London Business 1000

London's local business survey 2022

summary report

LONDON CHAMBER of COMMERCE AND INDUSTRY

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Foreword

It is with great pleasure that London Chamber of Commerce and Industry and London Councils are publishing our annual joint survey of over one thousand London businesses, the London Business 1000. This is the sixth survey we have produced and is one of the most comprehensive reports on the views of London's business leaders.

As the UK – and the world – moves forward from the Covid-19 pandemic, the challenges facing London's businesses are stark. Rising costs are putting extreme pressure on margins and investment for companies, many of which have seen a prolonged period of reduced demand. Inflation is the number one concern for businesses now, which has had a negative effect on confidence for the year ahead.

Skills shortages remain acute for London companies, with more firms seeing gaps in their workforce they are struggling to fill. One potential positive consequence has been a jump in the use of apprenticeships, but businesses still find the current system does not work sufficiently for them and is in need of reform. That is why London Chamber of Commerce and Industry and London Councils continue to press government to reform the apprenticeship levy. Efforts to tackle the skills challenges in London would also be supported by greater devolution of funding and powers to all UK regions, while the government should bring forward vital UK Shared Prosperity Fund investment in skills and people sooner than presently scheduled.

Despite the challenges on skills and costs, businesses are continuing to adapt to the net-zero challenges they face. Firms and local government stand ready to collaborate more on businesses' net-zero journeys.

However, the funding challenges remain stark and we are asking government to ensure that businesses are given the right incentives, and boroughs are given adequate resources and powers to support growth, be that through net-zero or improving skills and opportunities for Londoners.

Cllr Elizabeth Campbell,
Executive member, Business, Economy and Culture.

Richard Burge,
Chief Executive,
London Chamber of Commerce and Industry

Key findings and policy recommendations

London's business environment

After dealing with the immediate economic effects of Covid-19, business decision makers' levels of confidence in the UK's and London's economy, in the coming year, has taken a sharp decline and has almost returned to the low levels seen during the height of the pandemic.

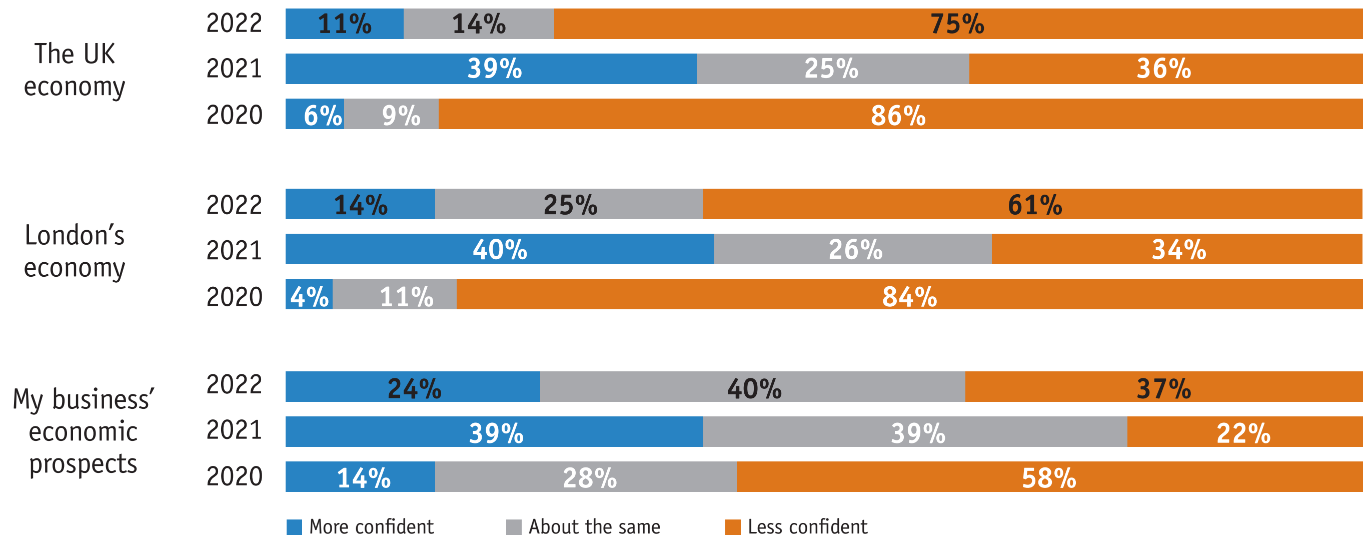

Fig 1 **levels of confidence over next 12 months compared to last 12 months**

The survey field work (29 July to 19 September 2022) occurred at a time of growing economic uncertainty, against a backdrop of significant international events, national political upheaval, and with the increasing scale of the cost of doing business crisis emerging. The survey was conducted prior to the fiscal events of Autumn 2022.

Markets, investors and businesses now need certainty and reassurance that the government is on track to maintain a sustainable path to growth.

Cost of doing business

The threat of Covid-19 has been replaced by inflationary pressures as the primary concern of businesses, and this has caused dramatic rises in reported operational costs. Inflation and a lack of consumer spending are deeply concerning to London's businesses, with 60% and 34% receptively citing these as key threats to their businesses, no matter their size. Three quarters have seen an increase in their operational costs (including staff pay, energy, raw materials, fuel, regulation) in the last 12 months.

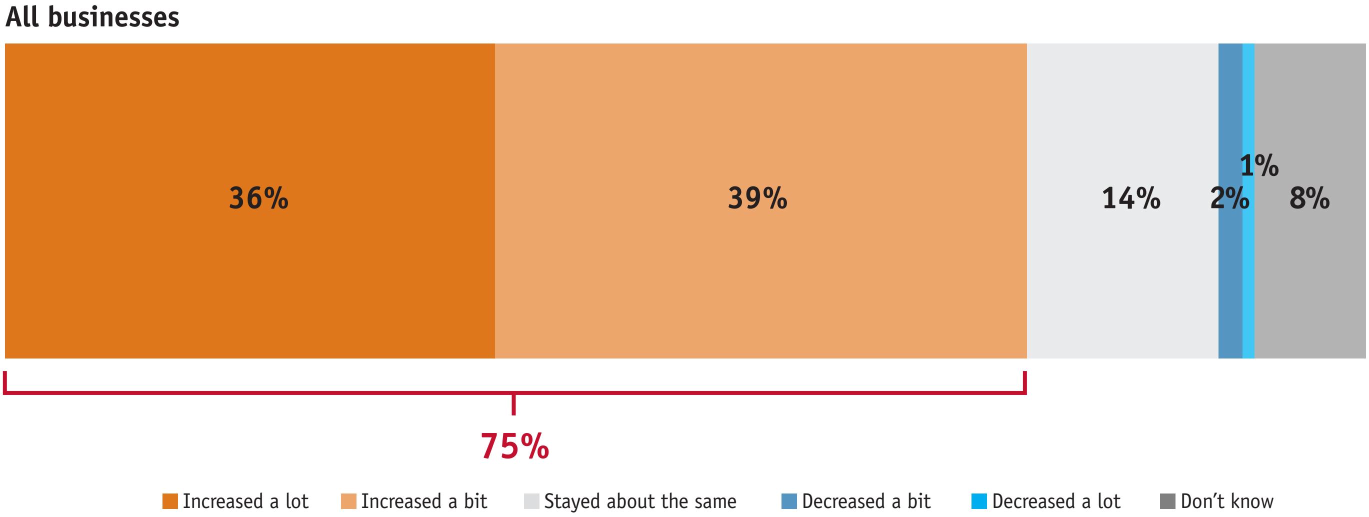

Fig 2 **Operational costs increased or decreased in the past 12 months**

Of those who saw their operational costs increase, staff pay saw the smallest median increase of 20%. However, the cost of raw materials and energy costs have seen a startling rise, with a median rise of 64% and 137% respectively. In response, most businesses (68%) have or plan to make operational changes with 60% increasing prices and half (49%) making changes to their workforce.

To provide a stable environment to invest, businesses need to see a clear long-term economic plan, alongside specific measures that relieve unprecedented inflationary pressures. The greatest cost of doing business pressure is energy, with a fifth of businesses having experienced energy price rises of over 200% in the previous 12 months. To provide some reassurance, businesses must be helped to avoid an energy cliff-edge in March 2023 by extending support for energy costs.

Recruitment and retention

In the face of rising business costs, recruitment continues to grow. Almost two thirds of London's businesses have tried to recruit in the past year and three in five intend do so in the next 12 months. Two-fifths of businesses believe their headcount will increase over the next year but, as has been reported widely elsewhere, the survey confirms that employers face serious recruitment challenges.

Half of businesses found not enough people are interested in available roles (51%) and almost half (47%) perceive applicants to have insufficient skills.

Demand for professional/managerial roles remains most prevalent (54%), which follows a five-year trend, but two-fifths (38%) of employers report difficulties in recruiting to such roles. There is also a significant rise in demand for skilled manual/technical staff – which shows signs of recovery after declining last year – but again high numbers of employers (31%) experienced difficulties in recruiting to these roles.

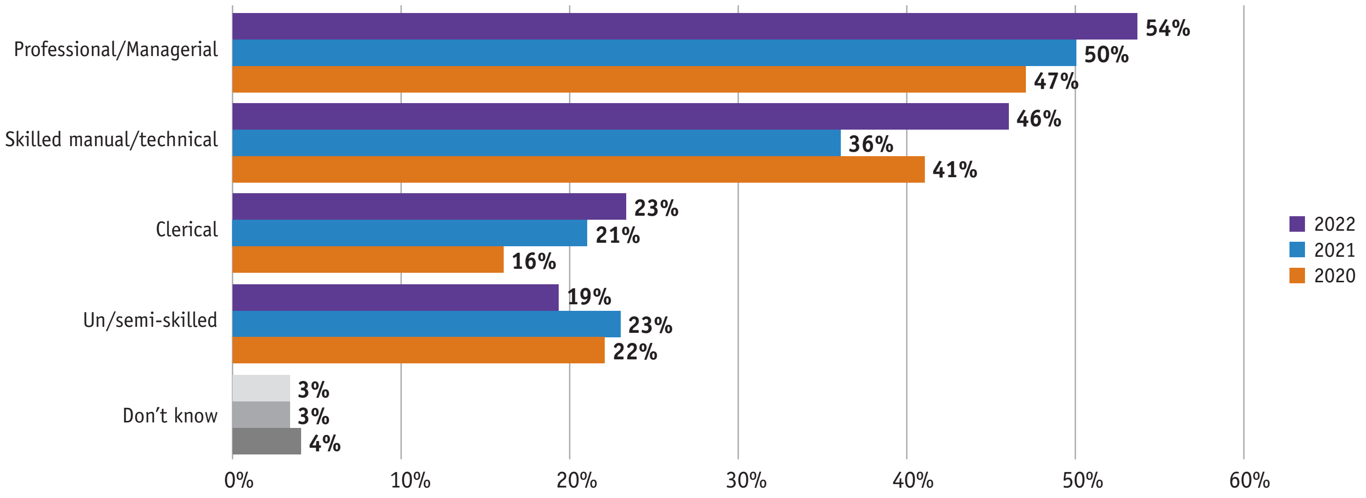

Fig 3 **Types of roles recruited over past 12 months**

The current recruitment drive among London businesses needs to be viewed alongside challenges employers are facing in retaining staff. Over two-fifths of London businesses say that pressure to increase wages is a key concern (43%), double the figure reported in 2020 (21%).

A quarter of London businesses said staff retention is a key challenge for the next 12 months and of these 62% said they would be unable to increase salaries and 58% said they were concerned about losing staff to competitors.

This year, respondents were asked directly about what impact they think the pandemic has had on their workforce. Three in ten say some employees are currently experiencing mental health issues due to the pandemic (29%), one in five are seeing a reduction in working hours (19%), and one in eight say there are long-term absences due to Covid-19 (13%).

The accompanying report provides a huge amount of detail on where London's employment growth may lie in the medium term. These detailed findings show the complexity of the differing skills needs of business.

It is vital that London government and business are given the tools to support Londoners to get back into work, or progress in their careers, and give firms the skills they need to support the recovery. It is of great concern therefore that London cannot use the UK Shared Prosperity Funding for the people and skills investment strand until 2024-25. This will result in a significant reduction in employment and skills provision across London and government should reconsider this position and bring forward UK people and skills funding to 2023/24.

Apprenticeships

Some London businesses are employing more apprentices to address staff shortages, with the proportion of employers employing apprentices having doubled since last year (14% vs 7%), but this is only a return to figures seen in 2019 (13%). Overall however the survey confirms that apprenticeship funding is not well used or known by London employers. Only 14% of businesses believe that they are required to pay the apprenticeship levy and with two-fifths (38%) not knowing if their business is required to pay.

The proportion of micro/ small businesses employing an apprentice has almost doubled, from 7% in 2021 to 13% in 2022. Over the last three years, there has also been a notable climb in the proportion of medium-sized businesses employing apprentices.

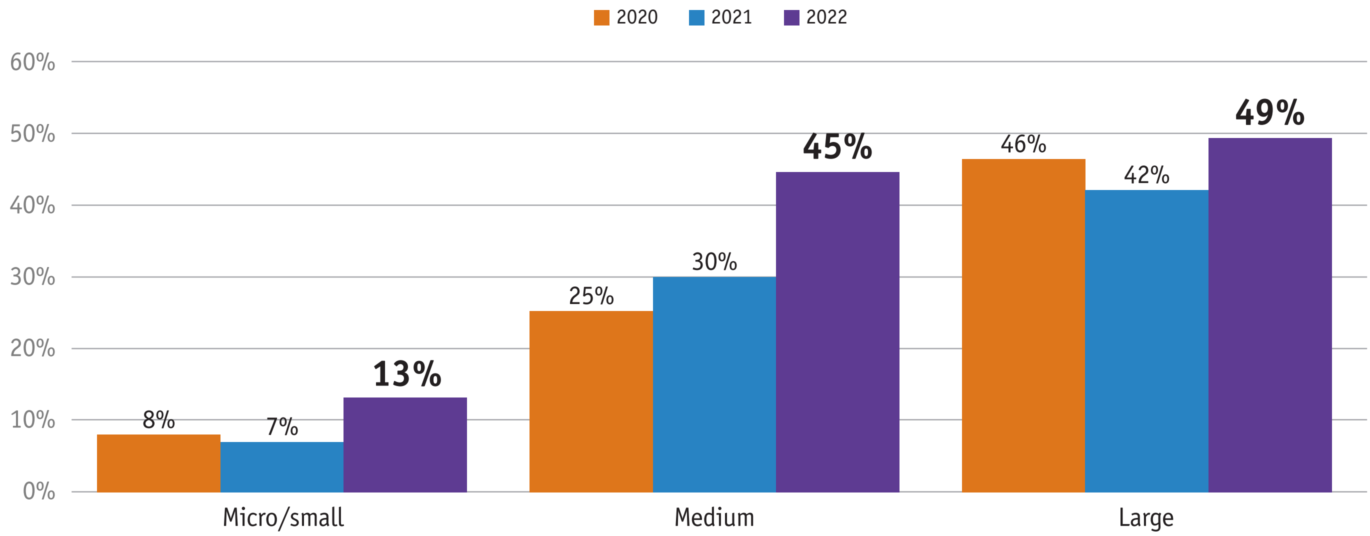

Fig 4 **Proportion of London businesses that employ apprentices**

Intentions to use apprenticeship funding have increased since last year, with one in seven (14%) now planning to do so, compared with one in ten (9%) in 2021. Of those who say they will use apprenticeships funding in the next 12 months, two-fifths say they will use the funding to employ the same number of apprentices as before (39%). Three in ten say they will use the funding to employ more apprentices (31%), fewer apprentices will be employed in 31% of companies, and 32% will use the levy to train existing staff.

Much of the apprenticeship funding available to businesses may however go unused, with only one in ten businesses who will use apprenticeship funding, saying they will use more than half of the funds available to them.

The levy is an important source of funding to help both Londoners to retrain and businesses to find employees with the right skills and experience. However, employers remain confused about the levy a nd do not have the capacity to take on apprentices, with a quarter citing administration time (25%) or the management/workload involved (23%) as reasons for not employing apprentices.

The government has committed to another review of the apprenticeship levy, as part of a wider review to encourage businesses to invest more in training. This should urgently provide employers with much greater freedoms around the use of the levy, so we can make use of existing funds to support the government's aim to drive economic growth. A number of flexibilities should be introduced, including: allowing levy paying employers to use some of their levy to contribute towards the wage costs of new apprentices from priority groups; allowing for pooling and joint purchasing of transferred apprenticeships; and allowing some levy funding to be used for pre-employment training to get people ready for an apprenticeship. Given the uncertainty and difficulties experienced by businesses in the last year, the government should also extend the amount of time business have to spend their levy by a year.

Brexit

Previous London Business 1000 surveys found that the numbers of businesses concerned about the negative impacts of Brexit on business growth in 2020 (52%) was greater than the number of businesses that had actually experienced a negative impact (40%) a year later in 2021.

It has been difficult to untangle Brexit impacts on businesses from Covid-19 impacts. However, in 2022, where it is easier for businesses to isolate the impact of Brexit, the signals are that businesses are seeing negative effects.

Half of businesses have experienced a negative impact to supply chains (52%) and access to suitably skilled employees (49%). Two-fifths had a negative experience of importing (45%) or exporting (41%), with a third of those who export goods reporting they now export less due to Brexit (33%), while only 6% are exporting more.

Climate change

London's business leaders continue to take sustainability seriously, with 71% of businesses taking action to reduce their carbon emissions last year, which is consistent with recent years. Of those businesses that took action, adapting products to be greener and using greener tech (e.g. more energy efficient, lower emission technology) is the most frequently selected direction businesses are taking (both 33%).

Cost of implementation (22%) once again proves to be the main barrier amongst London businesses that do not take action to reduce carbon emissions, alongside a belief that carbon reduction measures are not appropriate to their business (12%). Seven in ten businesses support financial incentives to lower their emissions, such as green grants (33%) or tax breaks for greener businesses (36%).

Businesses are also asking for support from local authorities to help with sustainability. More advice and support are requested from 22% of businesses, while 23% see direct support with retrofitting their premises as being important. There is also notable support for councils to improve recycling services (34%) and green transport/ freight support (20%).

Initial financing remains the greatest hurdle for businesses wanting to adapt, with grants, loans and tax incentives the most requested form of support. Rising pressure on costs and deeper challenges on raising finance will exacerbate such barriers. Businesses are generally receptive to non-financial support however, with larger businesses particularly interested in retrofitting advice, green networks and skills provision – areas where local government may feel they can add value through business supportinterventions, convening willing networks and exhibiting local leadership.

Devolution and local government

Previous surveys have indicated a high level business of support for further devolution of powers and funding to London and, parallel with previous years, improvements to public transport is the biggest priority among London businesses, in regard to investment of revenue from business rates. This is followed by improving air quality (32%) and building new homes (32%). Nearly half of businesses (46%) would prioritise the maintenance of existing bus routes, when considering public investment in transport.

Devolution around skills is also highly desirable with many businesses (25%) wanting to see investment in skills shortages addressed through locally determined provision. To drive growth and address the levelling up agenda, London government and the private sector should push for further, deeper devolution deals for London.

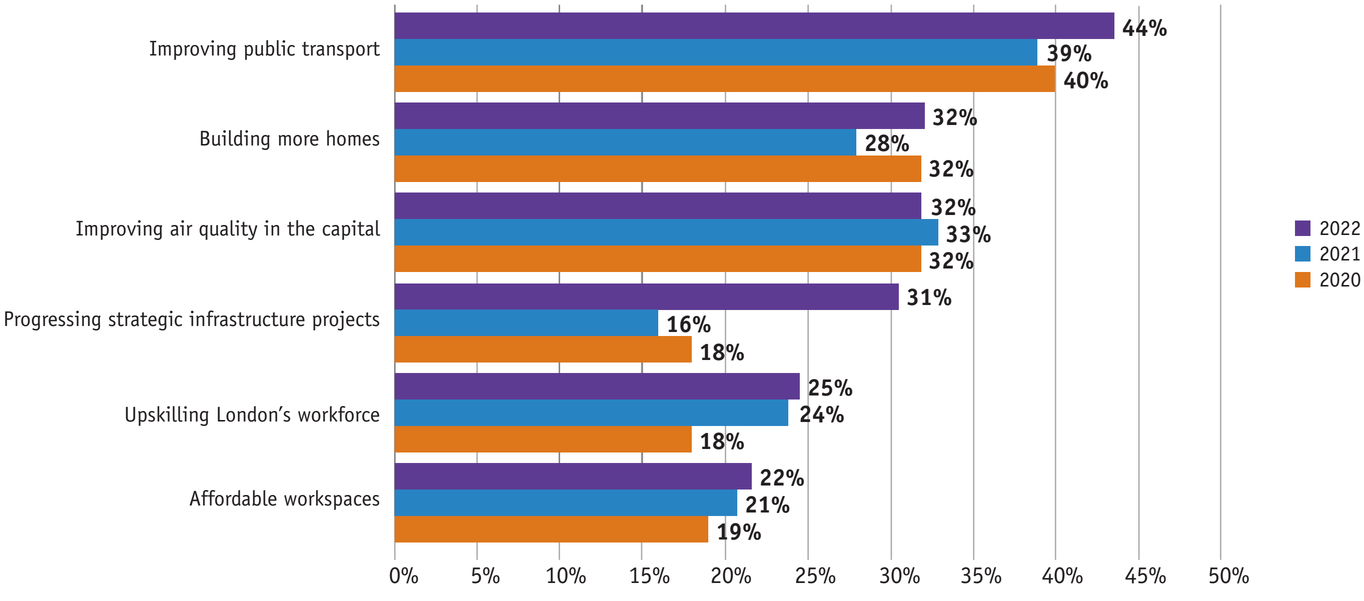

Fig 5 **Priorities for investment of business rates**

London businesses continue to hold a negative perception of local authorities, with only a quarter believing their council acts on the concerns of local businesses, either a great deal/a fair deal. This is down from 34% in 2019. This will be disappointing news for London's councils who will have wanted to build on positive work done with business communities during the pandemic, including delivery of £3.4bn in Covid-19 grant payments, and billions more in Covid-19 business rate reliefs.

Boroughs have made significant strides to normalise temporary flexibilities around licensing, developed in the response to the pandemic and they should continue to pilot and develop best practise around more business-friendly regulation.

London's allocation of the UK Shared Prosperity Fund (UKSPF) provides boroughs with opportunities to bolster the vitality of commercial centres and support business resilience. However, as a replacement to EU Structural and Investment Funds, UKSPF provides only two thirds of the funding London has benefited from historically.

London's economy will make a vital contribution to the country's future prosperity. Boroughs are determined to work in partnership with the government and stakeholders on shared objectives. Be it supporting businesses, securing net zero, or improving skills and opportunities for Londoners, boroughs have a vital role to play but need the powers and resources to make the greatest possible contribution.

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