

FOR
UK GROWTH
FOR
BUSINESS
FOR
LONDON

**LONDON FIRST BUSINESS MANIFESTO
GENERAL ELECTION 2010**

London First

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London First is a business membership organisation with a mission to make London the best city in the world in which to do business. London First undertakes this by mobilising the experience, expertise and enthusiasm of the private sector to develop practical solutions to the challenges facing London. London First also seeks to persuade central and London government to make the investments that London needs in its infrastructure.

London First delivers its activities with the support of the capital's major businesses in key sectors such as finance, professional services, property, ICT, creative industries, hospitality and retail. Membership also includes further education colleges and London's universities. London First members represent over a quarter of London's GDP.

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Successful business is fundamental to national economic wellbeing. However, the last few years have seen a decline in the willingness of Government and Opposition to acknowledge this fact to the electorate. The credit crunch and recession have coincided with a steep decline in the quality of relationship between national politicians and the business community and all three major parties have sought to position themselves as antipathetic to the wealth generators. This is economically and politically unsustainable. After the election there is an onus on both business leaders and Government to work together to restore the relationship and to build a successful and sustainable economy.

London is one of a small number of truly global cities. Its economy generates revenue for the country as a whole (around a fifth of the country's total output). It contributes more in tax than it receives in public spending by a margin of between £14 billion and £19 billion a year. Critically, London is the country's principal international gateway to capital and labour from overseas. For the benefit of the UK as a whole, London competes with rival global locations for international investment in professional services, financial services, the media and creative industries, higher education and tourism.

It is therefore vital to Britain that London remains globally competitive. This manifesto from London business identifies key areas where the next Government must act to protect and enhance the UK capital's competitive edge.

1

**MEETING THE
ECONOMIC
CHALLENGE**

The next Government must reduce the gap between its income and expenditure during its first term. With the deficit estimated to be 11.8% of GDP in 2009/10, it is imperative that the new administration moves quickly to set credible objectives for restoring the UK's fiscal position. Experience from other countries suggests that the most

sustainable and credible means of curbing deficits is to find roughly 80% of savings from spending cuts and 20% from higher taxes. London First's starting point is that the difficult tax and spend decisions facing Government should be based on supporting – or doing the least damage to – economic growth.



Efficiency savings and spending cuts

Successive governments have a poor record in delivering real efficiency savings, that is to say, cutting costs without affecting outputs. Government lacks the change management experience of the private sector, which is driven by the pressures of meeting customers' demands in competitive markets. The new Government needs to:

- establish a separate unit within the Cabinet Office, responsible to a Cabinet Committee chaired by the Prime Minister and with an explicit mandate to achieve clear, public and independently audited cash efficiency targets
- staff this unit with a mixture of civil servants and experienced hires from the private sector
- provide dedicated support from this unit for departmental ministers
- change the terms and conditions of civil servants so as to make redundancy practicable where necessary
- consider splitting the management and policy functions of the civil service

Better approach to budget cuts

Where efficiencies are insufficient to meet savings targets, there must be a robust, evidence-based approach to how cuts are made. This should be based on analysis of the costs and benefits of particular spending. The key elements of such a structure would include:

- clear and transparent rules governing spending as a share of GDP over several years
- an independent office responsible for analysing and forecasting current and future budgets, learning from the example of the US Congressional Budget Office
- a comprehensive spending review, across all government departments, to provide direct cross-departmental comparisons of the value of planned and proposed spending and investment, based on robust cost-benefit analysis
- greater autonomy for managers within departments, including the opportunity to retain funds raised from efficient spending, in exchange for greater accountability for results



Maintain investment in infrastructure

While many areas of current and capital spending support growth, infrastructure investment is particularly important and must be maintained. As the OECD notes: "...capital expenditure can be quarantined from the expenditure rules as these are typically the first victim of fiscal consolidation efforts while less productive but politically sensitive programmes survive."

Tax policy to support UK competitiveness

This means:

- a clear Government vision for the direction and development of tax policy, leading to a stable, predictable and consistent framework, based on consultation and due process. The clumsily handled change to the tax regime for non-domiciled individuals damaged the UK's standing in this regard, for no benefit to the Exchequer
- where further taxes are needed to cut the deficit, these are raised in areas which will do least to damage competitiveness – broadly based expenditure or income taxes
- a clear commitment and timetable to restore the top rate of income tax to 40% within the coming Parliament and to reduce other taxes which impede competitiveness, such as employers' National Insurance and Corporation Tax

A FRAMEWORK FOR FINANCIAL SERVICES GROWTH

London is a global financial centre of vital importance to the UK economy. It generates jobs across the country, makes a substantial tax contribution to the Exchequer and raises capital from overseas.

There is understandable public antagonism towards the behaviour of some parts of the financial services sector. Support for those banks who had failed to understand properly the risks to which they were exposed, has come at a significant cost to the public purse. Behaviour of some bankers has been insensitive. But the banks and bankers who behaved recklessly represent only a fraction of our financial services sector.

It is essential to restore trust in the banking system, so that it may be a positive driver of the UK economy once again. This requires the banks and the new Government to work together on steps to restore the reputation of our financial services. Britain needs an approach to regulation which combines systemic resilience and effective institutional supervision, with the ability to innovate and be competitive. This needs evidence-based policy-making that is transparent, predictable and consistent, and on which industry is consulted. And it needs internationally agreed principles.

2

**DELIVERING
WORLD CLASS
TRANSPORT**

Transport infrastructure connects Britain to the world. Heathrow is a global hub airport and the busiest airport in Europe.

Transport infrastructure connects London to the rest of the UK. The capital is the hub for road, rail and air transport vital to Britain's competitiveness.

Transport infrastructure connects London internally. London's extensive and efficient Tube, rail and road systems mobilise customers and employees and provide essential links for longer journeys which cross the capital.

In recent years, significant investment in London's transport infrastructure has begun. This includes the first phase of Tube modernisation and increased capacity on Thameslink. Major improvements such as these promise to overcome decades of under investment and provide the foundations to meet the future forecast growth in London's population.

Based on a ten-year funding settlement with the Department for Transport (DfT), Transport for London (TfL) will complete a series of vital improvements over the next eight years. It is crucial for both economic growth and the quality of life of those who travel into or within the capital that this commitment and other programmes are maintained. Investment must continue in the Tube, Crossrail and overground rail, congestion on London's roads must be tackled and we must move to meet the South East's airport capacity needs. In the longer term, high speed rail has the capacity to dramatically improve the interconnectivity between Britain's major cities.



Improvements to meet demand

The settlement with the DfT provides the funding and certainty which underpins the long overdue programme of investment in London's transport. It will improve the daily travelling experience of millions of passengers by reducing overcrowding and improving journey times, while accommodating forecast growth in demand. Crossrail and a modernised Tube are its two key planks: construction of Crossrail is underway (£2 billion will have been spent by summer 2010) and the upgrade of the Tube is starting to deliver tangible benefits to passengers, with 80% of its new capacity set to be delivered by 2017.

FUNDING FOR INFRASTRUCTURE

A new Government must work with the private sector to explore innovative methods of funding new transport investment in the capital and nationally. Some transport infrastructure, such as at Heathrow, is already funded by the private sector and paid for through user charges and provides a model for funding new investment elsewhere.

The establishment of Infrastructure UK should provide a coordinated approach to infrastructure across Government. We welcome the prospect of new institutions, such as the proposed green investment bank, to support infrastructure investment. The UK can also learn from other jurisdictions. For example, in the US Tax Increment Financing (TIF) is widely used to support regeneration. Future increases in the tax yield, generated by upfront investment in infrastructure, are ring-fenced to finance that investment.

Road congestion tackled

While London has only 12% of the country's population it has over 30% of its congestion. TfL estimates that congestion costs the London economy £8 million per day, increases carbon emissions and particulates harmful to health, and reduces the reliability of the road network. Government needs to:

- work with the independent industry regulators to explore the economic and social impacts of congestion in London and other British cities, to strengthen incentives for utilities to complete works more quickly
- work with London's local authorities, to reduce peak-time congestion generated by their roadworks on the country's busiest roads (for example through league tables or internal charging)
- set challenging targets for network reliability of strategic routes

Better airports

- **Improved regulation:**

Recent proposals to reform airport regulation, in order to promote the passenger interest, should be enacted as soon as parliamentary time permits. As a result, the Civil Aviation Authority will have a statutory environmental duty and will oversee a licensing regime to define and maintain service quality. These proposed changes provide a robust underpinning for necessary expansion of air capacity in the South East.

- **More airport capacity:**

Existing businesses and potential inward investors need the UK's hub airport to be able to accommodate more flights. This can only be achieved through properly planned and regulated expansion and a new runway – with independent enforcement of the local noise and emissions thresholds set by Government. Constrained capacity at Heathrow results in an unreliable service and a restricted range of destinations for travellers. We welcome proposals for a high speed rail network as a means of increasing national and short haul international connectivity, but it is a complement, not a substitute, to expanding Heathrow.

3

**ENABLING
INVESTMENT IN
HOUSING AND
DEVELOPMENT**

Building good homes provides benefits in terms of health, education and employment, as well as supporting construction jobs in the short term. Nearly half of the London boroughs have social housing waiting lists of over 10,000 households. The London Plan forecasts that London's population will grow by 1.3 million, some 17%, by 2031. Yet capacity in the industry has decreased by more than half as a result of the recession.

To support these demographic projections and achieve greater affordability, London needs targeted investment by the public sector in social housing. Public policy should support development of both social and private sector housing. Expensive standards and complex policy and process will undermine viability.



Freedom for the HCA

Central government should allow the London Homes and Communities Agency (HCA) the flexibility to innovate when investing. This would boost delivery of all tenures of housing in London. For example, the HCA could take equity in social housing schemes or invest in privately rented homes. Both examples would help to leverage further output from the HCA's resources.

Support for private investment

The level of housing investment, through UK Real Estate Investment Trusts (REITs), has been disappointing. Government should consider how these can be made as successful as in other jurisdictions. For example, by relaxing the listing requirements for residential UK-REITs so that they could be listed on the Alternative Investment Market.

More homes for Londoners

Funding should be designed to deliver increased housing supply, in all tenures. Government housing policy needs to be based on more robust evidence and should be conscious of securing maximum volume from allocated grant. The mix of unit sizes in developments must reflect actual demographic and market pressures, such as the increased demand for single person private homes.

More flexibility for social housing providers

London has a large stock of social housing. Almost three quarters of a million homes are rented from a local authority or other social landlord. This represents 23% of London's overall stock, compared with 17 % of homes nationally. Yet this level of supply does not meet demand. Government should consider tenure reforms to maximise the value of this sizeable resource, for example by:

- freeing up stock for those in most need, by introducing conditions that remove the right to remain in social housing in perpetuity
- providing incentives to move, for those whose social housing provision now exceeds their need
- encouraging tenants to move up the housing ladder into intermediate accommodation – through improved promotion of home ownership options to both tenants and lenders
- exploring means tested rents

London has a great deal of planning policy from local, London and national government, but too little development. Economic growth requires increased housing and commercial capacity. The challenge for a new Government is to simplify and prioritise policy so as to permit and encourage delivery of much needed homes and offices. This requires a break from the past, particularly in understanding how the recession and changes in economic activity affect the viability of development schemes.



No more Planning Acts

Constant change is confusing to the public and a drain on the resources of planning departments and applicants. Many of the changes from the 2004 Act have yet to take full effect, six years later. The planning system can be improved through operational changes such as better and shared resourcing, more training for councillors and strict adherence to deadlines by statutory consultees.

Incentivise development

Development should be incentivised by retaining new council tax and business rates. Development applications are often opposed locally, especially where there is little or no perceived community benefit. Planning Committees understandably reflect these views. Allowing local authorities to retain the council tax and business rates generated by new development would provide resource for infrastructure and an incentive to the community to support it.

Stop CIL and improve S106

The proposed Community Infrastructure Levy (CIL) is too complex, would be a drain on local authorities and, contrary to initial ambitions, represents double jeopardy for developers who will continue to pay S106 payments alongside. This threatens the viability of development and regeneration. The complex nature of development in London (which is overwhelmingly brownfield and mixed use) would exacerbate this impact, especially as it is proposed to apply to gross development (rather than net additions).

Instead, Section 106 could be improved by:

- policy being established through the development plan
- clearer prioritisation of requirements
- greater use of formulae and standard charges
- greater use of standard clauses in S106 agreements
- earlier negotiation on major projects as part of pre-application discussions
- encouraging use of independent consultants by authorities, which can be paid for by applicants
- training for members and officers in viability testing

FASTER DELIVERY OF INFRASTRUCTURE

Timely provision of strategic infrastructure, especially in transport, energy and other utilities, is essential to economic growth in London and the UK. Long project lead times and planning uncertainty risk deterring private investment, delaying or preventing the delivery of nationally important assets. While local impacts need to be mitigated, a wider strategic perspective is required. The Government must ensure that, where vital national infrastructure is concerned, local planning decisions adhere to nationally set policy, decision criteria and timescales.

SEIZING THE OLYMPIC OPPORTUNITY

The world will focus on London in August 2012 when the Olympic Games enable us to showcase the capital and drive regeneration in east London. Making the most of this once-in-a-generation opportunity requires investment, both in physical infrastructure and in the employability of local people. Building on the work of the new Olympic Park Legacy Company, Government should create and empower one body to market and coordinate investment in the Thames Gateway, with an emphasis upon the immediate vicinity of the park.

4

**IMPROVING
EMPLOYMENT
AND
SKILLS**

London's employment market is unique in the UK. It is characterised by high productivity and high level skills at the top end, combined with massive entrenched unemployment and large numbers of people with low or no skills at the other.

National policy and funding incentivises London's educational institutions to increase participation and the acquisition of formally recognised qualifications.

There is little or no government funding which relates to their students securing employment.



Aligned structures and targets

Government should:

- provide educational institutions with a real financial incentive to get their students into employment or self-employment, through targets with associated ring-fenced funding
- simplify the structure of government funded employment and skills agencies, and make them more comprehensible and accessible to employers
- allocate resources to prioritised specialist skills shortages among the workforce, particularly in the areas of engineering, science, technology and mathematics
- provide targeted financial support that will encourage employers to take on more young people as apprentices, interns or in job placements, particularly during the economic downturn

A greater role for business

Government should:

- increase the number of decision-making, rather than merely advisory, roles for senior business people in the national education system, so that it more accurately reflects and serves the job marketplace
- ensure that education policies facilitate the development of closer commercial relationships between educational institutions and businesses
- retain only those Sector Skills Councils that can attract more than 50% of their funding from employers, to ensure that they fully reflect their sector's skills needs at the grass roots

An open London Labour market

Business in the capital needs access to a skilled workforce to remain competitive. Immigration policy should not introduce artificial limits which prevent access to global talent, where the local workforce has genuine shortfalls. Government should accelerate the introduction and effectiveness of Welfare to Work programmes, enabling more claimants to move off benefits and into work. Funding of skills, benefits and employment support agencies (public, private or voluntary) should reward success in supporting clients into lasting jobs.

5

**LONDON'S
PLACE IN THE
UK**

Central government keeps local government on a very tight rein and this is particularly the case in London. From a total expenditure of £14 billion in the coming financial year, just 7% comes from directly raised taxes, the council tax precept. Around 40% comes from fares and charges (principally TfL). More than half of local government income (Mayor and Boroughs) comes from various government grants, with a wide variety of strings and conditions attached.

Similarly, the powers that London government exercises are heavily circumscribed by central government. Of course there do need to be national policy frameworks, but their implementation should, wherever possible, be devolved to the Mayor rather than to Whitehall civil servants. Where decisions do need to be taken on a national basis, they should be scrutinised by the London Assembly in a similar way to the scrutiny functions of other devolved institutions in Britain. It is time that central government ceased to infantilise London government. Instead it should give it greater financial and policy autonomy – and accountability.

Greater fiscal autonomy for London

As a first step, government grants to London should form a single pot. These should be allocated according to the priorities of London and not those of national government, other than in exceptional circumstances. Government should, in the medium term, explore the transfer of ownership of these revenues to the Greater London Authority. As London generates a substantial tax surplus, there are a variety of ways in which this could be achieved. For true accountability, London government would need the powers to vary its tax take. This is a contentious area, and the tax base would need to be such that the London electorate transparently paid the bill for the services that the Mayor provided.

Local autonomy in service delivery

There has been welcome movement to give London more control in certain functions, for example the establishment of the London HCA and London Skills & Employment Board, both of which are chaired by the Mayor. Nevertheless, neither has full autonomy within national frameworks. This is a minimum requirement for proper public accountability. Similarly, the Mayor frequently has to seek permission from central government for minor changes to policy, for example in transport. Again, the Mayor should be able to make these choices on a London wide basis, with Whitehall having the power to overrule in only the most exceptional cases. And funding for further objectives that can best be pursued locally – for example tourism promotion – should be fully devolved to London.

**LONDON
BUSINESS
NEEDS**

Greater local accountability

Where policy is best exercised at a national level, for example by economic regulators overseeing private utilities, the London Assembly should have the authority to call those regulators or agencies to account for their actions.

RECOGNISING THE VALUE OF TOURISM

UK tourism has grown in recent years to become a major national industry, with a turnover of £114 billion per year and 2.6 million employees. Three quarters of all overseas visitors arrive in this country via London, with more than 50% of spending made in the capital. Yet tourism promotion is given low status among the Mayor's powers and is sponsored by government as a cultural activity rather than as a vital economic sector. The Government should consider making tourism an industry sector within the department responsible for business, so that decisions on investment and infrastructure required to enhance the UK's position as a premier tourism destination, are taken from an economic standpoint.

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