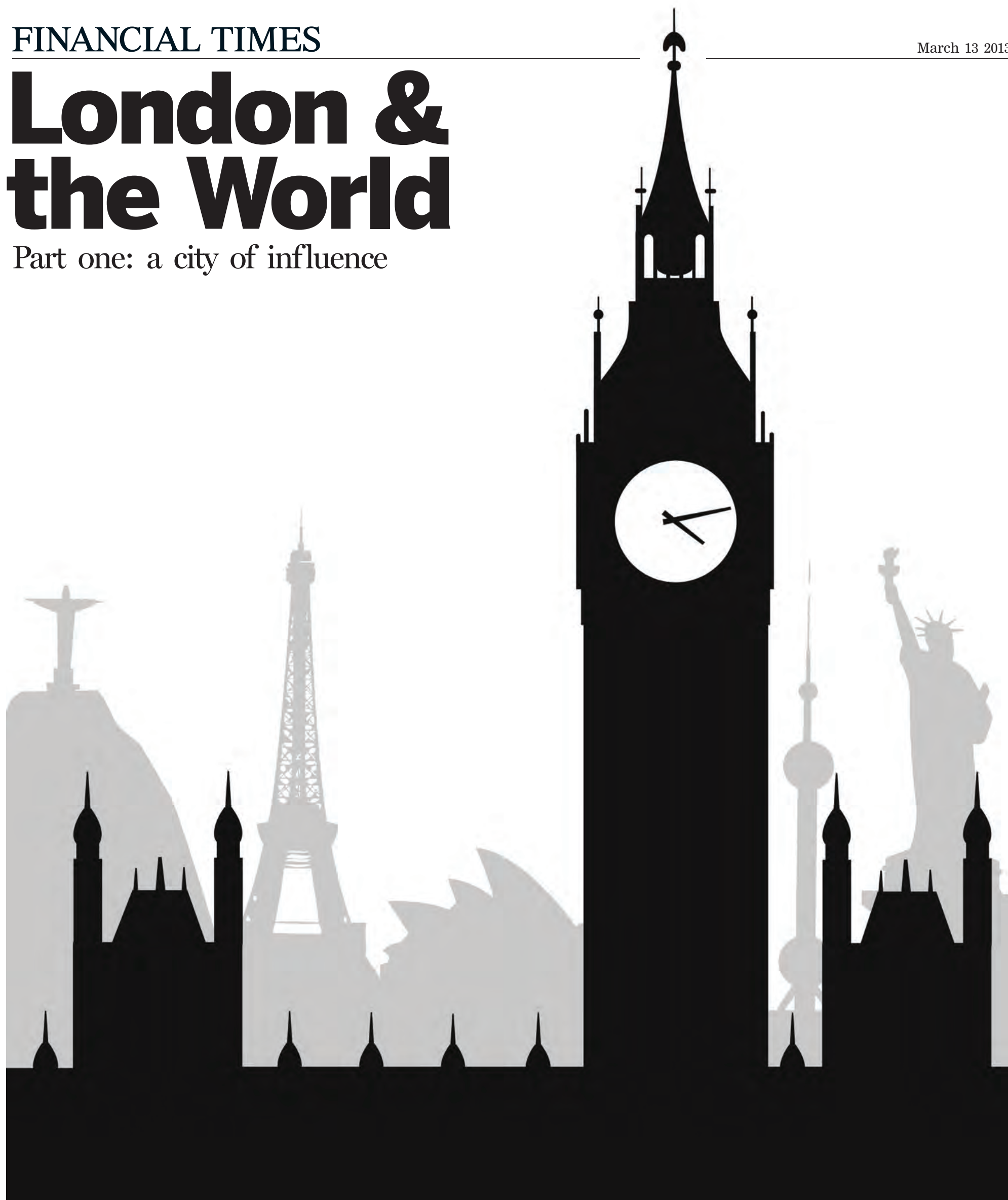


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London & the World

Part one: a city of influence



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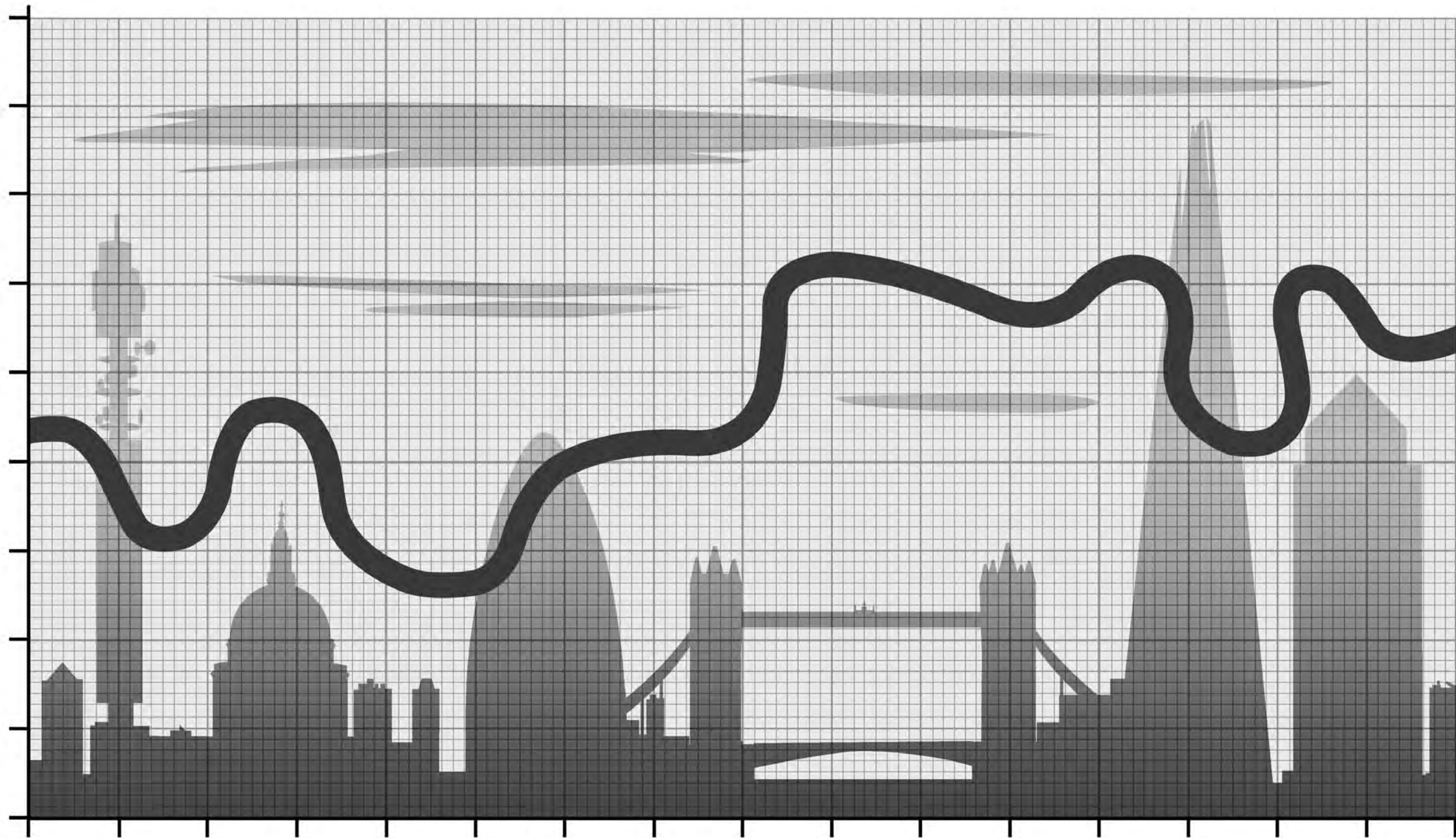
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What is Boris Johnson's vision for the future of the capital? Plus the new London architecture
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Capital plots course to protect its global status

After a golden Olympic year, London faces stern tests at home and increasing challenges from abroad if it is to maintain its international position. By *James Pickford*



LONDON'S STATUS AS A world city is unchallenged. In the ascendant for more than a decade, it is the powerhouse of the UK economy, with a financial services industry that retained its global status even in the wake of the financial crisis. The world's wealthy and upwardly mobile have beaten a path to the city, attracted by its high quality of life, job opportunities, culture and an ineffable sense of buzz. London is the place to be. But this golden period, crowned by last year's Olympic Games, cannot be taken for granted. The City of London's supremacy in Europe is under pressure from Brussels, while overseas competitors are sharpening their offerings to take advantage of Asia's booming economies. London's commercial and political leaders are becoming more vocal in defence of its status. Boris Johnson, mayor of London, says: "Even in Paris, even in Berlin, they understand that what Europe needs is a global financial centre that can go toe to toe with New York, raise capital and

compete with the best of the world. They have that centre in the EU here in London."

The capital is an ancient trading centre with a string of natural and historic advantages: a convenient timezone, the certainty of its legal system, a relative lack of corruption and its command of English, the language of business. Its arts and culture, good universities, open spaces and relatively low crime rate have made it a magnet for incomers from home and abroad.

It has also consolidated its grip over the UK economy. London now accounts for 22 per cent of the UK's gross value added – 37 per cent if combined with the southeast region.

Gerard Lyons, chief economic adviser to Mr Johnson, says this tempers its relationship with the rest of the UK and the world. "London is like Janus, the two-faced Roman god. It has to look outwards to the world but also domestically. It is the great barometer of the UK economy but at the forefront of positioning the country globally."

The city's international profile was elevated by the pizzazz of the Olympics, embellished by Mr Johnson's verbal showmanship. Negative

perceptions among older people were dissipated by an exuberant games that showed the capital could deliver the world's biggest sporting event.

The games also gave London an opportunity to resolve infrastructure problems, with £6.5bn invested in a transport system whose Victorian elements had been creaking beneath 21st-century traffic. Rail improvements were brought forward and a vast new transport hub created at Stratford.

But the success of the games is also predicated on a meaningful legacy. Question marks remain over the future of the Olympic stadium – a problem for other host cities – and legacy planners have given themselves 20 years to turn the Queen Elizabeth Olympic Park into a new London neighbourhood with 8,000 homes.

The park is one of several big development projects that are changing the face of the city. The vast brick edifice of Battersea power station – for 30 years a symbol of the city's problems with regeneration – is set for revitalisation as part of the 195ha Nine Elms development. Other zones slated for transformation include King's Cross, Victoria, Earl's Court and Paddington.

For Londoners, this is a mixed blessing. Foreign buyers have made a beeline for the new developments and account for more than half of purchases of the city's off-plan properties, says estate agent Knight Frank. They are part of a wave of overseas wealth that has flowed into London since the financial crisis. But with many buying for investment or occasional use, the trend has done nothing to alleviate the city's perpetual shortage of affordable homes.

IF LONDON IS NOW STRAINING AT THE seams, it will soon be bursting. The population will swell from 8.17m to more than 9m by 2020, according to projections last year by the Office for National Statistics. No European city except Moscow has yet passed this milestone. But while population expansion is often associated with economic growth, the trend will ratchet up pressure on public services already stretched on the rack of deficit reduction.

London traditionally has relied on growth in financial services to pull it out of such troubles. But its ability to do so may be threatened by two factors: rival upstarts and the fallout of the financial crisis. The eurozone's efforts to regain stability through closer fiscal and political ties have sent a chill wind through the City, which fears it will be frozen out of decisions affecting its biggest market. Foreign competition from Asian centres such as Singapore, as well as younger hotspots in China, is also on the rise, a trend the City is countering through initiatives such as a bid to become a centre for renminbi trading.

The threat bears down not only on banks, but also on the ecosystem of finance-related businesses that thrived in the boom years, from lawyers, recruitment agents and property developers to wine bars and car dealers. Some sectors, such as insurance, have remained in relatively rude health even as UBS, Citigroup and other banks have shed thousands of workers. But the fortunes of others are closely tied to a healthy growth rate in finance.

As a cluster of expertise, the City stands apart from other financial districts in its single-minded focus on business. Permanent residents are discouraged and its bylaws fiercely guarded by the City of London Corporation, its local authority – such as in its exemption from government moves to allow offices to be turned into homes.

On its northeastern fringes, a new sector has bubbled up, focused on digital and information technology. Known ironically as the Silicon Roundabout, the area has been rebadged as

Tech City by a government keen to promote, if not take credit for, the emergence of this new source of growth. Research by the Centre for London think-tank puts the number of media, technology and communications businesses in the area at 3,200.

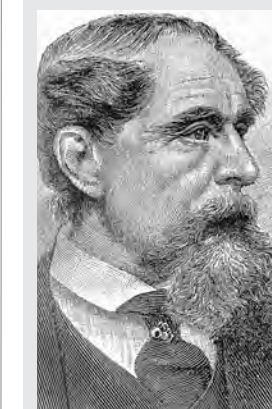
For some, the phenomenon demonstrates London's continued ability to present a new face to the world. But few believe it could replace the horsepower of the City, should it fall to external pressures.

Is London at such a tipping point? Tony Travers, London expert at the London School of Economics, says the city's imminent demise has been regularly heralded over the decades. In the 1980s, a Greater London Council report warned of an impending fall in the city's population, with grievous economic repercussions.

"Lo and behold, at exactly the same time London's population turned a corner and has grown ever since," says Mr Travers. "Turning points are rarely predicted."

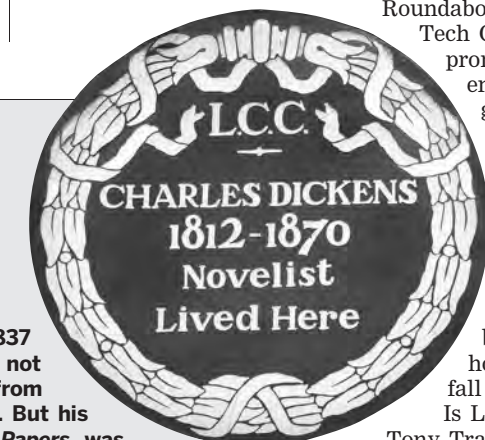
Bleak House in Bloomsbury

THE HOME LIVES BEHIND THE BLUE PLAQUES COMMEMORATING SOME OF LONDON'S MOST EMINENT RESIDENTS. FIRST: CHARLES DICKENS



When Charles Dickens moved into Doughty Street, Bloomsbury, in 1837 at the age of 25, he had not yet fully made the leap from hack to respected writer. But his first novel, *The Pickwick Papers*, was selling brilliantly in serial parts and the future must have looked bright. Nonetheless, times at his house at number 48 were often bleak. Dickens' 17-year-old sister-in-law Mary died in his arms there, subsequently providing the model for ailing Dickens heroines such as *The Old Curiosity Shop's* Little Nell.

Feergus O'Sullivan



Rising with the tide

Policy must ensure London continues to benefit from globalisation. By *Gideon Rachman*

LONDON HAS A GOOD CLAIM to be the most cosmopolitan city in the world. Some one in three of the city's inhabitants were born outside the UK – the same proportion as New York. Once you include Londoners with a foreign parent, the majority of the city's inhabitants have roots outside Britain.

Perhaps that is only appropriate. London, after all, was founded by foreigners. It was the Romans who established the city in 43AD on a convenient spot on the river Thames. For most of its history, London has been a magnet for immigrants and refugees from all over the world. But today the city's prosperity rests, more than ever, on its international connections.

Calculations by the House of Commons suggest that the financial industry now accounts for about 10 per cent of the UK's gross domestic product – about half of which is generated from the City of London. And the business of the City is overwhelmingly international. One banker, quoted in a recent article in *The Economist*, commented: "Eighty per cent of the dealmakers in Wall Street, and 90 per cent of the deals they are doing, are American. In the City [of London] 65 per cent of the dealmakers are foreign and 90 per cent of the deals have an international element." Finance also helps to support a huge number of other industries that are crucial to the London economy, from legal services to real estate. Other key London industries – from fashion to the media – also have a strong international flavour.

International political and economic developments over the past 30 years have hugely expanded the opportunities for a global hub city such as London. The fall of the Berlin Wall and the collapse of the Soviet Union have seen the City re-establish its links with eastern Europe and Russia. Wealthy Russians shape the top end of the property market, sue each other in London's courts and send their children to the capital's best private schools.

The emergence of China and India as giant, globalised economies has also had a direct impact on London. The old colonial connections with India – as well as a common language – have meant that many Indian entrepreneurs feel comfortable living and working in London. Colonial connections with Hong Kong and Singapore have also given the City a foothold in the rise of Greater China.

The development of the EU, with the creation of its single market in 1992 and its expansion to the east in 2004, has also driven the internationalisation of London. Free movement of people within the EU means that London is thronged with workers from all over Europe. The Polish builder and the French banker have become stock figures on the London scene.

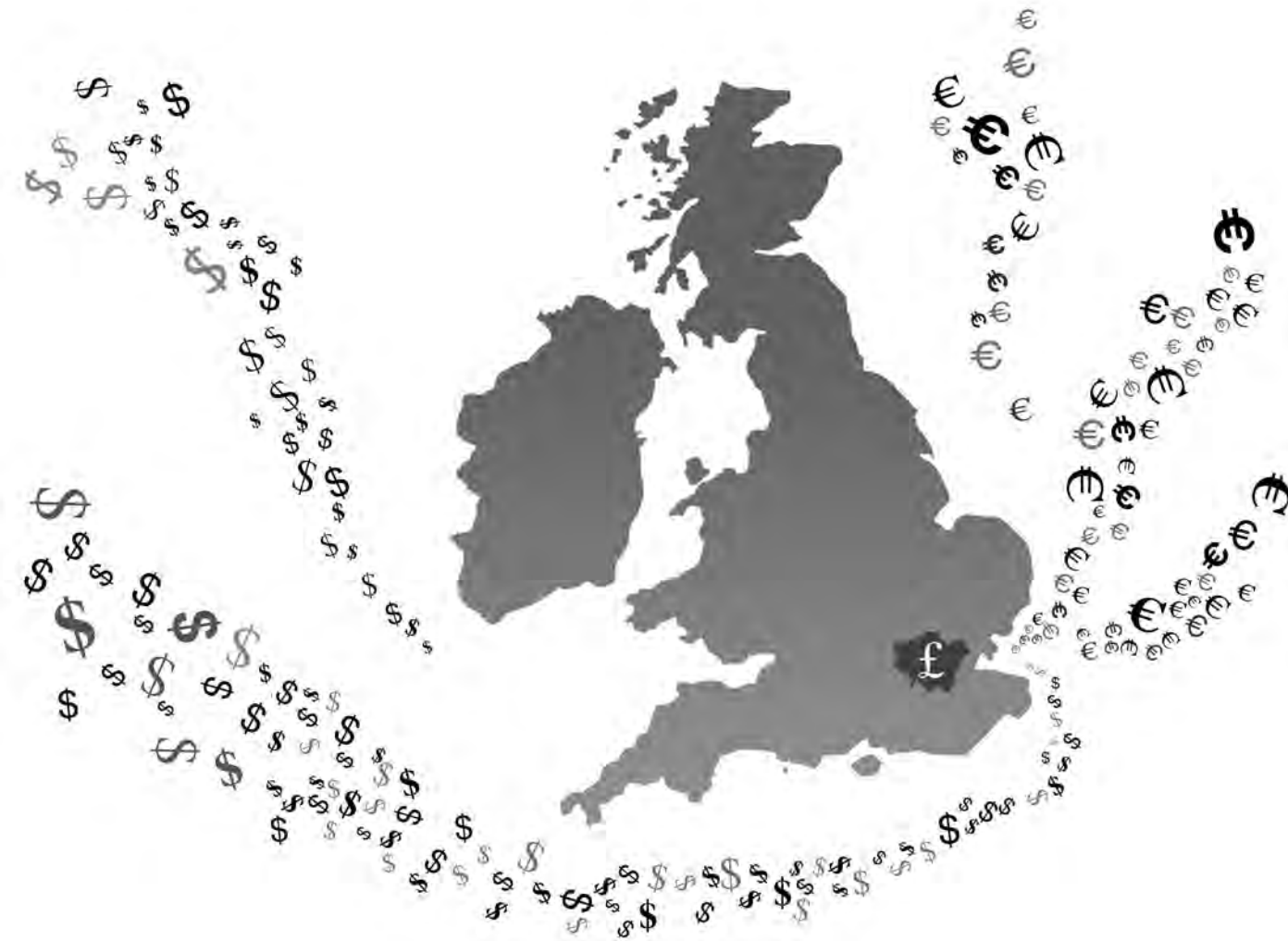
PHOTOS: GETTY, TOLGA AKMEN



J.P. Morgan's London pile



One palatial London townhouse was not enough for American banker John Pierpont Morgan. Later famous for radical management restructuring, he could not resist knocking down the walls of his father Junius Spencer Morgan's house. By 1904, J.P. Morgan's art collection was too big for the family's London pile at 14 Prince's Gate, near Hyde Park, so he bought the house next door to create one vast mansion. Not bad for one spending three months a year in London. *FO'S*



Important policy decisions by successive British governments have helped London to surf the tide of globalisation. One of the first acts of the Thatcher government, after coming to power in 1979, was to abolish exchange controls – a move that was indispensable to the rise of the City of London. London has also sought to maintain a tax regime that is attractive to wealthy foreigners, even though the "non-dom" tax rules have been made less favourable in the aftermath of the financial crisis.

The globalisation that has powered London's prosperity and changed the nature of the city can feel like an irresistible force. If globalisation continues apace, then the UK capital's role as the pre-eminent global city is only likely to grow.

But such a development cannot be taken for granted. Since the onset of the financial crisis in 2008, both the political and financial underpinnings of globalisation have come under unprecedented strain in ways that could ultimately threaten London's global role.

The most direct threat is the changing nature of Britain's relationship with the EU. Under the pressure of the euro crisis, users of the single European currency have begun to move towards a much closer fiscal and banking union. Britain is refusing to participate in these moves, and, under pressure from an increasingly eurosceptic Conservative party, David Cameron's government is seeking a looser relationship with the EU. The prime minister has even promised an "in-out" referendum on British membership of the EU at some point in the future.

The prospect that Britain might actually leave the EU – or even just have an increasingly

detached relationship with the eurozone – raises obvious questions about London's role as a hub for European business.

At present, more currency transactions in euros are done in London than in any other city. But could that last if Britain left the EU? The answer is not clear cut. London is also a significant centre for foreign-exchange dealing in dollars, without being part of the US. And yet, the feeling persists that an EU that is increasingly suspicious of "Anglo-Saxon capitalism" now has the City in its sights. New European rules on everything from bankers' pay to the regulation of the insurance industry are making London less attractive to footloose international capital.

Other elements of the post-crash world are also weakening London's attractions as a global hub. Under pressure to reduce immigration, the government has tightened the visa regime. Many foreigners – from students to business people – complain that coming to the UK has become an unpleasant obstacle course. Britain's overall tax regime is also becoming less attractive, as the government seeks to raise revenue and to respond to popular anger about tax avoidance and abuses in the finance industry.

Yet, when the British government looks at the structure of its economy and the source of its revenues, it is reminded again and again of the importance of London's role as a global hub. The British also know that emerging markets, particularly in Asia, will have a larger and larger weight in the global economy over the next generation. Those considerations will be central to British government policy. If that policy is constructed intelligently, it should ensure that London's role as a great world city is protected and developed.

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It's business. But it's personal.

Running the 'ungovernable' city

Powers divided between Westminster, City Hall and the boroughs mean political tensions in London are inevitable. *By James Pickford*

IS HE THE KING OF ENGLAND?" onlookers asked of the blond-topped Boris Johnson as he progressed through the streets of Delhi last year, trailed by an entourage of officials and press.

The London mayor wears no crown but does share something in common with Britain's constitutional monarch: heavily circumscribed political powers.

The city for which Mr Johnson fulfils an important figurehead role has been called "ungovernable". Decision-making power is shared by central government, the mayor and the city's 33 boroughs. Each vies for influence over the ancient villages that were swallowed up by 19th-century urban sprawl to form Greater London. Large planning projects, for instance, require the assent of all three layers.

Without a big budget for infrastructure, Mr Johnson must use personality and the controlled glare of publicity to maximise his influence and cajole government into committing money for essential city improvements.

"That is part of the pitch I have to make to government," Mr Johnson told the FT. "If you want London, the motor of the economy, to keep roaring, then you must make sure that you invest in infrastructure, housing and transport."

The last of these is the area over which Mr Johnson has greatest sway as chairman of Transport for London (TfL). He points to wins in securing government funding for the £14.8bn Crossrail project and an upgrade to London Underground. Plans for an extension to the latter's Northern line in the Nine Elms development will be met by Treasury-backed guarantees on borrowing.

Flush with the success of his takeover of the London Overground rail network, which has been improved and extended, Mr Johnson wants to enlarge his transport domain further by taking on the suburban commuter rail services into London, currently run by rail operators.

Other Johnson initiatives have been less happy. The Emirates Air Line cable car across the Thames, originally billed as privately funded, has required £15.5m in construction costs from TfL, with running costs estimated at £6m a year. While this is a fraction of TfL's overall budget, its dwindling passenger numbers – FT calculations suggest it may be running at 7 per cent of capacity – have caused embarrassment to those who envisaged it becoming a popular tourist attraction.

A 600-strong fleet of hop-on-hop-off buses – which Mr Johnson hopes will be "as iconic in London as phone boxes, Big Ben and Beefeaters" – has been ordered at an estimated cost of £180m. But the terms of the deal were questioned after it emerged the vehicles will not be held as assets by the bus operators according to convention, but placed on TfL's books. As the transport body acknowledges, these are icons with no resale value outside the capital.

ELSEWHERE, LONDON IS FEELING the sharp end of government cuts, with police and fire stations slated for closure and services to be reduced at a hospital in south London. Schools are running short of places and councils are feeling the strain of provision in adult care services.

Already, tensions over the planned cuts have emerged with boroughs, including flagship Tory councils such as Westminster and Kensington and Chelsea. A cost-saving plan to close a dozen fire stations, Westminster and Knightsbridge among them, faces delays after resistance from the London Fire Authority. For a mayor whose default style is ebullient and upbeat, the era of austerity is likely to present some uncomfortable choices.

The politics of London frequently intermingle with those of the Conservative party. Seen as a potential successor to prime minister David Cameron – an ambition Mr Johnson plays down with little success – his efforts to stand up for London sometimes bring him into conflict with government. For some, this is part and parcel of representing the city; others see evidence of a longer-term political aim.

Mr Johnson's business-boosting trips to places such as India – and this year the Middle East and China – reinforce the impression of a mayor

who is looking beyond the city walls. He has also waded into the debate on Europe, calling for the UK to withdraw to the status of a single-market participant.

The economic climate has tested London's relationship with other regions of the UK, some of which resent the gravitational pull of an area that accounts for around one-fifth of the UK's economic value added. They have sought fresh powers from a government inclined towards devolution as a way of boosting growth.

But London too can play at that game. Mr Johnson has asked George Osborne, chancellor of the exchequer, to give to London what he has already promised Scotland: revenues from stamp duty land tax on local property sales. He wants to use the receipts – one-third of stamp duty raised in England and Wales comes from London – to pay for regeneration and housing projects. Meanwhile, the independent London Finance Commission, set up by the mayor, is examining ways for London to retain more of its revenues. It will publish its conclusions before summer.

One issue more than any other encapsulates Mr Johnson's tensions with Westminster: London's airport capacity crunch. Mayor and government

both fear a loss of business to overseas hubs as Heathrow, Britain's busiest airport, fills to the brim. But they disagree on solutions.

The mayor campaigned vigorously last year on a pledge to resist expansion at Heathrow, which is already Europe's noisiest airport. Instead, he favours two proposals for estuary airports or expansion at Stansted in Essex.

The government, however, signalled it may drop its former opposition to a new runway at Heathrow after it established an independent commission under Sir Howard Davies, former head of the UK's Financial Services Authority, to examine the main options for more hub capacity – including at the west London airport.

Mr Johnson sparked a war of words with Downing Street over what he called the "ditherama" of its decision to delay the results of the commission until 2015, after the general election. He has even created his own inquiry, which will deliver its results to Sir Howard later this year.

The Heathrow debate will rumble on. But it is unlikely to be the last time the mayor clashes with other political entities who have a stake in the complex, multi-layered city he represents.

A war of words ensued over the 'ditherama' about the delay to the Airports Commission's report

Model mayors: what the job means around the world

HOW DO BORIS JOHNSON'S powers stack up against those of his fellow mayors in other world cities?

Compared with New York's mayor, he is relatively weak. Michael Bloomberg has control of public health, education, fire services, police and parts of the justice system. Many of the functions carried out in London by the 33 boroughs are performed in New York by city hall.

But in transport, London's mayorality controls a key element not available to Mr Bloomberg. Mr Johnson is keenly aware of the difference. "We have more powers over mass transit than New York does, which is very important for delivery of regeneration and housing," he told the FT.

Tony Travers, a London expert at the London School of Economics, says the UK capital is unusual internationally for its "bottom-heavy" governance arrangements. "The boroughs collectively are more powerful than the

mayor in the London system... it's a set-up without parallel in the developed world."

In Paris, the 2014 fight for city hall has already started, with the election shaping up as a battle between all-female contenders dubbed by some as the "Borisettes". The victor will gain similar powers to Mr Johnson, but over a much smaller area covering the *arrondissements* of inner Paris.

The method of election also plays to Mr Johnson's strengths. He won a personal mandate of more than 1m in the 2008 election, whereas Paris elects its mayor through the councillors or "mayors" of the individual *arrondissements*.

Mr Travers says: "One of the things that makes the London mayor most powerful is the magic of the direct election. When the government created the mayorality in 2000 it ended up setting up something that was in some ways more powerful than it was."

Tokyo's mayor holds sway over a greater population – 13.2m compared with London's 8.17m – and its boroughs have less control than London's, giving the mayor extra clout. Berlin has a different system again. There, the "governing mayor" has extensive executive powers over the city, which also counts as a state in the German system. The role is not directly elected, but is voted in by the Berlin state parliament, whose members can also oust the mayor through a motion of no confidence. The mayor presides over the Berlin Senate as a "first among equals".

MR JOHNSON HAS ACCRETED SOME powers while mayor, gaining control over aspects of housing policy last year. He has also set his sights on a bigger role in education to safeguard the improvements in London schools in the past decade.

Mr Johnson said: "There is a strategic role for us in education to act as the 'grit in the oyster', to stimulate best practice, to spend money on encouraging excellence and to help with the creation of new schools where those are wanted."

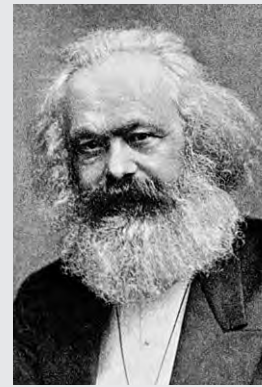
Could London be better organised? Mr Johnson's predecessor as mayor, Ken Livingstone, considered proposals for merging the 33 local authorities into five super-boroughs, but with little political appetite for such a profound reform of London's governance, the idea never gathered momentum.

Mr Johnson, at least, seems broadly satisfied with his remit. "I don't want you to get the impression I'm some sort of megalomaniac," he said. "I work very well with London councils and it's a collegiate arrangement. I'm not trying to create a kind of dictatorship." *JP*

To see James Pickford's video interview with Boris Johnson, go to www.ft.com/london-world

'I don't want you to get the impression I am some sort of megalomaniac'

A Kapital idea in Soho



Given the awful conditions in which Karl Marx spent his years in Soho, it is remarkable he wrote anything at all. From 1851 to 1856, he lived at 28 Dean Street with his wife, housekeeper and six children (two of whom died) in two attic rooms where, a visiting Prussian spy claimed, "everything is dirty, everything is covered with dust". He nonetheless managed to write *The 18th Brumaire of Louis Napoleon* and start research for *Das Kapital*, while allegedly fathering a child by the family maid, Helene. *FO'S*



Light at the end of the tunnels

Crossrail and massive upgrades of the underground and overground networks are pulling rail infrastructure into the 21st century. By *Mark Odell*

FROM PADDINGTON STATION in the west to Canary Wharf in the east, more than 40 construction sites have sprung up across London and southeast England to build the capital's first new underground line in more than 30 years. Such is the scale of the Crossrail project that it promises an increase of 10 per cent in the city's rail capacity from 2018. London Underground already carries more than 1.1bn passengers a year and the £14.8bn scheme – the first underground route capable of taking full-sized trains across the capital from east to west – is desperately needed, with most lines heavily congested during peak hours.

Unlike the other two full-size cross-London rail routes – the north-south Thameslink and the West London line – Crossrail has been designed to complement the 12 lines of the underground network, the world's oldest metro system, which celebrates its 150th anniversary this year.

As most of the network dates from the turn of the 20th century, the lines run through smaller tunnels than more modern metros. Indeed, as the capital of the country that brought railways to the world, modern-day London has suffered in many ways from being a 19th century transport pioneer.

In addition to the limits of early engineering, the city's public transport infrastructure was starved of investment for more than 40 years from the end of the second world war, when roads became the focus of government spending. It has taken billions of pounds of investment over the past two decades to get most of the network to a level of reliability to rival that of city transport systems around the world.

More than £6.5bn has been spent on upgrading three of the capital's deep Tube lines – the Jubilee, Northern and Victoria. Transport for London (TfL) has also recently completed a huge revamp of the London Overground, which now forms a circular railway around the capital. The focus has shifted to the so-called sub-surface lines – the Circle, District and Hammersmith and City – with upgrades of the other deep lines – the Bakerloo, Central and Piccadilly – still to come.

"For investment, our annual budget is about £1.2bn a year, which is huge," says Mike Brown, managing director of London Underground. He admits the role played by public transport in a successful Olympic Games is expected to help TfL in future bids for government funds.

The impact of Crossrail on the capital's transport infrastructure cannot be overstated. Each 200m-long train will be able to carry 1,500

passengers, which is almost twice the capacity of a Tube train.

As it moves into its peak construction phase, eight giant boring machines will be at work, drilling 42km of new tunnels beneath the heart of the city. Nine new stations will be built, including four in some of the city's busiest areas – Paddington, Bond Street, Tottenham Court Road and Liverpool Street – to accommodate the 78,000 passengers an hour who are expected to use the service during peak times. Trains will connect Heathrow airport, to the west of the city, with Shenfield, a commuter town east of London, and Abbey Wood, south of the Thames.

BUT CROSSRAIL IS JUST THE beginning, says Mr Brown, who insists the government must find the funding to repeat this type of transformative plan if its pet transport project – a £34.5bn high-speed rail line connecting London to the north of England – is to be built (see below).

Mr Brown says that without extra rail capacity in the capital, the terminus for the High Speed 2 (HS2) line at London's Euston station would "fall apart" because of the volume of passengers. TfL forecasts passenger arrivals at Euston in the three-hour morning peak would jump from 23,500 in 2009 to 57,000 in 2033, when HS2 is due to be fully open.

Last month, TfL announced it was to start planning a new multi-billion-pound north-south link for London, dubbed Crossrail 2, which Mr Brown says is "imperative" if HS2 is to happen. The projected growth in London's population of 1.5m over the next two decades is another reason Crossrail 2 is crucial, says Mr Brown.

The capacity of London's underground and rail network is already set to grow by more than 30 per cent and he believes the same level of investment will be needed for Crossrail 2.

The cheaper option, costing about £9.5bn, would see the building of an underground line connecting Wimbledon in southwest London to Alexandra Palace in the north, via central London.

A more expensive option, which would cost at least £12bn and follow the same route, would replicate aspects of the existing Crossrail project. It would, for example, involve digging bigger tunnels under the capital to allow full-sized commuter trains to run from the mainline network into central London, connecting to services from stations including Shepperton and Epsom to the southwest, and Cheshunt and the Lee Valley region in the northeast of the capital. It could also extend to Stansted airport.



Unprepared for takeoff: London's airport dilemma



WILL THE UK EVER RESOLVE its agonising over whether to build new airport runways? David Cameron, British prime minister, last September delayed a decision on expanding airport capacity in spite of repeated warnings by business leaders that the lack of new runways was holding back the UK's economic recovery.

These business chiefs highlight how the UK is losing out in an international battle for connectivity to emerging markets – with airports in continental Europe, and newer hubs in the Gulf, being in a better position to provide routes to countries such as China.

Mr Cameron's procrastination on new runways is yet another example of how politics has got in the way of rational policy making. He postponed a decision on airport capacity until after the 2015 general election in order to avoid a damaging split in the coalition government – because while the Conservatives are warming to the idea of new runways in the southeast of England, the Liberal Democrats are implacably opposed.

But in putting off a decision, Mr Cameron set up the independent Airports Commission to consider how best to preserve the UK's status as an international aviation hub. This body is keen to defy expectations by providing a recommendation that Britain's main political parties can unite around.

Chaired by Sir Howard Davies, the former head of the CBI employers' body and the Financial Services Authority, the Airports Commission is expected to consider several options to address the looming capacity crunch at all the southeast's main airports.

These will include the case for expanding London's Heathrow airport, the UK's only hub, which is already operating at near-full capacity on its two runways. Turning Heathrow into a four-runway hub would be highly contentious given many west London residents' opposition to aircraft noise and environmental pollution.

SOME OF HEATHROW'S RIVALS ARE ALSO resisting its expansion. In December, Gatwick chief executive Stewart Wingate called for his airport to become a hub by adding a second runway. In a vision that may appeal to many pro-competition Conservative MPs, Mr Wingate said Stansted airport should also have two runways, and the two airports could then vie for business with Heathrow on a level playing field.

But some industry figures – led by Heathrow Airport Holdings, the airport's owner – question this vision, saying that Heathrow's hub business model is unlikely to be replicated at Gatwick or Stansted. British Airways offers a broad range of long-haul destinations out of Heathrow because it fills its aircraft with passengers who have arrived on short-haul flights. These transfer passengers ensure the long-haul network is profitable.

Lord Foster, the architect who has proposed a new four-runway airport in the Thames estuary, accepts this hub business model. But his team has chosen the Isle of Grain on Kent's Hoo peninsula for the hub's location, because, in contrast to Heathrow, this is a sparsely populated area.

Lord Foster's proposal does, however, have opponents, because the estuary marshes are a protected habitat that provide an important breeding and feeding ground for hundreds of thousands of birds, many of them endangered species. And then there is the cost. While a third runway at Heathrow might have a £10bn price tag, a new hub airport in the Thames estuary could cost £23bn, if a basic rail link is included.

Andrew Parker

A bumpy start for high-speed link to the north

THE TENS OF BILLIONS OF POUNDS that are likely to be spent improving London's transport links look set to be dwarfed by government plans to build the first domestic high-speed rail line to connect the capital to the big cities of the north of England.

Planning is well under way for High Speed 2, or HS2, which would allow trains to travel at 225mph. (HS1 links London to the Channel tunnel.) The cost is estimated at £34.5bn without trains, which are expected to add at least another £8bn. The link, which would connect London's Euston station to Birmingham before splitting into lines to Manchester and Leeds, is not due to open fully until 2033 at the earliest.

HS2 enjoys broad cross-party political support and is backed by big business and the northern cities. Supporters say the country's busiest north-south rail line – the West Coast mainline – will be full to capacity by the middle of the next decade, making a new railway inevitable.

HS2's proponents argue that time savings and frequency of services will not only help bring the north of England closer to the capital but also benefit the whole country. London to Manchester will take 68 minutes, a saving of an hour.

The core high-speed network will run trains that are larger than current intercity carriages and could include double-deckers. Smaller high-speed trains capable of running off HS2 on to existing lines will ensure destinations not directly on the network will benefit. Journeys between Birmingham and Newcastle will fall from three hours, 14 minutes to two hours, seven minutes.

But the huge cost at a time of national austerity, and the environmental impact – HS2 will cut through some beautiful countryside – has led to fierce opposition. A strong lobby has formed to challenge the government in the courts. If successful, opponents could at least delay the project by years.

Mark Odell

Brunel's shaky foundations



Cheyne Walk, Chelsea, is among London's smartest addresses today, but for the engineer Isambard Kingdom Brunel, his childhood there was neither secure nor especially wealthy. When Brunel was a teenager, his father Marc – also an eminent engineer – was taken from their house at number 98 and imprisoned for debts of £5,000. Luckily, threats by Brunel senior to work for Alexander I of Russia induced the British government to bail him out, leaving his son free to begin the grand projects, including the Clifton suspension bridge and Great Western Railway, that made his name. *FO'S*

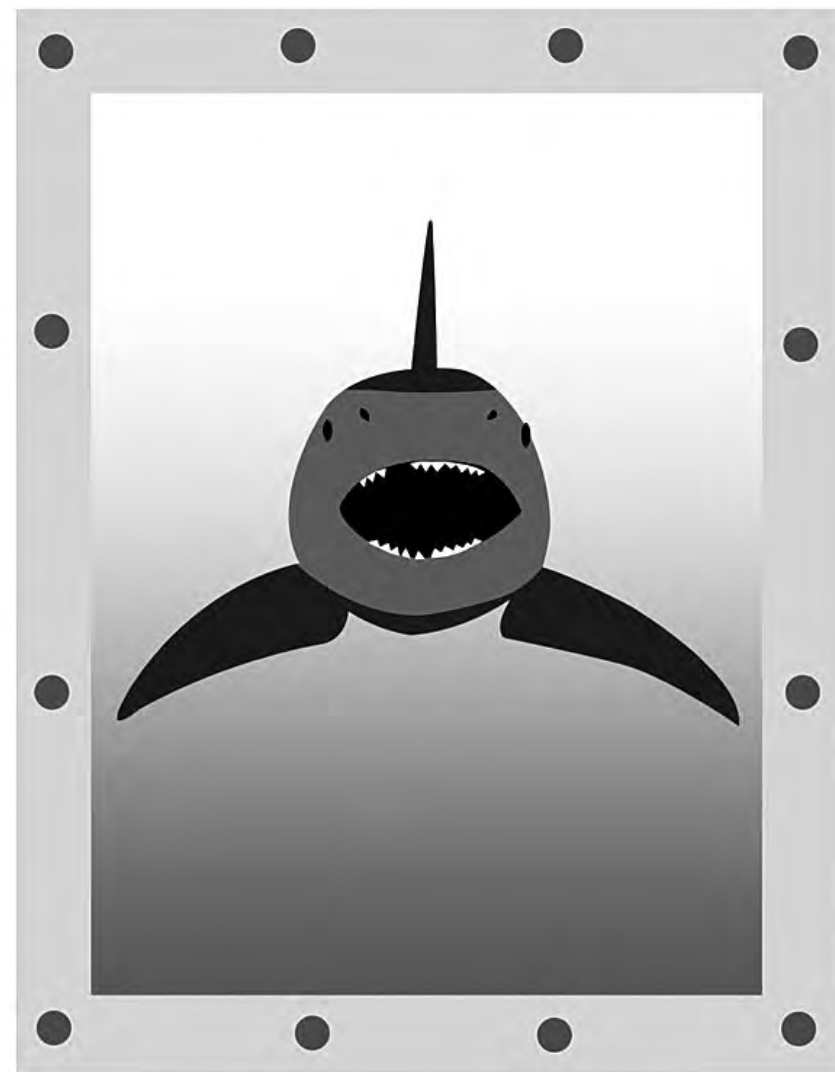


PHOTOS: GETTY, TOLGA AKMEN

The highs and lows of a cultural capital

An audacious mix of traditional and popular art, and public and private funding, puts London at the cutting

edge. By *Peter Aspden*



WHEN THE FILM director Danny Boyle unveiled his opening ceremony for London's 2012 Olympic Games before an international audience, he also confirmed what had become one of the world's worst-kept secrets. The fast-moving, politically charged and eclectic show, full of resonance, humour and ambition, made it clear to television viewers everywhere that London was ready to cement its reputation as the cultural capital of the world.

Not every part of the global audience appreciated every one of the ceremony's references, but that was part of its charm. This was not a dumbed-down affair, playing to the lowest common denominator. It was a properly cultural event, conceived and performed with bite and vivacity.

The ceremony marked the climax of a period, starting roughly at the turn of the millennium, that has put London at the forefront of world culture. The UK capital's ability to mix traditional and popular art forms deftly is unique.

There are only two reasons to applaud British culture, a snooty Frenchwoman once told me: Shakespeare and The Beatles. Well, they are not a bad starting point. But she was on to something. In recognising those giants of high and popular culture respectively, she was acknowledging that the British arts scene was uniquely able to blend those two spheres with fruitful results. London in the 21st century is the embodiment of that alchemical spirit.

The capital's traditional strengths have been internationally recognised for decades: its museums and galleries (including three of the world's top 10 by visitor numbers), given democratic lustre by their free-admission policies; its West End theatre scene, which attracts mollycoddled Hollywood stars to arduous and modestly salaried terms of engagement, and combines mainstream excellence with a spirit of genuine experiment; and outstanding opera and dance companies.

In popular art forms, too, London is an acknowledged leader. By coincidence, last year also marked the 50th anniversaries of two extraordinary British pop-culture phenomena: the first James Bond film, and the first Beatles album.

The Bond franchise is still massive – the latest instalment, *Skyfall*, is the world's seventh-highest-grossing film ever – while the country's most popular knight of the realm, Sir Paul McCartney, is still pressing the chords of "Hey Jude" at his piano, and still gets the world to sing along to its chorus. British pop, from Adele to Coldplay, is still a world beater.

What London has managed to do is combine the traditional and the popular elements of its culture in ways that could not have been foreseen even a couple of decades ago. For example, the Young British Artists movement of the 1990s, angry, irreverent and radical, might have fizzled out in the way that its punk music predecessors did in the late 1970s. Instead, it helped provide the impetus for the building of Tate Modern.

THE GALLERY, WHICH HOLDS A collection of modern and contemporary art that is far from the world's best, has nevertheless become a space that combines cultural experiment – its unmissable Turbine Hall installations – with popular appeal. One by one, Britain's temples of high culture have turned to street or popular performers to freshen their allure, in particular to young people.

Last year, the Royal Opera House in Covent Garden, commissioned DJ Mark Ronson to

compose and perform in one of the Royal Ballet's always-stimulating triple bills. The sculptor Antony Gormley, in his major exhibition at the Hayward Gallery in 2007, placed ominous human forms on buildings all around the gallery, wanting his art to "bleed", as he once told me, into the streets. In 2011, the British Museum gave a whole show to Grayson Perry, a cross-dressing artist who was once considered dangerously outré, but who produced an exhibition, *The Tomb of the Unknown Craftsman*, that was intellectually thrilling.

London's cultural institutions are able to programme with audacity, thanks to the mixed funding model that is the envy of most of the world.

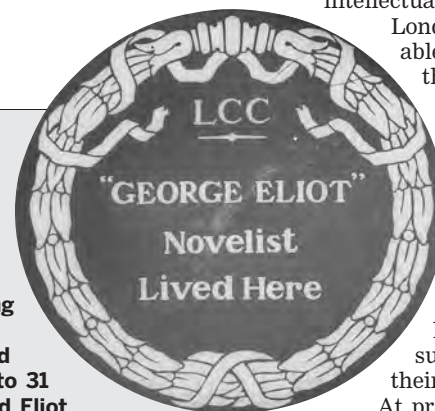
New York may have greater private patronage, the great European capitals may boast more supportive governments, but by combining these two sources of finance, private and public, London's cultural leaders are able to be more supple and more imaginative than their overseas competitors.

At present, they are dealing with cuts in central and local government grants, but they have been able, at least partly, to offset those with private money. Individual donations are increasing, while companies seem as willing as ever to identify themselves with cultural events, hoping that some of their glamour and spirit of innovation will rub off.

A scandalous writer in suburbia



Writer **Mary Ann Evans** – better known by her pen name, **George Eliot** – left London for the then suburban village of Southfields in winter 1859, trying to escape a city scandalised by her relationship with the married critic **George Lewes**. The move to 31 Wimbledon Park Road clearly did Eliot good: she completed *The Mill on the Floss* here, but the couple had little privacy. Snubbed by disapproving neighbours, Eliot commented that she "should like to transfer our present house... to someone who likes houses full of eyes round him". *FO'S*



Money is attracted to London's cultural vibrancy. The Frieze Art Fair, full of the kind of art that used to attract the derision of the tabloid press, has become one of the capital's premier happenings. What has become known as "Frieze week" fills London's most exclusive hotels and restaurants like no other event in the city. Contemporary art works attract dizzying prices. The Young British Artists are not so angry any more. Their leading light, Damien Hirst, is a multimillionaire.

LONDON'S CULTURAL SUPREMACY is now openly acknowledged by would-be rivals. "In short," summed up one article in *New York* magazine, "New York is cardiganed Woody Allen, and London is party-dressed Lily Allen."

Culturally speaking, Paris feels sleepy by comparison; newcomers such as Shanghai and Rio de Janeiro are full of energy but lack gravitas.

The mayor of London's World Cities Culture Report last year attempted to sum up what made the capital's cultural offerings so special. It was, it said, because the city was "more free, more tolerant, more relaxed about difference, more accepting of failure".

Danny Boyle's mischievous and occasionally anarchic ceremony of last summer reflected all of those qualities. London never stood prouder.

Video

The towers transforming the skyline of the City
www.ft.com/london-world



PHOTOS: GETTY; TOLGA AKMEN

Chuka Umunna MP Reform is needed to restore confidence



THERE IS NO PLACE QUITE LIKE our capital. Growing up in London as a mixed-race child of English, Irish and Nigerian extraction did not seem unusual to me; anywhere else and it would have. From the opera at Covent Garden to electro-funk at the Electric Brixton in my constituency, every music genre is catered for and new ones constantly created. From Manet at the Royal Academy to the street art that populates my area, we are spoiled for choice culturally. Little wonder, then, that London is a place those with talent flock to and choose to live in.

This talent, of course, helps power our economy. The latest Office for National Statistics figures show London is by far the largest contributor to the national economy among the English regions and countries of the UK. Yet we cannot rest on our laurels.

We house one of the world's leading financial centres and financial services contribute 22 per cent of our gross value added (GVA). But this sector has been brought low by scandals, including the mis-selling of payment protection insurance and interest rate swap products to consumers and small businesses; and the attempted rigging of the Libor rate. This has done immense damage to the City's international reputation, with talk of a "London problem" that has the potential to harm our economy.

At the same time, many small firms struggle to access the finance they need to grow and, as the Bank of England reiterated in recent weeks, a lack of trust in banks deters many business owners from approaching them for finance. These firms complain that the City is not providing the patient capital the real economy needs.

Scandal has led to talk of a 'London problem' that has the potential to harm our economy

We must act now to repair the City's standing at home and abroad. It is in no one's interest for it to be held in such low esteem, which is why I have said it was wrong for Vince Cable [the business secretary] to brand bankers as "spivs and gamblers". We need real change to restore trust and confidence.

That is why Labour strongly supported the recommendations of the Independent Commission on Banking headed by Sir John Vickers, while the government has decided to water down some of its key recommendations. We would promote greater competition in the banking sector through new challenger banks, introduce a code of conduct for bankers and launch a financial crime unit within the Serious Fraud Office.

Some say we need less financial engineering and more real engineering. It is true that we need to expand other productive sectors of the economy – professional, scientific and technical activities contributed just 12 per cent to London's GVA – but we cannot grow these other sectors if our financial services sector will not fund them. That is why we need a British Investment Bank to help get finance to those – including small manufacturers, innovators and designers – who will drive growth and job creation as part of a

A priority is the need to develop the skills of our workforce

proper industrial strategy. Britain is the only G8 country without a government-backed investment institution and there is growing support for one. Last month, shadow chancellor Ed Balls and I launched a consultation with the British Chambers of Commerce and others to help design a British Investment Bank to address our historic lack of long-term capital and the dearth of ready finance for smaller enterprises.

ANOTHER PRIORITY IS THE NEED TO develop the skills of London's workforce in an increasingly competitive world. Too many young people are out of work and not enough of them have the technical and engineering skills that many of London's firms need. Key sectors have persistent and costly skills gaps that we need to work with industry to solve and, in contrast with other countries, there is not enough support to help with the transition from school to work.

Skills shortages hold back both individuals and our economic potential. In my conversations with businesses of all sizes, addressing this challenge always tops their lists. That is why we have called for a new technical baccalaureate, giving employers more control over training so that young people have the opportunity to develop the practical and technical skills they need for the future, and for action to make it easier for small firms to take on their first apprentice.

Finally, our small businesses are the lifeblood of our economy, employing more than 1.7m people across London. Setting up a business here is not for the faint-hearted – our numbers of business births and deaths are the highest in the country. We want more people starting up, leading and growing businesses. If we are to unlock the entrepreneurial potential of London we need a much more supportive environment for business, particularly those starting out.

Despite being out of office nationally, Labour-controlled councils across Britain are developing innovative policies to support wealth creators and risk takers. In Wales, for example, Labour councils have developed a smartphone app to help small firms bid for procurement contracts, while Reading council has designed social media tools to match young people looking for work with local firms looking for employees. There is no reason we cannot do the same in London.

Last year, the Olympic and Paralympic Games offered a compelling vision of our city at its best, but also pointed to how we can be even better – a modern world city at the heart of the UK, at ease with itself and its history, outward-looking and confident. Let's keep this positive vision in mind as we look to London fully reaching its potential, helping Britain punch above its weight in an increasingly competitive, globalised world.

Chuka Umunna is shadow secretary of state for business, innovation and skills and Labour MP for the south London district of Streatham.

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