

Inequality and poverty in central London – what the future holds and what it means for policy

Final report

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About WPI Economics

WPI Economics is an economics, data insight and public policy consultancy that specialises in conducting research, analysis and modelling that makes an impact on important social and economic policy debates, such as health and wellbeing, poverty and the recovery from pandemic. We are driven by a desire to make a difference, both through the work we undertake and by taking our responsibilities as a business seriously. We work with a range of organisations – from FTSE 100/250 companies to SMEs and charities and Central and Local Government.

About Central London Forward

Central London Forward (CLF) is a partnership of the 12 central London local authorities. We cover Camden, City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

We work together with our member authorities and with other stakeholders to support inclusive and sustainable growth in central London; so that our economy thrives, and our residents benefit from the opportunities this creates. CLF supports coordination and collaboration across the sub-region, we conduct research and help shape policy development, and we manage large-scale employment and skills programmes in central London.

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EXECUTIVE SUMMARY

Our interim report presented new research on how the health and economic consequences of the pandemic have been worse for the individuals, groups and communities that were experiencing significant disadvantage before the pandemic.

This final report looks to the future; at the factors that will affect inequality and poverty in central London in the coming years, at the forces that will shape central London's labour market, and at the implications that these factors and forces have for public policy.

Why this matters – levelling up London for longer-term, UK-wide gain

The Government has set out an ambition to level up the country, by spreading opportunity and prosperity to all parts of the UK. While there is a shared desire to tackle regional inequalities across the UK, there is a concern that levelling up will mean resources diverted away from London to fund policies and programmes outside of London.

This would have obvious negatives for attempts to address the worst consequences of inequality and poverty in the capital.

It would also mean that the huge, long-term, country-wide opportunities that are available from levelling up London would not be taken – supporting London to maintain its globally competitive edge would in turn support growth, investment and living standards right across the UK.

Inequality and poverty in central London before and during the pandemic

It is people in central London who would suffer most from diverting resources to other parts of the country. These people who – as this research makes clear – have some of the worst life chances and worst life outcomes in the country, as the key messages from our analysis demonstrate.

Key message: Central London's economy is strong, but can leave many individuals, families and communities struggling to make ends meet

- Most central London boroughs had a lower proportion of disabled people in work than either London or England as a whole.
- More than 300,000 employee jobs (13% of the total) in central London boroughs are paid under the Living Wage.
- Close to six in ten people in poverty in Inner London¹ (58%) are living in a family where someone is in work.

The pandemic has had a huge impact on the labour market in central London, with a particularly stark impact on those facing disadvantage before the pandemic:

- There were around 110,000 fewer payrolled employees in February 2021 than there were in February 2020. These impacts were twice as large as the falls in payrolled employment seen across the UK.
- The unemployment benefit claimant rate increased to 11.7% in the neighbourhoods with the most ethnic minority residents, compared to only 4.4% in neighbourhoods with the least ethnic minority residents between December 2019 and December 2020.

¹ "Inner London" covers a slightly different geography to "central London" and is used here due to data availability

Key message: Overall health outcomes in central London are strong – but this masks significant variation between different groups

- Across central London, residents will, on average, spend 2.2 years longer living in poor health than the average person in the UK.
- Just over half (51%) of central London neighbourhoods are relatively deprived in terms of both income and health.

Overall, central London has seen disproportionately large health effects from the pandemic compared to other parts of the country and, as with the rest of the country, it has been those residents of central London who were most disadvantaged before the pandemic who have been hit hardest:

- For every 100 people to die from Covid-19 in the least deprived parts of London, 130 died in the most deprived.
- Neighbourhoods with higher proportions of Black residents had higher death rates than equivalent neighbourhoods.

Key message: Despite strong overall performance, the education and skills system in central London leaves some behind

Central London is home to extremes of both opportunities and challenges when it comes to skills and education:

- 65% of the working-age population in central London hold a qualification at degree-level or equivalent, compared to 43% in the UK as a whole.
- Before the pandemic 89.3% of working-age people in Inner London with a degree or equivalent were economically active, compared to only 43.2% of those with no formal qualifications, a lower rate than Outer London and the UK overall.

While it will take time to understand the full impact of the pandemic on education and skills, national data already shows some early indicators of the potential challenges.

- Between March 2020 and April 2021, pupils in England lost 110 days in the classroom (58% of the total).
- Those children in households the bottom 20% of incomes missed out on 60.9% of their learning in the first lockdown, compared to 47.5% for those in the top 20%, a gap of 13 percentage points.

Key message: Central London is home to significant levels of wealth, but this wealth is distributed unevenly across the population

- One-fifth (20%) of England's household wealth is held in the capital.
- Overall, across London, the wealthiest 10% of households hold 42.5% of the city's total net wealth. In contrast, the 30% least wealthy households hold just 1% of total net wealth.

The cost of housing and lack of housing wealth for many groups is a key driver of poverty and inequality in central London.

- In every borough in central London, accounting for housing costs more than doubles the child poverty rate.

- In 2020/21, 165 households per 10,000 in central London were found to be homeless by their local authority, compared to 142 in the whole of London and an average for England of 113.

The future of inequality and poverty in central London

It is clear that numerous factors can influence the future of inequality and poverty in central London. Major events (such as the 2008 financial crisis or the pandemic), the policy decisions of politicians and the pace of technological change are just some of many examples.

To provide an understanding of the likely course of poverty and inequality in central London, this report is based on extensive desk research, alongside consultations with a range of experts.

The consultation exercise looked at two topics:

- The lasting impacts of the pandemic on inequality and poverty in central London.
- The forces unrelated to the pandemic that will shape inequality and poverty in the coming decades.

Headlines of this research across a range of dimensions of inequality are set out in Table 1 below.

Table 1: Dimensions of inequality

Dimension of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
Health	<ul style="list-style-type: none"> • Long Covid. • Delayed / cancelled screenings, operations and procedures. • Health service staffing. 	<ul style="list-style-type: none"> • London’s higher case rates and lower vaccination rates. • Demographic, economic and social factors. 	<ul style="list-style-type: none"> • More policy focus on health. • The health and social care system. 	<ul style="list-style-type: none"> • Childhood obesity. • Impact of pollution on health.
Education and skills	<ul style="list-style-type: none"> • Disruption to education. • The skills to access work. • Increased university enrolment. 	<ul style="list-style-type: none"> • A disproportionate impact on ethnic minority children. • A more acute skills need. • A disproportionate impact on low-income families. 	<ul style="list-style-type: none"> • Skills demand. • Skills and employment funding being directed to other parts of the country. 	<ul style="list-style-type: none"> • Becoming globally skilled in existing industries. • The loss of human capital from Brexit.
Business leadership	<ul style="list-style-type: none"> • Distribution of business failure and recovery. 	<ul style="list-style-type: none"> • A unique business population. 	<ul style="list-style-type: none"> • Better management to drive productivity. 	<ul style="list-style-type: none"> • A unique business demography.
Wealth and housing	<ul style="list-style-type: none"> • Housing supply issues. • Changing patterns of where people live. 	<ul style="list-style-type: none"> • A more complex and expensive housing market. 	<ul style="list-style-type: none"> • Planning. 	<ul style="list-style-type: none"> • Local approach to development policy. • Housing demand.
Labour market	<ul style="list-style-type: none"> • Scarring effects (lasting impacts). • Reduced participation. 	<ul style="list-style-type: none"> • Particularly subdued demand. • Reduced international tourism 	<ul style="list-style-type: none"> • More flexible working. • Increased automation. • Transition to net zero. • Immigration policy. 	<ul style="list-style-type: none"> • More precarious employment. • Who can work from home.

Source: WPI Economics

The future of central London's labour market

The preceding table demonstrates that the future inequality and poverty outcomes in central London will be driven directly, or indirectly, through changes in the labour market.

In the short-term, the focus for central London's labour market is on recovery and adjustment to a post-pandemic world. At the time of writing, there is data available to suggest that this recovery and adjustment will be different in central London when compared to elsewhere in the country. Three examples are:

- **Job vacancies in London are recovering, but more weakly than in other regions.** As of January 2022, alongside the South East, London has the joint weakest recovery in job adverts of any other region.
- **Unemployment is consistently falling in central London, but from a higher baseline than in the rest of the country.** As rates have declined from a far higher starting position, the Claimant Count is still well above pre-pandemic levels in central London (78% greater), when compared to the rest of England (48% greater).
- **More precarious forms of employment have risen faster in London than they have in the rest of the UK.** In the two years since the start of the Covid-19 pandemic, the proportion of jobs that are zero-hour contracts has risen from 2.9% to 3.1% in London. In July-Sep 2021, there was a greater proportion of zero hour jobs in London than the rest of England (3.8% compared to 3.1%), bucking the long-term trend.

If the short-term focus is on post-pandemic recovery in central London's labour market, the longer-term is about ensuring that central London residents have the requisite skills to access jobs in new industries. Our modelling suggests that:

- A total of 422,440 jobs that exist now in central London are at a high risk of being automated by 2030.

But new jobs will replace those that are lost. For instance, previous WPI Economics analysis has found that transition to a low-carbon economy could mean that there are 505,000 green jobs in the capital by 2030 (a net increase of 50,000 jobs). In other words, the net increase in green jobs by 2030 could offset around 12% of the loss in jobs due to automation.

However, the forecast growth in green jobs perfectly highlights the skills mismatch between the jobs that are expected to be lost and those that are expected to grow, i.e. jobs lost to automation are likely to be low-skilled and new green jobs are likely to be high skilled.

This raises the question how the supply of labour will adjust to meet new job opportunities – and how it can ensure that these new job opportunities do not leave people behind. There are three interesting trends at play to suggest that there are competing forces when it comes to the supply of labour in London:

- **The impact of Brexit.** There are one million fewer EU nationals in employment in London in June 2021 than there were in June 2019, reaching the lowest level since December 2015.
- **More flexible working.** For instance, this could help households with parental responsibilities. In London, 42% of working age people living with dependent children live in a household where everyone works, much less than the 56% of working age people in households without

dependent children. But other groups may also benefit from flexible working, such as those with disabilities.

- **The take-up of apprenticeships.** Between 2016/17 and 2020/21 the number of people completing apprenticeships in central London boroughs declined by 32%.

Conclusions and recommendations

Central London went into the pandemic with a strong economy, but with high levels of inequality and poverty. The pandemic has hit central London hard, and across many areas it has exacerbated these pre-existing inequalities.

While the focus in the short term is on supporting central London's recovery, there is a risk that longer term trends – including technological change, automation and decarbonisation – will further deepen inequalities.

But these changes also offer significant opportunities. With the right skills and employment support provision, the green jobs and digital jobs of the industries of the future can be a source of mobility for those already disadvantaged and can be leveraged to address inequality and poverty.

The five policy areas below summarise key themes drawn from our interviews, research and analysis that, as part of a long-term commitment could drive inclusive growth, prosperity and levelling up both within and outside of central London:

- I. **Commit to levelling up central London.** Politicians and policymakers need to understand the scale of poverty and inequality in central London, and commit to tackling this. Doing so should be part of the Government's commitment to ensure that all parts of the UK can benefit from the covid recovery – there are communities, neighbourhoods and large parts of boroughs in central London as much in need of levelling up as anywhere in the UK. It should also be key part of ensuring that levelling up works nationally.
- II. **Protect funding for central London.** Tackling the inequalities highlighted above and ensuring that central London growth can contribute to levelling up across the UK, will require sufficient resourcing. In addition to addressing inequalities between regions, as part of the levelling up agenda government must ensure that there is sufficient resource to tackle inequalities within the capital.
- III. **Devolve employment and skills support to the capital.** The thing that binds the short term and medium term future is the need to invest in the education and skills of central London residents. Devolution of employment and skills support to local areas can help enable more effective services, which are better tailored to the needs of the local labour market and local communities.
- IV. **Devolution of revenue raising powers to central London.** Building on the findings of the London Finance Commission, UK Government should work with London Government to explore the potential for greater fiscal devolution, in order to give the capital the ability to raise more revenue locally.
- V. **Improve data collection and track progress in tackling inequality and poverty in central London.** As this report demonstrates, while there is enough data to demonstrate the scale of inequality and poverty in central London, there are still gaps in our knowledge that could be filled by better data collection. For example, the information on the gender

and ethnicity of SME business owners in London is limited. Working with ONS, London Government should explore how it could address gaps in data relating to inequalities with the capital. This would be directly relevant to the human capital that the Levelling Up White Paper references as a key factor in driving levelling up.

SECTION 1: BACKGROUND

Our interim report¹ presented new research on how the health and economic consequences of the pandemic have been worse for the individuals, groups and communities that were experiencing significant disadvantage before the pandemic.

A key finding was that many of the negative outcomes associated with the pandemic have been particularly acutely felt in central London; a place that is home to some of the best-paid jobs and most productive businesses in the country, but also to some of the most extreme examples of inequality and poverty.

The research focused on the period March 2020 - January 2021, covering the period of the strictest restrictions imposed by the Government in response to Covid-19 (at the time of writing).

This final report looks to the future: at the factors that will affect inequality and poverty in central London in the coming years, at the forces that will shape the central London's labour market, and at the implications that these factors and forces have for public policy.

Why this matters – levelling up London for longer-term, UK-wide gain

A key policy objective of the Government is to “level up” the country. The Government's recent white paper states that levelling up means improving productivity, boosting economic growth, encouraging innovation, creating good jobs and enhancing educational attainment in the economically poorer performing places of the UK. It has been said that these places have been ‘forgotten’ for many years, and now require greater investment in order to reach their potential.

The ambition of tackling stark regional inequalities across the UK is widely-shared. The concern is that levelling up will mean resources diverted away from London to fund policies and programmes outside of London. Indeed, this has already happened to some degree. Allocations from the Government's recent Levelling Up Fund and Community Renewal Fund have seen London receive a small share of funding relative to its size and levels of deprivation. With larger, and therefore more important, funding pots becoming available in the future – namely the replacement for EU expenditure through the UK Shared Prosperity Fund – and with an ongoing review of the funding formula for local authorities, the capital may find itself a lot worse-off.

This has obvious negatives for attempts to address the worst consequences of inequality and poverty in central London.

This would not be true to how levelling up was originally sold. No one would argue that it is a bad idea to try and improve average economic and social outcomes in worse-off areas so that they are closer to average economic and social outcomes in better-off areas. But it was suggested that this would not mean shifting resources to try and improve the lives of one group of disadvantaged people at the expense of another group of disadvantaged people. And particularly not at the expense of those people in central London, who – as this research makes clear – have some of the worst life chances and worst life outcomes in the country.

There are also huge long-term, country-wide opportunities to be taken from levelling up London. More people will be better skilled, healthier and wealthier, supporting London to maintain its globally competitive edge in a rapidly changing world. This can support and nurture growth, investment and living standards right across the UK – London is one of only three regions to make a net contribution to the Exchequer (for every person in London, the Government raises £4,000 more in revenue than it spends).

The rest of this report

Section 2 describes inequality and poverty in central London before and during the pandemic, summarising our interim report. It sets out the unique characteristics of central London, and measures the outcomes of central London residents in terms of the labour market, health, education and skills, business ownership and wealth and housing.

Section 3 describes the results of expert consultation and desk research to establish the factors that will influence the future of inequality and poverty in terms of the labour market, health, education and skills, business ownership and wealth and housing. It looks at these factors arising from the pandemic, where the last two years has created significant challenges for those already societally disadvantaged, and those economic and societal factors that exist regardless of the pandemic.

Section 4 takes a closer look at the short and long-term future of central London's labour market. It highlights the differences in recovery in the central London labour market compared to the rest of the country, and looks at how the central London labour market may be affected by new technologies and new jobs.

Section 5 describes the policy environment that is needed to “shift the dial” on inequality and poverty in central London, focusing on funding, employment programmes, fiscal devolution and data.

The key message of this final report and the interim report is that central London is economically and socially unique. The wealth that exists and is created in the capital should not distract from the fact that it is home to some of the most acute examples of inequality and poverty in the country – disadvantages that could become more entrenched given the pandemic and broader economic change. Given this, the public policy response to inequality and poverty in central London must also be unique, and there must be a shared focus across central Government and London Government to tackle inequalities in the capital.

SECTION 2: INEQUALITY AND POVERTY IN CENTRAL LONDON BEFORE AND DURING THE PANDEMIC

Why central London is unique

The demographic characteristics of central London are very different from the rest of the country:

- With 3.1 million residents, around a third of the 9 million Londoners reside in central London. This makes central London alone significantly larger than any other city outside of the capital in the UK.
- London's population is highly diverse. Across the UK, 86% of the UK population are White, this compares to 59.2% in London. Some boroughs have an even greater ethnic mix. For example, over half of residents in Tower Hamlets belong to an ethnic minority.
- Central London also has a relatively young population. 11.2% of people in central London are aged 20-34, compared to 6.6% in the UK as a whole. At 9.8%, the proportion of people in central London aged over 65 is just over half the UK rate of 18.6%.

Figure 1: Population of central London compared to London the UK



Source: ONS population estimates

The economy of central London is extremely successful in many ways, contributing significantly to the strength of the wider UK economy:

- The economic output of central London is £95,000 per resident, compared to £51,000 in London as a whole and £29,000 in the UK. However some of this output is generated by commuters into central London.
- For every person in London, the Government raises £4,000 more in revenue than it spends, more than any other region or nation of the UK. This makes London one of only three regions to make a net contribution to the Exchequer.

However, central London is also a place that has significant deprivation:

- 45% of neighbourhoods in central London are amongst the most deprived (top 30%) in England, more than the proportion of neighbourhoods in the rest of London (27%).
- If the same share of people in central London lived in deprived neighbourhoods as people in the rest of England, there would be 480,000 fewer central Londoners living in deprived neighbourhoods.

While central London's economy is strong, many individuals and communities struggle to access opportunities and to make ends meet

- The unemployment rate in central London was 4.3% before the pandemic compared to 3.8% in the country as a whole.

- Claimant rates varied from almost nothing to over 13% in neighbourhoods across central London before Covid.
- With concentrations of both very high earners and people in more poorly paying jobs, the earnings ratio (between the 20th and 80th percentiles of pay) ranged from 2.59 in Lewisham and Wandsworth to 3.02 in Westminster. Ratios in all boroughs were significantly higher than the England average of 2.08.
- More than 300,000 employee jobs (13% of the total) in central London boroughs are paid under the Living Wage Foundation Living Wage rate.

Alongside the prevalence of low pay, the high costs of living in central London means the sub-region faces high levels of poverty.

- In England, the average rent for a one-bedroom home is 30% of the average salary. In London, this jumps to 46% and in central London it is 54%.
- This is a significant driver of poverty rates amongst working families in Inner London.² Prior to the pandemic 22% of families were in poverty in Inner London, some 5 percentage points higher than the average across the rest of England (17%).
- Close to six in ten people in poverty in Inner London (58%) are living in a family where someone is in work.

The pandemic has had a huge impact on the labour market in central London.

- Across Inner London, employment levels fell by more than 6 percentage points between March 2020 and February 2021, meaning that there were around 110,000 fewer payrolled employees in February 2021 than there were in February 2020. These impacts were twice as large as the falls in payrolled employment seen across the UK.
- In January 2022 payrolled employment had only just recovered to the level seen before the pandemic, with just 16,100 more jobs compared to February 2020. In the UK as a whole, however, the number of payrolled employees had increased by over 1.5%.

And again, it is those areas and groups that struggled most before the pandemic who have been hit hardest.

- The unemployment benefit claimant rate increased to 11.7% in the neighbourhoods with the most ethnic minority residents, compared to only 4.4% in neighbourhoods with the least ethnic minority residents between December 2019 and December 2020.
- In Inner London, the economic activity rate of working-age people with no qualifications fell by 10.7 percentage points whilst the population with level 3 and level 4+ (A-level and degree equivalent) saw their economic activity rates *increase*.

The impacts would have been much greater without the support that central and local government provided, including through the furlough scheme and grants to businesses.

² “Inner London” covers a slightly different geography to “central London” and is used here due to data availability

Overall health outcomes are strong – but this masks significant variation between different groups

All CLF boroughs had a greater life expectancy for females than the UK average of 83.1 years, ranging from 83.4 years in Islington to 87.2 years in Westminster. However, these headline figures hide the deep inequalities:

- The gap between life expectancy across the least and most deprived neighbourhoods in Kensington and Chelsea stood at 14.8 years for males and 11.9 years for females, prior to the pandemic. This compares to gaps of 7.2 and 5.1 years in London as a whole, and 9.4 and 7.6 years in England as whole.
- Across central London, residents will, on average, spend 2.2 years longer living in poor health than the average person in the UK.
- The more income deprived a neighbourhood is, the more health-deprived it is. Just over half (51%) of central London neighbourhoods are relatively deprived in terms of both income and health.

The gulf between strong life expectancies and weak healthy life expectancies in central London is the consequence of a wide range of social, environmental and economic factors that impact on people's health. Key examples in London include air pollution, a lack of green space for some groups and communities and mixed experiences of poverty, deprivation and access to employment opportunities.

The pandemic has also had an impact. Overall, central London has seen disproportionately large health effects compared to other parts of the country and, as with the rest of the country, it has been those residents of central London who were most disadvantaged before the pandemic who have been hit hardest.

- Overall, age-standardised mortality (which allow us to more accurately compare mortality rates across areas with different age profiles) to April 2021 was 36% higher across central London than for England and Wales overall. In Tower Hamlets, age-standardised mortality rates were almost twice as high as in England and Wales overall.
- The most deprived fifth of neighbourhoods in London saw a death rate from Covid-19 some 30% higher than the least deprived neighbourhoods. Or put another way, for every 100 people to die in the least deprived parts of London, 130 died in the most deprived. While smaller sample sizes mean that estimates for central London come with a degree of uncertainty, they suggest that deprived neighbourhoods in central London boroughs faced even higher mortality rates.
- Neighbourhoods with higher proportions of Black residents had higher death rates than equivalent neighbourhoods. 1,000 more Black residents in a neighbourhood (of around 8,000 residents) will see 20 more covid deaths per 100,000 people. Looking to the future, we can also see risks surrounding vaccine take-up within central London. Only 71% of over 60s in the most deprived areas in central London were fully vaccinated (as at June 2021), compared with 87% in the most deprived areas in the rest of England and 94% of the least deprived areas in the rest of England.

Despite strong overall performance, the education and skills system in central London leaves some behind

Central London is home to extremes of both opportunities and challenges when it comes to skills and education:

- 65% of the working-age population in central London hold a qualification at degree-level or equivalent, compared to 43% in the UK as a whole. This helps drive London's high-skills economy.
- Before the pandemic 89.3% of working-age people in Inner London with a degree or equivalent were economically – being either in work or actively seeking work – compared to just 43.2% of those with no formal qualifications.
- Differences between Attainment 8 scores for students in the ethnic group with lowest average Attainment 8 scores and the average score are significantly higher in central London boroughs than for England overall. For example, scores for Black students in Wandsworth are 11.2% lower than the average level. In England overall, the gap is 2.6%.

While it will take time to understand the full impact of the pandemic on education and skills, national data already shows some early indicators of the potential challenges.

- Between March 2020 and April 2021, pupils in England lost 110 days in the classroom (58% of the total) and although online learning made up some of the difference, pupils still lost 61 days (32%) overall.
- Children in poorer households lost out on more classroom learning. Those in households the bottom 20% of incomes missed out on 60.9% of their learning in the first lockdown, compared to 47.5% for those in the top 20%, a gap of 13 percentage points.
- With many children in central London living in poverty and overcrowded accommodation, there were real challenges with a shift to home learning, where there was neither the space nor the resources to provide a suitable learning environment. Other challenges have included those households where English is not spoken as a first language, where parents have struggled to support children to maintain their education.

Overall, it is clear that education has been severely disrupted by Covid. The impacts are likely to have been felt most acutely by those who were already struggling to gain the skills they need to succeed in the labour market.

Central London has a more diverse population of business leaders than other parts of the UK, but there is still a significant under-representation of many groups

There is little data available on diversity of business leadership for central London. However, national evidence clearly highlights inequalities affecting women and ethnic minorities. These groups are underrepresented in business ownership / senior leadership and self-employment. While less comprehensive, the evidence also suggests that these groups experience inequality in outcomes, with women- and ethnic minority-led businesses recording poorer performance than other businesses.

- In the UK in 2020, only 16% of SME employers were ‘women-led’. A further 24% of SME employers were ‘equally-led’, with the same number of men and women on the management team.
- The national data on ethnicity and ownership and senior leadership of SMEs shows, like the national data on gender, underrepresentation. For instance, while around 14% of the population is estimated to be from an ethnic minority group, only 7% of SMEs are led by somebody who is from an ethnic minority group.
- Whilst still under-represented compared to the overall population, Minority and Ethnic Group (MEG)-led SMEs are more prominent in London than other parts of the country. Almost a fifth of SME employers (18%) in the capital were MEG-led in 2020, with the next largest figures being found in both West Midlands and the East of England at 8%.

There is also some early evidence of a mixed impact of the pandemic.

- The British Business Bank’s survey found that 70% of Black male business owners had to take drastic action to protect their business from the Covid-19 impact, compared to 52% of White male business owners and 46% of Asian and Other Ethnic Minority business owners.²
- The same survey found that 61% of those categorised as Asian and Other Ethnic Minorities had either paused all work on their business idea or permanently stopped. This was twice the figure of Black entrepreneurs and one and a half times the figure for White entrepreneurs.³

Central London is home to significant levels of wealth, but this wealth is distributed unevenly across the population

- One-fifth (20%) of England’s household wealth is held in the capital.
- Overall, across London, the wealthiest 10% of households hold 42.5% of the city’s total net wealth. In contrast, the 30% least wealthy households hold just 1% of total net wealth.
- For every £1 of wealth a London household at the 25th percentile in the wealth distribution holds, a London household at the 75th percentile holds around £22. This is by far the most unequal distribution of any region of England
- The disparity between White and non-White households and home ownership is lower in London (62% and 35%, respectively) than several other regions – the East Midlands (71% and 42%), the South East (72% and 45%) and the South West (71% and 40%).

The cost of housing and lack of housing wealth for many groups is a key driver of poverty and inequality in central London.

- In England, the inclusion of housing costs increased pre-pandemic poverty rates from 19% to 28%, in central London it increased poverty rates to 39%. In every borough in central London, accounting for housing costs more than doubles the child poverty rate.
- The cost of accommodation in central London is part of the reason why homelessness is much more prevalent in the sub-region than it is elsewhere in the capital and the country as a whole. In 2020/21, 165 households per 10,000 in central London were found to be homeless by their local authority, compared to 142 in the whole of London and an average for England of 113. Some boroughs, such as Southwark (254) and Lambeth (232) saw particularly high numbers of homeless households.
- Rough sleeping is the most extreme form of homelessness. Almost 7,000 people were known to outreach workers as sleeping rough in 2019/20 in central London. In 2020, 16 people in 10,000 were sleeping rough in central London, double the figure in England as a whole (8 in 10,000).

Overall, a lack of data means that it is hard to say what the impact of Covid-19 has been on wealth and housing in central London. What is clear is that there will have been mixed impacts. For some, the pandemic has created an enforced opportunity to save money, meaning that their net wealth would have increased. However, for others, the loss of jobs, furlough or reductions in hours and earnings have meant debt rising. As is the case with many of the impacts of the Covid-19 pandemic, it is likely that those most likely to see debt rising, rather than wealth increasing, are those that were already in the worst positions prior to the pandemic.

SECTION 3: THE FUTURE OF INEQUALITY AND POVERTY IN CENTRAL LONDON

Understanding how existing inequalities and the impacts of Covid-19 interact with changes in the economy, society and population in central London is vitally important. With this understanding, policymakers can look to shape policy responses to tackle issues before they arise, drive inclusive growth and rebalance some of the inequalities that have been present in central London for decades.

But doing so is a challenge. It is clear that numerous factors can influence the future of inequality and poverty in central London. Major events (such as the 2008 financial crisis or the pandemic), the policy decisions of politicians and the pace of technological change are just some of many examples.

Predicting the scale and nature of these changes, let alone their respective impacts on poverty and inequality is subject to a large degree of uncertainty.

To tackle this and provide an understanding of the likely course of poverty and inequality in central London, this report is based on extensive desk research, alongside consultations with a range of experts. The experts were largely drawn from London-based local government bodies, employer organisations, charities, think tanks, trade unions and research organisations. In addition, we spoke to contributors from organisations with a national perspective.

The consultation exercise looked at two topics:

- The lasting impacts of the pandemic on inequality and poverty in central London.
- The forces unrelated to the pandemic that will shape inequality and poverty in the coming decades.

Headlines of this research across a range of dimensions of inequality are set out in Table 2 below.

Table 2: The future of inequality and poverty in central London – results of expert consultation and desk research

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
Health	<ul style="list-style-type: none"> • Long Covid. Between 3% and 12% of people were estimated to have Long Covid in August 2021,⁴ falling to 2% by October.⁵ Although much is unknown about the condition, it could place long-term pressures on health and wellbeing. • The delay and cancellation of screenings, non-emergency operations and procedures. Undiagnosed conditions could threaten many peoples’ health and lead to further pressure for the health service. Between April 2020 and November 2021, there were 4.22 million fewer elective procedures and 29.14 million fewer outpatient attendances (compared to pre-covid averages).⁶ • Health service staffing. The pandemic has exacerbated pre-existing staffing challenges within the health 	<ul style="list-style-type: none"> • London’s case and vaccination rates. With higher case rates and fewer people vaccinated than in much of the country, London may experience more issues with Long Covid (although there is no conclusive data on this point). At the end of 2021, less than one in five eligible Londoners were yet to have a first vaccine.⁸ • Demographic, economic and social factors. These factors made central London more vulnerable to the 2020 and 2021 waves of Covid-19. They will continue to make it more susceptible to emergent variants and new diseases than other places. 	<ul style="list-style-type: none"> • More policy focus on health. Covid-19 has focused attention on the wider determinants of health, with several reviews and a talk of action and investment from a range of public bodies. If this action and investment takes place and is successfully executed, it has the potential to significantly improve health. • The health and social care system. Demand in the system is continuing to increase as society ages. Even with the Health and Social Care Levy these pressures are unlikely to be fully met, leading to a health system constantly under pressure. 	<ul style="list-style-type: none"> • Impact of pollution on health. London has the highest number of residents estimated to have died due to pollution than any other city in the UK.⁹ • Childhood obesity. In 2019/20, around a quarter (23.2%) of children in Year 6 were considered obese in London, compared to 20.2% in England.¹⁰

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
	<p>system. The continued shortfall of qualified staff could hamper the ability of the health service to recover from the pandemic and serve people’s need in the future. The number of NHS staff off work due to Covid-19 rose by almost 60% in the first week of 2022.⁷</p>			
Education and skills	<ul style="list-style-type: none"> • Disruption to education. This has affected pupils of all ages, leading to either worse outcomes or the need for significant remedial intervention. Early pandemic research shows that the gap between some pupils and their wealthy peers widened by 46% in the first school year affected by Covid-19.¹¹ • The skills to access work. The recovery from the pandemic is likely to require workers with a different set of skills, including greater adaptability, digital literacy and resilience. 	<ul style="list-style-type: none"> • A disproportionate impact on ethnic minority children. Children from ethnic minority backgrounds have been more likely to have their education disrupted by Covid-19. With a much higher proportion of people from an ethnic minority, this means many more students in London will have faced disruption than elsewhere. • A more acute skills need. Central London already had a more high-skilled and service-based economy, meaning that the need for a new post-pandemic skill mix will be greater in the capital. 	<ul style="list-style-type: none"> • Skills demand. The demand for skills is going to change as the result of automation, technological change and the transition to net zero. This is both positive and negative – some jobs will be destroyed, while others will be created (see next section for our estimates of this impact). 	<ul style="list-style-type: none"> • Becoming globally skilled in existing industries. For instance, London has the potential to build on its existing strengths and develop a particular niche in green finance. More generally, WPI Economics has projected that there could be a net increase in green jobs of 505,000 in the capital by 2050.¹⁴ • The loss of human capital from Brexit. Continued uncertainty caused by Brexit, particularly to financial

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
	<ul style="list-style-type: none"> Increased university enrolment. Both as a result of the pandemic and pre-pandemic trends – more people are going to university, meaning that future generations of workers are likely to be more highly qualified. Applications by UK residents were up 2.1% in 2020 and 5.1% in 2021.¹² 	<ul style="list-style-type: none"> A disproportionate impact on low-income families. Because of lack of digital assets / connectivity and / or literacy amongst parents who have been less able to support children with home learning. 51% of households earning between £6,000-10,000 had home internet access compared with 99% of households with an income over £40,001.¹³ 		<p>services, poses challenges to some of the most high-skilled sectors in the capital. Research suggests that more than 440 firms in banking and finance moved or are moving part of their business from the UK to the EU.¹⁵</p>
Business leadership	<ul style="list-style-type: none"> The distribution of failure and recovery. With some evidence that Black and Asian business owners suffered from worse pandemic effects than White business owners, there is a likelihood these businesses will be at greater risk of failure and take longer to recover. 61% of Asian and other minority-owned enterprises had paused or permanently stopped work because of Covid-19. The figure was 	<ul style="list-style-type: none"> A unique business population. Minority and Ethnic Group (MEG)-led SMEs are most common in London (16%) compared to other parts of the country (for example in the North East and South West they comprise of 1% of businesses).¹⁷ 	<ul style="list-style-type: none"> Better management to drive productivity. SMEs in the UK are less likely to use formal management practices and internationally the UK is ranked only 5th in the G7.¹⁸ 	<ul style="list-style-type: none"> A unique business demography. London has more businesses per resident than any other part of the country.¹⁹

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
	one and a half times that for a White-owned business. ¹⁶			
Wealth and housing	<ul style="list-style-type: none"> • Housing supply issues. Shelter estimates that the impact of the pandemic on the construction industry and economy more widely might lead to 300,000 fewer homes being built over the next five years, exacerbating the shortfall of housing. • Changing patterns of where people live. The pandemic saw some people move away from city centres in favour of more suburban and countryside locations. It is unclear how permanent those trends will be as fewer people work from home. The number of homes bought by Londoners outside the capital increased by 62% compared with 2020.²⁰ 	<ul style="list-style-type: none"> • A more complex and expensive housing market. Housing needs are even more acute in central London and building is more complex and expensive. Any slowdown in house building is likely to be disproportionately bad for central London. 	<ul style="list-style-type: none"> • Planning. The Government is set to reveal a new planning framework, but it is unclear where this will put emphasis on new homes. 	<ul style="list-style-type: none"> • Local approach to development policy. The 2021 London Plan has a target for nearly 200,000 homes to be built in central London (and the adjoining Olympic Legacy special development areas) over the next 10 years with a goal for 50% of new homes to be genuinely affordable. • Housing demand. London was the city most affected by the “race for space”. The degree to which demand returns to the London housing market will play a large role in housing outcomes for people in central London. According to a survey by PwC, in London 29% of people

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
				are less likely to buy a property. ²¹
Labour market	<ul style="list-style-type: none"> • Scarring effects. Periods of unemployment can have long-term scarring impacts – particularly for young people – leading to lower employment rates and earnings in the future. The Office for Budget Responsibility has already significantly revised down its estimates of unemployment scarring. Economists forecast the unemployment rate to drop in early 2022 to just under 4% (returning to pre pandemic levels).²² • Reduced participation. Older workers potentially retiring earlier (1.3 million people plan to retire early due to the pandemic)²³ or suffering longer-term health consequences arising from the pandemic (although higher rates of 	<ul style="list-style-type: none"> • Particularly subdued demand. There is evidence to suggest that demand in the central London economy is recovering more slowly than in other areas. For instance, At the beginning of November 2021, the number of seated diners in London was still 11% below pre-pandemic levels, whereas the figures for the UK as a whole had recovered to well above pre-pandemic levels. Transactions at sandwich chain, Pret a Manger, were still below pre-pandemic levels for London’s city workers, whereas London’s suburban areas have seen significant growth. Travel on public transport in central London boroughs is still down on pre-pandemic levels, although the weekends have recovered faster than weekdays. • Unemployment related to ethnic minorities. Young Black people were three times (41.6%) 	<ul style="list-style-type: none"> • More flexible working. The change in business operations, and greater adoption of technology, arising from the last two years may mean more businesses adopting flexible working practices. This could mean more opportunities for parents to enter the labour force. Of working adults currently homeworking, 85% wanted to use a “hybrid” approach of both home and office working in the future.²⁶ • Increased automation. In 2017, the ONS found that out of the 19.9 million jobs analysed in England, 7.4% (1.5 million) people were employed in jobs at high risk of automation.²⁷ • Transition to net zero. Previous WPI Economics research has estimated that the total number 	<ul style="list-style-type: none"> • More precarious employment. The upward trend in precarious employment seems to be more pronounced in London. Over on fifth (21%) of the capital’s working age population perform gigs in the gig economy regularly.²⁹ • Who can work from home. Generally, it is those with higher levels of education and higher earnings who are more likely to be able to work from home. Chief executives and senior officials are among the most able to work remotely. Lower paid customer-facing roles in the service sector are less likely to be able to be done from home.³⁰

Type of inequality	The lasting impact of pandemic		Other considerations for the future	
	UK factors	London-specific factors	UK factors	London-specific factors
	home working may mean greater labour market participation). ²⁴	more likely to be unemployed than young White people. ²⁵	of green jobs projected under the central scenario rises from 234,000 in 2020, to 505,000 in 2030 and then a little over 1 million in 2050. ²⁸ <ul style="list-style-type: none"> • Immigration policy. 	

SECTION 4: THE FUTURE OF CENTRAL LONDON'S LABOUR MARKET

Many of the inequality and poverty impacts central London is likely to see will be driven directly, or indirectly, through changes in the labour market. This is also the area where most data already exists and where most research has been conducted.

This section uses that data and research to provide insights into the future of central London's labour market and how this might impact on poverty and inequality. Overall, it is clear that central London's economy offers significant opportunities for those with the skills that are in demand in the capital.

Within this context, this section contains an analysis of:

- The short-term future for central London's labour market, focused upon pandemic recovery.
- The long-term future for central London's labour market, focused on economic change.

Central London's labour market in the short-term – recovery from the pandemic

The people who experienced poorer labour market outcomes before the pandemic – such as insecure work, low pay and unemployment – have been more likely to experience negative labour market impacts during the pandemic.

The stronger the labour market recovery in central London, the sooner there will be more opportunity for residents that have experienced the worst economic consequences arising from Covid-19.

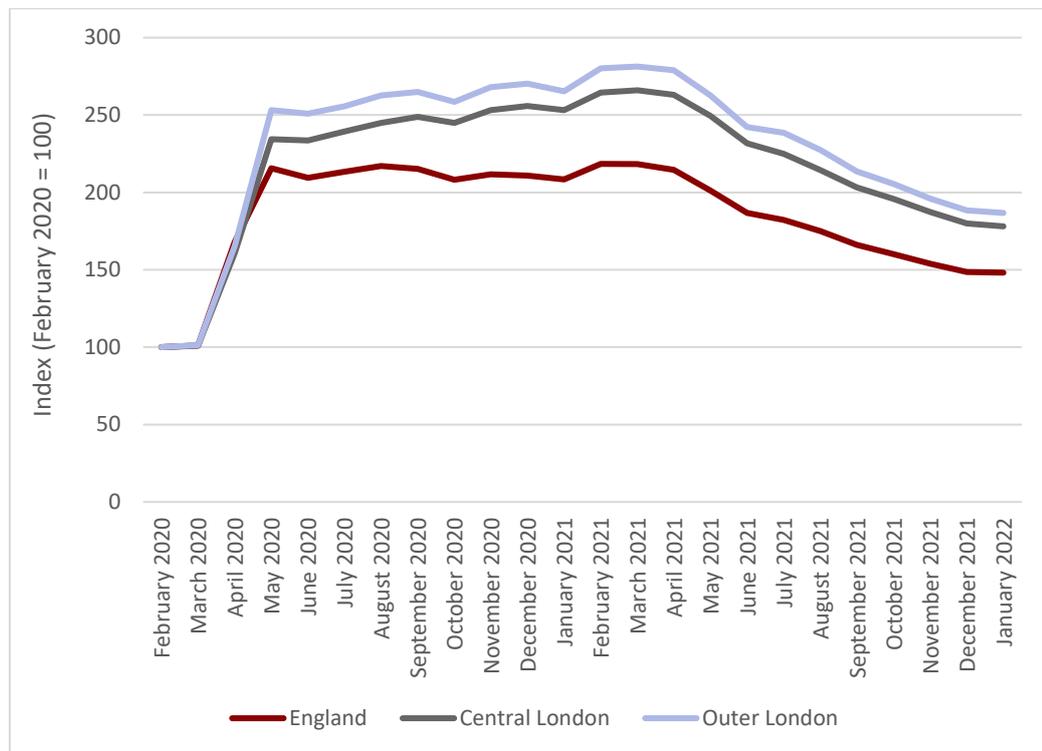
At the time of writing (February 2022) the recovery in London's labour market was continuing, but with some way to go before the recovery can be regarded as complete. Just as the interim report demonstrated that central London's labour market had unique characteristics before and during the pandemic, the recovery has unique characteristics too. The following are three examples:

- I. **Job vacancies in London are recovering, but more weakly than in other regions.** When our interim report was published in October 2021, data provided by Adzuna, an online job search engine, showed that London had the weakest recovery in job adverts of any English region or home nation (comparing advert levels to February 2020). Four months later - in the middle of February 2022 – London had the second weakest recovery of any English Region or home nation ahead of the South East.³¹
- II. **Unemployment is consistently falling in central London, but from a higher baseline than in the rest of the country.** The Claimant Count in central London – representing those people claiming Jobseeker's Allowance and those people claiming Universal Credit due to unemployment – steadily fell between March 2021 (following the end of lockdown restrictions) and December 2021 (the latest available data). The headline picture is that, at present, Claimant Count rates in central London boroughs have to roughly halve from their current position to get back to where they were in February 2020.

In most central London boroughs the reduction in Claimant Count rates has broadly been in line with the reduction in the Claimant Count rate across England (with Camden seeing a much lower reduction and the City of London seeing an increase). However, the Claimant Count peaked in both central and outer London in March 2021, whereas it peaked for the rest of England in May 2020, ten months earlier. As rates have declined from a far higher starting position, the Claimant Count is still well above pre-pandemic levels in central

London (78% greater), when compared to the rest of England (48% greater). This can be seen in Figure 2, below.

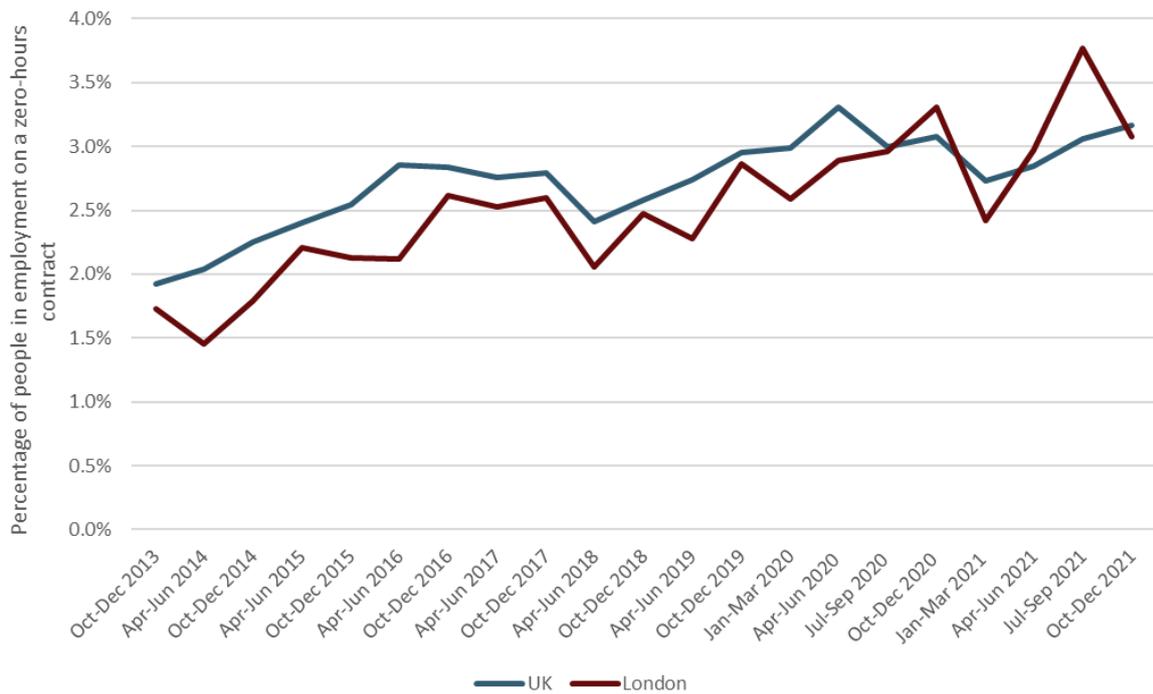
Figure 2: Index of Claimant Count (to January 2022)



Source: Annual Population Survey

III. More precarious forms of employment have risen faster in London than they have in the rest of the UK. Between Oct-Dec 2019 and Oct-Dec 2021, both London and the UK saw an increase in the number of zero hours contracts of around 7%, with a slightly faster increase in London. Before the pandemic, there had already been a trend of rising zero hour contracts in the UK, with the percentage of people in employment on zero hours contracts rising from 1.7% in 2013 to around 3.0% today. But over the course of the pandemic, London overtook the UK in terms of the proportion of people in employment on zero hours contracts (see Figure 3, below). The increase may relate to a number of factors. It could in part be due to the re-opening of sectors such as hospitality which tend to employ a higher proportion of workers on zero hours contracts. It could also be due to employers facing higher levels of uncertainty of future demand.

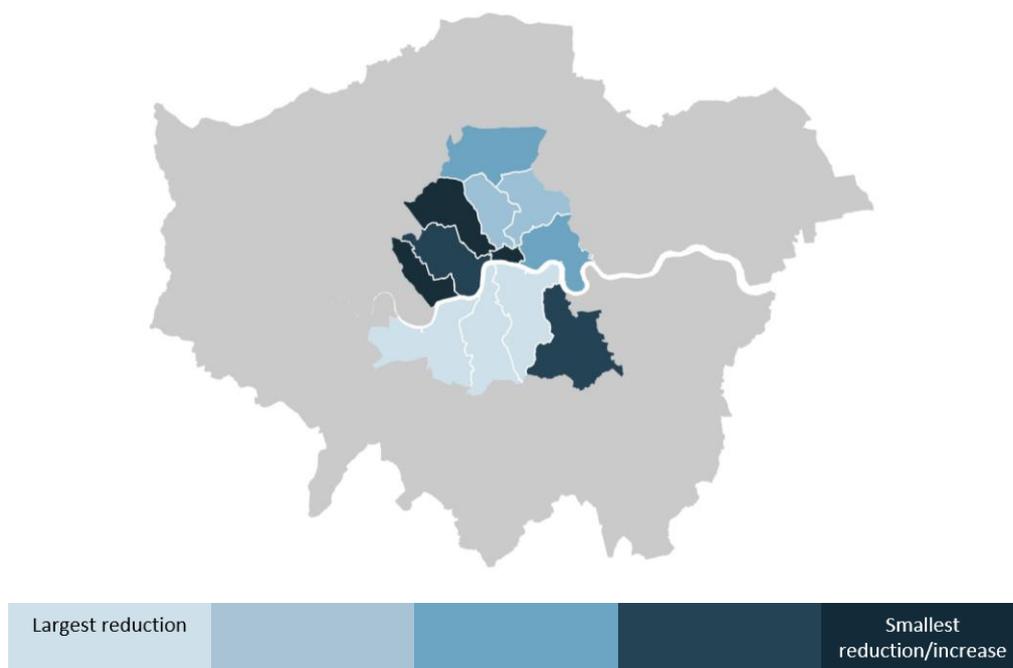
Figure 3: Zero hours contracts in the UK



Source: Labour Force Survey

While these three differences between London and the rest of the country are notable, there are also differences within London as well. The Claimant Count has been dropping at different rates across central London boroughs, ranging from an average month-on-month reduction of 3.7% in Camden to an average month-on-month reduction of 4.7% in Wandsworth (see Figure 4, below).

Figure 4: Average month-on-month reduction in Claimant Count March 2021-January 2022, by London borough



These differential rates of reduction – and the severity of the increase in unemployment benefit claims – have obvious implications for how many unemployed people there are in different boroughs.

We performed an analysis to look at three scenarios for when central London boroughs could expect to see the people on unemployment benefit claims back to pre-pandemic levels. On current trends, Southwark’s Claimant Count rate would drop to pre-pandemic levels in November 2022. Tower Hamlets would not see the Claimant Count Rate drop back to pre-pandemic levels until April 2023.

Table 3: Modelled claimant count levels by central London borough

	Projected date by which claimant count rate will return to pre-pandemic rate³
Camden	Apr-23
Hackney	Sep-22
Haringey	Apr-23
Islington	Sep-22
Kensington and Chelsea	Jan-23
Lambeth	Sep-22
Lewisham	Oct-22
Southwark	Aug-22
Tower Hamlets	Dec-22
Wandsworth	Nov-22
Westminster	May-23

Source: Annual Population Survey

It is also worth highlighting that the labour market outcomes of certain groups of people in London have been affected more severely than others. Outcomes related to age are of particular note. For the latest available data – up to September 2021 – there were 46% fewer 16-17 year olds in employment in London than there were in the year to March 2020 (before the pandemic started). Employment rates for those aged 18-34 and 50-64 had not yet recovered to pre-pandemic levels. Employment rates for those aged 65+ were higher than pre-pandemic.³²

Moreover, there is expected to be some level of “scarring” on the labour market, which could manifest itself in the numbers of long-term unemployed or on reduced wage rates. Estimates of scarring arising from the pandemic – such as those produced by the Office for Budget Responsibility – have changed significantly since the start of the pandemic. Given the rapidly changing nature of estimating these longer-term scarring effects, there is little value in looking in detail at them in this report. However, it is significantly relevant as it would be expected that those groups that already experienced labour market disadvantage would be those that would bear the brunt of scarring effects.

Central London’s labour market in the longer-term – adapting to a changing world

The short-term focus is on post-pandemic recovery in central London’s labour market. However, the longer-term is about ensuring that residents of central London will have the requisite skills to adapt to a rapidly changing economy, and to access jobs that will be created in new industries.

³ City of London has not been included in the analysis because of small amount of data.

There are a number of significant trends that will shape the economy and the demand for labour and skills.

One such trend is automation, which the ONS describes as:³³

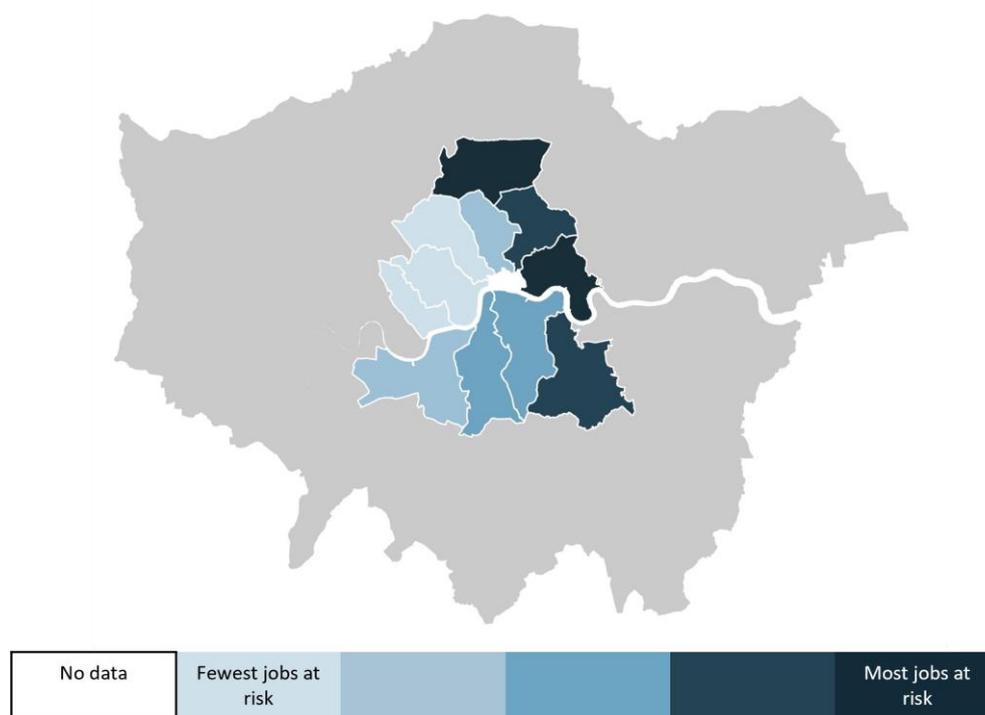
“...replacing tasks currently done by workers with technology, which could include computer programs, algorithms, or even robots.”

Several studies have highlighted the potential scale of job losses to automation in the UK in the coming years. Our modelling assessed the number of jobs in central London’s boroughs that could be automated away in the future.⁴ We looked specifically at those occupations that have the highest risk of being automated – those occupational groups that are assessed by the ONS as being made up of jobs that have a greater than 50% chance of being automated. On our central scenario, we found that:

- A total of 422,440 jobs that exist now in central London are at a high risk of being automated by 2030.
- 55.4% of these jobs are held by females.
- The jobs most at risk from automation see a high proportion occupied by ethnic minorities. For example, 81% of people aged 16+ in Camden who work in jobs categorised as “process, plant & machine operatives” are from an ethnic minority.

As ever, the jobs most at risk vary significantly at a borough level. Figure 5 shows the distribution of these jobs across central London – where more jobs are at risk in the East of central London than in the West.

Figure 5: Jobs at risk in central London



Source: WPI Economics modelling

⁴ A full methodology is included as an annex to this report.

But there will be new jobs that replace the jobs that will be lost.

For instance, previous WPI Economics analysis has found that the transition to net zero is likely to lead to a rapid growth in the number of green jobs in central London in the coming years. By 2030, the number of green jobs in central London is likely to increase from 147,000 to 505,000.³⁴ While there are likely to be a large number of jobs lost in carbon-intensive industries, the research found that the transition to net zero is likely to be a net contributor to jobs in central London, with 50,000 more jobs created than destroyed by 2030. In other words, the net increase in green jobs could offset around 12% of the loss in jobs due to automation.

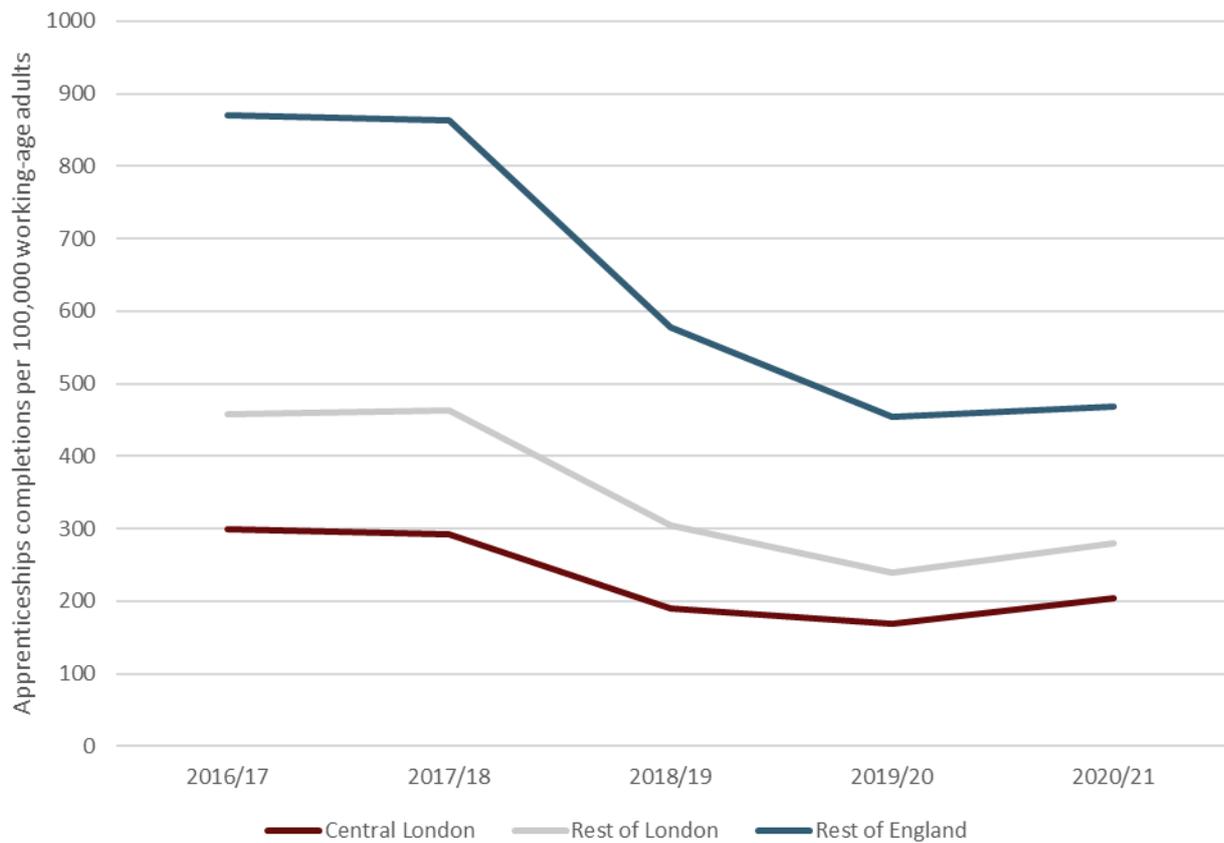
However, the forecast growth in green jobs perfectly highlights the skills mismatch between the jobs that are expected to be lost and those that are expected to grow. The jobs estimated to be lost to automation are predicted to be overwhelmingly low-skilled jobs – those holding maximum qualifications levels of A-level or above. However, the green jobs that are likely to be created a disproportionately likely to require higher education qualifications.

This raises the question how the supply of labour will adjust to meet new job opportunities – and how to ensure a just transition, in which changes in the economy and new job opportunities do not leave people behind. As part of the expert engagement for this research, we asked what should be considered in terms of finding the labour to fill new job opportunities. Three interesting trends came up to suggest that there are competing forces when it comes to the supply of labour in London:

- **The impact of Brexit.** UK nationals now make up the highest proportion of people in employment in London since June 2015. Indeed, there are 1 million fewer EU nationals in employment in London in June 2021 than there were in June 2019, reaching the lowest level since December 2015. Some of this fall is likely to be pandemic-related, with some of it being related to the end of freedom of movement after Brexit. If these effects are the main cause of fewer EU nationals in London, they have not happened to the same extent in the rest of the country. EU nationals employed in London currently account for the lowest ever share (since 2007) of EU nationals employed in the UK at 44.7%. While the particular skillsets of this group of 1 million are not known, if even a small percentage were higher-skilled, the jobs they have left need to be filled.
- **More flexible working.** One of the expert contributors to this research suggested that flexible working opportunities may increase as a result of the pandemic, with greater adoption of remote working by companies. This could help households with parental responsibilities in particular. Again, London has a different picture to the rest of the country when looking at the employment rates of households with dependent children. In London, 42% of working age people living with dependent children live in a household where everyone works, much less than the 56% of working age people in households without dependent children. This trend is more extreme in London than in the UK as a whole – in the rest of the UK 52% of working age people in households with dependent children are in fully-working households. Of course, we know this flexibility would only apply to certain occupations, and again may only be open to those with higher levels of qualifications and therefore not contribute to reducing poverty and inequality in London.
- **The take-up of apprenticeships.** Between 2016/17 and 2020/21, the number of people completing apprenticeships in central London boroughs declined by 32%. This decline is less than England as a whole, which is 46%. More generally, London – both central and outer –

has seen relatively fewer apprenticeship completions than the rest of the UK. See Figure 5, below.

Figure 5: Apprenticeship completions pre 100,000 adults, 2016/17 to 2020/21



Source: WPI Economics analysis of Department for Education Apprenticeship and Traineeship data and ONS mid-year population data

SECTION 5: CONCLUSION AND RECOMMENDATIONS

Central London is in a unique position when it comes to inequality and poverty. While central London has a strong and dynamic economy, on numerous measures it has worse outcomes than the rest of the country. As well as the human cost of this, the economy of London and the UK also suffer.

What's more, the pandemic has hit central London hard, and across many areas it has exacerbated pre-existing inequalities. Again, these challenges are often specific to – or more acute – in the boroughs of central London.

In the short-term, even getting back to the place that central London was at before the pandemic is a big task. The central London labour market may be recovering, but we know that some of those that fell out of work during the pandemic will struggle to return to decent employment as the economy recovers, and we also know that the recovery could easily be derailed by another twist in the pandemic.

The longer-term future also presents challenges for central London – the labour market is likely to change rapidly as a result of technological change, automation and decarbonisation. There is a risk that this could deepen inequalities, and require a focus on certain groups. But this should also be seen as a significant opportunity. With the right skills and employment support provision, the green jobs and digital jobs of the industries of the future can be a source of mobility for those already disadvantaged and can be leveraged to address inequality and poverty.

This means that improving the skills and employability of residents in central London therefore, is a clear route for improving their life outcomes, and must be a key area of focus in order to tackle inequality and poverty post-pandemic. It is also clear that skills policy is not straightforward – understanding what skills central London's dynamic labour market requires is constantly evolving.

If these opportunities are to be grasped, work needs to start now. This will require an active partnership between central government and London government.

The five policy areas below summarise key themes drawn from our interviews, research and analysis that, as part of a long-term commitment could drive inclusive growth, prosperity and levelling up both within and outside of central London:

- I. **Commit to levelling up central London.** Politicians and policymakers need to understand and commit to tackling poverty and inequality within central London. Doing so should be part of the Government's commitment to ensure that all parts of the UK can benefit from the covid recovery – there are communities, neighbourhoods and large parts of boroughs in central London as much in need of levelling up as anywhere in the UK. It should also be key part of ensuring that levelling up works nationally. The economic growth and Exchequer contributions associated with a prosperous central London will be vital in supporting all parts of the UK.
- II. **Protect funding for central London.** Tackling the inequalities highlighted above and ensuring that central London growth can contribute to levelling up across the UK, will require sufficient resourcing. Central London faces two headwinds in this regard. First, local authorities in central London have seen significant reductions in real terms funding from central government over the last decade. The most recent local government funding settlement does provide real terms increase in funding, but this does not reverse the cuts seen over the last decade. There is also uncertainty over local government funding in the

coming years, due in part to planned changes to grant allocation as part of the Fair Funding Review. Second, central London may also see a reduction in funding for employment and skills services when EU structural funds are replaced by the UK Shared Prosperity Fund, and when Adult Education Budget allocations are reviewed. In addition to addressing inequalities between regions, as part of the levelling up agenda Government must ensure that there is sufficient resource to tackle inequalities within the capital.

- III. Devolve employment and skills support to the capital.** The thing that binds the short-term and medium-term future is the need to invest in the education and skills of central London residents. Devolution of employment and skills support to local areas can help enable more effective services, which are better tailored to the needs of the local labour market and local communities. Building on the devolution of the Adult Education Budget and the Work and Health Programme to London, Government should explore the potential for further devolution to London government.
- IV. Devolution of revenue raising powers to central London.** At present, London boroughs and the Mayor of London have limited revenue raising powers beyond council tax. Building on the findings of the London Finance Commission, Government should work with London government to explore the potential for greater fiscal devolution, in order to give the capital the ability to raise more revenue locally. These revenue sources could take many different forms, from the devolution of Vehicle Excise Duty, greater flexibility over council tax, and tourist levies.
- V. Improve data collection and track progress in tackling inequality and poverty in central London.** As this report demonstrates, while there is enough data to demonstrate the scale of inequality and poverty in central London, there are still gaps in our knowledge that could be filled by better data collection. For example, the information on the gender and ethnicity of SME business owners in London is limited. Working with ONS, London government should explore how it could address gaps in data relating to inequalities with the capital. This would also enable London government to track progress in tackling poverty and inequality over time in the capital. This would be directly relevant to the human capital that the Levelling Up White Paper references as a key factor in driving levelling up.

Annex I – Methodology

The methodology for the modelling of automated jobs uses the following approach:

1. Takes the employment rate by London borough from before the pandemic (the end of 2019).
2. Applies this employment rate to population projections to London boroughs in future years.
3. Takes the current labour market occupational split of borough residents and applies it to future years, providing a baseline and answering the question: if the borough-level pre-pandemic baseline were the same in the future as it were today, what would that mean for occupational mix and employment numbers?
4. An assumption about the occupations most at risk from automation is then applied to the occupations within each borough – with the most at risk occupations taken from analysis performed by the ONS.
5. Annual population survey data on ethnic minority occupational mix is applied too.

Endnotes

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