LABOUR BUSINESS

Policies for London

A Report by Labour Business

(the Labour Finance and Industry Group)

March 2016

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London: a business city and a Labour city

London is a great success story. Since 1990 the number of jobs in London has risen from 4.1 million to 5.6 million. Partly as a result the capital's population has risen from 6.8 million to 8.7 million. By 2040 London is forecast to support 7 million jobs, and will be host to a population of more than 11 million people.

London is unique within Europe, and almost unique in the world – a large city that is also growing fast, and that is hyper-competitive in the sectors that for job-creation really matter going forward, such as digital media, life sciences, legal services, consultancy, advertising and of course finance.

London receives more international tourists than any other city in the world, thanks to its cultural and other assets. In a single year 22 million people visit the theatre in London, half as many again as visit theatres in New York. A third of London's space comprises parks and gardens. In Paris it's only 10%. Half of London's workforce is educated to degree level. In New York it's just one third. 25 million people a year visit London's top five museums. For New York the figure is 11 million. London has two universities ranked among the top 10 in the world. New York has none, Paris has none.

But none of that can continue without inflows of talented people, without increased investment in housing, schools and transport, and without a commitment to a safe, tolerant, healthy and diverse city. If those things don't happen, London will be in trouble. That requires a Labour Mayor. Labour has London's confidence: in the 2015 general election Labour won London, with 44% of the vote – up 7%. Labour can build on that confidence with policies that are business-friendly and true to Labour's values. This paper sets out our suggestions.

Foreword

Labour Business (formerly known as the Labour Finance and Industry Group or LFIG) is the oldest and largest business group affiliated to the Labour Party. We are one of the key links between the Party and the business community. As such, our long-term aim is to help win elections for Labour by demonstrating Labour's economic credibility and by developing pro-business policies for Labour candidates. In the short term, we do this by (a) engaging with, and listening to, the business community and (b) providing business people with opportunities to become involved in detailed policy development though our policy groups.

We would be the first to admit that Labour's pro-business credentials took a serious hit in the 2015 General Election. Labour was perceived as an "anti-business" party, which is one of the reasons why we lost. Whether that perception is fair or not is another matter. But as we know, perception is all in modern politics. To win again, we must bust the myth that Labour is an anti-business party and we must re-establish Labour's economic credibility.

That's why Labour Business welcomes Sadiq Khan's unashamedly pro-business campaign for London Mayor, and that's why we leapt at the opportunity of preparing this paper. Its purpose is to flesh out a more detailed set of business-friendly proposals showing what it might mean, in practice, to be a "pro-business" Labour Mayor of London. These are our views, not necessarily Sadiq Khan's views, but we offer them in the hope that he will find them worthy of inclusion in his manifesto.

A number of people have contributed to this paper, all of them on a *pro bono* basis, and in a personal capacity. First and foremost, we would like to acknowledge the contribution of Richard Holt, a professional economist specialising in urban regeneration policy, who chairs the Labour Business BIS policy group. Secondly, members of the Labour Business Executive Committee submitted comments on an earlier draft both in writing and in a discussion at their meeting on January 6th. Thirdly, we are very grateful to Rokhsana Fiaz OBE, who has helped us enormously to understand the wider objectives of Sadiq's campaign. Last but not least, we want to pay tribute to the infectious enthusiasm of Lord (Parry) Mitchell, Sadiq's business adviser. Working alongside Rokhsana, he inspired and supported our work from the outset.

We share Parry Mitchell's enthusiasm for Sadiq Khan's campaign, and his conviction that Sadiq is better placed than any other candidate to build on London's position as the world's foremost city for business.   True to Labour's values, this means not only making London a more welcoming city for enterprise, but also making it a fairer city for those who live and work in it.

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Executive Summary

The main bulk of the paper comprises six proposals. These are based on the ideas of organisations with strong knowledge of the issues facing London, and reflect published academic research into the evidence-base on what policies work, and which ones do not. The six are clearly not an exhaustive list, but taken together they address many of the main challenges facing London, in ways that demonstrate the continuity between Labour thinking and that of the business community.

The six proposals are:

1. **Create a network of London Apprenticeship Agencies** - providing a service to small businesses, taking on the bureaucracy of apprenticeships, mentoring the businesses, and arranging new placements for apprentices if their original employers become unable to justify keeping them.
2. **Develop a shared-ownership housing scheme for employers and employees** - a pan-London private sector fund to help employers enter into shared housing ownership arrangements with their employees.
3. **Create a Challenge Fund for outer London local economies** - inviting outer London boroughs with innovative projects for helping their local economies adapt to demographic change to bid for resources from the fund, helping develop those ideas from their own resources or from central government.
4. **Lead on the development of London's Opportunity Areas** - putting a plan to the GLA for the delivery of growth and regeneration of all Opportunity Areas, reporting regularly on progress, and being held accountable, with an emphasis on working with local authorities to provide them with assistance and strategic back-up as needed, but also being willing to use powers to break barriers and accelerate progress.
5. **Take the lead on the question of infrastructure spending** - seeking to achieve cross-party agreement, within London and also within Westminster, about how much London should contribute to the national exchequer and how much it should receive for infrastructure spending based on an equivalent for London of the Barnett formula for Scotland, Wales and Northern Ireland, but on a fairer basis.
6. **Champion the expansion of Gatwick Airport as part of a coherent airport strategy** - working in partnership with Gatwick's owners to raise the ambition of their scheme, and take it to a new level within the context of a longer-term airport strategy covering Stansted, City Airport and of course Heathrow.

1 Create a network of London Apprenticeship Agencies

London's schools are now amongst the best in the country at GCSE level, and London's adult workforce dominates in terms of the quality and number of graduates. Between these two, the situation is not so good. Apprenticeships are part of the answer, but a recent Ofsted report says that the drive to increase the number of apprenticeships nationally has reduced the quality, and that a third of training providers fail to deliver high-quality learning. Meanwhile the London Chamber of Commerce has emphasised the problems of small firms who struggle to take on apprentices.

The government offers employers support through grants and tax breaks, and from 2017 it intends to provide a £15,000 allowance for firms that employ apprentices, to set against the Apprenticeship Levy that it plans to introduce. However, cost is not the only, or even the main problem. The bureaucracy of taking on apprentices is a deterrent for small and especially micro businesses, and the long term commitment it entails is a concern for companies that rely on flexibility for survival. Many are also suspicious about the quality of the people they might be offered and the off-the job training that they will receive. And having carried the cost of an apprentice, small London firms are particularly vulnerable to their apprentices leaving, taking their training elsewhere, because the London labour market is so large and dynamic.

The Mayor should work with London's borough councils to create a network of local London Apprenticeship Agencies, covering single boroughs or groups of boroughs. These would provide a service to small businesses, taking on the bureaucracy of apprenticeships, mentoring the businesses, and arranging new placements for apprentices if their original employers become unable to justify keeping them.

The agencies would also work with the apprentices, helping them with the transition to work, raising their aspirations, assisting them to plan their progression and supporting them in moving from traineeships through intermediate and advanced apprenticeships and on to higher and degree level apprenticeships, and beyond.

The agencies would work only with those training providers and colleges that performed well in Ofsted assessments, thereby giving confidence to employers and apprentices alike in the quality of the apprenticeships being delivered.

Jobcentre Plus does some of this for its own clients, but only for the first three months. Approved Apprenticeship Training Agencies also exist to do some of this, but the TUC have expressed concern that they are too much based on an employment agency model, do not support career progression and that they encourage the casualisation of apprenticeships[1]. So while the existing approved agencies could apply to join the scheme, they would need to meet standards set by the Mayor, with the advice of Unionlearn and others.

The administrative cost of this would be funded jointly by local authorities, the Mayor/GLA, participating employers and (in small part, and to encourage a sense of investment and commitment) the apprentices themselves.

2 Develop a shared-ownership housing scheme for employers and employees

London's housing problems need to be addressed from many directions at once. There is no single solution. Furthermore, massively increased public spending on new housing is not a realistic option and abandoning planning rules to generate a market-solution would in many cases threaten the long-established character of London's local neighbourhoods.

Partial solutions can come from many directions – including London employers. At present many companies are cash-rich, while even their middle-income London employees are cash-poor and unable to enter home-ownership. As a result, new London employees typically pay very high shares of their take-home pay on private rents, or live outside the capital, or both. Employers have identified this as a major barrier to recruitment, and employees have identified it as a reason to leave the capital. There is a consequent risk to London's competitiveness.

The Mayor should therefore introduce a pan-London private sector fund to help employers enter into shared housing ownership arrangements with their employees.

The existing Mayor has launched a rental deposit scheme, in conjunction with Shelter, in which employees receive interest-free loans to pay the deposits on privately rented homes, which they pay back through their salaries over the course of a year. Some private sector companies such as Deloittes have introduced schemes whereby they provide rented apartments to staff[2]. Our proposal builds on that, but goes much further. Employers would either purchase new-build properties at market rates to provide to their employees, or they would invest in the fund, which would buy the properties on their behalf. Employees would be expected to take a stake, typically about 25%, in their new homes. They would finance half of that through an up-front deposit and the rest they would pay-off over a number of years, through their salaries. They would also pay rent, proportional to the remaining 75% of the equity, but rising progressively over time as their salaries rose (perhaps faster, to encourage them to move into the mainstream market when they could afford to do so). The employees would bear the cost of repair and maintenance, but a housing association would act as manager. The scheme would be available to employees earning within a specified band, and there would be a limit to the amount of income that could be spent on housing costs.

As and when the employees moved to another job, they would sell their shares back at the market rate, generating a capital gain for themselves and hence the ability to buy a new property. Their employer would expect to earn a total rate of return similar to or slightly below the return that they would earn on other assets, but with the major advantage of having addressed their staff recruitment/retention problems.

The cost to the public purse would essentially be limited to setting up the scheme, and to the provision of some limited guarantees. Those aside, it should be self-funding.

The purpose of such a scheme would not be to address the housing needs of those on very low or insecure incomes, nor those in need for other reasons. It would address a different issue – the crowding out of people in employment and on middle incomes from the owner-occupied housing market across London. However, it might be possible to design such a scheme to promote other objectives as well. For example, to discourage land-banking, and subject to competition regulation, the scheme might be restricted to the purchase only of homes built promptly following the granting of planning-permission. The scheme might also favour small independent home-builders, who are currently being squeezed hard.

3 Create a Challenge Fund for outer London local economies

Outer London is changing. Populations are rising – but in many cases, that is not bringing greater prosperity.

Centre for London research suggests that while poverty rates in inner East London boroughs (historically the worst in the UK) have fallen, they have risen in many outer London boroughs[3]. In 2001, there was only one outer London borough among the 10 poorest London boroughs. By 2011 there were five. The share of residents who are new to the local area has climbed sharply across much of outer London, partly reflecting local residents taking advantage of rising house prices to move outside of London, and others taking their places. There has been a shift from owner-occupation to private renting, and many outer London boroughs now have as many residents born overseas as do inner London boroughs. Many residents commute to low-paid jobs in central London.

Long-term the opportunities are huge. Short-term, it is the challenges that are almost as huge, for local communities and for local businesses. Many local authorities are engaging in rearguard battles to preserve local high streets in their traditional formats, while local services (ranging from car repairers to accountants) gradually disappear. The danger is that many London boroughs become denuded of commercial vitality.

But help is at hand. London has probably the highest concentration of real estate professional advisers, developers and urban planners in the world, many of them part of billion pound businesses with global reach, and expertise working in cities across emerging and advanced economies alike. No city in the world has a greater pool of experts to address these issues than London.

The new Mayor should create a challenge fund and invite outer London boroughs with innovative projects for helping their local economies adapt to demographic change to bid for resources from the fund, helping develop those ideas from their own resources or from central government. And the new Mayor should persuade a number of London's top private sector businesses with relevant expertise to help develop the bids and, where successful, implement them, on a *pro bono* basis.

Bids should embrace business principles. These principles would need to be developed; but for example, it is likely that in a period of rapid change, flexibility would be essential. 'Pop-up' premises, short leases, and an acceptance of change of usage are all likely to be preferable to big capital spending, grant-dependency and 'lock-in' to narrow solutions. The aim should not be long-term strategic vision, but shorter-term adaptations, and the opening up of future possibilities.

4 Lead the Development of London's Opportunity Areas

The 2015 *London Plan* identifies 38 Opportunity Areas across the capital, which it says can accommodate 300,000 new homes and 575,000 new jobs[4]. The development of these is essential, if London is to continue to grow. The Areas include much of the Lea Valley, and the Thames estuary heading eastwards from Canary Wharf out to London's boundaries, but also other key locations such as Old Oak Common, Park Royal and Croydon city centre.

Local boroughs have the primary responsibility for leading the regeneration of these Opportunity Areas. However, this can be challenging in the case of Areas that are very large scale, that have substantial physical challenges such as land contamination, where infrastructure needs are high, and which cross over local authority boundaries. Planning regimes and tools that work for the consideration of smaller, simpler, incremental schemes may not be suitable for large, complex, long-term and high risk schemes that require both strategic vision and the ability to harness resources. Vauxhall/Battersea and Barking Riverside are examples of regeneration schemes that were delayed for years because of a lack of coordinated investment in transport infrastructure. The same may apply to the significant opportunity at Tottenham Hale if Crossrail 2 is not progressed.

At present the Mayor is required to produce an *Opportunity Area Planning Framework* (OAPF) for each Area[5]. These are planning frameworks which bridge the gap between the London Plan and a borough's own Local Plan, and are usually supplemented by *Development Infrastructure Funding Studies* which identify broad infrastructure needs[6]. Local authorities are required to take these into account when considering planning applications. However, the development of Opportunity Areas is piecemeal, some authorities are struggling to make progress, and there is a lack of clear leadership from the current Mayor.

When elected, the new Labour Mayor should take personal leadership for the development of the Opportunity Areas, which should be a flagship of his regime. He should put a plan to the Greater London Assembly for the delivery of growth and regeneration of all the Opportunity Areas, and he should report regularly on progress, and be held accountable to that body. The emphasis should be on working with local authorities; providing them with assistance and strategic back-up as needed, but also being willing to use powers to break barriers and accelerate progress, if that becomes necessary.

To support local authorities, the Mayor should create an Opportunities Areas Task Force that will, as a minimum, provide professional services to boroughs to guide and assist them in their work, such as land assembly and remediation, and assisting with the relocation of existing uses.

Going beyond that, the Mayor should take the advice of London First and others, and require that proper business plans be developed for each Opportunity Area, identifying what needs to be done and by whom. The Mayor should take particular responsibility for developing the necessary infrastructure delivery plans, and for leveraging investment in transport and utilities infrastructure.

Where necessary the Mayor should require boroughs to introduce simpler planning rules in Opportunity Areas, covering Community Infrastructure Levy (CIL), Section 106 planning obligations and affordable housing requirements, amongst other matters[7].

Where business plans are not forthcoming, the Mayor should use powers from central government to develop and implement them. He should negotiate with central government to secure such additional powers as may be necessary, including the creation of Mayoral Development Corporations, with local authorities included within the decision making processes, but with the Mayor's broad London mandate taking precedence as required, subject to the Assembly's oversight.

5 Take the lead on the question of infrastructure spending

Crossrail is under construction at a cost of £15bn. The proposed Crossrail 2 may cost double that. A Crossrail 3 is being mooted, at a similar price. This is vastly more than is being considered for rail transport improvements across the entire north of England. If London is to win the infrastructure it appears to need, then the Mayor's priority should be to lead the debate on funding models. Nobody else will speak for London. If necessary infrastructure is not built, then London will gradually lose competitiveness, and hence jobs and wages.

The current approach is to fund infrastructure through a combination of a) central government borrowing and tax revenues; b) fares; c) levies on local employers such as supplementary business rates and various forms of developer contributions. Recently (for the Northern Line Extension) this has been supplemented by Tax Increment Financing, in which the GLA borrows against future revenues, with a Treasury guarantee. There has also been some limited use of bond financing. The Mayor needs to say whether these sources will be sufficient to meet London's infrastructure needs, and if not then what the alternatives are. To take this forward, the Mayor should do the following:

- First, the Mayor should seek to achieve cross-party agreement, within London and also within Westminster, about how much London should contribute to the national exchequer and how much it should receive. The former greatly exceeds the latter – the only part of the nation for which that is true (the South East is in balance). The Mayor should seek to establish for London an equivalent of the Barnett formula for Scotland Wales and Northern Ireland, but on a fairer basis, and should challenge London politicians to unite in getting it agreed and implemented.
- Second, the Mayor should seek to shift control over spending from Whitehall to City Hall and to the boroughs. In 2013, the London Finance Commission, set up by the current Mayor, argued that a modestly increased share of government spending in London should be devolved down from Whitehall[8]. Since then, the current Mayor has been largely silent on the subject, almost certainly for party political reasons. A Labour Mayor does not need to be so inhibited, and can work across party lines to argue for a shift.
- Third, the Mayor needs to undertake a clear review of the costs, risks and opportunities associated with Tax Increment Financing (TIFs), bonds and other borrowing mechanisms. These are complex issues: the financial cost of getting it wrong is potentially huge.
- Fourth, the new Mayor will need to consider the extent to which new technologies might alter both London's infrastructure needs and the ways in which the infrastructure can be financed. These new technologies include, for example, trains (or even roads and pavements) that generate revenue by supplying energy to the grid, or smart roads that reduce congestion by redirecting traffic, and hence reduce the need for building new roads.

From a very long term perspective, there may also be scope for introducing considerations of equity, via for example a trading scheme for road-use rights, equivalent to carbon trading schemes (but much easier to implement). Advocates of 'smart cities' claim that the opportunities are huge. But research is needed to establish if that is really the case, particularly in the context of a city as complex as London. Again, the current Mayor has largely ignored this subject.

The Mayor's concluding task will then be to put proposals to Londoners, asking them to decide how much they are prepared to pay for new infrastructure, and by what payment mechanisms.

6 Champion the expansion of Gatwick as part of a proper airport strategy

For reasons of political expediency, the Conservative government has again postponed a decision on runway capacity until after the mayoral election, to preserve Tory party unity. Zac Goldsmith opposes a 3rd runway at Heathrow, but offers no alternative – thereby ignoring the needs of businesses (and of London people). In addition, Boris Johnson has blocked plans for expansion at London City Airport, which mainly serves London businesses, over-ruling the approval granted by the Labour-led local authority, Newham.

Labour should fill this vacuum with an ambitious proposal for expansion at Gatwick. That proposal needs to incorporate but go beyond the one made by Gatwick's current owners, which was criticised by the Airports Commission as inadequate, on three counts[9].

The Airports Commission was sceptical whether surface transport links to Gatwick are good enough. So Labour should propose major investment in rail infrastructure, not just into central London and down to Brighton, but also (subject to feasibility studies) along a new route next to the M25, connecting Gatwick to the Great Western line, to the West Coast main line and to HS2. (This would also connect Gatwick to Heathrow, but that is less important than improving connections to the rest of the UK, as well as to London.)

The Commission was also sceptical whether Gatwick would develop into a significant long-haul hub. So Labour should present a scheme to migrate one or two airline alliances, and/or the unaligned airlines, away from Heathrow to Gatwick, to ensure that the latter gets immediate critical mass in long-haul flights. This should include Gatwick's proposal for a scheme to facilitate transfers of passengers from short-haul flights (mainly EasyJet) to and from long-haul flights, thereby making Gatwick a genuine hub. A benefit of migrating airlines away from Heathrow will be that it will provide airlines remaining at Heathrow with the opportunity to grow, within existing capacity limits. This would benefit British Airways in particular.

The Commission also said that the broader economic benefits of Gatwick would be much lower than for Heathrow. To address that, as part of its proposal Labour should announce plans for an Innovation District, probably in Croydon, connected to the airport as well as to central London by the improved rail link, and also connected to neighbouring high unemployment boroughs (Lambeth, Southwark and Lewisham). The proposal should also include a business park and cargo terminal at Gatwick (possibly targeting Asian investors, if the alliance that moves is SkyTeam, which includes 4 out of 5 of the Chinese/Taiwanese/Korean carriers), and an offer to work with councils outside London to support the development of, for example, an Innovation District in Brighton (a city with all the necessary assets and a clear need for regeneration).

The Airport Commission's criticisms of the proposal from Gatwick's owners were in part the result of the latter's decision to make a case that required no funding from the taxpayer. Labour should articulate the case for government providing help to fund essential infrastructure, and should offer to work in partnership with Gatwick's owners to raise the ambition of their scheme, and take it to a new level.

There is no time for delay on any of this – work needs to start this year. However there is a longer-term need to produce a coherent airports strategy, covering Stansted, London City Airport and of course Heathrow. The Airports Commission has not offered a strategy, just a narrow recommendation which has failed to produce a coalition of support. Labour's London Mayor can easily do better than that, championing Gatwick, but also thinking more fully seriously about how London's other airports can help, not least in East London and the London-Stansted-Cambridge corridor.

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