Getting our capital back to growth

Collective actions needed by London's businesses and policymakers

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Context:

London is in the early stages of recovering from the Covid-19 pandemic. It is critical for the future prosperity of Londoners, and for that of the United Kingdom as a whole, that the economic dimension of this recovery is as swift, vigorous, and broadly-based as possible. London represents almost a quarter of total UK GVA and generates a substantial tax surplus that funds the delivery of public services across the country. Today, it has more than a million furloughed workers. For the private sector to secure a rapid recovery, government, both at a national and London level, needs to work in lockstep to deliver both the **broad systemic** and **targeted sectoral support** that will be necessary to get the city back to work.

Some of these measures are national: for example, guidance on social distancing in a shop or office; the availability and guidance around workplace use of PPE; and furlough support for those sectors which will be slowest to return. These concerns are common across the UK. But the regional concentration of sectors varies, which will affect the nature of regional recovery. And, critically, some of this variance is so distinctive as to dictate the nature of return and recovery; this paper focuses on those issues which are particularly relevant to London over the medium-term.

There is collective action needed by all of London's businesses and policy makers to **help restore confidence in the capital, locally in London, across the UK and globally**: confidence to travel, confidence to return to work, confidence to visit and confidence to spend money. People are cautious about returning to normality: it is vital to show that the city is safe to go back to. London & Partners is leading a campaign to tackle this, but specific interventions will also be needed.

Across the board, decision-makers should have an eye on moving towards the future sustainable economy needed to keep the UK competitive into the future. As decisions are made to steer the economic shape of the recovery, there is an opportunity to reset and put greater focus on the environmental aspects, as well as how the capital can be a stronger force working with and for the whole of the UK, levelling up across the country and within London.

This paper summarises the immediate actions needed from London's businesses and policymakers as the city unlocks. It is supported by a number of underlying working papers which, given the fluidity of the situation, are being regularly updated. You can read the versions we have published today here. This paper focuses on the systems and sectors most critical to helping the capital get back on its feet in the weeks and months ahead.

Systems:

Looking first at the city's systems, the two most immediate areas for attention are transport and children's education. Beyond these, the future of London's workforce is critical as lockdown unwinds, important decisions are still to be taken on the shape of the immigration regime and continued investment in London's utility infrastructure is vital.

1.1 Transport:

A well-managed return to public transport is crucial for London business, as it is vital to restoring confidence in the capital. In normal times, millions commute in and out of the region on a daily basis as well as within the city, and the capital relies much more heavily on public transport than anywhere else in the country. Only 3 in 10 Londoners drive to work – chiefly in outer London – less than half the rate of any other UK region.

With current social distancing measures in place, public transport capacity could be as little as a sixth of normal. This creates two central challenges that London and national government need to work together to resolve.

First, the capacity of the network needs to be built in a way that is, and is felt to be, safe. Some Londoners will use the experience of the pandemic to work more at home; others will cycle or walk to work; some will inevitably drive, in the short-term at least. There is much that London government is doing and can do to encourage the sustainable modal shift that is critical in moving the city towards net zero carbon: for example, wider pavements, more dedicated cycle space and expanding road charging schemes. But as we return to normality, most will need to use trains, the tube, or buses.

London's unique public transport needs emphasises the importance of setting social distancing norms that reflect all risk factors and effects: not just public health from potential virus transmission, but also the risks around broader mental health and the impacts on the economy. The effect of mandatory wearing of face coverings on the network also needs to be factored into this calculation. Reducing social distancing would not just increase public transport capacity but would have a profound effect on the viability of the leisure, retail, and hospitality sectors.

The Government, City Hall, Transport for London (TfL) and businesses need to work in lockstep to ensure that - for as long as social distancing measures remain necessary - demand is reduced and retimed, taking account of the changing patterns that have emerged around an earlier rush hour and the continued absence of the night-tube.

Second, the consequences for public transport is funded need to be gripped. Fare income has collapsed and is likely to be reduced on an ongoing basis. TfL in particular is heavily reliant on incomes from fares to pay for its largely fixed costs; City Hall and the Government will need to work constructively together to enable TfL to weather this storm and to put in place a new sustainable funding model for the longer term. In parallel, the Government will need to put in place a successor to the rail franchising system, which should be accompanied by a reformed fares structure.

There is also a need to reconnect London, and the rest of the country, to our global markets. Over 1.5 million jobs across the UK are supported by air transport and more than 40% of our trade with non-EU countries travels by plane. There are whole sectors of the economy that simply won't get back to full strength without thriving international connections: Britain's manufacturers who rely on air connections to export goods; our world-class universities who secure almost £7 billion a year from international students; and the tourist industry that accounts for more than 7% of the national economy.

To safeguard our international connectivity, the Government needs to:

- progress quickly to a risk-based approach to international travel as opposed to an ongoing use of a blanket 14-day quarantine regime, with bilateral deals, evolving into multilateral frameworks, between low-risk countries with reliable healthcare measures;

- maximise the usage of airport slots, with airlines no longer using particular slots encouraged to release this capacity to other airlines – providing for a swifter recovery, and opening up greater competition to benefit consumers and businesses;

- maintain a long-term programme of support for the aviation sector, whose recovery will inevitably be amongst the country's slowest, including continued furloughing aid; and

- use the opportunity created by the hiatus to put in place a policy framework which aims to ensure that the UK is the best-connected country in Europe, for example by reforming aviation taxation to incentivise both reach and decarbonisation.

1.2 Re-opening schools:

This is the other critical enabler in getting people back to work, whether at home or in their usual workplace. This has the added urgency of ensuring that young Londoners are able to learn again in a formal setting.

Again, this is particularly important for London, which has the highest proportion of families with dependent children of any UK region at around 50% compared to the

UK average of just over 40%.London also has the highest proportion of single parent families in the UK, at around 20%. As schools reopen, the Government needs to:

- continue to work with the London boroughs, schools, and unions on a phased return to school;
- support schools in delivering the national curriculum to children who have had their learning disrupted; and
- ensure those school children who continue to learn at home are given better support from their school – both to improve their learning and to free up their parents.

The return to school illustrates the critical importance of effective, tactical joined up working within government over the coming months. For example, if school opening hours are not staggered the limited initial bus capacity, due to social distancing measures, risks being overwhelmed.

1.3 London's workforce:

Over recent years London's labour market has been both high performing and deeply challenged. On the one hand, London has a higher share of its employment in high-skilled occupations compared to the rest of the UK, which of course has supported home working over recent months, and the London population had higher levels of qualification than any other region with more graduates than any other city in the world. However, on the other, unemployment, including amongst young, BAME and disabled Londoners, and in-work poverty rates were among the highest anywhere in the country. London also faced a greater skills shortage than any other region in the UK.

The detailed consequences of the pandemic on the London labour market are uncertain, but the broad national impact on demand is clear. McKinsey estimates that 7.6m UK jobs are at risk because of Covid-19 (through permanent layoffs, temporary furloughs or reductions in hours and pay) while businesses have paused apprenticeships where they have proved impossible to continue (in early April an average of just 39% of UK apprenticeships were continuing according to the Sutton Trust). The number of people claiming work-related benefits rose 23% in May to 2.8 million.

Those in the lowest paid roles are the most vulnerable: McKinsey estimate that nearly 50 percent of all the jobs at risk are in occupations earning less than £10 per hour, when the median hourly pay in 2019 was £13.30. Younger workers are being hardest hit, with a third of 18-24-year-old employees having lost jobs or been furloughed, compared to 1-in-6 prime-age adults, according to the Resolution

Foundation. Without urgent intervention by government, a further increase in youth unemployment is inevitable.

To tackle these issues, the Government needs to put forward a substantial national response, which should include but not be limited to:

- maintaining a furloughing scheme to support jobs in those sectors that will return, but slowly;

- implementing effective retraining programmes, working with business and FE and HE, to give those whose past job has gone the skills to work elsewhere in the economy; and

- putting in place an effective short-term programme to support those leaving education in search of their first job, as this will be a particularly difficult time to enter the labour market.

For London, devolution to give the city the tools to meet London's particular skills challenges (for example around an 11-18 and adult careers strategy and an adult retraining scheme) remains particularly important, as does the reform of the apprenticeship programme where it is estimated that £470m of 2018/19 apprenticeship levy funds were unused by employers.

Finally, while it is clear that unemployment in the short term will rise this must not lead to an irrational tightening of migration rules. Of course, the priority is to support displaced workers back into work. But inevitably there will be differences between the skills that are needed to fuel the recovery and their availability locally. Where vital sectors such as health care, food logistics or construction cannot access the key workers they need from their local market, the immigration system must enable businesses to access talent more broadly. Such so-called 'low-skilled' workers should be eligible for a two-year temporary work visa, subject to a resident labour market test checking that the skills and labour required are not available locally.

1.4 Utility infrastructure:

That London's utilities kept the city smoothly functioning, against a backdrop of home working and very different demand patterns, belies the longer-term challenges that the city faces.

A multi-billion-pound programme of investment will be needed in energy and water networks to improve the resilience of the capital's utilities. Ageing infrastructure across water networks will need to be replaced: the average water main in the Thames Water region is 70 years old. Energy networks will need to change to support London's transition to net zero carbon: through installing ubiquitous rapid charging points for electric vehicles, for example.

London's new telecoms infrastructure is well behind its international competitor cities: London's full fibre coverage, for example, is just over 16% compared to some Asian cities, which have nearly 100% coverage. Similarly, London urgently needs to ensure that its 5G infrastructure, which is vital for the internet of things as well as mobile data connectivity, is competitive.

The Government had made national infrastructure improvement one of its signature commitments before the pandemic struck and business across the country, as well as in London, looks forward to the publication of the National Infrastructure Strategy. Such national frameworks, regulatory rules and investment programmes are the critical determinants of London's infrastructure.

However, in the wake of the coronavirus crisis, there are several steps that could be taken by London government to ensure investment continues to flow into the capital's utility and digital sectors, which play a crucial role in facilitating the wider growth of the capital. These include:

- launching the postponed pilot of the GLA's utility/developer coordinator service, which was postponed due to the pandemic, as better coordination between developers and utilities will speed up development activity and aid the capital's economic recovery;

- speeding up the rollout of full fibre and 5G, by spreading best practice across London's boroughs in the application of rules, permits, street works and parking charges; with local authorities also seeking to put in place wayleave agreements across their housing stock and promoting the standardised City of London/GLA wayleave agreement; and

- a return to business as usual granting of permissions from local councils as soon as possible, as this is critical to maintaining the resilience of the city's utilities.

Sectors:

While the mix of the London economy, by sector, is different to that of the UK as a whole, most of the sector-specific challenges are common. For example, while London, and particularly central London, is more reliant on the UK as a whole on professional services the challenge of getting people to the 10^{th} floor of a building via lifts while maintaining social distancing is identical across the UK.

However, for some sectors, their concentration in London means that they do need a specific focus. For example, the Tourism Alliance estimates tourism accounts for around 7.8% of UK GDP with London accounting for almost a third of the total UK spend. Given the size of the capital's contribution, specific interventions will be needed.

So, while many challenges are national, there is a London lens that is relevant to public policy; for example, as set out below, high streets are innately local, are very affected by local policy, regional policy and sit within national policy and legislation – and the sum of these parts materially affects the future of London's economy. This part of the paper focuses on those vertical sectors of the economy where London has particular public policy needs – which may require national as well as local action.[1]

2.1 Real estate

The specific issues facing housing and commercial development are discussed below. But both rely on the planning system facilitating growth and London developers face three sets of planning rules: central government planning policy; the GLA's London Plan; and the boroughs individual plans and policies. London business needs to see:

- the speedy adoption of the London Plan. The new London plan is currently under negotiation between the Mayor and the Ministry of Housing, Communities and Local Government. Providing certainty on the development plan against which planning decisions will be assessed will help to build confidence and minimise risk for developers. It is therefore vital that the Mayor and the Government work constructively and quickly together to adopt the new London Plan;

- a focus on the viability of development. New development pays a series of taxes which need to be flexed in line with the state of the economy. The Government has issued welcome new guidance on the Community Infrastructure Levy (CIL) and planning obligations but should also introduce the revised CIL regulations as quickly as possible and consider extending CIL deferrals beyond SMEs. This needs to be followed by London government, and in particular, City Hall must ensure that it has the resources to process applications quickly: more schemes will inevitably have to negotiate in detail via the Mayor's Viability Tested Route; and there are likely to be complex reviews of schemes' viability during construction; and

- speeding up the process to make changes to an extant planning permission is critical, as is extending the life of planning permissions that are due to expire. Development in London is almost always undertaken on urban, brownfield sites, which pose a series of complex challenges both in terms of construction and planning. Planning permissions often need to be altered to ensure the scheme remains deliverable, as well as responsive to changing market conditions. Given the current economic uncertainty, providing a simple

[1] Specific issues for transport not covered in the opening section, are detailed in the accompanying annex.

mechanism for such changes would keep planning permissions alive and boost construction activity, without the significant costs, time delay and uncertainty of having to submit a whole new application.

A further common issue is capacity of the construction sector. The 2008 recession saw a rapid fall-off in demand which led to construction workers moving to other sectors, retiring, or leaving the country; and consequent shortages as demand picked up.

Housebuilding

Over decades, London's housing supply has failed to keep up with demand. This has created a host of social problems for the city and made it difficult for businesses to recruit and retain talent. 66,000 new homes are needed every year to meet demand, according to the new London Plan, but only 32,000 new homes were built in 2017/18, and starts on private homes fell by 31% between 2017-2019. Construction activity in 2020 has been hit by the pandemic and, facing the prospect of an extended downturn, a range of actions will need to be taken to ensure that construction continues and demand for new homes, whether to rent or buy, is supported. These are:

- maintaining certainty in the market by extending Help to Buy - in 2018, over 40% of new build properties in London were supported by the scheme;

- pausing the introduction of the First Homes proposals (which risk causing significant uncertainty in housing delivery in London) at least until the housing market is on a stable footing;

- boosting the supply of affordable homes. It is likely that the amount of affordable housing provided through S106 agreements will come under pressure due to the economic circumstances. In previous downturns, counter-cyclical public investment has helped to support the wider housebuilding industry as well delivering the affordable homes that London so desperately needs. Analysis suggests that London needs c. £5 billion of housing grant a year to deliver the number of affordable homes it needs. Now is the time for Government to redouble its efforts by increasing investment and acting as a buyer of last resort, if necessary, by purchasing unsold market homes at cost;

- extending flexibility on affordable housing grant, procurement and Right to Buy receipts: existing rules across these three areas should be made more flexible to help maintain market momentum;

- taking advantage of Build to Rent (BTR) as catalyst for development through the GLA:
    - facilitating bulk sales of unsold housing stock, supported by the use of affordable housing grant where viability is a problem;

- acting as a broker and utilising the full range of its wider planning and land powers to match BTR investors with landowners/developers that have large, stalled developments;
  - updating the overall BTR planning framework to encourage boroughs to plan proactively for BTR developments, where possible harnessing the potential for partnerships that can provide an ongoing revenue stream to a borough; and
  - setting out a financial review process for BTR schemes based on the bespoke investment model for sector and not on the process used for for-sale housing.

- reducing Stamp Duty Land Tax (SDLT): if demand for housing does not recover, Government should consider a temporary galvanising intervention to stimulate transactions, such as reducing the rate of SDLT and exempting Build to Rent forward purchases from the 3% surcharge. SDLT is a poorly designed tax and in 2018-19 London generated nearly 40% of England's receipts.

<u>Commercial Property</u>

Commercial property plays a vital role in London's economy, generating over £8bn in business rates annually. Prior to the pandemic, structural changes were taking place within London's property market, including the movement to online retailing, the growing importance of industrial space to support last mile delivery, and the evolution of the traditional office environment.

It seems likely that the pandemic will accelerate these structural trends, which in turn will affect the growth of London's business districts, town centres and high streets. Steps must now be taken to put in place the right policy framework to help shape these changes and bolster the delivery of London's commercial property market, and include:

- greater flexibility around the use of premises in London's high streets, which will require legislative change through of the Use Classes Order;

- in the shorter term, a direction from the Government and the GLA to local authorities to ensure a positive planning climate to support all forms of development for town centre uses and encourage joint working between local authorities and the private sector. Some further permitted development rights could be introduced to allow temporary change of use without the need for planning permission. The licensing regime would still provide the mechanism to protect residential amenity;

- using public funding, including any collected but as yet unspent CIL receipts, to leverage private sector investment into public realm improvement schemes which both local landowners and local authorities see as important;

- specific temporary flexibility for buildings used by the tourism and hospitality sectors, such as hotels, until their sectors recover. This should also apply to purpose-built student accommodation given that many students will not be able to occupy their accommodation until universities are able to return to normality; and

- a furloughed space grant scheme. With less rent expected to be collected at June's quarter day than the previous quarter, the Government must act now that recognises the interconnectedness of the commercial property market and the need to support businesses' property costs. For landlords, payments to lenders need to be made and insurers and pension funds are reliant on their investments to generate income to match their obligations. We back industry calls for the Government cover the fixed costs, on a sliding scale, of businesses that have experienced dramatic falls in turnover.

2.3 Higher Education

A third of all overseas students in the UK are studying in London, which is the most popular city in the world for international students, hosting 40,000 students from continental Europe and 70,000 from the rest of the world. It seems almost certain that the numbers coming to study in London in October 2020 will be greatly reduced, which puts the longer-term financial sustainability of our universities at risk. Universities are planning for a c.50% reduction in the volume of EU and international students, in a sector worth around £7 bn. This income cross-subsidised UK students, so an increase in UK numbers does not obviate the income challenge and is vital in funding the UK's world-leading research and development.

The Government's recently established taskforce is welcome. This will consider how the pandemic will affect its international student strategy; it must get going quickly and should include a London representative. Its first priority should be to work with universities to agree a reliable forecast of the number of international students expected to come to the UK this autumn and what this this translates as a financial shortfall, and agree a further package of support that will keep universities going over the next academic year.

The Government needs to do all it can to support the sector's efforts to attract international students: the UK needs to be more open and more welcoming, with visa turnaround time reduced, the process made less intimidating, and the cost lowered. It should make clear that London is open to study, working closely with the GLA and London Higher on a coordinated campaign, which in turn is linked to the wider confidence building activity being driven by London & Partners. The Government should also work with universities to ensure policy supports the development and introduction of more blended learning courses, where international students can study for part of the time in their home country, and the balance in the UK. Finally, the Government should increase its research support to universities to compensate for any loss of funding from lower overseas student numbers.

2.4 Creative and cultural

Getting the sector through the difficult months ahead is vital to London's future. In part because of the sector's scale – London is projected to experience the highest drop in creative industries' GVA, seeing a £14.6 billion shortfall, with one in six creative jobs potentially lost – but also because of the role the arts scene plays in supporting London's international competitiveness, attracting and retaining both businesses and talent. An added challenge facing the sector in London, particularly in central London, is its reliance on public transport and international visitors.

The creation of the Government's Cultural Renewal Task Force and its Entertainment and Events Working Group are welcome moves. Early actions for the government must be to:

- clear guidance on planned changes to social distancing rules at the earliest possible moment – this is vital for venues themselves and for the ability of people to get to them;

- adopt the Cultural Investment Participation Scheme (CIPS) proposal developed by the performing arts sector, which asks for investment in the short to medium term so it can continue to play a vital role in Britain's success and help the UK's recovery. CIPS would provide flexible, simple to access and repayable funding to cultural organisations, which would be returned in cash over a fixed-term and/or through in-kind work in education, community, wellbeing, and talent development work; and

- continue and develop the Job Retention Scheme, and extend the Self-Employed Income Support Scheme, to support the freelancers and self-employed artists that make up approximately 80 per cent of the sector, ensuring relief continues for those businesses that will take longest to become fully operational again; and

- Support the proposal from Theatres Trust to make temporary changes to the planning system to protect theatres, theatre buildings and other vulnerable cultural/social facilities that have been adversely impacted by Covid-19.

2.5 Retail

As with the cultural sector, the challenges facing retailers in London are generally similar to those in the rest of the UK. There are however some particular issues, alongside public transport capacity, facing retailers in the West End, notably their historic reliance on international visitor spend and the impact of lower office occupancy on trade in the short-medium term. This would therefore be a good time for Government to look to extend Sunday trading hours in the UK's international centres, as set out in planning policy and to extend tax free shopping to visitors from the EU, who make up 70% of tourists in London and are likely to be amongst the first to return.

ENDS

If you would like to find out more about our thinking on any of the points raised in the paper, please contact losborne@londonfirst.co.uk for more information.