

Response to Mayor of London's draft Economic Development Strategy

13 March 2018

1. London Chamber of Commerce and Industry (LCCI) is the capital's most representative business advocacy organisation, with over 2,000 members from small and medium-sized enterprises through to large, multi-national corporates. Our member firms operate in a wide range of sectors across all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.
2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and London Assembly, Parliament and media, as well as international audiences. Through regular member surveys and commissioned research, LCCI seeks to inform and shape debate on key business issues.
3. With London's population rising and with the uncertainties of Brexit, the Mayor and the GLA face significant challenges as they seek to ensure our capital remains a great place to set-up, run and grow a business. Alongside these challenges are, however, significant opportunities to cement the capital's place as a leading global city.
4. This response from LCCI will focus principally on what the Mayor can do to support London's businesses and how London can meet the challenges that come with 'megacity' status.
5. Our response to the Mayor's draft Economic Development Strategy draws upon and reflects our recent submissions to the Mayor's Transport Strategy, draft Skills and Adult Education Strategy and the draft London Plan. Together, these responses reflect the priorities contained within our *Towards a Greater London: Business Agenda 2020* campaign¹. All our consultation responses can be viewed online at www.londonchamber.co.uk.

Summary and recommendations

We have been selective in responding to the terms of reference, choosing to focus on the following core priorities that we view as essential to ensuring the capital is a great place to start, run and grow a business:

6. **Skills for tomorrow:** A diverse, skilled workforce is integral to economic fairness and essential for a competitive business environment. Further devolution of responsibility for skills, including the Apprenticeship Levy, will ensure the Mayor of London, the GLA and businesses are better equipped to meet the needs of London's economy, now and into the future. The newly devolved Adult Education Budget needs to be tailored to support what businesses are asking for – and LCCI members stand ready to provide input and guidance on its use.
7. **Support for London's SMEs:** Businesses are faced with an increasingly competitive operating environment and, particularly in London, rising costs. For example, through taking full ownership of business rates, the Mayor of London could help SMEs with their costs and incentivise localised growth.

¹ [Towards a Greater London: Business Agenda 2020](#)

8. **Preparing for Brexit:** Avoiding a post-Brexit ‘cliff edge’ is a top priority for London business leaders. Post-Brexit, business priorities include avoiding adding additional barriers to trade, ensuring we maintain a flexible system of migration, and securing aviation links with the rest of the world.
9. **Helping London businesses stay competitive:** To ensure businesses are equipped to compete in an increasingly globalised world, we are backing better export support to help London businesses (especially SMEs) to tap the vast export opportunities in both new and established markets.
10. **Paying for our infrastructure:** London can meet the infrastructure challenges it faces, but only if empowered to do so. Giving London access to a range of revenues would enable the city to focus on schemes that are likely to deliver growth and healthy fiscal revenues. For London to grow, the GLA and local authorities need to have the financial incentive to make economically positive decisions. Alongside fiscal devolution, LCCI supports a pilot of a Development Rights Auction Model (DRAM) on a major infrastructure project in London.

The London Economy

11. Each quarter LCCI publishes the Capital 500 London Quarterly Economic Survey to gauge business performance and general confidence levels across the capital.
12. The last Quarterly Economic Survey of 2017² found that **confidence indicators have continued to decline for the fourth consecutive quarter while expectations for the year ahead remain negative for both London and the UK**. Additionally, more than half of businesses trying to recruit experienced difficulty, while export and domestic demand fell, and most business costs rose.
13. In this context, much needs to be done to support London’s business community in these turbulent times. The capital’s businesses are, on balance, pessimistic rather than optimistic about their company’s overall prospects. Going forward, **it will be vital to focus on efforts to strengthen the foundations of London’s economy and its ability to deal with these challenges, which must include supporting small businesses to export more and limiting any further cost rises in the capital.**

² [Capital 500 – London Quarterly Economic Survey October – December 2017](#)

14. Figure 1 – economic outlook

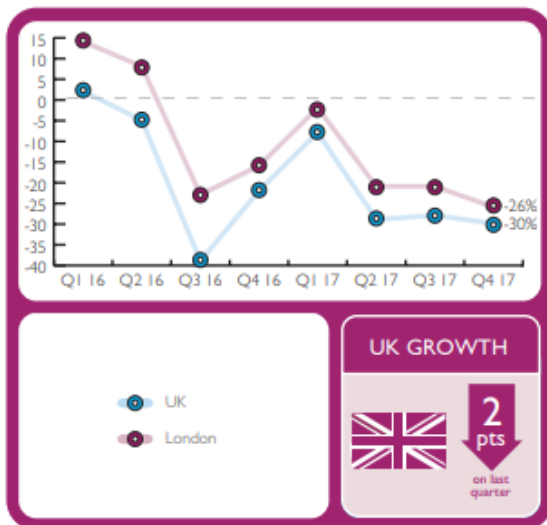


Figure 2 – cost pressures



What more could the Mayor do to achieve his economic fairness goals?

15. Improving London’s domestic skills pipeline is imperative to achieving economic fairness. Skills shortages across the capital are an indicator that too many Londoners are missing out on the employment opportunities that a future ‘megacity’ like London should provide.
16. Skills shortages have long plagued sectors such as manufacturing and engineering, with digital and technology businesses also struggling to locate new workers with the specialist experience they need. To safeguard London’s economy against skills shortfalls and support new and established sectors, the Mayor of London must grasp this challenge. This means equipping much-needed skills in the next generation through honest, unbiased careers advice - with adequate, targeted funding.
17. LCCI considers it essential that the capital can draw upon both an effective and responsive skills and training system, and a flexible migration framework. As a step towards gaining further insights into employer needs around skills and training, LCCI and London Councils collaborated in 2017 on our *London Business 1000* survey³. The survey - based on responses from over 1,000 businesses – considered a range of topics that affect the capital’s business community including apprenticeships and training, recruitment and retention, migration and opportunities for the year ahead. **In our polling, closing London’s ‘skills gap’ was chief among the priorities we identified, with responses highlighting how difficult many firms are finding it to recruit workers with the skills they need.**
18. Our *London Business 1000* survey served to re-enforce findings highlighted elsewhere that the **take up of apprenticeships in London is low, with just 8% of firms polled by our survey reporting that they employ an apprentice.** These figures on apprenticeships in the capital show how much there remains to do. LCCI is a strong supporter of apprenticeships and welcomes the principle behind the Apprenticeship Levy. However, it is also clear to us that more needs to be done to make sure the levy works for businesses, particularly in the capital.
19. Consequently, **we welcome many of the proposals outlined in the Mayor’s draft Economic Development Strategy, including calls to devolve the Apprenticeship Levy and proposals to tailor the newly devolved Adult Education Budget.** Access to a diverse,

³ [London Business 1000 July 2017](#)

skilled workforce is essential for London's future as a competitive global city, one that serves its businesses and citizens and is a magnet for foreign investment. The Mayor rightly, in our view, believes further devolution will enable greater flexibility to address the complex skills requirements of London businesses.

20. We have previously welcomed the renewed focus on skills and the publication of the first dedicated citywide *Skills for Londoners Strategy*. LCCI will look to play an active role in contributing to a successful skills landscape in London, including through our relaunched Work and Employment Policy Advisory Committee, our research work and polling.

What additional business support (if any) do you think will benefit London's SMEs?

21. According to LCCI polling, **one in five London businesses have moved or considered moving elsewhere in London or out of the capital over the past year due to Brexit, rent rises or business rate rises**⁴.
22. Businesses in London are facing a variety of cost pressures including business rates rises, the introduction of the Apprenticeship Levy and the new Immigration Skills Charge – on top of the already high and rising cost of doing business in the capital.
23. The Mayor of London has correctly identified affordable workspace and a fairer system of business rates as major issues due for reform. LCCI believes that a lack of affordability in these areas could seriously threaten the capital's prospects as a world-leading city in which businesses want to set up shop and expand.
24. In March 2017, a Memorandum of Understanding (MoU) on the next stage of devolution to the Greater London Authority (GLA) and London boroughs was published which contains a series of commitments by government. The MoU included a proposal to explore options for granting London government greater powers and flexibilities over the administration of business rates⁵.
25. The Mayor's draft Economic Development Strategy for London underlines the need for further progress on these commitments. LCCI also believes words should be translated into action, **we must have movement on the commitments included in the MoU alongside and ambitious roadmap for further fiscal devolution as recommended by the London Finance Commission**⁶.
26. With the right safeguards and ongoing consultation with the business community, LCCI supports in principle the GLA and London councils being given the power to determine the rate, thresholds and exemptions of any future devolved taxes that they retain. If local authorities (and the GLA) were given a stake in the success of their local businesses through ownership of business rates, it is likely that engagement with the business community would improve, confidence in local government would increase and more decisions made by local government would be positive for the local economy.
27. In addition to helping businesses with their costs, **the Mayor of London has an integral role to play in supporting London businesses who have concerns about Brexit and those who want to access new business opportunities in fast growing international markets**. London is an exporting success story and remains the only region in the country that runs a trade surplus. As the UK leaves the EU, it is essential that we build on our existing relationships whilst pursuing new opportunities.

⁴ [Capital 500 – London Quarterly Economic Survey October – December 2017](#)

⁵ [Memorandum of Understanding on further devolution to London – March 2017](#)

⁶ [Devolution: a capital idea – January 2017](#)

28. **Avoiding a post-Brexit ‘cliff edge’ is a top priority for London business leaders.** Post-Brexit, there must be a suitable arrangement in place to regulate Britain’s relationship with the European Union (EU), rather than a fall back on WTO rules (the ‘no deal’ outcome).
29. Through our research, and the soundings we have taken of London businesses, we know that for many businesses their top priorities post-Brexit include avoiding adding additional barriers to trade, ensuring we maintain a flexible system of migration (and guaranteeing the status of existing nationals), and securing aviation links with the rest of the world. Crashing out of the EU without a deal, or without pragmatic transitional arrangements covering many of these areas, would have serious implications for many businesses who currently trade with the EU, and could chaos at our ports and airports.
30. **LCCI does not want to prescribe what exactly a potential transitional arrangement should look like – whether that be a single new agreement, EFTA/EEA membership, or a series of sector or issue agreements. However, we support the Mayor’s call for an interim arrangement that should reflect our current arrangements as closely as possible.**
31. LCCI has been helping British businesses grow through international trade since 1881. As an organisation, we understand the value of reaching new markets. In light of Brexit, we have recently called on the Government to invest in better export support to help London businesses (especially SMEs) to exploit export opportunities in both new and established markets, including increased funding for trade missions that include practical advice and local knowledge. We therefore support proposals such as the new *London Trade Strategy* and any further assistance that will be made available to London businesses.
32. Finally, LCCI has previously highlighted the extra costs London’s SMEs are facing from the implementation of TfL’s Ultra-Low Emission Zone (ULEZ). LCCI does not oppose the introduction of ULEZ. However, haulage firms across London are faced with a difficult choice over the next three years. Plans to bring ULEZ forward a year earlier than planned, and proposals to expand ULEZ to HGVs entering the whole of Greater London in 2020 and vans within the North and South Circulars in 2021 will impact the livelihoods of SMEs across the capital. We have therefore called for sunset periods of three years to match those offered to residents. We believe **TfL’s ULEZ proposals must strike the right balance between delivering significant improvements to air quality whilst allowing businesses to adapt to changes.**

What other funding options should be explored to invest in new infrastructure assets?

33. The Mayor’s vision for infrastructure in the capital is ambitious in scale – and needs to be. London’s population is heading inexorably towards 10 million by 2030, up from 8.7 million today – the highest it has ever been. Sustained investment in the city’s infrastructure – its housing stock, transport networks and digital capability – is necessary to cater for this growing demand.
34. Financing the projects that London needs remains a significant hurdle – with Crossrail 2 being only the latest example of an ambitious infrastructure project which is facing significant barriers.
35. **London can meet the infrastructure challenges it faces, but only if empowered to do so.** We therefore support a bold strategy of fiscal devolution for capital, one that would maximise local growth incentives and support transport infrastructure, in particular.

36. **LCCI believes that meeting London's future infrastructure demands will ultimately require London having more power over the money it raises through taxation.** This is not about London getting more money but, rather, more control over more of its own resources to make sure these are prioritised and directed as effectively as possible.
37. Giving London access to a range of revenues (matched by a reduction in central government funding) would enable the city to focus on schemes that are likely to deliver growth and healthy fiscal revenues. As recommended by the London Finance Commission, these revenues could include a percentage of Londoners' income tax yield, a proportion of London businesses' VAT yield and a full suite of property taxes (including the operation and setting of council tax and business rates and the devolution of stamp duty).
38. **For London to grow, the GLA and local authorities need to have the financial incentive to make economically positive decisions.** As a first step, LCCI has called for a pilot of a Development Rights Auction Model (DRAM) on a major infrastructure project in London. Crossrail, now the Elizabeth Line, underlines the opportunities and growth large scale infrastructure projects can deliver in previously forgotten pockets of Greater London. To secure further projects and capture the potential upside, we must be willing to move forward with a series of practical steps like DRAM.
39. **Ensuring a broad base of different revenues is devolved, from different sources, is also essential to preventing businesses being used as a 'cash cow' through an overreliance on (largely business related) fiscal levers already available to local government,** e.g. business rates supplements and other levies. As we have seen with Crossrail, businesses are willing to pay their way, but any contribution from the private sector must be matched by sensible proposals that release public investment.
40. An improved public funding mechanism will inevitably support and attract a greater degree of investment from the private sector. For example, London's infrastructure has most recently benefited from pension fund investment to finance the £4bn Tideway project. Encouraging more and similar private investment through innovative financing packages is another mechanism available to London.
41. Finally, there is no reason why the principles for additional fiscal powers for the capital could not be replicated to other UK cities; indeed, greater fiscal devolution to, and the resulting economic growth of, all core cities would be desirable for our members, just as the growth of London benefits the rest of the UK.

How can you or your organisation contribute to the Mayor's vision for the economy and pledge to support the final strategy?

42. LCCI enjoys a good working relationship with the Mayor of London, the GLA and London local authorities. As a member of the London Business Board, alongside the Federation of Small Businesses, Confederation of British Industry and London First, we regularly contribute to the Mayor's economic policy agenda.
43. However, relationships can always be strengthened. **At a time of great uncertainty and opportunity, we would welcome the opportunity to strengthen our relationship with the Mayor through the London Business Board, the capital's Local Enterprise Partnership (LEAP) and other forums, so we can work together on ensuring the capital is a great place to start, run and grow a business.**

44. London has a vocal business community and the Mayor of London and GLA can work with us through a variety of means. Our ongoing *Towards a Greater London: Business Agenda 2020*⁷ campaign seeks to ensure that the Mayor of London and London Assembly understand the needs of London's businesses, and the competitive challenges they face, in the years towards 2020 and beyond. LCCI's *Business Agenda 2020* outlines a long-term strategy for the future and sits alongside many other worthy policies which are being put forward by businesses across London. **An ongoing dialogue and regular opportunities for further discussion are essential. Through closer collaboration with the Mayor of London and the GLA, we can all continue to build on a partnership that champions London's economic interests.**

45. LCCI would be happy to clarify or provide further comment on any matter raised within this response.

46. Please contact:

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⁷ [Towards a Greater London: Business Agenda 2020 – May 2016](#)