BUSINESS LDN

Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Thursday 12 October 2023

Dear Chancellor,

Time to break free from Britain's low-growth trap
BusinessLDN submission to the Autumn Statement

BusinessLDN speaks for over 170 of the leading businesses in London, spanning a wide range of economic sectors. We strive to make London the best city in the world in which to do business, working with and for the whole UK.

This year's Autumn Statement comes at a pivotal moment for the UK economy. It's time to choose:

- between going for growth or settling for the status quo;
- between investing in long-term productivity enhancing measures or applying a short-term sticking plaster to the cost-of-living crisis; and
- whether we are serious or not about winning in the high-growth sectors of tomorrow.

All this matters, not just for the benefit of London, but for the whole of the UK.

London, of course, has many strengths and has proven itself to be agile, resilient, and more than capable of winning on the global stage.

The Mansion House 'compact' that you announced earlier in the year will help maintain the City's status as a global financial centre and keep funds flowing to the high-growth companies of tomorrow.

But there are significant headwinds which need addressing.

First, the cost-of-living challenge facing consumers is particularly acute in London, with mortgage and rental costs taking a greater share of income, along with relatively high commuting and childcare costs. All of this makes for a tough backdrop for firms to attract and retain talent. Second, the costs of doing business remain high, driven by a combination of ongoing energy costs, inflationary pressures on pay and in supply chains, interest rates and taxation. And third, frequent changes to tax, regulation and broader public policy have created uncertainty amongst international investors at a time when competitor nations are raising their game and making an overt pitch for business.

So, it's time for a concerted effort to drive up the UK's competitiveness. The "4Es" of enterprise, education, employment and everywhere provide the recipe to break free from Britain's low-growth trap. We have framed our submission around these drivers of growth.

Our submission also focuses on the measures necessary to support employees and business through the immediate challenges as well as reforms to deliver sustained growth over the long-term.

We are conscious that the private sector will have to step up at a time when the public finances are constrained. Our submission includes recommendations for better spending of existing budgets, such as greater flexibility around housing budgets. We also identify some levers that you could deploy – such as restoring VAT-free shopping for international visitors – which could boost growth and deliver a net increase in tax revenues almost immediately. And by providing certainty in other areas – such as Transport for London (TfL) funding – we believe this will help to leverage more private sector investment.

Yours sincerely,

John Dickie
Chief Executive, BusinessLDN

SUMMARY OF RECOMMENDATIONS

Enterprise

1. Restore VAT-free shopping for international visitors.

2. Increase relief for small businesses as part of a wider package of Business Rate reforms.

3. Bring capital into scope for R&D tax credits to keep London and the UK at the vanguard of innovative, scale-up businesses.

4. Make full capital expensing permanent.

Education

5. Increase flexibility in the Apprenticeship Levy to maximise its impact in supporting more people into work.

6. Move skills funding towards more sustainable multi-year funding settlements as opposed to short-term piecemeal funding pots.

7. Deliver place-based funding allocations to universities and colleges that reflect realistic operating costs in their localities.

Employment

8. Increase funding to address the availability, affordability and quality of childcare provision and provide a boost to the labour market.

9. Create a one-stop-shop model to support job seekers, alongside targeted interventions to tackle inactivity in the London labour market.

10. Ensure that the immigration system supports economic recovery and growth.

11. Make any future targets for the National Living Wage data driven around employment and the current economic situation.

Everywhere

12. Commit to long-term capital funding for Transport for London along with delivering sustainable fares reform.

13. Give autonomy and flexibility to regional economies through fiscal devolution & consolidation of funding pots.

14. Work with the private sector to maximise the benefits from HS2 and keep the door open for future expansion.

15. Agree a price support mechanism to accelerate the adoption of Sustainable Aviation Fuels.

16. Scrap the proposed Infrastructure Levy to provide certainty and help kickstart development.

17. Commit to government mandated funding models for new infrastructure.

18. Allow Local Planning Authorities to charge ringfenced, cost-reflective planning fees so housing applications can be processed quickly and to a high standard.

19. Allow full expensing of build costs on brownfield housing delivery.

20. Provide more flexible and higher levels of funding for affordable housing.

21. Kickstart a retrofit revolution for housing in London.

ENTERPRISE

London's strengths include its breadth and depth of business opportunities, its deep capital markets, being home to the most start-ups in the UK and the high levels of innovation flowing from its world-leading universities. But London's productivity growth rates are stubbornly low, including when compared to international rivals such as New York and Paris. Enterprise reforms to shift the dial on this should double-down on London's strengths, encourage established firms to step up their investment and innovation, and seek to retain more high-growth scale up businesses in the Capital. We believe the Government should:

- **Restore VAT-free shopping for international visitors.** The decision to end VAT-free shopping is weighing on our economic performance. Recent figures from Global Blue show that 10% of UK spending by international visitors in 2019 has now relocated to European Union countries, which all offer this incentive. The number of international shoppers in the UK has almost recovered to pre-pandemic levels but this lags far behind France, Spain and Italy, which have doubled their American visitor numbers. Reintroducing the scheme would significantly boost London and the wider UK economy by increasing spending in hotels, restaurants, museums and theatres – as well as retail. This additional spending would more than compensate for the loss of VAT receipts on some sales of goods – delivering a significant net increase in tax revenues annually – and making the restoration of tax-free shopping a win-win for business, the economy and the country.

- **Increase relief for small businesses as part of a wider package of Business Rate reforms.** With the rise in the cost of doing business being felt most acutely by small firms, the Government should increase the rateable value threshold below which small businesses receive 100 per cent rates relief from £12,000 to at least £28,000 in London. This would provide support for businesses struggling with high costs ahead of the revaluation taking effect in April 2024. We also recommend more widespread reform of the whole business rates system, including full devolution of business rates tax policy to London, along with other cities and regions of England.

- **Bring capital into scope for R&D tax credits to keep London and the UK at the vanguard of innovative, scale-up businesses.** Innovation will play a central role in moving to a higher-wage, higher productivity economy, and shaping a high-growth, scale-up economy. Bringing capital into scope would encourage firms to locate R&D facilities in London and across the UK, so we reap the benefit of recurring innovation.

- **Make full capital expensing permanent.** With London's productivity continuing to prove stubbornly low, averaging just 0.2% per annum between 2007-2019 according to Centre for Cities, and significantly behind the likes of New York and Paris, more work is required to encourage long-term investment to drive productivity and growth.

EDUCATION

Major labour and skills shortages are continuing to hamper business growth. Two-thirds of London firms are struggling to fill vacancies[1], with difficulties reported in recruiting at all skills levels. Key priorities identified in the BusinessLDN led Greater London Local Skills Improvement Plan include digital skills, green skills, transferable skills and labour market inclusion.

London's universities are a national asset, and the Government should utilise their expertise to boost growth, harnessing their knowledge and skills in science, technology, creativity and research to help shape solutions to the nation's biggest challenges.

To address issues around education and skills, the Government should:

- **Increase flexibility in the Apprenticeship Levy to maximise its impact in supporting more people into work.** We recommend extending the deadline for spending Levy funds from two to three years; enabling larger employers to transfer more funds to SMEs (from 25% to 40%); and allowing Levy funding to be spent on pre-employment training and the wage costs of new apprentices from priority groups. Taken together, alongside a re-introduction of employer incentive payments targeted at SMEs, we believe these reforms would have a material impact on the number of apprentices hired.

- **Move skills funding towards more sustainable multi-year funding settlements as opposed to short-term piecemeal funding pots**, as part of a set of reforms to deliver a skills system that is fit-for-purpose.

- **Deliver place-based funding allocations to universities and colleges that reflect realistic operating costs in their localities.** The Government should provide a fairer allocation of the Strategic Priorities Grant which is proportionate to delivery and operating costs across England, including in high-cost cities such as London.

EMPLOYMENT

London is simultaneously grappling with one of the highest unemployment rates in the UK at a time when labour and skills shortages are putting the handbrake on business growth. Part of the challenge is that Black and minoritised groups have higher rates of unemployment and inactivity. For working parents and carers, the challenges are compounded by facing the highest childcare costs in the UK. To address these challenges, the Government should:

- **Increase funding to address the availability, affordability and quality of childcare provision and provide a boost to the labour market.** Recent BusinessLDN polling with the Central District Alliance business improvement district suggests that Londoners are spending more than a third (36%) of their monthly personal income on childcare, with 53% rating it as unaffordable, and nearly half (49%) saying the cost had pushed them into debt. To address the cost of childcare, the Government should cover 100% of childcare costs for those on universal credit, 30-hours of free hours childcare a week available for all 52 weeks of the year, and bring forward the timeframe for increased funding to primary

[1] LSIP survey of London business leaders

schools to provide wrap-around care, so that it is available from September 2025. To increase the availability of childcare by strengthening the sustainability of the childcare provider market, the Government should exempt all early-years providers from Business Rates, as is the case in Scotland and Wales. And to drive up quality, the Government should increase investment in the early-years workforce, including attracting more apprentices and graduates, to support the planned 25% increase in staff:child ratios going to 1:5. BusinessLDN's imminent report on childcare will also include recommendations and a 'menu of options' on ways in which business can step up and do more to support working parents in order to build on government action.

- **Create a one-stop-shop model to support job seekers, alongside targeted interventions to tackle inactivity in the London labour market.** The one-stop-shop should bring together the co-location of employment support (Job Centre Plus), careers advice (National Careers Service) and skills support (training providers) modernised through private sector expertise. Measures to address inactivity could include opening up employment support to those not on benefits and who can't access it; further support targeted at the over 50s, disabled workers and so on; and more coordinated support for employers, including access to help with inclusive recruitment, induction training, flexible job design and workplace support.

- **Ensure that the immigration system supports economic recovery and growth,** including a temporary visa for industries where there is clear evidence of labour and skills shortages and regularly scheduled reviews of the Shortage Occupation List. Expanding appropriate existing routes, for example the Youth Mobility Scheme through agreeing more partnerships with EU and non-EU countries would bring economic and social benefits. And the UK should put in place flexible visitor visa arrangements to enable London and the UK to benefit from international visitors attending the Paris Olympics next summer.

- **Make any future targets for the National Living Wage data driven around employment prospects and the current economic situation.** BusinessLDN strongly supports the London Real Living Wage, and the benefits it brings to both businesses and individuals. With the remit for the Low Pay Commission running until 2024, we continue to support a target-based approach that offers business certainty. Any future remit should emphasise a data-driven approach that prioritises employment prospects and is reflective of current economic conditions.

EVERYWHERE

As an island nation, transport connectivity is critical to London and the UK's success: for people to access job opportunities; for businesses to have access to a broad and diverse pool of talent; and for visitors and locals to make the most of a vibrant tourism, leisure and retail experience. Ensuring the availability and affordability of housing also plays a vital part in maintaining a vibrant labour market, to keep people living in and working in London. It is becoming an increasing factor in firms' ability to recruit and retain talent. There is also a powerful counter-cyclical case for stepping up public investment in housing at this point in the economic cycle, given new starts in the private sector are showing a significant drop-off. We recommend that the Government should:

- **Commit to long-term capital funding for Transport for London along with delivering sustainable fares reform.** The ability to keep London moving is fundamental to its deep labour market and transport is a critical enabler for all sectors of the economy. The Government must deliver clarity and certainty over long-term capital funding, to enable vital projects such as signalling upgrades on the Piccadilly Line, extensions to the Bakerloo Line, the DLR to Thamesmead, the West London Orbital and eventually Crossrail 2. These investments should be planned and delivered in a way that maximises the economic benefits for supply chains across the UK. In addition, the Government should deliver wholescale, sustainable reform of transport fares that reflect new, post-pandemic patterns of travel and that treats rail and other modes of public transport as critical enablers of economic activity.

- **Give autonomy and flexibility to regional economies through fiscal devolution & consolidation of funding pots.** London, like other regions in the UK, would be better served by greater devolution of decision-making in order to play to local strengths and drive growth. Local leaders are best placed to determine how to use funding to solve issues that hold the economy back. London is the beneficiary of several government funds, including the Future High Streets Fund, the Community Renewal Fund and the Levelling-Up Fund. In London, this totals more than £650m. Allowing consolidation of these funding pots – from skills to transport projects – will support growth and prosperity across London and the UK.

- **Work with the private sector to maximise the benefits from HS2 and keep the door open for future expansion.** The Government must urgently work with the private sector around the terms of the proposed new Development Corporation at Euston and to clarify what it expects from the private sector and what it will provide to enable the construction of the station and the associated development to take place at pace. Certainty over the long-term future of HS2 is an important part of any such plan for Euston and we call on the Government to include passive provision for future expansion if a future government decides to extend the route to the North West.

- **Agree a price support mechanism to accelerate the adoption of Sustainable Aviation Fuels.** London's worldwide connectivity is integral to its success as a global City, and its airports are at the heart of a world-class supply chain. Aviation is a strategic national asset and the UK risks further losing competitive advantage to international rivals if the Government fails to support the production and adoption of Sustainable Aviation Fuel and the sustainable jobs across the UK associated with it. With carbon increasingly affecting business decisions on flying, the availability of SAF-based flights will be a growing factor in supporting economic activity.

- **Scrap the proposed Infrastructure Levy to provide certainty and help kickstart development.** The proposed introduction of the Infrastructure Levy in place of the existing system of S106 and the Community Infrastructure Levy (CIL) will create confusion and uncertainty for developers and Local Authorities alike. Whilst not perfect, the current system of CIL and S106 has delivered significant benefits for communities and the wider economy and could be improved through small changes rather than implementing a whole new system whose effect is uncertain.

- **Commit to government mandated funding models for new privately provided infrastructure.** The UK Government Infrastructure Finance Review showed that half of the UK's £600bn infrastructure pipeline over the next ten years will come from private sources. To release this investment, the Government should clearly set out preferred infrastructure funding models on a sector-by-sector basis, building on the success of the model employed for Thames Tideway Tunnel and Contracts for Difference for offshore wind. The absence of an investable pipeline of projects, backed up by established funding models, is making it difficult for the private sector to invest over the long-term and allocate resources to projects.

- **Allow Local Planning Authorities to charge ringfenced, cost-reflective planning fees so housing applications can be processed quickly and to a high standard.** Planning remains one of the major barriers to building homes and commercial development at scale and at pace. The under-resourcing of planning departments impacts both speed and efficiency and a step change in service delivery is needed. The Government should allow local planning authorities to set cost-reflective application fees, with requirements about swifter determination of applications, and these fees should be ring-fenced to give planning departments the tools to process applications efficiently.

- **Allow full expensing of build costs on brownfield housing delivery.** Given the scale, complexity and social value generated in bringing forward brownfield land for development, providing investment incentives would encourage greater development of the type of homes in the right sort of locations that command widespread public support. The incentive should focus on build costs and exclude the cost of land so that is targeted at supporting the investment required to transform existing brownfield land into new homes.

- **Provide more flexible and higher levels of funding for affordable housing.** Addressing the need for more affordable housing is not purely about the amount of funding, but also greater flexibility in how this funding can be spent. Flexibility on timescales from one funding programme to another and an ability to switch without adverse impact should be immediate priorities. Having addressed flexibility, attention should then turn towards closing the growing gap between the grant provided by government and the amount that is required to deliver the number of affordable homes needed in the Capital. Furthermore, greater policy support is required to leverage more private investment into affordable housing including by providing certainty over a future rent settlement and levelling the playing field, in terms of tax treatment, between Registered Providers and For-Profit Registered Providers. Further details are outlined in this report undertaken with CBRE.

- **Kickstart a retrofit revolution for homes in London.** Housing represents more than a third of London's CO2 emissions. Reducing these emissions requires retrofit at scale, making homes more energy efficient and switching to cleaner energy sources. To get there, the approach must shift from piecemeal actions to a holistic plan that has supportive policy commensurate with the level of political ambition. It is necessary that Minimum Energy Efficiency Standards (MEES) apply to all homes alongside powers being devolved to London, coupled with greater capacity for local authorities to support this bold plan. This retrofit acceleration needs to be supported by a comprehensive London Retrofit Action Plan to provide the incentives and regulatory certainty needed by homeowners and institutional investors, with actions for both national government and devolved government through the Greater London Authority.