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05

- Gross Value Added (GVA) per head on a residence basis was higher in London in 1999, at nearly £17,000, than the United Kingdom as a whole which was just under £13,000.
- GVA per head on a workplace basis in Inner London leads not only the rest of the United Kingdom, but also the rest of the European Union.
- Gross Disposable Household Income (GDHI) in Inner London was the highest in the United Kingdom in 1999. GDHI differs considerably between regions; total income even more so.

05: **Economy**

- There were 255,000 businesses registered for VAT in London in 2002; over three and a half per cent of these had an annual turnover of £5 million or more each.
- Overall, there were an estimated 674,280 businesses in London at the start of 2001.
- The new business registration rate in London during 2001, at 12.6 per cent, was the lowest level seen in the last 20 years.
- Over 40 per cent of businesses registered for VAT in London were within business, financial and real estate services compared with less than 28 per cent nationally.

Tables 5.1

Gross Value Added, workplace basis at current basic prices[1,2,3]: by NUTS 1, 2 and 3 areas[4]

£ millions and £ per head

	£ million				£ per head				£ per head index (UK=100)			
	1995	1996	1997	1998	1995	1996	1997	1998	1995	1996	1997	1998
United Kingdom[5]	622,389	657,775	700,567	743,314	10,619	11,185	11,871	12,548	100	100	100	100
London	106,759	112,033	122,014	133,081	15,251	15,885	17,158	18,566	144	142	145	148
Inner London	67,666	70,446	77,280	84,488	25,305	26,120	28,386	30,734	238	234	239	245
Inner London - West	45,952	48,182	52,165	57,424	47,970	49,568	52,758	57,281	452	443	444	456
Inner London - East	21,714	22,264	25,115	27,064	12,653	12,907	14,486	15,496	119	115	122	123
Outer London	39,093	41,586	44,735	48,591	9,037	9,548	10,194	10,996	85	85	86	88
Outer London - East and North East	10,362	11,030	11,765	12,313	6,775	7,205	7,674	8,017	64	64	65	64
Outer London - South	9,996	10,426	11,050	11,838	8,961	9,264	9,733	10,358	84	83	82	83
Outer London - West and North West	18,734	20,130	21,920	24,440	11,145	11,846	12,743	14,045	105	106	107	112

1 Consistent with the National Accounts (Blue Book) 2000.
2 Estimates of workplace GVA allocate incomes to the regions in which commuters work.
3 Includes taxes less subsidies on production.
4 NUTS (Nomenclature of Units for Territorial Statistics) is a hierarchical classification of areas that provides a breakdown of the EU's economic territory.
5 Excluding GVA for Extra-Regio, which comprises compensation of employees and gross operating surplus that cannot be assigned to regions.

Source: Office for National Statistics

This chapter describes the nature and scale of the economic activities by which London earns its living. It shows that the capital's economy is unique within the United Kingdom in terms of its industrial structure, and that Inner London's Gross Value Added per head not only leads the rest of the country, it leads within the European Union too.

Gross Value Added

Gross Value Added (GVA), referred to in previous versions of Focus on London as gross domestic product at basic prices, is the standard measure of the value of economic activity. Table 5.5 shows that London's share of the United Kingdom's GVA in 1999 was almost 18 per cent while the corresponding share of population was just over 12 per cent. London's GVA per head appears to be more than 46 per cent higher than the United Kingdom average; however, it must be remembered that GVA is calculated by location of the workplace, and there are many people who work in London but are not resident there.

The average figures for London mask widely differing levels of GVA, and Inner London-West accounted for more than the whole of the Outer London NUTS-2 area, despite being only one eleventh of the physical size, and containing less than one quarter of the resident population. Looking at the GVA per head for subregions within the capital on a workplace basis: GVA per head in the Inner London NUTS-2 area during 1998, at £30,734, was nearly three times that of Outer London. The NUTS-3 area with the highest GVA per head was Inner London-West, at more than £57,000. This was more than seven times that of London's lowest NUTS-3 area, Outer London-East and North East, at just over £8,000. Note that data for 1998 are used rather than more recent data: see Notes and Definitions for the explanation.

Under the European classification of areas known as the Nomenclature of Units for Territorial Statistics (NUTS) (see Map A5.1 in the appendix and Notes and Definitions for details), London is sub-divided into several smaller geographic classifications: London itself is a NUTS level 1 area while Inner London and Outer London are NUTS level 2 areas. There are five NUTS level 3 areas: Inner London-East; Inner London-West; Outer London-East and North East; Outer London-South; and Outer London-West and North West.

Commuters who do not live in the area generate a high proportion of the GVA of Inner London-West; therefore these data do not necessarily show that people living within one area are more prosperous than those in another area.

Although GVA was higher in Inner than Outer London on average, it grew at around the same rate between 1995 and 1998. It is notable though, that these growth rates for both Inner and Outer London were above the rate for the United Kingdom as a whole, which grew by less than 20 per cent compared with over 24 per cent for London.

The data for GVA in Table 5.1 allocate the income of workers to their place of work rather than to their area of residence, in line with the concept that GVA measures the total (domestic) economic activity taking place within a given area. For all regions and subregions, GVA per head figures are calculated by dividing total GVA by the number of residents living in that area. It follows that in London, the total workplace-based GVA estimates (which include commuter incomes) are divided by a resident population that does not include these commuters. These factors help to explain the exceptionally high workplace-based GVA per head levels in Inner London and particularly in the Inner London West area, which incorporates both the City of London and the West End.

Figure 5.2 plots changes in GVA per head in Inner and Outer London against the United Kingdom average between 1995 and 1998. The level of GVA in both Inner and Outer London, as a percentage of United Kingdom GVA, has been broadly stable over this period. However, these time series should be interpreted with caution, as changes in per head GVA figures are affected by changes in social, geographic and demographic characteristics of an area or population. For example, the high living costs in some central London boroughs, especially rising housing costs, may lead to net out-migration from some boroughs; if economic activity remains stable while resident population decreases, the GVA per head rises.

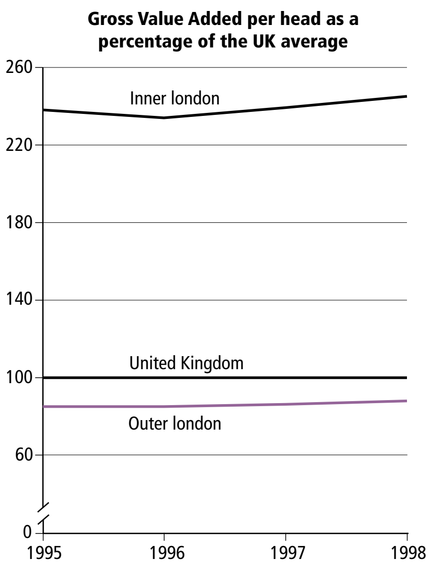
The figures in Table 5.3 are presented on a "Purchasing Power Standard" (PPS) basis for 1998 to 2000. PPSs reflect differences in the price levels between countries that are not explained by the exchange rates alone, and therefore provide better comparability of the GVA data between countries. PPSs are calculated on a national basis, and so do not fully reflect the price differences that may exist between individual regions within a country.

Frequently national capitals and large, city-dominated areas have high per capita GVA relative to the rest of their

Figure 5.2

Comparison of Gross Value Added, workplace basis

Percentages



Source: Office for National Statistics

Table 5.3

City-regions[1] in the European Union with above-average Gross Value Added per head, 1998-2000

Index and millions

	Index of GDP per head (PPS)[2] (EU15 =100)	Resident population (millions)
Inner London	245	2.82
Brussels	222	0.96
Luxembourg	187	0.44
Hamburg	182	1.70
Ile de France (including Paris)	155	10.98
Vienna	153	1.61
Oberbayern region (including Munich)	152	4.03
London (both Inner and Outer)[3]	149	7.30
Darmstadt region (including Frankfurt)	148	3.72
Stockholm	143	1.80
Utrecht	143	1.11
Bremen	142	0.66
Uusimaa region (including Helsinki)	141	1.38
Trentino-alto-Adige	137	0.94
Lombardy	136	9.07
Åland	136	0.03
Noord-Holland	133	2.52
Stuttgart	133	3.92
Berkshire, Buckinghamshire and Oxfordshire	132	2.12
Salzburg	128	0.52
Groningen	126	0.56
Antwerpen	125	1.64
Dusseldorf	120	5.26

1 NUTS 2 regions. See Notes and Definitions. The table includes all city regions with GVA per head higher than London as a whole, and selected city regions with GVA per head lower than London, but higher than the EU average.
2 Purchasing Power Standard: see accompanying text.
3 NUTS 1 region
Source: Eurostat

countries. Table 5.3 shows all the NUTS level 2 city regions of the European Union whose GVA per head is above the value of the London region, plus selected others above the average of the European Union as a whole.

Inner London leads the European Union NUTS 2 regions with GVA per head nearly two and a half times the European Union average, followed by Hamburg at almost double the EU average. The table shows a mix of capitals and large cities which are all centres of intensive economic activity, with some, like London, subject to special economic and demographic factors. Hamburg and Bremen, for example, have their GVA augmented by a particularly large number of foreign workers and commuters. The majority of these areas, for example, Brussels, Darmstadt and Ile de France encompass major financial and services centres.

For London as a whole (Inner London plus Outer London), GVA per head was 49 per cent above the European Union average for the period 1998 to 2000. The lower level for London as a whole was a direct result of the marked difference between the level of GVA in Inner London and that in Outer London. GVA for Outer London, for the period 1998 to 2000, was only 88 per cent of the European Union average. However, it should be noted that this difference is, at least in part, due to a commuting effect as workplace-based GVA per head is expressed as a proportion of the resident population. The figure for Outer London was still nearly double that of the poorest region in the European Union, Ipeiros in Greece, whose GVA was 47 per cent of the European Union average for the period.

NUTS 2 regions across the European Union vary considerably both in size and in terms of their population. For example, the Ile de France region not only includes Paris, but also much of the surrounding area.

Table 5.4

Gross Value Added, residence basis at current prices[1]

£ million and £ per head

	£ million		£ per head	
	London	United Kingdom[2]	London	United Kingdom[2]
1990	74,933	491,291	10,935	8,535
1991	78,641	513,309	11,422	8,880
1992	82,409	535,772	11,930	9,236
1993	86,574	562,857	12,494	9,671
1994	91,118	593,932	13,088	10,170
1995	93,843	622,390	13,406	10,619
1996	99,490	657,773	14,107	11,185
1997	108,559	700,568	15,266	11,871
1998	118,499	743,313	16,532	12,548
1999	122,816	771,849	16,859	12,972

1 Estimates of regional GVA in this table are on a residence basis, where the income of commuters is allocated to where they live rather than their place of work.
2 Excluding GVA for Extra-Regio, which comprises compensation of employees and gross operating surplus that cannot be assigned to regions, and the statistical discrepancy of the income-based estimates.
Source: Office for National Statistics

Table 5.5

Gross Value Added, workplace basis at current prices[1]

£ million and £ per head

	£ million		£ per head	
	London	United Kingdom[2]	London	United Kingdom[2]
1990	85,675	491,291	12,503	8,535
1991	89,388	513,309	12,983	8,880
1992	93,349	535,772	13,514	9,236
1993	97,769	562,857	14,110	9,671
1994	103,019	593,932	14,798	10,170
1995	106,759	622,390	15,251	10,619
1996	112,033	657,773	15,885	11,185
1997	122,014	700,568	17,159	11,871
1998	133,081	743,313	18,566	12,548
1999	138,265	771,849	18,979	12,972

1 Estimates of workplace GVA allocate incomes to the regions in which commuters work.
2 Excluding GVA for Extra-Regio, which comprises compensation of employees and gross operating surplus that cannot be assigned to regions, and the statistical discrepancy of the income-based estimates.
Source: Office for National Statistics

The Eurostat (the Statistical Office of the European Union) preferred methodology for calculating GVA is to allocate the income of commuters to where they work rather than to where they live. Figures for components of GVA and industry breakdown are, however, only available on a residence basis. Residence-based GVA figures are therefore used in Table 5.4 and from Table 5.6 onwards. To put this into context: on a residence basis, London's share of the United Kingdom's GVA was 16 per cent in 1999 compared with 18 per cent on a workplace basis. The North East represents less than 4 per cent of United Kingdom GVA and Northern Ireland just over 2 per cent.

Table 5.4 shows total GVA on a residence-basis for London and the United Kingdom since 1990. In London, GVA increased by 64 per cent between 1990 and 1999, with annual rates of increase ranging from 3 per cent to over 9 per cent. In most years London had a higher rate of growth than the United Kingdom as a whole. However, care should be taken in interpreting these figures as we cannot split out any impact of regional price changes or inflation from underlying volume changes.

Although GVA calculated on a residence-basis does not include the income of any commuters travelling into London, the GVA per head figure for London during 1999 was still 30 per cent above the average for the United Kingdom as a whole. It also exceeded that of any other United Kingdom region.

Table 5.5 details workplace-based GVA figures for London and the United Kingdom, which, unlike the data in Table 5.4, allocate the incomes of commuters to their region of workplace rather than their region of residence. Although both the absolute and per head levels of GVA are somewhat higher than the residence-based figures published in Table 5.4, both the workplace and residence series have followed a similar trend since 1989.

Table 5.6

Gross Value Added, residence basis by components of income at current basic prices[1]

Percentages and £ million

	London		United Kingdom[2]	
	1994	1999	1994	1999
Compensation of employees	*61.2*	*61.7*	*62.0*	*63.4*
Operating surplus/mixed income[3]	*38.8*	*38.3*	*37.9*	*36.6*
Total GVA (£million)	91,118	122,816	593,932	771,849

1 Estimates of regional GVA in this table are on a residence basis, where income of commuters is allocated to where they live, rather than their place of work.
2 Excluding GVA for Extra-Regio, which comprises compensation of employees and gross operating surplus that cannot be assigned to regions.
3 Including taxes on production.
Source: Office for National Statistics

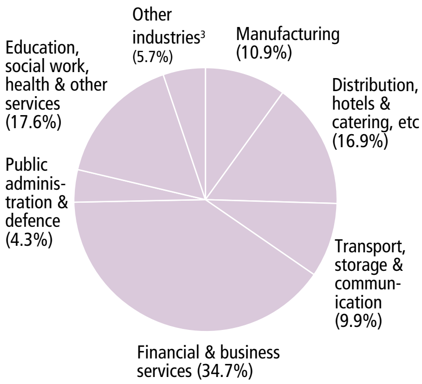
Table 5.6 shows GVA for London and the United Kingdom, split by compensation of employees and other income. Compensation of employees, comprising wages and salaries plus employers national insurance contributions – broadly speaking people's wages – accounted for more than 60 per cent of the total. The proportion of GVA from compensation of employees in London is slightly below the United Kingdom average. Table A5.2 in the Appendix shows the full time-series for the period 1989 to 1998.

One of the factors affecting the level of GVA per head is the mix of industries in a region. This is particularly true of London where the mix, shown in Figure 5.7, is very different from any other part of the United Kingdom. The proportion of London's GVA attributable to financial and business services (35 per cent) in 1998 was considerably higher than the United Kingdom average (28 per cent). In only two other regions, the South East and East of England, did the share of this sector exceed 28 per cent. The proportion accounted for by manufacturing shows the opposite effect. Manufacturing in London only account for about 11 per cent of GVA in 1998, against a United Kingdom average of over 20 per cent, and a figure of 27 to 30 per cent for the whole of the Midlands, for the North

Figure 5.7

Share of Gross Value Added[1]: by industry group[2], 1998

London | Percentages



1 At factor cost before adjustment for financial services.
2 Industry breakdown based on Standard Industrial Classification 1992.
3 Agriculture, mining, energy, construction, etc.
Source: Office for National Statistics

East (of England), and for Wales. The sheer size of the financial and business services sector in London means that the shares of all other sectors are correspondingly reduced. It does not follow, though, that the remaining sectors are insignificant in cash terms compared with other regions as manufacturing in London accounted for nearly £13 billion in 1998.

A full time-series of GVA by industry group for the period 1989 to 1998 is provided in Table A5.3 in the Appendix. The Appendix also includes tables on other aspects of the regional accounts, namely household income and individual consumption expenditure.

Major economic sectors

Although the figures in this section relate to London as a whole, most of the points made explain why GVA in Inner London is so high compared with the levels in the rest of the United Kingdom.

Financial and business services are the key sector in London's economy. Over and above their direct contribution to GVA, the activity that they generate helps to sustain many other industries such as transport and communications, restaurants and hotels. The relatively high salaries add considerably to aggregate spending power, and the sector regularly generates a large surplus for the United Kingdom's balance of payments. Figure 5.8 shows the growing importance of this industry to both the national and London economies: in 1998, financial and business services contributed 42 per cent (£50 billion) to London's economy, having risen from 39 per cent in 1993.

Financial and business services have seen strong growth throughout the United Kingdom over the six years to 1998 and London has maintained its dominant share of the sector – a fifth of the industry, in terms of GVA, is located in London.

There was an economic boom in financial services during the 1980s to which various factors contributed. Banking institutions, the largest single part of the whole sector, greatly diversified their activities and the opening up of the London Stock Exchange gave rise to a much increased volume of trading. At the same time business services benefited from developments such as privatisation and contracting-out, the property boom, and, particularly in the case of advertising, the strong growth in consumer spending which was taking place.

In the more settled conditions of the second half of the 1990s there has been no comparable expansion in the scale of activity, but London has continued to strengthen its position as the dominant dealing centre in Europe, particularly for foreign exchange and securities. The City is generally regarded as one of the three most important financial centres in the world, together with New York and Tokyo.

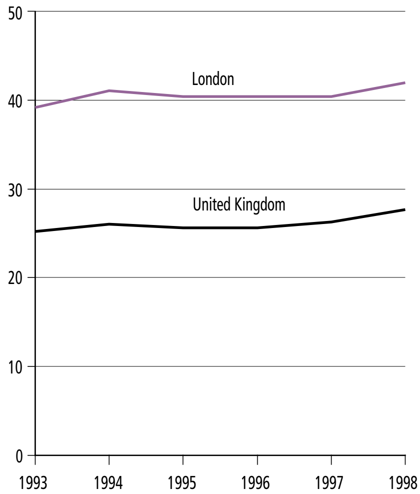
In terms of the proportion of people employed, public administration and defence are slightly more important in London than in the United Kingdom generally. Figure 5.9 shows, however, that in terms of the contribution to the capital's GVA, the sector is less important in London than for the United Kingdom as a whole. This apparent contradiction is explained partly by the non-profit-making nature of the sector. The sector does, of course, provide benefits to London's economy beyond its direct outputs. For example, many commercial headquarters, representative organisations and service providers locate themselves in London, at least partly in order to be close to national decision-making. There is no sign of the capital's dominance in the public sector weakening significantly.

Manufacturing declined during the 1980s and early 1990s throughout the United Kingdom but particularly in London. Manufacturing has continued

Figure 5.8

Financial/business services[1] contribution to Gross Value Added[2]

Percentages

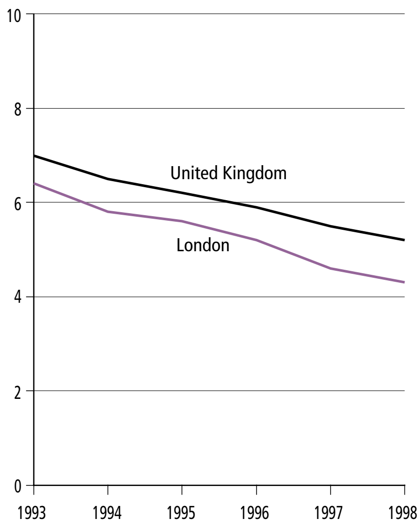


1 Financial intermediation, real estate, renting, business activities.
2 At factor cost before adjustment for financial services.
Source: Office for National Statistics

Figure 5.9

Public administration and defence[1] contribution to Gross Value Added[2]

Percentages



1 Public administration, national defence and compulsory social security.
2 At factor cost before adjustment for financial services.
Source: Office for National Statistics

to decline in London as Figure 5.10 shows: between 1993 and 1998 manufacturing as a percentage of GVA in the capital fell from 12 per cent to less than 11 per cent, while nationally the overall fall was slightly lower. This component of GVA has remained at about 8.5 to 9 per cent of the United Kingdom total since 1993. With modest levels of output, investment and productivity, manufacturing is not the 'engine' which drives London's economy, but, as the section on Businesses shows, it remains a significant and integral part of it.

In addition to the GVA estimates available for the whole economy (latest figures published for 1999 at regional level), the Annual Business Inquiry provides estimates for manufacturing industry GVA. London's share of total manufacturing GVA, at 8 per cent, was somewhat higher than its share of net capital expenditure in the manufacturing sector (2.6 per cent) in 2000. Although London's share of manufacturing GVA remained fairly stable between 1998 and 2000 (Table 5.11), total net capital expenditure varied. Capital investment in manufacturing has been constrained over recent years by competitive trading conditions and by modest growth in profits. Despite this, GVA at basic prices per person employed within manufacturing during 2000 was nearly 8 per cent greater than the average for Great Britain as a whole.

Gross Disposable Household Income (GDHI) is the income of a household available for consumption expenditure or savings, after deducting taxes, property expenditure, and national insurance contributions. The level and composition of GDHI differs considerably between regions. In 1999, London was 20 per cent above the United Kingdom average (Table A5.4). The difference is even more marked at NUTS 3 level where Inner London-West was 64 per cent above the United Kingdom average over the period 1997-1999. It should be noted that total income in London, before tax, is 25 per cent higher than the United Kingdom average: the difference between total income and disposable income demonstrates the redistributive effects of taxes and benefits on regions.

Businesses

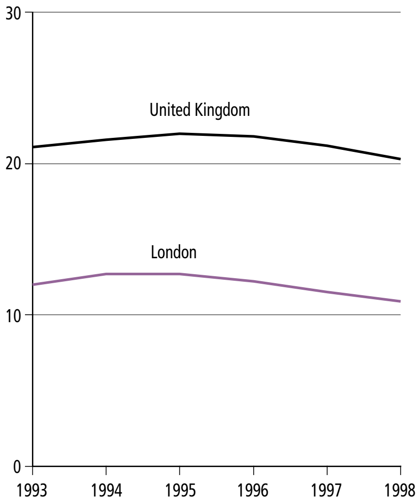
Detailed information on the location and nature of businesses is available from the ONS' Inter-Departmental Business Register (see Notes and Definitions), which combines information on VAT-registered traders and employers with PAYE employees. The register covers 2 million enterprises in the United Kingdom, around 99 per cent of economic activity. In addition the Department for Trade and Industry produces estimates of the total business population, covering nearly 3.8 million enterprises.

In March 2002 there were over 255,000 businesses registered for VAT in London; nearly 16 per cent of the United Kingdom total. This was a higher proportion than the capital's relative share of either the adult United Kingdom population (12.2 per cent) or its share of the workforce (12 per cent). These figures can, in part, be explained by the fact that businesses generally give their Head Office address when registering for VAT.

Figure 5.10

Manufacturing industries'[1] contribution to Gross Value Added[2]

Percentages



1 Definition of manufacturing based on Standard Industrial Classification 1992.
2 At factor cost before adjustment for financial services.

Source: Office for National Statistics

Table 5.11

Net capital expenditure and Gross Value Added in manufacturing[1,2]

£ million and percentages

	Net capital expenditure		Appropriate Gross Value Added[3]	
	London (£ million)	London as percentage of UK	London (£ million)	London as percentage of UK
1998	883	*4.4*	10,684	*7.3*
1999	1,045	*5.8*	11,762	*7.9*
2000	436	*2.6*	11,924	*8.0*

1 Definition of manufacturing based on Standard Industrial Classification 1992.
2 At basic prices.
3 Approximate Gross Value Added at basic prices represents the wealth created by businesses and is essentially the difference between income and expenditure in goods and services. See Notes and Definitions.

Source: Annual Business Inquiry, Office for National Statistics

Table 5.12 analyses the individual VAT-registered business enterprises by broad industry group. The breakdown confirms the greater importance of the financial and professional services sector to London than to the United Kingdom generally. Two fifths of individual business sites in London fell within this sector as compared to just over a quarter of business sites for the United Kingdom as a whole. The proportion of service industry sites was even higher in the City of London, at four fifths of total sites in the City, the heaviest concentration throughout the region. Not surprisingly, the City alone accounted for more than 8 per cent of businesses in the financial and professional services sector in London during 2002. This was a higher proportion of the total than in any other borough, with the exception of Westminster, where the proportion was higher at over 16 per cent. However, Westminster is seven times the physical area of the City of London and contains more than three times the total number of business units.

In 2002, 7 per cent of individual VAT-registered business sites in London were production-based. The heaviest concentration of manufacturing relative to the total number of business sites was in Hackney: 12.3 per cent of all local units in that borough were manufacturing - related. The highest actual number of manufacturing sites was in the City of Westminster, with over double the number of manufacturing sites in Hackney.

In addition to this cross-sectional picture of the economy in London, it is also useful to assess how its economic structure develops and changes over time. Maps 5.13 and 5.14 illustrate the percentage changes that have occurred in the number of manufacturing and services sites by borough between the years of 1996 and 2001.

The numbers of manufacturing sites decreased in most boroughs during this time, with the greatest falls in

Table 5.12

Classification[1] of business sites[2], 2002

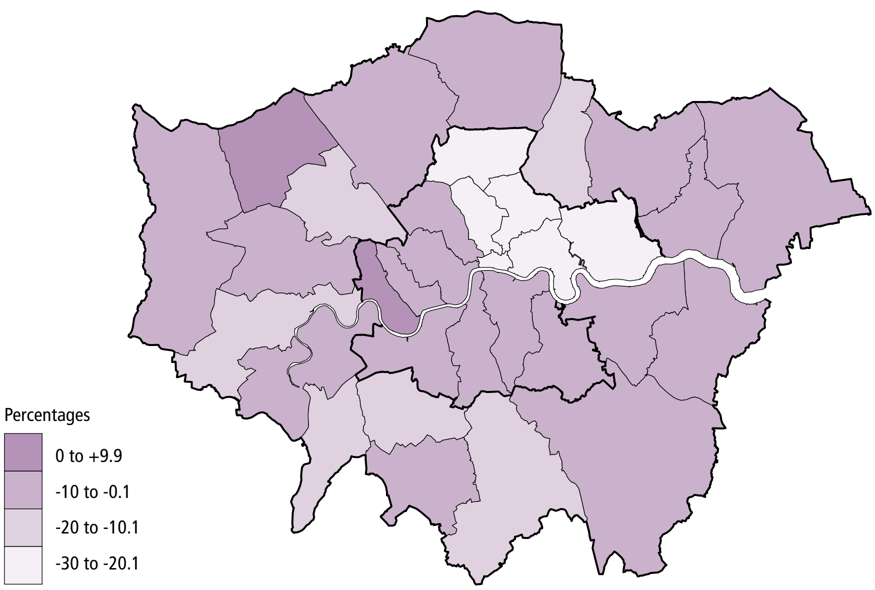
Percentages and thousands

	London	United Kingdom
Agriculture, hunting, forestry & fishing	*0.2*	*8.8*
Mining & quarrying, energy, water supply & manufacturing	*7.0*	*9.1*
Construction	*6.7*	*10.8*
Distribution, hotels & catering; repairs	*26.4*	*29.3*
Transport & communication	*3.9*	*4.6*
Financial intermediation, real estate, renting & business activities	*41.3*	*27.5*
Education & health	*1.2*	*1.2*
Public administration & other services	*13.3*	*8.7*
Total business sites (thousands)	255.0	1,619.2

1 Based on Standard Industrial Classification 1992.
2 Registered for VAT, sites are allocated to countries or regions on local unit basis, eg an individual factory or shop. See Notes and Definitions.
Source: Inter-Departmental Business Register, Office for National Statistics

Map 5.13

Percentage change in the number of manufacturing industry sites[1], 1996-2001



1 VAT based local units, excluding units undergoing checking.
Source: Inter Departmental Business Register, Office for National Statistics

Tower Hamlets, Haringey and Hackney, each of which showed a decrease in manufacturing of over 27 per cent. Only two boroughs saw an increase: Hammersmith and Fulham, and Harrow.

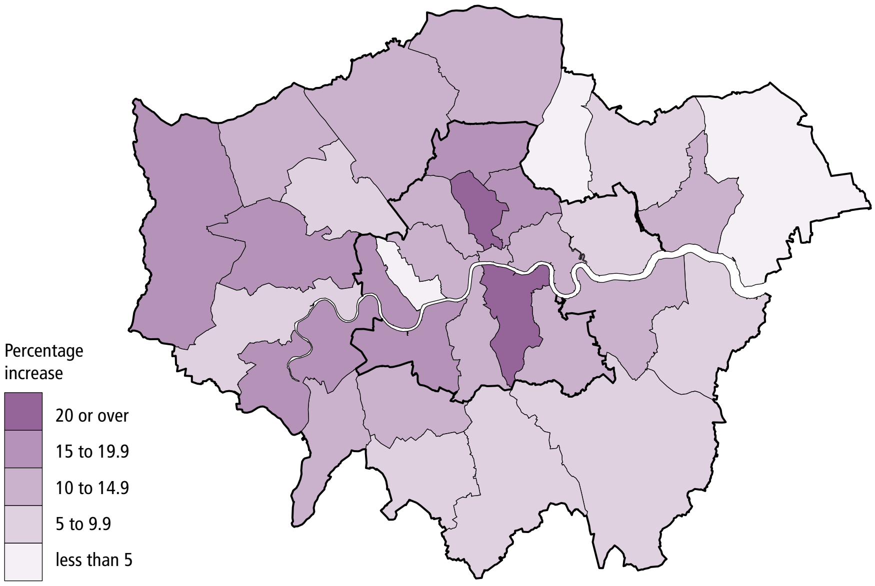
As expected, the growth in services during these years has led to changes in the industry composition of many boroughs. In contrast to the decline in manufacturing sites, all areas saw an increase in service industry sites (Map 5.14). The increase in service sites was highest in the Inner London boroughs of Southwark, Islington, Hackney and Haringey, with changes of between 17.5 and 22.7 per cent during this period. The largest single volume increase in the numbers of service sites was in the City of Westminster (a rise in excess of 4,600 businesses). The growing importance of services in Southwark can be explained in part by the development of the new City Hall and new visitor attractions such as the Tate Modern combined with the benefits of improved transport links. Developments along the riverbank on both sides have proved popular since the economic upturn of the mid-1990s, and the ongoing infrastructure improvements such as the Docklands Light Railway and Jubilee Line extension. As a result, Inner London boroughs in general were more likely than Outer London boroughs to contain a higher proportion of service industry sites, and show a greater proportional shift toward services between 1996 and 2001.

These analyses take no account of the levels and proportions of either wealth or employment generated by each individual business site. They do, however, support the importance of the service industries to London and indicate that the growth in this sector looks set to continue well into the new millennium. An analysis of employment in London is included in Chapter 6.

Table 5.15 tabulates the breakdown of business sites in the manufacturing sector in London by the levels of employment that they provide. It is clear that manufacturing units in London

Map 5.14

Percentage change in the number of service industry sites[1], 1996-2001



1 VAT based local units, excluding all 20+ unproven units.

Source: Inter Departmental Business Register, Office for National Statistics

Table 5.15

Manufacturing business sites[1,2]: by employment size band[3], 2002

Percentages and thousands

	Manufacturing	
	London	United Kingdom
Employment size bands		
1 to 9	*82.7*	*74.3*
10 to 19	*9.1*	*10.8*
20 to 49	*4.7*	*7.5*
50 to 199	*2.7*	*5.6*
200+	*0.8*	*1.8*
All local units (thousands)	23.8	195.0

1 Definition of manufacturing based on Standard Industrial Classification 1992.
2 Registered for VAT and/or PAYE, sites are allocated on a local unit basis, eg individual factory or shop. See Notes and Definitions.
3 Includes paid full and part-time employees and working proprietors.

Source: Inter-Departmental Business Register, Office for National Statistics

were, on average, smaller than those in the United Kingdom generally. In 2001, nearly 83 per cent of manufacturing sites in London had an average of less than 10 employees (including those of working proprietors) compared with over 74 per cent in the United Kingdom. The proportion of small units was highest in Inner London at almost 84 per cent. At the other end of the scale, less than one per cent of factories in London had 200 or more employees. This was less than half the proportion for the United Kingdom as a whole. The relatively high proportion of small manufacturing units in London as compared to the United Kingdom as a whole could be partly explained by the high cost of both land and building space, especially in Inner London.

Although London has a high proportion of smaller VAT-registered business, estimates of the total business population (Table 5.16) show that small and medium enterprises in London account for only 43 per cent of total employment, less than any other region. The difference appears to be in the size of micro units: the average small business in London employs fewer people than small businesses in other parts of the United Kingdom.

Table 5.17 looks at the size of businesses from a different point of view – by turnover size band. It indicates that around a fifth of VAT-registered enterprises in the United Kingdom had a turnover of less than £50,000 in 2002, in spite of the threshold of £55,000 for compulsory VAT-registration at April 2002; these were voluntary registrations and businesses that had dropped below the threshold. London has a greater proportion of businesses with a high turnover than in the United Kingdom generally. The capital had a lower proportion of enterprises with a turnover of less than £100,000 than the United Kingdom as a whole, and also had a higher proportion with a turnover of £1 million or more. In conjunction with the data from table 5.15, these figures reinforce the impression of both small size and high turnover businesses in London and in particular, Inner London.

Turning to figures on registrations and de-registrations, which are used as a proxy for business start-ups and closures, an estimated 34,900 businesses in London were newly registered for VAT in 2001, while 32,200 were de-registered (Table 5.18). Reasons for de-registration include turnover falling below the VAT threshold, change of ownership, and businesses ceasing trading. London accounted for nearly 20 per cent of all new registrations in the United Kingdom in 2001, and nearly 20 per cent of all de-registrations.

Businesses can cross the VAT threshold for a variety of reasons. The data in Table 5.18 should therefore not be interpreted simply as business 'births' and 'deaths'. VAT registrations and de-registrations do however serve as a useful indicator of the underlying birth and death rates.

The rate of business stock replacement (as implied by VAT registration and de-registration rates) was consistently greater in London than the United Kingdom average, indicating that the business stock in London may be less stable than nationally. Although business registration and de-registration

Table 5.16

Share of employment and turnover in small and medium sized enterprises,[1] start 2001

Percentages and thousands

	London	United Kingdom
Employment	*43.0*	*55.4*
Turnover	*48.9*	*51.4*
Total number of enterprises	674	3,746

1 Enterprises with less than 250 employees.
Source: Small Business Service, Department of Trade and Industry

Table 5.17

VAT-registered enterprises[1]: by turnover size band, 2002

Percentages and thousands

	London	United Kingdom
Turnover size (£ thousand)		
1 to 49	*17.3*	*21.1*
50 to 99	*24.4*	*25.4*
100 to 249	*25.1*	*25.3*
250 to 499	*12.3*	*11.6*
500 to 999	*8.3*	*7.2*
1,000 to 4,999	*9.0*	*7.0*
5,000 and over	*3.6*	*2.4*
All VAT-registered enterprises (thousands)	255.0	1,619.2

1 Legal unit basis, i.e. by location of enterprise. See Notes and Definitions.
Source: Inter-Departmental Business Register, Office for National Statistics

rates in London have followed a very similar pattern to the national trend over the past three years, registration rates in London have remained around 3 percentage points higher than in the United Kingdom as a whole, with de-registration rates around 2 percentage points higher.

As well as births and deaths in the business population, an important indicator of economic health is the longevity of new firms. Nearly 92 per cent of businesses registered in London during 2000 were still trading a year later, 76 per cent of those registered in 1999 were still trading after two years, and over 60 per cent of businesses registered in 1998 were still trading three years later (Table 5.19). However, these proportions were below the average for the United Kingdom as a whole. The recent trend in London is very similar to the pattern during the late 1980s and early 1990s; where the survival rates for businesses in London had been lower than the national averages as the recession appeared to affect London to a greater extent than the United Kingdom as a whole. Although survival rates in London recovered slightly, to reach parity with the United Kingdom during the mid-1990s for survival over twelve months, survival over longer periods has not been as successful in recent years.

The value of new construction work being undertaken in London is shown in Table 5.20. This differentiates between new house building, infrastructure projects, other new work, and repairs, "other new work" being principally commercial schemes. Figures for 2001 indicate growth in all types of construction. The value of "other new work" has more than doubled since 1995 and increased by nearly a third since 1998. Infrastructure projects have also seen a large increase in 2001, following a fall in the previous year.

It should be noted, however, that the data are not adjusted for inflation. Yearly changes in construction spending

Table 5.18

Business registrations and de-registrations[1]

Thousands and rates

	London			United Kingdom		
	1999	2000	2001	1999	2000	2001
Registrations	37.3	37.9	34.9	178.5	183.3	175.5
De-registrations	32.8	35.2	32.2	172.0	177.1	162.7
Net change	4.6	2.7	2.8	6.5	6.2	12.7
End-year Stock	274.5	277.2	28.0	1,658.1	1,664.4	1,677.1
Registration rate[2]	*13.8*	*13.8*	*12.6*	*10.8*	*11.1*	*10.5*
De-registration rate[2]	*12.1*	*12.8*	*11.6*	*10.4*	*10.7*	*9.8*
Registration rate[3]	66	65	59	38	39	37
De-registration rate[3]	58	61	55	37	37	34

1 Enterprises registered for VAT. See Notes and Definitions.
2 Registrations and deregistrations during the year as a percentage of the stock figure at the start of the year.
3 Registrations and deregistrations during the year per 10,000 of the resident adult population. Each year's rate is based on the previous year's mid-year population figure.
Source: Small Business Service, Department of Trade and Industry

Table 5.19

Business survival rates[1]

Percentages

	London			United Kingdom		
	12 months	24 months	36 months	12 months	24 months	36 months
1993	*85.6*	*70.4*	*59.4*	*85.5*	*70.5*	*59.8*
1994	*85.3*	*69.8*	*57.9*	*85.5*	*70.7*	*59.7*
1995	*86.5*	*71.6*	*59.9*	*87.2*	*73.2*	*62.7*
1996	*85.8*	*72.8*	*60.8*	*87.1*	*74.5*	*63.6*
1997	*88.1*	*74.2*	*61.3*	*88.7*	*75.9*	*64.4*
1998	*88.2*	*73.3*	*60.3*	*88.9*	*75.5*	*64.0*
1999	*89.2*	*76.1*	..	*89.6*	*77.2*	..
2000	*91.6*	..	..	*91.4*	..	..

1 The percentage of businesses surviving the stated number of months after year of registration.
Source: Small Business Service, Department of Trade and Industry

are therefore the result of movements in price as well as movements in volume.

The increases in commercial construction spending since 1997 were primarily the result of a series of millennium projects, which included the development of the Greenwich Peninsula. During 1997 more than £700 million of lottery funds and private sector sponsorship were allocated by the Millennium Commission to projects in Greenwich and several surrounding boroughs. These millennium developments span across several construction categories and London boroughs. They included: the Millennium Dome; 1,400 new homes in Greenwich; a hotel; and a supermarket. More recently work on the Channel Tunnel Rail Link has spanned several central and eastern boroughs.

Assistance to industry

Currently, individual regional and subregional areas of the United Kingdom are eligible for assistance from the European Structural and Cohesion funds. These are funds allocated according to specific development and social objectives. The structural funds consist of three separate streams: Objective 1 for areas (economically) lagging behind the rest of the EU; Objective 2 for areas facing structural difficulties or declines in particular industry sectors; and Objective 3 supporting the adaptation and modernisation of policies and systems of education, training and employment. Because of the relatively high GVA per head relative to the rest of the EU, London did not qualify for Objective 1 status.

Under the European Commission guidelines for 2000-2006, the vast majority of the previous Objective 2 areas did not automatically qualify for funds during the new funding period. This was due to the relatively low unemployment rate in the United Kingdom as compared to the European Union at the time these funding decisions were made (subnational data for the UK were based on the number of people claiming

Table **5.20**

Value of construction work

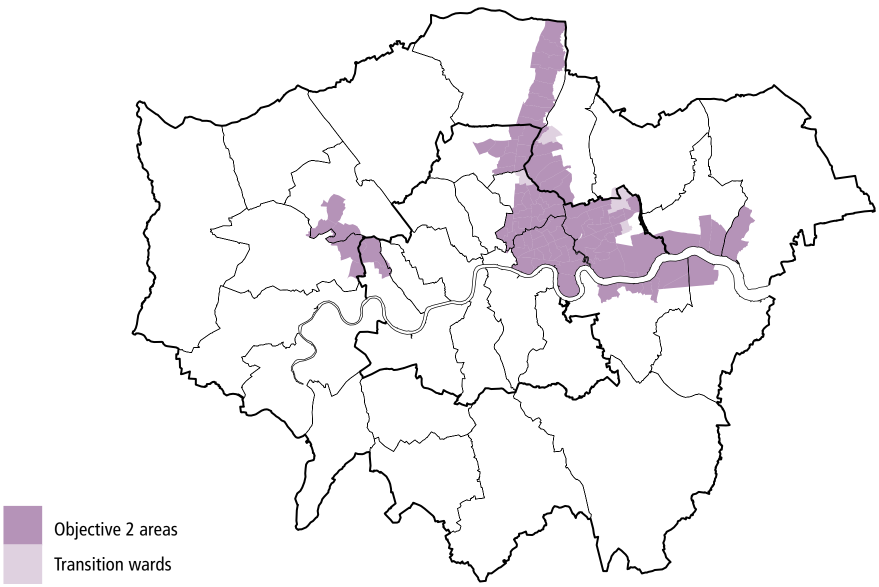
London £ billion

	New housing	Infra-structure	Other new work	Repairs
1988	0.78	0.37	3.12	2.25
1989	0.62	0.41	4.09	2.57
1990	0.42	0.52	4.49	2.82
1991	0.35	0.74	3.92	2.69
1992	0.40	0.74	2.63	2.53
1993	0.47	0.74	1.89	2.54
1994	0.62	0.80	1.99	2.70
1995	0.64	1.08	2.28	2.92
1996	0.56	1.32	2.52	3.03
1997	0.78	1.21	2.73	3.24
1998	0.86	1.09	3.46	3.54
1999	0.88	1.00	4.10	3.69
2000	0.96	0.88	4.07	4.35
2001	1.04	1.58	4.78	4.72

Source: Department of Trade and Industry

Map **5.21**

Objective 2 funding areas, 2000-2006



Source: Department of Trade and Industry

unemployment-related benefits rather than ILO unemployment). The United Kingdom however, was successful in securing a 'safety net' which maintained around two thirds of the pre-existing Objective 2 & 5b areas that qualified for funding between 1994 and 1999. This left some £2.5 billion available to United Kingdom regions (with coverage of around 13.8 million people), which has at least partially cushioned the cuts in Objective 2 funding coverage in both London and the United Kingdom as a whole. Map 5.21 shows the areas within boroughs which have Objective 2 or transitional status for the 2000 to 2006 funding period.

In addition to these changes, the 2000 to 2006 structural funding programme has seen the introduction of a series of new eligibility criteria for Objective 2 status. The main difference from the previous funding programme is that Objective 2 funds now cover agriculture, fishing and urban deprivation as well as industry. There are two criteria with particular relevance to the London economy. The first covers industrial funding and based eligibility around wards which fell within a local authority or London borough with a (workforce - based) claimant count rate greater than 7.5 per cent and, that have also experienced a marked decline in the proportion of industrial jobs between 1991 and 1997. The second criterion covers urban areas enduring serious deprivation and/or structural decline. Individual wards were identified using the English Index of Deprivation (see Chapter 8 for further details).

Table 5.22 shows that more than £20 million of Objective 2 funding was allocated to London in each of the three years 2000 to 2002. Also funded from European Structural Funds is the Objective 3 programme, which is not geographically restricted to designated areas. The Objective 3 programme is concerned with the labour market so is described in the next chapter.

Table 5.22

Allocation of EU Objective 2 Structural Funds[1]

£ million at 1999 prices

	London	United Kingdom
2000	24	516
2001	25	505
2002	23	460

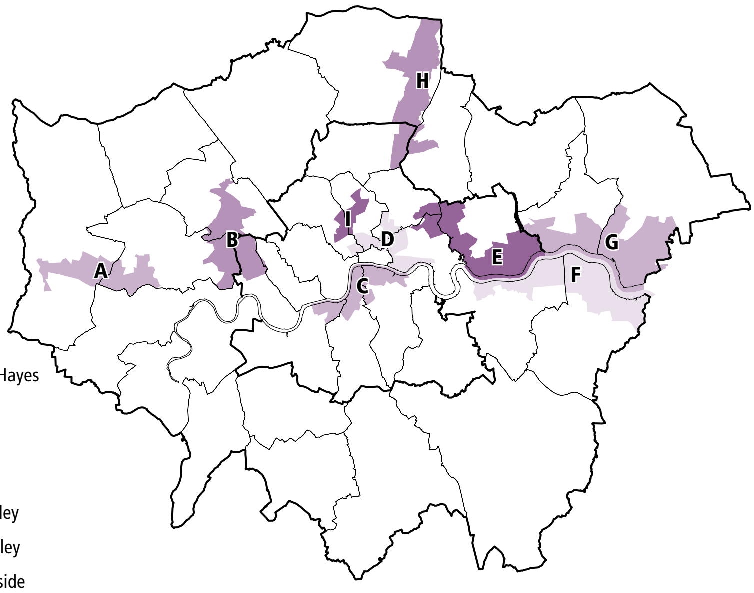
1 Only allocations resulting from the Commission's Single Programming Documents are shown. Allocations resulting from Community Initiatives, the value of which is about 8 per cent of the total Objective 1 and 2 allocations, are not included because not all of these can be allocated to specific Government Office Regions.

Source: Department of Trade and Industry

The London Development Agency (LDA), one of nine Regional Development Agencies (RDAs) in England, also has specific funding programmes for initiatives in skills development, business support, regeneration, employment and physical development. These are in addition to the core programmes described above and aim to assist selected areas within London, together with the wider Thames Gateway area in partnership with neighbouring RDAs. The areas chosen for "major area interventions" are shown in Map 5.23. See Notes and Definitions for more information on assistance to industry by the LDA.

Map 5.23

London Development Agency Priority Areas 2003-6



A Southall and Hayes
B West London
C South Central
D City Fringe
E Lower Lee Valley
F Woolwich/Bexley
G London Riverside
H Upper Lee Valley
I Kings Cross/Nag's Head

Source: London Development Agency