THE POLICY INSTITUTE

KING'S College LONDON

A new settlement for London

Securing its prospects for 2030 and beyond

November 2023

Contents

Introduction

The Policy Institute set up the King's Commission on London in 2015 and it reported in March 2018. Following recent fundamental developments affecting the London economy, the institute decided to return to the subject of the prospects for London's economy in 2030, which had been one of the core subjects of the original research. It thus established a new research project at the beginning of 2023.

The following individuals within the Policy Institute took part in the research work: Professor Bobby Duffy, director; Tony Halmos, visiting professor; and Rachel Hesketh, research fellow. Tony Halmos managed the project.

The thanks of the Policy Institute and all those who have worked on the project are owed to the generous funders of this new project, EC Business Improvement District, without whom the research project would not have been able to be carried out successfully.

In order to assist with the research, an advisory working group was established consisting of the following:

- **Dr Jack Brown**, lecturer in London studies and London partnerships director, King's College London
- **Richard Brown**, freelance writer and consultant
- **John Dickie**, chief executive, BusinessLDN
- **Claire Harding**, research director, Centre for London
- **Alexandra Hil**l and **Paul Hill-Mayo** (job share), chief economist, City of Westminster
- **Alexander Jan**, board advisor, EC Business Improvement District
- **Nabeel Khan**, corporate director – climate & inclusive growth, London Borough of Lambeth

- **Professor Jonathan Portes**, professor of economics and public policy, King's College, London
- **Professor Tony Travers**, director, LSE London, London School of Economics and Political Science
- **Dr Adam Yousef**, head of economics, Greater London Authority

The Policy Institute is also very grateful to the working group for its extensive advice and support throughout the project, as well as the contributions of a number of individual members of the working group to the preparation of the report. The views expressed in this report are not necessarily those of the working group or any of its members.

As in the original research, Cambridge Econometrics was commissioned to carry out the detailed economic analysis. The institute is grateful to them, and especially to Ben Gardiner and Stefan Ranoszek, for their work. Their full research is contained in the annex to this report.[1]

Foreword

The EC BID is committed to championing the issues that matter most to the businesses that operate in the tall building cluster in the City of London. Alongside physical projects and interventions to support local economic growth, we invest in research and insights to help inform our work.

Earlier this year, the EC BID was very pleased to work with Centre for Cities on two reports looking at productivity challenges facing London and the UK more generally as well as the question of hybrid working.

I am delighted that we have now been able to support this new report by King's College London's Policy Institute which updates economic projections for the capital and at the same time identifies practical measures and public policy changes to boost sustainable growth and support London and the country's major cities.

With the help of an expert range of advisors drawn from across London's government and academia, along with Cambridge Econometrics, the report concludes that London's economy is facing stronger headwinds since 2018 and that these need to be tackled with a sense of urgency.

The report makes a compelling case for devolving greater powers – both in policy and taxation terms – to London and other English cities. Further, the report extensively details ideas and suggestions as to how we can enhance and maintain London's complex "ecosystem". These range from encouraging staff back to the office, planning reform, and enhanced housing investment, through to immigration policy changes, more green spaces, and transport policy updates. While not everyone will agree with every idea suggested, the report sets out an ambitious agenda for reform as we enter what will rapidly become a period of local and national election campaigning.

London's fundamental economic strength is not in question, but there is more potential, more growth and more opportunity that should be maximised. We should be proud of our capital city, of what it stands for, and of what it can deliver. Importantly, London should never be pitted against other parts of our country. Instead, we should look at it as a national asset which, if looked after properly, can deliver for the whole of the UK.

For this to happen, it requires a collegial approach to be adopted nationwide, with the public and private sectors working together in the interest of London, Londoners, and the rest of the country. This is a dialogue which business improvement districts are ideally placed to convene; the EC BID and colleagues across the wider Primera portfolio of BIDs stand ready to play our part. We will be exploring how to take forward some of the recommendations from this work, especially on the sustainability agenda which is so important if we want to create a more resilient City for the future. I urge others to do the same.

My thanks go to King's College London, and Tony Halmos in particular, for leading on this work with Dr Jack Brown, as well as to the advisory working group, who have given freely of their time and worked alongside Cambridge Econometrics.

At a time of continued economic uncertainty – but also opportunity – for London, the report provides an invaluable contribution to the policy debate on how the capital, its citizens, businesses, and public institutions can come together to contribute to the long-term prosperity of the city and indeed the country as a whole.

Nick Carty
Chair
EC Business Improvement District

Executive summary

The report of the King's Commission on London, *London 2030 and beyond*,[2] was originally published in March 2018 and featured economic analysis of four likely scenarios for the future of the capital. This new report revisits that analysis and sets out the results of updated economic research on where the London economy is most likely to be by 2030.

In the original report, four possible scenarios along two axes were set out for the position of London's economy in 2030. The first of the two axes could now be called the "levelling-up effect", in that it was a measure of how favourable national policy was towards London, while the second could be termed the "Brexit effect", given it concerned the level of UK integration with the global economy. Yet more recently these axes have naturally been impacted by other big challenges London has faced, especially Covid-19, the Ukraine war and the cost of living crisis.

At the time our 2018 report was written, it was only possible to project the existence of four plausible scenarios for London's economic future, but not to say which was most likely. It was considered that scenario 4 – in which there was an open international environment and a pro-London national policy – would be most beneficial for the capital, and was the outcome hoped for.

The latest research, which is summarised in section 1 and contained in full in the annex, finds that scenario 4 is indeed expected to be the most likely outcome for London's economy by 2030, as the city is projected to take advantage of a strong positive position on both axes.

Yet while London's economic status has held up very well under all the pressures it has faced, our new projection for where we expect London to actually end up by 2030 is more negative than our hoped for outcome back in 2018. This assessment is based on detailed examination of the trends since then, in population, employment, output and productivity, as well as the share of employment in London for knowledge-intensive business services, which are invariably more productive. While the London economy has undoubtedly been highly resilient, its position in 2030 is therefore expected to be weaker than it once might have been.

There is a clear need to avoid this decline, and section 3 of this report examines how changes to a number of policy areas could increase the chances of London's economy thriving, and remove as far as possible the constraints under which it currently has to operate, which are detrimental to its economic prospects. All of these recommendations have been made in the full awareness of the current severe constraints on the public finances and the need to avoid advancing policies that may entail unfunded spending commitments from government.

But overall, the fundamental conclusion drawn from this economic analysis is that devolving both to London and other mayors and regions in England greater powers over their own affairs, particularly over aspects of taxation and spending decisions, is central to boosting London's economy. There is an essential need to seek a wide-ranging consensus on the most effective level of **devolution** in England, both to the capital and to the other mayors. This is examined fully in section 2.

By this is meant that a new statutory mechanism should be established requiring the government to convene a regular forum, chaired by the prime minister, of all the elected mayors across England – a council of mayors. This would have a statutory brief to draw up proposals for the government on the effective ways to devolve decision-making powers to mayors across England.

For London specifically, both with the highest level of government and with other mayors across England, it would provide a forum in which to reach agreement on a strong level of support and recognition for the crucial role that a thriving London economy plays for the whole country. Thus a new settlement for London could be reached.

SECTION 1

The economic analysis

1. The economic analysis

The report of the King's Commission on London, *London 2030 and beyond*,[3] was originally published in March 2018. The commission was established by the Policy Institute at King's College London in 2016 and its report featured economic analysis of four likely scenarios for the future of the capital. This new report revisits this analysis and sets out the results of updated economic research on where the London economy is most likely to be by 2030.

The original scenarios

In the original report, four possible scenarios were set out for the position of London's economy in 2030. These were centred around two axes: the first concerned the extent to which London would continue to be supported by the UK national government or, alternatively, whether the government would seek to "rebalance" the UK economy away from the capital to the rest of the country. The second concerned the extent to which, in the immediate aftermath of the vote to leave the EU, the global economy and London's position within it would become either more closed and insular or more integrated and open. The first could now be called the "levelling-up effect" on London and the second the "Brexit effect".

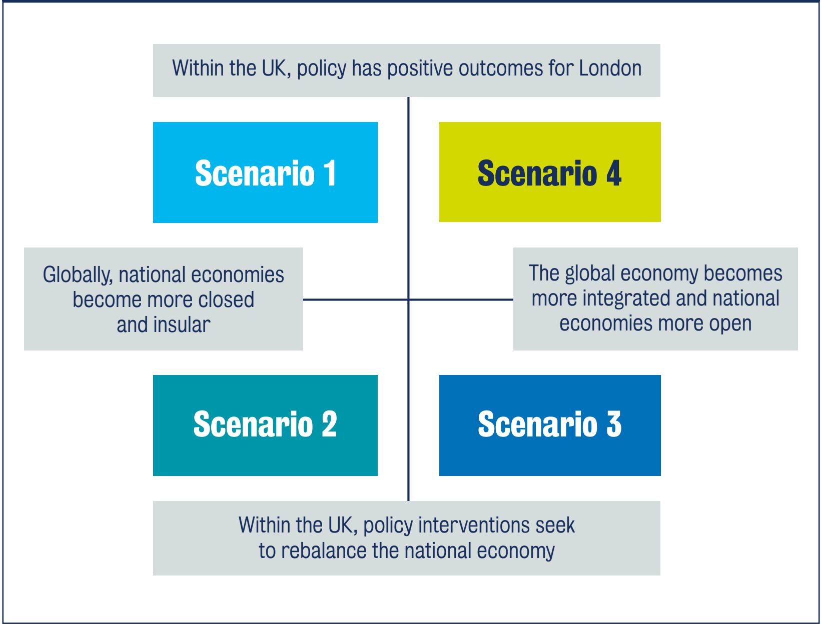
The axes were originally chosen because, at the time of the report, there was great uncertainty about the UK's future direction in the world following the Brexit referendum, while the issue of regional inequality was also gaining political momentum. Both these developments raised questions about London's future position and prosperity, and it therefore seemed sensible to frame the scenario choices around them.

The four scenarios are shown in Figure 1 below.

The key point is to distinguish between the extent of openness and internationalisation in the world economy, relative to the UK and the London economies. The reason for this is that, within the UK, the composition of the London economy is unique. It is therefore important to provide a link to how the global economy affects London uniquely and not just the UK more broadly.

Both axes have since also been affected by the other big challenges which London has faced since 2018, especially Covid-19, the Ukraine war and the cost of living crisis. These four original scenarios and the two axes are illustrated below.

FIGURE 1: The scenarios for London's economy in 2030



The two axes: London's economic position in 2030 revisited

In the original research in 2018, detailed projections were made for each of the four scenarios. However, it was not possible, given all the uncertainties at that time, to determine which scenario would most accurately predict the state of London's economy in 2030. In this new research that decision is made, with number 4 now thought to be the most likely outcome, as the capital is expected to take advantage of a strong positive position on the two axes.

Yet while London's economy has held up very well under all the pressures it has faced, our projection for scenario 4 itself has worsened somewhat since 2018.

Table 1 shows the updated projections for scenario 4 in 2030, as well as the more recent data for 2022 (and revisions for 2015 where relevant). The full details of the research that has led to these findings are set out in the annex.

TABLE 1: Updated summary assumptions for scenario 4

	2015	2022	2030	2030 (previous study)
UK population share (%)	13.3	13.1	14.0	15.5
UK employment share (%)	16.5	17.4	18.5	19.0
UK output share (%)	23.4	24.4	26.0	27.0
Relative productivity (UK=100)	141.9	140.6	145.0	150.0
Share of knowledge-intensive business services employment (% of total London)	28.0	31.0	35.0	35.0

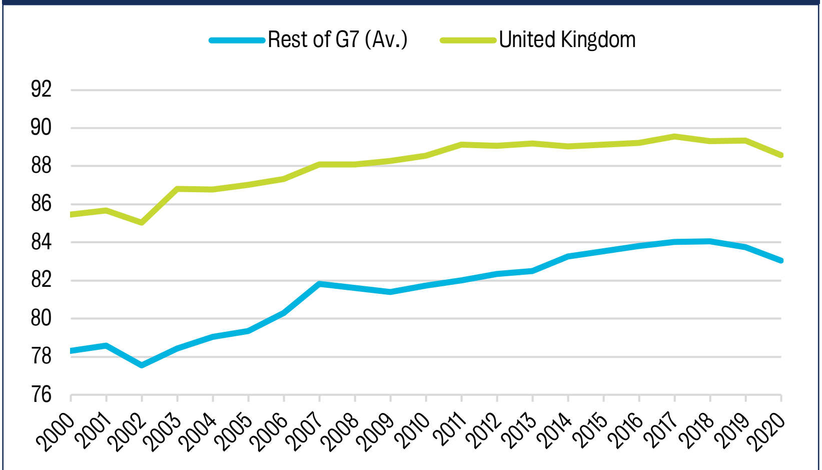
We now examine in turn the developments which have occurred on each axis and led to the view that scenario 4 is the most likely outcome for London's economy by 2030 – albeit an outcome that is somewhat less favourable than previously expected.

The global economy and London – the horizontal axis

The long-term trend in recent decades towards increasing globalisation was already slowing by the time of the previous report, as the financial crisis raised concerns about the integrated nature of the world economy and the dangers of connected financial flows. More recently, this trend has slowed even further as the Covid pandemic and the war in Ukraine have created more pressure on international supply chains and movements of people and goods. In addition, policy choices since the Brexit referendum have meant that the UK has become more insular in terms of trade and movement of people with the EU.

The KOF Globalisation Index, produced by the Swiss Economic Institute, measures the economic, social and political dimensions of globalisation.[4] It incorporates international debt and capital account openness, international tourism and migration figures, as well as measures of civil liberties and human capital, to reveal how the UK's relationship with the global economy and international community has evolved since the year 2000 relative to the average for other G7 nations.

FIGURE 2: KOF Globalisation Index

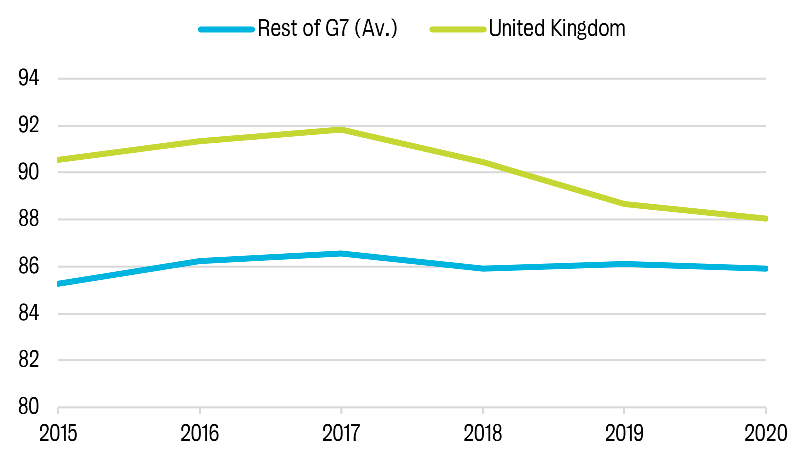


Source(s): Gygli, Savina, Florian Haelg, Niklas Potrafke and Jan-Egbert Sturm (2019): The KOF Globalisation Index – Revisited, *Review of International Organizations*, 14(3), 543-574.

Figure 3 shows an already highly globalised UK becoming increasingly internationally integrated from 2000 to 2011. In the aftermath of the financial crisis, however, this trend slows noticeably, plateauing between 2011 and 2018, before beginning to decline with the onset of the Covid pandemic in 2020. The rest of the G7 series follows a similar trajectory, with a more intense period of integration throughout the early 2000s, followed by a much slower rise until 2018 and eventual reversal of this trend.

Looking specifically at international trade, the KOF Trade Globalisation Index (de jure) provides a measure of trade barriers across the globe. It comprises roughly equal weightings of trade regulations, trade taxes, tariffs and trade agreements. As Figure 3 shows, between 2015 and 2017 the UK improved its score on this index. This was followed by a rapid year-on-year decline from 2017 through to 2019, which continued at a less severe pace into 2020. During this same period the rest of the G7's average level of trade openness increased marginally or remained steady. The UK's recent slide toward trade insularity on this measure is almost certainly a product of the increased regulatory hurdles Brexit has begun to impose on the UK market.

FIGURE 3: KOF Trade Globalisation Index (de jure)

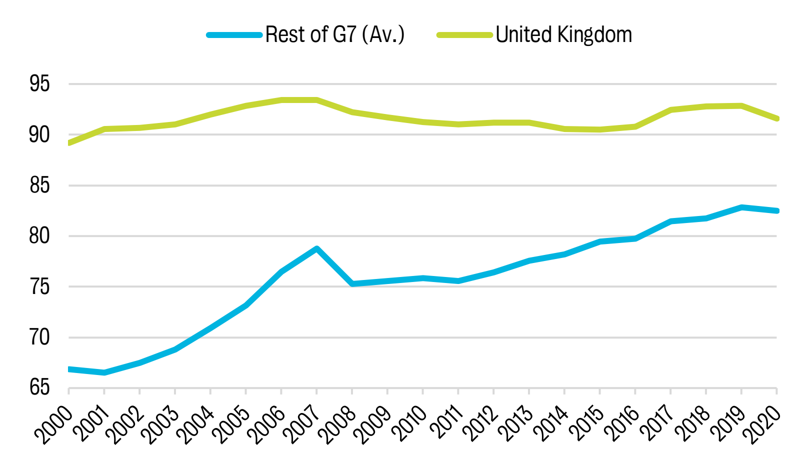


Source(s): Gygli, Savina, Florian Haelg, Niklas Potrafke and Jan-Egbert Sturm (2019): The KOF Globalisation Index – Revisited, *Review of International Organizations*, 14(3), 543-574.

However, London's economy is more dominated by the services sector than other parts of the UK. In addition, it is clear that, because the UK's services sectors were less integrated into the EU economy than its goods sectors, the damage to trade experienced by the capital is likely to be somewhat less.

Turning to foreign direct investment (FDI), the KOF Financial Globalisation Index (de facto) gives a 26.3 weighting (out of 100) to FDI and the remainder of the index is made up of portfolio investment, international debt, and international income payments (similarly weighted). As Figure 4 illustrates, the UK was markedly more financially globalised than the G7 average in the early 2000s. While both series increase over 2000 to 2007, the rest of G7's average financial globalisation score grows at a far faster rate than that of the UK. The UK then enters a period of decreasing/flat levels of financial integration until 2016-17. The rest of the G7 average series has generally exhibited positive growth across this period. However, the post-financial crisis rate of increase in financial globalisation for this cluster of countries is definitively less rapid than that of the early 2000s.

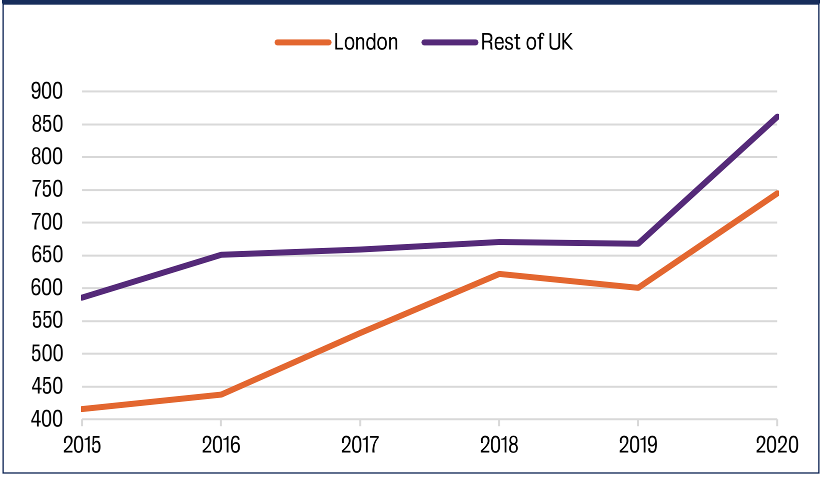
FIGURE 4: KOF Financial Globalisation Index (de facto)



Source(s): Gygli, Savina, Florian Haelg, Niklas Potrafke and Jan-Egbert Sturm (2019): The KOF Globalisation Index – Revisited, *Review of International Organizations*, 14(3), 543-574.

Since 2015, the last year of data which informed the previous iteration of this report, the KOF Financial Globalisation Index score for the UK increased in 2016-17 before flattening out over 2018-19, and then declining into 2020. During these years London was a vital artery for sustaining this flow of foreign finance into the UK. As Figure 5 illustrates, London alone represented almost half of (real) FDI into the UK over 2018-19.

FIGURE 5: Real inward FDI stock values in London and the rest of the UK

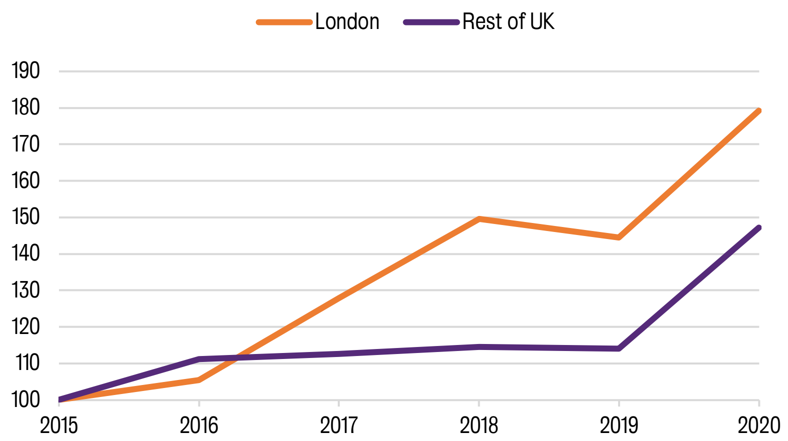


Source(s): ONS analysis based on 2022 census data: Foreign direct investment, experimental UK sub-national statistics - Office for National Statistics (ons.gov.uk) and Foreign direct investment, experimental UK subnational estimates - Office for National Statistics (ons.gov.uk).

Note(s): The FDI data have been deflated using the latest ONS Gross Fixed Capital Formation Deflator (GCFC): Gross fixed capital formation deflator: SA - Office for National Statistics (ons.gov.uk) using 2015 as the base year.

Figure 6 indexes the London and rest of the UK series to 2015 as a base year to better illustrate that over 2015-18 the inward FDI stock in London grew at a faster rate than that of the rest of the nation. While London's inward FDI stock decreased slightly between 2018-19, this strong positive growth trend resumed during 2019-20. London's dominant share of the UK's inward FDI stock and sustained rate of FDI stock growth suggests that the capital remains a magnet for global investment.

FIGURE 6: Inward FDI stock values in London and the rest of the UK



Source(s): ONS analysis based on 2022 census data: Foreign direct investment, experimental UK sub-national statistics - Office for National Statistics (ons.gov.uk) and Foreign direct investment, experimental UK subnational estimates - Office for National Statistics (ons.gov.uk).

Note(s): The FDI data have been deflated using the latest ONS Gross Fixed Capital Formation Deflator (GCFC): Gross fixed capital formation deflator: SA - Office for National Statistics (ons.gov.uk) using 2015 as the base year.

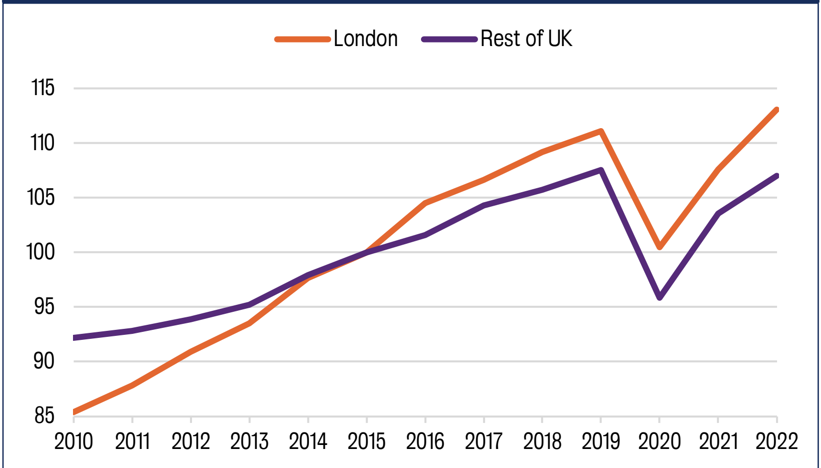
Since the previous study, London has been suffering something of a productivity problem – it began in the aftermath of the financial crisis with London broadly matching the rest of the UK, but since 2016, year-on-year, the capital has been under-performing as output growth has failed to keep pace with employment. That is not to say London's productivity has converged with that of the rest of the UK, but rather it is not driving the UK's year-on-year productivity growth as it was pre-financial crisis, and most recently has been contributing to the general productivity slowdown.

London's economy has therefore remained remarkably robust in the face of the challenges that are specific to the capital and those that affect the UK more widely. From the research, this appears to have been the case for two main reasons. In the case of the international, or "Brexit", effect, London's international standing in the services sector, including financial services, has proved sufficiently dominant and considerably resistant to the detrimental effects of Brexit. Meanwhile, its overall effects on the UK economy, based on research by the Office for Budget Responsibility, will be a reduction in long-run productivity by 4 per cent relative to remaining in the EU.[5]

However, the effects of this differ between London and other parts of the UK. Figure 7 describes London and the rest of the UK's annual gross value added (GVA)[6] indexed to 2015 (the last year of data available in the original report).

It is clear that between 2010 and 2016 London's GVA grew at a faster rate than that of the rest of the UK. After 2016 this rapid growth slowed, aligning more closely with the rest of the country. The economic shutdown in 2020 saw these two areas similarly affected, and they followed similar recovery paths into 2021. Cambridge Econometrics' regional GVA estimates for 2022 show London continuing along a strong growth trajectory which diverges from the rest of the UK once more. This outlook aligns with experimental estimations by the ONS which suggest London's economic performance is outpacing the rest of the country with a 2022 Q1 GVA growth rate of 1.2 per cent – much higher than the national average of 0.8 per cent.[7]

FIGURE 7: Real gross value added (GVA) indexed to 2015

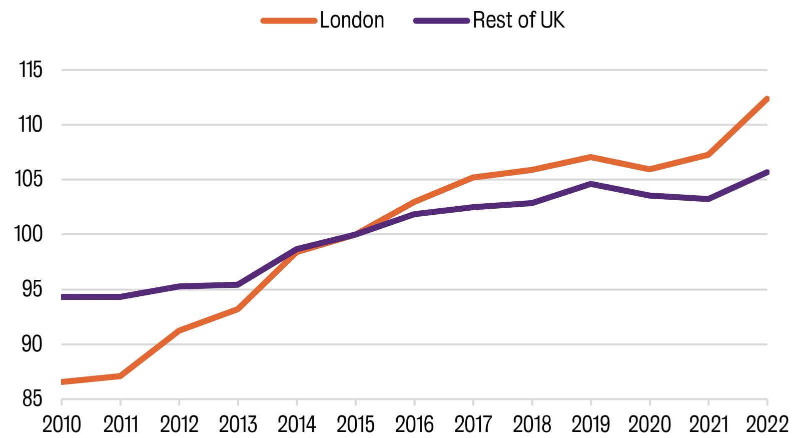


Source(s): Cambridge Econometrics, March 2022.

Note(s): Official GVA data for the UK is available up until 2021. This historical data is scaled to the regional level and used to estimate 2022 figures for London and the UK.

Between 2011 and 2017 London added jobs at a rapid pace, far exceeding the employment growth rate of the rest of the UK (Figure 8). Thereafter, employment growth began to slow but remained positive and strong through to 2019, when pandemic restrictions forced London's economy to shed jobs for the first time in more than a decade. London's employment growth rebounded positively between 2020 and 2021, while the rest of the UK's economy continued to see jobs decline. In addition, although the broader UK economy did recover convincingly in 2022 – with employment figures reaching pre-pandemic levels – London's resilient post-Covid employment growth sharply outpaced that seen across the rest of the country.

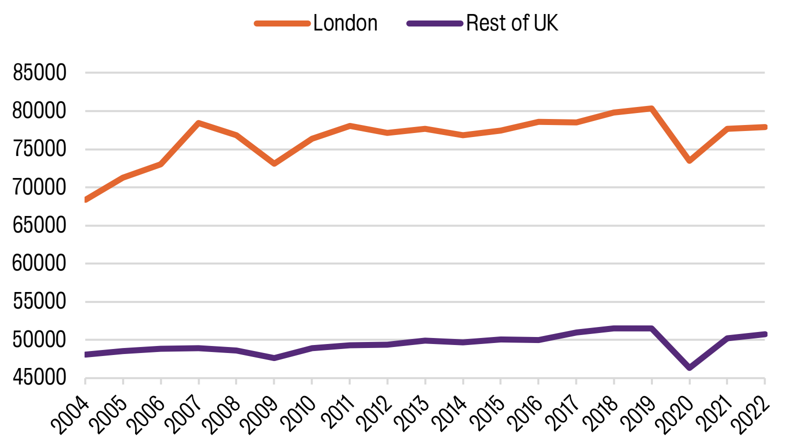
FIGURE 8: Employment indexed to 2015



Source(s): Cambridge Econometrics, March 2022.

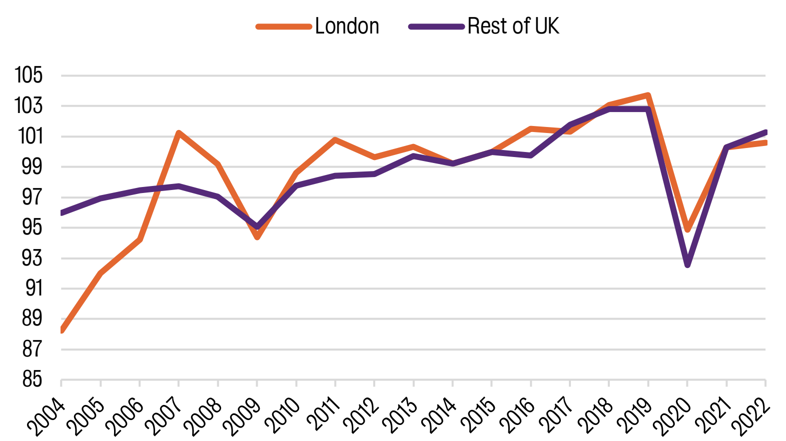
Figures 9 and 10 (over page) show, respectively, the level and indexation of London's productivity performance alongside the rest of the UK economy.

FIGURE 9: Productivity (real GVA per job) levels



Source(s): Cambridge Econometrics, March 2022.

FIGURE 10: Productivity (GVA per job) indexed to 2015



Source(s): Cambridge Econometrics, March 2022.

London's economy is much more productive than the rest of the UK. Between 2004 and 2007 productivity growth in the capital was rapid. However, the financial crisis of 2008 to 2010 had a profound effect, and while London's productivity growth recovered faster than the rest of the nation between 2009 and 2011 (Figure 9), the region never regained the same growth experienced in the early 2000s. London's productivity growth (Figure 10) tracked that of the rest of UK between 2011 and 2021. While the slowdown in growth of output per job in London is concerning, recent turbulence since 2020 is likely related to the capital's post-Covid employment expansion and so is not necessarily a sign of relative economic frailty – indeed, on both output and employment measures London has grown faster than the rest of the UK. It is just that the latter has picked up more rapidly of late.

Weighing up this analysis as a whole, our judgement is that scenario 4 has become somewhat less favourable, as national economies around the world have become more closed and insular, even if London's status as the UK's only truly global city means it continues to benefit from strong links outside of Europe. Relative to how it was envisaged back in 2018, scenario 4 has therefore moved slightly to the left along the horizontal axis set out in Figure 1.

The UK government and London – the vertical axis

It is reasonable to assume that the government is unlikely ever to be consistently anti-London, for fiscal reasons if nothing else. However, some policies have recently been grounded explicitly in rebalancing terms.

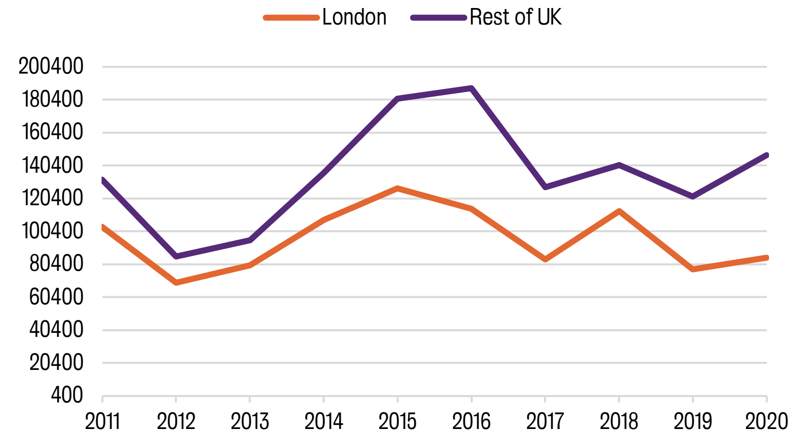
In the case of the domestic or "levelling up" effect, there were concerns for some while after 2016 that government policy would be detrimental in a substantial way to London's prospects. Since the current prime minister (and the current chancellor of the exchequer) took office in the autumn of 2022, government policy has become more supportive towards the capital, than it was under his three predecessors since 2016, although it has by no means returned to the strong levels of support that had been manifested by successive governments over the previous twenty years or more.

This recent change has manifested itself, whether intentionally or otherwise, in three main areas. First, the levels of funding for London services and projects have not been reduced as much as was originally expected from previous government announcements. Certainly, major new infrastructure projects have not been given the go-ahead, but the funding settlement for TfL to cover revenue losses during the Covid-19 pandemic was substantial,[8] and the payments made under the levelling up agenda, which might have involved substantial shifts of funding away from London relative to the rest of the country, have not materialised.

Second, the government's current position on relations with the European Union, while not as productive and close as it could be, has improved to a considerable extent. The Windsor Framework agreement on Northern Ireland,[9] followed by the memorandum of understanding on financial services[10] and the associate membership of the UK in the EU Horizon and Copernicus research programmes,[11] have together provided the basis for a more productive relationship in the future. This is crucial, given how internationalised the London economy is, not just in financial and professional services, but more widely.

Third, the reality of the government's policy on legal immigration, whatever the rhetoric, has been reasonably beneficial to the London economy.[12] At the sub-national level, the most recent data available (from 2020), as seen in Figure 11, shows that from 2011 to 2014 London accounted for almost the same yearly net international inward migration as the rest of the UK combined. Between 2014 and 2017 these two series diverge. London's net migration growth slowed, peaking in 2015 at around 126,000 people annually, before declining. By contrast, the rest of the country continued to exhibit positive and increasing net inward international migration growth between 2014 and 2015, which decelerated between 2015 and 2016 but remained positive. Both series experience marked declines in 2016 which result in London once again accounting for nearly half the entire UK's net inward migration by 2017. The imposition of travel restrictions in 2020 had a more pronounced impact on London's net migration flow than the country writ large. However, London remains a hub of international activity within the UK, and the city's demography is uniquely global in nature.

FIGURE 11: Net inward international migration



Source(s): ONS analysis based on 2020 data: Local area migration indicators, UK (Discontinued after 2020) - Office for National Statistics.

Undoubtedly, the ending of free movement with the EU has been damaging and continues to be so. However, the new rules, based on salary thresholds, skill levels and related criteria, particularly favour London, given the high-skill and high-wage nature of its economy. There remain substantial exceptions to this, primarily in the lower-paid tourism and hospitality sectors, which continue to restrict London's economic growth, but the overall position is far more supportive of the capital's economy than was expected in the immediate aftermath of the 2016 vote to leave the EU.

The latest provisional UK-wide statistics published by the ONS underline further the position on migration. These are shown below in Table 2.

TABLE 2: Long-term International migration into and out of the UK

Migration flows	YE June 2020	YE June 2021	YE June 2022
Inflow	699,000	651,000	1,109,000
Outflow	551,000	420,000	503,000
Net inward migration	148,000	232,000	606,000

Source(s): ONS analysis based on 2020 data: [Long-term international migration, provisional - Office for National Statistics (ons.gov.uk)]

Taking into account these factors which determine London's position on the vertical axis in Figure 1, it is projected that scenario 4 is again the most likely outcome for the capital by 2030. Yet the scenario itself has weakened slightly compared to our earlier projection, moving in a downwards direction on the axis, as government policy has to some degree become more focused on rebalancing the national economy away from the capital.

Conclusion

There are still many uncertainties about London's future, but the passing of five years has clarified matters considerably. The capital has managed to weather the storms created by a wide range of domestic and international shocks since 2018. But they have nonetheless had an impact. UK trade relationships with the EU in particular have become more restricted and domestic policy less pro-London. This does not, however, preclude scenario 4 from being the most likely for 2030.

Based on its position in mid-2023, London will be located in scenario 4 at the end of the decade, but our original picture of this scenario has changed – and somewhat for the worse – since 2018, meaning the capital's future currently looks less prosperous than it once might have been. In particular, London's share of UK output will continue to rise, but not as much as was projected under this scenario in our previous report.

Figure 12 below shows the change in London's projected position in 2030, compared with the original analysis for scenario 4.

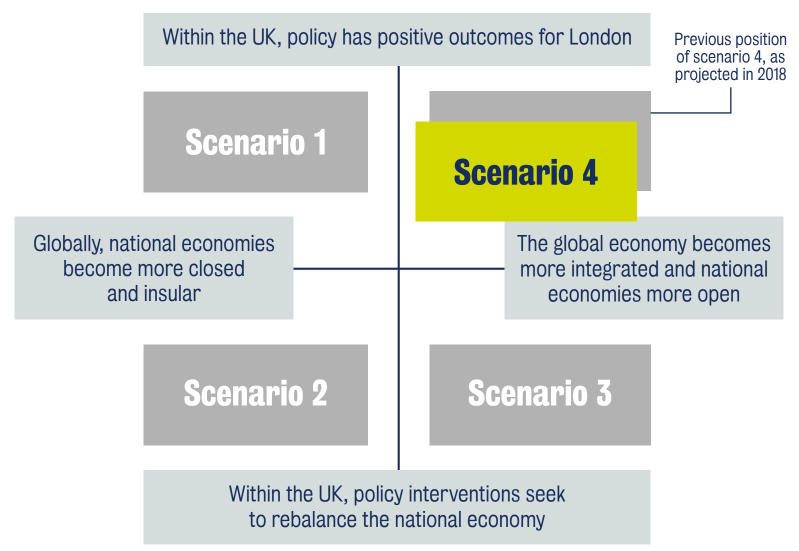
Much has happened in the intervening years since the last report, including events which could not have been foreseen at the time of publication. The pace of globalisation has continued to slow, and the UK's position has become more insular, even though London remains its most outward and globally facing region. At the same time, regional inequalities have risen up the domestic policy agenda, even though rhetoric may not have been matched by reality on the ground.

London remains in a strong position, but on some measures its progress has slowed in recent years relative to the rest of the UK, particularly when it comes to productivity, where growth in output has not kept pace with growth in employment.

Thus, while the future is still uncertain, the city is expected to remain in a strong position in scenario 4, even if this scenario has deteriorated slightly since it was projected back in 2018. This somewhat more pessimistic view is based on a number of indicators, including population, employment, output and relative productivity, and future uncertainties relating to economic developments and government policy.

Sections 2 and 3 of this report set out specific policy proposals in certain key areas which could have the most beneficial effects on improving London's economic standing above the weakened projections currently being made in this research.

FIGURE 12: The most likely scenario for London's economy in 2030



SECTION 2

A new settlement for London

2. A new settlement for London

The crucial, fundamental issue is the policy of the UK government towards devolution of powers, especially over taxation and spending decisions, to the mayor of London and the other mayors across England. The greater the ability to make decisions at the London level that impact London's economy – and the equivalent in other parts of England – and the less these are subject to constraints from central government, the better the capital's economy can be managed.

However, it is important that this covers both greater discretion to make spending decisions and greater powers to make specific decisions on certain taxes. It should therefore include increased flexibility at the London level (and that of the other English mayors) to make expenditure from an overall grant of funding (a "block grant" as provided to Scotland, Wales and Northern Ireland), and whether to levy certain taxes and to what extent. Without both of these elements, it is not possible to establish a fully effective and beneficial system of devolution to mayors in London and across England.

In order to achieve this outcome, one of the main hurdles to overcome is the lack of sufficient support for and acceptance of London's position in the UK economy as a whole. In short, it is necessary to change the way in which London and its position within the nation are discussed. A politics that has pitted towns against cities, and London against the rest of the country, has undermined the capital's position, and risks harming the nation and the union. London's economy has continued to support the nation's regions, towns, rural and coastal areas. It remains vital to national prosperity.

It is important to reframe the levelling up agenda, not as a zero-sum game where London benefits at the expense of other regions, but as one that can benefit Londoners as well as the rest of the country. The national economy is heavily concentrated in London and the south-east. However, this globally competitive economy helps sustain the broader UK economy, through fiscal flows and internal trade and supply mechanisms. London's continued economic success is vital, and it has remained so despite the events of the last few years. This report acts as an important reminder of this point.

The broad lack of acceptance of London's position coincides with support in the English regions for devolution of further powers to the mayors. But this has so far not translated into pressure on central government to introduce such measures, at least not to the extent and depth that is really required to achieve the desired economic outcome.

One way in which this could start to change, and a stronger public desire across England for greater devolution to mayors could develop, would be to set up a regular forum, convened by the government and chaired by the prime minister, of all the elected mayors across England – a council of mayors. This would be set up by law, required to meet a fixed number of times a year around the country, and have a statutory brief to draw up proposals for government on devolving powers to mayors across England. It would not have any executive powers. This would have the advantage of providing an opportunity for all the mayors across England to discuss the benefits of devolution – economic and more widely – at the highest level with government. The law should also require the government to respond to proposals from the council in a specified time period.

These discussions crucially would include both more discretion over spending decisions and powers to set and collect specific taxes, as recommended for London by the London Finance Commission and very applicable as well to the other mayors in England.

With this breadth and seniority of membership, the council would provide for discussion of the crucial role that a thriving London economy plays in ensuring nationwide prosperity. Reaching a shared view on these issues, at least in broad terms, will enhance the prospects for London to achieve its long-term success, and for other mayors to seek the same outcome for their regions. Thus, a new settlement for London could be reached.

In a small way, an embryonic version of this has been described in the government's levelling up white paper, which announced the creation of a new Levelling Up Advisory Council. However, this body currently consists of individual government appointees who are expert in the field, rather than representatives of mayors and regions in England, and there is no plan to establish it on a statutory basis as it is not included in the Levelling-up and Regeneration Act 2023, recently passed by parliament.

Another analogy, though by no means in all its detail, is the British-Irish Council, established under the Good Friday Agreement and thus in UK statute. Its responsibility is to "promote the harmonious and mutually beneficial development of the totality of relationships among the peoples of these islands". This has not necessarily been fully effective, but it does illustrate a useful direction of travel. This proposed council would also be in statute and would have more specific responsibilities.

One objection to this proposal is that it would, in this form, exclude areas of England which do not have a mayor. This is indeed the case, but the current government is committed to establishing mayors across England (a policy likely also to be followed by any future government). In addition, there is a clear view from all the main parties that the only chance of agreement to serious further devolution within England is for it to be granted to mayors and the related government structures (combined authorities) over which they preside, and that will not be easy to obtain, to say the least. This is therefore the best legal structure to create to help advance this process.

If the proposal of a new settlement for London is to be agreed between the government and the mayors around England, a forum of some kind in which this can be discussed and agreed is essential. Without it, such a settlement – and indeed a new wider devolution settlement for England – will be far more difficult to achieve.

"One way in which this could start to change, and a stronger public desire across England for greater devolution to mayors could develop, would be to set up a regular forum, convened by the government and chaired by the prime minister, of all the elected mayors across England – a council of mayors."

SECTION 3

What should policymakers do?

3. What should policymakers do?

The economic analysis, summarised above and contained in detail in the annex of this report, shows that, while London's economy has taken significant hits since the original report, it has proved impressively resilient overall. A number of issues have hampered the capital's position, and its success is not what it could have been, but it has not been knocked off course entirely. With the right support, the UK can expect London's economy to remain substantially robust in the face of the challenges it faces. However, there is no room for complacency.

The economic analysis shows that the most likely scenario for London's economy is projected to be weaker than it was in 2018, despite still being the best-case outcome compared with other plausible options. There thus remains considerable work to be done on the economic front. The initial objective is to seek to ensure that London's position at least remains stable as 2030 approaches. However, given the capital's clear importance to the UK economy, both the UK government and London itself should work together to aim higher than that and seek to restore the very successful position it had originally attained.

With this in mind, we now examine a series of policy areas where it is realistic to envisage changes being made by policymakers, both nationally and in London, which could help ensure the achievement of this economic objective.

It is important, however, to stress that this is an agenda for detailed deliberation to take place. In the case of those areas where a source of funding has to be determined, it seeks to avoid any claim on national government funds and instead to encourage joint discussions between London government and the private sector to draw up alternative proposals for the funding required.

Commercial property

Commercial property – specifically the office sector – is going through a period of significant change and readjustment post-Covid. The impact of changing working practices has seen a significant shift to lower daily occupancy levels in offices. Changes in patterns of work are having a material impact on aggregate demand for space, as well as on the sort of space that employers are looking for. Combined with wider economic trends, this has led to downward pressure on real estate values both in London and its rival cities internationally.

For individual buildings or estates, the extent of the adjustment in valuation that is going on is the product of several additional factors including location, quality of space, flexibility and operating costs. Environmental factors such as energy and carbon are also of increasing importance to tenants, investors and government. Higher-performance buildings are generally faring better, with a so-called "flight to quality" reported, and rental price growth continuing in some cases. But the overall trend is downwards and there is great uncertainty.

Recent analysis by the London Property Alliance[13] shows office vacancy rates vary significantly by city, with central London's rate of 7.8 per cent sitting somewhere between a high of 22 per cent in New York (Manhattan) at one extreme ¬– nearly double pre-Covid levels – and Paris and Berlin seeing rates of less than 4 per cent at the other. However, prime office rents in both London's West End and City markets grew more than those in Hong Kong (which declined) or New York in Q1 2023.

Policy responses to what might be a fundamental change in the office market vary from city to city. New York is seeing a shift towards encouraging more residential accommodation in, among other places, lower Manhattan and Midtown.[14] In central London, authorities have been reluctant to encourage a rapid change in use and indeed have implemented "Article 4 Directions" to prevent commercial to residential conversion without planning permission.[15] New York is also seeking to encourage lower-grade office upgrades through property tax relief.[16] This policy option is not available to (London) local government as business rates are mainly under the control of central government, collected by local government but set and largely redistributed centrally.[17]

Despite talk of hybrid working being "here to stay" and the "death of the office", alternative plausible scenarios exist in which office occupancy rates return to near pre-Covid levels, albeit underpinned by a number of different factors. Recent work commissioned by the EC BID from Centre for Cities and Imperial College London concludes that so-called agglomeration benefits (associated with people working in the same place at the same time) may be being undermined by hybrid working.[18] If so, we could expect productivity (and therefore profit plus wages) to fall. A dynamic response to this change would likely lead profit-seeking firms (and workers seeking higher wages) to increase their productivity by reverting to more office-based activity. Even if this scenario does not materialise at scale, overall increases in employment,[19] combined with the desire of previously priced-out firms to locate in well-connected, high-quality locations such as central London, would mean that over the next decade, property demand could return to buoyant levels. Quite what the impact on rents and commercial property valuation might be is unclear.

To ensure the continuing vitality and sustainability of London's commercial core, the following policy recommendations are made:

- **Promote a five-day city:** While acknowledging the importance of flexible working for many – in particular those with caring obligations – the London government and businesses should do more to highlight and maximise the benefits associated with working in the centre of the capital, including encouraging an increase (or more even distribution) in the number of days people spend in their workplaces. These might include imaginative fares policies by TfL to encourage Monday and Friday working, for example.

- **Keep commercial space:** There is certainly a case for the conversion of some commercial property to residential use in the Central Activities Zone (CAZ) and elsewhere. However, this should be accompanied by support for local authorities in their use of Article 4 directions in the CAZ to help secure the lasting provision of commercial space over the long term.

- **Fund an improved planning system:** Local authorities should be allowed to charge higher fees for all planning applications above a minimum size (to exclude small changes in domestic property), thus raising much needed revenue to create a more efficient and speedier planning system. This should be done in addition to improvements that would help streamline the system.

- **Carry out ongoing research:** Government at all levels should strive to understand the long-term effects of changes in working practices on productivity and growth and their impact on the commercial property market, including changes in the scope for mixed use of certain properties, and work with business to develop pro-growth, pro-productivity policies.

Housing

London's housing market is placing considerable pressures on those seeking to make a living in the city, especially younger people and families. Stable house prices and rents would enable firms in the capital to attract and retain workers, boosting productivity both in London and in the country as a whole.

While rental rates in London have continued to climb, in recent years, the capital's median household income after housing costs has pulled away from the UK average.

Having fallen during the pandemic, private sector rents are now rising faster in London than elsewhere in the UK (five per cent in the year to April 2023; asking rents for new tenancies have risen three times as fast), and median rents account for more than 40 per cent of median incomes in every borough – and a lot more in some. While the housing sale market has cooled, any price savings are more than matched by increasing interest costs, which will also pose a particular challenge to existing mortgage-holders, who have higher levels of debt and gearing in London than elsewhere, as fixed-rate deals end.

They will also affect private tenants as landlords pass the increase in mortgage costs on to them. Social housing supply also falls far below need, as indicated by the number of people living in temporary accommodation: nearly 150,000 Londoners were doing so last year, 60 per cent of all those in England.

The Centre for Cities has argued that rising housing costs and stagnating wages have eroded London's wage premium, making the city less attractive for skilled workers domestically and internationally. Business groups have been arguing for at least a decade that housing costs in London threaten the capital's competitiveness. Successive mayors of London have struggled to meet the housing targets they have set. The recent report by BusinessLDN highlights this issue.[20]

London's housing affordability crisis eludes simple solutions. The housing development sector is being adversely affected by rising construction costs, shortages of skilled labour, and problems stemming from regulatory uncertainty. In this difficult climate, London needs more homes, but also more affordable homes, including social housing, which requires planning measures to increase supply, and investment and regulation to make homes affordable.

To address overall supply and affordability, the following policy recommendations are made:

- **Invest in affordability:** The GLA has estimated it will take £4.9 billion per year to build the affordable homes that London as a whole needs. Investment at scale in affordable housing is thus essential to sustaining success for the capital and the UK. It will be essential, because of the constraints on public finances, to develop innovative schemes for financing these plans which relay on partnerships with the private sector.

- **Build new housing in inner London:** Notwithstanding the recommendation above for a "five-day city", building on the progress already made by many boroughs, as part of the overall housing plans, there should be a renewed programme of housebuilding in inner London in particular. This could provide many more homes closer to places of employment located in the CAZ. Not only would this help to ease London-wide housing shortages but it would also help to sustain the central London "high street" economy that has suffered as a result of changes in working practices, with the increase in numbers working from home, at least on certain days.

- **Support private renting:** Laws and regulations protecting tenants from sub-standard landlords and bad practice, in areas such as evictions, maintenance and contractual terms for tenancy agreements should be enhanced.

- Plan for growth: Building more affordable and market homes requires a supply of sites, particularly as people seek more space. But London needs more land. The government should work with the mayor and boroughs to review London's green belt to identify areas that could accommodate well-planned new settlements, supported by public transport, with minimal impact on environmental quality and amenity.

Migration

In recent decades, London's economic and population growth has been fuelled by domestic and international migration – from mobile professionals to young people and students visiting for a few years, to people from poorer countries seeking a chance to start a better life. The trends in recent years are shown above in Figure 11 and the latest available UK statistics are shown in Table 2.

Brexit and the pandemic disrupted London's immigration flows, but early signs suggest the international (non-EU) workforce has risen sharply following the introduction of the UK's new points-based immigration system in January 2021.[21] The new system prioritises immigrants who can fill higher-skilled, higher-paid roles, though business surveys suggest skills shortages are present across all role types. With London's unemployment rate near historic lows, it is likely that migration into London – from overseas as well as across the UK – will continue to be needed.

But immigration is politically contentious. Net international immigration to the UK was estimated to be around 600,000 in 2022 (almost three times the level it was in 2019), though this number was buoyed by the unique circumstances of immigration from Ukraine and Hong Kong, and more broadly by a rebound after movement was suppressed during the pandemic. Nonetheless, the government has signalled an intention to reduce net immigration, and has already set out plans to tighten eligibility for students.

UK attitudes towards immigration have become more supportive since the EU referendum, and historic polling has shown that

Londoners have a significantly more positive view than other regions. Given the levers for immigration policy are all in government hands, the challenge may be for London to make the case for sustaining the levels of immigration it needs at a time when politicians' focus is on reducing numbers.

To sustain London's status as a home for global talent, and maintain the flexibility of London's labour market, the following policy recommendations are made:

- **Keep the global talent magnet active:** Keep the graduate visa (which allows graduates to continue to live and work in the UK after graduation), and global talent and high potential visas – so that London can welcome the next generation of entrepreneurs and innovators.
- **Promote integration:** Allow asylum seekers to work while their claims are considered, and provide quicker routes to regularisation for undocumented migrants (based on five years' residence), which will result in considerable savings for taxpayers as well as boosting the labour force.
- **Retain flexibility:** Keep the shortage occupations list under review, to ensure that the immigration system can respond to regional and national short- to medium-term skills shortages (alongside longer-term investment in education and training for UK residents).
- **Encourage young people:** Extend the Youth Mobility Scheme to EU countries, so that London can sustain its position as a global meeting place for young people.

Key economic sectors and skills

The pressures in recent years on London's economy have been described earlier, in section 1 of this report. Notwithstanding these, London continues to be an exporting superpower, when it comes to its innovation-led sectors.

In the financial and professional services sectors, London's long-standing position as Europe's pre-eminent centre, as well as one of the leading centres in the world, must be retained. Following a difficult period after the Brexit decision, recent developments in government policy have been beneficial. These include the memorandum of understanding on financial services with the EU,[22] work to improve the rules governing listings and related issues in the equity markets, and decisions reached in the insurance and pensions sectors aimed at improving the availability of investment funds. All of these will undoubtedly assist in ensuring the sector's position is maintained. Implementation will now be crucial. Recent research by the City of London Corporation has further highlighted this.[23]

London's thriving start-up and tech ecosystem, characterised by a strong entrepreneurial spirit, plentiful access to venture capital and supportive central and regional government initiatives, is another strength. The city has become a hub for tech innovation, attracting talent, and nurturing start-ups.

For example, along the South Bank, Lambeth has focused on health and life sciences, creative and digital and low carbon. As part of this, County Hall now contains one of Europe's largest clusters of low-carbon businesses. This has been successfully created as a result of local government, entrepreneurs, property owners and financiers working closely together to pursue a common goal. Stronger cross-London coordination is required.

London also remains one of the world's leading cultural capitals. Its rich heritage and vibrant arts scene are key to projecting soft power and attracting investment and are themselves major contributors to London's economy.

Likewise, the debate about reinstating tax-free shopping as a means of encouraging more international tourism highlights the benefits of that sector for not only the London but also the UK economy.

London needs to build on these areas of strength and protect them from emerging risks. Strategic thinking and pro-innovation regulation are important to maintaining the city's edge in its key economic sectors, as well as those yet to come. London's ability to seize opportunities in areas where it already demonstrates a competitive advantage such as AI, life sciences and the low-carbon industries will be equally crucial.

Skills policy is important here. For example, retrofitting homes and offices as part of the challenge to achieve net zero carbon emissions should be a high priority in its own right for environmental reasons, but will also have major positive economic benefits for London. Yet it can only be achieved by ensuring the right skills are available in the capital, when and where they are needed. Recent research by the Institute for Employment Studies projects, in its central scenario, that the total number of green jobs will rise from 147,000 in 2020 to 335,000 in 2030 and 732,000 in 2050, representing a near five-fold increase in the space of 30 years.[24]

Work is already underway in Lambeth, Lewisham and Southwark boroughs, which are collaborating with London South Bank University, on the creation of a Green Skills Hub, with tailored courses run jointly with construction and energy companies. There needs to be the flexibility to create further projects of this kind across London. Without the focus on the needs of the capital that comes from devolving the necessary powers and resources to the Mayor, it is very difficult to envisage this being achieved.

To enable London to sustain its leading position in its strongest sectors, and to be ready to succeed in emerging sectors, the following policy recommendations are made:

- **Develop pro-innovation post-Brexit regulation:** Regulatory risks can stifle innovation. The current debate around the need for a supra-national governance framework to safeguard the rapid development and deployment of artificial intelligence has been well made. One of the few economic benefits for London of leaving the EU should be its ability to craft nimbly a framework that is "pro-innovation" and enabling while addressing safeguarding concerns. Thus, any national government framework designed to achieve this has to be flexible enough to allow mayors and regions to institute the most effective measures for their own areas.

- **Industrial strategy:** An updated industrial strategy for London, integrated with a strategy for the whole of the UK, needs to be developed by the mayor, working with the boroughs and the UK government, with clear plans for implementation. The previous London industrial strategy helped to give a sense of what the key growth sectors in the capital were going to be over the next 30 years and how, with some coordination, focused resource allocation and most importantly collaboration between industry, academia and all levels of government, London could accelerate the rate of growth and the type of growth it needs. Individual boroughs, each of which is in many ways a microcosm of the London economy, invariably have specific strategies to facilitate the clustering of priority growth sectors.

- **Improve skills provision:** In the original report of the Commission on London in 2018, a number of specific proposals to improve the availability of the skills that London needs, including through apprenticeships, were advanced. Some progress on the delegation of skills budgets (eg the Adult Education Budget) has been made since, but further progress is essential to ensuring that Londoners are equipped with the relevant skills to participate in and drive the capital's future economy.

Sustainability

There is almost universal recognition that sustainability is essential to the long-term economic, social, and environmental health of cities – including London.

The city's economy relies increasingly on sustainable infrastructure, real estate and resources to thrive, and through further investment in these areas, the city can attract and retain businesses, create more jobs, and increase productivity. For example, the construction of sustainable buildings can reduce energy costs and attract tenants with high ESG standards; excellent public transport provision and well managed road space can improve accessibility and tackle congestion.

A sustainable London is also one that is liveable, safe, and healthy for all of its residents. By prioritising sustainability, London can be more equitable and inclusive, providing access to affordable housing, quality education, and healthcare. Additionally, sustainable policies can improve public health by reducing air pollution, promoting physical activity, and providing access to green spaces.

The city should continue to reduce its carbon footprint. Improving energy efficiency in buildings and reducing reliance on private vehicles are two key responses to this challenge. Investments in renewable energy and energy-efficient buildings can reduce greenhouse gas emissions, while urban green spaces can mitigate the urban heat island effect and provide habitat for wildlife. Improving public transportation is the most socially equitable way of discouraging the use of private cars.

To reduce carbon emissions, adapt to climate change and create a healthier city, the following policy recommendations are made:

- **Invest in sustainable infrastructure:** The city should prioritise investments in sustainable infrastructure, including public transportation, renewable energy, and green buildings. This can be achieved through public-private partnerships, tax incentives, and regulatory measures that promote sustainable methods of operation.

- **Sustainable tourism:** London is one of the most popular tourist destinations in the world, with millions of visitors each year. Support should be given to London & Partners sustainable tourism strategy,[25] the re-introduction of tax-free shopping for international travellers, wider encouragement of eco-friendly transportation options, the promotion of sustainable hotels and restaurants, and key attractions that comprise the city's tourism and hospitality sectors.

- **Promote best practice:** London government and its business improvement districts should continue to encourage businesses to adopt sustainable practices, such as reducing waste, using renewable energy, and promoting sustainable supply chains.

- **Invest in green spaces:** Access to green spaces is essential for public health and wellbeing. Investment in urban green spaces, such as parks, gardens, and green roofs and smaller higher-quality green areas should be encouraged.

- **Clean the air:** Air quality is a significant public health concern. Further reductions in emissions from transport, industry, and buildings can all help tackle this (see transport section below).

- **Improve waste management:** This is a significant environmental challenge in central London. In addition to prioritising sustainable waste management practices, such as recycling, composting, and waste reduction, there should be a concerted programme to rationalise and reform the way in which commercial waste collections processes are managed and executed. Serious consideration should be given to reforms under way in New York City[26] to see if there are lessons to be learned for London.

Transport

As mentioned above, changes in working practices are creating uncertainty around the future of central London's commercial space, and London's housing provision continues to be inadequate for sections of the population. However, around one-third of the capital's employment seems destined to remain located in the city centre. Inner London has seen, over the past five years, a rise in employment growth, but a reduction in residential population. Increasing housebuilding in central London would enable more active travel for residents who also work in the city centre. But economic factors, alongside the lack of availability of easily developed land, mean that the majority of London's workforce will continue to be forced to live considerable distances further and further away from the centre in pursuit of affordable accommodation.

London's economic success story to date has been built on agglomeration – on proximity between businesses and workers during the working week, if not always at the weekends. While productivity growth in the capital has slowed, London remains significantly more productive than the rest of the country, and this is driven in large part by the city's ability to bring a highly skilled workforce into close proximity. Although the nature of the in-person working week may be changing to a more flexible model, there is no evidence that it has or will cease to exist. Transport connectivity for commuters is therefore arguably no less important to London's future economic success.

While it has become politically unpopular to invest in London's infrastructure, and a case can be made that the capital receives more investment than elsewhere in the country, this is a short-sighted and arguably inaccurate presentation of the facts. In the first place, measured as expenditure on transport per passenger, a 2020 report on transport expenditure in London by GLA Economics found that, while London received the highest regional public expenditure per resident in the UK in 2017-18, the capital's spending per passenger journey was far below the national average.[27]

Investment in London's transport infrastructure has enabled and continues to enable the capital's huge tax surplus that then funds investment across the country. In addition, London and Londoners have contributed significantly more to recent projects such as the Elizabeth Line. Londoners ultimately receive less investment per journey than elsewhere in the country.

London's underground network is the oldest in the world, and it requires continual investment and renewal to continue to operate given the city's growing population. To allow services to dwindle or decline, or new projects to go unbuilt, would be short-sighted and jeopardise London's success as a competitive world city, as well as resulting in a smaller central pot of public money to redistribute across the nation.

Additionally, London's transport network can play a crucial role in improving economic and social equity within the capital. In connecting deprived neighbourhoods to the economic opportunities that are disproportionately concentrated in parts of the city centre, transport infrastructure is crucial to any vision of "levelling up" opportunity within London. Given the crisis of housing affordability in the capital, new transport infrastructure projects will be fundamental to any attempts to provide new affordable housing, opening up potential new sites and ensuring they are connected to economic opportunity.

This report notes the threats to London's affordability and appeal, particularly relating to the increasing unaffordability of homes. One potential scenario for the capital would see increased levels of remote working combining with the continuing crisis in housing affordability, leading to more and more Londoners choosing to live further from the city centre, including beyond the green belt.

Whether or not the trend for longer commuting continues, maintaining and upgrading commuter rail will be of particular importance to the capital's continued economic success. Equally, the development of planned infrastructure projects such as the Bakerloo Line extension or Crossrail 2 could open up new sites for affordable development within the capital, easing the squeeze on disposable income for London's workforce.

However, financing London's transport infrastructure is likely to become increasingly difficult. Other work by King's College London has demonstrated the extent of remote working in the capital, and weekday ridership, while recovering, is still down on pre-pandemic levels. This factor will continue to affect TfL's finances.

To support sustainable travel patterns and London's economy, the following policy recommendations are made:

- **Encourage a five-day city:** As mentioned above, TfL and the mayor of London could consider imaginative fares policies, including new types of season tickets to encourage Monday and Friday working. This need not contradict flexible working, but instead encourage businesses and individuals to vary the days they work, leading to a more even presence in the city centre's local economy.

- **Maintain provision:** TfL and others should maintain existing levels of public transport provision to ensure commuting journey times and congestion levels do not deteriorate.

- **Fund investment:** TfL can fund the operational cost of its transport system, but not the capital costs of vital new projects and improvements. Long-term investment plans for improvements to the London transport network such as the Bakerloo line extension and Crossrail 2 should be progressed and innovative ways of helping to finance and fund them should be explored. Ultimately, central government will have to decide whether to provide these funds or to devolve the necessary fund-raising and expenditure powers to London (and other regions), or agree a combination of the two.

- **Continue to prioritise sustainable transport:** In addition to low-emission zones and congestion charges, continued investment in public transportation, appropriate active travel programmes and renewable energy should be supported. More creative policies in relation to traffic and roadworks management could also help make central London more sustainable and attractive.

- **Take big decisions:** Final decisions on London's future airports provision must be made, so that they are both sustainable and fit for many decades. The government, the private sector, Network Rail, and the mayor of London, need to develop a workable plan for the funding and building of HS2 from Old Oak Common to Euston, so that it can be completed without needing to be solely dependent on public funds. It is also necessary to examine a wider scheme of road user charging, as the switch to electric vehicles continues apace.

Devolution

This report highlights the importance of London to the wider UK economy. The capital's 21st century governance has been a national and international success story. Most London boroughs are responsible for diverse and complex populations. The mayor of London and the Greater London Authority have overseen the capital's emergence as a top-rank world city, competing with Paris, New York and Tokyo.

However, there are newly emerging rivals in the global east and south, and this report demonstrates that the international and domestic climate have seen London's eminence challenged. And within London, the capital faces significant affordability and equality challenges.

London's own institutions of governance – especially the mayor, GLA and the boroughs – seem best placed to address these issues. The London Finance Commission has reported twice, recommending further devolution for the capital.[28] Outside of London, the government is committed to "levelling up" the nation, with devolution to city regions at the heart of this promise. If devolution is understood to be an effective way of encouraging economic growth outside of the capital, further devolution to the capital is also surely a good idea.

It is recommended that a new consensus be developed between the government, London and the other mayors across England in order to achieve a new settlement for London, with the establishment of a statutory council of mayors, chaired by the prime minister.

Ultimately, London's government needs to be incentivised to maximise growth. Devolution of financial power would encourage this. If London was able to retain more of the proceeds of growth and use these to mitigate any resulting negative externalities (such as affordability, congestion and equality challenges), then the incentives to grow London's economy and increase its contribution to the nation's finances would be clear. Government should implement the recommendations of the London Finance Commission, to further incentivise London's government to pursue more pro-growth policies, and to ensure that growth can be delivered in a fair and equitable fashion within the capital.

To unlock the potential of cities and regions across the country, the following policy recommendation is made:

Real devolution: In addition to a new statutory council of mayors, the UK government should agree with the mayor of London to implement the findings of the two reports of the London Finance Commission. First, this would increase devolution to the mayor (and the other English mayors) by widening the areas of expenditure covered by a "block grant" (equivalent to that provided to Scotland, Wales and Northern Ireland). And, second, it would increase the powers to establish and set the levels for certain individual taxes.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SECTION 4

Conclusion

4. Conclusion

The economic analysis carried out as part of this research, summarised in section 1 and contained in detail in the annex, shows the projected position of London's economy in 2030, based on the current position (in 2023) of a range of variables. It also assumes no changes in the policy stances which have been examined.

This analysis shows that, while London's economy has taken significant hits since the report of the original Commission on London in 2018, it has proved impressively resilient overall. A number of challenges have hampered the capital's position, and while its success has been curtailed, it has not been knocked off course entirely. With the right support, the UK can expect London's economy to remain substantially robust in the face of the challenges it faces.

The initial objective is to ensure that London's position remains stable as we come closer to 2030. However, given the capital's clear importance to the UK economy, both the UK government and London itself should work together to aim higher than that and seek to restore the very successful position London enjoyed before 2016.

With this in mind, various policy proposals have been set out in section 3. Implemented together, these proposals would ensure that London could indeed sustain its continued growth and prosperity and thus its economic contribution to the whole nation.

However, in order to maintain this position and place London on a firm footing, there is also a need to establish a consensus on the devolution of responsibility and powers not only to the mayor of London, but also to all the mayors across England. With this in mind, the establishment of a council of mayors on a statutory basis, chaired by the prime minister, is proposed. This would have the legal responsibility to agree a consensus about the level of devolution that is required across all mayors in England.

This proposal would also encompass an agreed understanding about the differing contributions of each region to the economic prospects of the country as a whole, and could make it possible to develop a new settlement for London.

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