BUSINESS LDN

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

7 February 2025

Dear Chancellor,

BusinessLDN speaks for over 160 leading businesses in London, spanning a wide range of economic sectors. Our mission is to make London the best city in the world in which to do business, working with and for the whole UK.

The Spending Review will be a defining moment for the UK economy. It's an opportunity for the Government to align public spending with measures that will support growth. An opportunity to ensure that spending choices line up behind the industrial strategy, especially the cross-cutting enablers of growth. And an opportunity to ensure that the increase in public spending crowds-in, rather than crowds-out private investment and in doing so disproves the Office for Budgetary Responsibility assessment of the Autumn Budget measures on growth.

Our recommendations support the Government's missions, especially around growth and ensuring opportunity for all. As an engine of growth for the whole UK, responsible for a quarter of the nation's GDP, the capital has a critical role to play in delivering the Government's ambition to kickstart the economy. So, it is important London receives the financial backing and autonomy over its finances to enable it to play its full part in dialling up growth.

In making our submission, we are mindful of the many competing demands on the public purse, and we have prioritised spending commitments that:

1. Deliver rapid payback by injecting momentum into the economy
2. Increase efficiencies and speed up decision making
3. Have a catalytic effect on unlocking private investment
4. Provide long-term certainty to give business confidence to invest

We have applied these principles across the major cross-cutting enablers of growth including people & skills, infrastructure, housing, planning & transport and devolution & regulatory reform.

Yours sincerely,

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PEOPLE & SKILLS

London is a beacon for talent and opportunity. Home to over nine million people, half of its working age population holds a higher-level qualification. But behind its success lies a complex labour market, with many inequalities. Addressing these challenges and continuing to be open to talent from around the world will be vital to London's continued success as a global city and ability to act as an engine of growth for the UK.

To increase efficiencies and speed up decision-making, the Government should…

- **Devolve National Careers Service funding to London (and other Mayoral Combined Authorities) to enable greater ability to shape the service for local need and Londoners.** Despite some hard-won progress in recent years, many employers report a lack of joined-up careers provision in the capital. The result is far too many school leavers and adults still receive poor quality advice. Giving the Mayor control of existing funding to build a quality all ages London Careers Service would help unlock opportunity for more young and adult workers across the city. [DfE]

- **Re-commit to removing ringfences for adult skills programme funding from 2026-27 to give London an integrated settlement that provides the Mayor with a single skills funding pot.** As BusinessLDN's recent devolution report highlights, skills benefit from being organised at a regional level with a granularity and level of responsiveness that central government cannot match. Since devolution of the Adult Education Budget (now Adult Skills Fund) to the GLA in 2019, training enrolments have risen significantly more than in non-devolved areas. The Government's English devolution white paper sets out welcome plans to remove ringfences for adult skills funding from 2026-27 onwards (including the Adult Skills Fund, Skills Bootcamps and the Free Courses for Jobs programme) to give much more flexibility over spending on education from 2026. [DfE]

- **Accelerate the digitalisation of the immigration service, including by embracing AI to lower visa fees and surcharges in key sectors so businesses can attract the right skills to plug key shortages.** The UK has some of the highest costs in the world for work visas. At a time when businesses face a difficult economic outlook and are struggling with significant skills gaps, this undermines our competitiveness when it comes to attracting top talent compared with other countries. In recent years, the Government has pushed forward with the digitalisation of the immigration system, including Right to Work checks and e-visas. The Government should now build on this progress using AI to streamline the cost of services, prioritising lowering visa fees and surcharges in growth sectors like life sciences and AI to ensure that the UK remains a world-leading destination for top talent. [Home Office]

To have a catalytic effect and unlock private investment, the Government should…

- **Commit to an increased pay settlement for the Further Education (FE) sector.** The sector is facing stark workforce shortages, driven by significant pay disparities with other parts of the education sector and industry which makes it hard to attract and retain top talent. Without further investment in FE, skill shortages will remain, making it unlikely that the Government will be able to fully deliver the 1.5 million new homes, the transition to net zero, a reformed NHS and the productivity gains needed to secure strong economic growth. The decision to award school teaching staff a 5.5 per cent pay award for 2024-25 and not make additional funding available for colleges to be able to do the same will see this challenge deepen, unless action is taken. The Government should commit to increase pay in the FE sector in line with schools. [DfE]

- **Deliver on its commitment to fund and implement the Lifelong Learning Entitlement by January 2027.** Fully implementing the Lifelong Learning Entitlement in this Parliament will create the conditions for more co-investment in training by employers, the state and the individual. It will also stimulate the market for modular training, including in key areas like green, digital and transferable skills. [DfE]

- **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, which is a barrier to increasing labour market participation, especially among women. The Government has taken helpful steps to continue to expand funded hours, wraparound care, increase the number breakfast clubs and Family Hubs to help working parents. But the scale of the challenge remains huge, with many parents in London and other regions struggling to access high-quality childcare at affordable prices. Many businesses are already taking action to help their staff manage the costs and availability of childcare, such as offering Shared Parental Leave or loan deposit schemes. The Government should go one step further by simplifying the taxation rules for Workplace Nursery Partnership exemptions so more employers can offer staff salary sacrifice schemes and on-site nurseries to their staff. [DfE]

To provide long-term certainty to give business confidence to invest, the Government should…

- **Establish a framework to help deliver a stable financial settlement for Higher Education (HE).** A financially resilient HE sector is crucial to deliver the skilled workforce the UK and London needs to thrive. Despite the Government's welcome short-term measure to allow tuition fees to rise, universities continue to face huge and growing cost pressures. It is vital that the Government delivers a sustainable financial framework for HE across this Spending Review period to ensure the sector can continue to deliver world-leading teaching and research. This framework should take account of place-based needs, such as the higher cost operating environment for London's universities. [DfE]

- **Set out a detailed roadmap to ensure the transition from the Apprenticeship Levy to the new Growth & Skills levy increases the flow of funds spent on skills and crowds in more private investment in training.** The transition must break the cycle of low UK investment in training, which has stagnated over the past decade, and is lagging European competitors. The flexibilities in the new system must give businesses confidence to invest in the skills they need, including at entry-level to tackle high levels of youth unemployment and reskilling at higher levels to address changing skills needs. Greater transparency in the flow of apprenticeship levy funding is also required to restore employer faith in the system, with experts estimating up to £800m p.a. in funds raised by the levy not being spent skills/training in 2024-25. Until this is addressed, businesses will be reluctant to spend more on training in other areas. [DfE]

- **Commit to long-term funding for the Local Skills Improvement Plan (LSIP) programme to turbocharge business engagement with the skills system.** BusinessLDN is leading the Greater London LSIP, alongside the Federation of Small Business London (FSB London), London Chamber of Commerce (LCCI) and CBI London. As our recent progress report shows, LSIPs have built recognition and engagement with business, providers and local government leaders in London and are starting to shift the dial on transforming the capital's skills system, with capital investment in FE college equipment to deliver new courses in high-demand areas like green and digital skills. The Government has made a welcome commitment to LSIPs continuing through a new co-ownership arrangement between business groups and Mayoral Combined Authorities. It should now commit to funding LSIPs in 2025-26 and in the long-term, to maintain momentum on developing a joined-up approach to skills development. [DfE]

TRANSPORT AND INFRASTRUCTURE

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, extend the underground network to unlock land for development, and maintain its international competitiveness. More broadly, crowding in private investment at scale will be essential to deliver the infrastructure London and the UK needs.

<u>To have a catalytic effect and unlock private investment, the Government should…</u>

- **Back major London transport projects** as part of an overall Transport for London settlement to unlock new homes and new jobs. This should include the Docklands Light Railway extension, the Bakerloo Line upgrade and extension and the West London Orbital. Committing public support to these projects, exploring combined sources of funding and including these projects in the new 10-year Infrastructure Strategy would allow Transport for London to commit the funding needed to commence work on the schemes. [DfT]

- **Commit to the long-term funding needed for the revenue support mechanism to establish a domestic Sustainable Aviation Fuels (SAF) industry.** This will encourage SAF producers to invest in new plants in the UK and accelerate the transition to greener aviation. [HMT]

- **Provide financial incentives to accelerate the electrification of river transport.** More incentives are needed to transition to low carbon transport. Funding competitions such as the Zero Emissions Vessels Infrastructure (ZEVI) competition, grants to support trials and research & development, and relief measures on greener fuel technologies will crowd-in more private investment to London and the UK. [DfT]

- **Bring forward a funding model to crowd in private investment to deliver the majority of the financing required for the Lower Thames Crossing**, which is vital for increasing road capacity and boosting trade and investment in London. [HMT]

- **Be bolder in the use of Tax Increment Financing (TIF) models to accelerate investment in new infrastructure projects.** The Government should grant the Mayor powers to introduce a new 'residential-TIF' which would ringfence some future residential tax revenue such as Stamp Duty Land Tax, council tax or a transport precept and use this to pay back the upfront costs of the transport infrastructure. This in turn will unlock new development, especially housing. The Government should also grant the Mayor powers to undertake more 'commercial-TIFs' that exist today and the power to create a 'combined-

TIF' which encompasses both the existing business rates-led TIF model and the envisaged residential TIF approach, as set out in the recent BusinessLDN report Generating land value to grow London. [HMT]

- **Re-commit to the capital funding allocated to Great British Energy to help secure the UK's energy security and increase sustainability** by crowding in investment for next-generation technologies and providing vital support to accelerate large-scale projects. [DESNZ]

To provide long-term certainty to give business confidence to invest, the Government should…

- **Commit to a long-term - minimum five-year - funding deal for Transport for London (TfL)**, similar to those already reached with Network Rail, National Highways and eight city regions across the UK. This will enable London to plan its transport investments with certainty and support UK-wide supply chains. Across 2022-23 and 2023-24, TfL investments have supported 100,000 jobs per year, benefitted more than 3,000 UK suppliers and generated more than £11bn in Gross Value Added to the UK economy. [DfT]

- **Enhance London's long-term resilience** by engaging with the Environment Agency and Thames Estuary Growth Board to consider the options set out within the Thames Estuary 2100 and committing the necessary public funding to upgrade or replace the Thames Barrier. [DEFRA]

HOUSING

London is suffering from a chronic housing shortage. As well as a social problem, high housing costs hit the city's competitiveness, posing challenges for businesses in recruiting and retaining the talent that is vital to the city's success.

To increase efficiencies and speed up decision-making, the Government should…

- **Provide a more ambitious and longer-term funding commitment for the next Affordable Homes Programme**, above & beyond the £4bn of the current programme, with greater levels of grant and flexibility in how it can be used. This is essential to providing greater capacity for the delivery of affordable homes in London whilst also helping to encourage greater levels of private investment into the market. [MHCLG]

- **Deliver an increase in resource for the Building Safety Regulator.** This will help enable the smooth and efficient passage of applications through the Gateway process to expedite the delivery of new homes of all tenures in London. [HSE]

To have a catalytic effect and unlock private investment, the Government should…

- **Allocate a new investment fund for a City Hall Developer.** Replicating the success of the Greater London Authority's (GLA) Land Fund, an allocation of £2bn towards the City Hall Developer would allow the GLA to bring forward strategic sites as well as unblocking stalled sites, working with the private sector and leveraging in additional investment. [MHCLG]

- **Deploy targeted spending to overcome some of the more intractable challenges of building new towns, including in London, to mobilise private capital behind the developments.** Public investment will be required to support significant volumes of affordable housing, the release of public land and potentially land assembly, the provision of infrastructure and to tilt investment towards areas that will otherwise struggle to attract private investment, as set out in BusinessLDN's recent report on 'The case for a new town in London'. [MHCLG]

To provide long-term certainty to give business confidence to invest, the Government should…

- **Set out a minimum rent settlement of 10 years for housing associations and deliver immediate reinstatement of rent convergence.** A longer-term rent settlement would provide affordable housing providers with greater certainty to plan for new development pipelines. Rent convergence would provide an immediate financial boost by aligning historical rents with current rates. [MHCLG]

PLANNING & DEVELOPMENT

Closing the resource gap across the planning system is vital to speeding up and improving the quality of the process, which in turn will unlock further investment and growth, ensuring the maximum economic benefits from the Government's welcome planning reforms.

To deliver rapid payback and inject momentum into the economy, the Government should…

- **Abolish VAT on retrofitting existing buildings.** This would deliver an added incentive to retrofit buildings, which in turn will bring in investment, create jobs and accelerate the delivery of schemes. [MHCLG / HMT]

- **Allow full expensing of build costs on brownfield housing delivery so 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. [HMT]

To increase efficiencies and speed up decision-making, the Government should…

- **Invest in Local Planning Authorities to tackle skills and capacity shortages.** Speeding up the planning system including through increasing planning officer numbers will incentivise further investment in projects and deliver homes and commercial property. [MHCLG]

To have a catalytic effect and unlock private investment, the Government should…

- **Support funding the set-up of the Oxford Street Mayoral Development Corporation and Phase 1 of the works to kickstart the project.** This measure would help to regenerate one of the nation's biggest tourist destinations, allowing businesses to thrive and delivering payback through an increase in business rates, VAT receipts and inbound international receipts as tourists spend more in London. In turn, this would enable leveraging of the Community Infrastructure Levy and planning gain receipts to help fund phases 2 and 3. The proposals for Marble Arch, a flagship element of the project, can unlock economic, public safety and environmental benefits, are ready to be delivered in phase 1 and are already part-funded by the private sector. Public funding is needed to leverage that private investment and provide a high-profile beacon for the remainder of the Oxford Street project. [MHCLG]

DEVOLUTION, REGULATORY AND TAX MEASURES

Greater devolution will enable London and other city regions to tailor spending priorities to meet local needs and support local strengths. At the same time, targeted regulatory and tax changes can inject momentum into the economy and make London a more attractive place to do business.

<u>To deliver rapid payback and inject momentum into the economy, the Government should…</u>

- **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 over the medium-term. [HMT]

- **Restore VAT-free shopping for international visitors**, recognising the broad eco-system of hotels, restaurants, museums, theatres as well as retailers that would benefit. [HMT]

<u>To increase efficiencies and speed up decision-making, the Government should…</u>

- **Implement an ambitious, integrated financial settlement for London from 2026/27**, granting London 'trailblazer' devolution status and in doing so give it the powers, responsibility and fiscal autonomy on a par with Greater Manchester and the West Midlands. Critical component parts of this deal are a single settlement along the lines of a departmental settlement, a long-term 10-year time horizon, and full autonomy over business rates. [HMT]

<u>To have a catalytic effect and unlock private investment, the Government should…</u>

- **Set an ambitious GDP-based research & development (R&D) target that supports the Industrial Strategy.** The Government announced welcome steps in the Autumn Budget, including £20.4bn of investment in UK R&D and fully funding association with the Horizon Europe research programme. The Government should build on these measures by setting a globally competitive R&D intensity target of 3% of GDP by the end of this Parliament, increasing Quality-Related research funding to make research sustainable, and implementing long-term funding cycles for university R&D funding. These measures would crowd-in private sector investment and enable London's universities to play their full part in accelerating economic growth by leveraging their expertise in emerging disciplines such as artificial intelligence (AI) and life sciences. [DSIT]

To provide long-term certainty to give business confidence to invest, the Government should…

- **Provide support for firms in the capital who are facing significant cost increases resulting from changes to Business Rates.** This should include alleviating the burden of potential methodological changes by the Valuation Office in sectors such as airports and flexible office space providers, as well as helping businesses in the capital who are likely to shoulder a greater share of the national burden because of the proposed £500,000 rateable value threshold. [HMT]

- **Deliver a real term increase in funding for the Metropolitan Police to ensure sufficient resource is focused on tackling theft and retail crime in the capital**, which is adding to business costs, holding back High Street investment and the perception of crime risks deterring tourists. [Home Office]

- **Ensure that London Councils are sufficiently funded to maintain vital services** that contribute to the capital's 'economic plumbing'**.** [MHCLG]

BusinessLDN
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