London First Comprehensive Spending Review 2020 submission

About us:

London First is a membership group which campaigns to make London the best city in the world to do business. Our membership comprises over 200 leading employers across a wide range of sectors. We convene and mobilise business leaders to tackle the key challenges facing our capital.

Context:

The 2020 Comprehensive Spending Review (CSR) takes place at a time of unprecedented uncertainty: the UK economy is in the early stages of its ongoing management of, and recovery from, the Covid-19 induced recession, and considerable uncertainty remains around short-medium term public health measures. The Prime Minister has recently announced that people will be encouraged to work from home where they can and that further restrictions will be needed for hospitality businesses. We have welcomed Central Government's willingness to step in to date - most recently via the Chancellor's Winter Economy Plan - and we support continued swift responsiveness and conceptual flexibility to provide targeted assistance for those businesses that need it as they adapt to the emerging context.

London's economy faces distinct challenges. Consumer spending has shifted away from the Central Activity Zone (CAZ) and tourist income, a key part of the West End's revenues, has collapsed. However, the prize of a robust recovery in the capital is significant: London is the heart of the UK's economy and it has a vital role to play in supporting the whole country's recovery. As well as challenges, there will be opportunities to make the city better, including by revisiting the role of planning, mass transit, and how office space is used, and fairer, tackling long-standing issues around inequality and pollution. London can also act as a test bed for further devolution, creating a blueprint other, leading cities can follow. The sections below outline how we believe the CSR can support this.

Short-term pandemic related needs

It is clear that there will need to be a slower than planned withdrawal of government support for those sectors and geographic areas hardest hit to ensure that the short-term shock of lockdown does not destroy fundamentally sustainable businesses and jobs. These measures will extend into the next financial year and therefore affect this CSR.

In particular:

- **In the short-medium term, the most critical single issue for London's economy is continued support by Central Government for Transport for London (TfL).** In recent years over 70% of TfL's revenue has come directly from the passengers who use its services. This is a much higher percentage than in most similar transport providers and was hit hard by the pandemic, as ridership on the tube fell to just 4% of its usual levels. TfL received a grant of £1.095 billion and a loan of £505 million, to keep services running until October 2020, but with considerable operational intervention by government. The Treasury will need to release continued funding to support TfL in in line with its proposals in the short term, and enable suitable longer term funding arrangements, as below;

- **employers nationwide need continued support** to survive where they cannot yet trade profitably. While we welcome the measures in the Chancellor's Winter Economy Plan, the Government should go further now and extend the business rates relief to the leisure, hospitality and retail sectors through the next financial year; support the high street with tax free shopping for visitors from the EU from 1 January 2021; and extend tax credits to support training and reskilling. Continued support will also be needed for the cultural sector both in the short term, as so many venues remain closed or are operating at lower than viable capacity, and as they move into recovery, as consumer behaviour will take time to re-establish itself;

- **ongoing rent rescheduling will be needed alongside support for those businesses whose trading has suffered** most through the pandemic. Landlords are employers too and it is important to recognise that while flexibility is vital, their finances will become increasingly strained; and

- **the future of the aviation sector is at risk**. 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. Demand has collapsed as governments across the world have brought in travel restrictions to combat Covid-19. Employment support should be maintained for longer; a business rates waiver for airports, similar to that which has been offered by the Scottish Government, should be introduced; and Air Passenger Duty should be suspended to support demand.

  There are whole sectors of the UK economy – from SMEs to large employers – that simply won't recover and thrive without international connections: our manufacturers rely on air connections to export goods; our world-class universities get around £6.9 billion a year from international students; our tourism industry accounts for more than 7% of the UK economy; and much of our hospitality sector relies on international visitors. The Treasury should ensure resources are available to develop and roll out a safe testing-on-arrival regime at the UK border.

London's longer-term needs

1 Unemployment and skills

The pandemic has seen one in three London workers furloughed and a substantial rise in unemployment is starting to feed through into the London labour market. Many apprenticeships have stalled. This is against the backdrop of a labour market has been both high performing and deeply challenged. On the one hand, London has had 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.

Medium term issues affecting the London labour market include: 1.9 million jobs having high potential for automation in the next 20 years; the economic consequences of Brexit (including both the nature of the new trading arrangements with the EU and the restricted access to EU workers); and the ageing profile of the workforce, which is particularly prevalent in some sectors such as construction.

Businesses need:

- **the skills funding system to be agile through recovery as they happen**: adequate funding based on actual need, as opposed to forecast spend, needs to be provided over the next years, and in particular, the UK Shared Prosperity fund needs to at least maintain historic levels of EU funded spend;

- **city-regions to be able to direct skills interventions in the most appropriate ways for their populations,** through a UK skills devolution programme that would enable London to establish an 11-18 and adult careers strategy and adult retraining scheme.

Turning to apprenticeships, in London it is estimated that £470m of 2018/19 apprenticeship levy funds were unused by employers. The Chancellor's commitment to provide incentives to hire apprentices is welcome, but support is needed for those who already have them in place to make sure these apprenticeships can succeed. The Government needs to reform the system to:

- **make it easier to bulk transfer funding to other firms**, as a single, simple digital transaction because businesses are keen to help their suppliers and other firms in their area or sector; and

- **allow business to use a portion of their levy on apprenticeship administration costs, salary costs, and robust, accredited pre-employment training**.

2 Housing

Housing supply in London has failed to keep up with demand, which has not only restricted Londoners housing choices but also made it difficult for businesses to recruit and retain talent. According to the current London Plan, 66,000 new homes are needed every year in capital to meet demand, but only 32,000 new homes were built in 2017/18, and starts on private homes fell by 31% between 2017-2019. Facing the prospect of an extended downturn brought on by the pandemic, continued Central Government investment in housing will be crucial to ensuring that construction continues. This is why we welcome the Government's recent announcement about the forthcoming £11.5 affordable housing programme (2021-26), demonstrating its continuing commitment to support the construction of the affordable homes this country needs.

However, the level of investment on offer only scratches the surface of England's housing crisis. With regard to London, the potential £4bn on offer is a reduction to the £4.8bn total housing settlement currently given to the GLA (2016-21), yet the need for affordable housing in the capital is only increasing, and housing affordability will be further tested by the impacts the pandemic.

In June 2019, the GLA and G15 group of housing associations published a report showing that £4.9 billion per year of Central Government funding is needed to deliver the number of affordable homes that London needs (The 2022-2032 Affordable Housing Funding Requirement for London, June 2019, GLA and G15). If the Government wishes to make serious inroads in building more affordable homes, it must increase its level of investment.

London's largest housing associations are currently funding up to 85% of the cost of a new affordable home though cross-subsidy with private sales. However, with challenging economic outlook ahead and increased costs, including those associated with fire safety remediation and retrofitting existing homes to reduce carbon emissions, the cross-subsidy model is likely to fund fewer new affordable homes through the medium term.

<u>Private investment into affordable housing</u>

Given the need for affordable housing, the Government should review the policy and legislative framework to consider what opportunities there might be to secure greater levels of private investment into affordable housing. Long-term institutional investors such as pension funds are looking for secure and predictable income to match pension liabilities and affordable housing is a potentially attractive opportunity. London First is currently considering what the barriers to further investment might be and would welcome the opportunity to discuss these with officials when the work is completed.

A very specific intervention is that which Places for People has undertaken, proposing the introduction of tax incentives to support employers investing in subsidised housing for their staff. The aim of the proposal is to boost supply of labour in constrained markets and boost the overall supply of new homes by encouraging additional investment. The homes will be funded by employers; built by contractors; let to employer´s staff; and managed by professional housing management companies. The UK already builds key worker housing for those in the public sector. This is an extension of that approach – into the private sector, drawing on the legacy of early industrial employers who built homes for their workers, which the Government should look to support, potentially via the establishment of a pilot scheme.

3 Local authority funding and services

Following substantial per capita cuts in public spending, London's local authorities need adequate funding to ensure that they can perform the functions businesses rely on. We therefore support the arguments made by Central London Forward, London Councils and the GLA in their submissions on ensuring London government has adequate funding through the CSR to meet London's social and economic challenges.

At a more specific level, Local authority planning departments need to be adequately resourced to process applications swiftly and efficiently. This is currently not the case and leads to substantial delay and knock on costs for private sector applicants. In particular, technical expertise needs to be available where required for subjects like design, conservation, sustainability, and ecology. This increased funding can be through direct grant, increased fees, or a mixture of both.

4 London's transport

The Government should publish its National Infrastructure Strategy as soon as practicable. This should maintain the remit given to the National Infrastructure Commission to spend at least 1.2% of GDP on infrastructure investment. Despite being ranked 8th in the world for overall competitiveness, the quality of transport infrastructure is a drag on Britain's scorecard. Our port and rail infrastructure are ranked 16th and 19th respectively, our road and air transport are further behind (27th and 28th).

In London, TfL needs a stable, long-term funding settlement. This can be grant funding from Central Government, as is common in most similar cities; it can be devolution of revenue streams, in keeping with the recommendations of the London

Finance Commission, established by the Prime Minister when he was mayor; or it can be charges (for example on road users). Most likely, it will be some mix of all three.

In line with the UK's Net Zero ambitions, specific funding should be released to accelerate the electrification of London's bus fleets. This is an area where TfL's procurement power can have a catalytic effect, particularly if coordinated with transport providers among the other M9 metro Mayors. Stimulating demand for both electric vehicles and their supporting infrastructure, as well as the creation of secondary markets, would drive efficiencies and multiply the impact of Treasury funding. Other relatively low-cost interventions such as expanding central London pier capacity could further enable sustainable journeys in the capital.

The action taken by the Government to secure the future of the UK rail sector has been welcome. Covid-19 is accelerating the trends of home working, but modal shift is still an essential objective for the journeys that do happen. The current rigid regulation of rail ticketing products does not support this, in fact it creates perverse anomalies that allow split ticketing to save some people money. A rationalisation of the 55 million different rail fares across the UK is long overdue.

Similarly, for the benefits of HS2 to be truly realised, the development of the Northern Powerhouse Rail scheme north of Crewe should not be further delayed. Capacity upgrades at Euston must be considered within these plans, most likely in the form of a commitment to developing Crossrail 2 in parallel.

Returning to aviation, the Government should unequivocally indicate that it still intends to support growth in the aviation sector, including at Heathrow. This will allow the private sector to make investments and maximise the contribution that aviation can make to the recovery. Surface access improvements, both public sector and market led, should be a priority alongside a revised National Policy Statement. Government support for growth in aviation capacity should be integrated with a comprehensive National Infrastructure Strategy and signalled at the CSR.

5 Private investment in infrastructure

Private capital will be needed to help deliver London and the UK's infrastructure ambitions, particularly when the Government's balance sheet is constrained post-COVID. Along with private investment in regulated industries, London has benefitted from private capital in project finance and delivery for schemes such as Thames Tideway and the Silvertown Tunnel. Following the decision to halt PFIs for new projects in 2018, there is now a need to come up with a replacement public-private partnership model

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The Government should publish the long-awaited Infrastructure Finance Review (IFR) alongside the National Infrastructure Strategy as soon as practicable, and set out plans for a replacement infrastructure project public-private partnership model. The IFR should also set out the Government's approach to using different models to attract finance for different types of infrastructure.

6 Promoting Full Fibre and 5G

London's telecoms infrastructure is well behind its international competitor cities: full fibre coverage stands at just over 16% while some Asian cities 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 fit for its world city status.

To encourage faster deployment of investment in full fibre networks, the Government should extend the exemption of business rates on new fibre – building on the example of Scotland, which has introduced relief for new fibre broadband infrastructure for 10-years from 1 April 2019. This would support the achievement of rollout targets by 2025.

7 Improving the resilience of the capital's utilities

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 (e.g. the average water main in the Thames Water region is 70 years old) to ensure that London's infrastructure is resilient against threats such as facing the highest increase in the risk of drought or flooding across the UK. And the capital's energy networks will need to support the transition to net zero. London's energy networks are already responsible for supplying infrastructure to 25% of the UK's electric vehicle charge points and the Mayor has made further installation of rapid charge points a priority.

The GLA and utility companies have been working together to identify ways of accelerating investment into projects that will promote resilience of the capital's utilities and boost London's economy. Central Government should review whether current regulation will ensure that projects with a robust value for money case can be brought forward to improve the resilience of the capital's utilities.