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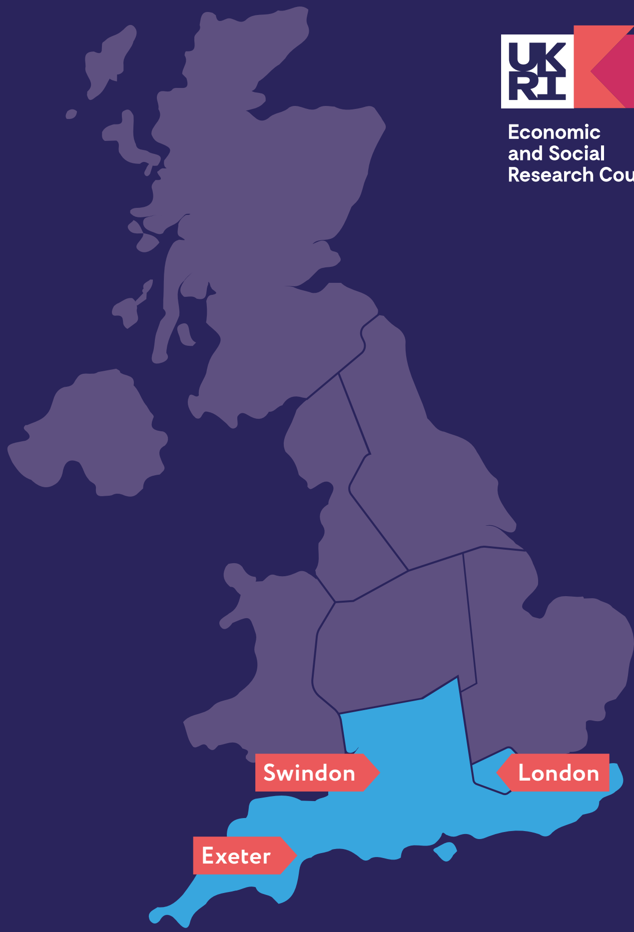

The London and South Productivity Challenge:

Briefing Paper November 2023

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This briefing paper provides an overview of the challenges and opportunities for London, the South East and the South West with a particular focus on productivity. It provides a summary of the key social and economic drivers for the three regions, with greater attention paid to the cities and initiatives that are driving growth and development.

The paper comprises three sections. Section 1 provides an overview of productivity in the three regions relative to the UK as a whole. Section 2 summarises initiatives that are being taken across the three regions that might contribute to future productivity improvements.

Section 3 examines various drivers of productivity, using the TPI's 'scorecard' approach The paper is based on publicly available strategic and economic planning documents from the Local Enterprise Partnerships (LEPs), Innovation Hubs, Combined Authorities, and other relevant Local Authority documents.

Additionally, data from the ONS and NOMIS data collections have been used. This paper's objective is to support the discussion and planning of the Regional Productivity Forum (RPF) rather than to provide an in-depth examination of the data.

The Productivity Picture (2008-19 growth and 2019 levels)

Figure 1 presents data on the level of regional productivity (output per hour worked) in 2019 and productivity growth during the 2008-2019 period in comparison to the UK average. Generally, productivity levels across and within the three regions display significant variations.

Many areas, especially in London and the South East, have experienced productivity growth surpassing the UK's overall average. However, this is counterbalanced by many other areas that have been 'losing ground' and 'falling behind', with very few of the areas with relatively low levels of productivity managing to make significant progress in 'catching up'.

Within the **South West**, Bath and North East Somerset's robust performance may be attributed to sustained investment in digital and creative technologies. Conversely, Bristol, despite its array of economic and cultural activities, from arts and museums to knowledge-intensive services and the high-tech manufacturing operations of Airbus, BAE Systems and Rolls Royce, lies slightly below the UK productivity average and experienced negative productivity growth since 2008. It is possible that Brexit is having a more pronounced adverse impact on Bristol, affecting trade, investments and exacerbating skills shortages, especially considering 'the city's substantial share of European exports. Nevertheless, its prospects look bright. Bristol City Council's pioneering partnership with Ameresco Limited seeks to secure £1bn to make the city carbon-neutral by 2030, a move that is expected to boost SME investments. Also, HSBC's announced £400 million allocation of loan facilities to SMEs in Bath and Bristol in 2023 raises hopes for regional productivity but requires a collective vision to support SME performance within local Net Zero and high-tech ecosystems.

Cornwall and the Isles of Scilly are catching up thanks in part to having leveraged Levelling Up funding for digital and green tech industries. Devon too is catching up. It hosts a science park, university, airport and the Met Office. However, other parts of the South West are struggling. Dorset grapples with retaining skilled workers in its primarily rural landscape, leaving elderly communities underserved. Despite universities in Bournemouth and Plymouth, the region has yet to harness their full potential.

Within the **South East**, most areas lie around or comfortably above the UK average productivity level. Hampshire scores exceedingly well, with the area of North Hampshire scoring the highest productivity growth and productivity level of all areas across the three regions, pulling away rapidly from the UK average. The region as a whole benefits strongly from its proximity to London, assisted by good transport connections. There are also major anchor businesses, port infrastructure, and the military that bring middle and high skill jobs into the region. In some areas, such as Southampton and Portsmouth, better connections could potentially be made with the universities. Brighton and Hove has experienced strong growth over the past few years and, despite having large segments of the local economy focused on lower productivity sectors, such as visitor and retail activities, it is 'catching up' rapidly with UK average productivity.

This may be because it has invested in supporting the transition to a low-carbon, circular economy to create more jobs in higher value sectors. Research from The Productivity Institute shows, for example, that Brighton and Hove has been a forerunner within the South East region in the delivery of charging infrastructure for both taxis and communities. Brighton and Hove are also part of seven councils in Sussex with an economic board to coordinate development with ambitions to become a combined authority.

As is well known, London scores the highest level of productivity in the UK by a large margin thanks to its high concentration of high-tech and high value-added business, high shares of graduate and high-skilled individuals, and the benefits of local agglomeration economies and high calibre infrastructure.

Moreover, while there is strong variation of productivity across London, all areas are close to or higher than the UK average. The notable finding from the data for London concerns

The Productivity Picture (2008-19 growth and 2019 levels)

the disparity in productivity growth during 2008-2019, against the backdrop of below-average trend performance for London as a whole. Improved coordination of economic development is required to prevents a polarisation of living standards across London's boroughs.

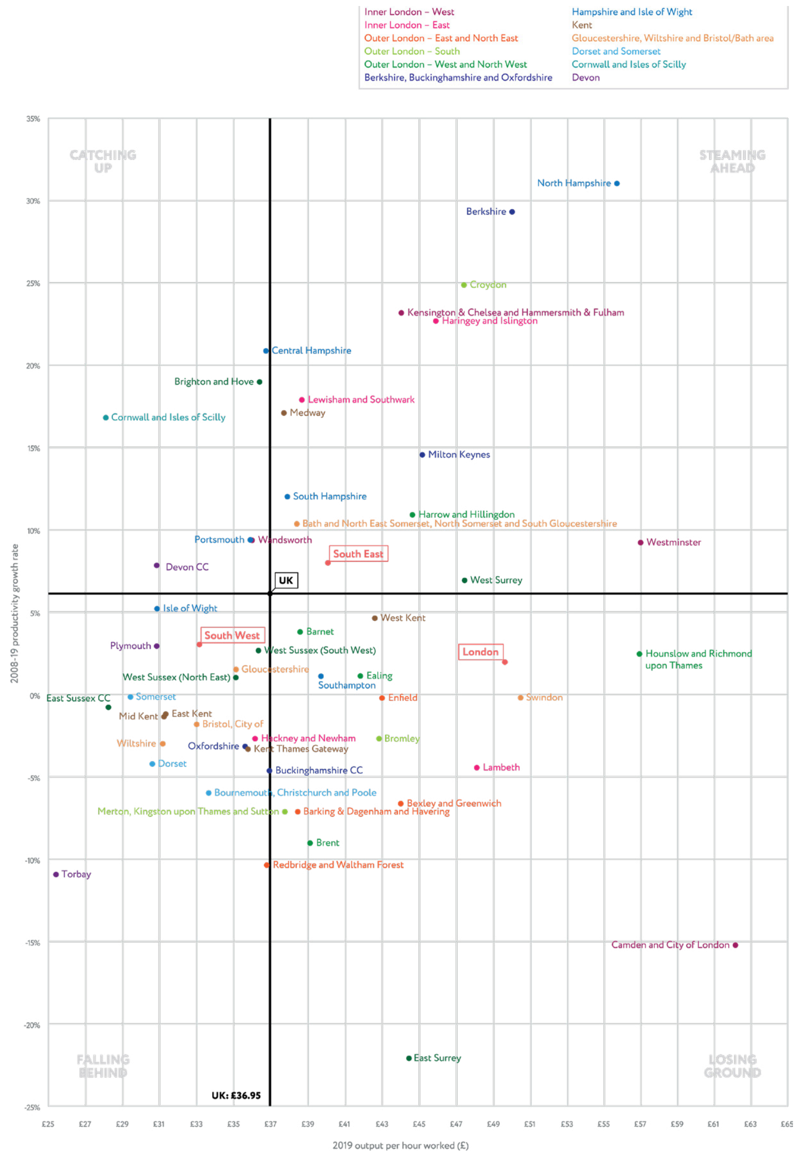
Considering illustrative examples of divergent performance, Southwark (recorded here as 'steaming ahead') boasts high levels of qualifications and a dense presence of knowledge-intensive services. It has also emerged as a burgeoning business hub, exemplified by landmarks like the Shard. Also, while Croydon has been one of the top performing London areas, further progress is at risk following the news in 2023 that Croydon Council declared effective bankruptcy for the third time in two years.

Recent developments in parts of east and north London may mean that the below-average growth performance recorded for Hackney, Newham, and Enfield up until 2019 will be significantly improved. New investments include the opening of City Hall in Newham and the launch of the Elizabeth Line, which improves connectivity across the East, particularly in support of the growing data, digital, film, and media sectors.

Nevertheless, concerns remain regarding the need for improved infrastructure and job opportunities to accommodate population growth – such as in Barking and Dagenham, which experienced the third-highest population increase between the census in 2011 and 2021; more than 15% of residents in the East of London still lack access to gigabit-capable broadband, and unemployment rates remain elevated post-COVID.

Other London boroughs experiencing a decline in the level of productivity are located in the outer ring, such as Bromley. Recent policies, such as the Ultra Low Emission Vehicle (ULEV) initiative, have highlighted ongoing, competing interests between outer and inner boroughs, where investments and policies tend to concentrate.

Overall, the productivity data for the three regions chime with the concerns of Members of RPF for London and the South regarding intra-regional productivity disparities and how to coordinate and deliver improved growth for everyone. We need to acknowledge and understand the key drivers underpinning differences within regions, such as the South West, for example, where it is essential to differentiate between areas associated with the Western Gateway and others that are more rural and less connected.



Note: While productivity figures have also been published for 2020, they are excluded here because of the extraordinary impact of the pandemic on output and employment. The charts can be updated once the 2021 figures become available, which largely offset the anomalies of 2020. Source: [Office of National Statistics, Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions.]()

Institutional and Policy Context

The institutional and policy landscape in London, the South East, and the South West has undergone significant evolution over the past 25 years. Notably, London's successful experience with devolution, initiated through the establishment of the Mayor and London Assembly in 2000, has served as an inspiration for similar devolution agreements throughout England.

London

The devolution deal for London involves the Greater London Authority (GLA), a unique governance structure established in 2000. The GLA comprises the Mayor of London and the London Assembly, both elected by Londoners. This arrangement grants London significant autonomy in areas like transport, housing, and policing.

London boroughs, 32 in total, form the city's administrative units. Each borough has its local council responsible for delivering essential services like education, social care, and waste management. The GLA oversees strategic planning and coordination across boroughs, ensuring a cohesive approach to tackling city-wide challenges while allowing local autonomy for addressing specific community needs. This devolution model aims to balance centralized governance with localised decision-making for London's diverse population.

London's economy is highly diversified with particular strengths in the financial and professional service sectors. The forecast for London's real GVA growth in 2023 is 1.1%, influenced by the cost-of-living crisis which is hindering the post-pandemic economic recovery.

The Mayor's office has prioritised the environment as well as technical and digital skills in championing the capital's economic interests. As such, London has been recognized as a global leader in sustainability, providing the basis for wide-ranging, systemic changes necessary for improving wellbeing for future generations. This includes its well-developed public charging infrastructure and expansion of Ultra Low Emission Zones (ULEV).

London's recent productivity has been closely linked to the finance sector, which is disproportionately represented in the capital. As is well known, finance displayed the fastest-growing productivity of any sector in the years leading up to the financial crisis of 2008-09, but has then actually shrunk considerably; it is worth noting that the jury is out on whether productivity measures can accurately capture the significant adjustments in banking products, leveraging of assets and inflated balance sheets pre and post crisis.

However, the productivity slowdown extends to other service-exporting sectors also, including communications and professional services, raising serious concerns as these sectors are crucial for long-term innovation and productivity growth.

London also faces major societal challenges, notably the need to reduce the share of its population who experience in-work poverty and to combat the wide income inequalities across the 33 boroughs. The problem relates to the high variation in firm productivity: for example, **the top 10% of London firms are up to three times more productive than the bottom 10%**.

Even more strikingly, GVA per person in Camden and the City of London is almost ten times greater than in Lewisham and Southwark. There are further disconnects and tensions that need to be addressed.

Office rent prices are double that of the UK average while salaries of high-skilled labour are also high in London, potentially disadvantaging many small and medium-sized enterprises as they may be unable to afford high skilled workers and must compete with exceptionally productive competitors nearby.

Compounding these issues, evidence that UK firms have reduced their R&D investments has disproportionately affected London and requires concerted efforts to renew the incentives for firms to invest in critical areas of green, digital and medical technologies. Finally, the over-inflated housing market in London, combined with new 'hostile' restrictions on immigration has made it more difficult for London to compete for global talent particularly in digital, environmental and software skills.

The South East

In the South East, there are no current devolution deals. Instead, the South East Councils (SEC) was established in April 2009 to represent the views of local authorities in the South East region outside of London.

The South East is distinguished by its economic diversity and high degree of specialisation that attracts significant foreign direct investment and business activity. The South East has specialisms in life sciences, ICT, professional services, and high tech.

Hubs in Milton Keynes, Oxford, Surrey and Portsmouth are home to some of the world's leading multi-national corporations and benefit from exceptional R&D-intensity and research excellence. The region's strengths lie in life sciences, ICT, professional services and high tech. In 2019, the region's GVA reached £55.3 billion, primarily driven by the professional, scientific, and tech sector. **Across the region, future economic growth is likely linked to its connection to London**.

SEC recognises that renewed relations with the EU and responses to climate change are key to delivering sustainable economic growth for the region. Examples of this include Oxfordshire County Council and Oxford City Council working closely together to introduce a Zero Emission zone as well as an electric vehicle infrastructure strategy. Southampton City Council has also focused on redeveloping the city centre to make it more accessible for people to walk, cycle, or use public transport.

As noted above, not all parts of the South East of England display high competitiveness and productivity. At present, some areas receive very low levels of public funding, which undermines the potential for productivity-enhancing public-private linkages; Kent, for example, only receives one sixth of average UK public spending per inhabitant.

Moreover, to upscale productivity in these areas requires a detailed understanding of the growth potential of key sectors. Pharmaceuticals, for instance, may be the South East's major industry but its productivity dropped by around 10% between 2009 and 2017. Also, from Brighton through Kent to Dover the economy is largely rural and less connected to high-value city hubs, such that many areas face similar challenges to those facing the South West.

There are also **significant intra-regional divides**. The connection to London significantly influences house prices, particularly in towns located closer to the capital. These areas tend to exhibit a larger gap between the incomes of residents and those who work in the region. Commuters contribute to this phenomenon by bringing back their 'London wages' to these towns, thereby elevating property values beyond what the local employment market could sustain independently.

Within Surrey, just a short distance can lead to a decrease in life expectancy of up to ten years. Areas such as Crawley and Thanet rank among the lowest performing 10% of local authorities in the social mobility index. Nevertheless, the prevailing narrative often emphasises the prosperity of the South East.

This highlights a significant challenge that defines this region. The narrative for the South East is rarely clearly delineated. This is compounded by the lack of any coordinated regional voice through a metro Mayor or other institution. This lack of clarity makes convening business across the region more difficult.

The South West

Bristol, South Gloucestershire, and Bath and North East Somerset established the West of England Combined Authority (WECA) in 2017. WECA's primary focus lies in planning, skills development, local transport, and business support. In 2015, Cornwall Council achieved a significant milestone as the first rural unitary authority to successfully negotiate a devolution deal. This agreement granted them increased authority over integrated health and social care, transportation, employment, skills development, EU funding, business support, energy, the public estate, as well as heritage and culture.

Notably, Cornwall recently rejected a mayoral devolution deal in April 2023, opting instead for a second non-mayoral devolution agreement. Devon County Council is also actively pursuing a non-mayoral devolution agreement. This means that while they will have more autonomy and financial support compared to having no deal, they will still have significantly less than if they had chosen to go with a mayoral devolution deal.

Bristol and Bath are emerging as strongholds for the deeptech industry, exemplified by initiatives like Tech for Good Bristol and Bath. These cities are also major hubs for digital innovation and the creative industry. Stretching from Exeter to Swindon, the South West region boasts several high-productivity clusters in aerospace and advanced engineering, valued at over £2.7 billion.

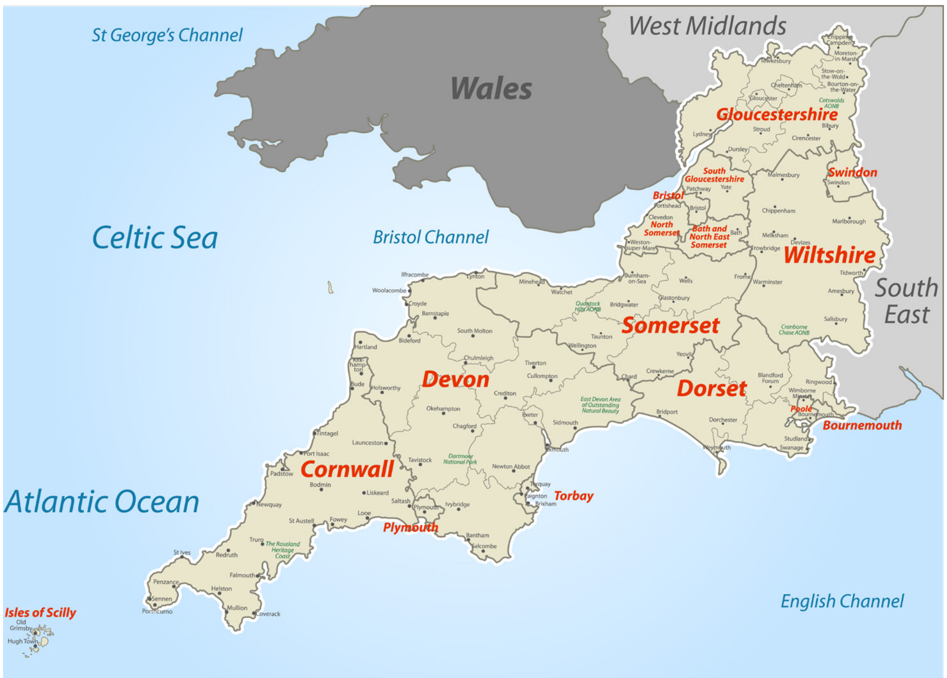
Specialised expertise in robotics, composites, and additive-layer manufacturing is prevalent in this sector, complemented by well-established industries in defence, automotive, nuclear, and electronics manufacturing. In Bath and Bristol, the development of science and innovation hubs have been a focus to drive productivity. For example, Bath recently secured investment from UKRI for the Isambard supercomputer. Devon has a thriving marine manufacturing sector, with a focus on technologies and systems for commercial boat building and defence industries. Dorset is witnessing a strengthening medical services sector, marked by the launch of 'One Health' in 2019, a collaborative initiative spanning multiple sectors to enhance public health outcomes by recognising the interconnectedness of human, animal, and environmental health.

Throughout the South West, there is a **collective drive to leverage 'green growth' and the 'blue economy.'** Cornwall, for instance, is witnessing growth in digital technology startups, thanks to reliable broadband infrastructure, and investments in offshore wind and critical minerals are steering the transition to a 'green' economy. Meanwhile, the West of England Combined Authority (WECA) is focused on boosting business productivity through the adoption of clean technology and energy-efficient measures, while Devon emphasises marine research and the development of environmental and digital technology.

However, the South West lags behind the other regions in the London and South Forum. Outside these high-productivity hubs, the South West's economy is primarily characterised by small and medium-sized enterprises operating in tourism, hospitality, agriculture, and diverse public services.

This underperformance can be attributed, in part, to limited innovative capacity, stemming from deindustrialisation and inadequate connections to research and innovation hubs. The region's economy comprises sectors with lower-than-average value addition, such as retail and hospitality, particularly prominent in certain areas.

Connectivity issues, due to the rural nature and unique geography of the region, exacerbate the problem. Access to capital, skills, and innovation hubs is often concentrated in larger cities, further compounding intraregional development disparities. For example, the relocation of the Isambard supercomputer upgrade from Exeter to Bath illustrates this centralisation of investment and innovation efforts around Bath and Bristol.



Primary Drivers and Bottlenecks

The Productivity Institute's Productivity Lab has produced regional score cards (see Figures 1-3) based on harmonised productivity metrics that allow each region to be compared to each other, including the devolved nations.

The metrics are related to 5 key drivers of productivity: business performance, skills and training, policy and institutions, health and well-being, and investments and infrastructures. The drivers are described below and further information can be found on The Productivity Institute website.

Business Performance is analysed through export intensity (exports as % of GDP), R&D intensity (R&D per job) and innovative businesses (Innovation active businesses), SME finance (% of SMEs where finance is a major obstacle) and business creation (Business births as % of all active enterprises).

Skills and Training at the regional level includes information on tertiary education (% of the population with tertiary education, NVQ4+), unskilled population (% of the population with no or low skills, NVQ1 or lower), training opportunities (% of employers providing training in the past 12 months), and regional skill mismatches (% of vacancies which are skill shortage vacancies).

Policy and Institutions are evaluated by including measures on political uncertainty (% of SMEs where political uncertainty and government policy is a major obstacle) and red tape (% of SMEs where legislation & regulation is a major obstacle).

Health and Well-being are described with measures of economic inactivity (economic inactivity rate), long-term ill health (% of economic inactivity due to long-term ill health), and active population (% of the population aged 16-64).

Investment and Infrastructure are evaluated by including data on Foreign Direct Investment intensity (FDI per job), regional infrastructure intensity (Gross fixed capital formation per job) and measures of regional connectivity (access to Gigabit-capable internet services).

As demonstrated by the scorecards, there are various factors driving and inhibiting productivity across the London, South East and South West. The London and South Regional Productivity Forum shows a high levels of imbalance with London and the South East ranking first and second with the South West trailing at 6th for the UK's twelve regions for productivity performance.

London scores exceptionally well in terms of health and well-being and investments and infrastructure. However, London is notably weak on business performance measures related to R&D, innovation intensity, and finance for SMEs. Skills challenges in London have intensified due to the pandemic and Brexit has impacted recruitment and retention in the hospitality sector. Simultaneously, investment in new skills to support the Net Zero transition has been slow due to the uncertainty and complexity of the pace and scale of change. There are also concerns around red tape in the City and political uncertainty more generally.

The South East scores well overall in long-term health and economic activity. However, it underperforms on new business creation and vacancies for skilled workers. As mentioned, much of the South East's growth is connected to London. This may constrain the focus on developing business within the region as well as creating jobs for skilled workers looking to work outside of London.

The South West scores well on two business performance indicators namely R&D and finance for SMEs. However, a major barrier for productivity across the region is connectivity, both in terms of digital connectivity across the region as well as physical infrastructure to connect the rural parts to the more productive cities.

Version: January 2023

TPI London Productivity Scorecard

134.4% London's productivity relative to UK average

1st of the UK's twelve regions for productivity performance

Category	Driver of productivity	Relative to UK median	Change over time: Short-term	Change over time: Long-term
Business performance & characteristics	Exports as % of GDP	Better	↑	↓
	R&D per job	Worse	–	↑
	Innovation active businesses	Worse	↑	↓
	% of SMEs where finance is a major obstacle	Worse	–	↓
	Business births as % of all active enterprises	Better	↓	↓
Skills & training	% of population with tertiary education (NVQ4+)	Better	↑	↑
	% of population with no or low skills (NVQ1 or lower)	Better	–	↑
	% of employers providing training in past 12 months	Better	–	↑
	% of vacancies which are skill shortage vacancies	Equal	–	↑
Policy & institutions	% of SMEs where political uncertainty & government policy is a major obstacle	Worse	↓	↓
	% of SMEs where legislation & regulation is a major obstacle	Worse	↓	↓
Health & wellbeing	Economic inactivity rate	Better	↑	↑
	% of economic inactivity due to long-term ill health	Better	↑	↓
	% of population aged 16-64	Better	–	↓
Investment, infrastructure & connectivity	FDI per job	Better	↑	↑
	Gross fixed capital formation per job	Better	↓	↑
	Access to Gigabit-capable internet services	Better	Data unavailable	Data unavailable

Key

- Better: higher than 105% of UK ITL1 median
- Equal: within 95% - 105% of UK ITL1 median
- Worse: lower than 95% of UK ITL1 median
- ↑ Improvement over time
- – No change over time
- ↓ Worsening over time
- Data unavailable

Cite as Menukhin, O.; Gouma, F.R.; Ortega-Argiles, R. (2023), *TPI UK ITL1 Scorecards*, TPI Productivity Lab, The Productivity Institute, University of Manchester. DOI: 10.48420/21931770

Annex: Methods and Sources

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FIGURE 1 Cite as Menukhin, O.; Gouma, F.R.; Ortega-Argiles, R. (2023), ***TPI UK ITL1 Scorecards***, TPI Productivity Lab, The Productivity Institute, University of Manchester. DOI: 10.48420/21931770 Annex: Methods and Sources CC BY 4.0

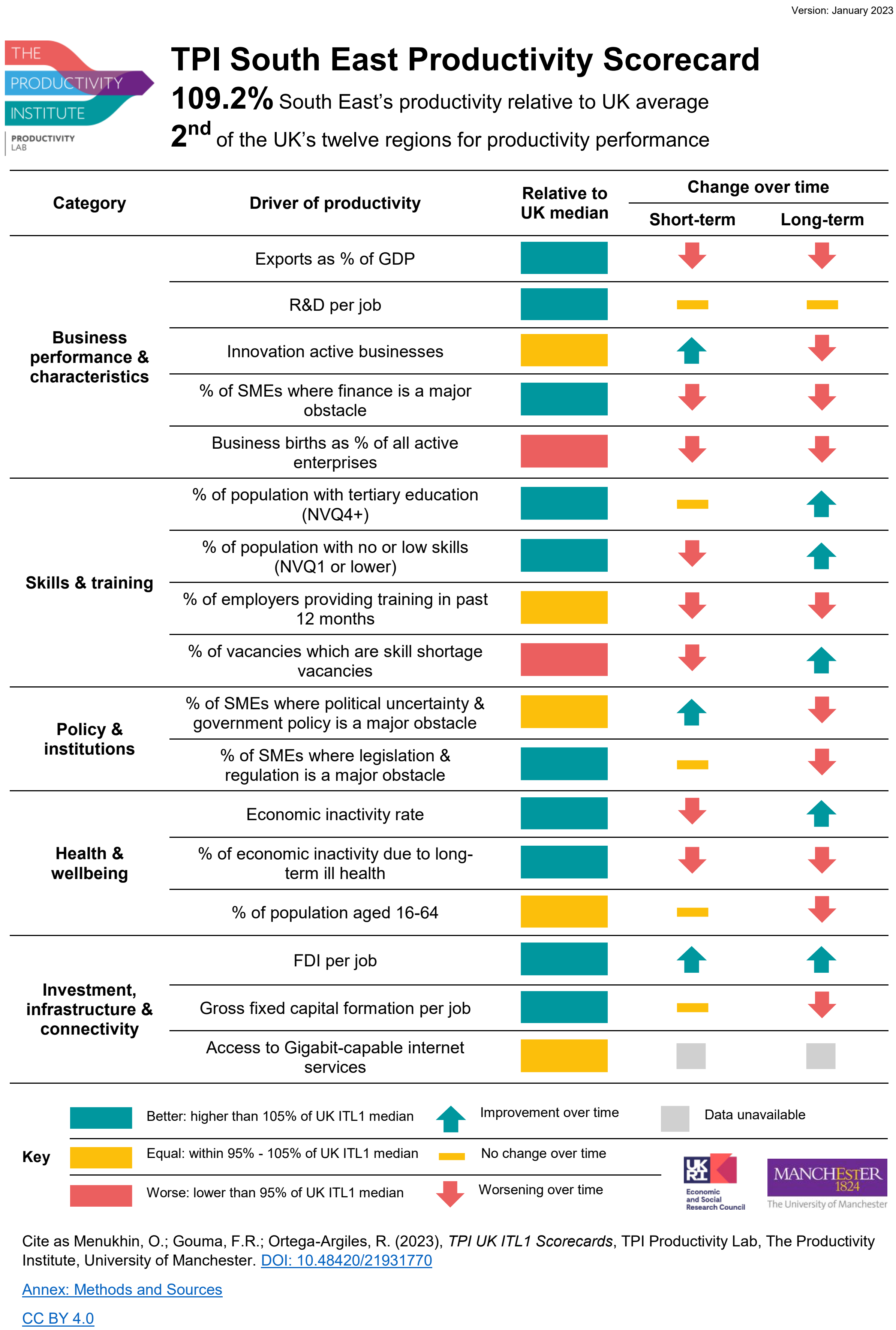

FIGURE 2 Cite as Menukhin, O.; Gouma, F.R.; Ortega-Argiles, R. (2023), *TPI UK ITL1 Scorecards*, TPI Productivity Lab, The Productivity Institute, University of Manchester. [DOI: 10.48420/21931770](https://doi.org/10.48420/21931770)
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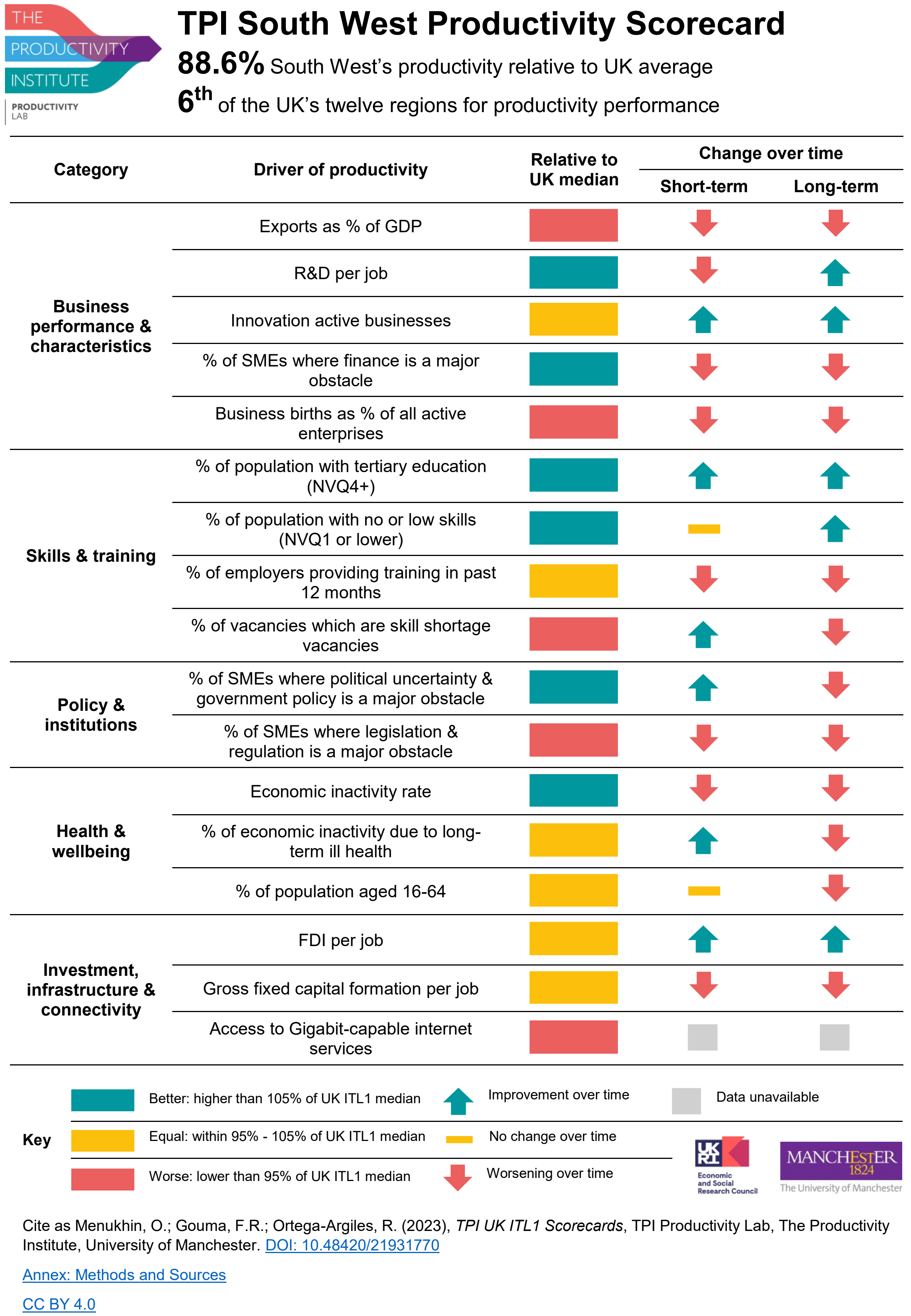

TPI South West Productivity Scorecard

88.6% South West's productivity relative to UK average

6th of the UK's twelve regions for productivity performance

Category	Driver of productivity	Relative to UK median	Change over time: Short-term	Change over time: Long-term
Business performance & characteristics	Exports as % of GDP	Worse	↓	↓
	R&D per job	Better	↓	↑
	Innovation active businesses	Equal	↑	↑
	% of SMEs where finance is a major obstacle	Better	↓	↓
	Business births as % of all active enterprises	Worse	↓	↓
Skills & training	% of population with tertiary education (NVQ4+)	Better	↑	↑
	% of population with no or low skills (NVQ1 or lower)	Better	–	↑
	% of employers providing training in past 12 months	Equal	↓	↓
	% of vacancies which are skill shortage vacancies	Worse	↑	↓
Policy & institutions	% of SMEs where political uncertainty & government policy is a major obstacle	Better	↑	↓
	% of SMEs where legislation & regulation is a major obstacle	Worse	↓	↓
Health & wellbeing	Economic inactivity rate	Better	↓	↓
	% of economic inactivity due to long-term ill health	Equal	↑	↓
	% of population aged 16-64	Equal	–	↓
Investment, infrastructure & connectivity	FDI per job	Equal	↑	↑
	Gross fixed capital formation per job	Equal	↓	↓
	Access to Gigabit-capable internet services	Worse	Data unavailable	Data unavailable

Key

- Better: higher than 105% of UK ITL1 median
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Looking to the future

Despite these challenges, London and the South is currently home to a number of transformative projects that are opening up new commercial prospects.

Imperial College London has received two years of London Shared Prosperity funding (SPF) as part of the Better Futures 3.0 team, led by the Greater London Authority (GLA), **West London Business**, and Sustainable Ventures to promote economic growth and enhance climate action in **London** by providing support activities for small businesses. The Active Spaces project in **Newham**, London aims to activate vacant indoor areas in Stratford and beyond, boosting the borough's liveability and economic vitality.

The Mayor's Regeneration Fund has been used for the enhancement of Peckham Rye station and its vicinity. Through collaborative efforts involving Network Rail, Southern Railways, and **Southwark** Council, the project will facilitate the restoration of the historic station building, a rare survivor in London maintaining its original 1860s characteristics. At the heart of this project lies the creation of a new public square, designed to open up the station's surroundings for various community purposes and serve as a welcoming entrance to Peckham. Additionally, the railway arches will be repurposed to provide new spaces for local businesses, artists, and shops.

Within the South East, **Canterbury's** Tales of England represents an ambitious reimagining of Canterbury, positioning it as a world-class destination for heritage, culture, and commerce. This initiative aims to revitalise the city's historic core that matches its profound historical importance. An example is the Sidney Cooper Civic, Arts, and Community Centre that will create new spaces for local artists, businesses and community members.

In **Oxford**, Oxford City Council is trialling Gul-E created by ODS, Oxford City Council's local authority trading company. Gul-e provides a gully that is installed in the footway enabling home EV charging for homes without driveways. **Portsmouth City Centre** is seeking to rejuvenate the northern part of the city centre by developing a substantial new green space that also provides areas for local businesses outside of high streets.

MyWorld, based in **Bath and Bristol**, has secured £30 million in government funding from UK Research and Innovation's Strength in Places fund. This investment will drive research, innovation, and production, serving as a catalyst for growth within the thriving creative technology industry in the West of England.

Italian cleantech company Exergy International and the UK's Geothermal Engineering are collaborating to build the UK's first deep geothermal power plant in **Cornwall**. Set to be operational by late 2024, it will provide renewable electricity and zero-carbon heat for Langarth Garden Village. Located near Redruth, the United Downs project harnesses naturally heated granite beneath Cornwall.

In **Devon**, researchers have received funding to establish an offshore wind cybersecurity research and development facility, known as the Cyber-Resilience of Offshore Wind Networks (CROWN) project, at the University of Plymouth. The project aims to identify vulnerabilities in wind turbine arrays and their integration with the grid, develop resilience procedures, security measures, and training tools to safeguard against potential attacks.The CROWN project, led by the University of Plymouth's Maritime Cyber Threats research group, will further strengthen the university's expertise in offshore renewable energy and maritime cybersecurity.

While positive examples of cooperation to meet some common needs can be seen across the three regions, some important questions remain. How can more effective collaboration ensure that all areas can access funding to implement innovative projects so that intra- and inter-regional differences are not exacerbated? And how can collaboration address the need to upskill both the existing and future workforces and particularly as it relates to digital, environmental and data analytics skill gaps that are necessary for the transformation to sustainable (green and blue) and inclusive growth?

The primary audience for this briefing paper is the RPF, and it is intended to inform discussions. The commitment and expertise of The Productivity Institute's London and South Regional Productivity Forum offer an opportunity to build upon the success and progress already achieved. We aim to explore avenues for further collaboration to create a compelling narrative that can attract investment, enhance the skills of both current and future workforces, and support the development of green growth.

This briefing was written by Britt Regal, Damian Grimshaw and Marcela Miozzo.

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