

Central Government's role in helping London drive recovery

*Drawing on analysis
by Bain & Company*



Foreword

London will recover from the COVID-19 pandemic, as it has from previous shocks – whether plagues, fires or world wars. We must not forget that in 2019, London was not only the most populous city in Western Europe, but also the most economically productive, the most diverse and the most dynamic. The issue now is how long it takes the city to recover; and that matters not just for Londoners and London businesses, but for the whole UK.

Central London in particular has been hit hard by the pandemic. Unemployment is up, footfall is dramatically down and many businesses – from pubs to theatres – have been forced to close for much of the year. The Government has done a great deal to support businesses over the past year; there now needs to be a final push to turbo-charge recovery as we move through what the Prime Minister has described as a “cautious but irreversible” unlocking of our economy.

We believe the Government should appoint a senior Minister for economic recovery who can prioritise and direct Whitehall, and assemble a supporting team from the private sector to drive forward an ambitious national programme for growth.

Most of the programme's measures will continue to be national in scope, supporting the economy as a whole and those sectors hardest hit by the pandemic. But there must also be a city-regional focus. Here, the Minister must draw a line under the political wrangling with the London mayoralty, and other metro mayors, to support the targeted interventions that will drive local growth.

For London, these interventions fall into three broad areas: a scale campaign to bring people back to central London; continued support for the public transport that we rely on to get into and around the city; and a no-regrets business-led reskilling programme, to enable those who have lost their jobs, or are new to the labour market, to meet the new needs of businesses. Such actions are being taken by our global competitor cities – cities which, in many cases, were less severely affected by the pandemic. If we do not rise to the challenge London and the UK's international competitiveness will be hit hard.

Our plan requires the Government to support a modest increase in public expenditure on promoting the city; continued central government funding for transport, and a change in the approach to spending on skills. The cost of these interventions is dwarfed by the potential return.

As the analysis we draw on from Bain & Company sets out, if the London economy can recover at pace, and move from the lower to the higher of the recovery scenarios prepared for the Greater London Authority (GLA) by ARUP, this would yield a benefit of the order of £25-35Bn in Gross Value Added (GVA) between 2021-2023, equating to approximately £8-12Bn in additional taxes for central government over that period.

While London's economy will also continue to benefit from national support schemes, these London-centric actions need only need to mitigate 5% of the GVA impact of the lower-case scenario in order to break-even: this makes them a very attractive investment.

The alternative is to hope that London will bounce back by itself. Hope is not a plan.

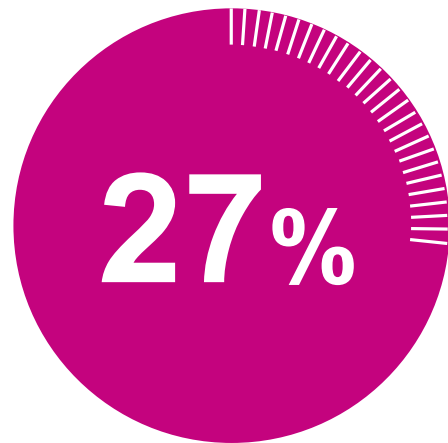
It took over seventy years for London's population to recover from the Second World War. Building a successful global Britain needs a vibrant, growing London. Acting now will minimise economic scarring from the pandemic and generate growth for the benefit of the whole UK. It will enable the benefits of a strong, competitive global city to flow around the country. It will send a clear signal of the competitive, bold, ambitious, global nation we intend to be in the decades to come. Get this right and businesses in London will emerge restored and ready to drive growth with and for the whole UK.



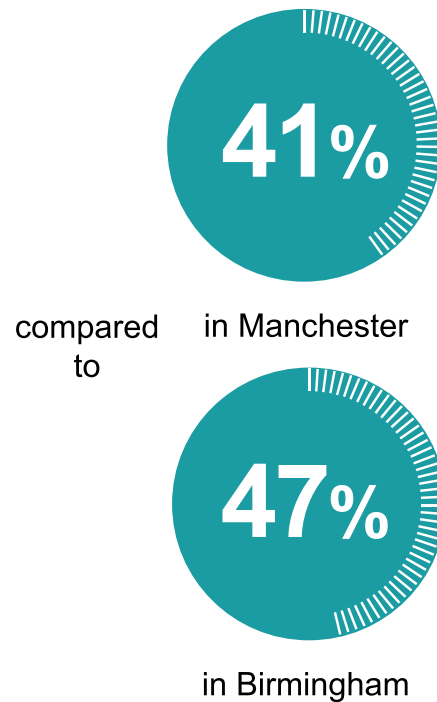
John Dickie
Chief Executive of London First

London's Central Activities Zone (CAZ) was far more heavily impacted than the Central Activities Zone (CAZ) in other UK and global cities, largely driven by its lower number of residents in the centre:

In August 2020, London CAZ footfall was only:

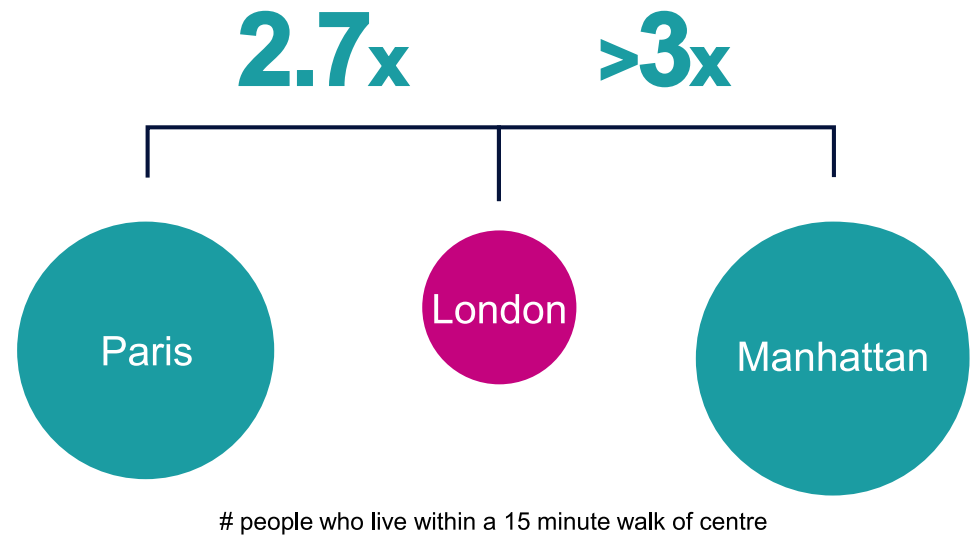


of pre-COVID-19 levels



Source: "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

Central London has lower population density than central Paris or Manhattan:



Source: "High streets recovery tracker," Centre for Cities (Accessed March 24, 2021)

~60% decline in central London retail transactions between January and July 2020

Executive Summary

The Current Crisis: COVID-19 has had a catastrophic impact on the UK economy – London has been the hardest hit in the UK and more so than other global cities

The UK economy has been **heavily impacted by COVID-19**, suggesting a fast and full recovery will require significant effort and action. **Real GDP has fallen by c. 10%** in 2020, with the UK being the most negatively affected of the G7 economies.¹

Although **all sectors have been affected** by COVID-19, the most affected include hospitality, retail, arts, education, aviation, construction, and real estate. And while all geographies have been affected by COVID-19, **London has been more affected than other UK cities** and international counterparts.

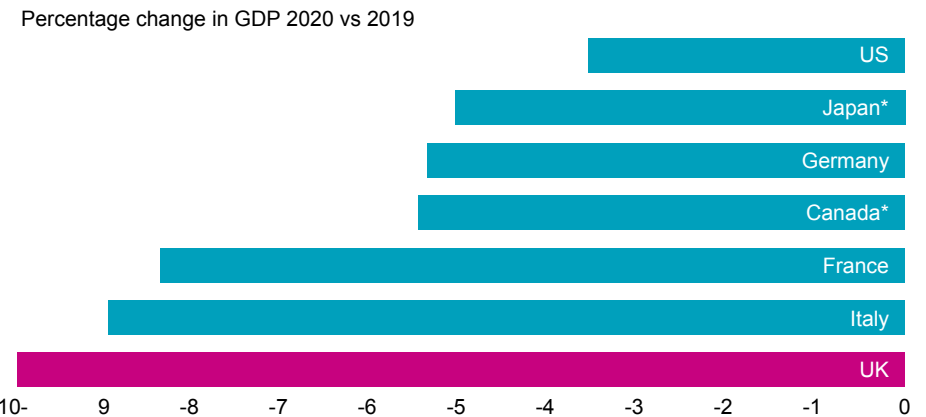
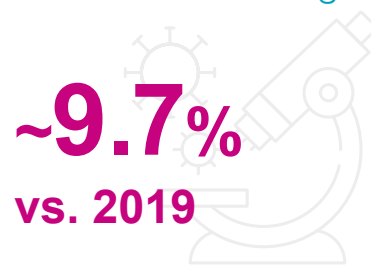
For example:

- The Central Activities Zone: Given the low density of residents, London's CAZ saw higher drop in footfall than other UK and global cities², leading to 60% decline in retail transactions in London's CAZ between January and July 2020³;
- The Transport System: Given Transport for London (TfL)'s heavy reliance on passenger income vs. international counterparts⁴ the fall in passenger traffic more heavily impacted London's transport system than elsewhere;

- Small Medium Enterprises (SME): Given London's high concentration of SMEs as a % of population, its business landscape was especially impacted by COVID-19, with many SMEs fearing permanent closure;
- Unemployment levels: Despite its high concentration of professional services, London still had highest unemployment vs. rest of the UK in the pandemic (c. 7% for Oct-Dec 2020 vs. c. 5% national average).⁵

Given COVID-19's significant impact on the UK's economic growth (particularly in London), **meaningful and proactive government interventions** will be required to **accelerate and amplify recovery**.

UK was the hardest hit of the G7 economies, with real GDP falling by:



Source: Capital Economics - *Canada and Japan figures are their estimates

1 "Economic and fiscal outlook" Office for Budget Responsibility (March 2021)

2 "High streets recovery tracker," Centre for Cities (Accessed March 24, 2021)

3 "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

4 "Transport for London requests additional financial support," International Railway Journal (October 5, 2020)

5 "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

‘Levelling Up’ in Recovery: As the UK recovers from this crisis, we need to ensure we support and ‘level-up’ the most vulnerable in all our communities, everywhere across our nation

COVID-19 has aggravated existing inequalities and heavily impacted disadvantaged communities, particularly evident within London. There are significant levels of disadvantage and poverty in the capital, partly driven by high living costs in London and compounded by the impact of COVID-19. London has higher poverty rates compared to the national average (c. 28% vs. 22%) particularly within Inner London (32%) and among children (37%).^{6,7}

Disadvantaged communities exist everywhere across the UK (well beyond London) each with individual challenges aggravated by COVID-19. Considering the data (see page 12 onwards), London First believes the UK should prioritise the most disadvantaged communities for support, regardless of where they are based – and use cities as an engine for growth to ‘level up’ these families everywhere across the nation. London makes up only 13% of UK population, but accounts for c. 40% of black and minority ethnic communities⁸, which are disproportionately disadvantaged across a wide range of indicators.

6 “Poverty in London 2018/19,” Rachel Leaser for London Datastore (March 27, 2020)

7 “London and the UK – a declaration of interdependence,” Greater London Authority (August 2019)

8 “2011 UK Census,” Office of National Statistics

9 “Regional and country economic indicators,” House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

10 “Regional and country economic indicators,” House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

11 “Key facts about UK based financial services and related professions) The City UK, 2021

12 “Beyond London, Visit Britain, published in 2013 (<https://www.visitbritain.org>)

London’s Role in Recovery: If London recovers quickly and robustly, it will be a strong economic engine for both growth and ‘levelling-up’ across the UK, particularly given its significant historical fiscal contribution to the UK

London accounts for 23% of GDP. This enables, in normal times, the **generation of substantial fiscal surplus that supports levelling up** across the country.⁹ In contrast, all other counties and regions in the UK (bar the South East and East of England)¹⁰ are generate a deficit, resulting in an overall deficit of £0.6K per person in the UK. Therefore, promoting London’s recovery alongside that of other cities and regions can directly support the Government’s investment in vulnerable communities nationally.

London is also a **global city**, attracting investment, businesses, and people from across the world. This has benefits for the capital but also for the country as a whole. London competes with other international finance centres; **2.3 million** people work in financial services, with **two thirds outside the capital**.¹¹

- Given London’s unique benefits, **companies often want to establish their HQ in the UK capital**, creating jobs elsewhere in the UK.
- London is a strong candidate for prominent **international events** that bring benefits and build public sentiment for UK as a whole.
- A number of sectors contribute to a UK wide value chain e.g. as is the case in construction, so growing number of **London-based projects** would directly **benefit regional economies**.

London is also a **gateway for global tourists**; one that could be better harnessed for other parts of the UK. In the UK, 40% of visitors remain in London compared to 13% of visitors to Italy staying in Rome and 26% of visitors to France staying in Paris.¹²



Source: “Regional and country economic indicators,” House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

Recovery Measures: London First has identified a set of practical interventions which will accelerate and amplify London's recovery we as unlock, supporting UK recovery.

These fall into three broad areas:

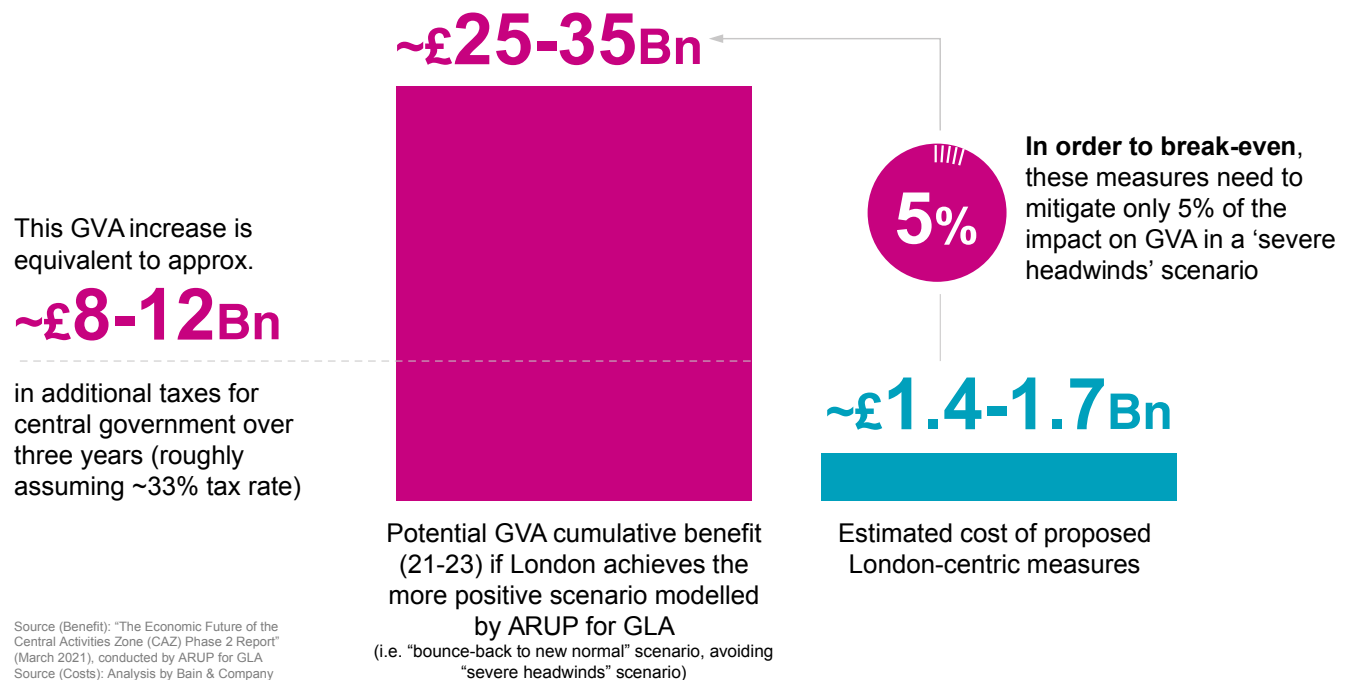
1. A scale campaign to bring people back to central London (approximately £170m in incremental spend over three years), with benefits which will flow beyond the capital into the rest of the nation;
2. An investment in public transport that supports the return to growth (approximately £1.2 to £1.5Bn in forgone savings / revenue over three years); and
3. A business-led reskilling programme (approximately £10m incremental cost over three years), with a series of no-regret actions designed to support those whose jobs have been displaced by the pandemic ahead of the full picture becoming clearer.

The Impact of these Recovery Measures: If successful, these recovery measures could amplify London's recovery we as unlock, supporting UK recovery.

If these interventions help London avoid fully the GLA's "significant headwinds" recovery scenario, they could yield a benefit of **c. £25-35Bn in GVA** between 2021-2023, equating to approximately **c. £8-12Bn in additional taxes**

for central government over that period. While these will not be the only actions needed to secure this outcome, they only need to **mitigate 5% of the GVA impact of a 'severe headwinds' scenario in order to breakeven**, suggesting they are an attractive investment profile.

London First's thinking on the recovery challenges facing the capital and their possible solutions has drawn on analysis from Bain & Company.



Source (Benefit): "The Economic Future of the Central Activities Zone (CAZ) Phase 2 Report" (March 2021), conducted by ARUP for GLA
 Source (Costs): Analysis by Bain & Company

The Current Crisis

COVID-19 has had a catastrophic impact on the UK economy – London has been the hardest hit in the UK and more so than other global cities

The UK economy as a whole has been **heavily impacted by COVID-19** in several different ways, suggesting a rapid and robust recovery will require significant effort:

- Real GDP has fallen by c. 10% in 2020, with the UK being the most negatively affected of the G7 economies;¹³
- UK unemployment stands at c. 5.1% (+1.1% vs. pre-pandemic);¹⁴
- Those under 25 years old have been hardest hit, representing c. 60% of payroll job losses;¹⁵
- Inbound visits to UK were c. 76% lower in 2020 vs. 2019, while domestic spending on tourism was down c. 62%.

Though **all sectors have been affected** by COVID-19, there is a **specific set of sectors that have been hit the hardest**, including hospitality, retail, arts, education, aviation, construction, real estate, among others:

- ONS estimates indicate that c. 50% of the 700,000 payroll job losses have been in the hospitality sector with an additional c. 20% in the retail sector;¹⁶
- In arts and entertainment, the Digital, Culture, Media and Sport (DCMS) Committee warned in July 2020 that the pandemic was “the biggest threat to the UK’s cultural infrastructure, institutions and workforce in a generation”;¹⁷
- 15,000 theatrical performances were cancelled during the first lockdown, resulting in £300m in lost revenue;
- 60% of museums and galleries were concerned about surviving the pandemic.¹⁸
- In construction, c. 86% of businesses say they have been affected by COVID-19; many of them also report significant financial difficulties¹⁹ (29% in England, 42% in Scotland, 32% in Wales and 47% in Northern Ireland);
- In real estate, the British Property Federation estimates unpaid rent for commercial property will reach c. £7Bn between March 2020 and July 2021; companies continue to examine office space usage as a result of potentially more flexible working practices post pandemic.²⁰
- Across all sectors, there is significant evidence the recessionary risk could be enhanced and prolonged as a result of unsustainable debt burden, affecting the ability to recruit and invest. CityUK suggests businesses may hold up to c.£100Bn in unsustainable debt by March 2021.²¹ Although the impact on SMEs is significant, it isn’t a problem that only impacts smaller businesses. In education, providers have had to significantly adapt – and children have lost meaningful learning as a result of school closures;²² losses in the university sector are projected to be £3-19Bn (8-50% of overall yearly income), driven particularly by reduced international enrolment and deficits in university-sponsored pension schemes, which universities will eventually need to cover.²³

Elements of this picture are **particularly stark in the capital**. Though all **geographies have been affected** by COVID-19, **London has been more affected than other cities** and its international counterparts, illustrated by a) unemployment, b) SME concentration, c) footfall within the Central Activities Zone (CAZ), d) transport system funding, and e) population levels.

13 “Economic and fiscal outlook” Office for Budget Responsibility (March 2021)

14 Labour market overview, UK March 2021, ONS (<https://www.ons.gov.uk>)

15 Ibid

16 Ibid

17 “Covid-19 and the arts and culture sectors,” House of Commons Library - Briefing Paper: CBP 9018 (February 25, 2021)

18 “Covid-19 and the arts and culture sectors,” House of Commons Library - Briefing Paper: CBP 9018 (February 25, 2021)

19 “Infographic in collaboration with Build UK – The impact of COVID-19 across the Construction Industry,” Construction Line (Accessed March 24, 2021)

20 “Covid and the City: How pandemic hit UK business on first anniversary of lockdown,” Evening Standard (March 22, 2021)

21 “Economic impact of coronavirus: the challenges of recovery,” Treasury Committee, House of Commons (September 2020)

22 “Ofsted: Children hardest hit by COVID-19 pandemic are regressing in basic skills and learning,” Ofsted (November 2020)

23 “Will universities need a bailout to survive the COVID-19 crisis?,” Institute for Fiscal Studies (July 2020)

a) London's unemployment now stands at 7%, which is the highest across all regions:

- This is expected to rise further, with studies suggesting it will peak at 9.4% in December 2021, equating to 464,000 unemployed Londoners;²⁴
- To support the labour market, reskilling and upskilling will be critical, especially as young people have been hardest hit (those aged 16-24 have accounted for 57% of the fall in employment);²⁵
- Digital skills will be critical (e.g. 80%+ of advertised openings in London require some digital skills, but 39% of Londoners have little to no digital skills for the workplace);
- The unemployment picture is worse for the city's ethnic minority communities, who face unemployment levels in the Central London Forward subregion²⁶ of 14.9%;²⁷
- Unemployment for black male graduates is c. 35% in London compared to 8% for white male graduates.²⁸

London has the highest unemployment rate across the UK, which is expected to rise:



Source: "A detailed study of unemployment in London," Volterra Partners LLP for London Councils (March 2021)S

Source: "UK labour market: under 25s contributed over 60% of the fall in employment," fenews.co.uk (March 23, 2021)

²⁴ London benefits from a high concentration of industries suited to 'work-from-home' (e.g. services vs. manufacturing), which somewhat mitigates COVID-19's impact on its regional GVA vs. other regions (-9.4% in London vs. -10% in UK for 2020), but has not guarded against rising unemployment.

²⁵ Uneven steps: Changes in youth unemployment and study since the onset of Covid-19, Resolution Foundation; 14 April 2021

²⁶ Central London Forward subregion consists of ten member boroughs (Camden, the City of London, Hackney, Islington, Kensington and Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth and Westminster) and two associate member boroughs (Haringey & Lewisham)

²⁷ "A detailed study of unemployment in London," Volterra Partners LLP for London Councils (March 2021)

²⁸ "UK youth unemployment rate continues to rise; young black men are particularly affected," Trust for London (Accessed March 30, 2021)

b) London also has a significant concentration of SMEs, many of which were especially impacted by COVID-19 vs. large businesses:

- In London, SMEs account for more than 99% of businesses (c. 1m pre-COVID-19), representing c. 48% of turnover, and employing c. 52% of people;²⁹
- London has the highest SME density per 10,000 people in the UK – c. 40% higher than the UK average and c. 30% higher than the South East, the next highest region;³⁰
- By June 2020, c. 7% of SMEs in London had closed, with c. 40% fearing permanent closure;³¹
- SMEs in London that continued to operate are estimated to lose c. 40% more in earnings, compared vs. national SME average;³²
- Studies from Feb-March 2021 suggests that the number of UK businesses now in distress has tripled compared to pre-COVID-19 levels; London accounts for c. 25% of these businesses, which reports suggest is expected to rise further as government support is withdrawn.³³

This picture was initially aggravated by the structure of business rates relief. The relief for small businesses is capped at a low-level which, due to high rateable values in London, excludes many SMEs. The extension of the relief in the pandemic was initially uncapped for those sectors most affected; but a cap is due to be reintroduced in July 2021, which will affect London SMEs disproportionately. Similarly, local council grant funding for SMEs was

allocated by population rather than by the number of small businesses located in each authority. This meant that those councils with relatively low numbers of residents and higher numbers of businesses, like many in Central Activities Zone, had less access to support.

Now, the critical challenge is **recapitalising these businesses**, many of whom have built up unsustainable levels of debt to get them through the pandemic.

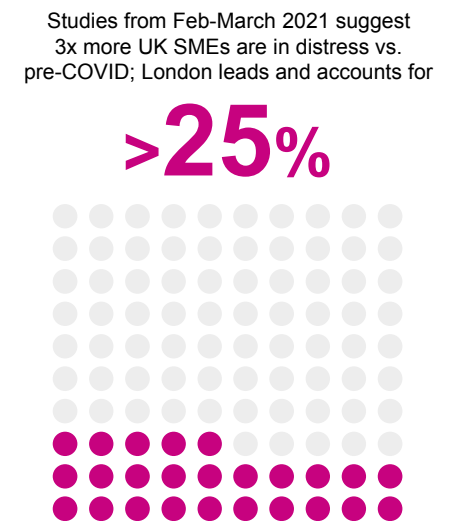
SMEs were particularly affected by COVID-19, and many remain at risk of closure:



Source: "The impact of Covid-19 on UK small business," Simply Business (September 2020)



Source: "Over 76,000 small London businesses permanently closed during coronavirus lockdown," myLondon.news (June 24, 2020)



Source: "Number of small businesses in distress triple pre-Covid level," SmallBusiness.co.uk (March 15, 2021)

29 "COVID-19 Economic Impact Analysis - A summary report to the GLA examining the economic impact of COVID-19 on London's SMEs," Bloomberg Associates (August 2020)

30 "Business population estimates for the UK and regions 2020: statistical release," Department for Business, Energy and Industrial Strategy (Accessed March 24, 2021)

31 "The impact of Covid-19 on UK small business," Simply Business (September 2020)

32 "Over 76,000 small London businesses permanently closed during coronavirus lockdown," My London (June 24, 2020)

33 "Number of small businesses in distress triple pre-Covid level," SmallBusiness.co.uk (March 15, 2021)

c) London's CAZ was more heavily impacted than the CAZ* in other parts of the UK, and the central areas of other global cities.

Within the CAZ, retail transactions were down c. 60% between January and July 2020, driven primarily by reduced footfall from visitors and workers. This has had a serious impact on the future viability of some of London's most famous and familiar shops, venues, and visitor attractions.

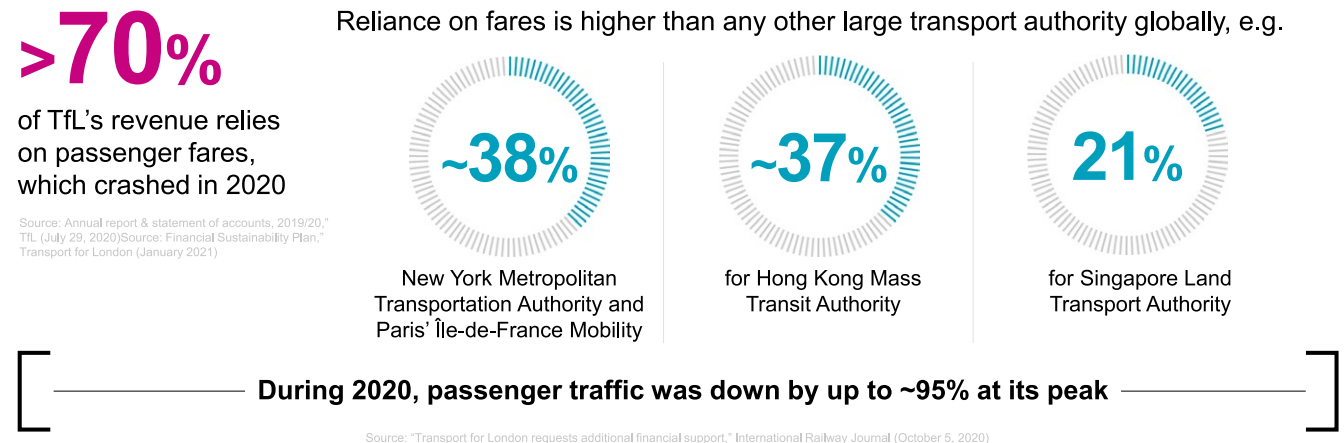
- In August 2020, London CAZ footfall was only 27% of pre-COVID-19 levels vs. 41% in Manchester and 47% in Birmingham;^{34, 35}
- Central London has a lower population density compared to its global peers: in New York and Paris, three times more people live within a 15 minute walk of their centres, compared to London;³⁶
- Worker and visitor footfall declined far more significantly than that of residents;³⁷
- The rate of return of London office workers during summer of 2020, when restrictions were eased, was lower compared to other global cities, with double the number more likely to WFH for the full week.³⁸

d) London's transport system was negatively impacted by COVID-19 to a much greater extent than transport systems in other cities:

- c. 60% of workers in London use public transport for commuting (three times the Great Britain average and five times the next highest region);³⁹

- More than 70% of TfL's revenue historically relied on passenger fares (amounting to c. £4.4Bn in 2019/20)⁴⁰, which crashed in 2020 with, at its peak, passenger traffic down by more than 95%;⁴¹
- TfL's reliance on passenger fares is higher than any other large transport authority globally (e.g. c. 38% reliance for New York Metropolitan Transportation Authority and Paris' Île-de-France Mobility; 37% for Hong Kong Mass Transit Authority; 21% for Singapore Land Transport Authority).⁴²

TfL's revenues from passenger fares are much higher than for other global transport authorities, leaving TfL finances more heavily impacted by decreasing passengers figures during COVID-19:



34 "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

35 "High streets recovery tracker," Centre for Cities (Accessed March 24, 2021)

36 "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

37 "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

38 "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

39 "Usual method of travel to work by region of workplace: Great Britain, October to December 2019," Department of Transport (October-December 2019)

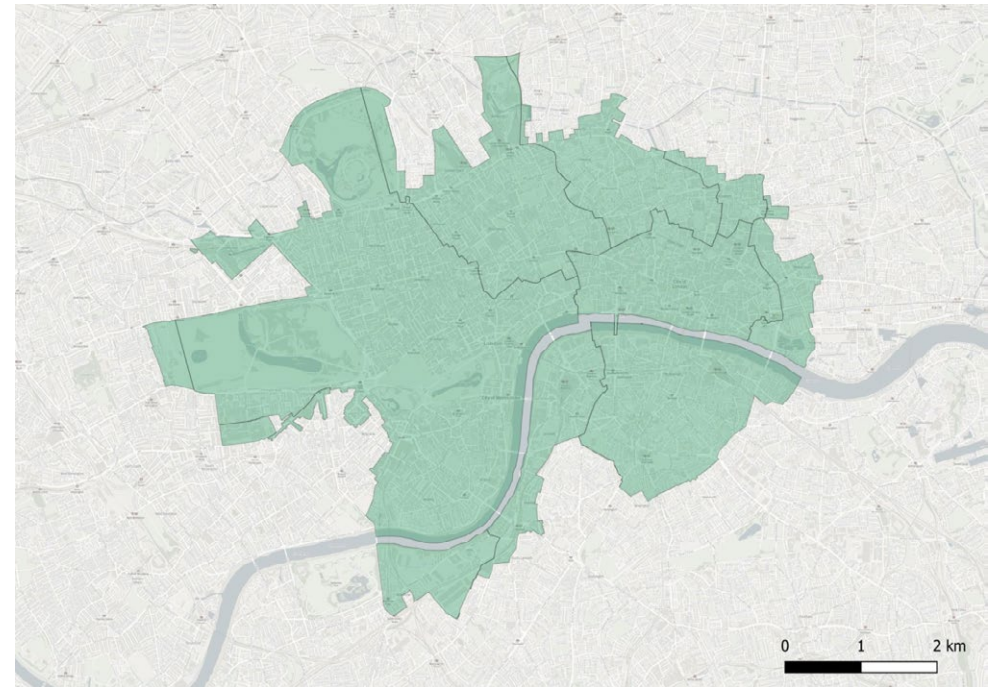
40 "Annual report & statement of accounts, 2019/20," TfL (July 29, 2020)

41 "Financial Sustainability Plan," Transport for London (January 2021)

42 "Transport for London requests additional financial support," International Railway Journal (October 5, 2020)

e) Although the data is contentious, there are indications that there has been a decline in the UK population in 2020 compared to 2019, with London's population falling at much sharper rates compared to the national average (up to 8% in London vs. 1% for rest of UK in some estimates):⁴³

- **COVID-19 Deaths:** Specific parts of London have been particularly affected by COVID-19 deaths, such as Brent, Newham, Haringey, Hackney and Harrow, with the highest death rates in the UK for the first four months of the pandemic;⁴⁴
- **Worker Emigration:** The Economic Statistics Centre of Excellence estimates up to 700K workers have left UK from London in past year, accounting for up to 50% of UK exodus;⁴⁵ though other studies suggest the figures are much lower (e.g. ONS estimates c. 350K, Oxford University estimates c. 400K)⁴⁶, they are particularly concentrated in the hospitality and retail sectors, which are disproportionately located in London;⁴⁷ part of this effect is attributable to the UK's departure from the EU, but COVID-19 has been a factor;
- **Potential Impact:** Without actively taking steps to turbo charge the economic recovery, London's population may not 'bounce-back', as seen in the period from 1940s-1980s when London's population fell by c. 2m⁴⁸, which would severely dampen London's economic contribution, affecting the UK as a whole. It is also critical to ensure that migration can be harnessed for those sectors where the availability of labour is a barrier to recovery.



* London's Central Activities Zone, map provided by the Greater London Authority

Given COVID-19's significant impact on the UK overall and on London specifically, London First believes **meaningful and proactive government interventions** will be required to **accelerate and amplify recovery** – and that a **passive approach will jeopardise the speed and quality of recovery** for the whole UK.

43 "Estimating the UK population during the pandemic," Economic Statistics Centre of Excellence (January 2021)

44 Coronavirus and the social impacts on Great Britain: 24 July 2020 (www.ons.gov.uk)

45 "Estimating the UK population during the pandemic," Economic Statistics Centre of Excellence (January 2021)

46 "Covid-19: Have a million people left the UK?," BBC (March 21, 2021)

47 "Covid-19: Have a million people left the UK?," BBC (March 21, 2021)

48 "The decline and rise of London," Deloitte (August 27, 2019)

'Levelling Up' in Recovery

As the UK recovers from this crisis, we need to ensure we support and 'level up' the most vulnerable in all our communities everywhere across our nation

COVID-19 has **aggravated existing inequalities** and heavily **impacted disadvantaged communities**. This is evident within London, particularly after taking housing costs into account. For example, even though **London has the highest GDP per capita in UK**, there are significant distributional issues leading to **major inequality**. **Income inequality** between the top 10% and bottom 10% is almost two times greater in London when compared to the rest of UK (9.7x vs. 5.1x).⁴⁹ **Wealth inequality** is also much higher in London;

- In London, households in the **bottom 50% own just 5%** of total household wealth, while the richest 10% own >60%;⁵⁰
- For the rest of UK, **bottom 50% own 10%** of total household wealth, while households in the richest 10% own c. 40%;⁵¹

Moreover, there are **significant levels of disadvantage and poverty in the capital**, partly driven by high living

costs in London (c. 20% higher per household vs. UK average),⁵² and significantly aggravated by COVID-19:

- Across the UK, London has the **highest proportion of universal credit claimants** as a % of the population (16.9%, January 2021);⁵³
- London also has **higher poverty rates** compared to the national average (28% in vs. 22%), without substantial improvement in the past two decades;⁵⁴
- Poverty rates are particularly high within inner London at c. 32%, though outer London's at c. 26% are still higher vs national average;⁵⁵
- London poverty rates are particularly high among children, with 37% of children living in poverty, representing the highest in the UK, followed by North East⁵⁶; within inner London, this rises to 43%, the highest in the UK by nearly 10%.⁵⁷

49 Data for 2015/16 to 2017/18 from "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)
 50 Data for 2014-16 from "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)
 51 Data for 2014-16 from "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)
 52 Data for 2017 from "The true cost of living in UK cities," abc Finance (Accessed March 25, 2021)
 53 "Universal Credit statistics, 29 April 2013 to 14 January 2021," Department for Works and Pensions (February 23, 2021)
 54 Data for 2015/16 to 2017/18 from "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)
 55 "Poverty in London 2018/19," Rachel Leaser for London Datastore (March 27, 2020)
 56 "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)
 57 "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)

Across the UK, London has the highest poverty rates, particularly in inner London

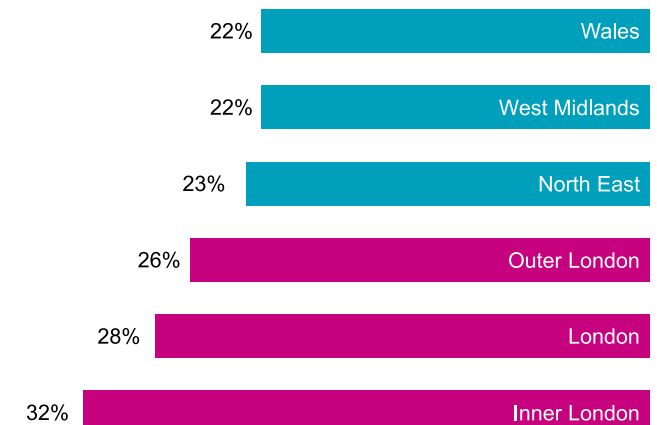
London has higher poverty rates vs. national average



London poverty rates are particularly high in Inner London



Population in poverty in the highest four regions (after housing costs) 2015/16 to 2017/18 (high-level estimates)



Source: "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)

Material deprivation (lack of access to damp-free home, access to a telephone) among older Londoners is also much higher than in other parts of the UK, affecting 13% vs. 8% in the next highest region; Inner London is significantly worse (19%).⁵⁸ And parts of London are amongst the most disadvantaged in the UK; for example, Barking and Dagenham rank four out of 317 Local Authorities for the % of people affected by low income and in the top 50 for unemployment and lack of education and skills.⁵⁹

London represents 13% of the UK population, but accounts for c. **40% of black and minority ethnic communities**⁶⁰, who are frequently disproportionately disadvantaged compared to other communities:

- c. 38% of Londoners from ethnic minority backgrounds live in poverty compared to 21% of white Londoners;⁶¹
- Ethnic minorities are likely to have unemployment rates of up to double that of white residents e.g. in Central London Forward subregion⁶² the rate of unemployment is 14.9% vs. 6.9%;⁶³
- Ethnic minority workers are also around 48% more likely to hold zero-hours contracts, making them even more vulnerable to job losses;⁶⁴ indeed, the hardest hit sectors of hospitality, retail and arts and leisure employ the highest proportion of ethnic minority workers;⁶⁵
- Of the five boroughs in London worst-affected by COVID-19, three had particularly significant ethnic minority populations e.g. Brent which had one of the highest death rates in the country also had c. 64% ethnic minority residents.⁶⁶

- Newham, which has c. 71% ethnic minority residents, experienced the second highest rate. Harrow was the third. By contrast, Richmond had one of the lowest death rates and only 14% ethnic minority residents.

Disadvantaged communities exist everywhere across the UK (well beyond London) each with individual challenges aggravated by COVID-19. Considering this data, **London First** believes that post-pandemic, the UK should **prioritise the most disadvantaged communities** for government support, regardless of where these communities are based. This people-centric national agenda to 'level-up' would focus on families and communities, rather than on regional lines and would avoid overlooking seriously disadvantaged communities within otherwise seemingly affluent areas.

To best address the challenges faced by disadvantaged communities, the UK requires a **strong economic recovery**, which London First believes can be enabled by leveraging UK **cities as engines for economic growth**. The role of cities in driving regional growth should not be overlooked; strong cities can support a thriving region, but without success stories in Manchester, Birmingham etc. UK-wide recovery will be slower. For some cities there is a need to target measures at restarting already strong economies; for others it will be a continuation of trying to tackle underlying economic issues. The following sections of this paper focus on **London's potential role as an engine for growth to fuel recovery and the steps needed to enhance this position**, but all major UK cities will need distinctive policy interventions to support growth.

58 "London and the UK – a declaration of interdependence," Greater London Authority (August 2019)

59 "The wealthiest and most deprived areas of London have been revealed," My London (October 30, 2019)

60 "2011 UK Census," Office of National Statistics

61 "London's poverty profile by Population – Ethnicity," Trust for London (2020)

62 Central London Forward subregion consists of ten member boroughs (Camden, the City of London, Hackney, Islington, Kensington and Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth and Westminster) and two associate member boroughs (Haringey and Lewisham)

63 "A detailed study of unemployment in London," Volterra Partners LLP for London Councils (March 2021)

64 "London Recharged: Our Vision for London in 2025," for City of London by ARUP & Oliver Wyman (October 2020)

65 "London recovery manifesto," Centre for London (October 12, 2020)

66 "Pathways to healthcare: GP experience, COVID-19 and BAME Londoners," London Assembly Health Committee (November 2020)

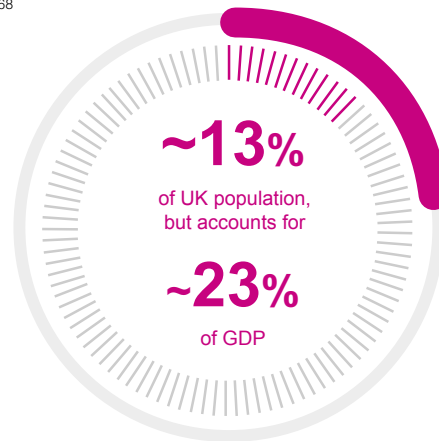
London's Role in Recovery

If London recovers quickly and robustly, it will be a strong economic engine for both growth and 'levelling up' across the UK, particularly given its significant fiscal contribution to the UK historically.

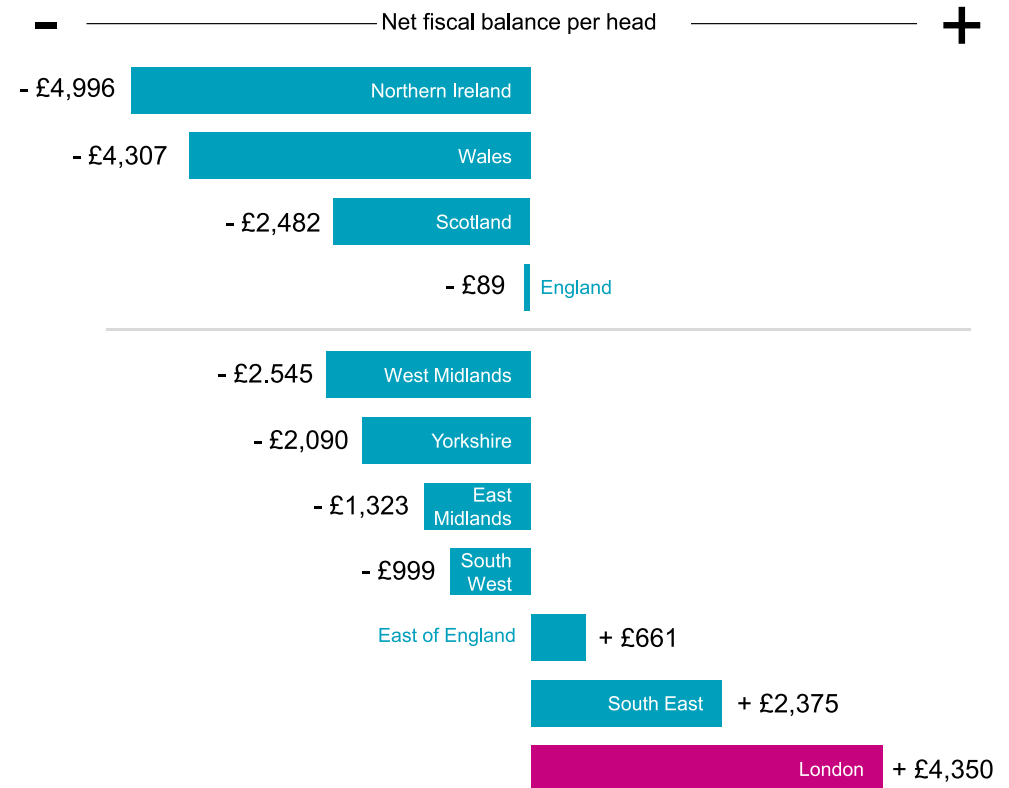
London makes a critical economic contribution to the UK and can serve as a critical engine for growth coming out of lockdown; London First believes that **London's role in supporting recovery for the UK can be further amplified** with the right public policy framework, ensuring London's growth serves disadvantaged communities across the nation.

If London's economy recovers well, the net fiscal surplus generated could leveraged as investment to 'level up' vulnerable communities. As we noted earlier:

- London represents **c. 13% of UK population**, but it accounts for **c. 23% of GDP**, suggesting its recovery is critical to UK as a whole;⁶⁷
- London's net fiscal surplus per person is **UK's highest at £4.3K**, followed by South East & East of England (**£2.4K, £0.7K respectively**);⁶⁸
- In contrast, all other counties and regions in the UK are generating a deficit, resulting in an **overall deficit of £0.6K per person in the UK**;⁶⁹
- Therefore, promoting **London's recovery alongside that of other cities and regions will likely generate a fiscal surplus** that can directly support government's investment in vulnerable communities nationally and help **create resilience across the country**.



Source: "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)



Source: "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

67 "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

68 "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

69 "Regional and country economic indicators," House of Commons Library - Briefing Paper: 06924 (February 24, 2021)

If leveraged properly, London's prominence as a global tourist destination could serve as critical gateway for tourism in other parts of the UK, thereby lifting the entire nation back to growth.

Pre-pandemic, tourism and travel accounted for more than **9% of UK GDP and c. 10% of total UK jobs** – with London currently accounting for around 55% of inbound visitor spend.⁷⁰ London is also **recognised as a global leader for culture & the arts**, with **c. 80% visitors to London listing 'culture and heritage'** as the reason for their visit.⁷¹ There is, though, more that can be done to extend its success assuming it can be rapidly recovered. For example by turning the capital into a more genuine gateway to the whole UK:

- Currently, the benefit of **tourism is not fully shared with the nation**, as visitors spend majority of their time in London vs. elsewhere in UK, particularly compared with other capitals: In UK, c. 40% of stays are in London vs. for Italy, 13% stay in Rome and for France, 26% stay in Paris;⁷²

70 "Britain's visitor economy facts," VisitBritain (Accessed March 24, 2021)

71 "A cultural tourism vision for London 2015-2017," Mayor of London (2015)

72 Beyond London, Visit Britain, published in 2013 (<https://www.visitbritain.org>)

73 "Are UK train fares the highest in Europe?," BBC (August 14, 2019)

74 Action for Rail, Amina Khatun, 3rd January 2017 (<http://actionforrail.org>)

75 "Understanding the London + Visitor," London & Partners (2013)

76 "Understanding the London + Visitor," London & Partners (2013)

77 "United Kingdom – Country Profile," Citi (Accessed March 24, 2021)

78 "Careers in the UK," HSBC (Accessed March 24, 2021)

79 "UK locations," GSK UK (Accessed March 24, 2021)

80 Annual Report 2020 Summary, BT Group, 2020

- This is partially driven by the **high cost of travelling within the UK** compared with other countries (British rail passengers estimated to spend up to c. 1.25-6 times more vs. European counterparts)^{73, 74}, suggesting that making domestic travel more attractive to international visitors e.g. via better marketing or targeted discounts may increase regional tourism;
- **More than 50% of visitors express interest** in combining trips to London with destinations 2-3 hours away, suggesting there is large potential to enhance London as a gateway for the rest of the UK;⁷⁵
- Visitors who do add overnight stays elsewhere in the country typically see up to c. 64% more time spent in the UK overall, suggesting there is **meaningful benefit in heavily promoting regional tourism**;⁷⁶

To promote tourism, the **London 'brand' can be leveraged** to support the Great Britain 'brand' to boost tourism across UK.

Given its economic scale, as well as its cultural offer, **London can attract global companies to establish their HQ** in the UK's capital, creating jobs elsewhere in the UK and supporting economy overall; there are many examples in **financial services**, though this applies across many sectors:

- Citi – EMEA HQ in London; employing 8,000 people across London, Belfast, Derby and Edinburgh⁷⁷
- HSBC – Global HQ in London; employing over 40,000 people across UK, of which c. 30,000 are outside London⁷⁸
- GSK – Global HQ in London; employing over 16,000 people in 17 sites across the UK⁷⁹
- BT Group – Global HQ in London; employing 24,300 people in London and the South East, and a total of 82,700 across the UK.⁸⁰

Visitors to London are interested in exploring other regions of the UK, suggesting there is potential for London as a 'gateway' to the country

>50% of visitors express interest in **combining trips** to London with other destinations up to **2-3 hours away**, suggesting there is large potential to **enhance London as a gateway for the rest of the UK**

Source: "Understanding the London + Visitor," London & Partners (2013)

Overnight stays in UK, outside of London

Visitors who do add overnight stays elsewhere in the country typically spend

>64% more time in the UK overall

Source: "Understanding the London + Visitor," London & Partners (2013)

Overall time spent in the UK

- Given its scale and quality of world-famous venues (e.g. ExCeL, Wembley Stadium, the O2, Lords, etc.), London is a **strong candidate for prominent international events** that bring benefits and build public sentiment for UK as a whole. For example:
- London Olympics 2012:** Following the Olympics, c. 70% of people surveyed in the UK felt that Olympics were a good use of public money and 74% welcomed the idea of the games returning;
- Cricket World Cup 2019:** c. £350m economic impact through additional money spent by visitors and organisers spread across the UK; Global audience of 1.6Bn showcasing UK cities including London, Manchester, Birmingham, Leeds, Nottingham, Southampton, Durham, Bristol, Taunton, and Cardiff;⁸¹
- Future events include games for the UEFA Euro 2020 (rescheduled for summer 2021 with finals round in London and other games across the UK), and potentially the Football World Cup – as well as other sports, arts, entertainment & culture events;
- Trade events also have huge potential.** ExCeL alone generates £4.5bn for the economy annually, supporting 37,500 jobs.

Given the geographic 'spread' of construction value chain, a growing number of **London-based projects** would directly **benefit regional economies** and can therefore contribute to a 'levelling up' agenda.

81 "Economic impact of Cricket World Cup 2019 revealed," Host City (March 4, 2020)

82 "Building London, Building Britain - The economic impact of Central London office construction," London First (June 2013) *Report published in 2013; *2008-2013 were actuals – 2013 to 2016 were estimates at the time.

83 "The benefits to the community, economy and environment from the regeneration of Battersea Power Station," Battersea Power Station (Sustainability Report, 2018)

Construction case study

Given its scale, London can attract **large-scale construction projects** that directly create and support employment in other areas in the UK. For example, **office developments in central London** generate c. £1.1Bn GVA and 22.4K jobs in regional economies (almost 2x higher than the £0.6Bn GVA and 12.2K jobs created in London) each year. Estimates for London developments from 2008-2016* indicate that more than 60% of GVA and jobs created from these projects were in regions outside of London (£15.5Bn GVA and c. 310K jobs total, of which £9.7Bn and more than 200K jobs were attributable to UK regions outside London).⁸²

Taking another example, **Battersea power station's regeneration**⁸³ is estimated to deliver c.£23Bn in GVA over first 30 years of operation, with 20k jobs generated and 40m visitors per year. Major contracts for materials have been given to UK firms (e.g. c. 1.8m bricks from kilns in Gloucestershire and Shropshire; 22K tonnes of steel manufactured in Yorkshire). Therefore, ensuring there is demand for large-scale projects in London will **directly benefit the regions** that make these projects possible.

Each year, office developments in Central London generate
~£1.1B GVA and ~22.4K jobs in regional economies



Source: "Building London, Building Britain - The economic impact of Central London office construction," London First (June 2013)

Recovery Measures: London First has identified a set of practical interventions that can be considered and further explored as part of the move to accelerate and amplify London's recovery we as unlock, supporting UK recovery.

London First Proposed Interventions: London-specific support

Not all interventions are about cost, nor are they specific to London only; some are about better coordination of the many stakeholders who care about the capital's future and indeed recovery across the whole UK. At London First, we have made the call for a senior Minister to coordinate both the capital's economic recovery, and to connect this to the recovery of the UK as a whole. Vital to the success of this will be cooperation with the next Mayor, as well as close working at a regional level across the UK.

Much support is directed towards national schemes (furlough, rates and VAT relief, targeted support for sectors that are last to return to normal etc.), which have been driven by partnerships between the government and the representative business bodies for the hardest hit sectors. These will continue to be needed as the country navigates the ongoing impact of the pandemic. There are also a series of policy changes which would benefit specific sectors in London and across the UK, including, for example, those put forward by the New West End Company and the cultural sector (see box outs).

As this report highlights that, for London to thrive and drive the UK's return to growth, there must also be a clear city-specific plan to accelerate the recovery. To have maximum impact, this must be backed by the Government and the Mayor. This section highlights London First's thinking on the component parts of that city plan, drawing on Bain & Company's analysis and the feedback from sector representatives, London First members, London business groups, advocates, and others. These interventions are across three broad areas: a scale marketing campaign to bring people back to the capital; funding of the public transport system to support London and the UK's reestablishment as a domestic and international hub; and a business-led reskilling programme, to target the underlying inequalities, improve the match between skills and vacancies of the future, setting out a clear plan to retrain at scale in the capital.

If these interventions help London avoid fully the GLA's "significant headwinds" recovery scenario (see appendix for detail), they could yield a benefit of **c. £25-35Bn in GVA** between 2021-2023, equating to approximately **c. £8-12Bn in additional taxes** for central government over that period. This increase in taxes will reduce the pressure on future public expenditure and put London firmly back on-track to generate the tax surplus that supports communities throughout the UK. While they will not be the only actions needed to secure this outcome, they only need to mitigate 5% of the GVA impact of a 'severe headwinds' scenario in order to breakeven, suggesting they are an attractive investment profile.

Bain & Company has modelled the cost of the specific interventions London First believes the city needs to bounce back quickly. There will be similar locally specific interventions needed across the UK, which will help other city regions return to growth more swiftly.

There are a number of specific calls put forward by the **New West End Company**, the Business Improvement District that represents the areas around Bond Street, Oxford Street and Regent Street, which can be achieved via existing policy mechanisms and which would have benefits for other major retail destinations as well as the capital:

- an extension to Sunday trading laws for designated international retail centres;
- a reinstatement of the tax-free shopping allowance for visitors from all countries; and a rethinking of business rates to reflect economic performance rather than property values.

Specific support is also needed for the **cultural sector** in London, which has been disproportionately impacted. The sector has called for specific support for night-time economy businesses, such as nightclubs, and a Government-backed scheme to underwrite insurance for a wider set of creative and cultural organisations, to give organisers and investors the confidence to fund festivals, live performances and live music for Summer 2021 and beyond. Financial support has also been sought for the East Bank Project, bringing a world class cultural and education campus to Stratford, to ensure it remains on track.

The London-focused interventions:

1. Launch scale marketing campaign – approximately £170m incremental cost over three years

A large scale, properly funded campaign to bring people 'back to (central) London', gradually staged by type of audience: local 'commuters' & businesses, domestic visitors, European visitors, other international visitors. London & Partners is currently preparing a campaign through a grant from the GLA of £6m in addition to its recent budget of c. £17m, covering business activities, tourism, education, major events, among others. By contrast, Hong Kong's comparator agency spent £80m in 2019/20 alone, c. £57m above London's expected annual spend. If we were to raise London & Partners spending to Hong Kong's level for three years, it could have a dramatic impact on increasing domestic and international footfall, helping to avoid the worst-case scenario, and making it more likely to secure the potential gains outlined.

2. Support transport to encourage movement into and out of London – approximately £1.2 to 1.5B in forgone cuts / revenue over three years

Given TfL's heavy reliance on fares, the fall in passenger traffic more heavily impacted London's transport system than international comparators. To support the return to the city, it is necessary to support TfL to ensure it maintains London underground & bus service levels in 2021-23, even if footfall has not recovered (c. £700-£900m over three years). This is critical to helping overcome barriers to passenger return by a) ensuring convenience and b) reducing perceived risk by providing more space per person. This also prevents a potential 'downward spiral': if people have a negative experience when using transport again, they may use it less, putting further pressure on funding and service levels.

The picture for overground rail is more complex: the sector is on the cusp of wide structural reform; there are different needs for commuters and domestic tourists; and there is an ongoing conversation about the future approach to rail fares. At this moment, it is most critical to get people back onto the network and to start to establish some regularity to that use. With that in mind, the initial focus should be to support short-term UK rail discounts to encourage people to take that first trip, via custom offers (c. £500-£600m for c. four months in 2021)

This will help overcome price-related barriers to travel both into and out of London.

More broadly, to support the **restart in international travel**, it is important to implement a stable and transparent framework for restrictions. The recently announced traffic light system is sensible, but clarity must be provided about the criteria used for categorising countries. Where possible sub-national regions (for example individual islands or US states) should be categorised individually. It is essential that the Government delivers on its commitment to work bilaterally and multilaterally to reach agreements on reopening and common standards for COVID-19 certification, which will enable a seamless passenger experience.

3. A business-led reskilling programme supported by specific funding enhancements to support an employer-led approach to addressing the immediate challenges. This is a package of no-regrets actions to be taken now, which will get people into jobs more effectively using existing funds. As the scale of the mismatch between employer needs and skills becomes clearer, more support will be needed; so, this package will need to be reassessed in due course. However, at this point, the 'no-regret' changes advocated equal **c. £10m incremental cost over three years**, and includes:

- More tailored, relevant, and flexible support to help young Londoners transition from education to employment and support adults where they have been displaced as a result of the pandemic through a **London Careers Service** (c. £3.4m incremental cost per year). London's share of the National Plan for Jobs (c. £8m⁸⁴) should be devolved (no incremental cost, simply devolution);
- Support for employees from sectors that have suffered the most due to COVID-19 or automation via a **London Adult Retraining Scheme** (no incremental cost, simply devolution);
- The implementation of an ambitious **UK skills devolution programme** overseen and coordinated by regional employer-led skills commissioning boards, that would allow London to operate this new institutional structure at scale and support even more Londoners, including targeting those from disadvantaged communities (no incremental cost, simply devolution);
- The creation of a **London Apprenticeship Fund** targeted at small firms and sectors affected by Covid-19 to re-start apprenticeship growth in the capital. Funded by returning

⁸⁴ National Plan for Jobs notes £32m national spend; London First estimates London's share of this to be c. 25%, based roughly on London's contribution to GDP

any underspend by London apprenticeship levy payers from the Treasury to the Mayor (estimated at c. £460m⁸⁵) (no incremental cost, simply devolution and repurposing of spend).

These **proposed recovery measures for London are broadly in line with other international cities**, such as New York and Sydney.

- New York:** In March 2021, the US Federal Government announced a c. \$31Bn stimulus package for transit agencies⁸⁶, including c. \$6Bn for the Metropolitan Transportation Authority in New York. In January 2021, Mayor Bill de Blasio launched “Recovery For All” package⁸⁷, incl. interventions to: get people back to work & leisure safely, fight inequality through taskforces on racial inclusion and equity, ensure appropriate reskilling, build digital inclusivity, support SMEs, and rally New Yorkers through a comprehensive marketing campaign, among several others. Since then, the Mayor has also announced a \$30m package to bring tourists back to the city, which will launch in June under the banner “NYC Reawakens”.⁸⁸
- Sydney⁸⁹/New South Wales:** In its COVID-19 response, the state government stressed rebuilding to be “more resilient and self-sufficient” by: investing >\$70Bn in infrastructure including public transport, driving planning reforms to fast track business

development, >\$5Bn to reform education and update school curricula to equip students for jobs of the future, >\$1.3Bn for government service digitisation and positioning Western Sydney to be the national base advanced manufacturing resulting in job creation and economic development across the state.⁹⁰



New York

The COVID-19 response of the US federal and NYC local government includes:



~\$6Bn stimulus package for the Metropolitan Transportation Authority in New York, as part of broader ~\$31B package for transit agencies nationally



NYC-specific “Recovery For All” package, including measures to get people back to work & leisure safely, ensure appropriate reskilling, support SMEs, and rally New Yorkers through a comprehensive marketing campaign, among several others

Sources: “Transit Got \$30 Billion in Stimulus Aid, What Does That Mean for Riders?,” New York Times (March 15, 2021)
 “State of the City 2021: Mayor de Blasio Announces A Recovery for All of Us,” New York City Government (January 28, 2021)



Sydney

The COVID-19 response of the state government of New South Wales includes plans to:



Invest **>\$70Bn in infrastructure** including public transport



Drive **planning reforms** to fast-track business development



Invest **>\$5Bn to reform education** and update school curricula to equip students for jobs of the future

Sources: “COVID-19 Recovery Plan 2021,” Government of New South Wales, Australia (February 2021)[1]
 State of the City 2021: Mayor de Blasio Announces A Recovery for All of Us,” New York City Government (January 28, 2021)

85 In 2018/19, IPPR/GLA estimated £470m in underspend by London levy payers. In 2020/21, the equivalent amount is likely lower at c. £460m, given OBR estimates expect a 2% total decrease in payroll taxes between 2018/19 and 2020/21.

86 “Transit Got \$30 Billion in Stimulus Aid. What Does That Mean for Riders?,” New York Times (March 15, 2021)

87 “State of the City 2021: Mayor de Blasio Announces A Recovery for All of Us,” New York City Government (January 28, 2021)

88 City to funnel \$30 million into tourism marketing campaign, SiLive (<https://www.silive.com>) April 2021

89 Sydney has a population of 5.4M which is c. 67% of New South Wales population

90 “COVID-19 Recovery Plan 2021,” Government of New South Wales, Australia (February 2021)

Appendix one:

Detail costings and impact of recovery measures

If successful, these recovery measures could pay for themselves many times over, with improved outcomes for UK as a whole

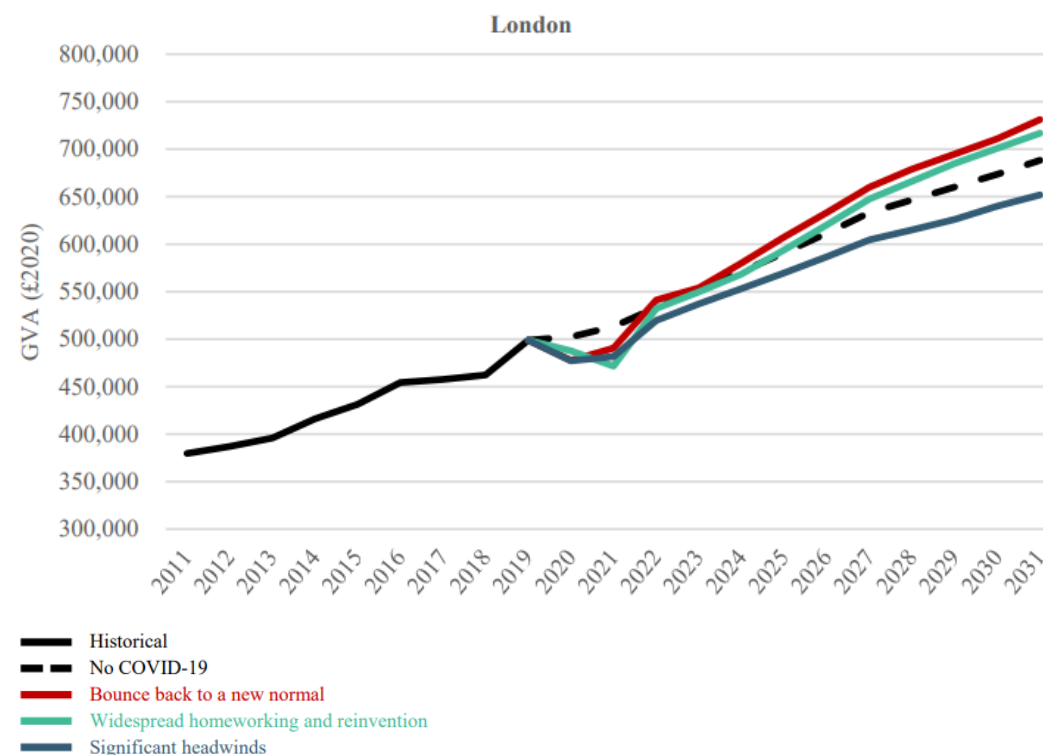
Recovery Measures – Potential Benefit

In March 2021, a GLA-commissioned report **outlined three main scenarios** for London's potential recovery⁹¹:

- **“Bounce Back to New Normal”** = In 2031, £43Bn higher GVA vs. no COVID-19, and c. 25K additional jobs in demand
- **“Widespread work from home”** = In 2031, £28Bn higher vs. no COVID-19, and c. 19K additional jobs at risk
- **“Significant headwinds”** = In 2031, £36Bn lower vs. no COVID-19, and 148K additional jobs at risk

ARUP Scenario Exhibit⁹²

London GVA (£M, over time)



⁹¹ "The Economic Future of the Central Activities Zone (CAZ) Phase 2 Report" (March 2021)

⁹² "The Economic Future of the Central Activities Zone (CAZ) Phase 2 Report" (March 2021)

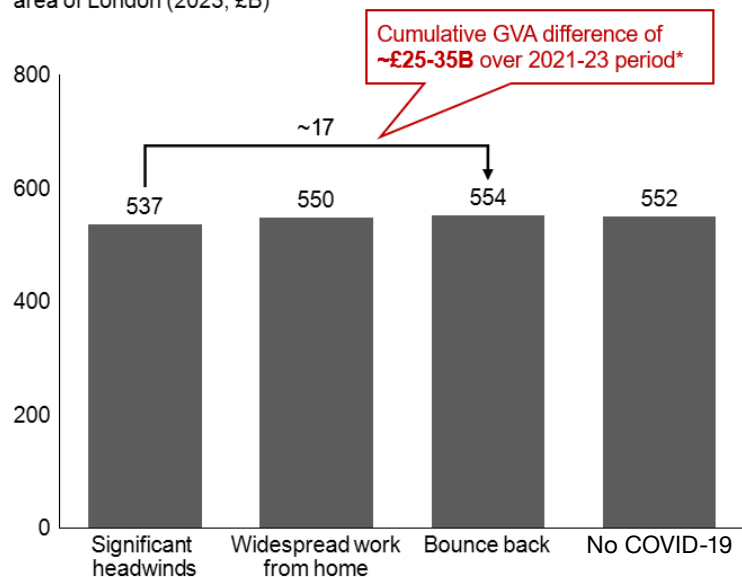
These scenarios imply a **meaningful economic impact** if the capital faces a “severe headwinds” scenario, rather than a “bounce-back to new normal”.⁹³

From 2021-31, there could be a **£350-£500Bn cumulative GVA ‘at stake’** by avoiding a “severe headwinds” scenario. From 2021-23 alone, there could be up to **c. £25-35Bn cumulative GVA ‘at stake’** by avoiding a “severe headwinds” scenario.

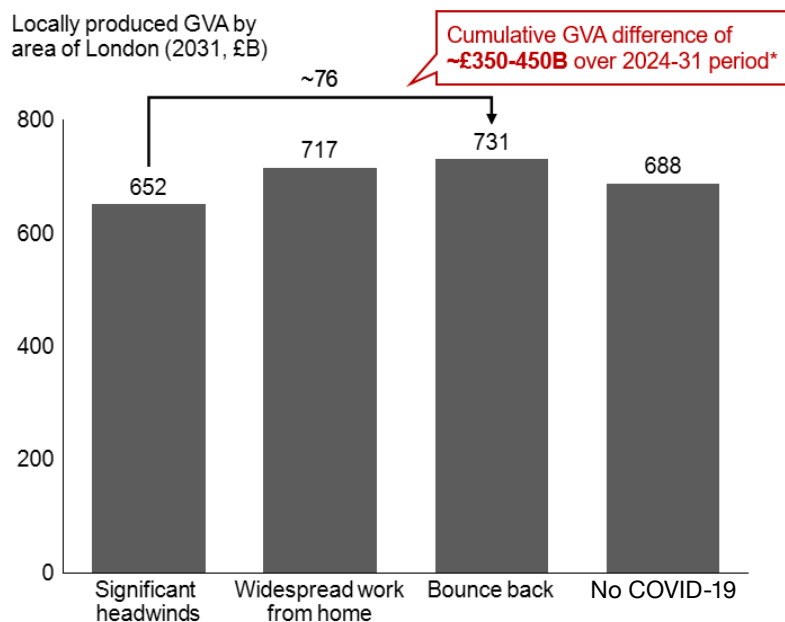
London GVA Scenarios - 2023: Preventing the worst case scenario would avoid -£17Bn in losses in 2023 alone

London GVA Scenarios - 2031: Preventing the worst case scenario would avoid -£76Bn in losses in 2031 alone

Locally produced GVA by area of London (2023, £B)



Locally produced GVA by area of London (2031, £B)



Note: *GVA difference assumes straight-line average yearly GVA growth of ARUP scenarios
Source: ARUP, GLA

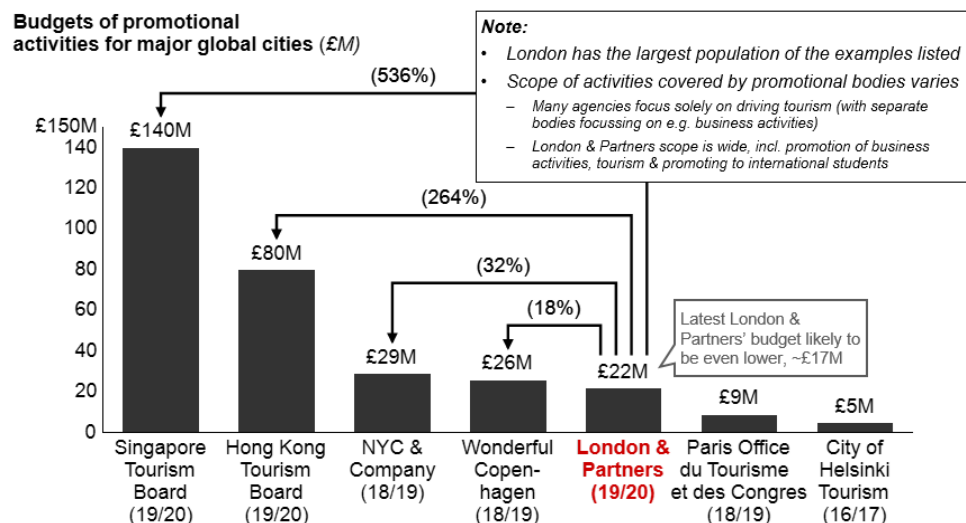
Therefore, if proposed **recovery measures could help London fully avoid a ‘severe headwinds’ scenario**, they could yield a benefit of **c. £25-35Bn in GVA** between 2021-2023, equating to approximately **c. £8-12Bn in additional taxes** for central government over that period (roughly assuming c. 33% tax rate).

Recovery Measures – Potential Cost

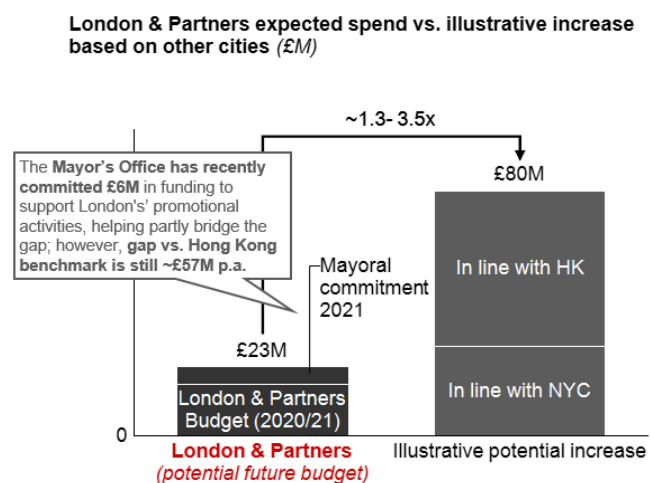
At a high-level, the **London-specific support measures** proposed above would cost **£1.4-1.7Bn** over the next three years.

Launch scale marketing campaign – approximately £170m in incremental spend over three years: To estimate the potential cost of this intervention, we considered the historical difference in promotional spend between London and other major cities – with a recommendation to scale-up London & Partners' budget accordingly. The difference between the scaled-up budget and the current spend is the incremental cost.

Global city promotional spend: Budgets for promotional activities vary widely, with up to >6x London's spend, despite London's largest population and broad scope



London: Broader promotional scope and larger population vs. others, indicating potential for increase



Historical underspending and greater breadth of scope vs. other cities, suggest potential to increase London promotional spend meaningfully to bring in line with international comparators

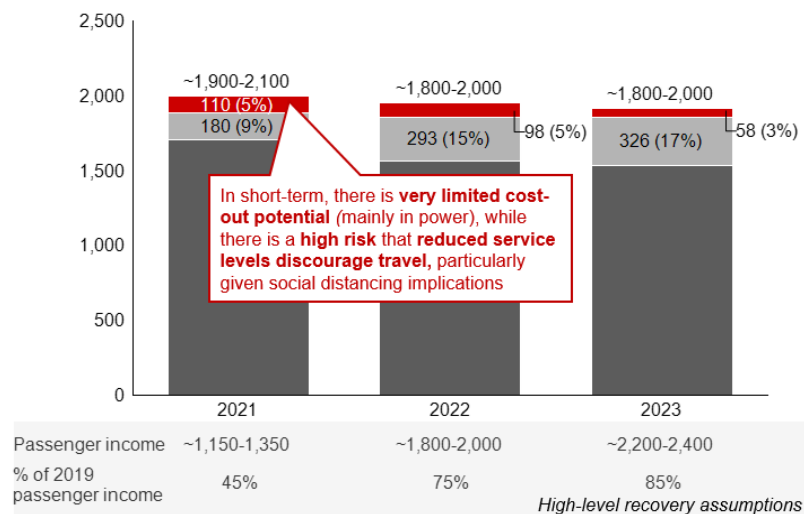
Note: Budgets for promotional activities by cities is based on details in financial reports, which vary in granularity; FX spot rates as of March 24, 2021
Source: London & Partners; NYC & Company; Hong Kong Tourism Board; Singapore Tourism Board; City of Helsinki; Wonderful Copenhagen

Maintain TfL services levels – approximately £700-900m in forgone cuts over three years: To estimate the maximum potential cost of this intervention, we calculated the difference in variable cost between the variable cost required to meet expected demand vs. variable cost incurred in 2019. The difference represents the theoretical cuts that would be forgone by maintaining service levels, though practically this may be lower given current constraints.

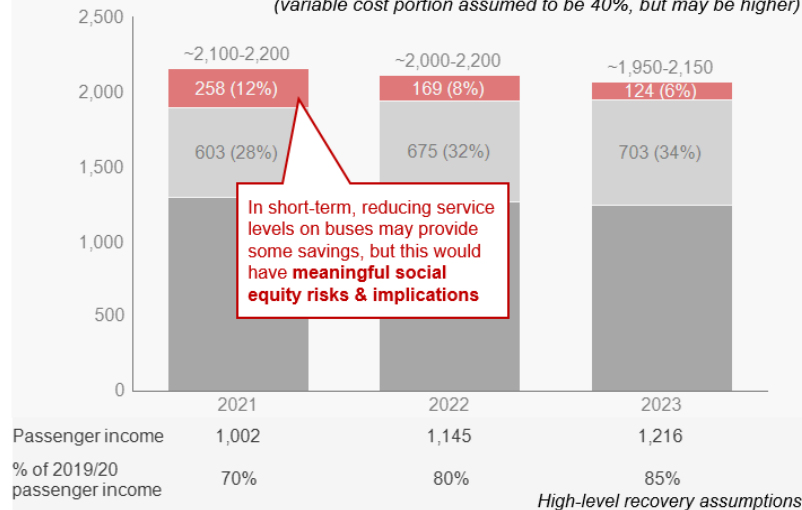
Underground: Maintaining London Underground service levels may cost up to ~£200-300M over three years in forgone savings

Buses: Maintaining bus network service levels may cost up to ~£500-600M over three years in forgone savings

Underground direct costs (FY2021-23E, £M)



Bus network direct costs (FY2021-23E, £M) *Directional*
(variable cost portion assumed to be 40%, but may be higher)

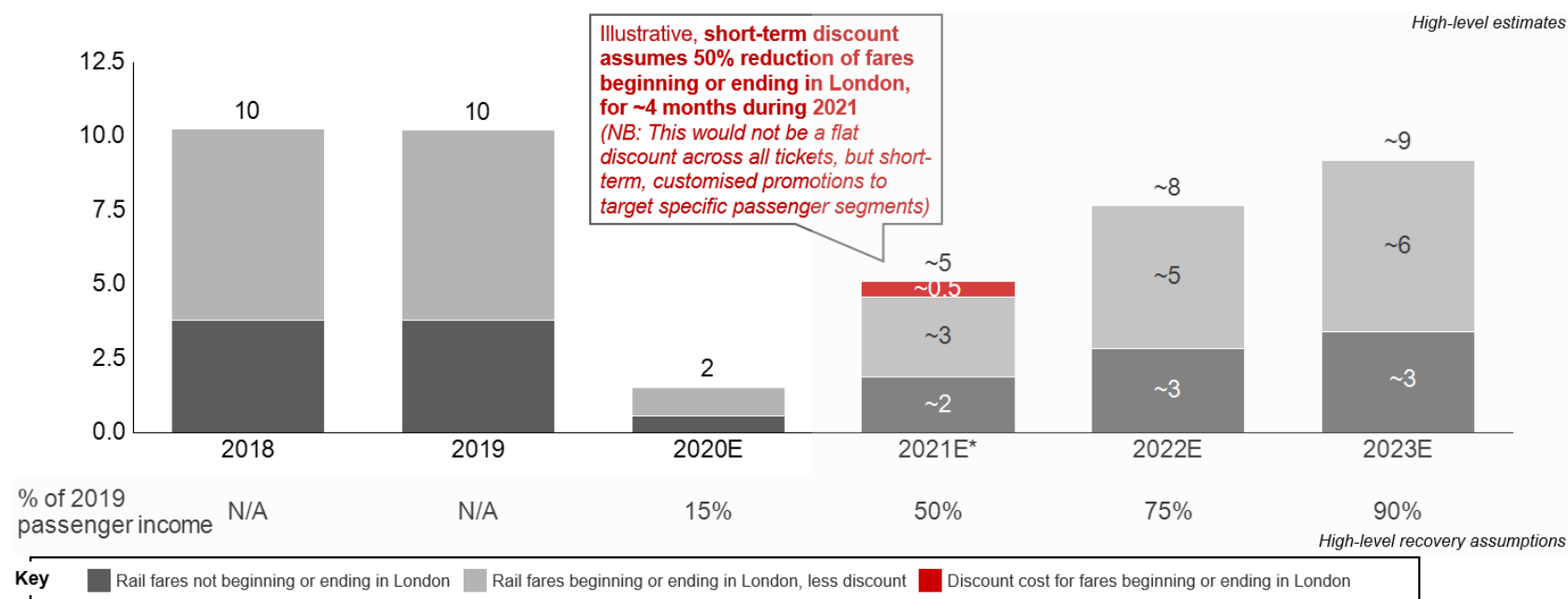


Key ■ Direct fixed costs (or variable costs already committed in short-term) ■ Variable costs required for expected demand ■ Theoretical potential savings from reduced service levels

Note: Incremental cost incurred is calculated as the difference in expected variable cost for future year, compared to pre-COVID cost levels; costs are extrapolated from FY 2020/21 Q3 financials; variable cost assumptions are directional, assumed to be roughly ~15-20% for Underground and ~40% for Bus network, scaled to expected passenger income as % of pre-COVID levels
 Source: TfL, Expert interviews, Literature search, Bain Airline Practice

Discount rail – approximately £500-£600M in foregone revenue over four months: To estimate the potential cost of this intervention, we estimated the potential rail fare from journeys that begin/end in London and apply a discount. For this exercise, an illustrative 50% discount is applied for four months in 2021. In practice, this would not be a blanket discount across all fares, but 50% would be the net effect of different incentive packages, tailored to specific audiences.

Total UK franchised passenger revenue by year (FY2018-23E £Bn)



Note: *FY starting March 2021; FY2020-22 extrapolated from FY2019, based on high-level recovery assumptions (i.e. passenger income in 2021 assumed to be ~50% of pre-COVID, ~75% in 2022 and ~90% in 2023); passenger revenue does not include Heathrow Express, Eurostar, Underground or Light Rail services; 25% discount based on benchmarks against other EU nation fare prices; share of passenger revenue involving London is calculated based on number of passenger journeys multiplied by average journey revenue
Source: ORR, Expert interviews, Literature search, Bain Airline Practice

A business-led reskilling programme of no-regrets actions, which may require expansion as the full picture becomes clear – **approximately £10m incremental cost over three years:**

- **London Careers Service**, funded through London-specific spend from National Career Service Agency, should a) increase from the current £7.6m p.a. to at least £11m p.a., in line with historical levels (c. £3.4m incremental cost per year) and b) be devolved from DfE (no incremental cost, simply devolution);
- London's share of the National Plan for Jobs (c. £8m)⁹⁴ provided by HMT for those made redundant due to pandemic should also be devolved (no incremental cost, simply devolution).
- **London Adult Retraining Scheme** would require further devolved powers (beyond the current devolved Adult Education Budget), through c. £135m⁹⁵ London spend from the National Skills Fund (no incremental cost, simply devolution);
- Return of any underspend by London apprenticeship levy payers from the Treasury to the Mayor (estimated at c. £460m)⁹⁶ to create a **London Apprenticeship Fund**.

⁹⁴ National Plan for Jobs notes £32m national spend; London First estimates London's share of this to be c. 25%, based roughly on London's contribution to GDP

⁹⁵ £135m = A) London's share of the National Skills Fund (£375m allocated in the current Spending Review Period overall, with approximately c. 25% for London at £94M) + B) London's share of the Immigration Skills Charge, at c. £40m pa by 2025).

⁹⁶ In 2018/19, IPPR/GLA estimated £470m in underspend by London levy payers. In 2020/21, the equivalent amount is likely only c. £460m, given OBR estimates expect a 2% total decrease in payroll taxes between 2018/19 and 2020/21.

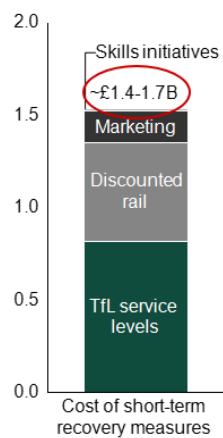
Recovery Measures – Cost / Benefit Summary

Based on the calculations presented, these **recovery measures would break-even simply by mitigating >5% of the impact** of a 'severe headwinds' scenario.

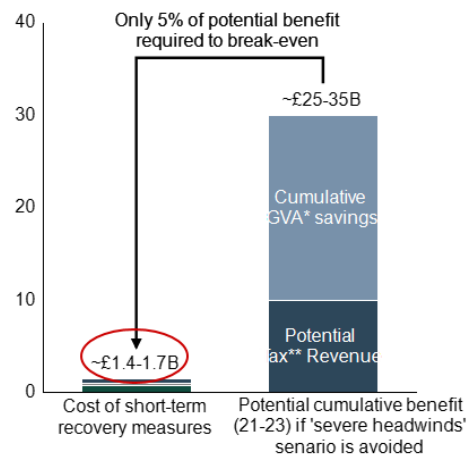
However, if these measures could **entirely avoid a 'severe headwinds' scenario** in London, they would **pay themselves back c. 20x by 2023**: c. £25-35Bn in potential incremental GVA over three years (c. £8-12Bn in additional taxes for central government), at only **c. £1.4-1.7Bn total cost**.

Estimated Cost & Benefit

Cost of London recovery measures (2021-23, £B)
(incremental cost)



Cost of London recovery measures vs. London potential upside (2021-23, £B)



Implications & assumptions

- The impact of these measures depends on their success in shifting critical factors, including:
 - Office worker behaviour (WFO vs. WFH)
 - Population levels (London overall + GAZ specifically)
 - Tourism levels
- These measures would not be working alone, but would play a critical part alongside sector-specific plans and other UK-wide measures

5%

To break-even, these recovery measures need to **mitigate only ~5% of the impact** on GVA that would occur in a 'severe headwinds' scenario

Note: *Calculated based on the difference between GVA in a 'bounce-back' scenario vs. a 'significant headwinds' scenario, per ARUP and GLA modelling, **Based on UK tax revenue of ~33% GDP in 2019
Source: ARUP, GLA, OECD



Our mission is to make London the best city in the world in which to do business.

London First was set up by business leaders with the belief that by harnessing business assets we can drive positive change. We operate as a business campaigning force, with over 175 members, and are uniquely placed to champion the city:

- We've done it before: back in the 1990s, London's prospects looked bleak. Business leaders came together to lead when others wouldn't;
- We've achieved a lot: over the past three decades, we've campaigned for the creation of the office of London Mayor and Transport for London, for Crossrail, for congestion charging and for expansion at Heathrow; we incubated Teach First and created the UK's largest annual jobs and careers fair for school leavers, Skills London;
- We give London's employers a powerful voice, prioritising the critical interventions needed to keep our capital competitive and connecting with allies to create solutions that help our country succeed as one.

Now, we're stepping up once again. With our members – and the millions of people they employ in the UK – we are pursuing a recovery agenda that will keep London at the forefront of global business, working with and for the whole UK.

You can also find us on Twitter @London_First or at

londonfirst.co.uk