BUSINESS LDN

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

23 January 2024

Dear Chancellor,

Backing business to grow the economy
BusinessLDN submission to the Spring Budget

BusinessLDN speaks for over 170 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.

Having laid the foundations for growth in the Autumn Statement, this Spring Budget is an opportunity to build on those measures to further encourage investment, productivity and growth.

London has proven itself to be agile, resilient and more than capable of winning on the global stage. But there is more to do to unlock the Capital's potential to support prosperity across the UK.

In making our submission, we are mindful that public finances remain under pressure. Our recommendations focus on proposals for more effective spend of existing budgets, low-cost measures that can deliver a near-term boost to growth with a rapid return for the public purse, and ideas where targeted public spending can unlock and leverage private sector investment.

We have framed our submission around the "4Es" of enterprise, education, employment and everywhere that you have rightly diagnosed as the drivers of growth.

Yours sincerely,

John Dickie
Chief Executive

SUMMARY OF RECOMMENDATIONS

Enterprise

1. Reinstate VAT-free shopping on goods for international visitors.

2. Remove existing Sunday trading restrictions on London's two London Plan designated international centres.

3. Deliver long-term certainty on Business Rates to support the retail, leisure & hospitality sectors that form such a vital part of London's economy.

4. Ensure that economic regulation consistently focuses on competition and growth.

Education

5. Make the Apprenticeship Levy more effective in supporting people into jobs.

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

Employment

7. Support the creation of a one-stop-shop model to support job seekers, alongside targeted interventions to tackle inactivity in the London labour market.

8. Ensure that the immigration system supports growth and maintains the UK's international attractiveness.

9. Provide a boost to the labour market by working with the private sector to improve the availability and affordability of childcare.

Everywhere

10. Build on the one-year settlement for Transport for London and provide certainty with a multi-year deal alongside delivering sustainable national rail fares reform.

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

12. Work with the private sector to maximise the benefits from HS2.

13. Work with industry to agree a revenue certainty mechanism and accelerate the adoption of Sustainable Aviation Fuels.

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

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

16. Improve land-use planning practice to boost investment and accelerate development.

17. Allow full expensing of build costs on brownfield housing delivery, so that these costs are treated like other capital expenditure for tax purposes.

18. Deliver more affordable housing by enabling greater flexibility of funding, policy changes to leverage in private investment and a step-change in the level of funding for affordable housing.

19. Deploy stamp duty adjustments to encourage a market-led response to retrofitting homes.

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, and sectors such as retail, leisure and hospitality which form a major part of London's economy are facing significant cost pressures. Enterprise reforms should reinforce 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:

- **Reinstate VAT-free shopping on goods 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.

- **Remove existing Sunday trading restrictions on London's two London Plan designated international centres.** The West End and Knightsbridge should be added to the list of Sunday Trading Act exemptions to boost revenue, increase jobs and attract more tourists to the capital. This move would generate around £350 million of additional sales every year, supporting 2,000 full-time equivalent jobs. Shopping hubs in New York, Paris, Dubai, Milan and Madrid, all enjoy significantly longer trading hours on a Sunday.

- **Deliver long-term certainty on Business Rates to support the retail, leisure & hospitality sectors that form such a vital part of London's economy.** The Autumn Statement confirmed a further, temporary extension of the Retail, Hospitality and Leisure scheme providing eligible properties with 75% relief, up to the cap of £110,000 per business. Whilst welcome, these and other sectors are facing ongoing cost pressures. We recommend more widespread reform of the whole business rates system, including greater devolution of business rates tax policy to London, along with other cities and regions of England, enabling them to better tailor the tax to local circumstances and ambitions.

- **Ensure that economic regulation consistently focuses on competition and growth.** Since the initial privatisations dating back to the 1980s, economic regulators have seen addition after addition to their statutory duties. It is time for these to be simplified and be made consistent across regulators, around the key principles of firms financing their functions; the protection of vulnerable consumers; the promotion of competition within the sector and the support for growth across the UK economy.

EDUCATION

Skills shortages are continuing to hamper business growth. Key priorities identified in the BusinessLDN-led Greater London Local Skills Improvement Plan include digital skills, green skills, transferable skills and labour market inclusion. Beyond embedding these skills into the curriculum, the Government should:

- **Make the Apprenticeship Levy more effective in supporting people into jobs.** We recommend extending the deadline for spending Levy funds from two to three years, enabling larger employers to transfer more funds to SMEs, and allowing Levy funding to be spent on pre-employment training. We encourage the re-introduction of employer incentive payments targeted at SMEs. The government should also review the flow of levy funding between employers, HMT and DfE, to ensure that this funding is generating maximum return on investment and ensure that any employer underspend is reinvested in boosting apprenticeship and skills provision.

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

EMPLOYMENT

London is grappling with one of the highest unemployment rates in the UK against a backdrop of structural skills shortages holding back 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:

- **Support the creation of 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 meets the needs of the labour market in high value sectors to drive growth.** Sending a clear signal that the UK values the benefits immigration can bring, both economically and in terms of soft power, is essential if London is to remain a successful global city. The Government has announced the Migration Advisory Committee's review of the Shortage Occupation List and is proposing to replace it with the Immigration Salary List, alongside a review of the Graduate Visa route. Against this backdrop, we recommend:

    - Ensuring that the new Immigration Salary List which is replacing the Shortage Occupation List can respond to businesses' needs where there are genuine labour and skills shortages.

    - Re-committing to the international education strategy, including by maintaining the Graduate Visa.

    - Expanding the Youth Mobility Scheme and extending work rights to those on student visas at language schools and FE colleges.

    - Continuing to review visa costs and health surcharges so that they are internationally competitive.

    - Putting in place flexible visitor visa arrangements to enable London and the UK to benefit from international visitors attending the Paris Olympics this summer.

- **Provide a boost to the labour market by working with the private sector to improve the availability and affordability of childcare.** The UK has one of the most expensive childcare systems in the world. The government has taken helpful steps to expand free hours and provide wraparound care. But the funding and supporting infrastructure remain insufficient to tackle the scale of this challenge. Soon-to-be-published analysis undertaken in association with KPMG shows that increasing labour supply amongst parents and carers with children under five could increase GDP by up to £11.3bn per annum and give a potential boost to the public finances of up to £3.2bn. To build on the measures it has implemented to date, the government should set out a roadmap with further measures to address the cost of childcare. We recommend widening eligibility for the 30-hours of free hours childcare a week, making it available for all 52 weeks of the year and bringing forward the increased funding to primary schools for wraparound care so that it is available from September 2025. The government should also clarify the tax rules around workplace nursery exemptions to allow more employers to enter Workplace Nursery Partnerships with existing early years providers.

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 dynamic 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. And the government should ensure that London and the UK continues to be open to international investment into residential and other assets. We recommend that the Government should:

- **Build on the one-year settlement for Transport for London and provide certainty with a multi-year deal alongside delivering sustainable national rail fares reform.** A world-class public transport network is vital to keep London moving, retain its position as a global city and support jobs across the country. The recently announced one-year deal is welcome and will provide some short-term certainty. But it is now important that a multi-year funding deal is agreed, in line with settlements for other City Regions, Highways England and National Rail. Critical projects include extensions to the Bakerloo Line, the Docklands Light Railway to Thamesmead as well as continuing to increase accessibility to the Tube and overground networks. A longer-term settlement will enable investments to be planned and delivered in a way that both maximises the economic benefits for supply chains across the UK, and investment in the future skills base needed to deliver the projects. The Government should also deliver wholescale, sustainable reform of national rail fares over the longer-term 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 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.** The commitment to Euston remaining the London terminus is welcome. The private sector stands ready to work in partnership with the government to deliver the project at the lowest cost to the Exchequer. To achieve this, we recommend that the government:

  - Works with the private sector to deliver a scheme that strikes a balance on speed, cost and value. A pre-requisite for success is for the tunnelling contract between Old Oak Common and Euston to proceed as planned, as standing down the current contracting team would significantly drive-up costs including additional calls on the public purse.

  - Works with business to devise a credible strategy about how all aspects of the project will be financed and funded at the earliest possible stage, to reduce the likelihood of unexpected cost increases in the future.

  - Quickly opens discussions about how private sector delivery partners will be involved with the proposed Development Corporation and the geographic scope of the project.

- **Work with industry to agree a revenue certainty mechanism and 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. Government support for the production and adoption of Sustainable Aviation Fuel and the sustainable jobs across the UK associated with it is important to maintain the UK's competitive edge with international rivals. With carbon increasingly affecting business decisions on flying, the availability of SAF-based flights will be a growing factor in supporting economic activity. We urge the government to collaborate with the industry and put in place a revenue certainty mechanism, building on the principles and lessons from the contracts-for-difference model that helped underpin the success of offshore wind.

- **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 incremental change 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 be financed 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 UK projects.

- **Improve land-use planning practices to boost investment and accelerate development.** Planning remains one of the major barriers to building homes and commercial development at scale and at pace. Under-resourcing of planning departments impacts both speed and effectiveness, and a step change in service delivery is needed. The government's announcement in the Autumn Statement about the introduction of "new premium planning services across England with guaranteed accelerated decision dates for major applications and fee refunds wherever these are not met" is welcome. To build on this proposal, the Government should allow Local Planning Authorities (LPAs) 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. We would welcome government engagement in a BusinessLDN-led Planning Resource Taskforce to explore how to further leverage private sector funding could be used to provide additional resources to LPAs in a transparent way that maintains the integrity of the planning system.

- **Allow full expensing of build costs on brownfield housing delivery, so that these costs are treated like other capital expenditure for tax purposes.** Brownfield development is usually complex and expensive, yet it often generates high social value and can provide the mix of homes that can command public support. Developers should be able to fully expense their build costs in the same way as other capital investment is treated for tax purposes.

- **Deliver more affordable housing by enabling greater flexibility of funding, policy changes to leverage in private investment and a step-change in the level of funding for affordable housing.** With only two years remaining on the existing AHP, the government should confirm the details for the new programme beyond 2026 to avoid a stop-start transition. Greater flexibility in how funding can be spent, for example through flexibility on timescales from one funding programme to another or having an ability to switch funding programmes could deliver near-term gains. Policy changes could help leverage more private investment into affordable housing, for example by providing certainty over future rent settlements or by levelling the playing field in terms of tax treatment between Registered Providers and For-Profit Registered Providers. And over time, the government should address 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.

- **Deploy stamp duty adjustments to encourage a market-led response to retrofitting homes.** Housing represents more than a third of London's CO_2 emissions. With home improvements most often undertaken when people move home, the government should implement a Stamp Duty Land Tax rebate if energy efficiency improvements are made to a home within two years of purchase to encourage a market-led response to meeting its net zero targets.