BUSINESS LDN

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LONDON AS AN ENGINE OF GROWTH

A manifesto for the next Government

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FOREWORD

Improving productivity to accelerate growth must be the key economic priority for the next Government. It is the only sustainable way to improve prosperity and fund the investment our public services need.

Delivering on this ambition will not be easy. The Organisation for Economic Co-operation and Development forecasts that the UK will be the worst-performing economy in the G7 next year[1] while the tax burden is set to hit its highest level since the Second World War[2]. Creating the growth Britain needs requires a close partnership between government and the private sector.

London, an economic engine for the whole UK, is central to this ambition. The city's Central Activities Zone is home to a range of world-leading clusters – such as financial and professional services, life sciences and the creative industries, to name but three – that together account for almost a tenth of national output.[3] Overall, the city is responsible for a quarter of the country's economy. UK-wide supply chains benefit from a successful capital and vice versa. London is home to world-beating universities and is a hub for high-growth, innovative companies with more unicorns – start-up companies worth over $1 billion – than any other city in Europe.[4] The capital is where businesses come to find talent and people come to find opportunity.

London's net fiscal surplus, the difference between taxation raised and public expenditure made in the city, was £37.9bn in the financial year ending 2022, an increase from its pre-pandemic level of £37.4bn. This surplus rightly supports public spending in other parts of the country.

Yet despite its economic heft, a quarter of Londoners live in poverty after housing costs are taken into account.[5] And annual productivity growth in the city between 2007 and 2019 was on average just 0.2% – far lower than its global competitors and significantly below the rate of the previous decade.[6]

Reversing this trend is essential to improve our prospects. Our manifesto sets out a package of no or low-cost measures that would quickly boost the economy if delivered as part of a programme of predictable, consistent and transparent policy reform. We also identify ways of spending existing funds more effectively alongside some modest investments that could materially increase growth. And finally, we set out some more significant public investments which would, in turn, leverage further private sector investment. Taken together, they would provide a much-needed shot in the arm to the economy as well as helping to deliver the homes, infrastructure and skills needed across the country.

To deliver this agenda successfully, the next Government should also give local leaders the powers, resources and thus accountability they need to drive regional growth. The current heavily centralised approach of the UK forces towns, cities and regions to compete for small pots of money as part of an inefficient, bureaucratic and costly set of processes. Letting London, and other city regions, set their own priorities and delivery strategies would provide better value and better outcomes.

We stand ready to work with the next Government and London government to deliver the jobs and growth that our city, and our country, needs.

JOHN DICKIE
Chief Executive
BusinessLDN

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EMBRACE DEVOLUTION

to enable London to channel available funding to where it is needed

This General Election follows swiftly on from May's Mayoral and local elections. It presents an opportunity for all levels of government to come together to establish a fresh vision for how the UK works, rather than simply relying on the old, centralised model that is broken – perhaps beyond repair.

The main parties have all talked extensively about devolving power from Whitehall to other parts of the country: it is now time to deliver. Greater devolution would incentivise local leaders to invest their resources more effectively to support growth and increase accountability.

There has been some welcome progress in recent years with Greater Manchester, the West Midlands and the North-East securing 'trailblazer' devolution deals that give those regions more tools and long-term funding to drive growth. But more needs to be done to break the iron grip of Whitehall.

London, like other UK city-regions, needs greater devolution to tailor spending priorities to meet local needs and support local strengths. The Mayor and London's boroughs, retain only a tiny proportion of the taxes raised in the city – around seven percent.[7] The equivalent figure in New York is more than 50 percent. This heavy reliance on funding from the Treasury does not allow the capital to plan, invest and grow as effectively as it could.

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Put London on a similar footing to the other 'trailblazer' regional devolution deals already in place with longer-term block funding.

Make better use of existing funding

- Consolidate various government ring-fenced pots – totalling more than £650 million in London across the Future High Streets Fund, the Community Renewal Fund and the Levelling Up Fund. This would streamline complex and expensive bidding processes, while also delivering better returns on spending across the UK.

- Deliver greater autonomy and flexibility to regional economies through policy and fiscal devolution, in line with the recommendations of the London Finance Commission. In particular, devolution of business rates would be a good first step by incentivising local authorities to take a more strategic view on how to best drive local growth and, over time, capture the financial benefits.

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REFORM TAX AND REGULATION

to make London a more attractive place to invest

A successful London benefits the whole UK economy by acting as a gateway for global talent, investment and opportunity. The capital's success means it delivers a net tax surplus for the UK of around £38bn a year.[8] But for too long now, the capital has been pitted against other parts of the country in a case of politics trumping economics.

This narrative needs to be reset. As part of a concerted effort to boost economic activity across all regions, the next Government's economic strategy should help London reach its full potential as an engine of growth for the whole UK.

This is particularly important with the economy facing significant headwinds. The cost-of-living crisis, higher interest rates, continued industrial action and geopolitical tensions are all dragging on consumer and business confidence. Meanwhile, competitors around the globe are trying to capture business from London, particularly in high-growth sectors.

London's biggest strength is the breadth and depth of its marketplace, and the next Government should do everything in its power to maintain this. Ensuring the UK is seen as a stable place to invest and do business must be the key priority. This should be allied with targeted steps to boost our international competitiveness and ensure access to global markets.

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Finish the job on planned financial regulatory changes, such as the Mansion House reforms and the work of the Capital Markets Industry Taskforce, that have yet to be fully implemented.

- Scrap stamp duty on share transactions to improve the attractiveness of the UK as a place to list and invest in a move that would pay for itself.[9]

- See through the Harrington Review of Foreign Direct Investment that includes reforms which have cross-party support to boost the UK's attractiveness, including a 'single front door' into government, backed up by consistent political signalling to foreign investors that they are welcome here.

- Set out a credible roadmap on tax to encourage investors and provide the certainty needed for long-term decision making.

- Undertake a review of the decision to end tax-free shopping for international visitors, which looks at the impact on tourist numbers and spending that supports a broad eco-system of hotels, restaurants, museums and theatres, as well as retailers, and where all of the non-goods purchase expenditure would continue to attract VAT.

- Remove Sunday trading restrictions on London's two designated international centres of the West End and Knightsbridge, which would generate around £350m of extra sales a year and put the capital on a par with other global shopping hubs such as Paris, Milan, Dubai and New York.

- Champion the UK's world leading university sector as one of the country's leading export industries and, in particular, the role of international students given the important economic and softer power benefits they bring.

- Minimise the impact of post-Brexit red tape on administrative costs and delays when it comes to attending conferences and exhibitions in the UK to support business tourism.

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REFORM THE PLANNING SYSTEM

to support development and economic growth

The planning system should support development and economic growth. But a combination of red tape, poor incentives and inadequate resourcing across cash-strapped local authorities means it often acts as a barrier. Closing the resource gap is vital to speeding up and improving the quality of the process as well as unlocking further investment and growth. Reviewing the green belt to unlock development in appropriate sites quickly is also a priority.

The next Government should also work collaboratively with London government to ensure planning decisions are made at the appropriate level and avoid undermining the capital's devolution settlement.

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Urgently review London's green belt to boost sustainable high-quality development by quickly identifying poor quality parts close to existing or future transport nodes. While priority must continue to be given to redeveloping and densifying brownfield land, this alone will not meet the scale of London's housing and development needs.

- Scrap the proposed Infrastructure Levy to provide certainty and increase development investment. Replacing the existing system of Section 106 and the Community Infrastructure Levy will create uncertainty for developers and local authorities alike. The current system has delivered significant benefits to local communities and should be modernised, rather than replaced with something whose effect is uncertain.

- Allow Local Planning Authorities (LPAs) to charge cost-reflective fees for applications with that income ring-fenced to support delivery of a more reliable and efficient system. Alongside this, the Government should implement a new transparent mechanism, ideally within the existing legal framework, that allows applicants to provide additional funding to support LPAs in return for enhanced service levels. This would reduce the considerable uncertainty facing developers, cut costs and remove a major deterrent to investing in London and the UK. This would not affect the decisions planning authorities make on applications.

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TACKLE ACUTE HOUSING SHORTAGES

London is suffering from a chronic housing shortage. Net housing additions in the capital are averaging consistently less than 38,000 but the capital needs at least 66,000 new homes a year, creating a cumulative backlog that is leading to higher costs for Londoners. Boosting supply and reversing the stark drop in recent new starts is the only sustainable way to tackle the city's housing crisis, and to see these costs fall.

As well as a social problem, high housing costs hit the city's competitiveness, posing a significant recruitment and retention challenge for businesses. Public sector investment remains an essential part of any credible strategy to increase the number of affordable homes, which would not only help to address London's housing crisis but also help to generate savings in temporary accommodation, the NHS and other social costs.

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Provide greater policy certainty, including over future social rent increases, and give longer-term funding commitments for future affordable housing programmes.

- Undertake a review of the regulations placed on housing associations to ensure they are proportionate and not acting as a barrier to growth. Likewise, ensure that current and future policy requirements placed on new housing development are tested for their impact on the viability of development.

Make better use of existing funding

- Provide greater flexibility over how public funding for affordable housing can be spent, including the ability to move money between different schemes and over the amount of grant per home. This is vital to maintain a construction pipeline of affordable housing amid very difficult market conditions.

Deliver targeted public investment to unlock a multiplier of private sector investment

- When the public finances permit, move to close the gap between the level of government grant provided and the amount that is required to deliver the number of affordable homes London needs.

- Allow full expensing of build costs on brownfield housing delivery. Brownfield development is often complex and expensive, yet it often generates high social value. Developers should be allowed to fully expense their build costs in the same way as other capital investment is treated for tax purposes.

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INVEST IN TRANSPORT PROJECTS

to unlock development, connect people to jobs and boost UK supply chains

Transport is an enabler of sustainable growth and unlocks opportunity, connecting people to jobs across the country and firms to international markets.

London's ageing transport network needs investment to keep the city moving as its population grows and to maintain its international competitiveness. This will require both improving services now and investing for the long-term in partnership with the private sector.

Transport for London (TfL) needs a multi-year capital settlement to plan, efficiently deliver and invest. In the short term, this settlement will be from central Government. In the medium term, it should flow from devolution. TfL's ability to invest deeply matters to its supply chain across the country – worth £5.9 billion in Gross Value Added to the UK economy in the last year alone and supporting more than 100,000 jobs across the country.[10] Clarity on funding would enable full electrification of the bus fleet and the expansion of electric vehicle infrastructure, as well as key projects such as signalling upgrades on the Piccadilly Line, extension and upgrade of the Bakerloo Line, the DLR extension to Thamesmead, the West London Orbital and eventually Crossrail 2. The DLR extension alone is expected to unlock around 25,000-30,000 homes and support 10,000 jobs.

As an island nation, ensuring London is well connected - by air and rail - is critical for exports and growth. A recent study found that ten economic sectors typically reliant on air links, including financial services, creative industries and real estate, are forecast to grow two percent faster than the national average over the next decade, potentially unlocking £10.6bn in extra economic value and establishing the UK as a global services superpower.[11]

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Back the sustainable expansion of London's airports to ensure the capital maintains its position as a global hub, is well connected to overseas markets and remains a magnet for international talent and visitors. As part of this, unnecessary visas for transiting passengers should be scrapped.

- Boost international rail connectivity by supporting expansion plans at key hubs such as St Pancras and working closely with the industry to ensure a smooth implementation of planned changes at UK-EU border checkpoints.

- Give London and other regions the power to make their own transport decisions through meaningful devolution of local rail services to transport authorities similar to TfL's London Overground model.

- Work with the Mayor, Network Rail and train operating companies to deliver an integrated national transport strategy that simplifies rail fares, encourages flexible ticketing and enables innovation to increase passenger numbers on the rail network.

- Work with TfL and London government to extend contactless payment across the network, including all London airports.

- Work with industry, local authorities and TfL to ensure that, whatever the future regulatory regime, there is more alignment at a national and London level to drive bus performance improvements and, particularly, speed of services through priority on the road network.

Deliver targeted public investment to unlock a multiplier of private sector investment

- Commit to a multi-year capital funding deal for TfL – similar to those already reached with Network Rail, National Highways and eight city regions across the UK – to enable London to plan its transport investments with certainty.

- Work with the private sector and London government to ensure HS2 reaches Euston, and that the full potential of area's transport connections and regeneration are realised. The new Euston station should also have provision for more platforms so that the route can be expanded in future. The private sector can play a vital role in delivering Euston station – but it urgently needs greater clarity over governance and funding mechanisms.

- Ramp up the delivery of electric vehicles charging network to unlock private sector investment, support the UK's net-zero transition and provide the infrastructure needed to support essential trips made using taxi, private hire and freight vehicles.

- Deliver a more strategic approach to river transport by encouraging closer collaboration between TfL, the Port of London Authority, the Maritime and Coastguard Agency and London's boroughs. This should encourage more efficient use of the river by providing further incentives to unlock private investment, such as enabling more relief on greener fuel technologies.

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LEVERAGING PRIVATE SECTOR INVESTMENT

in the infrastructure the capital needs

Much of the city's infrastructure is provided through regulated silos – energy, water, telecommunications. Yet many key issues facing the city, such as the provision of electric vehicle charging points or steps to boost resilience to frequent climate events and rising sea levels, do not fall neatly into any company or regulator's remit.

Given the state of the public finances, crowding in private investment at scale will be essential to deliver the infrastructure London and the UK needs. The Government's Infrastructure Finance Review estimates that half of the UK's £600bn infrastructure pipeline over the next ten years needs to come from private sources.[12]

In addition to providing a stable and consistent policy framework to build investor confidence, the next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Establish funding models for new privately provided infrastructure, building on the success of the model employed by Thames Tideway Tunnel and the Contracts for Difference for offshore wind.
- Create a new body to coordinate economic regulators over the signals they send to infrastructure investors, in line with the findings of the Skidmore Review, and ensure projects provide rates of return commensurate with risk.
- Complete the establishment of the National Energy System Operator and appointment of Regional Energy System Planners who will play a key role in ensuring Local Area Energy Plans are being delivered in London and across the UK.
- Work with planning authorities to streamline the approvals process for 5G masts across local authority boundaries which will help to accelerate mobile infrastructure deployment at scale.
- Devolve powers to London Government to enable the delivery of new infrastructure to boost growth and unlock development, such as the power to use Tax Increment Financing.

Deliver targeted public investment to unlock a multiplier of private sector investment

- Back the delivery of new strategic water resources projects including the southeast Strategic Reservoir Option at Abingdon, Oxfordshire, to secure London and the South East's future water supply.
- Actively engage with the Environment Agency and Thames Estuary Growth Board to consider the options set out within the Thames Estuary 2100 plan to upgrade or replace the Thames Barrier.

FUTURE-PROOF THE CAPITAL'S LABOUR MARKET

London is a beacon for talent and opportunity. Home to over nine million, half of its working age population now holds a higher-level qualification - often a university degree - compared with 37% in the rest of England.[13] But behind its success lies a complex labour market with multiple inequalities and distributional challenges, as our in-depth research through our leadership of the London Local Skills Improvement Plan (LSIP) demonstrates.

Carried out in partnership with the Federation of Small Businesses London, London Chamber of Commerce and Industry and CBI London, the LSIP shines a light on a city where qualifications are higher than in any other UK region, yet the in-work poverty rate is one of the highest; there are more jobs in the capital than ever before, while economic inactivity is too high; and employers face acute labour shortages. A recent BusinessLDN survey of more than 1,200 firms in the capital, conducted by Survation, shows the vast majority (80%) have live job vacancies and half (49%) are struggling to find the right candidates to fill roles.

To address these challenges, the next Government should work with business to tackle barriers to labour market inclusion – from the cost and availability of childcare to reforming of the Apprenticeship Levy – and get more people into employment. Alongside developing local talent, London must also continue to be open to highly-skilled workers and gifted students from across the world if it is to remain a successful global city.

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The next Government should:

Deliver the following ‘quick wins’ and regulatory reforms at no or low cost

- Recommit to the LSIP model of partnership between business, education and local government to deliver an employer-led skills system that better matches the needs of the economy with the skills being delivered by providers.

- Reform the Apprenticeship Levy to increase take up, especially among young Londoners and those from disadvantaged backgrounds, by:
  - extending the deadline for spending Levy funds from the current two years to three years;
  - supporting larger employers to transfer more of their unused funds to SMEs;
  - allowing Levy funding to be spent on pre-employment training.

- Create an Office for Migration Responsibility (OMR) that collates data from across relevant government departments to ensure immigration policy and the points-based system are evidence-based and meet the needs of the labour market in high value growth sectors. In addition:
  - expand the Youth Mobility Scheme to give more young people from partner countries opportunities to live, work and study in the UK and vice versa;
  - commit to maintaining the graduate visa route to attract international students in a competitive global market for talent; and
  - allow temporary visas for industries where there is clear evidence of labour and skills shortages. The next Government should also closely monitor visa costs to ensure the UK remains attractive to migrants that add significant value in economically important sectors which are vital to growth.

- 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.

- Introduce mandatory ethnicity pay gap reporting for firms with more than 250 staff to support an evidence-based approach to tackling racial disparities across organisations.

Deliver targeted public investment to boost labour market inclusion

- Work with the private sector to improve the availability, affordability and quality of childcare. Despite recent government measures to expand free hours and provide wraparound care, the UK has one of the most expensive childcare systems in the world. Recent BusinessLDN and KPMG analysis shows that increasing the labour supply among parents and carers with children under the age of five could increase GDP by up to £11.3bn per annum, giving a potential boost to the public finances of up to £3.2bn.[14] Accordingly, when the public finances permit, we are calling on the next Government to:
  - widen eligibility for the 30-hours of free hours childcare a week
  - make it available year-round; and
  - clarify tax rules around workplace nursery exemptions to allow more employers to enter Workplace Nursery Partnerships with existing early years providers.

- Create a one-stop-shop for job seekers combining employment, careers and skills advice and support, alongside targeted interventions to tackle inactivity in the London labour market, including more coordinated support for employers, for example, help with inclusive recruitment, induction training, flexible job design and workplace support.

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SUPPORT THE TRANSITION TO NET ZERO

To meet its legally binding requirement to bring all greenhouse gas emissions to net zero by 2050, the next Government should work with the private sector to encourage a market-led transition.

Cities are where the rubber hits the road when it comes to achieving global emissions reduction targets. London has an even more ambitious target to hit net zero carbon by 2030 – and produces 40% of all UK emissions.

The capital has also experienced record-breaking heatwaves and flooding in recent years. Ensuring London adapts to increasingly common extreme weather events is essential to ensure it remains an attractive place to live, work and visit. The city and its public services must become much more resilient to climate change.

With the capital's green economy expected to double in size to £100 billion by 2030[15], this is an area where London can show global leadership in developing new technologies to drive sustainable growth and create jobs. This includes in areas such as the retrofitting of homes and the development of Sustainable Aviation Fuels (SAF). The Government has mandated that ten percent of all fuel on flights taking off from the UK will need to be made up of sustainable sources by 2030. To meet this target and eventually decarbonise aviation, greater certainty is needed to secure the private investment required for the transition. This would support industrial green skills across the UK and put us at the vanguard of the SAF industry, which could create 10,300 jobs by 2030, rising to 60,000 by 2050 if its potential is realised.[16]

Policy certainty is essential to spur the investment needed to meet the UK's ambitious climate ambitions. The next Government should provide a clear framework, backed up by appropriate incentives, to drive decarbonisation and green growth across multiple sectors.

The next Government should:

Deliver the following 'quick wins' and regulatory reforms at no or low cost

- Back efforts by BusinessLDN and its members to establish a business-led UK carbon offset fund for the UK which would enable businesses who want or need to offset their emissions to do so with confidence, while supporting localised schemes that boost environmental and social improvements across the country and accelerating the transition to net zero.

Deliver targeted public investment to encourage a market-led net zero transition

- Set out clear guidelines and updated standards for investment in climate adaption and nature-based solutions to ensure the UK is better prepared for extreme weather.

- Establish a price support mechanism to accelerate the adoption of Sustainable Aviation Fuels (SAF) based on the Contracts for Difference model used for offshore wind, to accelerate a domestic SAF industry and support the aviation sector.

- Develop the infrastructure necessary to support an energy transition to clean sources and encourage long-term investment from the private sector. This should include following through with the Connections Action Plan to reduce time taken to connect to the grid and investing in capacity upgrades to the transmission network to accommodate increased renewable energy input. Increases in bills to fund these investment costs would be more than offset by lower and less volatile energy prices over time.

- The Government should deliver a comprehensive programme to decarbonise existing stock across London and the UK to meet its net zero targets.

Endnotes

1 *OECD Economic Outlook, May 2024*

2 *Institute for Fiscal Studies Green Budget, September 2023*

3 *CAZ Futures Action Plan, November 2022*

4 *London & Partners, June 2023*

5 *Trust for London: London's Poverty Profile 2023*

6 *Centre for Cities, March 2023*

7 *London Finance Commission, May 2013*

8 *Office for National Statistics, Country and regional public sector finances, May 2023*

9 *Oxera modelling for the Centre for Policy Studies, March 2024*

10 *Hatch report for TfL, October 2023*

11 *WPI Economics report for Manchester Airports Group, Services Superpower, May 2024*

12 *HM Treasury Infrastructure Finance Review, March 2019*

13 *GLA Economics, Local Skills Improvement Plan: Evidence Base, May 2023*

14 *BusinessLDN, KPMG and CDA, No Kidding: How Transforming Childcare Can Boost The Economy, February 2024*

15 *Mayor of London Green New Deal, November 2020*

16 *ICF report for UK Sustainable Aviation, April 2023*

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OUR MISSION

AT BUSINESSLDN, OUR MISSION IS TO MAKE LONDON THE BEST CITY IN THE WORLD IN WHICH TO DO BUSINESS, WORKING WITH AND FOR THE WHOLE UK.

We work to deliver the bigger picture, campaigning to tackle today's challenges and to secure the future promise of London.

We harness the power of our members, from sectors that span the economy, to shape the future of the capital so Londoners thrive and businesses prosper. We support business to succeed — locally, nationally, globally. We link up with other cities around the UK, to ensure the capital supports a thriving country.

We campaigned for the creation of the office of London Mayor and Transport for London, for the Elizabeth Line, for congestion charging, we incubated Teach First.

We create opportunities for our members, from sharing insights to providing platforms, from making introductions to finding new talent. We facilitate collective, organisational, and individual ambition.

Becoming a member of BusinessLDN helps to keep London and the UK working — for business, for Londoners, for the whole country.

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