

London 2021

What's next for the UK's capital city?

The COVID-19 pandemic has hit Central London hard. As we begin a new year, under a third national lockdown, the huge economic impact of the pandemic is clearer than ever. Whilst the remarkable resilience of the financial and professional services sectors has been clear to see throughout the crisis, other segments of our capital's economy are struggling to function. Central London faces both new challenges arising from the crisis, and existing challenges that have been intensified as a result.

Central London is diverse and adaptable, but the longer people are required to stay away, the greater the risk that damage will become permanent. This could in turn threaten the capital's pre-eminence as a global centre for business, culture and tourism. Long-term damage to London's global competitiveness will not just be felt in the capital but will impact the whole of the United Kingdom.

With a Brexit deal in place and the vaccine rollout now well underway, London has begun the New Year in a better place than it might have done. Though a grim event which no one wished to see happen, COVID-19 presents an opportunity for London to proactively shape its future.

London's economic contribution

Central London plays a disproportionately significant role in the UK economy. It generates 10 per cent of national economic output, within a physical area that covers just 0.01 per cent of the country. This powerhouse of economic activity generates a substantial tax surplus which funds the delivery of public services across the country. The challenges that central London faces have implications not only for the wider city, but for the nation too.

Central London is home to a vast array of businesses specialisms across a wide range of sectors from world-class financial and professional services in the City of London to iconic cultural venues such as The O2 arena and the Royal Albert Hall. This diversity of function helps London play a global role that no other UK city can rival and makes it one of a small number of true "world cities", attracting direct foreign investment that would otherwise head to another city. These investments then have knock-on effects for jobs and further investments elsewhere in the UK.

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However, Central London has been disproportionately affected by the COVID-19 outbreak, even in respect to other international cities. This is because of London's large travel-to-work area and dependence on public transport, in addition to reliance on significant international tourism.

Whilst our professional and financial services have demonstrated remarkable resilience, other sectors such as London's hospitality, retail and arts jobs have not fared so well. All of these businesses are critical to London's global competitiveness as a world city.

Future of leisure

COVID-19 has had a polarising impact on Central London. Over 30 per cent of London jobs are in the services sector, all of which have weathered the crisis comparatively well, with many employees able to adapt quickly and efficiently to working from home. However, a quarter of Central London workers are in sectors such as hospitality, arts and leisure, and retail, which depend principally on physical connection. To put this into perspective the West End accounts for one in five hospitality jobs in London, one in six jobs in the arts and one in eight jobs in retail.

Social distancing is the enemy of agglomeration in central London and other major cities, and is a factor on which these jobs depend. Until people are able to meet others in public, using trains and socialising in public, city centres face a bleak future. While Central London has been deserted, some outer London centres have seen a growth in expenditure, as more people work from home and spend more money locally.

Physical distancing, in addition to rolling lockdowns, have suppressed retail, hospitality and leisure sectors for months. The lack of domestic and international visitors has also had a marked effect – between 1 April and 15 June 2020, tourist travel on public transport across London was only four per cent of normal levels. Whilst it remains to be seen how long the changes to behaviour caused by lockdowns and social distancing will last once the pandemic subsides, the impact thus far has been dramatic. These sectors remain on their knees.

London's cultural and heritage assets are among the best in the world, and pre-COVID-19, were a major driver of international tourism. There were 31.9m overnight visitors to London in 2017, and a quarter of these came specifically for its cultural offer. In 2018, the West End Arts and Culture sector's Gross Value Added amounted to an estimated £4.8 billion and 1% of the whole of Greater London's economy. Their permanent decline would damage the rest of London's unique ecosystem.

“We are a global cultural powerhouse and I am determined it will remain the envy of the world”
Rt Hon Oliver Dowden MP, Secretary of State for Digital, Culture, Media and Sport

Whilst the Government's Job Retention Scheme and other support schemes have been a lifeline to these businesses, the third lockdown could prove fatal for many of these smaller enterprises without further Government intervention.

Future of the office

The future of Central London is intrinsically linked to the future of work in general. As COVID-19 took hold in March last year, many businesses switched almost entirely to remote working. Nowhere is this reality more stark than the financial heart of the capital, the City of London. Footfall at retail and leisure locations in the City of London was 83% lower in the middle of December compared with levels measured pre-pandemic. The ghost town our capital city has become reflects the large-scale move to remote working forced upon businesses by the pandemic.

The pandemic pushed the services sector, along with many others, to rapidly innovate and deliver digital and remote solutions in order to maintain operational resilience and avoid business interruption. For many businesses the drive towards digital transformation was not without its challenges, but those who navigated the change of working patterns will be well positioned for the future as the pandemic subsides.

There is a good chance that remote working or a 'hybrid' working style will last. When we saw restrictions lift in the summer, Central London saw a lower proportion of workers return to offices compared to other global cities. This points to the fact that much of the change in working patterns are likely to outlast the pandemic, with the crisis acting as a catalyst for lasting change in business. Indeed, organisations expect levels of home working to double relative to pre-crisis levels. A long-term shift of this scale will have long-term consequences for London.

The widespread digitisation of business and society alongside rapidly changing consumer expectations were creating a new UK prior to the pandemic. COVID-19 sharply accelerated these trends, markedly increasing the pace at which businesses, consumers, and governments had to adapt.

The future of transport

Prior to the pandemic, central London's daily population would swell by as much as 80 per cent as commuters and tourists travelled into the centre of the city. Up to 5 million people a day packed onto the London Underground and 1 million arrived by train.

This has not been the case for months. The pandemic continues to have a dramatic impact on travel in London: tube use fell to the lowest levels in a century during the first lockdown and cycling and walking received a significant boost. When the first lockdown ended, transport concerns remained a significant blocker to confidence in returning to the City either for work or recreation.

Different living circumstances affected the return to cities in other countries. Office workers in London live significantly further away and have longer commutes when compared to other international cities. For example, Paris has a higher concentration of its residents living in the inner city, which enabled Parisians to more quickly return to their workplace by foot or bike whereas Londoners are reliant on public transport. In summer last year France reported that 84% of workers were back at their workplace in comparison to just 34% in the UK.

It is clear that as and when the pandemic lifts that commuters need clear and consistent messaging around the safety of the public transport network. This will be key to bolstering consumer confidence generally and aid London's transition to the "new normal".

Critical to enabling Transport for London to play its role in London's recovery is long term funding security. Its finances are heavily exposed to fare revenue and the pandemic has had a catastrophic effect. The current six-month funding settlement will last until the end of March. This will see fresh negotiations in spring and in all likelihood set the scene for another political battle between the Prime Minister and the Mayor. However, business remain hopeful that a new long-term sustainable funding deal will be agreed.

A long-term funding settlement would enable Transport for London to commit to the next generation of improvements to London's transport – and crucially as

“Now is the time to plan for a green recovery with high-skilled jobs that give people the satisfaction of knowing they are helping to make the country cleaner, greener and more beautiful.”

Prime Minister, The Right Hon Boris Johnson MP

London returns to more normal patterns of behaviour after mobility retractions are eased – ensure that London avoids a car-dominated recovery.

London has always been at the forefront of transport innovation – a green focussed recovery provides a huge opportunity for London to do more. In June 2019, the UK Government became the first major economy to commit in law to cutting greenhouse gas emissions to “Net Zero” by 2050 and London has a key role to play to ensure the UK meets this target. With COP26 hosted this year in the UK, London now has a unique opportunity to show it means business when it comes to net zero.

In December 2020, following his declaration of a climate emergency, the Mayor brought London's Zero Carbon target forward to 2030. This commitment alongside the Mayor's London Green New Deal demonstrates there is clear political will for London's recovery from the pandemic to coincide with a leap forward on decarbonisation.

It is evident that London will need to reinvent itself after the pandemic to maintain its position as a leading business district and there is political momentum behind this – a move towards a greener capital city would help position London at the front and centre of the Prime Minister's ambition for a 'green recovery'.

Coordinating London's recovery

London's recovery is vital to the future prosperity of the nation as a whole. There are concerns that the Government's "levelling up" agenda may come at the expense of investment in the capital post-pandemic. London's continued success to date cannot be taken for granted as the UK looks to recovery and beyond.

Many of the unique challenges London faces as a result of the pandemic have been compounded by a system of fragmented governance, with much of London life directed by central government. This is exemplified by the discretionary grant formula, which until a few short weeks ago was based on a formula of £20 per head of the local population – rather than the number of businesses in an area. London has a high number of businesses compared with many other parts of the country, so the average funding per business was as low as £8.09 in the City of London, compared with an average of £485.85 for the UK. London is unique and as this tiny example demonstrates – needs unique policy solutions.

This is easier said than done. London's direction in addition to having considerable central government involvement, is also set by the Mayor and 10 different boroughs, each of which have different approaches across a wide range of policy areas. The GLA sets London's

strategic planning policy through the London Plan. Through Transport for London, it also manages the capital's public transport services. This has added another tier of governance.

The whole London Assembly and the Mayor are up for re-election in May 2021. As it stands, whether the May elections will take place is currently 'under review' by the Prime Minister. However, regardless of the timeframe Sadiq Khan is highly likely to win a second term with a landslide majority. For London, this means continuity in policy – with an increasing emphasis on a green recovery.

The ability of cities to reinvent themselves is phenomenal. London has weathered crises, wars and pandemics, but has always managed to change course and come back stronger than ever. To do this there is a clear and urgent need for stronger co-ordination between the boroughs, the Greater London Authority and London 16 Business Improvement Districts.

Conclusion

London's communities and economy have been hit particularly hard by the coronavirus crisis. To play its part in the UK's economic, cultural and civic life, London needs a recovery programme – not at the expense of other parts of the UK, but alongside them. At a time when national government faces unprecedented challenges, it should give the UK's cities and regions the capacity to create their own recoveries.

Whilst the first quarter of this year is set to be dominated by the third lockdown, the advancing vaccine rollout allows the stage to be set from Q2 for the Government to return its focus to recovery. The Chancellor's budget on 3 March will set out plans for economic recovery more clearly – many businesses across London are looking for the substance behind the promises of recovery so that they can truly 'build back better' from the virus.

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