A JEWEL IN THE CROWN

THE FINANCIAL INSTITUTIONS IN THE CAPITAL ARE THERE BECAUSE IT'S THE BEST PLACE TO BE. LONDON'S MAYOR KEN LIVINGSTONE SAYS THAT WE CAN ALL HELP IT TO STAY THAT WAY.

London is one of the world's great cities: which means that much of the world's population knows something about it. There appear to be two basic facts that people know about London – it is a city of heritage, and it houses one of the world's foremost financial centres. It is good that these statements are both true, though of course neither is the whole truth, and both conceal issues and challenges that we must all rise to.

My objective here is to set out how the financial services sector in London is developing in the face of the various challenges it faces. But I also want to set out the context in which this occurs and how, as Mayor of London rather than Lord Mayor of the City, I plan to help guarantee its continuing success in a global marketplace.

Globalisation happened to London a long time ago. Indeed the City could be described as the first-ever global trading centre, with merchants trading global commodities and raising money for foreign ventures as long as 300 years ago. Today, that tradition has placed the City in market leader position in six out of seven markets; the only exception is exchange traded derivatives. London is also central to financial management and management functions for the UK as a whole, undertaking more than half of all broking, security trading and intermediation. Almost any description of London starts by emphasising that is one of the world's three leading financial centres, alongside New York and Tokyo.

STILL IN THE LEAD. This position seems unassailable in many dimensions. A report by the International Financial Services London on International Securities trading showed in July that London's lead status in the sector has been maintained in spite of the bear market in equities, which has now been in place worldwide for the last three years. There are now 419 foreign companies listed in London, 20% fewer than there were a few years ago but second only to New York. The City Economic Digest reports that in 2002, trading in these companies' shares accounted for 56% of global turnover of trading in companies with overseas listings. Although this dipped to 48% during the first four months of 2003, this still leaves London with a share that is more than half as much again as that enjoyed by NYSE and Nasdaq combined, generating income for the UK as a whole. IFSL estimates that in 2002 the net foreign earnings of London's financial services sector was £15.3bn.

Perceptions of the City back up these statistics. The Centre for Studies in Financial Innovation (CSFI) recently published a detailed survey of the attitudes of 350 institutions in financial services: it concluded that London ranked nearly equal to New York and was well ahead of its European rivals in Paris and Frankfurt. London scored well on regulation, tax and the quality of its talent pool, but poorly on government responsiveness and the living and working environment. New York was stronger than London in all areas except regulation, though on labour and tax it was a photo finish. The two Continental centres were weaker in all areas except the living and working environment, where Paris was rated best of the four.

ROOM FOR COMPLACENCY? As the authors of this report wanted to conclude, I might argue that there is plenty of room for complacency. If you want to engage in global financial transactions, put together a multinational merger, get cover for a complicated insurance risk or find a dispute resolution service that is efficient and reasonably priced – come to London. Global leaders in all these services exist in the City and are closely co-located. This is not just to say that they are all in the traditional City of London – the Square Mile clearly visible from my own office just across the river over Tower Bridge. A great recent success story has been London's capacity to expand at high densities at its edges and indeed redevelop its centre. Important clusters of activity have always existed between the City and Whitehall in the shape of the legal profession and the Courts of Justice. But there are more. There are computer companies and technical support both in Islington and south of the river; media and software companies in the West End, alongside some major financial institutions; the major accountancy firms in mid-town and again on the South Bank. And of course there is Docklands, the huge reinvigoration and reinvestment in redundant docks in a curve of the river Thames, which has provided the opportunity for the large-scale buildings and floorplates that modern banking has come to need. A visit to this area never fails to astonish anyone who remembers it from 15 years ago. And new and exciting buildings are being provided in more traditional areas too. The Swiss Re building, affectionately known as the erotic gherkin, is nearly finished, and the London skyline is not complete without a crane or three.

Moreover, new development opportunities are still emerging. There is capacity for further building in Docklands, and Paddington and Kings Cross are new centres in the making. All of these opportunities help to relieve shortages of high-quality space and to keep costs down. Moreover, in comparison with previous spurts of development, such as that in the early 1990s that led to much grief, the scale is both more modest, less speculative and, interestingly, also contains more residential development, which helps to contain housing costs. London is lauded for its high-quality labour force, but is also known as a high-cost city. To some extent, high costs are the inevitable result of success and rising demand. More choice and opportunity of location helps contain these costs and allows supply to match demand. In fact, commercial rents have remained constant in real terms over the last decade, and it is my intention to help keep it that way.

THE CITY IN THE FIRING LINE. Of course, this is all taking a long- or at least medium-term view. We are all aware that the City has been taking a battering recently. The combination of the bear market in equities and a collapse (partly as a result) in merger and acquisition activity have produced redundancies and closures across the sector. Employment has fallen from a peak of around 300,000 in the sector in London to something nearer 250,000. This accounts for almost all the losses of employment in London, with most other sectors managing to maintain their position. Low inflation and changes in regulation also take their toll. When inflation and hence nominal returns are low, then interest-rate margins are low for banks, and retail and mortgage banking are suffering huge competitive pressure. Pension fund regulation, combined with equity losses, has induced many companies to close defined-benefit pension schemes, and consider their investment strategies carefully. This too raises issues for fund managers and associated businesses.

Recent business surveys in the sector have shown that things seems to be improving: the CBI/PricewaterhouseCoopers Financial Services Survey reports that "three months of rising equity prices helped the [financial services] industry to form a more confident view of its situation after the depressed position of the previous quarter". The closer a sector was to the equity market, the more notable was the improvement, though the mortgage market's ability to sustain itself at a high level is also important. The balance of overall business optimism rose from –51% to +8%. If the recovery in equity prices is seen to be maintained, it will make a big difference to the corporate sector's ability to invest, both by enabling new issues and by supporting gearing ratios. Although no one can be sure about such predictions, it does look as if the bottom has been reached and passed, and this gives rise to at least cautious and guarded optimism.

However, our complacency must also be guarded. Of the 350 institutions interviewed in the CSFI study, over half were non-British owned. They are in London not because they are Londoners but because London is the best place to be. If it ceases to be the best place they may go elsewhere.

The Mayor's power to ensure that London continues to be the best place to do business in financial services is unfortunately limited. I can do nothing for example about financial regulation, which is one area of concern for participants. But I do recognise the importance of the business environment and what is necessary. A recent study by Oxford Economic Forecasting has estimated that the cost of transport delays lies somewhere between £1m and £2m each business day – and this is only to the City of London itself. Transport delays and difficulties are cited as one reason for considering another location.

THE CAMPAIGN FOR CROSSRAIL. Transport for London has of course only recently become responsible for the Underground and is currently involved in revamping its management and working practices. Expansion and re-investment in this system is governed by the PPP arrangements negotiated with central government, and we remain doubtful how well they will work. Most importantly, we are campaigning vigorously for the Crossrail project, which connects the City and Docklands much more closely as well as improving access to Heathrow and, for commuters, to all parts of central London. This proposal should have been agreed decades ago, but I am optimistic that the current business case is sufficiently compelling to convince the most sceptical. The government has agreed the project in principle, but there is a long way to go before any spades are put in the ground. Business itself will be key to keeping up the pressure for this scheme.

Also key to London's continuing success are other quality-of-life areas which are considered inferior to, for example, Paris – the cost of housing, medical facilities and schools. All of these also need investment, and most require investment by public services under national control. With an impending government Spending Review, I am working hard to ensure that London gets its fair share of what will no doubt be a restricted budget. We know that financial services in London and its other successful industries generate wealth and tax revenues for the whole of the UK. I am fighting hard to ensure that we do not kill the goose that lays the golden eggs.

Ken Livingstone is Mayor of London.
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