effects from negligible (0.6%) to 7.9% of GDP.[x] The long to medium-term consequences of an exit from the EU are difficult to predict, but in the short term business inevitably faces a period of uncertainty which will have an impact on investment, jobs and growth. There is general consensus around a slowing of growth relative to pre-referendum forecasts. The Bank of England is expecting growth of around 1.5% over the years 2017 to 2019, whereas pre-referendum forecasted that economic growth would be around 2% a year for the rest of the decade.[xi]

We have not made adjustments to the UKCES forecasts in this respect, and so our scenario should be seen as an optimistic, but potentially achievable scenario for jobs growth, depending on the outcome of EU-related negotiations and wider policy. Growth by 2026 will depend on a range of factors, both EU-related, and non-EU related. Global economic performance will have an influence, as well as policy decisions at home, on regulation, migration, skills and infrastructure, to name a few.

Our calculations, based on these official projections, indicate that the **number of London jobs could rise from 5.7 million in 2016 to approximately 6 million in 2026** in this scenario. That means just over **300,000 brand new jobs being created** over the ten year period. This is a similar growth rate to that experienced during the early to mid-2000s.

Chart 5: London workforce projection to 2026



Source: Calculations based on UKCES, Working Futures

And in fact, the number of actual job openings is larger than the number of brand new jobs created, as job opportunities will arise to replace workers retiring and leaving the labour market. The UKCES Working Futures projections also forecast the number of workers expected to leave the labour market between now and 2024, based on current trends. Extending this forecast to 2026, we calculate that **just over 2.2 million job opportunities will arise to replace these workers** over the 10 year period.

Adding this to the total number of brand new jobs created gives **a total number of job openings in London of just over 2.5 million in the ten year period 2016-2026**. That is equivalent to around 44% of London's current number of jobs as of 2016.

Table 2: London job openings 2016 to 2026

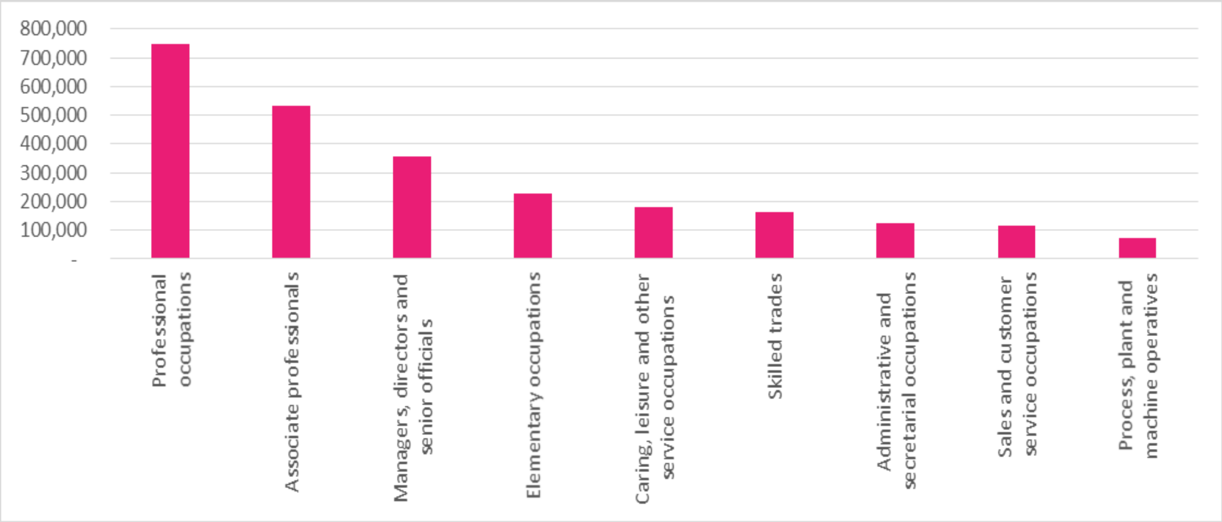
Brand new jobs created	310,000
Job openings to replace leaving workers	2,210,000
Total job openings	**2,520,000**

Where is the growth happening?

To examine growth areas in more detail, we further develop our future growth scenario by extending the Working Futures projections across occupations and sectors by an extra two years. As set out earlier, technological change, such as automation and international trade is increasingly leading firms to focus on products and services that require a high level of skill to produce and manage. Such automation is also expected to reduce demand for jobs where technology can easily replace labour. But at the same time, the possibilities brought about by new technology are likely to open up new business opportunities and new areas of demand, as technological change has done in the past. For instance, the development of fintech is opening up new types of financial services. The IT sector is expected to see increased demand for services. Areas such as consultancy are also changing, with technology enabling new products and services, for instance based on data analytics.[xii] This means that technology is not expected to result in a fall in the number of jobs available, but instead change the nature of jobs.

As a result, the largest number of openings are expected to be in jobs for **professionals, associate professionals and managers, directors and senior officials**. Together, these account for **65% of the job openings** over the 10 year period 2016 to 2026. As discussed in more detail below, some of these jobs are in sectors that traditionally employ a high proportion of high-skilled workers, such as in professional services, financial services and IT, but it is striking that many such jobs are also being created in sectors that are traditionally lower skilled such as retail and food & beverages.

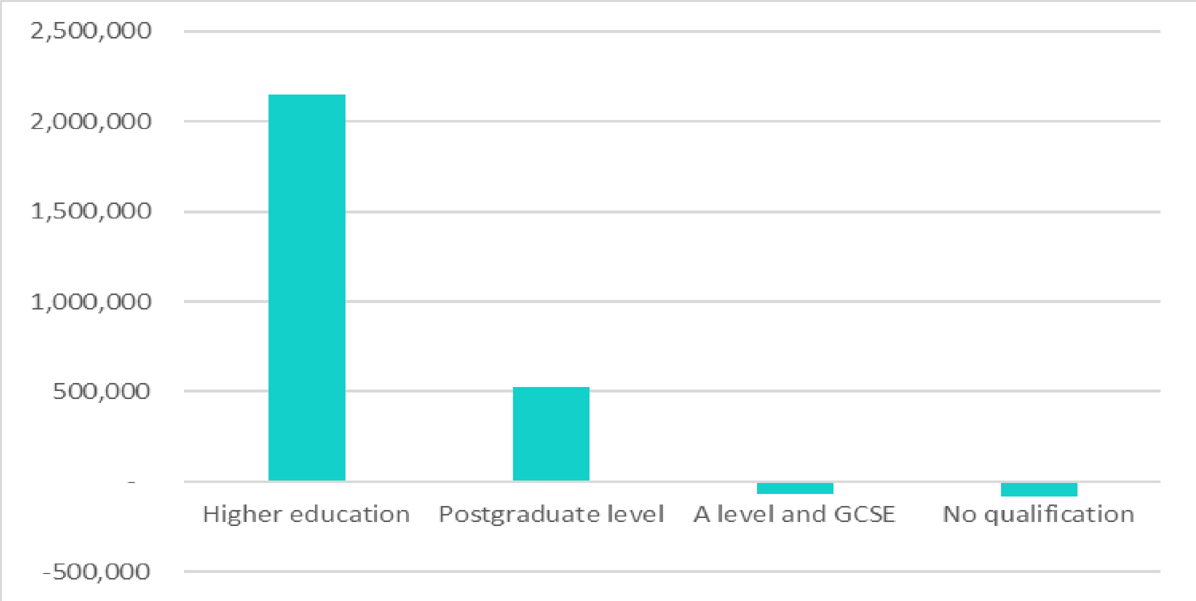
Chart 6: London 10 year job openings by occupation type



Source: Calculations based on UKCES, Working Futures

And unsurprisingly, this also means that **London's job openings are dominated by jobs requiring higher and postgraduate education**, as shown in the chart below. Net openings for those qualified at higher education level or equivalent are expected to number over 2.1 million, and for post-graduate, over half a million. In contrast, jobs requiring only A-level and GCSE level or no qualification are expected to shrink. Even the need to replace leaving workers does not make up for the job destruction that is set to happen for jobs with these levels of qualifications. This is likely to reflect a number of factors, including the increasing upskilling of jobs and the shift towards completing higher qualifications among younger age groups, compared to those nearing retirement.

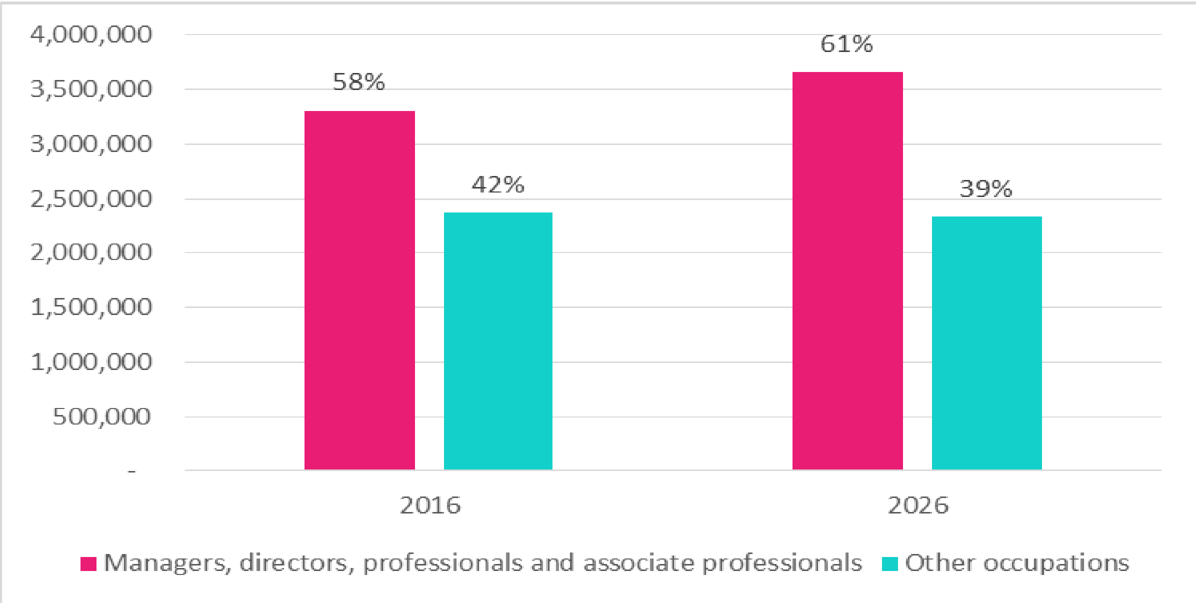
Chart 7: London 10 year job openings by qualification



Source: Calculations based on UKCES, Working Futures. Note: higher education or equivalent; includes QCF4 and above

This means that whilst London already has a high skilled workforce, its dependence on high skills is likely to become further entrenched over time, as shown in the charts below. The proportion of jobs falling into the manager, director, professional and associate professional category rises from 58% to 61%, whilst the importance of other occupations shrinks.

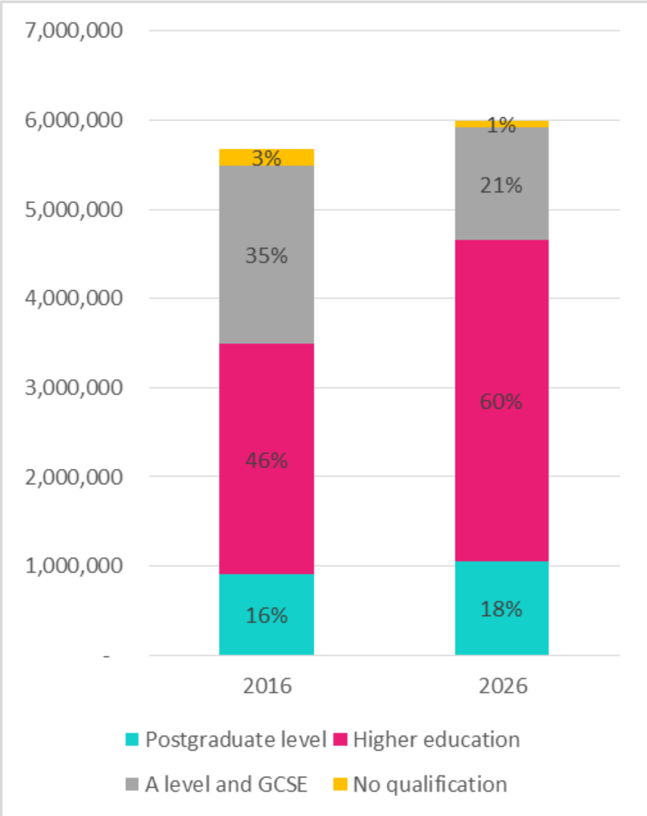
Chart 8: London's occupational shift



Source: Calculations based on UKCES, Working Futures

The trend is even clearer when looking at qualifications. Already, **those with higher education and postgraduate degrees or equivalent account for 62% of jobs. That is expected to rise to 78% in 2026 under our scenario.**

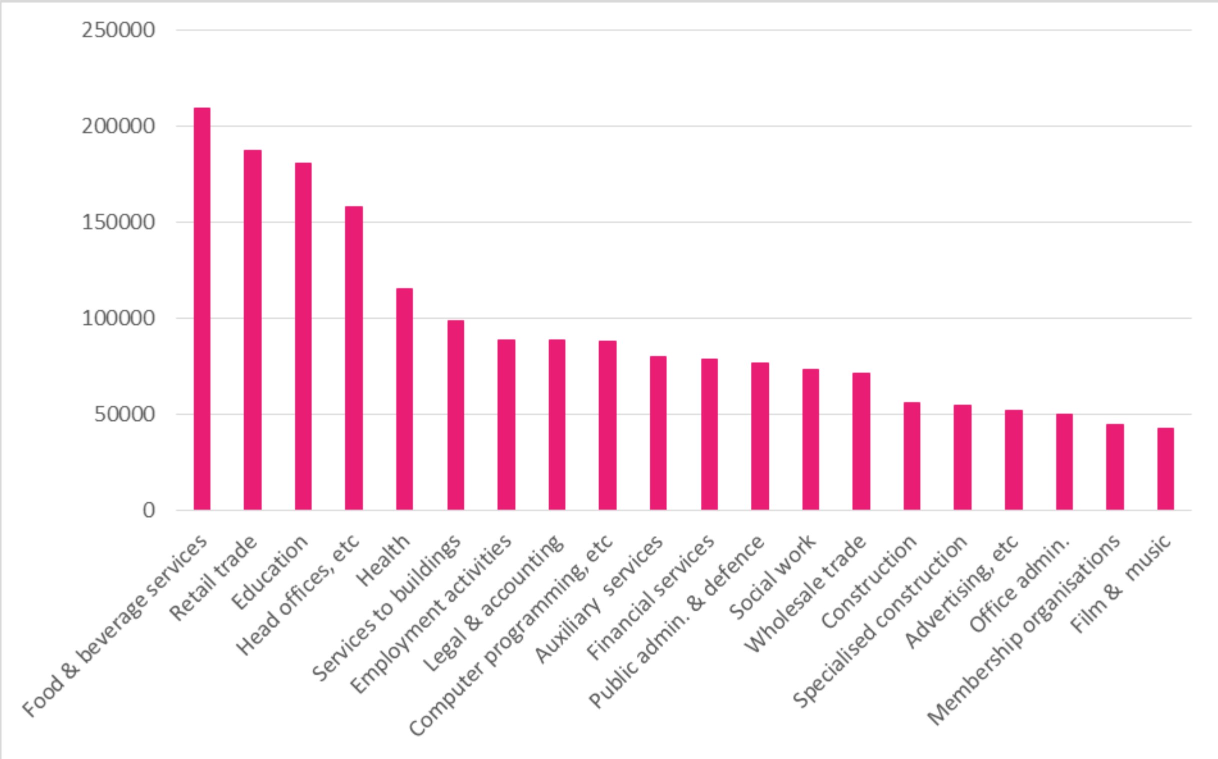
Chart 9: London's qualification shift



Source: Calculations based on UKCES, Working Futures. Note: higher education or equivalent; includes QCF4 and above

Looking at the industries where jobs are expected to open up, many are in sectors that are already large, including food and beverage services – which includes restaurants, pubs and bars (210,000 openings) and retail trade (190,000 openings). **Whilst retail and food and beverage services tend to have high numbers of low-skilled jobs, it is notable that both sectors are following the wider trend of jobs moving up the skills grade.** For instance, 45% of the job openings in retail are expected to be at managerial, professional and associate professional level, despite the fact these high-level occupations only account for 33% of the current retail workforce in 2016. For food and beverage services, around 20% of job openings are expected to be at managerial, professional and associate level, with 14% of jobs at that level now.

Chart 10: London 10 year job openings under our optimistic, achievable scenario, by industry (top 20 industries by total job openings only)



Source: Calculations based on UKCES, Working Futures

Overleaf, we look in more depth at some of the key sector areas relevant to the London economy. Whilst most are expected to see stable or slightly higher than average growth compared to London's economy as a whole, what is especially striking is the continued movement towards higher skill occupations within sectors. This is especially true in financial services and the creative sector. These figures represent the level of the growth that might be expected if current trends are maintained. However, there are many uncertainties ahead, given the UK's impending exit from the EU. The scale of any changes will depend on the outcome of negotiations over trade and migration, and indeed, more broadly, future decisions of policymakers.

Table 3: Jobs growth in key London sectors

	2016 jobs	Brand new job creation	2026 jobs	Total job openings (brand new jobs + replacement demand)
Financial services	361000	28000	389000	182000
% of total	6.4%	8.9%	6.5%	7.3%
Business and professional services	518000	37000	554000	247000
% of total	9.1%	11.8%	9.3%	9.9%
Technology	202000	27000	229000	106000
% of total	3.6%	8.58%	3.8%	4.26%
Creative	514000	25000	539000	223000
% of total	9.1%	7.94%	9.0%	8.96%

Source: Calculations based on UKCES, Working Futures. Numbers of jobs rounded to nearest 1,000.

Financial services (including insurance and auxiliary financial activities)

As set out earlier, together, **finance, insurance and auxiliary financial activities** (which includes agents, brokers and advisers) make up 6% of London jobs in 2016. Over the coming years, the sector is expected to increase in size, creating 28,000 brand new jobs, just under 9% of job creation. Once openings created due to retirees are factored in, the number of openings is expected to number just over 182,000 in total, equivalent to 7% of job openings.

Of these job openings, 82% are expected to be at managerial, professional and associate professional level. That compares to 74% of jobs which are at that level in 2016.

Business and professional services industries

In 2016, **legal and accounting** make up 4% of jobs in London. **Head offices and management consultancy** make up 5% of jobs, meaning that in total, these business and professional services industries make up 9% of London's employment. Just under 37,000 brand new jobs are expected to be created in this areas, just under 12% of new job creation.

Once openings created to replace retiring workers are factored in, total job openings in these areas are expected to number 247,000, or around 10% of the total number of London job openings. Of the two, jobs in head offices and management consultancy are expected to see the most growth, rising from 5% of London jobs in 2016 to 6% in 2026. Unsurprisingly, over 90% of jobs in these areas are at managerial, professional and associate professional level.

Technology

In 2016**, technology,** made up of computer programming and information services makes up just under 4%of jobs. This sector is expected to remain relatively stable in terms of its contribution to London's workforce, but it is still expected to be responsible for 106,000 job openings, or around 4% of total job openings.

84% of these job openings are expected to be at managerial, professional and associate professional level. This is in line with the current make-up of jobs in the sector.

Creative sectors

Creative sectors, made up of advertising, architectural & related activities, arts, entertainment, broadcasting, film, music, libraries, museums and publishing together make up 9% of London jobs (just over half a million jobs). The sector is expected to grow over the coming years, at a slightly slower pace than average.

However, as a whole they are still expected to account for 9% of job openings, or 223,000 in total. Within the creative sector as a whole, the three largest contributors are advertising (52,000 job openings), film and music (43,000 job openings) and architectural and related (41,000 job openings).

As with many others sectors, the creative sector is also expected to see a shift towards managerial, professional and associate professional roles. These roles make up 87% of job openings, compared to making up 81% of the current workforce. The shift towards these higher skill roles is especially pronounced in advertising, where 91% of job openings are expected to be at those higher levels, compared to 81% of current jobs, and in publishing, where again, 91% of job openings are expected to be at those higher levels, compared to 83% of current jobs.

In conclusion, London is a highly skilled workforce, and is set to become more skilled over the coming years. London jobs growth is expected to continue, with the potential for 2.5 million jobs to open up over the coming 10 years. In the next chapter we look at the links between growth in London and growth in the rest of the UK, and ask whether one has to come at the expense of the other.

Chapter 2: London and the UK

Key points

- London has strong links to the rest of the UK economy. There is a strong positive correlation between growth in London and growth in the rest of the UK, especially the South-East, Northern Ireland, the East of England and the East Midlands.
- Several important sectors for London also employ large numbers of workers across the rest of the UK. Two-thirds of financial services jobs are outside of London, as are 72% of technology, communications and creative jobs, almost three-quarters of professional services and science-related jobs.
- Commuting patterns show that London jobs provide opportunities to the wider region surrounding London. And whilst London acts as a magnet for young qualified workers, the situation is reversed for more experienced skilled workers in older age groups who are more likely to move out of London.
- London businesses provide jobs and investment across both London and the UK more widely. For instance, London-headquartered businesses are responsible for 22% of private-sector employment in York, 19% of private-sector employment in Cardiff, and 19% in Cambridge.
- There are also dense supply chain networks, with London a net "importer" of £126bn worth of goods and services from the rest of the UK.
- From a policy perspective, London has shared interests with the rest of the UK. All regions of the UK are expected to see substantial increases in professional and managerial jobs. The challenge of maintaining access to, and training, high-skilled workers is one that all UK areas face.
- Further, London has much in common with the rest of the UK as far as export strategies are concerned. The EU is the main destination for goods exports for all regions of the UK. And key services export sectors for London – financial services, technology, professional services and tourism are important for regions outside London too. For instance, 55% of British financial services exports is estimated to come from outside London.

Growing together

London is strongly linked to the rest of the UK economy. Ups and down in the London economy are part of the ups and downs of the UK economy as a whole.

Detailed analysis of these trends finds that **there is a strong positive correlation between growth in London and growth in the rest of the UK**, especially the South-East (as might be expected given its close proximity to London), but also with Northern Ireland, the East of England and the East Midlands.[xiii]

Chart 11: Growth in GVA by region, 1998 to 2014

ONS Regional Gross Value Added by Component and Industry

In the rest of this chapter, we discuss what drives these links in economic growth, looking at interdependencies in jobs and business growth, and looking at shared interests in what is needed to boost growth in the future.

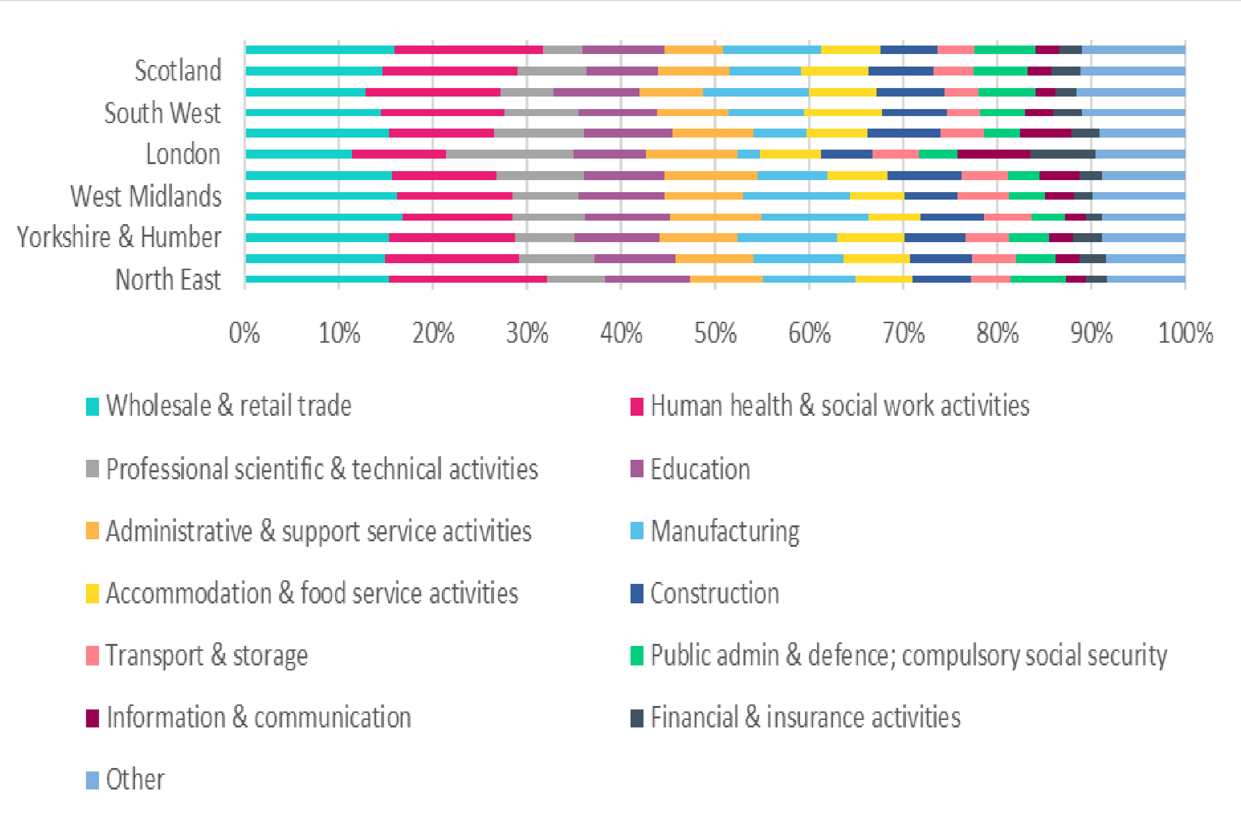
UK and London jobs today

UK and London sectors: not so different

London is often painted as a remarkably different part of the UK, with different jobs and industries. But if we actually look at the distribution of industries by region and nation of the UK, what is immediately clear is the great similarity in patterns across the UK. London is less manufacturing-focused than the rest of the country; but equally, there is no region or nation where manufacturing is dominant. London is the most dependent on services, with 91% of jobs in services. But all parts of the UK are service dependent, with the proportion of jobs in the services sector ranging from around 79% to 85%.

London is a service-based economy, but so is the rest of the UK.

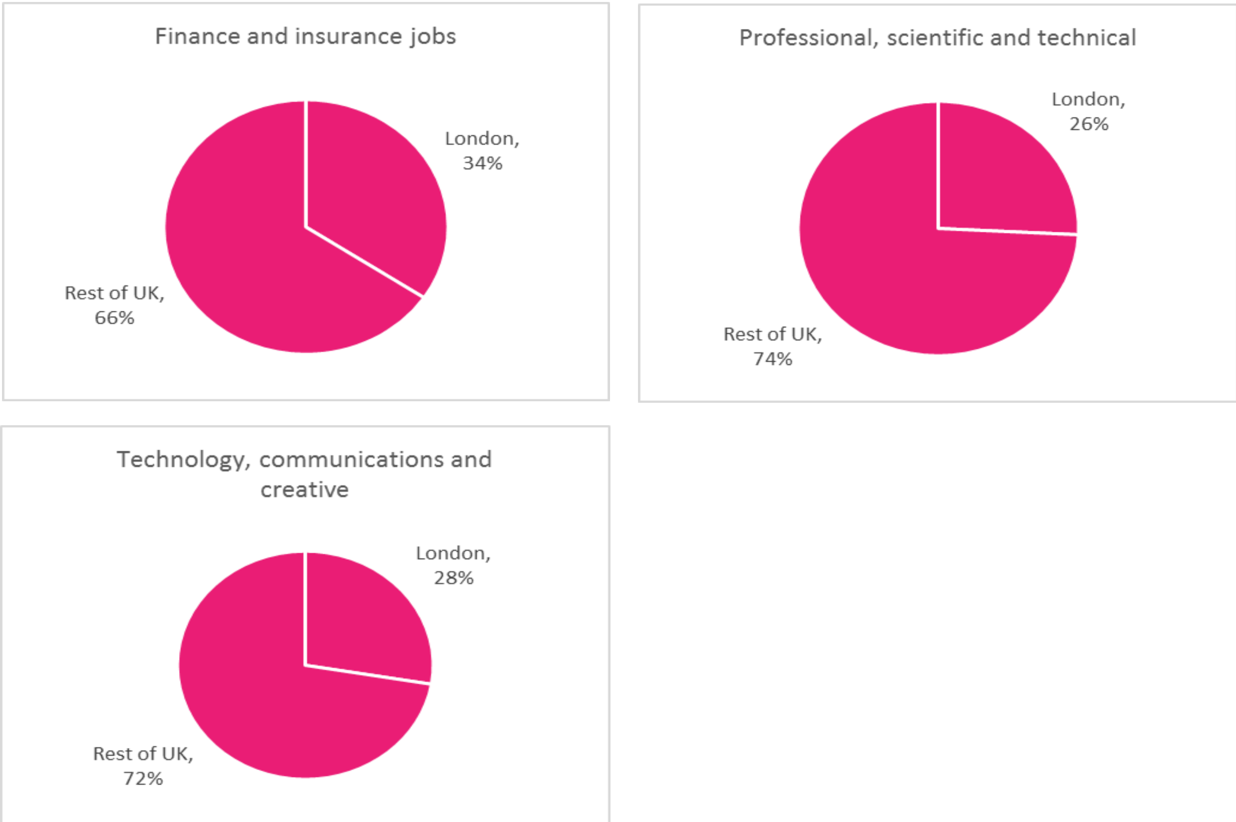
Chart 12: UK jobs by industry



Source: SMF analysis of ONS, Workforce Jobs by region and industry, Sept 2016 release

Whilst there are some sectors that are relatively more important for London in terms of number of jobs – financial services, technology and creative industries, and professional services – what is striking is how widespread jobs in these industries are across the UK as a whole, as shown in the charts below. **Two-thirds of financial services jobs are outside of London.** Other areas that are significant bases for financial services include the South East (13% of jobs), the South-West (8% of jobs), the North West (9% of jobs), and Yorkshire and Humber and Scotland (7% of jobs each). **72% of technology, communications and creative jobs are outside of London, as are almost three-quarters of professional services and science-related jobs.**

Chart 13: Breakdown of jobs by region



Source: SMF analysis of ONS, Workforce Jobs by region and industry, Sept 2016 release. Technology, communications and creative includes “information and communication” and “arts, entertainment and recreation”.

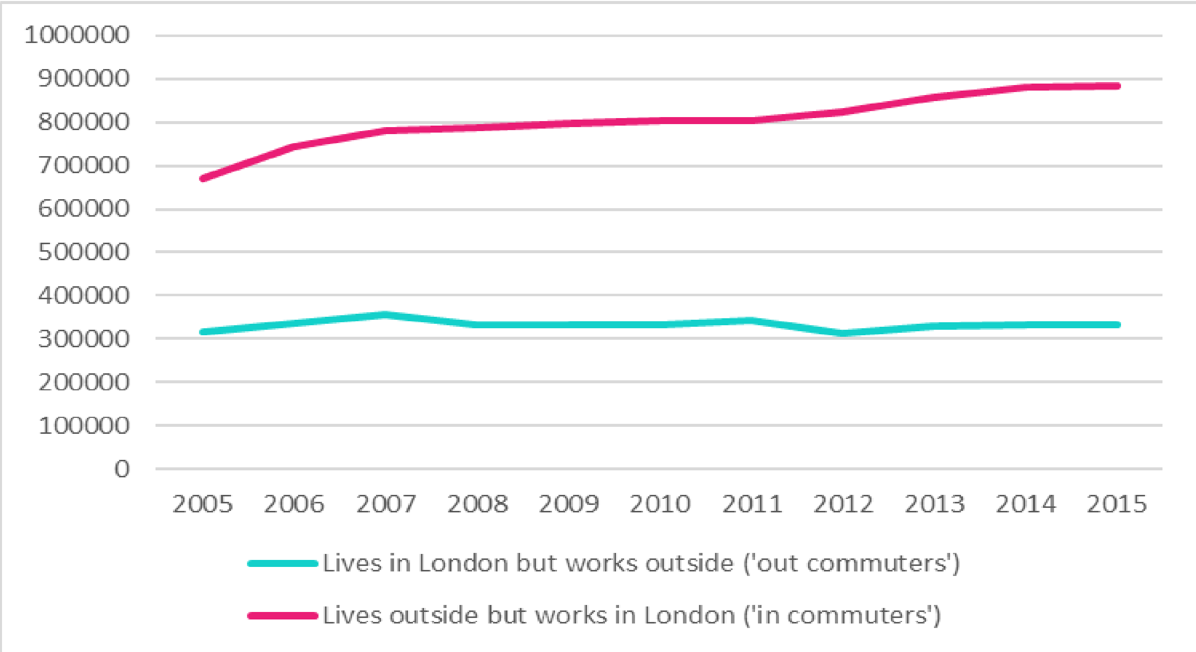
The boundaries of London’s workforce

Differences between London and the rest of the country are further blurred by the fact that London offers work opportunities to many people resident outside, who commute in. In terms of work and jobs, London’s boundaries go beyond its administrative boundaries.

Around two in ten of the jobs in London are taken by individuals who live outside London itself and commute in, compared to eight in ten jobs by those who live in the capital. Chart 14 shows how this has changed over time. The number of jobs going to those living outside London has grown by 32% in the last decade compared to growth of 23% in the resident population. There is also a pattern of commuting from London to outside areas; a third of a million (327,000) jobs outside the capital are taken by London residents, however, this level has remained relatively flat over the past decade. The trend towards more commuting shown in the chart below, based on ONS figures, suggests that the availability of potential workers living in London is increasingly limited, potentially constrained by the poor affordability of housing. Indeed, eight in ten[xiv] businesses in the capital believe that London’s high housing costs and housing shortage pose a risk to the capital’s economic

growth and seven in ten employers reporting concern about the impact of London housing costs and lack of housing supply on their staff recruitment and retention.
It also highlights the importance of good transport links from surrounding areas into London.

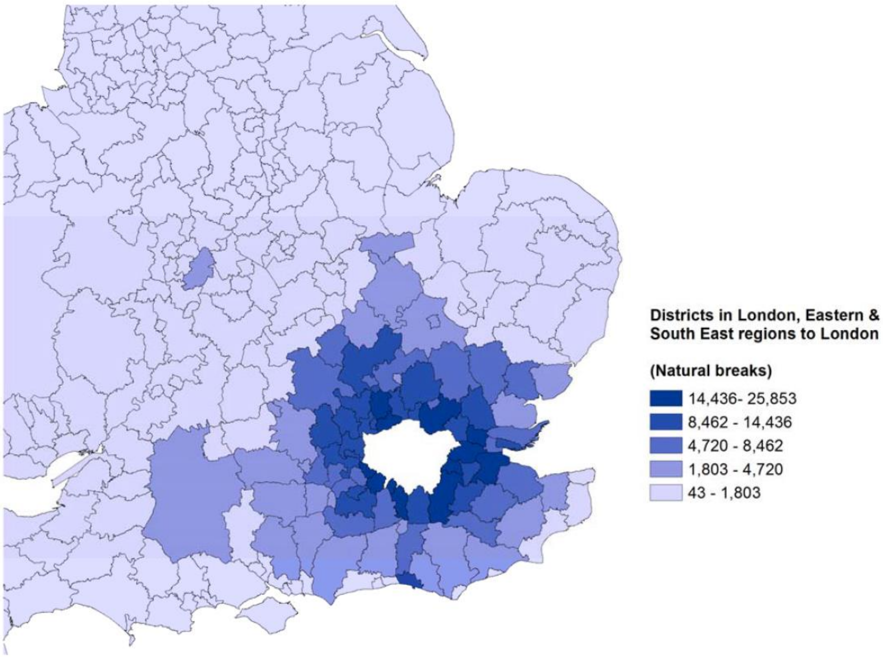
Chart 14: Estimates of jobs of commuters aged 16 to 64 living and/or working in London in 2004 to 2015, by commuting pattern



Source: ONS, London jobs by commuting pattern: 2004 to 2015 (2016).
http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/005564londonjobsbycommutingpattern2004to2015

As Chart 15 shows, there is significant commuting in to the capital from immediate outlier areas. Census data (from 2011) shows that Epping Forest, Thurrock and Elmbridge each has over 20,000 residents commuting to work in London.[xv] In 2014, almost half a million (445,000) people commuted into London from the south east region, whilst 363,000 residents travelled in from the eastern region. But, an estimated 69,000 people also travel longer distances to the capital from other parts of the UK. For instance, the Annual Population Survey estimates that 18,000 workers commute in from the South West, 14,000 from the East Midlands and 13,000 from the West Midlands.[xvi] Those commuting are older than the average London working population.[xvii] The level of reliance on workers living outside London varies significantly by sector: **29% of the financial services workforce travel in from outside the capital and 28% of those working in defence and public administration; compared to just 7% of those working in accommodation and food.**[xviii] The problem of high housing and living costs in London described above is likely to be especially difficult for workers in low-paid sectors like hospitality and retail to cope with.

Chart 15: Numbers commuting into London by local authority district



Source: GLA Intelligence, *Commuting in London*, 2014

Over time, as commuting times become quicker the level of interconnectedness is likely to increase further. For instance, HS2 is set to cut journey times from Birmingham to London to around 49 minutes, close to the average commuting time of London workers currently (45 minutes).[xix] This has the potential to further expand the job opportunities available to those living both inside and outside of London. The importance of commuting is returned to in Chapter 3, where we discuss implications for housing, transport and digital infrastructure.

Longer-term flows between London and the rest of the UK

The reach and attractiveness of the London jobs market goes beyond commuting. London is sometimes seen as a magnet for highly skilled graduates from the rest of the country. Analysis by WPI Economics shows that **London experiences a net inflow of highly qualified 18-34 year olds from other regions**, as shown in the table below, as does the South East & East of England. In each geographic area, the table shows the percentage of degree-level qualified individuals that moved out of the area to another region in the UK and the percentage that moved in from other parts of the UK. Additionally, it also shows the percentage of degree level qualified individuals that have moved in from outside the UK. The patterns show that London benefits from being able to “import” skills from other parts of the UK.

Across all areas, even those that see net outflows among UK-born individuals, it is notable that immigration has provided a boost to regional talent pools. Whilst the WPI study is unable to measure emigration outflows by region (where data is more limited), it is notable that immigration inflows plays a role in filling skill gaps, including in several areas that experience a net brain drain when looking at intra-regional flows only. This role of migration in filling skills gaps is an issue we return to later in the final chapter of this report.

Table 4: Annual flows of 18-34 year old individuals qualified at degree level or above, 2006 to 2015

	Intra-regional			Immigration in-flow	All
	Moved out %	Moved in %	Net flow %	Gross in-flow %	Moved in %
Wales	5.37%	3.20%	-2.17%	1.34%	-0.83%
South West	7.12%	5.16%	-1.97%	1.47%	-0.49%
Midlands	6.01%	4.84%	-1.16%	1.30%	0.13%
Northern Powerhouse	6.27%	5.26%	-1.01%	1.70%	0.69%
Scotland	3.79%	3.02%	-0.77%	1.77%	0.99%
SE / East	5.60%	6.30%	0.70%	2.17%	2.87%
London	5.89%	7.72%	1.83%	3.44%	5.27%

Source: WPI Economics Homes for the North report. Northern Powerhouse defined as regions in the North of England.

Notably, although the flows are smaller in size, the picture changes for highly skilled qualified individuals in the 35-50 year old category**. In the 35-50 year old age group London experiences a net outflow to the rest of the country before immigration is taken into account.** To some extent, this may reflect workers moving out of London, but continuing to commute in. However, it is notable that areas relatively far away from London also experience net inflows, suggesting that there are a range of motivations and drivers for moves between regions in this age group.

More broadly, the general pattern is one of younger graduates moving into London to take up work, and older, more experienced workers moving out, many to the South East and East, but also to other regions. For many highly skilled individuals, London may only be one stage of their careers.

Table 5: Annual flows of 35-50 year old individuals qualified at degree level or above, 2006 to 2015

	Intra-regional			Immigration in-flow	All
	Moved out %	Moved in %	Net flow %	Gross in-flow %	Moved in %
London	2.92%	2.33%	-0.59%	1.34%	0.75%
Midlands	1.64%	1.53%	-0.11%	0.55%	0.44%
Northern Powerhouse	1.59%	1.55%	-0.04%	0.55%	0.51%
Scotland	1.02%	1.12%	0.10%	0.59%	0.69%
South West	1.64%	1.82%	0.17%	0.52%	0.69%
Wales	1.09%	1.36%	0.27%	0.18%	0.46%
SE / East	1.53%	1.93%	0.41%	0.70%	1.11%

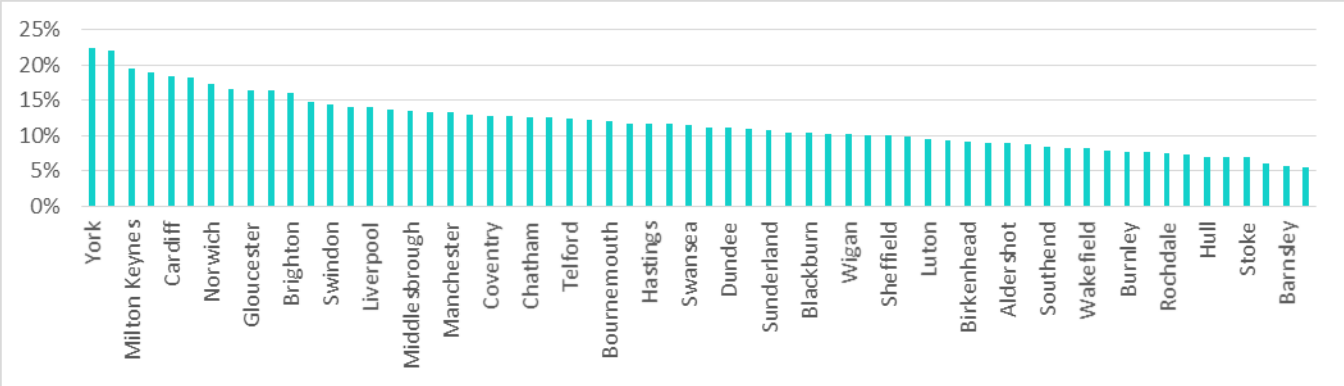
Source: WPI Economics Homes for the North report. Northern Powerhouse defined as regions in the North of England.

In summary, London's jobs sector make-up bears many similarities to that of the UK as a whole. And the extent of commuting and longer-term flows demonstrates much interdependence between regions. In the next section, we turn to look at links between businesses across the UK.

Business links between London and the rest of the UK

There are strong business links between London and the rest of the UK. Centre for Cities analysis shows that 80% of private-sector employment in London is in businesses headquartered in London. But these London headquartered businesses provide jobs outside London too. This could include London businesses setting up valuable business functions outside the capital, or non-London businesses opening London headquarters as they grow in size. According to Centre for Cities, **London-headquartered businesses are responsible for 22% of private-sector employment in York, 19% of private-sector employment in Cardiff, and 19% in Cambridge**. In fact, in all of the UK's other 62 cities (apart from London), London-headquartered businesses account for the largest share of private-sector employment compared to businesses headquartered in other cities.[xx] **The average share across 62 different cities excluding London is just under 12%.**

Chart 16: Proportion of private sector employment in a London HQed business, 2012



Source: Centre for Cities, Cities Outlook 2014. Note not all cities are labelled on the chart.

And in sectors that London does especially well in, there is anecdotal evidence that firms are increasingly setting up offices in other parts of the country. In some cases, these may be back office functions, but not always. In professional services, EY is planning to create 3000-4000 jobs outside London by 2019. 5,000 of Deloitte's 14,000 staff are outside London, and based in 23 offices across the rest of the UK.[xxi] In financial services, HSBC is planning to headquarter its UK retail banking arm in Birmingham.[xxii] Birmingham is also home to Deutsche Bank's e-commerce team and some its front-facing investment banking staff.[xxiii] In the creative sector, the BBC now has over half of its staff located outside London.[xxiv]

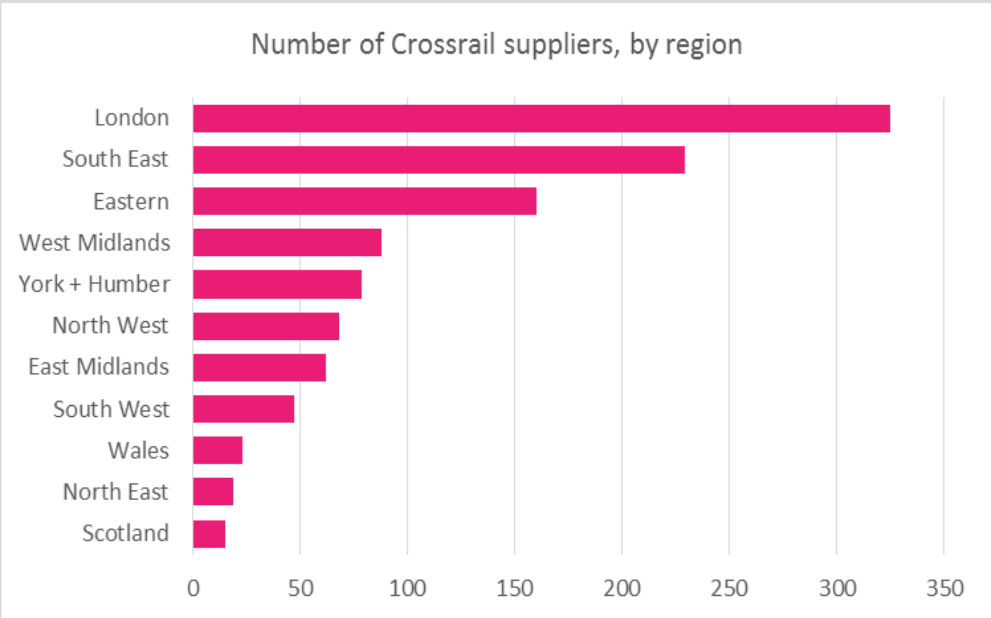
Beyond these direct connections, there are also strong supply chain links between London and the rest of the UK. **Estimates by the GLA suggest that London bought £405bn worth of goods and services from the rest of the UK in 2014, and sold £290bn worth** in 2014.[xxv] Overall, that means net purchases of just under £126bn from the rest of the UK, supporting regional business investment.

Chart 17: Exports and imports between London and the rest of the UK, 2014

Source: GLA, *Draft Economic Base*, 2016

Particularly prominent examples of these supply chain links include transport and infrastructure investment. For instance, London's Routemaster buses are made in Northern Ireland.[xxvi] Crossrail, the new rail line running east-west across London and the Home Counties, is also dependent on suppliers outside London. Of its 1,115 listed suppliers, 790 are outside London. Infrastructure investment supports business investment and growth elsewhere in the UK, as well as having local benefits.

Chart 18: Number of Crossrail suppliers, by region



Source: Crossrail published list of suppliers. Note the list is a sample of Crossrail's construction-related contracts and is not fully comprehensive http://www.crossrail.co.uk/supply-chain/text

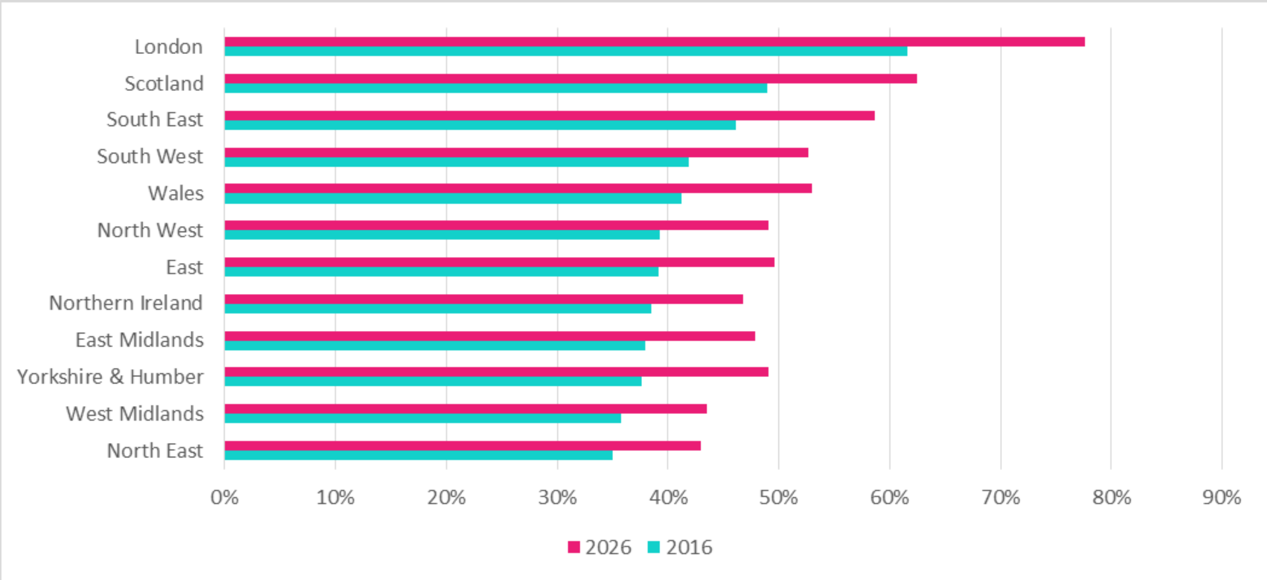
So far, this chapter has shown how strongly interconnected London is with the rest of the UK in terms of the jobs market and supply chains. Their fortunes are linked, and unsurprisingly that means that London and the rest of the UK have some shared interests in what is needed to create and maintain conditions for economic growth in the future.

Shared interests in skills development

Chapter 1 showed that London is expected to see especially fast growth in skill requirements, according to our analysis. However, London is by no means the only region to see a shift towards higher skills. The trend towards knowledge-intensive products and services, driven by technological change and increasing trade described in Chapter 1 also applies at the UK-wide level.

As shown in the chart below, the same calculations for other regions show that **all parts of the UK are expected to see an increase in the proportion of workers with higher education or equivalent**. London is expected to see a 26% growth in the proportion of workers with higher education qualifications. The areas with the highest growth are Yorkshire & Humber (30%) and Wales (29%).

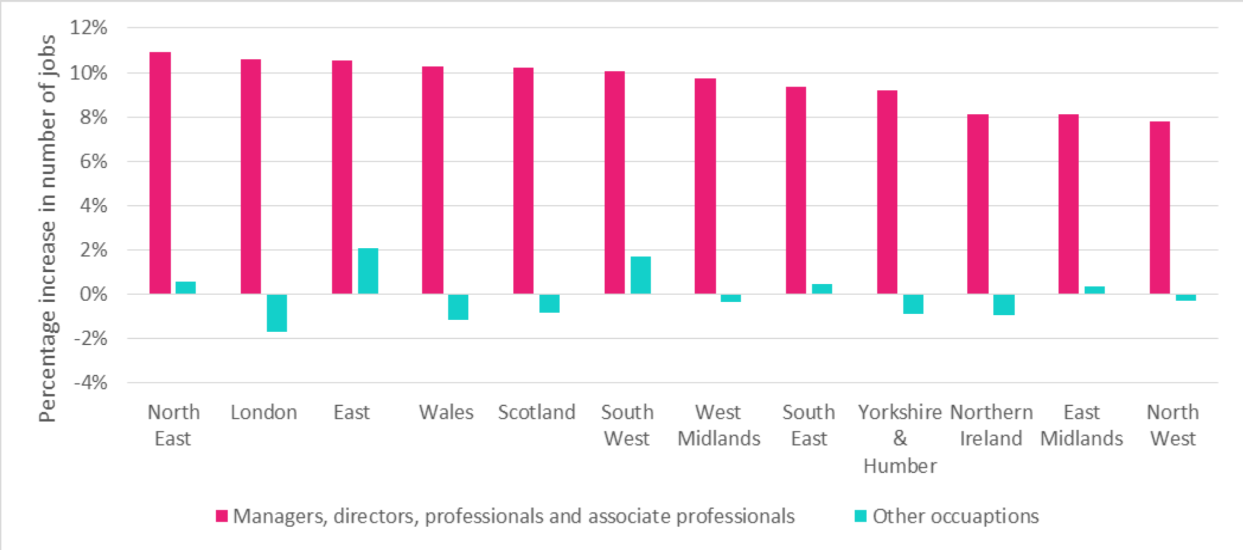
Chart 19: Proportion of workers with higher education qualifications or equivalent



Source: Calculations based on UKCES, Working Futures. Note: higher education or equivalent; includes QCF4 and above

A similar pattern is seen when looking at expected jobs growth by occupation type across regions during the period 2016 to 2026. **London is not unusual in expecting to see the greatest job creation in managerial and professional roles. In all regions, growth in these roles far outstrip growth in other job types**. That means that both London and the rest of the UK have a strong shared interest in ensuring sufficient skills to meet growing demand for roles in high skilled occupations. This has implications for migration, training and working practices, as we discuss in Chapter 3.

Chart 20: Growth in jobs 2016-2026, by type of job



Source: Calculations based on UKCES, Working Futures

This is especially concerning in light of the flows of skilled workers presented earlier in this chapter, which showed that many regions send young high skilled workers to London, and import high skilled workers from outside the UK. As shown in Chapter 1, 2.5 million jobs are expected to open up in London over the coming 10 years – roughly 250,000 a year. As there is expected to be some job destruction of lower skilled jobs, over 265,000 jobs per year are expected to be filled by workers with higher education qualifications or equivalent. However, this is equivalent to around two-thirds of the current number of annual first degree graduates domiciled in the UK.[xxvii] Given that graduate-level jobs are also expected to be expanding across the UK more widely, it is hard to see how such jobs will be filled without some level of high-skilled migration, or a substantial expansion in higher education participation and adult learning above and beyond current expected trends. A key focus may need to be how to encourage upskilling among the existing workforce, as well as improving training and education for young people. We return to these issues in Chapter 3.

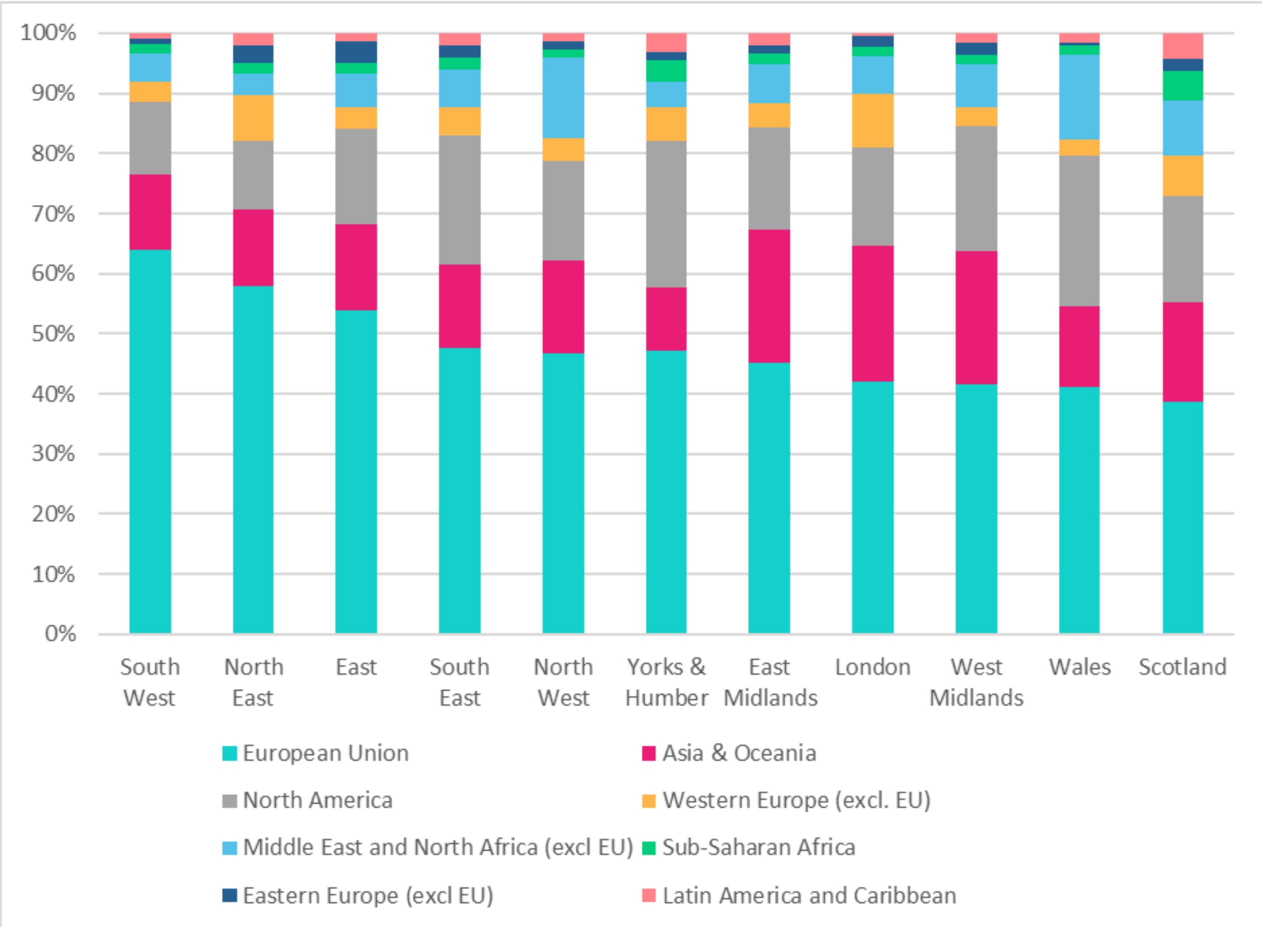
Shared interests in export markets

As well as having a shared interest in retaining access to, and training high-skilled workers, London and the UK also have a shared interest in maintaining and strengthening access to world exports markets for goods and services.

The destinations of goods exports vary to some extent across the UK, but there are striking similarities in the relative importance of different destinations. The chart below shows how the goods exports of each English region, Wales and Scotland break down by destination. **For every region and nation of the UK, the European Union is the top destination for goods exports. Beyond that, Asia & Oceania and North America are the next most important export destinations.**

London does not look especially different from other regions, although it is slightly more diversified in its destination markets. **In terms of goods exports, London is one of the areas that is less dependent on the EU** and more focused on Asia and Oceania. The dependence on the EU as a destination market is partly related to the types of goods manufactured across different parts of the UK, with the majority of UK goods exports made up of vehicles, machinery and components, chemicals and pharmaceuticals, and fuel.[xxviii] Leaving the EU could mean import tariffs for some sectors seeking to export, and for others such as pharmaceuticals, having to negotiate separate regulatory regimes for drug approvals across the UK and EU.[xxix]

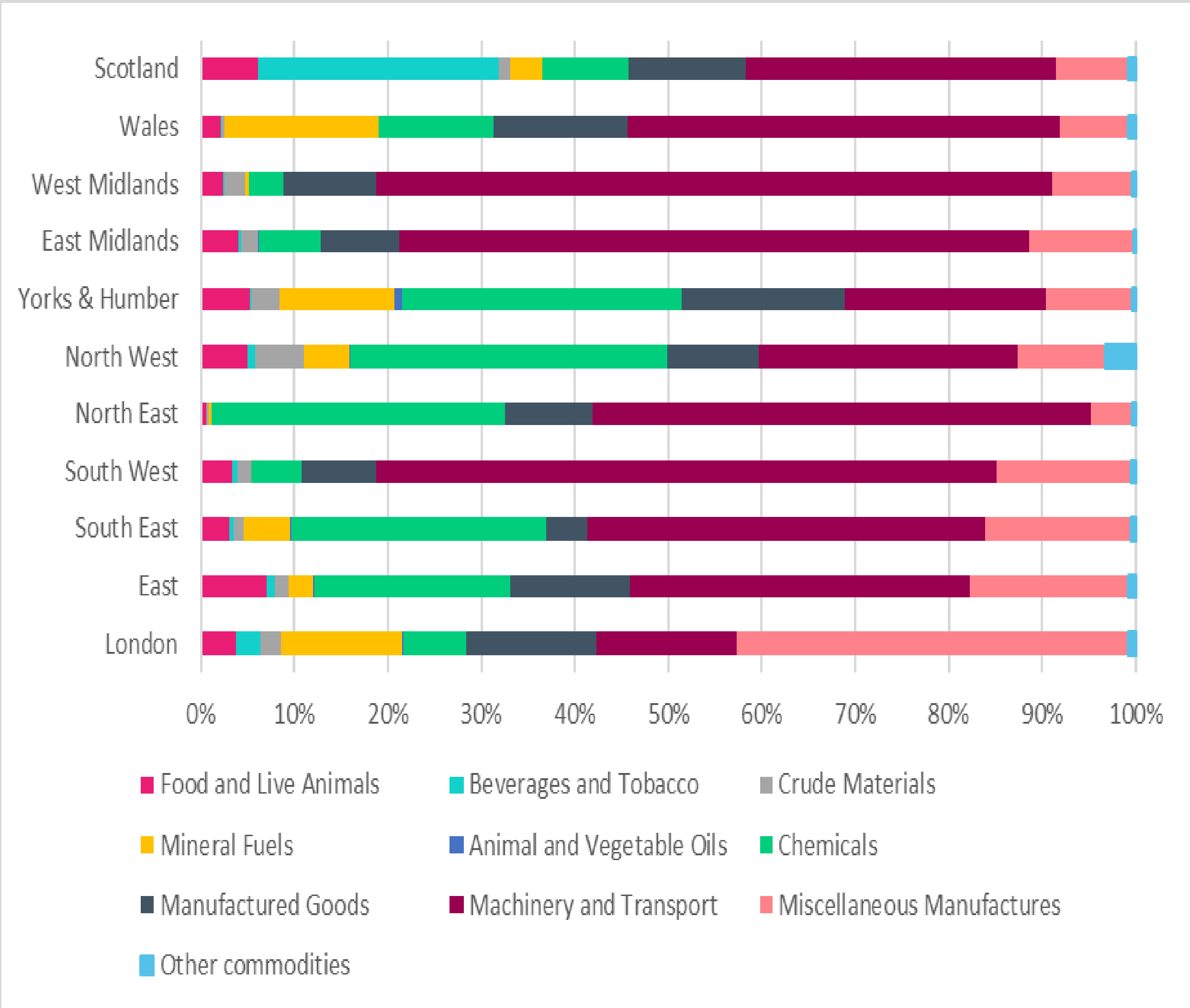
Chart 21: Destination of goods exports, 2015



Source: HMRC Regional Trade Statistics

The chart below shows how goods exports break down by in different parts of the UK. There are substantial differences, but across the board, agriculture and raw materials are relatively less important compared to manufactured products and finished goods, such as machinery and transport, chemicals and other types of manufactured goods.

Chart 22: Proportion of goods exports by type in each region and nation of Britain



Source: HMRC Regional Trade Statistics. Product codes here: http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=14

As set out earlier, all parts of the UK are dependent on services, with London the most dependent. The UK is especially successful in services exports, running consistent trade surpluses. Analysis by the GLA shows that between 2003 and 2013, the value of the UK and London's services exports doubled.[xxx] Financial services exports – including banking, insurance and investment management services provided to international firms and markets – is a large contributor to this. The data on services exports is not as complete as that for goods. However, from what data there is, there appear to be fewer differences across the UK in terms of the profile of exports than might be expected.[xxxi] For instance, London's four most important services exports are: financial services (accounting for 31% of London's services exports); travel (17%), real estate, professional, scientific and technical services (16%), and technology (16%). However, whilst these sectors are important to London, they are also prominent across the UK.

ONS experimental statistics show that London accounts for a large proportion of the UK's financial services exports - £29 billion, or 45% of the UK's total financial exports in 2014. This means that **the majority of financial services exports - £36 billion - actually comes from the rest of the UK. Half of technology sector exports, and over half of professional services, real estate and related exports come from outside London. 44% of tourism spending is outside London.** This means that it is not just in London's interests that these sectors continue to prosper; it is also in the interests of the rest of the UK.

Chart 23: Proportion of exports accounted for by London compared to the rest of the UK, 2014

Analysis of ONS experimental statistics on regional services exports. Financial services includes financial, insurance and pension services. Technology is information and communications. Great Britain only

Our analysis has implications for a range of policy areas, including industrial strategy, migration and trade negotiations. Getting policy right in these areas will mean that the UK and London can continue to prosper, rather than growth in one coming at the expense of the other. We explore these policy areas in more detail in the final chapter.

Chapter 3: What do our findings mean for policymakers?

London is a highly-skilled workforce and demand for high skilled workers is rising. The impending UK exit from the EU poses a challenge. But calculations based on official projections suggest that over 2.5 million jobs could open up in London over the coming 10 years, provided policymakers continue to maintain strong growth-friendly conditions. These are high skilled jobs in sectors such as financial services, professional services, technology and the creative sector. Even sectors that traditionally have large numbers of low-skilled workers, such as retail and food & beverages are upskilling.

Creating the conditions for London to grow does not mean leaving the rest of the UK behind. The linkages between London and the rest of the UK are far stronger than may be perceived. For instance, key sectors for London – technology, creative, finance and professional services actually employ more people outside London than inside it. There are strong supply chain links, with London "importing" £126bn worth of goods and services a year from the rest of the UK. And London HQ-ed businesses employ substantial numbers of workers in other cities around the UK.

And in fact, there are strong shared interests that mean that policies that are good for London can be good for the UK and vice-versa. All regions are seeing growth in high-skilled jobs, and will suffer if access to high skilled workers is restricted. And there is much overlap in interests across trade negotiations and industrial strategy.

So what are the key elements for future policy which benefit both the UK and London?

Migration

Restrictions on skilled migration are likely to make it very difficult for both London and the UK more widely to fill high skilled jobs demand. This is typically seen as more of a London issue. But in fact all regions across the UK are expected to see substantial growth in demand for workers to fill high skilled job vacancies and very little growth in other types of occupations. There is a trend of young graduates moving away from the regions to London, and for high-skilled migration to fill the gaps that they leave. Without migration, London could become more dependent on "importing" high skilled individuals from outside London, with repercussions for local labour markets around the country. **To ensure that both London and the UK continue to prosper, a migration system that allows in sufficient numbers of high skilled workers is vital.** However, simply extending the current migration system for non-EEA migrants to EEA workers is unlikely to be enough. A previous SMF study estimated that only 12% of current EEA workers in the UK would meet visa criteria, such as salary thresholds, applied to non-EEA workers. The current visa model is also a poor fit for sectors where self-employment and freelancing is increasingly common,[xxxii] and where there are large numbers of small businesses, poorly placed to bear the costs of visa-related administration, a flexible approach will need to be found.

Key Question: What would a migration system that worked well for London and the UK look like?

Making the most of skills in the UK

Beyond relying on migration, it is also important that we do more to develop the skills we need in the UK. There has been much commendable focus on improving the education system and workplace-based training for younger people. Examples include the introduction of the new apprenticeship levy which should increase funding available for such training. However, there has been much **less focus on those in older age groups**. This is despite the fact, that as shown in Chapter 1, much of the future demand for workers is likely to be driven by those leaving the labour market due to retirement.

One study has found that there are over a million people in the UK aged over 50 who are not working, but would be willing to if the right opportunity arose.[xxxiii] Adaptations could help make some workplaces easier for those in older age groups to continue working. Efforts to make flexible working, phased retirement and family care leave easier are important for those in poorer health and/or with caring commitments. Training and guidance is also important for this group, and could become even more important in the future as technological change remodels current jobs and sectors.

Key Question: How can we make the most of the skills and talent that we already have?

Key Question: How can transport and connectivity infrastructure policy align with skills and talent needs to open up opportunities to the workforce?

Infrastructure

Infrastructure is also vital in connecting people to job opportunities and businesses across the UK to each other. In some sectors, the potential for remote working may make it much easier for those not living in core cities to access work. This means continuing to improve our digital infrastructure across the country. Transport links are also important, in connecting London to other cities, and cities to each other. Doing this can help strengthen the already strong links between London and the rest of the UK, creating opportunities for both to grow. Alongside these measures, it is clearly important to tackle housing affordability. The high cost of living makes it harder to recruit the people that businesses need, and raises the cost of business.

Key Question: How can London work with other cities, particularly those with their own devolved arrangements, to make the case for increased investment?

Industrial strategy and trade negotiations

Finally, beyond the areas of skills and infrastructure investment, growth opportunities for London and the UK over the coming years have the potential to be shaped by the Government's forthcoming industrial strategy, its EU negotiations, and wider trade agreements. In this, a key finding from our research is that there are strong shared interests across the regions of the UK**. Maintaining strong links to EU markets is vital for goods exporters in all regions of the UK**, with the EU far outweighing other export destinations such as North America and Asia. London should also work with other city regions to ensure that the UK's industrial strategy integrates London's priorities with those of the wider UK, both to improve collaboration and to support London's significant net tax transfer to the rest of the country.

Further, **sectors such as financial services, professional services, technology and creative industries create jobs across the UK, not just in London**.

Key Question: How can government develop an industrial strategy that promotes productivity, innovation and growth for the whole of the UK?

Endnotes

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i Throughout this paper, when we refer to London, we are referring to the administrative Greater London region, unless stated otherwise.

ii ONS, Annual survey of hours and earnings 2016, provisional results, earnings

iii Note our definition of higher education or equivalent includes QCF4 and above

iv SMF, Working Together? The impact of the EU referendum on UK employers, 2016

v Andrew McAfee & Erik Brynjolfssson, The second machine age. 2014

vi UKCES, Working Futures Main Report, 2016

vii Nesta, The geography of the UK's creative and high-tech economies, 2015

viii The datasets used come from the "Working Futures" projections for the UK labour market, provided by the UK Commission for Employment and Skills (UKCES). They include historical data from 1990 to 2013 (based on data from the Office for National Statistics), and forecasts from 2014 to 2024, at a sector, occupation and qualification level, for each of the regions of the UK. The projections are based on the use of a multi-sectoral, regional macroeconomic model, combined with occupational, replacement demand and qualification modules. To generate a 10-year forecast period running to 2026, we further extend the projections to 2025 and 2026 by using the arithmetic average of the last two years' levels of expansion and replacement demand, so to ensure continuity with the UKCES predictions. Further detail on the UKCES Working Futures data is available at: https://www.gov.uk/government/publications/uk-labour-market-projections-2014-to-2024

ix UKCES Working Futures projections forecast forecast jobs growth out to 2024. This analysis has extended the projections by two years to 2026

x IFS, Brexit and the UK's public finances, 2016

xi Bank of England Inflation Report, November 2016

xii Management Consultancies Association, UK Consulting Industry 2015

xiii Volterra and Enlightenment Economics, Investing in city regions, 2014

xiv Fifty Thousand Homes, London employers and assistance to employees with housing, July 2016

xv GLA Intelligence, Commuting in London, 2014

xvi Annual Population Survey, https://data.london.gov.uk/dataset/place-residence-place-work-region

xvii GLA Intelligence, Commuting in London, 2014

xviii Joel Marsden and Hadyn Hitchins, Trends in the demand for labour and skills in London and the East Sub-region, GLA, 2016

xix Department for Transport, Transport Statistics Great Britain, 2015

xx Centre for Cities, Cities Outlook 2014

xxi Financial Times, "Regional growth lures the big four accountancy firms out of London", February 2015

xxii Reuters, "HSBC names new head of UK and deputy CEO to oversee ring-fenced retail bank", January 2016

xxiii Financial News, "The future of investment banking is… Birmingham", June 2014

xxiv The Guardian, "BBC now has more staff outside London than in the capital", October 2014

xxv GLA, Draft Economic Base, 2016

xxvi Mayor of London office press release, "Mayor heads to N.Ireland to meet workers", February 2016

xxvii Based on 2014-15 HESA data, full time and part time first degree and undergraduate degree qualifiers

xxviii Centre for European Reform, Disunited Kingdom, 2015

xxix BMJ, How Brexit might affect the pharmaceutical industry, 2016

xxx GLA, An analysis of London's exports, 2015

xxxi The data on services exports by region is ONS experimental data, and estimated based on a different methodology compared to goods exports. They should, therefore be treated with caution.

xxxii Whilst there is an entrepreneur visa route, this is more targeted at those intending to start businesses, and has a requirement for access to £50,000 worth of investment funds.