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| Thursday 13 April 2017 |

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|  | London Councils’ response to the Industrial Strategy Green Paper |
|  | Overview |

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# Introduction

London Councils welcomes the government’s decision to produce an Industrial Strategy that is focused on making our country ‘stronger, fairer and more outward looking’. The ten pillars set out in the Green Paper describe a useful foundation for driving growth across the whole country, raising productivity levels and improving living standards.

London Councils’ response to the Industrial Strategy Green Paper is made up of the following separate documents:

* A description of London’s overarching ambition towards the Industrial Strategy (this section)
* Responses to the individual questions posed by the Industrial Strategy Green paper
* A summary of the London boroughs’ ambitions for devolution

In this document we will be setting out the steps we believe the government must take to create a country in which London’s continued economic success is protected and strengthened, working in partnership with the rest of the country.

Section One of this paper argues that prosperity should not be seen as a zero sum game and that a strong and resilient London economy is beneficial to the country as a whole. It describes how London’s economy is different to other UK cities, and the role of London as a global city. It explores how policies which negatively affect London’s economy will ultimately hinder economic growth in the rest of the UK.

Section Two makes the case for taking a place-based approach to the Industrial Strategy, working with the grain of local economies and not against them. It argues that the government should consider the potential for area-specific strategies.

Finally, Section Three sets out how a national industrial strategy must represent a genuine commitment to fiscal and service reform if the government wants to reduce economic inequality between (and we argue, within) regions.

We look forward to working with the government to create an Industrial Strategy for the UK which creates a more economically prosperous and fair society.

# Section 1: London, the UK, and the World

There is a significant and growing economic imbalance between London and the rest of the UK, which is recognised in the Green Paper. London hosts a third of all businesses in the country and there are over 1,400 businesses for every 10,000 resident adults. In contrast the North East hosts only 679 per 10,000[[1]](#footnote-2). In 2014, London had the highest GVA per head in the country - 73 per cent above the UK average and more than double that of seven of the remaining 11 regions and countries of the UK[[2]](#footnote-3).

London Councils supports the aspiration set out in the Green Paper to close the gap in productivity and economic performance between the capital and the other regions of the UK. But this should not occur by squeezing London’s growth. An Industrial Strategy that harms London’s productivity will ultimately be a false economy, hampering the country’s economic growth as a whole as London’s continued economic success brings both direct and indirect fiscal benefits to the rest of the UK.

*London and the UK*

London is an important source of income for the rest of the UK. London currently produces a significant financial surplus or ‘tax export’. In the tax year 2013/14 (the last year of analysis for which data is available) research by Oxford Economics estimated that London generated tax revenues of £127.197 billion against government spending of £92.970 billion. This led to a fiscal surplus or ‘tax export’ from London of £34.216 billion[[3]](#footnote-4). This reliance on London’s economic output has grown over time: in 2004/05 London generated as much tax as the next 24 biggest UK cities, and by 2014/15 London generated almost as much as the next 37 largest cities[[4]](#footnote-5).

London has extensive economic links with the rest of the UK, both contributing to and benefiting from our relationship with the regions. There is a strong positive correlation between economic growth in London and in the rest of the UK. This is felt most strongly in the South East, but is also the case with Northern Ireland, the East of England and the East Midlands[[5]](#footnote-6). The supply chain networks and the procurement of goods and services by London from the rest of the UK are also significant. London is a net ‘importer’ of £126bn worth of goods and services from other UK regions[[6]](#footnote-7).

It is also important to recognise the interconnections between the London economy and the UK labour market as whole. London businesses are an important source of employment in other regions in the UK. London-headquartered businesses are responsible for 22% of private-sector employment in York, 19% of private-sector employment in Cardiff, and 19% in Cambridge[[7]](#footnote-8). Investment in infrastructure and economic growth in London has real and tangible economic benefits for the rest of the country. For example, Crossrail – now named the ‘Elizabeth line’ – demonstrates the way in which investment and growth goes beyond the Capital’s borders. 96 per cent of the contracts awarded by Crossrail were to UK companies with 62 per cent of these suppliers based outside London.

London benefits from being able to draw on a wide range of services and products created in the rest of the UK. Further work should be taken to ensure that this remains a mutually beneficial relationship – we should tackle regional inequality by building everyone up and working together. London must be seen as part of the solution and not the problem. Investing in London’s infrastructure, protecting London’s economy, and continuing to encourage and enable foreign investment should not be at the expense of investment and growth in other regions but it should be recognised that investment and growth in London has benefits beyond the capital.

The important role that London plays as an international city, and the implications that this has for the rest of the UK, is set out in the following section.

*London and the world*

London’s international strengths have shaped our economy and made it different to other UK cities. London’s economy has become increasingly specialised in sectors with an international focus, such as finance and insurance, and less concentrated on other industries such as manufacturing[[8]](#footnote-9). This has made the capital a global city. In 2014, London’s service exports totalled £92.1 billion. Overall, London accounted for over two-fifths of the UK’s total export of services in that year. 40 per cent of the world’s largest 250 companies base their European headquarters in London. London’s nearest European rival is Paris with just 8 per cent[[9]](#footnote-10).

This global success is built on and supported by the relationship between London and the rest of UK. London should not be viewed as being in competition with the rest of the UK – London is UK-wide asset that supports the country’s competition at an international level. London’s continued success in competition with other global cities supports the capital’s economic ties with other UK cities, lifting and growing the UK’s economy as whole. London Councils therefore strongly discourages the government from framing funding and investment as a type of competition between the UK’s regions, but instead focuses on how areas should collaborate in order to utilise the unique advantages and specialities of the UK’s regions to grow the country as a whole. Within this, London should be understood as a resource and a tool to be used to support economic growth across the country.

London cannot therefore afford to be complacent, and must do more to grow its presence in the face of a changing and increasingly uncertain global economic market. Brexit and other global events will change the nature of the UK’s relationship with the world, and the government must support London to continue to operate internationally. London must be able to compete with cities that are both larger and more successful - New York and Tokyo generate more total economic output; whereas cities such as Shanghai and Singapore have been growing faster, with compound annual growth rates averaging over 5 per cent between 2006 and 2014, compared to 2.4 per cent in London. London lags behind other international cities in terms of productivity, with an output per job approximately half of that experienced by New York, and sitting far behind cities such as Singapore, Shanghai and Paris[[10]](#footnote-11).

London’s role as an international city with a strong financial sector has over the last few decades been closely tied to the UK’s membership of the European Single Market. Leaving the EU is therefore likely to result in significant economic challenges as well as opportunities. Immediate action is needed to prevent an uncertain economic environment having a negative effect on the London’s financial services and infrastructure. This will have important implications for the wider UK economy. The Industrial Strategy must ensure that London is open to business and continues to thrive in an uncertain economic environment.

London government – both the Mayor and the boroughs – are already doing important work to support new and innovative businesses start and grow. Local authorities have a deep understanding of their unique local economies, and strong relationships with local business leaders and local institutions. The devolution of Business Rates to local areas strengthens the incentive to support and grow their local business. London Councils recommends that the government devolve or localise a proportion of existing innovation funding to localities, cities or regions to create a flexible innovation fund. This would enable local areas to support greater coordination between existing provision and work with smaller organisations and communities who may traditionally find it difficult to access the business support they need to set up new businesses.

# Section Two: Reducing regional inequalities through a place-based approach

London Councils welcomes the focus in the Green Paper on reducing economic inequalities between regions. As described in the previous section, the rising economic imbalance between London and the rest of the UK is an important concern for the capital.

But the Industrial Strategy must recognise the economic inequalities within regions as well as between them. Whilst London continues to experience a picture of overall economic success, this is not experienced evenly. 37 per cent of children in London live below the poverty line[[11]](#footnote-12). 1.3m working age people – larger than the population of Birmingham - are economically inactive, and a further 266,000 are unemployed[[12]](#footnote-13).

This contrast plays out at a local level - Canary Wharf is an internationally recognised financial hub and represents a powerful and important driver of growth in the city and the country as a whole. However, Canary Wharf sits in the London borough of Tower Hamlets where one quarter (24 per cent) of its Lower layer Super Output Areas (LSOAs) are in the most deprived ten per cent of LSOAs in England. More than half are in the top 20 per cent. Tower Hamlets has the highest percentage of both children (39 per cent) and older people (50 per cent) living in income deprived households in England[[13]](#footnote-14).

This illustrates two points which London Councils believes must be reflected in the government’s final industrial Strategy - firstly, that a place based, regional approach will be essential to tackle the complexities of local economies and labour markets. Secondly, that the Industrial Strategy must build a model of inclusive growth and consider the inequalities within as well as between regions.

*Creating a place-based approach*

A place based approach, with devolution and public service reform as key policy tools, has a number of clear benefits.

London, like other areas in the UK, has a unique and complex economy and labour market. Business characteristics vary widely across London. Significant concentrations of business activities range from the financial district in the City of London and Canary Wharf, the jewellery quarter in Hatton Garden, the legal activities in Holborn and Chancery Lane, to the food manufacturing activities in Park Royal, the transport and logistics hub in south Hillingdon and west Hounslow, and the concentration of machinery and equipment manufacturing in east Bexley, to name just a few[[14]](#footnote-15). This diversity is enhanced and complicated by the sheer scale of the capital. London is host to over a million businesses – more than any other region and more than Wales, Scotland and Northern Ireland put together[[15]](#footnote-16).

Only a place-based Industrial Strategy will be able to effectively engage with the size and complexity of London’s economy. A place based approach, with devolution and public service reform as key policy tool, has a number of clear benefits. The Mayor is already working to develop a new London Economic Development Strategy (EDS) and has a statutory obligation to do so. Any such strategy needs to be built in partnership with local government, businesses, anchor institutions and communities and should need to take into account the unique local economies rather than creating a ‘one size fits all’ approach to industry. Given the size and complexity of London’s economy, a place based approach to the Industrial Strategy would be able to create a greater sense of buy in from local partners including smaller businesses and communities, giving a sense of ownership. This would also allow a more nuanced and tailored approach to creating economic growth.

The Green Paper’s recommendation of the creation of new Ministerial Forums on Industrial Strategy with each of the devolved Administration is welcome. This should be expanded, with London, combined authorities, and other local authorities to be included in this or a similar ministerial led process.

We would wish to work further with the government to discuss how a place-based Industrial Strategy would work for London, and how it can be aligned with existing economic strategy such as the Mayor’s London EDS.

*Recognising inequality within regions*

The Industrial Strategy should build on the work of the RSA Inclusive Growth Commission[[16]](#footnote-17) and consider how it will work to reduce inequalities within, as well as between regions. The government must not take a ‘grow now, redistribute later’ approach to the Industrial Strategy, or assume that people who are currently locked out of contributing to or benefiting from economic growth will be able to without changes to the our economy and labour market. The RSA sets out a powerful argument for investing in social infrastructure as a means to unlock economic growth within regions, which echoes many of the long term goals of the industrial strategy.

If the government wishes to address the long ‘tails’ of underperformance in the UK then it must look and act locally. A national view can obscure deep and significant inequalities within local economies. As demonstrated by Canary Wharf and Tower Hamlets, fiscal success can sit side by side with economic disadvantage.

A regional, place-based approach allows a greater focus on areas in the round, understanding the relationship between local economies and the people that live and work within these geographies. Cities and communities are made up of the people who live and work in them and it is necessary to invest in social infrastructure to unlock people’s potential and create a more inclusive form of growth.

The government’s proposed industrial strategy must take in to account the importance of social infrastructure, as an industry cannot exist without a population with the capacity, skills and the drive to operate and grow it. Taking a regional approach and creating a place-based strategy that is built on the idea of creating an economy that works for everyone, and that everyone is able to access and contribute to, would give local areas the powers to identify and address skills gaps in their area, to work with local businesses, and to develop human capital, which should be an important part of this industrial strategy. We ask that the government note our recommendation on skills devolution in Part three of this paper.

London’s current allocation for employment and skills funding through the European Social Fund for 2014-2020 is around £420m. This has been used to provide a range of employment and skills based interventions that have enabled disadvantage Londoners to access the skills and support they need to enter and thrive at work.

London government is concerned that without action from central government there will be a significant gap in employment and skills provision in London that will undermine our collective efforts to create talented and skilled labour pool the country needs to implement the vision of the Industrial Strategy. National government should commit to ensuring that leaving the EU does not adversely affect the amount of skills and employability funding received in the capital, by providing replacement funding for the European Social Fund (ESF). This replacement funding should be devolved to London government so that we can respond effectively to London’s distinct challenges around Brexit and add value to other devolved employment and skills budgets in the capital (including the Work and Health Programme and potentially the Adult Education Budget).

# Section Three: Committing to genuine fiscal and service devolution

As the Secretary of State for Business, Energy and Industrial Strategy Greg Clark notes, the UK is one of the most centralised countries in the world. When it comes to fiscal devolution it is an international outlier – with taxation revenue attributable to local and state/regional government, as a percentage of GDP in 2013 in the UK standing at only 1.6 per cent. In France it is 5.8 per cent, in Germany it is 11 per cent, and in Canada it is 14.9 per cent[[17]](#footnote-18).

Recent research undertaken by the OECD and highlighted in the London Finance Commission found that fiscal devolution reduced economic inequality within countries, with stronger fiscal powers and incentives making lower performing regions more competitive, and all regions gaining[[18]](#footnote-19). The UK government must learn from these international lessons and the experiences of the devolved nations and consider how regional growth - in London and across the country – could be enhanced through a genuine commitment to fiscal and service devolution.

London government believes that the Industrial Strategy could form the basis for the next wave of devolution to the nation’s localities.

Over the last few decades the devolved nations have taken on significant law-making powers and are increasingly able to implement devolved taxation structures, and we believe that this should be echoed in further devolution to the largest city in the UK. London’s population is bigger than those of Scotland and Wales combined. Its economy is more extensive than the total of Scotland, Wales and Northern Ireland’s. London has the size, capacity and power to implement significant service and fiscal devolution and reform. The Industrial Strategy focuses on building equitable growth, but this cannot be achieved without a genuine commitment to fiscal and service devolution.

London government has demonstrated an ability to take on new powers and develop new ways of working in the face of substantial funding cuts, which is coupled with a clear democratic mandate. But there is much more to which London could aspire to in unlocking the full potential of the capital to deliver inclusive growth both for the city and for the rest of the country. The economic, social and governance impact of the EU referendum result has strengthened the case for London and the UK’s other cities and regions to have greater control and powers over the issues that matter to them in order to respond effectively. London, like other cities, should have significant responsibilities devolved from the national level, allowing growth to be stimulated, housing delivery to be boosted and outcomes to be delivered more effectively within a tight public spending settlement. Much of this is considered in more detail in our response to the consultation questions.

There are two areas in particular which we feel the Industrial Strategy could be augmented by further devolution: finance and skills.

## Financial devolution

The second London Finance Commission, in which London Councils was an active participant, sets out a comprehensive analysis of how further fiscal devolution to the capital could benefit London and the rest of the UK.

This report argued that the government recognises that fiscal devolution strengthens growth incentives – that by devolving fiscal controls, Scotland and Wales are rewarded for decision-making that increases economic output. We believe financial devolution would facilitate reform of both taxes and services, including greater integration of public services at the local level, leading to better outcomes and greater accountability.

Greater fiscal responsibility placed at a more local level would help local areas deliver the ‘Inclusive Growth’ set out in Part 2. We believe that local government should be given the tax and spending tools to do the job of nurturing and supporting their local economies.

One hundred per cent business rate retention is a good initial step forward, and we welcome the commitments made at the Spring Budget in the Memorandum of Understanding. But full devolution is necessary to improve the efficiency of this and other property taxes. London’s finances are best served through controls over a broader tax base. London government should have permissive powers to set new (generally smaller) additional or alternative taxes and levies, as exist for cities in other countries. The aim is not to increase or reduce the overall tax burden but to have a wider set of tax raising powers to underpin expenditure and investment, to support economic growth and thus to increase the overall tax yield for London and the rest of the country. These recommendations are set out in more detail in the London Finance Commission’s final report[[19]](#footnote-20).

## Skills devolution

The Industrial Strategy rightly highlights the scale of the skills challenge we face and the need to improve the system of technical education. In London, the working age population is projected to increase to over 6.6 million by 2036[[20]](#footnote-21), driving up demand for training, while at the same time employers are facing significant skills gaps. Over 28,000 London employers report that not all of their staff have the right skills for the job they are doing[[21]](#footnote-22). The number of cases where employers in the capital have been unable to fill a vacancy due to skills shortages has more than doubled recently – from 14,000 in 2011 to 37,000 in 2015[[22]](#footnote-23).

This situation is only likely to be exacerbated by the UK leaving the European Union as nearly 1 in 3 of our workforce is non-UK born[[23]](#footnote-24). In summer 2016, 90% of London businesses reported recruiting EU citizens[[24]](#footnote-25). Any falls in immigration following Brexit will hit our businesses – with the effect likely to be most pronounced in key sectors like finance, hospitality and construction. For example, FinTech is an industry worth £69 billion in the UK, of which 50 per cent is generated in London. London First estimates that approximately 30 per cent of all workers in the FinTech industry in London are EU citizens (excluding the UK)[[25]](#footnote-26). We need to grow skills and talent within London and have the structures and resources to respond to changes in the labour market resulting from Brexit.

High quality and accessible careers information, advice and guidance is often the first step towards a relevant qualification and productive career. The Industrial Strategy is right to highlight problems around providing careers advice and guidance for prospective learners and the need to improve perceptions of technical education. We welcome the commitment in the devolution MoU from the government to explore options for greater local influence over careers services, with a view to better aligning skills provision and careers services with local needs and priorities. London’s ambition is to create a coherent all-age Careers IAG service for the capital accessed through a single portal. The current careers IAG market is congested and confused, making it difficult for young people, schools and people looking for a career change to get the information they need. Many young Londoners are pursuing academic routes or learning in settings not appropriate for their needs or those of London’s labour market, with 22 per cent of Year 12 L3 starters ‘dropping out’ of their school sixth form before the age of 18, with particularly high drop out for vocational courses (41 per cent). We have started this work through the publication of our London Ambitions framework.

London Councils continues to believe a more ambitious package of skills devolution is needed to create the effective skills system the capital needs in order to respond effectively and swiftly to the skills challenges and opportunities that will be brought about by Brexit.

Further skills devolution would enable London government to achieve the following objectives:

* Boost economic growth and employment, and reduce welfare dependency, by focusing investment in skills that will increase productivity and progression into and within work;
* Increase the efficiency and effectiveness of public sector skills investment by bringing budgets and powers closer to the point of use – focusing on better demand information, integrating devolved employment and skills budgets, clearly articulating London’s skills demands and priorities and getting greater investment from learners and employers, particularly for higher level skills.
* Create an agile and responsive skills system that meets the needs of Londoners and London’s businessesand can adapt rapidly to the unique challenges for London’s economy post-Brexit**.**

London government wants to take a whole systems approach to skills training, with the ability to set outcomes and incentives for the system that reflect London’s progression and economic priorities. This should include commissioning of 16-18 provision, so that all young people have access to an excellent education whether vocational or academic and regardless of the setting. London welcomes the commitment in devolution MoU from the government to work with the GLA and London Councils so that employers can take advantage of the opportunities offered by the apprenticeship levy. We would like to review the operation of the apprenticeship levy in London within its first year of operation with government and would like to see a proportion of the apprenticeship levy generated in London ring-fenced for use by London government to increase starts at higher levels, build capacity with SMEs and work with employers to identify gaps in apprenticeship standards.

London government is keen to finalise the detail of the devolution of the Adult Education Budget to the capital by 2019-20 with government. To deliver skills provision that reflects local labour markets and economies London needs policy and commissioning freedom over adult provision, informed by direct engagement on employer need. We need to move quickly on this and other reforms of the skills system with government, given the potential implications of Brexit on skills supply in London.

# Next steps

London government is proud of the strong working relationship we have developed with national government, working together to build a global, successful city. We want to build on this relationship to deliver an Industrial Strategy that works for all Londoners. In the next few months we extend an invitation to the Minister to meet with representatives from London government, including the Chair of London Councils Cllr Clair Kober, to further discuss how the government’s Industrial Strategy can benefit the capital and the UK as a whole.

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|  | London Councils’ response to the Industrial Strategy Green Paper |
|  | Responses to consultation questions |

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Please find below London Councils’ responses to the questions for consultation.

1. **Does this document identity the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?**

London Councils believes that more emphasis should be placed on closing the productivity gap and rebalancing the economy by improving growth in regions outside London and the South East, not by weakening London’s growth. More emphasis should also be placed on the importance of place and place-based strategy as part of one or more of the pillars titles, as well as the inclusion of more explicit references to the need for devolution to deliver some aspects of the Strategy locally.

London Councils believes that the symbiotic relationship between London and UK economic performance must remain central to the Industrial Strategy as a whole, as there are positive correlations between growth in London and growth in other UK regions. The notion of local/regional industrial and economic growth strategies to support the wider UK Strategy is welcomed.

Greater focus should be made on tackling inequalities within regions as well as between them. The four principles should more explicitly address the problem of creating inclusive growth, creating an economy which works for everyone.

1. **Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?**

Please refer to the response to question one above.

1. **Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?**

London Councils believes that further devolution to cities and regions like London would help drive economic growth and better enable services to be tailored to local needs – but new devolution deals should take into account the financial capacity of local authorities to deliver those services. New forms of collaboration between different levels of government should be explored in areas where full devolution is not possible – similar to the idea of social contracts suggested by the RSA Inclusive Growth Commission[[26]](#footnote-27). Local authorities should be given greater local influence over matters of strategic local importance, such as the provision of business support and further education, town centre place-making, increasing housing supply, and the ability to link Local Implementation Plan funding more directly to economic growth.

Explicit reference should be made to the need for increased powers for local authorities to directly influence development and growth planning in their area(s) – London boroughs have better local knowledge of employment opportunities in their area, so the removal of permitted development rights for office to residential conversions for instance would enable them reprioritise the retention and expansion of suitable local employment land. Local control over the setting of planning fees, reinvestment of Right to Buy receipts and stamp duty retention would enable London boroughs to invest more in housing provision. Increasing housing supply by increasing the types of properties available could attract a larger variety of income levels to certain areas to improve the local skills pool, as well as increasing London’s appeal to attract talent, particularly in lower paying fields.

London government – both the GLA and the boroughs – are already doing important work to support new and innovative businesses start and grow. Local authorities have a deep understanding of their unique local economies, and strong relationship with local business leaders and local institutions. The devolution of Business Rates to local areas strengthens the incentive to support and grow their local business. London Councils recommends that the government devolve or localise a proportion of existing innovation funding to cities or regions to create a flexible innovation fund. This would enable local areas to support greater coordination between existing provision and work with smaller organisations and communities who may traditionally find it difficult to access the business support they need to set up new businesses.

1. **Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?**
2. **What should be the priority areas for science, research and innovation investment?**

Future funding for science, research and innovation should be invested in line with regional industrial strategies in order to upskill the local workforce in areas where it is most needed. London Councils agrees with the Mayor of London’s call for Government to extend its own funding commitment beyond the current EU research and innovation programmes. It should be made clear that the UK will continue to invest in European research and innovation from 2020, given that London and the UK as a whole both benefit from this investment.

1. **Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?**

Funding could focus on the development of low-emission vehicle and retrofit technologies to improve air quality whilst promoting clean growth and reducing businesses’ carbon footprint.

1. **What else can the UK do to create an environment that supports the commercialisation of ideas?**
2. **How can we best support the next generation of research leaders and entrepreneurs?**

London Councils reiterates that fully devolved skills provision in major cities and regions will help to upskill the local population in areas that support the needs of the local labour market.

1. **How can we best support research and innovation strengths in local areas?**

London Councils believes that increased partnership work between local authorities, businesses, education institutions and research facilities is required in order for reviews of key local sectors to be undertaken, with the findings used to address skills barriers and unlock local growth potential.

1. **What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?**

London Councils believes that basic skills can be improved through the introduction of additional local levers to tackle long-term unemployment. Basic skills and productivity levels could also be improved through additional powers and freedoms for local employment support, including, greater local accountability and co-location of the Job Centre Plus, and the introduction of local in-work progression pilots.

London Councils welcomes the commitment from Government to continue to work with London government so that employers can take advantage of the opportunities offered by the apprenticeship levy and to explore options for greater local influence over careers services as set out in the recent Memorandum of Understanding on further devolution to London. In addition to the Adult Education Budget (AEB) funding that will be devolved to London in 2019/20, subject to readiness conditions, a wider package of devolved powers for skills provision is still sought. This includes the devolution of all 16-18 funding and ring-fencing a share of London’s apprenticeship levy. A devolved apprenticeship levy retention scheme could increase the take-up of apprenticeships amongst SMEs in the long-term and help young people achieve the necessary qualifications to progress into high productivity jobs.

The Government should provide devolved replacement funding for the European Social Fund in London, as this provides significant resources to improve basic skills and employability. A regional industrial strategy for London should also enable the sub-regional groupings of boroughs to have the ability to shape local skills funding, the commissioning strategy, oversee performance and drive accountability at local level. This would provide an opportunity for boroughs to take advantage of their close relationships with training providers, employers and their knowledge of local skills needs. The skills devolution process should also provide boroughs with to the levers (informal and formal) they need to support and drive a whole-system approach to skills provision at a regional and sub-regional level.

1. **Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries’ systems?**
2. **How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?**
3. **What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?**

Recent increases in low skilled workers means that some businesses and industries could take a ‘meet in the middle’ approach, where employers ensure that the jobs available match the local skills base, which would improve local growth. The construction sector is facing a number of serious skills challenges, including an aging workforce and dependency on EU workers. If these challenges are not urgently dealt with, it will prove increasingly difficult to meet London’s house building aspirations. This could in turn constrain London’s economic growth. This should be built on work to enhance the availability of better data on local labour markets to address the failures when vocational students make choices around FE colleges. Skills provision needs to be future proofed and industry has an important role to play in working with education institutions to achieve this. For example, existing trades will need to change as the UK sees an increase in electric vehicles and driverless cars. Another example of particular relevance to Local Authorities is the impact an increasingly aging population in many parts of London, which means that the availability of skilled adult social care professionals locally is essential.

London Councils continues to believe a more ambitious package of skills devolution is needed to create the effective skills system the capital needs in order to respond effectively and swiftly to the skills challenges and opportunities that will be brought about by Brexit.

London government wants to take a whole systems approach to skills training, with the ability to set outcomes and incentives for the system that reflect London’s progression, skills gaps and economic priorities. This should include commissioning of 16-18 provision, so that all young people have access to an excellent education whether vocational or academic and regardless of the setting. London welcomes the commitment in devolution MoU from the government to work with the GLA and London Councils so that employers can take advantage of the opportunities offered by the apprenticeship levy. We would like to review the operation of the apprenticeship levy in London within its first year of operation with government and would like to see a proportion of the apprenticeship levy generated in London ring-fenced for use by London government to increase starts at higher levels, build capacity with SMEs and work with employers to identify gaps in apprenticeship standards.

London government is keen to finalise the detail of the devolution of the Adult Education Budget to the capital by 2019-20 with government. To deliver skills provision that reflects local labour markets and economies London needs policy and commissioning freedom over adult provision, informed by direct engagement on employer need. We need to move quickly on this and other reforms of the skills system with government, given the potential implications of Brexit on skills supply in London.

Although beyond the scope of the Department for Business, Energy and Industrial Strategy, we encourage the government to consider the importance of schools in delivering the long term inclusive economic growth the Green Paper envisions. London Councils believes that there are a number of ways in which the London boroughs could support this.

Firstly, we recommend that government provide local authorities with greater clarity on the role of councils in the education sector.

Secondly, the government should provide greater protections to schools affected by the change in the National Funding Formula. In London, 70 per cent of schools will lose funding when the new National Funding Formula is introduced. This will mean fewer teachers and teaching assistants, effectively denying thousands of children the education they deserve.

Some of the most deprived schools in London will be hit the hardest as a result of the new funding formula. Taking funding away from schools, particularly those already facing considerable disadvantage, will make it harder for them to ensure they have the tools to provide their pupils with a high quality education, key to the long term success of the Industrial Strategy

1. **How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?**

As previously referred to, London Councils believes that greater local influence over post-16 and adult education provision would ensure that the skills and qualifications on offer fit the culture of the local area(s). In addition, regional industrial strategies that integrate local priorities would unlock investment in social infrastructure and enable the local workforce to be upskilled.

1. **Are there further actions we could take to support private investment in infrastructure?**

London Councils believes that London’s attractiveness as a place for businesses can be enhanced by improving broadband infrastructure and devolved freedoms for places to drive their own digital connectivity agenda. More engagement between central government and transport infrastructure organisations could make better use of publically owned and underused land to improve employment space and/or improve transport networks in and out of London, maximising the potential of places in London’s outer sub-regions. National political commitment and certainty towards infrastructure investment is also important for private investors to maintain and increase levels of investment in order to drive growth.

1. **How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?**

Major infrastructure for the UK always exists within a local place, and local authorities have an integral role in making sure new investment and infrastructure brings benefits to local areas and works as a cohesive whole. We have highlighted in our response to the National Infrastructure Commission’s National Infrastructure Assessment the importance of place and integrated siting of infrastructure. National policy needs to take account of local infrastructure needs, as well as enabling them, through swift planning decisions and funding, where appropriate.

London Councils welcomes the recent Government commitment to explore with London the use of Land Value Capture mechanisms to contribute to infrastructure funding in the capital. However, we would suggest that this not be limited to the proposed testing of the Development Rights Auction Mechanism to a broader consideration of how uplift in other commercial and residential taxes can be robustly identified and captured.

As part of the proposed business rates pilot, London Councils also wishes to explore the introduction of a pooled pan-London infrastructure fund to allow greater flexibility around the use of funding to support local infrastructure across London. Local infrastructure needs can best be incorporated into the national strategy by allowing and empowering local determination and funding of investment. A greater emphasis on the devolution of fiscal flexibilities as a method to drive local growth – such as permissive powers for London boroughs and sub-regions to introduce alternative taxes and smaller levies – would enhance public investment in London’s infrastructure. Greater investment capacity – and greater integration of local and national priorities – could be promoted by match-funding a London infrastructure fund with resources from the National Productivity Investment Fund.

Sub-regional groupings of boroughs could have a stronger role in transport planning. Transport infrastructure plans that are based on local priorities and growth strategy could be drawn up by borough partnerships, which can then feed into regional and national strategies. The planning and prioritisation of significant transport infrastructure investment needs to be based on regional and sub-regional economic strategies in a more transparent, coordinated across modes, and more strategic and long-term manner. The current combination of national and regional decision-making on transport in London does not necessarily deliver a coherent, long-term focus in support of strategic goals, sub-regionally or regionally, which impacts on potential growth and investor confidence.

1. **What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?**
2. **What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?**
3. **What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?**
4. **Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?**
5. **How can we drive the adoption of new funding opportunities like crowdfunding across the country?**
6. **What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?**

London Councils believes that a more coherent, active and locally-provided business support system is needed for high-growth businesses seeking to expand and develop. The London Growth Hub is currently in place to bring together London’s business support offer into a single online resource. However, there are funding challenges in taking this service forward which should be addresses and there is a lack of support provision for high growth, scalable businesses. Local provision could add value to business support through better local knowledge and better connections with businesses in order to coordinate and target services, as well as provide local accountability of the delivery of national and regional programmes. Local business support hubs combined with increased collaboration between businesses and Higher Education institutions could also improve the start-up and survival rates of small businesses. This could be supported by devolving a proportion of existing innovation funding to a regional or city level to create a flexible innovation pot to coordinate business support within and across sectors.

1. **Are there further steps that the Government can take to support innovation through public procurement?**

London Councils feels that the Strategy could usefully cover local – as well as central – government procurement. We would however be wary of any approach that cut across broader devolution arguments. Local authorities could be encouraged to adopt SME procurement spend targets and the “balanced scorecard” approach, but should be allowed to determine how they apply to their local economic priorities.

1. **What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence?**
2. **Do we have the right institutions and policies in place in these sectors to exploit government’s purchasing power to drive economic growth?**
3. **What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?**
4. **What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?**
5. **What are the most important steps the Government should take to limit energy costs over the long-term?**

London Councils wishes to highlight three key areas the Government needs to tackle in order to limit energy costs over the long-term. The first of these is energy demand reduction. This can be achieved by improving the energy efficiency of domestic and commercial buildings in the UK. The Government must set out a long-term, ambitious policy framework which covers retrofits and also new build. Reducing energy demand is essential for a country that has some of the least energy efficient buildings in Europe. Providing long-term policy clarity in this way would provide confidence to industry, and also provide much needed stability to the energy efficiency sector workforce. In the long term, investing in energy efficiency is more cost effective than building more energy generation infrastructure. This could also allow innovation in areas such as demand side-response, and the smarter use of energy (smart appliances, smart grid solutions etc).

The second step is for the Government to increase investment in renewable energy. By investing in modern, flexible, sustainable energy generation, the UK could reduce costs to consumers in the long-term. The current energy system is skewed towards the production and provision of fossil-fuel based energy such as oil and gas, and this needs to be rectified to provide a level playing field for renewables.

The final key point is the Government should support an increase in decentralised energy systems. Decentralised energy, when designed well, can provide cheaper energy to local communities due to reduced transmission costs and improved system energy efficiency.

1. **How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?**

Removal of support mechanisms (such as the Renewables Obligation) too soon, has seen a drop off in investment in energy projects in the UK. The UK Government needs to support these industries now, to provide low-cost, sustainable energy for the future. If the Government is to increase competition to drive down the cost of energy it is crucial to ‘level the playing field’ by removing the complex labyrinth of support for fossil fuels and allow renewables to compete. Cost reductions in recent years for solar and wind power have been massive, and this is despite the huge financial support the Government has provided the fossil fuel industry. A move towards supporting renewables again would also have positive impacts on the future workforce. Other key measures would be to remove the climate change levy imposed on renewable energy generation, and amending the Levy Control Framework (LCF) to allow all renewable technologies to bid for new feed-in-tariff contracts for difference. This would allow technologies to reach economies of scale and thus reduce costs, which has already been proven.

1. **How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?**

The UK’s digital sector is a clear industrial strength. A sector deal for the digital sector is needed. This needs to set a clear vision for digital connectivity in the UK and bring together partners to agree and achieve it. This should encompass both ‘final mile’ broadband connectivity as well as determining the UK’s vision for 4G and 5G.

1. **How can the Government support businesses in realising cost savings through greater resource and energy efficiency?**

Many businesses are realising the real cost-benefits of greater resource and energy efficiency, and it is important for this message, and best practice to be shared. But there also needs to be a long-term policy framework in place, which includes a combination of both regulation and incentives to encourage businesses to invest in energy efficiency measures. The key point, alongside providing information to businesses and showcasing the business case for investing in energy efficiency, is that the Government needs to replace the now defunct ‘Non-domestic Green Deal’ with some form of funding for businesses, whether in the form of low cost loans or feed-in-tariffs for negawatts (units of energy saved).

1. **How can the Government and industry help sectors come together to identify the opportunities for a ‘sector deal’ to address – especially where industries are fragmented or not well defined?**

Sub-regional growth deals and sector plans could be developed across London, supported by the Mayor of London and the Local Enterprise Partnership for London (the London Economic Action Partnership).

1. **How can the Government ensure that ‘sector deals’ promote competition and incorporate the interests of new entrants?**
2. **How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?**

*Supporting new technologies*

London has connectivity ‘notspots’ and these need to be addressed. Lack of access to superfast internet not only affects business productivity but limits the opportunities available to people to undertake basic life tasks including applying for jobs and engaging with public institutions.

*Supporting new businesses*

The operation of the Non Domestic Rates (NDR) system poses particular challenges for start-ups as liabilities are based on the assessed value of the hereditament they occupy, not their ability to pay. The combination of high rents, high assessed values, and the time taken for start-ups to generate income streams sufficient to support concomitant NDR liabilities serves to create a significant barrier to those wishing to start a business in the capital.

London Government is keen to play a greater role in driving economic growth but needs greater control of the fiscal levers required to do so. London’s proposal for devolution includes a range of measures around how a 100% business rates retention system might work to benefit growth in the capital. These are the subject of ongoing dialogue between central and London government but in the interim we have two recommendations that are worth immediate consideration.

London Councils recommends that the government grant local authorities flexibility to target the revaluation relief fund announced at Spring Budget towards local growth priorities.

Within the overall increase in London’s rateable value, the concomitant increase in financial pressure on its rate payers is felt most keenly by the same small firms that the industrial strategy seeks to support.

For example, co-working spaces provide desk and industrial spaces to small and innovative organisations which are unable to afford offices in the capital. Many organisations in co-working spaces are start-ups, working in new and growing fields. London government has driven a significant increase in these spaces in the last five years, with many spaces being led by Local Authorities. However, many of these spaces are currently threatened as a result of the significant increase in liabilities resulting from the 2017 revaluation. We are aware of anecdotal evidence suggesting that this may be driving a range of undesirable behaviours including the fragmentation of co-working spaces into separate sub units in an attempt to qualify for the Small Business Rates Relief. This undermines the open and collaborative environment key to the co-working space model. The revaluation may also threaten the sustainability of ‘incubator’ models within larger organisations designed to support new businesses.

In the immediacy, the government must ensure that the discretionary relief fund announced at Spring Budget 2017 to ease the impact of the revaluation allows local billing authorities sufficient flexibility to target support as locally appropriate.

Looking ahead the government may wish to consider reform of operates in the capital.

London Councils recommends that the government review the impact of changes to permitted development rights on the availability of appropriate premises for start-ups and small firms in London.

1. **Do you agree the principles set out above are the right ones? If not what is missing?**
2. **What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?**

As previously stated, London Councils welcomes the Government’s commitment to devolve the AEB to London and other regions from 2019/20, which will require local AEB providers in areas where skills levels are lower to demonstrate that provision is meeting local need.

1. **Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?**

The recommendations of the RSA Inclusive Growth Commission should be taken into account in the development of regional industrial strategies – the relationship between national and local government could be improved by allowing local authorities to pool budgets, control investment opportunities, and co-commission across public services in order to achieve more place-based decision-making and investment in pursuit of inclusive growth.

1. **What are the most important institutions which we need to upgrade or support to back growth in particular areas?**
2. **Are there institutions missing in certain areas which we could help create or strengthen to support local growth?**

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