COMPREHENSIVE SPENDING REVIEW, 2013

SUBMISSION FROM LONDON FIRST

1. London First is a business membership organisation with the mission of keeping London as the world's best city in which to do business. We welcome this opportunity to share the views of London's leading businesses on the aspects of the Comprehensive Spending Review most pertinent to the capital's continuing success and the onward benefit that this would bring to the country as a whole.

2. Our submission makes three overarching points; firstly that, in the long term, London's reliance on a variable grant from central government to fund investment in essential infrastructure needs to be reduced; secondly, that in the medium term the government should commit to funding improvements to London's transport infrastructure – particularly the Tube upgrade – through to 2020-21; and, thirdly, that in order to meet the rapidly increasing need for new homes, both revenue and capital housing spend should be devolved to London, with government departments being incentivised to release unused land for development.

Macroconomic context

3. We welcome the Government's continued commitment to its deficit reduction programme. We appreciate the challenges faced by the Government in maintaining its approach of an 80:20 split between spending cuts and tax increases, noting that just 21% of the planned spending cuts to day-to-day public services and 32% of the planned cuts to benefit spending have been delivered while we have had 79%of the currently planned tax increases.However, we believe it important that this ratio is maintained, since implementing spending cuts, while difficult, is less damaging to economic growth than increasing taxes.

4. We also strongly support the Government's commitment to investing in economically valuable infrastructure.We believe that additional borrowing ring-fenced for this purpose would be supported by the financial markets and wider business community, even if it slowed the pace of deficit reduction. This is the focus of our submission.

A fairer share of tax revenue for London

5. London generates substantially more in tax receipts than it receives in public expenditure. Yet little of the tax collected from London is determined by London government and the GLA is funded largely through a grant from central government, which can vary from year to year.

6. London therefore has a much greater dependency on short-term funding decisions made by central government than competitor cities such as New York, Paris and Tokyo. This reliance on short-term spending rounds creates unnecessary uncertainty and provides an inefficient and inadequate mechanism to meet the city's long term investment needs.

7. We support the recently published conclusion of the London Finance Commission that London should have more service delivery devolved from central government, and that its government should retain sufficient income from the tax receipts collected within London to enable it to fund its spending and investment needs.

8. Even with this arrangement, London would provide tax revenues well in excess of its own requirements and so would continue to support general government expenditure outside London.

9. We welcome the recent devolution of 50% of the business rates to London local authorities and see this as a first step towards London being able to finance and fund its needs.

10. Until such devolution takes place, it is vital that investment continues at adequate levels to meet the city's growing needs and that a commitment is made to maintain this investment for the foreseeable future. London's population is forecast to grow by 1.1 million, the equivalent of a city the size of Birmingham, by 2020. It is vital for both its own and the UK's economy that it sees investment in transport and housing to meet this growth.

Transport investment

11. We welcome the 2013 Budget statement that the government will take a long-term approach to capital investment in the current spending round, setting out plans to 2020-2021 for the most economically valuable areas of capital expenditure. In our view, there can be no area of public sector investment more important to growth than London's transport infrastructure.

12. An adequate long-term funding framework for investment in transport in London would:

    - maintain funding for current projects, notably Crossrail;
    - support the efficient delivery of the tube modernisation programme, beginning with the Piccadilly Line, to meet growing demand;
    - provide capital investment to improve heavily-used and overcrowded suburban rail links;
    - encourage the upgrade of the road network both to cut congestion and increase capacity, through new river crossings in East London, in particular;
    - provide a contract pipeline that supports the supply chain across the UK:TfL estimates that 64% of its spending is outside of London, supporting 40,000 jobs including 3,500 apprenticeships in 2011/12 alone. In that year, more than 800 apprenticeships were created in more than 60 companies, including number of London First members. Without this certainty, firms may cut back and, when the demand does arrive, supply will need to be sourced elsewhere – a permanent hit to the UK economy; and

- ensure the conditions to support other investment in the capital, again to the benefit of the wider UK economy. Research by PwC for London First, published earlier this week, has shown that for every £100m in private sector expenditure in property development in central London, more than 1,800 jobs and £90m GVA are created across the country. While, unsurprisingly, many of these jobs and much of the GVA is within the London region, around half takes place across the rest of the United Kingdom. Without investment in infrastructure to keep the city moving, this development would be less attractive and, in some cases, unviable and would flow to other world cities rather than the UK economy.

13. This is not a proposal for more investment, merely the maintenance of current levels of expenditure which are, of course, slowly making up for decades of underinvestment.

14. As noted above, Londoners already generate the tax revenue needed to provide this investment. If central government does not provide London government with the portion of these tax receipts necessary to fund investment, London government will be forced to make Londoners pay again, through excessive fare rises. The alternative of allowing services to deteriorate is unacceptable, given the pressures on demand.

Housing

15. The predicted population increase and trends in household formation means that London needs more than 40,000 new homes a year to satisfy demand and support economic growth. This is significantly above the existing minimum target of 32,000 homes a year set out in the London Plan – a target that the city has struggled to achieve. Research by London Councils predicts that, by 2020, London will have 250,000 fewer homes than the city needs.

16. A continued shortfall in housing supply will undermine London's economic growth as the city will be unable adequately to house its workforce.

17. Again, we support the conclusions of the London Finance Commission that both revenue and capital housing spend should be devolved to London. As with transport, a long term financial settlement over housing would bring efficiencies and benefits to the whole UK supply chain. Greater flexibility at a regional level would also help manage the particular characteristics of the London market and enable public sector cashflow to support development work by the private sector in general, and around London's opportunity areas in particular.

18. In the short term, Government should:

- work with London Government to continue the Affordable Homes Programme beyond 2015 and into the medium-long term; the uncertainty regarding its future has already caused a delay on housing investment: a continuation of this programme would deliver homes across a range of tenures supporting Government initiatives on the private rented sector and affordable rent;

- lift the cap placed on boroughs under the devolved Housing Revenue Account (HRA) system which is over and above the Treasury's normal prudential borrowing rules; and

- work with London Government with vigour to identify surplus public sector land (as the GLA has been doing with its own portfolio) and transfer this to the GLA (either transferring the assets or enabling the GLA to act as agent) so it can be used more productively. Individual departments could be incentivised to identify and release unused public land, thus potentially alleviating some of the impact of cuts to departmental budgets from the Spending Review. The Mayor has both the focus and the incentive to get land into use, and has established mechanisms in place to get it out to the market such as the new development partner panel.

Conclusion

19. Our members firmly believe that strategic and sustained investment in London's essential infrastructure will return benefits for the wider UK economy. We urge you to commit to providing this in the forthcoming Spending Review.

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