LONDON BUSINESS 1000

London's local business survey

October 2019 | **YEAR 3**

FOREWORD

"We are very pleased to be publishing the results of the third year of this successful initiative with LCCI. This year's survey shows that the apprenticeship levy is not working for London and that businesses overwhelmingly want to see control decentralised, with local government and business working together. London Councils has joined the Mayor in calling for an ambitious devolution deal for London around skills and employment in our Call for Action. London businesses are hugely supportive of London's boroughs having greater powers and freedoms to address a whole range of the city's most pressing issues such as housing, transport and community safety. We will continue to work with LCCI to make our case to government for greater devolution.

London Councils is pleased that businesses are more satisfied than dissatisfied with a range of council services, such as licencing, environmental health and planning, where boroughs have a critical role in ensuring a healthy and safe city for residents. This year's findings also raise a series of challenges for London boroughs, including how we communicate with local firms and respond to issues raised. As part of our *Pledges to Londoners,* all of London's boroughs have committed to the development of a Charter for Business, which looks to reset the way local authorities and businesses work to ensure inclusive growth in their local area. This survey will inform the priorities for taking forward the Charter and developing a deeper engagement with business. I look forward continuing to work closely with LCCI and businesses to create prosperity that all Londoners can benefit from."

Cllr Clare Coghill, Executive Member for Business, Europe and Good Growth, London Councils

"This is the third year that London Chamber of Commerce and Industry (LCCI) and London Councils have partnered on the London Business 1000: Local Business Survey - to enable our organisations to better understand each other's views, concerns and expectations.

LCCI member firms operate in each of the capital's 33 local authority areas, where they are subject to by-laws, fees and charges. They are customers of their respective local borough, utilising, or seeking, services to help them trade successfully. In turn, as service providers, boroughs are keen to be aware of business trends and drivers in order that they can provide the right environment for firms to prosper. We have a shared interest in looking to understand and support, where applicable, each other's interests, particularly as firms continue, for a third year, to face Brexit uncertainty.

Turning to the 2019 Survey, it is concerning that two years on from its introduction, there is a degree of confusion and some limited awareness around the Apprenticeship Levy. This is despite business groups providing ample evidence to government about difficulties and challenges. There are operational issues with the Levy system as currently set up, which need to be examined. Ahead of the introduction of T Levels, lessons must be learned to ensure the opportunities presented by this new training route are not diminished.

Overall, skills shortages continue to pose recruitment concerns for the capital's firms, and while apprenticeships offer a valuable training route for equipping people with the skills they need to enter the workforce, the low level of business uptake is a worry.

LCCI commends the 'Call for Action' by London Councils and the Mayor for a new devolved funding deal from Government. The capital needs additional competencies to address the skills needs of London employers. A new deal delivering a holistic skills and employment system with dedicated apprenticeships, ongoing careers advice, enhanced further education investment and control over adult education to embed lifelong learning, would provide a strong foundation for the future economic growth of London.

This survey indicates clear business support for giving local authorities greater powers and funding on skills, employment and apprenticeships. Businesses recognise that boroughs have a real role to play in supporting a skills system that develops the capital's talent pipeline."

Peter Bishop, Interim Chief Executive, LCCI

ABOUT 'LONDON BUSINESS 1000'

For the third time, LCCI and London Councils have commissioned leading polling company ComRes to undertake an annual survey of one thousand London businesses. This year's survey provides an update on businesses' approaches to recruitment and the impact of the Apprenticeship Levy. It also considers the interaction between businesses and London boroughs, measuring the satisfaction rating for a range of local government services, as well as business support for giving London councils greater local control across a range of activities. The results also give an insight into variations in views across London's sub-regions and different business sectors.

METHODOLOGY

ComRes interviewed 1,000 London business decision-makers by telephone between 14 May and 14 June 2019. Data were weighted to be representative of businesses both in London and in each of the sub-regions by borough, company size and broad industry sector. Sole traders have been excluded.

ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at www.comresglobal.com. Any data reproduced from the report should be fully referenced. Due to the effect of weighting and rounding, some combined figures will not sum up to the net percentage figure.

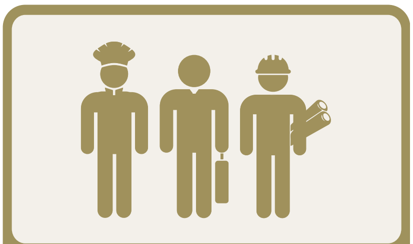
EXECUTIVE SUMMARY

London's business environment

- **London's businesses report a fair degree of optimism about the future**, with 44% expecting turnover to grow (with 12% expecting significant growth). However, 20% of businesses project that turnover will shrink, with an increasingly competitive market, Brexit and skills shortages seen as the main barriers to growth. Firms with lower turnover are significantly less confident about their future growth than firms with a higher turnover.
- Among these challenges, **business rates remain a key area of concern** for London's businesses. 54% of business leaders highlighted that increased business rates are one of the top three issues that would impact on profitability.

Skills

- **Skills shortages and difficulties employing people with the right skills remain a priority concern for London's businesses**, with 42% citing this as a main barrier to growth.
- **Close to 9 in 10 London businesses do not currently employ any apprentices.** Among firms that pay the Apprenticeship levy, just over half (55%) do not employ any.
- Over the three years of this project there has been a decrease in the number of firms looking to use the levy to employ more apprentices (68% - 47%). **60% of firms expect to use half or less of their levy funds**, with only 16% indicating they will use more than a half (a drop from 28% who said the same in 2018).
- Two years on from its introduction, knowledge gaps persist among London businesses around requirements to pay the levy and intentions to use funding. **Businesses are clearly not maximising on apprenticeships to address skills and recruitment needs** as a result of these knowledge gaps.
- London Councils, LCCI and other bodies contend there is a case to review and reform skills funding to ensure that it meets the needs of London businesses[1]. The capital, as England's primary devolved area, should see a move away from a Whitehall driven top-down system towards a setting with sufficient flexibility to meet the skills requirements of local firms.



Close to 9 in 10 businesses are currently not employing apprentices

Devolution and local government

- **The capital's businesses want a stronger role for London's boroughs in the skills and employment system.** Decision makers overwhelmingly agree that local London councils should have the powers and funding to integrate employment, skills and apprenticeships in their local area (82%).
- **Devolving greater powers would allow local government to support a skills system that enables businesses to navigate challenges posed by an increasingly competitive market in a post-Brexit economy.**
- 70% of businesses indicated that London's local authorities should have more control over council tax and business rates.
- Generally speaking, businesses are more satisfied than dissatisfied with local boroughs' services in key areas such as trading standards, permits, licences and planning.

82% of London firms agree that local councils should have the powers and funding to integrate employment, skills and apprenticeships in their local area

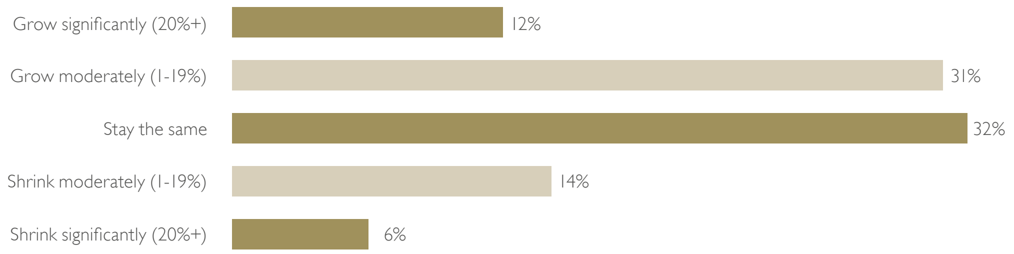
[1] Improving apprenticeship delivery in London: a submission by London local government and business (2018) https://www.londoncouncils.gov.uk/sites/default/files/Apprenticeships%20levy%20paper%20Final%20Draft%20CLEAN.pdf

PART 1: LONDON'S BUSINESS ENVIRONMENT

This year's survey aimed to better understand the overall business environment, particularly looking at businesses' expectations for growth and the issues that would pose the greatest challenges to their growth and profitability.

Although more than two in five (44%) London business decision-makers say that they expect their business turnover to grow in the next year, one in five (20%) expect turnover to shrink.

Businesses' expectations for turnover in the next 12 months

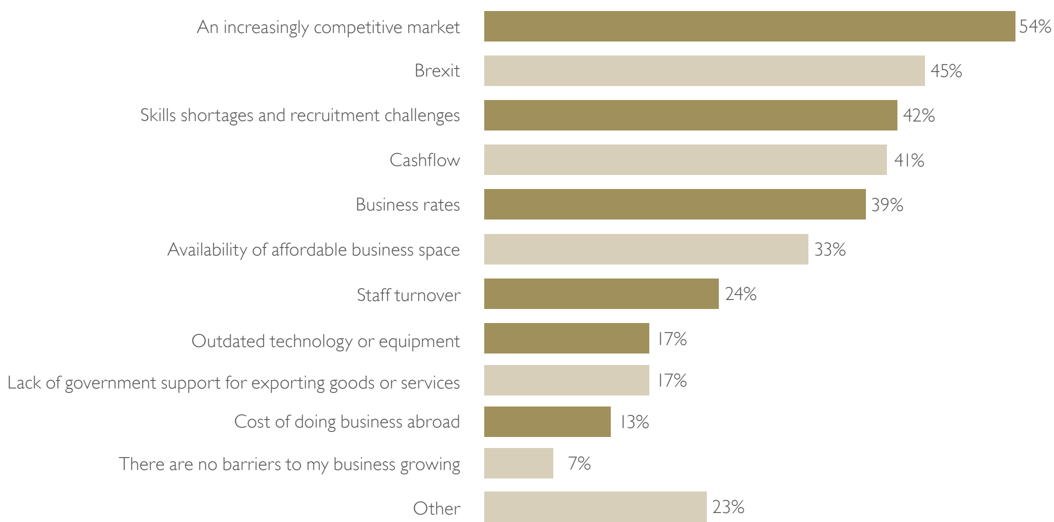


There was some variation in responses across sectors. Property and construction firms are more likely to expect turnover to grow than to shrink (46% vs. 23%), as are financial and professional services firms (38% vs. 17%). Clear areas for concern include the motor trades, wholesale, transport and storage industries, where 14% are expecting turnover to shrink by 20% or more in the next 12 months. The retail sector's outlook paints a mixed picture, with 36% of firms anticipating growth, 30% expecting turnover to shrink and 28% expecting it to stay the same.

Barriers to growth

More than half (54%) of London business decision makers say that an increasingly competitive market is among the main barriers to business growth, with more than two in five saying the same of Brexit (45%) and skills shortages (42%).

Main barriers to growth



Business rates

Increased business rates were seen by 54% of business leaders as one of the top three factors that would most impact on their firms' profitability, rising to 60% of firms in Central London. This reflects the disproportionate increase in business rates experienced by many London businesses at the last revaluation in 2017, compared to businesses in the rest of the country. Business rates bills rose in London by an average of 11% whilst they fell outside London on average by 7%.[2]

24% of businesses across London reported that out of all issues tested, increased business rates would have the most impact on their profitability. Against this backdrop, it is interesting to note that 70% of London business leaders agree that local London councils should have more control over local taxes, such as council tax and business rates.

Property costs

Availability of affordable business space was also cited as a key barrier to growth, with around one in three business leaders highlighting this concern consistently across London's sub-regions.

Nearly half of London businesses (46%) identified increased property costs as among the top three factors that would impact most on profitability, rising to 51% in Central London. The sectors that indicated they would be impacted by this issue the most were agriculture-related and production firms (59%*) and retailers (54%).

Brexit

45% of London businesses identified Brexit as a main barrier to business growth. Responses varied across London's sub-regions, however, with 56% of Central London firms citing Brexit as a barrier, compared to 38% of firms in East London.

Firms with a turnover of £1 million or more (51%) were more likely than those with a turnover of less than £1 million (43%) to identify Brexit as a main barrier to growth. Across sectors, firms most likely to cite this barrier are in the retail (60%) and production and agriculture-related (60%*) industries.

Staff costs

Increased wages were seen by 42% of decision-makers as an issue that would be among the top three factors that impact on firms' profitability, rising to 47% among businesses that had recruited or tried to recruit in the past 12 months.

Those most likely to cite this as a top three factor impacting on profitability were in finance, insurance, administration and support services (51%), followed closely by firms in public administration, defence, education and health (49%).

Additionally, 30% of London businesses indicated that increased pension contributions would impact on profitability, rising to 40% amongst firms in finance, insurance, administration and support services.

PART 2: RECRUITMENT AND SKILLS

Skill shortages

As businesses navigate an increasingly competitive market, particularly in light of continued uncertainty as a result of Brexit, addressing skills gaps is of increasing importance.

42% of firms identified difficulties in employing people with the right skills as a main barrier to growth. This rose to 55% both among businesses that have recruited or tried to recruit in the last 12 months and those that expect to recruit in the coming year.

There was some variation across London's sub-regions, with 49% of firms in East London citing skills shortages as a main barrier to growth, compared to 35% of businesses in Central London.

42% of businesses identified skills shortages as a major barrier to growth.

Firms employing apprentices were more likely to identify skills shortages as a challenge to growth, with 53% saying this, compared to 40% of those that do not employ apprentices. Similarly, those who expect to pay the Apprenticeship Levy were more likely to highlight challenges with finding people with the right skills (50%) than those that do not (38%), as were businesses using apprenticeship funding (52%), compared to those not using this funding (39%).

[2] London Councils evidence to the Treasury Select Committee inquiry into the impact of business rates on business, April 2019

* Denotes a low base size. Figures are indicative only

Recruitment

Against a generally positive growth outlook cited by businesses over the three years of this survey, the proportion of firms expecting to recruit over the next 12 months has fallen from 59% in 2018 to 51% in 2019, despite initially seeing an uptick from 54% in 2017.

The percentage of firms reporting that they will not be looking to recruit has risen significantly from 33% in 2017 to 43% in 2019.

Firms in public administration, defence, education and health were most likely to report they expect to recruit (70%), followed by businesses in financial and professional services, and the accommodation and food services sector (54%). Expectation was lowest among motor trades, wholesale, transport and storage businesses, with only 41% planning to recruit.

There was a significant variation by turnover, with 69% of businesses with a higher turnover (£1 million and above) expecting to recruit in the next year, compared to 45% of firms with a lower turnover (less than £1 million).

Among those firms that recruited or tried to recruit in the past year, skilled manual and technical roles were in the greatest demand (55%), followed by professional and managerial roles (45%). Semi-skilled and unskilled roles were also in demand (39%), alongside clerical roles (30%).

Demand for recruitment

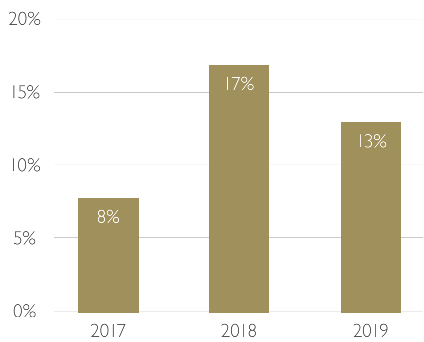
There was significant variation across sectors. Demand for skilled manual and technical staff was highest among construction and property firms, with 69% having recruited or tried recruiting this group in the last 12 months, compared to 41% of finance, insurance, administration and support services firms. Motor trades, wholesale, transport and storage businesses reported the highest demand for semi-skilled and unskilled roles (62%), with public administration, defence, education and health firms having recruited or tried to recruit the highest level of professional and managerial roles (61%).

Apprenticeships

While apprenticeships offer a route to addressing skills and recruitment gaps and therefore boost competitiveness, the number of apprentices within London businesses remains surprisingly low. Close to nine in ten firms in London reported that they do not currently employ any (86%). Consequently, many businesses reported that they will not be required to pay the Apprenticeship Levy (66%), and do not expect to use apprenticeship funding (69%).

Our first survey in 2017 was undertaken just as the Apprenticeship Levy was introduced. Results indicated that the percentage of firms employing apprentices doubled in the first year from 8% in 2017 to 17% in 2018. However, this year's survey reported a worrying drop to 13%. Among businesses that pay the levy, only 45% employ apprentices, with 55% not employing any two years after its introduction.

Percentage of firms employing apprentices



The proportion of firms employing apprentices varied across London's sub-regions, with businesses in West London employing the lowest level of apprentices (9%), and East and South London firms employing the most (16%). Uptake was higher among higher turnover firms, with 22% of businesses with a turnover of £1 million or more employing apprentices, compared to 10% of firms with a turnover of less than £1 million.

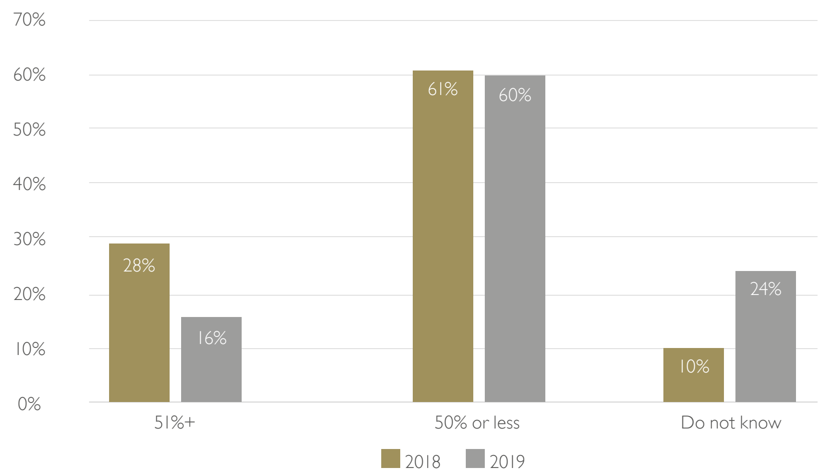
Confusion persists among London businesses around requirements to pay the Apprenticeship Levy and the use of funding. 18% of decision-makers reported that they do not know whether their company will be required to pay the levy. Meanwhile, 14% of those with a turnover of less than £1 million believe that they are required to pay, as do 16% of SMEs. Firms required to pay the levy are those that have an annual pay bill of more than £3 million.

60% of firms that expect to pay the levy and plan to use their funding anticipate they will use half or less their levy funds, with only 16% indicating they will use more than a half (a drop from 28% in 2018).

Only half (53%) of levy-paying businesses indicated they expect to use apprenticeship funding over the next year, with nearly a third (31%) saying they do not plan to do so. Four in five (81%) non-levy paying firms do not expect to use apprenticeship funding in the next 12 months.

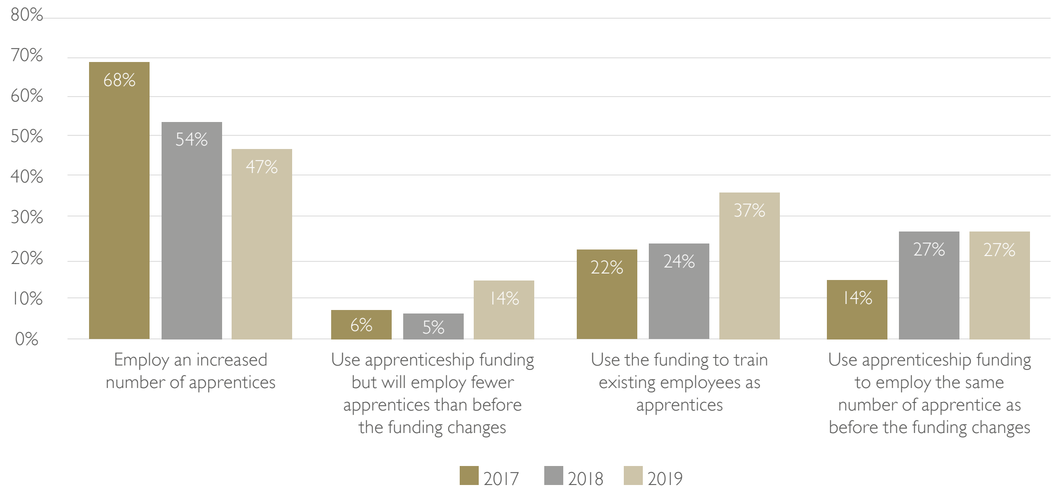
Two years on from the levy's introduction, businesses are not maximising on the opportunities apprenticeships present for addressing skills and recruitment shortages as a result of this confusion, among other challenges. Consequently, there is a need for reform of the Apprenticeship Levy and wider apprenticeship system so that they can work better for employers.

Percentage of Levy funds businesses expect to use over the next 12 months



When asked how firms would deploy apprenticeship funding, responses indicated a concerning trend over the three-year survey period. The proportion of firms who plan to use their apprenticeship funding reported that they intend to hire an increasing number of apprentices has fallen from 68% in 2017 to 47% in 2019. On a positive note, however, two in five (37%) intend to use the funding to train existing employees as apprentices, up from 22% in 2017, highlighting increased initiative to upskill staff to fill recruitment gaps.

Businesses' plans to use apprenticeship funding in the next 12 months



PART 3: LOCAL GOVERNMENT AND DEVOLUTION

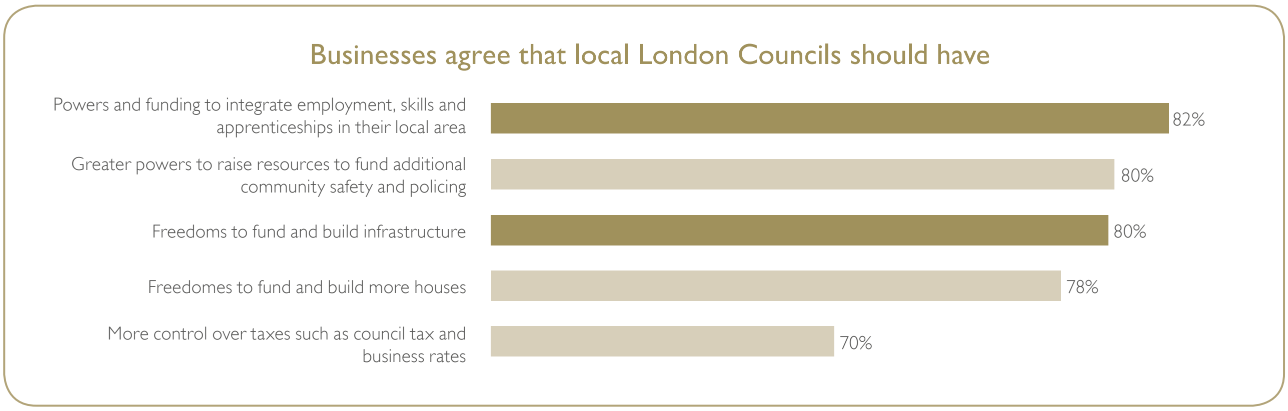
Overall, there was strong support from London business leaders for devolution to London's councils. Generally speaking, more than seven in ten agreed with statements about greater powers, freedoms and control across a range of service areas.

Business decision makers overwhelmingly agreed that local councils should have the powers and funding to integrate employment, skills, and apprenticeships in their local area (82% net agreement). This view was consistent across London's sub-regions and firms' turnover.

There is clearly a role for boroughs to play in supporting a skills system that enables businesses to navigate challenges posed by an increasingly competitive market in a post-Brexit economy.

There was equally high support for greater powers to raise resources to fund additional community safety and policing (80%), and more freedoms to fund and build infrastructure (80%) and more houses (78%).

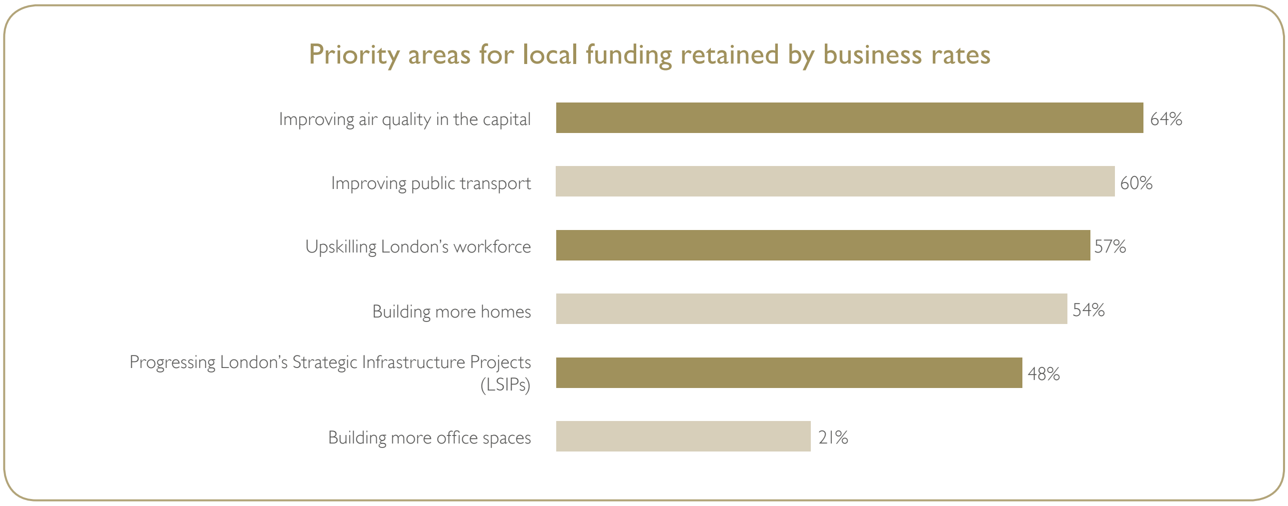
70% of London business leaders agreed that London's boroughs should have more control over local taxes, such as council tax and business rates. This level of support was consistent across London's sub-regions and firms' turnover, and was strongest in the property and construction industry, with just over three quarters (76%) supporting this.



Local government spending

Business decision makers identified improving air quality in the capital (64%), improving public transport (60%) and upskilling London's workforce (57%) as the priority areas for investing funds retained by London's boroughs and the Greater London Authority (GLA) from business rates. More than half (54%) indicated that funds should be prioritised for building more homes.

Businesses in East London (65%) were most likely to select upskilling London's workforce as a priority, compared to those in Central London (52%).

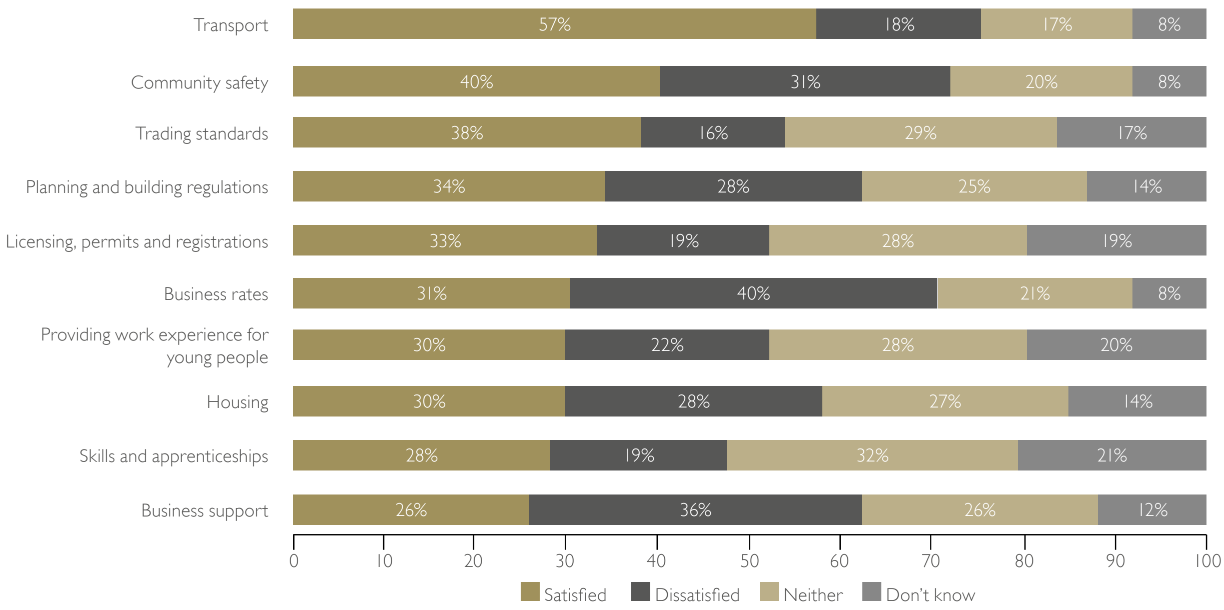


Local government services

London's boroughs have key functions such as trading standards, licensing and planning. This partly defines the local business environment, and as boroughs become increasingly reliant on local business rates income, their awareness of local businesses' views will also need to increase.

Overall, business leaders are more likely to be satisfied than dissatisfied with services and guidance in a number of areas, namely transport (57% vs. 18%), community safety (40% vs. 31%) and trading standards (38% vs. 16%). Even in the face of significant funding cuts, the quality of these services is seen by the majority of businesses as having remained consistent over the last 12 months.

Are you satisfied or dissatisfied with the following council services?



However, a high percentage of business leaders either do not know or are neither satisfied nor dissatisfied with each of these services. This suggests that business leaders are not aware of, not using, or are ambivalent towards the services provided by London boroughs, highlighting a communications challenge for councils.

Additionally, London businesses were more likely to be dissatisfied (40%) than satisfied (31%) with guidance and services on business rates. Firms that have a high reliance on property assets showed the highest levels of dissatisfaction with these services, including those in motor sales, wholesale, transport and storage (59%), and retail (55%).

Business support services provided by councils have some of the highest levels of dissatisfaction (36%).

Boroughs also have a communications challenge around businesses' perceptions of overall council activity. Whilst a third of businesses (34%) think boroughs do a fair amount or more to act on the concerns of local businesses, over half of firms (57%) think local councils do not very much or nothing at all.

Skills and apprenticeships

While businesses are more satisfied (28%) than dissatisfied (19%) with boroughs' services on skills and apprenticeships, more than half of firms either reported being neither satisfied nor dissatisfied (32%) or did not know (21%) about local councils' guidance and services on this.

Firms that currently employ apprentices were more likely to be satisfied than dissatisfied with skills and apprenticeships services (50% vs. 24%), as were businesses indicating that they will be required to pay the Apprenticeship Levy (49% vs. 24%), and firms using apprenticeship funding (46% vs. 21%).

Providing work experience for young people

Those employing apprentices and those paying the Apprenticeship Levy were significantly more satisfied with their council providing work experience for young people, with about half satisfied with the boroughs' services on this (46% and 54% respectively). This compares to 3 in 10 of all London businesses (30%). There was no significant difference between sectors. Across sectors, most firms reported that services in providing work experience for young people were improving or at least staying the same. Around half of London business leaders said they were either neither satisfied nor dissatisfied (28%) or did not know (20%) regarding local councils' support for providing work experience for young people, which suggests boroughs have more work to do on developing and communicating services in this area.

LONDON'S SUB-REGIONS

London's boroughs have for many years formed themselves into strategic sub-regional partnerships groups. There are currently four sub-regional partnerships covering the whole of London:

1. Central London Forward
2. Local London (covering East and parts of North London)
3. South London Partnership
4. West London Alliance

As with the first two surveys, the data has been collected for London as a whole, but also broken down across these sub-regions.[3]

There was a great deal of consistency across the sub-regions, which is reflected in the main part of the report. However, responses also highlighted a number of variations.

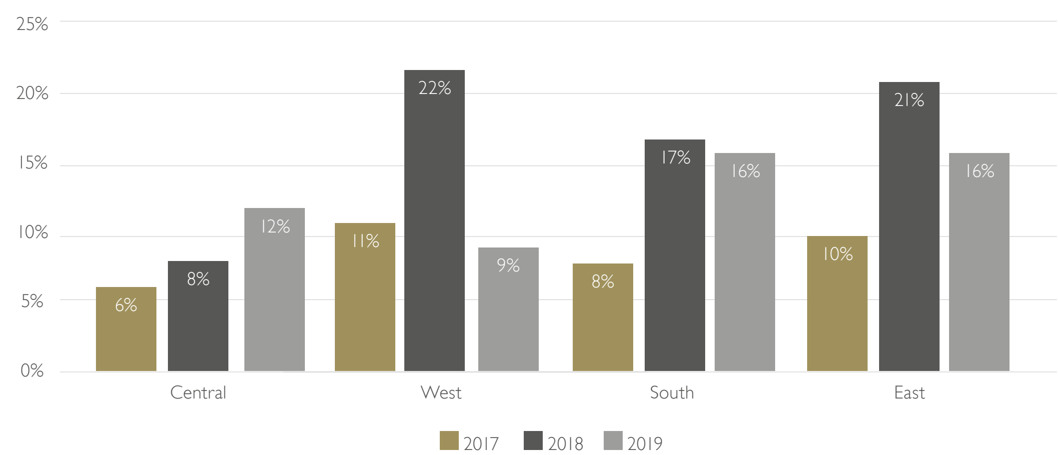
Recruitment

- 57% of Central London firms were looking to recruit in the next year, compared to 49% in other sub-regions.

Apprenticeships and skills

- Central London business decision makers are significantly less likely than those in other sub-regions to say that skills are among the main barriers to growth (35% in Central vs. 44% in the South, East and West).
- While Central London has seen a slight increase in the uptake of apprenticeships over the past year (8% in 2018 – 12% in 2019), East (21% in 2018 - 16% in 2019) and West (22% in 2018 - 9% in 2019) have seen a drop in numbers.
- Investment in upskilling London's workforce was more of a priority for East London business leaders, at 65%, compared to Central London (52%).

Businesses currently employing apprentices



[3] * 'Central' includes Lewisham, Southwark, Lambeth, Wandsworth, Kensington & Chelsea, City of Westminster, City of London, Tower Hamlets, Hackney, Islington, Camden, and Haringey; 'East' includes Enfield, Waltham Forest, Redbridge, Newham, Greenwich, Bromley, Bexley, Barking & Dagenham, and Havering; 'South' includes Croydon, Sutton, Merton, Kingston upon Thames, and Richmond upon Thames; 'West' includes Hillingdon, Harrow, Ealing, Hounslow, Hammersmith & Fulham, Brent, and Barnet.

Businesses and boroughs

- Only 28% of West London business decision makers are satisfied with planning and building regulations, compared to those in East (39%) and South (36%) London.

Business environment

- Brexit was more likely to be considered a main barrier for growth for Central (56%) and West London firms (47%) compared to East London firms (38%).

Property costs

- Central London businesses felt that increased property costs would have the greatest impact on their profitability (21%), compared to only 14% of East London firms.
- Three in ten (30%) Central London business decision makers say that increased business rates would have the most impact on profitability, significantly higher than those in South (20%) and West (24%) London.

Devolution

- Central London firms were most likely to agree that local councils should have more freedoms to fund and build more houses (83%), with over three quarters (77%) of businesses in all other sub-regions saying the same.

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