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Economic Analysis: London & Partners Business Areas

**Summary Report
January 2012**

Background

London & Partners is London's official promotional organisation

1. London & Partners is the official promotional organisation for London. The company attracts and delivers value to business, students and visitors. London & Partners is a not-for-profit public private partnership, funded by the Mayor of London and its network of commercial partners.

Regeneris Consulting have undertaken an extensive review of existing research on the economic impact of London & Partners and its predecessor agencies

2. In October 2011 Regeneris Consulting was appointed by London & Partners to carry out an economic analysis of its five core business areas – leisure and business tourism, major events, foreign inward investment and higher education - to address the following questions:

- What is the potential benefit to the London economy from increasing certain types of activity?
- Are there good reasons for publicly-funded intervention?
- Can London & Partners make a difference in a cost effective way to what would have happened anyway?
- Are there other organisations better placed than London & Partners to make the intervention?
- What are the implications for the future focus of London & Partners?

3. The work reviewed a number of existing studies and data sources relevant to these questions at the national level, from other regions and from London itself. From these sources Regeneris derived a number of estimates of the incremental contributions to the London economy each of the five main business areas could potentially make to increased economic activity, measured by incremental Gross Value Added (GVA).

Our analysis suggests the scale of economic activities influenced by London & Partners are in some instances very large and significant components of the London economy

4. From existing evidence on the impact of historic interventions we have estimated the scale of additional activity required in each business area to boost GVA by £5m and £20m (see Table 1 below).
5. For example, attracting a further 24,000 leisure tourists from overseas to the capital could boost GVA by £5 million (see Table 1 below). The same economic outcome might also be achieved by attracting a further 12,000 to 16,000 international business tourists or just 130 additional overseas students given the length of time they will spend living in London and studying at its Higher Education Institutions.
6. However, it is important to emphasise that this analysis does not predict the actual scale of impacts that can be achieved by London & Partners with its resources.

Table 1: Summary of Incremental Contributions to the London Economy				
Business Area	Scale of Additional Activity needed for one off increase direct GVA to the London economy			
	Type of activity	£5m of extra GVA	£20m of extra GVA	Notes
Leisure tourism	Extra international leisure tourist visits	24,000	97,000	• Assumes 2010 average spend per visit for London (Source: IPS)
Business tourism	Extra average international business tourist visits	12,000 - 16,000	50,000 - 66,000	• Assumes 2010 average spend per visit for London (Source: IPS)
	Extra international business delegates	6,000- 8,000	23,000 - 30,000	• Assume £410/night av. for international association
	Extra 1,000 delegate international association-type event	6 - 8	23 - 30	• As above, but assuming 1,000 delegates
Major events	Number of major cultural events, with 50% non-Londoners	8	30	• Assume £88/day spend, 20,000 visitor/ participants, 2 nights
	Number of major sporting events, with 50% non-Londoners	11	43	• Assume £62/day spend, 20,000 visitor/ participants, 2 nights
FDI	Extra forecast Year 3 jobs in: ICT sector	30	130	• Assumes 23% displacement and applies the past ratio of actual to forecast year 3 jobs. Assumes 5 year persistence of GVA impacts
	Food & Drink sector	100	390	
Higher education	Number of additional undergraduate students	130	520	• Includes fees, living and impact of visitors. Assumes 3 year stay
	Number of additional post-graduate students	390	1560	• Includes fees, living and impact of visitors. Assumes 1 year stay

Source: Regeneris Consulting estimates. **Note:** these estimates exclude any multiplier effects (indirect and induced GVA effects); they also exclude any potential crowding out effects.

There are strong economic arguments in support of publicly funded interventions to promote London and for the provision of impartial information to visitors, students and investors

- The report highlights some strong economic arguments in support of public sector intervention in the five business areas of the organisation due to potential coordination failures, externalities and information asymmetries. Tackling these market failures will help London maximise the potential to grow its visitor economy and inward investment. There is a strong competitive challenge faced by the capital from new and established city destinations and their publicly supported destination marketing organisations.
- For example, in London the number and diversity of organisations in the tourist industry makes coordination of destination marketing difficult to achieve. It is also impossible to exclude individual businesses that do not participate from enjoying the benefits of destination marketing. In turn, the vast array of separate promotions to sell goods and services may make it difficult for would be visitors to search through the relevant information they need to compare destinations and facilities, access their value for money and plan their trips accordingly. If so this will hold back tourist and student numbers.

9. Without intervention, therefore, private sector resources devoted to the provision of coordinated destination marketing and impartial, city-wide information for visitors and businesses are likely to be less than optimal to exploit the economic opportunities they can provide.

But historic evidence on the influence and overall economic impact of publicly funded interventions is lacking

10. The reports finds the evidence of influence on visitor, student and investor decisions and overall economic impact from London & Partners' predecessor agencies and other publicly funded marketing and economic development organisations is patchy. Measurement approaches within and across different activities and business areas have also differed widely. As such, while the available evidence does provide some guidance for the future focus of the organisation (see below) it is at present not sufficiently robust to say definitively that London & Partners could make a greater overall contribution to London's economy by investing more or less of its resources in any given business area.

Going forward, London & Partners needs to rigorously measure and demonstrate the economic value added by its activities

11. A key implication of our findings is the need for London & Partners going forward to ensure that it is better able to measure and monitor its influence and impact following a rigorous and common methodology across all its business areas to support its decision making. This is already recognised and work is already underway within London & Partners to develop and implement a new and rigorous performance monitoring and evaluation system.

Leisure tourism

- ***London is most by far the most visited city in the UK.*** International tourists contribute £6.5bn or 80% of total visitor spending in London. In turn this supports around £3bn of direct GVA in each year. London is both the main gateway to the UK and also has by far the largest concentrations of visitor attractions. London accounts for well over half of all international tourism spend in the UK.
- ***There is a good economic case for the public sector in the UK to invest in attracting extra visitors to London.*** There are clear market failure arguments as to why this would make sense, with high rates of spillovers from marketing activity and a large number of beneficiaries from leisure tourism.
- ***The numbers of potential visitors from most markets is large which means even a relatively marginal influence on visitor choice and behaviour could generate significant extra visitor numbers and spending and so GVA in London.*** Recent evidence from an evaluation of a North American marketing campaign suggests there was a relatively low rate of influence or 'additionality' on visitor decision, although the potential number of visitors was large. The campaign represented reasonable value for money with public sector cost per pound of direct additional GVA created of the order of £1 for £4 at the London level.

- ***The business case for investment in marketing London is even stronger at a UK level given the “leakage” of international visitor spending to other parts of the UK from London and the economic value of indirect taxation.*** Benefits of at least £6 for every £1 invested were estimated by the same evaluation study at the UK level. This suggests that there should be a considerably bigger role for VisitEngland and VisitBritain in selling London, with linkages through to the Visit London website. Should these organisations take on an increasing role in marketing London then the importance of co-ordination of sales activity and of the respective websites would become paramount.
- ***Value from public funds from promotional activities will be improved where the costs of campaigns are in part met by the private sector.*** Without private sector support, the emerging evidence is that returns on investment for separate campaigns might offer relatively poor value for money.
- ***The London & Partners website is a key marketing and promotional tool.*** The cost effectiveness of this tool is good and the website is self-financing.

Business tourism

- ***Total spend by business tourists of around £3.1 billion per year generates around £1.2 to £1.5 billion of direct GVA*** of which 70% results from overseas visitors who tend to stay longer and spend more per trip than domestic business tourists. Additional direct spending by business event organisers and corporates on business tourism could boost this figure by 50%.
- ***The value of business tourism activity currently associated with events assisted by London & Partners is around £130m pa spend, contributing around £50m to £65m pa to GVA.*** There is no national body promoting London for business tourism and there is strong international competition between cities for major business tourism events. Unlike leisure tourism, London is not in such a strong position internationally. There are strong first principle market failure arguments for a body coordinating the London business tourism offer and pitching for new business.
- ***However, there is a lack of evidence about the practical additionality that the activity of London & Partners brings.*** Given the extent of competition, at least for international business tourism, and that London does not just “sell itself”, levels of influence and impact could be considerably higher than for leisure tourism.
- ***The economic case for London & Partners’ role is greater for larger and more complicated business events and in the initial promotional stage.*** The gross economic impact of the seven largest events assisted by London & Partners in 2010/11 was half the potential impact out of 290 projects. There is a less strong case for the provision of basic information on venues for smaller events unless this service can be offered very cost effectively or at no net cost to the public purse. It is important therefore that London & Partners focuses its efforts on where the potential additionality and economic impact of their interventions are greatest.

- ***The additionality and economic impact of UK focused events is likely to be lower than events with significant international appeal*** due to lower average spend per domestic delegate before, during and after events and the greater potential for displacement of activity within the UK economy. For example, in 2010 an international business visitor to London spent on average £805 per trip compared to £450 per international business tourist outside of the capital and £230 per business trip made by a UK resident.
- Smaller events and those with limited additionality could be offered a more internet based automated service, with London & Partners staff time focused on larger, internationally contestable events with the potential to deliver significant GVA gains.
- The extent of positive externalities or 'spillover benefits' to organisations in the supply chain for some business events hosted in cities have been identified by some research but not quantified. However, this suggests for those larger events that are relevant to advanced technology and knowledge intensive sectors a key part of London & Partners role could be to facilitate spillover opportunities. This could be influenced through ancillary events to forge links between London businesses and HEIs with some of the key firms present.

Major events

- ***According to the British Visits and Events Partnership, the visits and events market is estimated to be worth around £36 billion to the UK economy and is forecast to grow to over £48 billion over the next decade.*** Music, sporting, festivals and cultural events, many staged in London, could currently account for around £6 billion of the UK market total.
- ***Major events undoubtedly can and do bring significant one-off economic gains for the London and UK economy.*** For example, a 20,000 participant two-night event could contribute up to £1.2 million to direct GVA (assuming 90% participation by non-UK residents).
- ***There is a strong case for a publicly funded body maximize the shared economic benefit via connecting and coordinating the private and public sector stakeholders to successfully bid for and deliver major events.*** There is no national body dedicated to organising major events. Organising events in the capital can be particularly challenging given the large number of stakeholders involved many with potentially conflicting objectives and interests. The regulatory and institutional environment in which events must be planned and operate is also highly complex.
- ***However, there is at present a lack of clear evidence on the impact of major events and the additionality of public intervention.*** What research there is demonstrates impact varies by the scale and duration of the event and the proportion of people who attend from overseas. This suggests a more explicit focus in future on attracting large, internationally contestable events with a significant international profile and able to attract significant sponsorship and large numbers of external visitors who stay for extended periods. It may also be possible to secure similar returns over time from evolving entirely new events with matching characteristics. The case for support or effort in attracting event should therefore be done on a case by case basis where London & Partners can make the most difference.

- ***There may also be a case for considering limited, targeted financial support for certain types of events*** that meet certain threshold criteria. These could relate to size, contestability, estimated spend per head and likely percentage of international (or at least non-London visitors). They could also apply to those events where the spillover effects may particularly large, (for example, events where viewing or participation is free so that the organiser's revenues are low compared to the overall economic value).

Foreign direct investment (FDI)

- ***London is critical to national FDI successes, attracting over one third of all UK projects between 2008-9 and 2010-11.*** There are now an estimated 8,400 foreign owned businesses in London accounting for around 50% of gross output and 17% (835,000) of jobs in the capital. London is clearly the UK's market leader in several inward investment sectors including financial services, creative/media and fashion, and for certain FDI functions notably in the attraction of European and other HQs and sales offices. This pattern of FDI is quite distinct from all other regions of the UK.
- ***Around 175 new FDI projects every year are linked to London & Partners activity.*** The outturn in new gross job creation associated with these projects is around 2,800 new jobs each year by their third year of operation. This annual FDI activity could be generating around £265 million of GVA annually or £1.3 billion in total.
- ***There are strong economic arguments in support of attracting inward investment given its impact on productivity through increased competition and the transfer of technology and knowledge to other organisations and sectors.*** At a national level the strongest case for FDI is for greenfield "technology exploiting" FDI from relatively advanced economies where the potential future spillover benefits is greatest. However, in emerging markets like India and China there is a close link between FDI and international trade and, as these countries catch up technologically, attracting FDI from them will become increasingly desirable.
- ***Past evidence suggests the additionality of public intervention to attract and support greenfield FDI is relatively limited. Most projects would have gone ahead anyway, but FDI promotion and support can accelerate and expand projects.*** The evidence from London on the additionality of FDI project support points to a net effect of between 15% and 25% of the gross impact associated with the projects landed.
- ***But even with this relatively modest rate of additionality, investing in investor promotions and bespoke support still appears to offer reasonable value for money:*** FDI, particularly in high value added functions, can add considerably to London's GVA and unlike many other areas of London & Partners' activity a new FDI project has a recurrent impact on economic value added if successful. The potential spillover effects on other businesses are linked to the knowledge content of projects which is related both to their GVA per employee, but also the nature of activity (it is likely to be relatively low for sales functions). Generally, there will be a reasonable correlation between the average value of new jobs and the potential contribution to London's knowledge base.

- ***In contrast, the evidence on supporting growth by existing foreign owned firms is that the levels of net impact are lower than for greenfield FDI projects*** at around 5% to 10% of the gross impact. The case for this form of support therefore appears considerably weaker than for greenfield FDI. However, there is a case for continuing to invest in post-decision support for greenfield FDI, especially in helping the new enterprises integrate with the domestic supply chain and the strong knowledge-base in the city's higher education institutions. This is likely to help maximise the positive spillovers from new FDI.
- ***Given the special nature of FDI in London and its UK-level importance there is a strong case for a well-resourced and dedicated London-level team handling FDI enquiries.*** Working in partnership with UKTI will enable both organisations to exploit synergies and avoid duplication in terms of their focus on overseas markets and particular FDI sectors and will help to maximise the impact from their joint resources.

Higher education

- ***London is home to a significant concentration of the UK's higher education institutions (HEIs).*** Together they account for 17% of the total student population in the UK and in 2009/10 had a combined income of £5.5 billion, over 20 per cent of the total income of the UK sector. Around £1.1bn is from overseas sources.
- ***There are currently around 105,000 international students, an increase of 32,000 since 2003/4 and now over 25% of all international students in the UK, studying in London's HEIs.*** International students paid over £800m in fees to London's HEIs in 2009/10 and spent an estimated £2.5 billion in the capital including on accommodation, travel, food and entertainment. This contributed an estimated £1.3bn to direct GVA; there is an average contribution to GVA of over £38,000 per international undergraduate over a three year degree.
- ***The incremental value of attracting overseas students to London's higher education sector is significant*** and there is clear potential for substantial economic returns from cost effective investment in the activity. The focus of London & Partners' activities has been limited to information provision to facilitate the attraction of overseas students via the Study London website. With the likely gradual run down of the UK-level information website supported by the British Council, there is a good case for continuing with this intervention.
- ***The emerging evidence suggests that Study London is well used and does help potential overseas students make informed choices*** that in some cases results in them choosing to study in London over possible international alternatives. It is clear that the net impact of the information tool is much more significant for London's HEIs that are neither major research institutions nor highly specialist HE providers.

A photograph of a person climbing a rope on a gymnasium structure. The person is silhouetted against a bright background, possibly a window or an outdoor area. The structure consists of metal bars and ropes. The image is partially obscured by black rectangular redaction boxes.

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