LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT. INFLUENCE. SUPPORT.

Submission for HMT Budget 2017

22 September 2017

1. London Chamber of Commerce and Industry (LCCI) is the largest capital-focused business advocacy organisation, representing the interests of over 3,000 companies from small and medium-sized enterprises through to large, multi-national corporates. Our member companies operate within 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 the GLA, Parliament and the media, as well as international audiences. Through regular member surveys and commissioned research, LCCI seeks to inform and shape the debate on business issues.

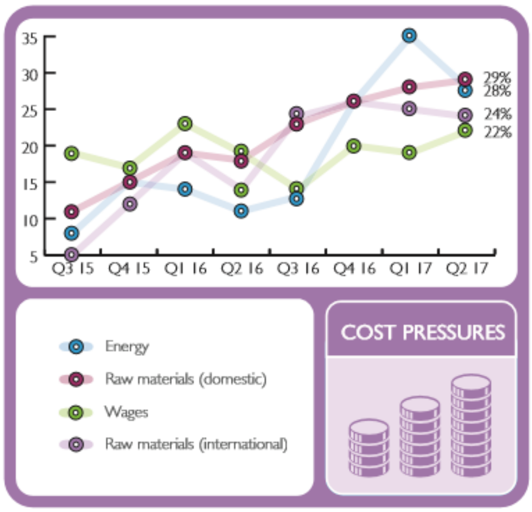
Context: The London economy

3. Each quarter LCCI publishes the ***Capital 500* Economic Survey** to gauge business performance and general confidence levels across the capital. Our latest survey[1] showed the continued resilience of the capital's business community, with most business performance indicators having gone up, including for domestic sales, export sales, capital investment and recruitment. However, expectations for the future appear mixed. The capital's businesses are, on balance, pessimistic rather than optimistic about their company's overall prospects, as well as those for both the London and UK economy, going forward.

4. In this context, boosting business confidence remains key. Undoubtedly, this requires positive signals from Brexit negotiations that business concerns are being heard and addressed, not least around migration and access to skills, future customs arrangements and the need for a pragmatic transition. Crucially, however, it also requires concrete steps being taken to address the capital's pressing 'domestic' priorities as its population continues to grow towards 'megacity' status.

5. **Figure 1 – economic outlook**

Figure 2 – cost pressures



[1] http://www.londonchamber.co.uk/docimages/15143.pdf

6. London has a vital role as the engine of the UK economy and is a significant net contributor through taxation to the public purse (estimated as £34bn in 2013/14[2]). LCCI is supportive of measures to rebalance the UK economy by ensuring, for example, that UK city metro areas receive investment, particularly in transport – necessary to unlock economic growth (see point 20)

7. However, we are concerned that efforts to rebalance the economy risk being seen in zero-sum, “us vs them” terms with investment in the capital viewed as undermining or coming instead of growth measures elsewhere. This is not, however, borne out by evidence. The London Finance Commission (LFC)[3] highlighted that London and the rest of the UK grow in conjunction with each other, with improved economic activity in the capital leading to improved economic activity in other regions of the UK.

8. Moreover, and separate to the question of rebalancing, the capital’s future economic competitiveness itself cannot be taken for granted. 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.

9. 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.

10. In January 2017, the London Finance Commission published its report *Devolution: a capital idea* which contained a series of practical steps to deliver fiscal devolution to the capital. In March 2017 the Chancellor of the Exchequer, the Minister for London, the Mayor of London and the Leader of London Councils signed a Memorandum of Understanding[4] designed to ensure that London government has the powers it needs to maintain London’s status as a successful world-leading city. These are welcome signals of intent; they now need to be taken forward practically.

11. Whilst further devolution would, we believe, put the capital on a more sustainable path to competitiveness, business is looking for reassurance now at a time of ongoing uncertainty surrounding Brexit, and rising costs pressures. These issues are addressed in this submission.

Confidence boosting measures

12. London is a dynamic, global city. Key to its competitiveness is its infrastructure, which contributes to and unlocks its economic potential, and the potential of its citizens and businesses. This competitiveness is, however, at risk as the city’s population continues to rise, placing ever greater burdens on its housing supply and transport networks. Positive measures to tackle these issues would send a strong signal to businesses that government is lock-step behind them in its desire to deliver a sustainable competitive business environment.

13. **Housing: The undersupply of housing is impacting London businesses.** Rising housing costs and the lack of affordable homes, either to rent or to own, within commutable distances of

[2] http://www.cityam.com/1415152623/treasury-makes-34bn-year-london
[3] https://www.london.gov.uk/sites/default/files/devolution_-_a_capital_idea_lfc_2017.pdf
[4] https://www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london

workplaces generates pressure on employers to increase wages, leads to limited employee productivity and can create difficulty in recruiting and retaining staff.

14. A recent LCCI poll of over 1000 London businesses found that 48% ranked better availability and affordability of housing in their top two ways to improve retention[5]. To keep pace with London's rapidly increasing population, forecast to reach 10 million by 2030, the capital will require 50,000 new homes every year over the next two decades[6].

15. Local authorities and housing associations are housebuilding sources with untapped potential. Local authorities are however hindered by their inability to borrow sufficiently to invest in housing.

Removing borrowing caps on local authority Housing Revenue Accounts would release funds for investment (provided they adhere to the prudential borrowing code)

16. **Transport infrastructure: The economic case for Crossrail 2 is clear.** LCCI will not rehearse the local, regional and national benefits in jobs, homes and skills legacies that the rail project would generate and secure. However, the project is necessary if London is to be able to cope with the demand of its megacity population, expected to increase by over a million by 2030 – before the railway (even on most optimistic timelines) would be complete.

17. LCCI welcomes the Secretary of State for Transport publicly repeating his support for the project, and understands that he is working with the Mayor of London to ensure the project can move forward by demonstrating its value for money and benefits over the coming decades. Ministerial support must now translate into a viable funding plan, and into a timetable that will see delivery of the railway by 2033.

18. The capital's businesses are willing to contribute to infrastructure costs – as they have done for the Elizabeth Line including via the Crossrail Business Rates Supplement, mayoral community infrastructure levy (MCIL) and Section 106 contributions. The business contribution must, however, remain proportionate, fair and transparent, and in their discussions the government and the Mayor of London must be both flexible and open to innovative solutions to ensure that the project is built, and built quickly.

19. More broadly, it is in the best interests of the whole UK that strategic transport infrastructure is not concentrated mainly in the South East. While we seek the right infrastructure here in the capital, it is important that the rest of the country continues to grow as well. At present, cross-country travelling between the great northern cities of Liverpool, Manchester, Leeds and Sheffield can be a tortuous, time consuming experience. Those city areas have a collective population of 9million - similar to London's current population.

20. LCCI is happy to endorse calls for a 'Crossrail of the North'. The proposed cross-Pennine plans involve tunnelling – and the experience from the new Elizabeth Line/Crossrail project in London could be put to good use to deliver practical connectivity. 'Crossrail Two' and 'Crossrail North'

[5] http://www.londonchamber.co.uk/DocImages/15157.pdf
[6] Figure from the Fifty Thousand Homes campaign. LCCI sits on the campaign board.

could be given the green light to proceed together – creating a competitive environment and generating new economic opportunities.

A funding solution must be swiftly secured for Crossrail 2 to advance project design and underpin efforts to secure the necessary powers to begin construction.

Government should at the same time commit to the construction of the 'Crossrail for the North' rail line to help create a world class rail network for the whole UK.

21. **Apprenticeships: There is a concerning low take-up of apprentices in London.** LCCI would like that, upon leaving school, many of London's young people would embark on an apprenticeship as these have a role to play in closing cross-sector skills gaps across the UK.

22. However, LCCI commissioned research into the reasons behind business reluctance to take on apprenticeships found that, for 35% of London businesses, a lack financial resources to train and manage an apprentice was one of the main barriers to taking them on. One third said they did not have the necessary human resources available and 23% did not know what the legal requirements are to hire an apprentice.

A sensible step to make best use of the Apprenticeship Levy would be to allow Levy paying firms to transfer a greater percentage of their funds to their supply chain businesses. At present, firms can only transfer 10% of funds.

Securing long term prosperity

23. Crossrail 2 funding highlights why it is important that there is a more effective means to enable critical infrastructure projects to proceed without political delays over funding. LCCI considers further devolution – powers that would help areas fund most of their own infrastructure needs – as an essential component of helping devolved regions improve the performance of their infrastructure (including housing stock) towards international benchmarks.

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, including to pilot a Development Rights Auction Model (DRAM) on a major infrastructure project in London. The MoU also included a commitment to explore options for granting London government greater powers and flexibilities over the administration of business rates, and options for greater local influence over careers services. The MoU is consistent with the principles and ideas set out in the London Finance Commission final report which contained a series of practical steps to deliver fiscal devolution to the capital.

25. As highlighted by the London Finance Commission, having access to a range of revenues (matched by a reduction in central government grant) would enable London to focus on schemes that are likely to deliver growth and fiscal revenues. These could include a percentage of Londoners' income tax yield – broadly to match its overall expenditure, as and when further devolution occurs - a proportion of businesses' VAT yield and the full suite of property taxes (including operation and setting of council tax and business rates and devolution of stamp duty).

Words should be translated into action, with positive movement on MoU commitments and a roadmap for further fiscal devolution as recommended by the London Finance Commission, including the devolution of Stamp Duty Land Tax.

26. HM Treasury will be aware of the broad-based campaign on Air Passenger Duty (APD). LCCI is a supporter of the 'Fair Tax on Flying' campaign to abolish the burden of the flight tax.

27. New research from Frontier Economics[7] revealed that UK passengers are paying an extra £225 million in aviation tax *on domestic flights* compared to many of their European counterparts.

28. UK APD is the highest tax of its kind in Europe – with most European countries having little to no tax on *internal flights* to boost their economies and support domestic industry.

Business rates

29. From April 2017, businesses in London have faced a new set 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, not least the high cost of commercial rents with non-domestic property costs higher than in any other region in the country.

30. The Retail Price Index (RPI) measure of inflation was 3.6% in July, up from 3.5% in June, and consistently higher than the equivalent CPI measure. The government has committed to base business rates on the Consumer Price Index (CPI) inflation rate, rather than RPI, from 2020. However, with inflation high, for many businesses already hit by significant rises at the last revaluation - particularly in London - they can expect more pain next year. At a time of rising cost pressures on London businesses, borne out by our latest economic survey, this risks a further blow to confidence.

LCCI believes that business rates should be frozen for the next two years before increases become tied to CPI in 2020.

31. LCCI believes that there is a sufficient case for Government to consider substantive changes to the revaluations model, including breaking the link between revaluations and the fixed total tax yield generated. London's business rates could be 'de-coupled' from the national valuation system, whereby an increase in London's rateable values would not lead inevitably to significant increases in business rates (and would not inevitably depress the tax base in other areas).

32. Such a 'regionalized', devolved system would provide greater scope for regions to set (and ideally lower) business rates, but would, like now, require sufficient safeguards to prevent a disproportionate burden falling on businesses, or the loss of beneficial elements within existing proposals including the ability of authorities to reduce the business rates tax rate (the multiplier).

A fundamental review of Business Rates is needed, especially in today's digital age. An innovative measure could see a 'de-coupling' of London from the national valuation system.

[7] http://your.heathrow.com/heathrow-urges-action-stifling-apd-tax-alongside-new-plan-domestic-passenger-growth/

33. **Infrastructure supplement:** The Local Government Finance Bill fell before the General Election. Part 3 of that Bill made provision for the Greater London Authority, or other mayoral combined authorities, to levy an 'infrastructure supplement' to raise funds for infrastructure projects that will promote economic development. However, unlike the Business Rates Supplement Act 2009, the proposed supplement did not contain provision for a ballot of ratepayers.

34. An additional infrastructure supplement might be an effective tool for new Combined Authorities to raise funds to pay for infrastructure. However, as London already raises an additional precept, there is a danger that its businesses would effectively be double taxed for infrastructure if such an additional levy were to apply here, particularly if there is no ballot. It is essential that businesses, whilst they must play their part in contributing to the capital's infrastructure needs, are not treated as a 'cash cow'.

Other ways to raise additional funds should be explored, such as the London Finance Commission proposals, to ensure businesses are not disproportionately burdened.

Should plans for a new 'infrastructure supplement' be brought forward again they should include a ballot requirement (with consent thresholds similar those under the Business Rate Supplements Act 2009)

35. **Customs clearing systems:** One of the key concerns to emerge from discussions with London businesses around Brexit has been the prospect of new barriers to trade with Europe. 70% of London businesses believe that it is important to minimise customs procedures on trade with the EU, compared to only 17% who classify it as not very important or not important at all[8].

36. The growing reliance on just-in-time deliveries makes it even more important that customs procedures to be kept as smooth as possible. If customs procedures between the UK and EU are reintroduced, innovative or technological solutions will need to be considered to enable this to be done online (or otherwise equally quickly), rather than at ports of entry.

37. LCCI is aware of concerns raised by the National Audit Office over the ability of the new Customs Declaration Service (CDS) under development to be able to cope with potentially much increased demand, according to current development timescales. It is essential that any new system is ready on time and considers the overriding priority to minimise delays and bureaucracy at the UK's ports and points of entry.

Any enhanced system for clearing customs that allows pre-clearance away from ports of entry must be adequately resourced.

Further Information

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

Rob Griggs

[8] ComRes survey for LCCI of 504 businesses, February-March 2017.

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