Autumn Budget and Comprehensive Spending Review 2021

Representation from London First

September 2021

1. London First is a business campaigning group with the mission to make London the best city in the world in which to do business, for the benefit of the whole United Kingdom. We convene and mobilise business leaders to tackle the key challenges facing the UK's capital and represent over 170 of the city's biggest employers across a wide range of sectors.

2. We welcome this opportunity to share our views on the priorities for the upcoming Budget and Spending Review. Our submission focuses on short-term support to accelerate the recovery in the capital and beyond, and on medium to longer term actions, which will galvanise growth and maintain the UK's competitiveness. While we recognise that public finances are constrained, the cost of these interventions is dwarfed by the potential return and will boost the Government's levelling-up agenda to the benefit of the whole UK.

London in the UK economy:

3. Getting recovery right in the capital is important for the country as a whole – London accounts for a quarter of GVA, supports supply chains across the country and generates a substantial tax surplus for the Exchequer. That said, coming out of the pandemic, London has the highest unemployment rate in the country (which the increase in unemployment disproportionately affecting black and minority ethnic groups and young people) and it has higher levels of poverty than many other parts of the country, particularly after higher housing costs are taken into account. Levelling up should therefore focus on disadvantaged communities wherever they are in the country, including London.

Public transport:

4. Transport for London's (TfL) short-term funding arrangement with the Government expires on December 11. The pandemic broke the farebox model and left a significant hole in TfL's finances. The current cycle of short-term bailouts has risked undermining confidence in the network at a time when a push is needed to get people back into their offices to work.

5. TfL needs a sustainable financial settlement which:

- Enables sufficiently inclusive and **frequent bus, train, and tube services** so that public transport use can increase, especially as London recovers from the pandemic and patterns of demand change.
- Incentivises **efficient, safe, and reliable** transport services.
- Contributes to London achieving **net zero carbon** and improving air quality.
- Provides **medium-to-long-term certainty** so that the capital investments London needs can be planned and developed; and
- Maintains Transport for London as **an integrated transport authority** with the independence to make operational decisions and renewals investments.

In its submission, TfL has asked for £500m in operational support, for the rest of this financial year (2021/22) and £1.2bn for the financial year 2022/23. We strongly support this ask as the central priority in the CSR.

6. In addition, we support TfL's request for at least £122m long-term investment in **electrification of its bus fleet**, which would deliver at least 1,300 new electric busses, saving 1 million tonnes of carbon over 14 years. As well as reducing carbon and improving air quality in London, the scale of this e-bus

manufacture will provide the critical mass for the British bus industry in general to set up mass e-bus production, enabling the same benefits to be achieved by towns and cities nationwide. This fits well into both the levelling-up agenda and into the Government's net zero by 2050 commitment.

7. Funding should be provided for the **replacement of the 50-year-old Bakerloo and Central Line trains** – the oldest trains in operation in the UK. This would secure train manufacturing in the UK for the next two decades; move away from outdated, unreliable, and increasing expensive stock; and, with air cooling, improve passenger experience on the two hottest Lines. This should be combined with the upgrading of signalling to significantly improve the consistent flow of services and the introduction of new green technologies, like regenerative braking. The Elizabeth Line shows how much investment in TfL can benefit the UK as a whole: 62% of the Elizabeth Line's procurement was outside London with, amongst other things, trains made in Debry, steel from Cardiff, and gantry cranes from County Down.

8. The arrival of **HS2 at Euston** provides a huge opportunity to develop the local area, providing a world-class transport interchange, and unlock transformational development above and around the station, to support economic growth and levelling-up across the country. A comprehensive redevelopment of Euston could draw in over £9bn of inward investment, support 10,000 jobs during construction (and 30,000 once completed), with thousands of homes built and acres of green space secured.

9. Old Oak and Park Royal Development Corporation (OPDC) has ambitious plans to deliver a new urban district around the new HS2 interchange. For the area to realise its full potential, a coordinated approach to investment and development of the wider site is required, otherwise a piecemeal approach will take place losing a once in a generation opportunity to maximise the regeneration of the area. The Government must pursue a 'single agency' organisation of the HS2, Network Rail and DfT land holdings and provide sufficient enabling investment to act as a catalyst for major private investment and development in the area.

10. **Thamesmead** is one of the biggest regeneration projects in the UK with over £1bn set to invested in the transformation of the area. Government support for the extension of the Docklands Light Railway (DLR) to north Thamesmead would help unlock the full potential of the scheme. The DLR extension is a tangible and deliverable project supported by the relevant boroughs, TfL, and the major developers in and around the site.

11. Government investment is a crucial part of a wider funding package for the DLR extension and would help to deliver a new place bringing much need homes, jobs, and economic growth to the area.

Getting people back into the capital:

12. Central London has been hit hard by the combination of the sharp fall in international travel and the increase in working at home. London needs to build on the existing London and Partners campaign to attract domestic tourists and bring workers back to the capital with a **vigorous, suitably scaled campaign funded at a level comparable with other world cities, costing £170m in incremental spend over three years**.

13. This would have a dramatic impact on increasing domestic and international visitors to the city. Research by London First drawing on analysis from Bain & Company found that Hong Kong's comparator agency spent £80m in 2019/20 alone, c. £57m above London's expected annual spend. New York and Singapore also considerably outspend London; the former with a budget 32% higher and the latter with a budget 536% the size of the capital's.

14. As part of this campaign there should be parallel measures to make it easier for those visiting London to spend time – and money – elsewhere in the country (for example through the pricing of rail fares). Research shows a willingness from international visitors to travel beyond London, which is not yet being fully harnessed.

International travel:

15. In normal times, over 1.5 million jobs across the UK are supported by international travel and aviation alone directly contributes £22bn each year to the economy, with more than 40% of our non-EU trade travelling by plane. Our world-class universities receive £6.9bn each year from international students. Inbound tourism accounts for more than 7% of the UK economy. And 9.5m people living in the UK were born overseas.

16. As of September 2021, the UK aviation market remains at half the level it was in 2019, whilst major European economies like Spain, Italy, and France have recovered to more than 70% of their pre-covid levels. Travel within the EU remains more uniform and less burdensome than travel to and from the UK. Recent announcements are welcome, but more is needed.

17. Firstly, a review is needed to look at the **potential impact of sector-specific support beyond the end of the Coronavirus Job Retention Scheme**. A rapid and comprehensive assessment should be undertaken to understand the costs and benefits of providing bespoke support to the only sector that remains under significant state-imposed restrictions.

18. Secondly, **funding should enable NHS tests to be used for travel**. The significant individual expense to purchase the required tests for entry places too high a burden, especially for individual tourists. Over 1.5 million jobs across the UK are supported by international travel and aviation alone directly contributes £22bn each year to the economy, so securing a strong return of tourism and business travel is very important. The use of rapid tests as opposed to PCR tests and simplifying the PLF system would also make the process smoother.

19. In the longer term, sustainable aviation fuel should be the focus for reducing aviation carbon emissions. The link between growth in aviation and growth in consequential carbon emissions has already been broken in recent years owning to new technologies, and it is estimated that the use of sustainable fuels could bring emissions down another 32% by 2050. Sustainable fuels are at the tipping point of widespread rollout, with many projects on the verge of commercial-scale production. We support Sustainable Aviation's work in this area and echo their calls for the creation of a **cross-departmental Office for Sustainable Aviation Fuel to coordinate government action in this area and for £500m of government investment** in the creation of a commercial plant for research, development, and manufacture of sustainable fuels.

Skills:

20. The UK jobs market is suffering from a number of challenges at the moment, despite the success of the furlough scheme. From difficulties in accessing the right skills post-Brexit, to shortages across a wide range of sectors and higher than average unemployment levels, support is needed to get the whole economy firing and to support those who lost their jobs during the pandemic in finding alternative work.

21. To drive the recovery and get young Londoners ready for the jobs of the future, a business-led reskilling programme is needed in the capital. To ensure that the right people with the right skills can be matched to where they are needed, **city-regions should be better able to direct skills interventions in the most appropriate ways for their populations**.

22. In the first instance, this means devolving key powers and resources to London Government, including:

- The devolution of London-specific National Careers Service Agency funding from the Department for Education to create a London Careers Service (this could be topped up with devolution of Immigration Skills Charge funding raised in London).
- Devolution from the Treasury of the capital's share of the National Plan for Jobs.
- Sufficient powers and funding to support employees from sectors that have suffered the most during COVID-19 or because of automation via a London Adult Retraining Scheme.
- The implementation of an ambitious UK skills devolution programme overseen and coordinated by regional employer-led skills commissioning boards, that would allow London to operate this new institutional structure at scale and support even more Londoners, including targeting those from disadvantaged communities; and
- The creation of a London Apprenticeship Fund targeted at small firms and sectors affected by Covid-19 to re-start apprenticeship growth in the capital (this could be funded by returning any underspend by London apprenticeship levy payers from the Treasury to the mayor **– estimated to be c.£460m**).

Housing:

23. The £4bn provided to the Greater London Authority (GLA) for the Affordable Housing Programme (AHP) 2021-26 is welcome, but it is a reduction from the £4.8bn provided for the previous Programme (2016-21). If the Government is to meet its pledge to deliver 300,000 homes a year it will need to focus development where there is greatest need.

24. There are many parts of London such as the Opportunity Areas identified in the London Plan that could deliver significant numbers of new homes, but where some form enabling investment is required to unlock private investment. The Government should work in partnership with the GLA and relevant London boroughs to provide additional financial resource beyond that allocated in the most recent AHP to boroughs that have shovel ready schemes.

25. 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. This review should ensure that rules relating to the sector are transparent and applied equally to all providers, and that unnecessary barriers to private capital delivering affordable housing are removed.

26. Buildings are responsible for around two thirds of London's total greenhouse gas emissions and increasing energy efficiency is therefore vital for achieving net zero. Shifting from gas dominated heating to low carbon technology has the potential to drive significant benefits for London's recovery: analysis suggests that an ambitious programme of retrofit could create 150,000 to 200,000 direct jobs, with further indirect benefits in the supply chain regionally and nationally. A recent report commissioned by London Councils estimates that achieving net zero in London's homes alone could cost nearly £100 billion. Achieving net zero will require consistent, reliable, and long-term central government funding, and private investment in retrofitting in London.

Taxation:

27. Businesses will drive the UK's recovery and need a stable and competitive tax regime to do so. London generates 30% of business rates yield in England and, if revaluation arrangements continue alongside trends in growth, this share could rise to almost 60% by 2040, according to the GLA. The government must undertake a fundamental review of business rates, which includes consideration of the effectiveness of business rates as a measure of economic activity, particularly given the move toward online retailing. Maintaining the system as a property-based tax makes it hard to avoid and provides certainty of funding, but the current arrangements are not fit for purpose as they do not work for London and are increasingly making us uncompetitive.

28. In the shorter term, restoring the 'tax-free shopping' Retail Export Scheme to help attract tourism back, extending Sunday trading hours in the UK's international centres, and extending the business rates holiday and VAT relief all remain critical to support the post-Covid recovery. With the tax burden on business from Corporation Tax and National Insurance contributions both rising, it is important that these reliefs remain in place.

Digital infrastructure:

29. London's telecoms infrastructure lags behind international competitor cities: London's full-fibre coverage is at less than 20%, compared to some Asian cities, which have nearly 100% coverage. The Government should develop a package of measures that continues to encourage investment in full-fibre connections to support UK cities' pitch as global, and digitally connected in a hybrid world. This could include extending the exemption of business rates on new fibre. Similarly, London urgently needs its 5G infrastructure rollout to be expedited, as it is vital for the internet of things as well as for mobile data connectivity.

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