Economy Committee – 17 July 2014

Transcript of Item 5: London's Economy

Jenny Jones AM (Chair): Welcome. Thank you very much for coming. We are going to pose you a few questions, but I hope we will give you the opportunity to say everything you would like to say this morning. If you feel at any point that we are missing the point, you are free to put us back on track. Can I start by asking you to give us an overview of the state of the London economy? I realise that is a big job, but in a couple of minutes, if you would?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I will. Good morning, thank you for inviting me here again. First, before answering your question, is maybe just to repeat something I mentioned before. One of my biggest surprises when I came into this role at the beginning of last year was that I felt there was a lack of sufficient data to fully answer even basic questions like you were asking me. Soon after, we did write to the Office for National Statistics to ask for more data to be available. This is an ongoing issue and people are aware of it, so the Committee should be aware of that as well. I do not think we have enough data, really, at the regional level, never mind the London level.

Notwithstanding that, coming back to your question, the London economy, like the UK economy, appears to be recovering. It is gathering momentum. It has picked up from a pretty low level, but the economy is showing, on most indicators, good progress. I tend to say, whichever economy one looks at, whether it is the London or more particularly the national economy, the outcome depends on the interaction between fundamentals, policy and confidence. Of all of those, confidence is the most difficult to measure and, indeed, to predict. I would say the most important thing over the last year, both in London and in the UK, is that confidence appears to have started to pick up and that is contributing to a general feel-good factor.

In terms of the fundamentals, the data suggests that the London economy, according to our latest projections, will grow approximately 3.4% this year, maybe rising to 3.8% next year, slightly above overall UK economic growth. The latest employment figures out yesterday were good, even though the unemployment rate is still high, but the employment figures are probably a good indicator of improved momentum and increased activity.

I could go on into more detail. Housing, I think, is an issue you would like to come to later?

Jenny Jones AM (Chair): Yes, we have quite a lot of issues. If I were to ask you how the London economy has changed since the financial crisis, would you say a rise in confidence would be an important factor?

Gerard Lyons (Mayor's Chief Economic Advisor): The financial crisis now was six years ago. In some respects, the London economy is both very specialised and very diversified, although that sounds slightly like an oxymoron. It is very specialised in that the financial sector, the City, is about one-fifth of the economy. It is very diversified in that there are other important areas: science, technology, etc.

Coming back to your question on the financial crisis, I still, in some respects, think it should be called a 'banking crisis'. This is important even though the banks have redefined it to be a financial crisis because, when one looks at the London economy, where a fifth of the economy is the City, outside of the banking sector the other aspects of the City seem to be doing well: business, professional, financial services, legal, consultancy. In some respects, according to the national data, they have helped lead the overall UK economy. In that aspect, since the financial crisis, the City outside the banking sector has done well. In terms of outside of the financial sector, science, technology and other parts of the London economy seem to have increased in significance. Indeed, people talk a lot more about the non-financial parts of the economy as well when they refer to London.

Jenny Jones AM (Chair): That is where you think it has diversified?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. Also, the international aspects, you might say the 'brand London', which has always been there, in some respects - and again is hard to quantify fully - seems to have benefited post-Olympics. London's global attraction, and as a destination for foreign direct investment (FDI), has been good, despite London and the UK being badly hit by the financial crisis.

Coming back to your question, one is financial outside the banks, two is outside the financial area, technology, science, etc, and three is the FDI or international interest in London, which seems to have improved as well.

Jenny Jones AM (Chair): Do you think now that we are more or less reliant on global financial flows?

Gerard Lyons (Mayor's Chief Economic Advisor): I would not answer that as a yes or a no. Global financial flows have always been important, not just for London but for the UK. In fact, it is always difficult to know which the best measure of this is, but there is the UK Trade and Investment Inward Investment Annual Report. The most recent one was this time last year - so that was 2012/13 - and that showed a third of flows into the UK in terms of FDI were into London. Then there was a United Nations survey[1] that came out at the end of last year, which the *Financial Times* covered because it showed the UK had displaced China as the biggest recipient of FDI. Sometimes these can be overly impacted by big deals, but generally speaking FDI flow has been a constant positive. I would not answer your question as being more or less reliant. It is just a fact of life and sometimes it goes up and sometimes it goes down.

Jenny Jones AM (Chair): There has been a lot of criticism about the gross domestic product (GDP) and how you actually measure and which indicators are used to measure the state of the economy. Do you have any comments on that?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. Gross value added is the figure that is used when people look at or measure the London economy. You have GDP, which is a nationwide figure, and gross value added, which, without getting too much into the technicalities, basically tries to take out tax and subsidies because they are set at the national level. It is trying to tell you what revenues are coming to businesses at the local or regional or, in the case of London, city level. Gross value added is the data used. I have no problem with gross value added. My frustration would be that it takes a long time before the data becomes available.

Coming back to your question, there are coincident indicators; jobs data is good, confidence measures are good, even transport figures were used, here in the UK.

Jenny Jones AM (Chair): Within gross value added, for example, during the riots, when there was more police activity and all the rebuilding afterwards, that boosts gross value added, presumably, which is illogical, isn't it?

Gerard Lyons (Mayor's Chief Economic Advisor): Whenever you have any shock or impact, it tends to have an impact on the data, whichever measure of data you use. If there was a negative economic shock, then it is often like a V-shape. The downward stroke of the V is when there are problems, people stop spending and discretionary spending gets hit, even if only for a week or two, and then you quickly recover and that is the second stroke of the V. In terms of actual activity, the impact tends to be less. Of course, as you asked in your

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[1] UNCTAD World Investments Prospects Survey 2013-15

question, if you have compensating spending because of whatever the event is, then that tends to go up, so you are right. I would not overstress these, however, because in the scheme of things they are relatively small.

Coming back to your question, different people might have different measures that they are more aligned to, but if we look at a broad range, we should get a good guide for what is happening. I do not think you would get a different picture in terms of the London economy if you were trying to look for other measures of it.

Jenny Jones AM (Chair): One of the measures I care very much about is the wellbeing of people within London. Apparently, David Cameron [Prime Minister of the United Kingdom] said in November 2010, "Wellbeing cannot be measured by money or traded in markets". I am just curious why we do not really hear much about underemployment, the number of people earning less than a Living Wage, pay inequality, wealth inequality, carbon dioxide (CO_2) emissions, resource efficiency, housing affordability - and that is relative to income, rather than whatever the Mayor decides - and traffic levels and congestion. These things are, I would argue, massive elements of wellbeing for Londoners.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I would agree with you in terms of the last part of your statement.

Coming back to the question, there are two different things. One is overall economic measurement, which is separate to London, shall we say. It is, basically, what is the best measure? Yes, if you asked a general person what a good measure of how life is going is, often they will talk about their personal health or their life expectancy and you often do not get these measured properly in economics. The first part of the question is probably not the bit that you really want to talk about, but it is important to be mentioned. Economics generally has not really come to grips with measuring all these things.

Jenny Jones AM (Chair): It is your job, though, is it not?

Gerard Lyons (Mayor's Chief Economic Advisor): No, I am talking about the economics profession. In terms of the second part, which is more particular, I mention the London Living Wage all the time. I was on the radio yesterday being asked about London and I was being asked about the north-south divide. I said that the reality is, with all the issues people talk about and the north-south divide you have here in London, five of the poorest boroughs in the country are here in London and 19% of people in London are on less than the London Living Wage. It depends who you listen to.

Maybe you are right. Maybe we could spend more time talking about these issues. My own perception is that the points you have raised, I am not sure I can tick off every one.

Jenny Jones AM (Chair): I am going to send you a list of these, actually.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, please do.

Jenny Jones AM (Chair): They should be in future presentations and publications because they actually relate to how people are feeling.

Gerard Lyons (Mayor's Chief Economic Advisor): I agree completely. I would be surprised if we are not covering those because my perception is that many, if not all, of those points are regularly mentioned.

Jenny Jones AM (Chair): It would really good for you to have them. I will write to you.

Gerard Lyons (Mayor's Chief Economic Advisor): Do you actually feel that we do not have the measurements of each of these?

Jenny Jones AM (Chair): Yes.

Gerard Lyons (Mayor's Chief Economic Advisor): OK. We will sort that out.

Jenny Jones AM (Chair): That is brilliant. thank you.

Stephen Knight AM: There are a couple of other areas where I would be interested to have your view as to the general health of the economy. The first one is business investment levels. I have not seen, in many of the bits of information we have been given, a real chart of the level of business investment going on in London. I know it has been a real issue during the recession. Are we seeing business investment levels creeping up? Is there much evidence of that or are they still stagnant?

Gerard Lyons (Mayor's Chief Economic Advisor): I have two points. One is the general UK aspect and the second is coming back to London. The nature of an economic recovery often is that in some respects you get a consumer-led recovery first before you then get the other parts of domestic activity kicking in. Let us put it this way in answering your question: it had always been said maybe for the last five or six years that we need to have a more balanced type of recovery in the UK. For more balance, people would come down on saying there would need to be more investment and more export, shall we say. However, often the nature of recovery is that you see domestic demand in terms of consumption.

Stephen Knight AM: Given that wages are not going up across the UK, a 'consumer-led recovery' in your view means consumer debt-driven, presumably, because consumers have to get the money from somewhere if they are going to increase their spending.

Gerard Lyons (Mayor's Chief Economic Advisor): Can I come on to that? I will come back to the investment. In terms of the investment, the full extent of the pickup in investment we need to wait to see, but there are signs of increased investment. In London, a lot of investment is linked to housing, but also, in terms of the jobs data, companies seem to be increasing activity through taking on more staff. Coming back to your question, there are signs of investment picking up, but in the nature of recovery it tends to come later.

In terms of the second point, one of the things about this recovery - and, again, even though we are talking about London - the context of what we have had in the last five or six years has been very different compared with previous downturns in two respects. Firstly, six years ago as the recession hit, most economists were predicting a much bigger increase in unemployment and that is normally the shock absorber. What we saw in this cycle was that the shock absorber was not unemployment but wages, and companies tended to keep on staff. Admittedly, we saw an increase in part-time unemployment and we saw a big pickup in people on zero-hour contracts, so for each individual it was not necessarily the ideal level of employment they were looking for. However, the shock absorber seemed to be less the unemployment and more the wages being squeezed.

The second thing that somewhat surprised the Treasury but should not have done, in my view, was that as the pound weakened sharply -- In previous cycles, if the pound had weakened and the United States (US) and the UK were in recession at the same time, the expectation would have been that food and energy prices would have been low. The reality was, however, that there was increased demand for these from across the globe. When the pound weakened, in order to try to help exports, what we also saw was the importing of food and energy price inflation. The combination of wages being squeezed and higher food and energy prices really squeezed living standards over and above what else was happening in the UK and people were hit very hard.

Therefore, coming back to your question, we are now getting into the stage of the cycle where wages appear to be set to rise, and that is the expectation over the next year and that will adjust.

Coming back to a point you touched on, yes, the Office for Budget Responsibility does the independent official forecasts. I have often found that one aspect of their forecasts that has probably not received as much attention as it should have, was this expectation that any pickup in consumer spending would go maybe hand-in-hand, mirror or go alongside an increase in debt levels again, which is a worry.

Stephen Knight AM: Of course, part of the problem with the economy that got us into the banking crisis in the first place was high levels of personal debt.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I agree.

Stephen Knight AM: You said the projection is that wages will start to rise in the next year.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes.

Stephen Knight AM: Have you seen any evidence yet of wages rising? I am talking about median wages. I am talking about across the economy and London wages. Is there any evidence yet that you have seen that wages have started to rise?

Gerard Lyons (Mayor's Chief Economic Advisor): I do not have the figures to hand. There are some tentative signs but we need to see more. The other important aspect is that as food and energy price inflation has dissipated - I am not sure if that is the right word - basically, the overall rate of inflation is lower than it was before, as we saw from data earlier this week. That also eases the burden on living standards.

Coming back to your question, the shock absorber was wages being squeezed. One would expect in the recovery to see wages pick up more. Have we seen signs of it? Only tentative.

Stephen Knight AM: Really, because business investment is tentative and you are expecting the growth really to come from consumer spending --

Gerard Lyons (Mayor's Chief Economic Advisor): I would then expect to see more growth in the future that would be better balanced in terms of investment picking up.

Stephen Knight AM: You said earlier that people were expecting it to be a consumer-led recovery.

Gerard Lyons (Mayor's Chief Economic Advisor): In the early stages and it is and that is understandable.

Stephen Knight AM: We have seen some of that through increased debt levels, but not increased wage levels.

Gerard Lyons (Mayor's Chief Economic Advisor): Wages do appear to be picking up across the economy but, if we were to project ahead over the next 12 months, one would hope to see higher levels of wage growth. One would expect to see business confidence pick up. If demand picks up, businesses invest more. These are signs, as I was saying to the Chair earlier, that confidence is improving. Hopefully, also, the other thing we have not talked about - and I know you did not ask about it - is on the Continent and, if and when we see a pickup in demand over there, then that should help our net export picture as well.

Stephen Knight AM: You see, Chair, my issue is that we are being presented on the one hand with a picture that growth is well established --

Gerard Lyons (Mayor's Chief Economic Advisor): I would not say well-established. Good growth is --

Stephen Knight AM: -- and it is full steam ahead and the economy is moving forward. On the other hand, with these key drivers, we are expecting a consumer-led recovery and yet wages have not really seen much of a pickup. Businesses are not investing yet, we are expecting it to happen any minute now and it is tentative. We are seeing early signs, perhaps. However, it does not strike me as evidence of full-steam-ahead growth or that we are on our way to a full recovery.

Gerard Lyons (Mayor's Chief Economic Advisor): OK, yes. Let us be quite clear --

Jenny Jones AM (Chair): Not all of us think that growth is a good thing, by the way.

Gerard Lyons (Mayor's Chief Economic Advisor): In terms of recovery, at the beginning of last year, I was advising the Mayor and writing in the papers that I thought the economy last year would grow close to 2%. The expectation was 0.6% at the start. The economy grew just a shade under 2%. At the beginning of this year, our official projection - and I wrote about this and the Mayor commented - was that we thought the economy would grow 3.5 - 4%. The expectations were very low. The economy is likely to grow somewhere around 3% or above. The Bank of England is indicating nearer 3.5%.

Coming back to your point, we need to be clear. The economy is picking up. It grew last year. It is growing this year. The expectation is that it is going to grow next year. We can also agree that it is picking up from a very low level and it is only now back to the level it was at before the crisis. It is picking up from a low level but it is picking up. It now seems to be building momentum. There is clarity. Consumer spending has led the recovery. That is not a surprise. One would expect consumer spending to become more entrenched as confidence and wages rise. There are early signs of wages increasing. One would expect more.

You are right in terms of your question, however. Business investment has not led the recovery. It was not expected to, but business investment is likely to pick up over the next year and, hopefully, in addition to that, exports should do well. We should be optimistic about what lies ahead but at the same time we should not underestimate the fact that the economy is still some way below potential in terms of where it would be if the pre-crisis trend, or maybe even the earlier part of the pre-crisis trend, had continued.

Stephen Knight AM: If you are right and we have had a recovery led essentially by consumers upping their credit card spending and in the short term it may be sustainable and in the long-term not, businesses hopefully will move forward and start investing. What impact are rising interest rates likely to have on that very tentative picture if we do see rates rise, as the Governor of the Bank of England has suggested, and then shied away from suggesting almost in the last month? Presumably, business investment could be put off by that. Consumers, who have maxed out their credit cards to help the recovery on the way, could be hit by that.

Gerard Lyons (Mayor's Chief Economic Advisor): All these are very valid questions. I have used the phrase 'shock absorber' once already in terms of wages. In terms of policy, there was another shock absorber, which was the Bank of England. The message from the Governor in terms of his statements has effectively remained the same: rates will stay low, rates will go up gradually and then peak at a low level. Yes, there have, as you have indicated, been some nuances as to the timing of the first move.

My own personal feeling is that if rates do increase this year, they should move - as I call it - in baby steps; we should move gradually. However, taken at face value, from what the Governor has said, one would expect the Bank of England to move gradually, very much influenced by not only the data it is seeing but also by how it anticipates the economy will react to any subsequent rate increase.

It should also be said in answering your question that the Bank of England has all these new powers, macroprudential and others. The macroprudential measure is aimed at making the banks more resilient but also, added to the Mortgage Market Review, is effectively aimed at trying to take some of the heat off the housing market.

Stephen Knight AM: We will come on to the housing market in a little bit.

Gerard Lyons (Mayor's Chief Economic Advisor): All of those factors need to be looked at. However, yes, as interest rates go up, 'winners and losers' might be the wrong phrase to use and I know you did not use it, but there will be some people impacted - shall we say losers - and there will be some gainers. Savers will benefit. There is no doubt about that. One would expect that higher interest rates would also be reflecting what is happening to the economy and therefore what the economy needs. It does link in. If I were on the Bank of England's committee, I would be looking for data in terms of wages and data in terms of demand to address your question about the ability of consumers and businesses to cope with higher borrowing or higher interest rates.

Jenny Jones AM (Chair): We have quite a lot of other questions but in fact I am now irritated into asking something. You say that wages are set to rise, but actually whose wages? At the moment, we are seeing public sector workers being offered 1%, way below inflation. Whose wages? Are we talking about the best paid people getting more money?

Gerard Lyons (Mayor's Chief Economic Advisor): Private sector wages, according to most economists.

Jenny Jones AM (Chair): Again, it goes back to my thing about wellbeing. The bulk of people do not earn enormous amounts of money and their pay is not increasing fast enough.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I agree. Employment for many people will be seen as important and the cost of living as well. You are right.

Fiona Twycross AM (Deputy Chair): You have talked a little bit about employment figures in London, but I just wondered if you could comment on why, despite the fact that there is faster growth in London, our unemployment rate is consistently above the national average.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. The actual figures are quite good in terms of employment in London. It is 72.5% in terms of the number of people in work. The actual absolute numbers of those working are also very high in London. The good news is the unemployment rate is coming down but, yes, you could argue it is still too high.

To come back to your question, it is difficult to make full comparisons across the country, but there is a slight aspect of structural unemployment, maybe. The important thing is to look at how unemployment as well as employment rates are moving at the moment. They do seem to be moving in the right direction.

Fiona Twycross AM (Deputy Chair): What about underemployment? Would you see that as a major issue in London?

Gerard Lyons (Mayor's Chief Economic Advisor): It is an important issue, but sometimes it is very difficult to quantify these. Are people more skilled for the jobs that they are doing? Yes, there is maybe evidence of that in terms of graduates, but it is also difficult to know whether that is a cyclical as opposed to a structural factor. By that I mean that when you have had a recession or a downturn in the economy, high-skilled people may not get the jobs they are looking for. Therefore, the good thing is that they are prepared to do other jobs. We should not be hung up about jobs. Yes, there is an issue but quantifying it is difficult.

Against that, there was a very interesting survey by Deloitte, that I have quoted a few times. It is an important issue, alongside the number of people not earning the London Living Wage, to get the full balance of it because there are issues and it is a pretty complex labour market in London. At the top end, if we can call it that, Deloitte is saying that if you look at international cities, London has 1.5 million high-skilled workers. The next highest city is New York with 1.2 million globally, then Los Angeles (LA) with around 800,000 and Hong Kong with about 500,000 or 600,000. The point is that in the labour market - and the Chair's question comes back in terms of wages as well - and the high-skilled workers, there is a big component of this. It is important in London that we look at the whole labour picture as well, coming back to your question.

Fiona Twycross AM (Deputy Chair): Thank you. In terms of both employment and underemployment, what levers does the Mayor have to address some of the issues?

Gerard Lyons (Mayor's Chief Economic Advisor): It is both direct and indirect. The direct is trying to help improve the London economy and, in that respect, that creates jobs. The indirect is measures particularly focused on the Mayor trying to get more businesses to pay the London Living Wage or in terms of youth unemployment. Even though the data is improving, it still is a big concern as well. It is about getting firms to take on apprenticeships. A big issue is that evolutionary step from school or college into the workplace. I do not think any economy really cracks it. I would have thought the German economy really was doing well, but then a few weeks ago I met with six or eight German parliamentarians who were concerned about their own labour market.

Fiona Twycross AM (Deputy Chair): Specifically about youth?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. They were looking to copy the UK's minimum wage, which is 16 years old this summer. They were worried about low pay and were less concerned about the impact that would have in terms of youth unemployment. However, here, if we look from afar in the UK, we try to think about who has the best practice. Certainly one of the things - coming back to your question - that the Mayor is keen on is this idea of the evolution of people who are out of school or out of college into work and having skills suited for that employment, so apprenticeships are a big thing.

Fiona Twycross AM (Deputy Chair): You mentioned that nobody has cracked the issue of youth unemployment. Do you have views on what is going wrong in the economy so that we have one in four young Londoners out of work? Obviously, that is really quite high.

Gerard Lyons (Mayor's Chief Economic Advisor): In terms of youth unemployment, it is a global issue and I do not think that necessarily always helps in getting an immediate solution to it. I was just seeing if I had some data on this. I might. One in eight young people are unemployed globally, I think. I can come back to you. I looked at the International Labour Organisation (ILO), which came up with five recommendations on youth unemployment last year. Some of it was linked to demand, the others more to the transition process. It is an issue in Western economies and also Africa as well.

Here in the UK, the Work Foundation in April 2014 classified London's youth unemployment as average for a UK city, which shows what an issue it is across the UK, to be frank. London was behind Cambridge, Southampton and Reading, but better in terms of lower rates than most northern cities. Our youth unemployment rate was still high, but not as high as other cities. It is a UK problem. It is a Western Europe problem. What do you need to do? You need to have stronger economic activity and make sure that businesses are taking on young people as early as they can, I would say.

Fiona Twycross AM (Deputy Chair): How can businesses be persuaded to support local young people into work and what can they do specifically?

Gerard Lyons (Mayor's Chief Economic Advisor): It is difficult to know what you can do. You can try to incentivise people, but once you try to incentivise with taxes or subsidies, often you find that you have an unintended consequence somewhere else. You would think a business naturally would want to have a steady progression of talented - or indeed untalented or both - people coming through, just raising the level of awareness. Also, what I would say specifically you can do is just try to get increased economic activity so companies want to take on more staff. The employment figures actually do show that there are - as I touched on earlier - a large number of people in work and we cannot ignore what the data is staying, but it is more specific in terms of certain people.

Fiona Twycross AM (Deputy Chair): For young people, then, is it something inherent within the education system that is the problem? Are there just not the skills, the behaviours or the approach to the workplace that would get them jobs? Are we failing to do something at an education level?

Gerard Lyons (Mayor's Chief Economic Advisor): This could open up a whole debate in itself. I am not an expert on this, but I am aware of the debate and there is a lot of stuff said in answer to this question. Businesses often cite that people do not have the skillsets. That may or may not be the case, but certainly in some parts it is.

There is interesting data. I looked at some of the data as to where people come from. There are two sectors in the London economy where, effectively, between one in four and one in five people working in it are from outside the UK but elsewhere in Europe, construction being one and combinations of food industries being another. You could argue, "Why is it that those roles are filled by non-UK Europeans? Could they not be filled by others?" However, you would need to drill into those areas.

Maybe it is expectations, but I would not say so. The data suggests that there are regional issues, judging from the figures I quoted earlier. Sometimes we can generalise too much, however. What I would imagine is that when you drill down into it, there are lots of different issues, education being one. If you want, I can dig that out. There is a lot of stuff I can come back to you on about this.

Fiona Twycross AM (Deputy Chair): That would be really helpful, thank you. Schools now have the statutory responsibility for careers guidance themselves and this means that they can potentially have patchy provision for young people. Is there anything more you think the Mayor can do to ensure that young Londoners have access to good careers advice?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, there is a whole thing where comments have been made on the Mayor on these issues and they suggest that a lot is being done to address the issue or raise the level of awareness.

Fiona Twycross AM (Deputy Chair): Thank you. Within the one-in-four figure, obviously there is quite considerable inequality between different ethnic groups. What more can be done to tackle the inequalities in the London market, particularly around helping young black and minority ethnic (BAME) Londoners who are more likely to be unemployed than their white British counterparts?

Gerard Lyons (Mayor's Chief Economic Advisor): I do not have all the data to hand on that, but I can come back to you.

Fiona Twycross AM (Deputy Chair): OK. Thank you.

Tony Arbour AM: Is it possible to argue that one of the reasons why we have higher youth unemployment rates in London than elsewhere in the UK is the existence of the minimum wage? In other words, is an employer who employs someone with lots of experience for the same salary as someone who has no experience going to militate against employing a young person?

Gerard Lyons (Mayor's Chief Economic Advisor): This is a very interesting point and in some respects I tried to touch on that in the previous question - but not in the eloquent way you have asked this question - when I referred to the German parliamentarians. It is a difficult one because 16 years ago when the minimum wage was being introduced, one of the big issues was that it would have this impact that you touched on. It is not just the UK that has a youth unemployment problem, however, and it is difficult to say that the youth unemployment problem is directly because of the minimum wage. When the minimum wage came in 16 years ago, one of the things suggested was that it could lead to more part-time work and more people on things like zero-hour contracts. It is possible that what we are seeing now could be linked to the minimum wage but we did not see the full aspects of that in previous years because the economy itself was so strong and doing so well. It might be that what we are seeing now at this stage of the cycle, when in recent years the economy has been weak, is that the consequences of the minimum wage have come through. Therefore, it is possible.

I would say in answer to your question, however, that certainly some businesses and small businesses would cite that as a reason. At a national level, it might be a contributing factor, but may be not the only factor.

Tony Arbour AM: Thank you.

Jenny Jones AM (Chair): We have heard before that it is an international market in London and that has an impact on youth unemployment. Would you agree with that and the fact that there are so many people coming over and taking the sorts of jobs to better their English or whatever? I do not mean immigrants. These are young people who want some life experiences and they are coming over here, so the job market is more competitive. That is what we have heard before.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, the job market is more competitive. There are a whole host of different things happening. Globalisation has led to significant shifts in the global wage share and therefore the areas that have done less well than others will be low- to middle-skilled workers in Western economies who have faced increased competition from businesses being able to go elsewhere. What you are also arguing about is that mobility of labour can bring people into the UK. Yes, it is possible that that has added to the intensity of pressure.

However, going back to the previous question, when you look in London, there are certain sectors where foreign workers are a big part of the workforce. I have mentioned two sectors already. The other sector is finance; one in eight people in finance in London is a foreigner, but that is high-skilled. Yes, there is increased competition, so you would expect it.

Jenny Jones AM (Chair): Does it actually benefit the economy if we have people on poverty wages? Why would that be a good thing?

Gerard Lyons (Mayor's Chief Economic Advisor): The way you are asking the question is that we need to look at it in the context of everything else. Would it be nice if everyone was earning more wages? We could say yes, but if the alternative is that people are not going to be employed, etc --

Jenny Jones AM (Chair): If you have wages, you spend the money, which helps the economy.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, but you need to have real jobs. I see where you are coming from. It is important that we have a social welfare system that makes sure there is a minimum standard. The question is how other things gel together. Coming back to the previous question, in economic terms, if you set the minimum wage too high, it tends to hit employment.

Coming back to your question on poverty and wages, the good thing about the minimum wage - which is linked to your question and is why the minimum wage 16 years after it started is seen as a success - is that it stopped exploitative work. Sixteen years ago when Labour took it on - and I might not have the exact figure - it was then said that about 7 - 7.5% of people were on exploitative wages. I think the latest figures are about 1 - 1.5%. That is still too high. In answer to your question, if I swapped 'exploitative' for 'poverty', exploitative wages you want to get rid of completely and poverty wages/low wages, yes, you want people on higher wages, but some jobs by their necessity will pay lower wages than others. What you want to make sure of, though, is that in a society the tax take on those workers is at a minimum level and that there are social provisions where they need them. You need to look at the whole picture. That is the point I am trying to say in answer to your question.

Jenny Jones AM (Chair): How does this fit, though, with the Mayor's passion for the Living Wage?

Gerard Lyons (Mayor's Chief Economic Advisor): The Living Wage is a really good thing because it comes back to the point about how, when you start to interfere in markets, there can be unintended consequences. I could say, "Everyone needs to pay this wage", and you might think that is fantastic, but if suddenly businesses said, "We cannot afford to employ anyone", then the economy would suffer. The difference between the minimum wage which is statutory and the Living Wage, is that the Living Wage is in some respects voluntary. What you do with the Living Wage is try to put more pressure on the bigger firms to pay the Living Wage. Smaller businesses have less room for manoeuvre. I cannot remember the exact wording of your question, but the Living Wage is an important thing for the Mayor to push for because you are trying actually to make people more aware of it. You are trying to put moral and indirect pressure on firms to pay it. I certainly think a Living Wage is an important thing to keep pushing for because we all know the cost of living is so high.

Jenny Jones AM (Chair): Can you tell us how many companies have joined the Living Wage scheme in the last three months or so?

Gerard Lyons (Mayor's Chief Economic Advisor): In the last three months, no, but the numbers who use the Living Wage has gone up. In the first year, it went up sharply, as you would expect, from nowhere and it is picking up gradually.

Jenny Jones AM (Chair): I wonder if you could let us know because we need to see the progress.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. I have the figure of 250 or so in my mind, but there could be a different figure.

Jenny Jones AM (Chair): It has been that for quite a while, though. My concern is that it is losing steam.

Gerard Lyons (Mayor's Chief Economic Advisor): It is rising but the pace at which it is rising naturally is less because when it was introduced - like if you introduce anything, in the first year when something is introduced - you immediately start from nothing and therefore it is natural that in subsequent years the pace of increase is less than the first year. The Mayor keeps pushing it, very much so.

Stephen Knight AM: If, as has been suggested, there is a relationship between the National Minimum Wage and youth unemployment, would you not expect to see in those regions of the UK where the National Minimum Wage is much higher as a proportion of median wages - say the northeast - a much bigger impact on youth unemployment than in London, where the gap between the National Minimum Wage and the median wage is so great? In other words, relative to wages generally, the National Minimum Wage in London is very, very low. Instead, what we have in front of us here in London is higher rates of youth unemployment than in those parts of the country where the minimum wage is much more significant compared to overall wage levels. Would you say that that suggests there is no relationship between the National Minimum Wage and youth unemployment and that it is not a significant driver?

Gerard Lyons (Mayor's Chief Economic Advisor): OK, a number of different points there. In terms of the data, going back to your earlier answer, the rates of youth unemployment in London are falling but they are still, in my personal view, too high.

Stephen Knight AM: They are higher than the rest of the UK, are they not?

Gerard Lyons (Mayor's Chief Economic Advisor): No. Actually, the figure I was quoting earlier was that, according to the Work Foundation in April 2014 - and you mentioned the figures - the youth unemployment rate is higher in northern cities such as Middlesbrough, Bradford, Barnsley, Doncaster, Hull, Glasgow, Coventry, - in the Midlands, obviously - Birmingham, Cardiff - not in the North - and Grimsby. They are all classified as high for youth unemployment with over 25% and that is using data from 2012/13. The youth unemployment rate is lower in London than in those, according to other figures, but --

Stephen Knight AM: According to the UK average, from the latest figures I have here, youth unemployment rates in the UK average about 20% and in London it is 24%. We have higher than the UK average and yet the minimum wage relative to wages generally is much lower in London. This undermines this argument that the minimum wage had an impact on youth unemployment.

Gerard Lyons (Mayor's Chief Economic Advisor): Let us be quite clear. I was answering the previous question and talking about the pros and cons and talking about what was said 16 years ago. I said that in the first years after the minimum wage was introduced, we did not see evidence of that. What you are implying that I said in your question was not actually what I said but --

Stephen Knight AM: Sorry, I was not implying you had said it. I said it had been said in the meeting, by Mr Arbour.

Gerard Lyons (Mayor's Chief Economic Advisor): In theory and in practice, you are right, there is a slight difference. In terms of London, there is also the other issue as to where people actually migrate to look for jobs as well. That has become a factor and whether London is seen as more of a magnet. However, let us be agree, youth unemployment rates are too high. Going back to previous questions, the good news is that they are moving in the right direction, but can we do more? Yes. Is the Mayor trying to do lots? Yes.

Coming back to your specific question, yes, you would say based on what you have said that you cannot draw an exact correlation. Indeed, that is why many people would say that the minimum wage after 16 years is widely viewed as a success. Perhaps there is evidence in the labour market now, however, that reflects the impact of the minimum wage, and particularly many small businesses in a difficult time might be deterred from taking on younger staff. That is the challenge. It is a complex picture, but we will see how it goes.

Dr Onkar Sahota AM: I just want to explore this thing about the Living Wage and the minimum wage. You are saying that this puts pressure on the bigger firms to give the Living Wage and that is where the Mayor is putting on pressure, but a high proportion of the economy in London is small businesses. Does this create an unfair playing field for the smaller businesses that cannot attract those people? Does having the minimum wage legalised give an equal playing field in the labour market?

Gerard Lyons (Mayor's Chief Economic Advisor): It is a complex area, but the minimum wage is a national policy, so we have to take that and that is sensible. Some people would argue - maybe coming back to the previous question - and there has often been an argument put forward as to the need for regional variations. What we certainly have with the minimum wage is a slightly lower minimum wage for age in terms of younger people.

However, in terms of this distortion, it is very difficult for politicians to start to interfere in labour markets by saying what people should be paid to work. Certainly, you do want to have minimums, but it is up to each business, really, to know what is best for them. What is certainly the benefit of a minimum wage is that it has reduced the number of exploitative wage rates paid, if that is the right way of saying that, but once you get into distortions your very question highlights the potential problems of trying to, for the right reasons, intervene in markets.

Jenny Jones AM (Chair): Have you read the recent report that was fronted by the Archbishop of York, [Dr John] Sentamu? They found that paying the Living Wage, even by small and medium-sized enterprises (SMEs), actually benefited those enterprises because the people were spending more; better goodwill among the person and employee and so on.

Gerard Lyons (Mayor's Chief Economic Advisor): I have not seen that but --

Jenny Jones AM (Chair): I can send you a copy.

Gerard Lyons (Mayor's Chief Economic Advisor): -- actually, to give him credit, the Mayor, Boris Johnson, has talked in similar terms about the benefits for companies to be paying their staff and to invest in their staff, because it enhances many different positive factors and productivity. I do not think anything --

Jenny Jones AM (Chair): We will send you that report. Who was it by? Do you remember, Stephen?

Stephen Knight AM: The Living Wage Commission, I think it was. I have copy here.

Jenny Jones AM (Chair): The Living Wage Commission, yes.

Gerard Lyons (Mayor's Chief Economic Advisor): I might well have seen it, yes.

Tony Arbour AM: The idea that if you are nice to your employees they will work harder and be loyal has been with us for 1,000 years, so I do not think there is anything in it. No doubt that is why you thought it was the Archbishop of York.

Given the importance of start-ups in the London economy, would you agree that one of the principal barriers to expanding a start-up is the taking-on of your first paid employee?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes.

Tony Arbour AM: If the cost of your paid employee is higher than it otherwise it would have been because of the existence of either the London Living Wage or a minimum wage, is that not likely to be a disincentive, again, to employing a younger person?

Gerard Lyons (Mayor's Chief Economic Advisor): Both your comment now and your earlier comment are important things that need to be very much taken on board in the debate. If you intervene in markets, it is not always clear that the outcome will be as positive as you want it to be. You can, by intervening, cause distortions. However, you are right. Other things being equal, your question is correct.

Jenny Jones AM (Chair): Unfortunately, economics is not a science.

Tony Arbour AM: It is the dismal science. Chair, this is a serious point. Maybe this is something that we should commission research into. It is clear from what Mr Lyons says that we have no hard evidence on the disincentive of the minimum wage in employing young people.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, there are so many different things. There has been work, I am sure, done here at --

Stephen Knight AM: It is still the case that you have higher rates of youth unemployment in other parts of the UK than you have in London and you have the opposite effect, in reality.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. There is correlation and causality and also global and national, as well as regional, factors. It is a complex picture. What you want to have is skilled and unskilled workers being able to get jobs. That is the key at the end of the day.

Jenny Jones AM (Chair): We will move on to housing.

Stephen Knight AM: Mr Lyons, the Governor of the Bank of England told Members of Parliament (MPs) earlier this week that the high rate of housing inflation that we are experiencing at the moment is the single biggest risk to the UK's economic recovery. In London, of course, inflation of house prices is twice the national average. Would you agree with him that house price inflation is the biggest risk to economic recovery?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, possibly. It certainly is a risk. In terms of the UK economy, we should be positive and the key issue in my mind is a broader one about the need to have a clear vision for where London and the UK stand in the changing global economy. Probably the most important issue is that we have a vision, so that people can put the current situation in context and businesses - going back to one of your first questions - can take a positive view about investing here in the UK. That is, in my personal view, the key issue: the idea of having a clear strategy and a clear direction.

Coming back to macroeconomic policy, the Bank of England had a discussion paper a few years ago on macroprudential measures. What was interesting was that, in that discussion paper, it said that every boom and bust in the UK economy since the 1930s had been caused by, or correlated with, a housing boom and bust. In that respect, there is a lot of historical evidence to suggest that we should watch very closely what is happening to the housing market. You could have other risks and we have touched on some of those but, in terms of where the Bank of England is, yes, it is one of the big issues.

Stephen Knight AM: Given that we know the recovery is dependent on consumer spending, if rents and mortgage payments start going up because people are having to borrow more and pay higher rents because the housing market is going up so fast, clearly, it is going to choke off demand in the economy and choke off spending, is it not?

Gerard Lyons (Mayor's Chief Economic Advisor): The last point you made might not naturally follow from the first point but, on all the points you have made, I understand where you are coming from.

To put this in context, yesterday I attended a lunchtime session at the British Academy at Carlton House. Lord Nicholas Stern [Chair, Grantham Research Institute] was hosting it, Lord Adair Turner [Senior Fellow, Institute for New Economic Thinking] was chairing it and the session was about the UK housing market. I was invited around. There were probably twice as many people as this but they were all experts.

Jenny Jones AM (Chair): We are experts, too.

Gerard Lyons (Mayor's Chief Economic Advisor): That was not what I was implying. It shows how words can be misinterpreted. The point is that they were not all in agreement about the issues. Therefore, that is the challenge. What I would say, coming back to your question, is that in my view, the two issues are credit and supply. The credit issue is very much linked to what should be the concern of the Governor - and I am sure is the concern of the Governor - about the whole macroeconomic policy framework. The Bank of England now has these macroprudential measures, adding the Mortgage Market Review and then interest rate changes as well, and all of that is about them handling things. From the Mayor's perspective, clearly, macroprudential monetary policy is not his area. Supply is the other part of the equation and that is what we can try to focus on here.

I find it a frustration that we always talk in the UK about 'getting on the housing ladder'. Other successful economies do not necessarily talk about that. In Germany, people do not talk about getting on the housing ladder, but this is a structural issue in the UK. Many people actually are not on the housing ladder.

Without going off on a tangent - notwithstanding the fact that people seem to want to be able to buy, for understandable reasons, maybe, in some people's minds - and going back to the issues, they are credit and supply. From the Bank of England's perspective, it is macroprudential monetary policy and credit issues. Here at City Hall, it is about supply. The good news is the Mayor announced on Monday that this year London is building the highest number of private homes and the highest number of social homes since 1981. That is good news, but the Mayor is the first to acknowledge --

Stephen Knight AM: It is still a lot less than needed, though, is it not?

Gerard Lyons (Mayor's Chief Economic Advisor): I am saying that the Mayor would say we have a 40-year backlog and that is the challenge.

Stephen Knight AM: If there were 20% plus inflation in any other part of the economy, you would see headlines from the *Daily Telegraph* demanding tough action to bring inflation under control. Do you think that we need tough action to bring housing market inflation under control? I am not talking about the ladder of the housing crisis, but the rate of inflation is as damaging as inflation in any other part of the economy, potentially, is it not?

Gerard Lyons (Mayor's Chief Economic Advisor): The answer to that is yes. You have macroprudential measures and the Mortgage Market Review, which are trying to be targeted because the alternative is higher interest rates. As you touched on in some of your earlier questions, higher interest rates can have an impact across the whole economy, so it is targeting measures.

Stephen Knight AM: That is the risk, is it not? If we do not control house prices by other targeted measures, we will end up with interest rates potentially going up as the last fall-back way of controlling house prices.

Gerard Lyons (Mayor's Chief Economic Advisor): Interest rates will need to go up at some stage. I could construct for you a plausible downbeat scenario where lots of things go wrong, but I could construct for you a far more - in my view - plausible scenario where the London economy and the UK economy go really well, and I think that is more likely.

One of the big challenges here in London is the whole issue of housing, not just for people who are living here now. Housing is a big issue. It is a big issue in terms of the recovery itself and in the future because, talking to businesses, a year ago, visas were always mentioned. You do not hear visas mentioned as much now.

Stephen Knight AM: No, it is housing costs.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, housing costs, so housing costs are a big issue.

Stephen Knight AM: Can I just pursue this with you? I think we are all agreed that the last thing we want is housing inflation controlled by big increases in interest rates. That would be a problem for a lot of homeowners and a lot of businesses wanting to invest. We have seen the Bank of England bring in some measures around limits on mortgage lending. What other specific measures do you think ought to be brought in to take some heat out of the housing market? Obviously, we have the Government, in a sense, doing the opposite at the moment with the Help to Buy scheme. Is that something you would like to see withdrawn in London?

Gerard Lyons (Mayor's Chief Economic Advisor): Before I came to work here at City Hall, I did have a number of meetings at the Bank of England, because I had written a lot on macroprudential measures, which are basically putting limits on how much people can borrow, linked to their income or linked to their house price. Therefore, they are very targeted. It is also important to stress that in other economies, where macroprudential policies have been used, particularly across Asia, the supply side is always seen as an important part of the story. Here, clearly, as Governor Mark Carney has said, the Bank of England cannot build houses but building houses is a key part of it. Your question has focused very much on the key aspects, which --

Stephen Knight AM: We are all agreed that supply is key and we want to build more housing, but I really wanted to focus on the other aspects and whether or not the Mayor is lobbying for more measures to cool the housing market. Do you think the Bank of England went far enough in terms of its --

Jenny Jones AM (Chair): You are asking lots of questions every time you speak. Do you want to ask him about what the Mayor is doing on this?

Stephen Knight AM: What is the Mayor doing?

Gerard Lyons (Mayor's Chief Economic Advisor): There are two issues. It is not for the Mayor of London to be telling the Governor of the Bank of England what to be doing in terms of monetary policy.

Jenny Jones AM (Chair): He tells everybody what they should be doing and he does not care.

Stephen Knight AM: Like you?

Gerard Lyons (Mayor's Chief Economic Advisor): We can, however, try to influence the debate. Yes, we did have a meeting with the Governor of the Bank of England earlier this year. We did express our views about the London housing market. Personally, I am a big supporter of macroprudential measures. The policies the Bank in England have in place now are quite formidable powers.

Stephen Knight AM: Do you think they go far enough?

Gerard Lyons (Mayor's Chief Economic Advisor): The powers? Yes, but it is about how you use the powers as well. Yes, they do have lots of powers.

There is a whole host of other issues linked into this. Putting it back into context, in the 1970s, there were lots of constraints on how much people could borrow. In the mid to late 1970s, with competition and credit control and all these issues, people were arguing on the other side that they were seen as stopping poorer or working people - however you want to define the different groups - being able to buy properties. Therefore, we were at the other extreme then, so it is a complex area.

Coming back to your question, the Mayor has made clear his support for the policy measures the Bank of England is taking. What the Mayor is doing and the reality is that at the end of the day you can only do what you can do and try to influence other people. What he is successfully doing here is building more properties and trying to encourage the private sector to build more, but there is still a lot more than needs to be done. Also, at the same time, we have been really successful here in the last 18 months - and indeed before that - at attracting lots of FDI. Some of that is coming into job creation. Some of it is coming into the housing market. However, building more homes is a key part of the London story.

Stephen Knight AM: Thank you. The Mayor supports what the Bank of England is doing in terms of restricting borrowing and taking some heat out of the market. In terms of what the Government can do, has the Mayor --

Jenny Jones AM (Chair): Did he say that, Stephen?

Stephen Knight AM: I think you said the Mayor supported what the Bank of England had done.

Gerard Lyons (Mayor's Chief Economic Advisor): Controlling credit and the side of the economy, yes, let us leave it to the Bank of England.

Stephen Knight AM: Good. I think we have that support. In terms of what the Government --

Gerard Lyons (Mayor's Chief Economic Advisor): I am not sure I said those exact words, but that is the gist of it, yes.

Stephen Knight AM: Yes. I was trying to summate what had been said. In terms of what the Government can do to take heat out of the housing market, what is the Mayor's view on Help to Buy? What is your view on Help to Buy? Should the Government suspend it in London with 20% house inflation?

Gerard Lyons (Mayor's Chief Economic Advisor): Things are evolving, shall we say, on that. What is interesting is this whole idea that we need to move from debt to finance borrowing to have some sort of change in terms of how people can buy properties, some equity-linked buying, so that not all the upside goes to the individual but they are then protected on the downside. There are aspects of Help to Buy that encourage that and that part is good. Generally, yes, things that try to encourage supply and make it easier for people to finance their borrowing is good. Help to Buy, though, from a national perspective is aimed very much outside of London. The data very much shows that.

Stephen Knight AM: You do not think it is appropriate in London?

Gerard Lyons (Mayor's Chief Economic Advisor): It was aimed outside of London, yes. I do not think we really needed it in the way other parts of the country might have needed it.

Andrew Dismore AM: You have described Help to Buy as a "lethal combination of cheap money, leverage and one-way expectations".

Gerard Lyons (Mayor's Chief Economic Advisor): Good. Yes. Well remembered.

Andrew Dismore AM: That goes a bit further than what you have just said there, does it not?

Gerard Lyons (Mayor's Chief Economic Advisor): We have moved on from that. There were two parts to Help to Buy. There was Help to Buy I and there was Help to Buy II. The previous question was on the original one.

Andrew Dismore AM: OK. Is the Mayor right to support Help to Buy? Has he ignored your warnings about it?

Gerard Lyons (Mayor's Chief Economic Advisor): The data shows that the impact it had in London was quite limited. My feeling is that when you have a demand-and-supply issue, it is the supply issue that we need to be focusing on.

Andrew Dismore AM: There are also issues relating to demand, which are not to do with Help to Buy, or anything else.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, that is right.

Andrew Dismore AM: You mentioned foreign investment into London. One of the concerns I have is the way that the extent of foreign buyers moving, particularly into new builds, in London is excluding domestic - for want of a better word - purchasers. Although we may be building more houses, how many of those are actually going any way towards helping the housing shortage in London?

One of the estate agents last autumn reported that half of the new builds in central London are going to overseas buyers. That was 10,000 out of 20,000 properties. If that is the case, those 10,000 properties going to overseas buyers are not available for Londoners to live in. Should they be excluded from the Mayor's figures for the number of houses that are being made available on the supply side? If you are saying that there is an absolute number of new homes that are being provided on the supply side, fine, but that does not mean to say they are all available for Londoners. It is a smoke-and-mirrors argument, is it not? The actual number of properties available for Londoners is much smaller.

Jenny Jones AM (Chair): That is a very good point.

Gerard Lyons (Mayor's Chief Economic Advisor): There is a whole host of issues. Just before I answer your question specifically, in terms of the housing aspect in London, in the past it has gone through cycles. It is difficult to know whether we are going through a cycle at the moment or whether we are going through a structural change. When I say "cycle", things going up and down.

Andrew Dismore AM: Are we going to have a bust to follow the boom? That is what I was going to ask you next.

Gerard Lyons (Mayor's Chief Economic Advisor): That was not what I was referring to.

Andrew Dismore AM: Fine. I will come back to it.

Gerard Lyons (Mayor's Chief Economic Advisor): When you look at the data, you might think there is a structural change because the London economy is doing very well and there is increased investment into London. At the same time, a big positive about the London story is that it is a global city. The global city means that more international people of all wealth levels and all ages are coming to London. The multiculturalism of the UK and of London is a big positive. The FDI into London has been a big positive. On top of that, the population of London is rising by 100,000 a year approximately, so there are big issues and they are reflected in the housing market.

Coming back to your specifics, in terms of new builds in inner London, domestic buyers buy 80% of new builds according to the data I have been told. In terms of outer London, it is 93%. There is separate data from a couple of years ago from one of the estate agents, as well as Bank of England data, so people use the same, suggesting that foreigners then were buying about 3% by volume, but it might have been as much as 7% by value. The foreign buying - we need to be clear - is very focused on central London areas, Kensington and Chelsea, etc. In terms of new builds - and there are more new builds - the data does show that domestic residents are buying the vast bulk of new builds in both inner and outer London. Therefore, that would go against your suggestion.

In terms of the foreign buying itself, coming back to your additional part of the question, the question then is what they do with it. Do they buy it to live in themselves or do they buy it for rental? There is evidence to suggest it is both.

In some respects, it is like the question the Chair asked me earlier about younger foreign people coming in and whether there is a displacement effect. She was asking me about that in terms of working. Yes, there is some displacement effect, but in qualitative terms. Quantifying it is difficult, but that is not the most important issue, in my personal opinion.

Andrew Dismore AM: One of the problems that has come out with new builds in particular is the increasing incidence of sale off-plan.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, that is an issue.

Andrew Dismore AM: That, again, discriminates against Londoners here already. If you have to find your existing housing costs and put all the money upfront for buying off-plan, albeit not the whole purchase price straight off but in significant chunks beyond what would be a normal deposit, or even if it is a normal deposit having that money tied up for two years rather than a few weeks as a bridging loan, it significantly discriminates against Londoners in favour of overseas buyers who have the ready cash and want to invest it at 20%.

Gerard Lyons (Mayor's Chief Economic Advisor): From the Mayor's perspective, what the Mayor has insisted - and this was a key point in his London Government Dinner in January at the Mansion House and he had talked about it just before - is that a property should not be sold off-plan or on-plan, however you define it, to non-UK or non-Londoners before they are sold in the UK. In theory, there is now a level playing field in that.

It comes on to the other point, though, which is follow-up and the whole lack of innovation in terms of how people are able to finance their mortgages. Indeed, at that British Academy event I was at yesterday, this was one of the key points that someone was stressing. We have not really changed our way of financing mortgages.

You use the word 'discrimination'. I would not use the word 'discrimination', but with the way the market works here, either it is more difficult for people to raise finance to buy off-plan, or people are not as comfortable buying off-plan. You are right to identify the issue, but the Mayor earlier this year tried to address that.

Andrew Dismore AM: It is window-dressing, is it not? It is a voluntary agreement with the developers and all it says is that properties should be marketed in London at the same time as they are marketed overseas and vice versa. Fine, but that does not deal with levelling the playing field when properties are being sold off-plan, which in large part they are when they are overseas buyers. Londoners cannot compete on equal terms because they have to find their existing housing costs on top, when they have to have money tied up for a year or two years once that is happening. It is not a level playing field, is it?

Gerard Lyons (Mayor's Chief Economic Advisor): It is up to the developers how they raise their finance.

Andrew Dismore AM: I agree. The point is this, though. Should we be saying as part of planning consents that only X proportion should be sold off-plan, rather than having an open field for off-plan?

Gerard Lyons (Mayor's Chief Economic Advisor): That is not a planning issue.

Andrew Dismore AM: It may need a change in law. I am just asking if that is one way that we could try to deal with this particular problem and level the playing field.

Jenny Jones AM (Chair): That goes slightly beyond his area of expertise.

Gerard Lyons (Mayor's Chief Economic Advisor): First and foremost, before jumping to that stage - and you may or may not be right - my feeling would be to determine why so many developers want to sell off-plan. They want to get their money in first. Maybe the change that has been mentioned was the issue about the timespan before developers have to build or basically, if you have it, you need to build very quickly. There is a legitimate issue of how the financing of developments comes in with the unintended consequences of intervening there without fully understanding the market.

If I am correct, the Chancellor of the Exchequer was just recently trying to make it easier for small developers to develop properties and to remove some of the constraints. One could argue that in London there is a lot of scope for innovation, small developments, brownfield sites, so we need to be trying lots of different things.

Before we go off on too many tangents, coming back to your original point about off-plan, I would not use the word 'discrimination' but the data would show that foreigners more than locals have been keen to buy those types of developments.

Jenny Jones AM (Chair): We are going to have to move on.

Andrew Dismore AM: There was just one last point that I would flag up, which is going back to the point that you made earlier on. Are we in a cycle and are we heading for a bust, perhaps as interest rates start to go up - albeit in baby steps - as a consequence of this, or is it a never-ending growth in house prices?

Gerard Lyons (Mayor's Chief Economic Advisor): OK. Supply, supply, supply. In the 1930s and in the 1960s, it appears that London and the UK were able to respond to supply in a very effective way. It was always argued that that was because of deregulation, so we need to address that issue.

The other issue is that, you have not today, but often people ask me about social housing. The issue that often comes up is not about social housing but is about key workers. I remember when council flats were sold off under Mrs Thatcher [former Prime Minister] and we bought a council flat, but at that time the council flats were not being replenished and that was a borough issue. These are structural issues --

Andrew Dismore AM: It was a Government issue, they would not let them do it.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, you would know more about that than I, but these are issues. Coming back to your point, in terms of monetary policy, where I would disagree with the Governor of the Bank of England is that he says rates stay low, rates go up gradually, and rates peak at a low level. I would actually agree with the first two of those - stay low, go up gradually - but the level at which UK interest rates need to eventually peak should be high, not low. Where 'high' is will depend on the economy at that time. One of the legacies of the last 25 years has been that we have not tightened monetary policy enough in the good times. That links into the debate about housing.

We also need to change the way people finance themselves in housing away from debt, if we can, more to equity-type deals. That gives people more protection on the downside. You are right. Hopefully, we will not have a boom and bust, but certainly there will be a cycle.

Jenny Jones AM (Chair): I am really sorry. We have to move on.

Andrew Dismore AM: There was an important point that just came out, which was on interest rates. You are saying that we should stabilise interest rates high rather than low?

Gerard Lyons (Mayor's Chief Economic Advisor): At the end of the cycle.

Andrew Dismore AM: At the end of the cycle. When you are talking about high, presumably you are not talking about 10%, 11% or 12% that used to happen. Are you talking about 3%, 4% or 5%?

Gerard Lyons (Mayor's Chief Economic Advisor): I also said it does depend on the cycle. Yes, 3% was cited a little while ago by former Deputy Governor [of the Bank of England for Monetary Policy] Charlie Bean in a Radio 4 interview. He subsequently said 5% then. He is now departed from the Bank of England. I would sooner have them at 5% or 6% than 2% or 3%.

Jenny Jones AM (Chair): Thank you very much.

Dr Onkar Sahota AM: Have you been asked to undertake any analysis of the potential impact of climate change on the London economy?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, but in an indirect way, because Matthew Pencharz [Mayor's Senior Advisor on Environment and Energy] is the environmental expert. I do have an interest in this, as I mentioned once before. I am on the Advisory Board of the Grantham Institute at the London School of Economics and Imperial College. Climate change is a big issue.

In terms of the London economy, it is really about this whole issue of adaptation and mitigation. What Matthew and his team have identified are possible areas where there were shocks and it has been --

Dr Onkar Sahota AM: This Committee recently heard that climate change is the biggest long-term threat to the London economy. Hearing that, I am surprised that you have not taken a much more aggressive approach to this. What do you think are the challenges of climate change to the London economy?

Gerard Lyons (Mayor's Chief Economic Advisor): Maybe I gave a misleading answer. We are taking it seriously. Have I done specific work or detailed reports on this? The answer is no. Have I spoken with the Mayor on this? The answer is yes. It is not the area I have direct responsibility for. I do offer input and indeed at the Grantham Institute a few months ago I gave a talk about what we were doing in London.

There are a number of different aspects here. One is about what you can do in terms of retrofitting buildings. 80% of current buildings will still be here in 30-odd years' time and 80% of CO_2 emissions come from buildings. Therefore, retrofitting buildings and making existing buildings as energy-efficient as possible, as well as naturally making sure that new buildings are energy efficient, is a key aspect. Therefore, we are doing that.

One of the interesting things in London is - I probably will not have the correct terminology - about local energy systems, like Kilburn has one and Gospel Oak has one. It is not that you use less energy; it is that you do not transport the energy requirements and therefore it becomes a lot more efficient in terms of local areas and also, hopefully, it will keep the cost down. That is happening.

Those real here-and-now issues are ones that we have addressed. On top of that, and I think you took some evidence recently, it is about where there were potential risks in the future, either about flooding, about extreme weather, those are things that Matthew [Pencharz, Mayor's Senior Advisor on Environment and Energy] and his team have looked at. At the same time, from a business perspective, this is an evolving process. It is about supply chains. It is less of an issue, it should be said, in the UK. It is about supply chains globally. We do take it seriously and we have looked at it.

Dr Onkar Sahota AM: I am glad that you spoke to the Mayor about this matter. At the start of 2013, the Mayor wrote in *The Telegraph* that he had an open mind to the existence of climate change. What do you think the Mayor meant by that?

Gerard Lyons (Mayor's Chief Economic Advisor): You do need to have an open mind because we do not know what the future is.

Dr Onkar Sahota AM: He was not sure whether there was climate change taking place or was he sure about that?

Gerard Lyons (Mayor's Chief Economic Advisor): There are lots of smart people who have very different views on this and - certainly I do not think the Mayor would disagree with me on this - whether you believe in climate change or not, there is a risk versus return. The risk of it occurring means that you have to take on board that factor. In London, with flooding and the Thames Barrier, is there a need for another one, for instance? With local areas prone to flooding because of run-off water, should we be doing things? These are reality issues. Some of that is environmental and some of it is because of what we are doing in terms of urbanisation. Therefore, in terms of the question itself, if I remember the article, the Mayor was pointing out historically there have been big bouts of climate change.

Jenny Jones AM (Chair): Do not worry. You cannot answer for the Mayor and please do not repeat the rubbish that he said in his article.

Tony Arbour AM: That will do.

Jenny Jones AM (Chair): Thank you. Yes.

Dr Onkar Sahota AM: I mean, this climate change does have opportunities and has risks, right?

Gerard Lyons (Mayor's Chief Economic Advisor): I agree.

Dr Onkar Sahota AM: Therefore, what do you think are the opportunities for growth in London's economy arising from climate change? I am talking in terms of adaptation and mitigation in this consultation that may be growing out there. We heard that.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I have just written a book called the *Consolations of Economics*; not that I intended to mention it.

Tony Arbour AM: We have read the reviews.

Gerard Lyons (Mayor's Chief Economic Advisor): Very good, yes. The reason I mention it, because I have looked at this, not always with a view to the London context, I was mentioning the Grantham Institute, it is an important issue, climate change, and I do think we take it seriously. Should we take it more seriously? Yes, as a country. There are risks and there are opportunities. Indeed, Lord Nicholas Stern [Chair, Grantham Research Institute], who is one of the experts in the UK on this, talks about the 'new green revolution'. A new green revolution is about companies, even if they do not believe in climate change, wanting to be prepared for any eventuality. Is it a positive? Yes.

It comes back to one of the first questions about the diversification of the London economy. The whole technology area is a really exciting part of the London economy and that can take the London economy into many different routes, addressing real here-and-now issues as well as potential issues. Therefore, yes, there are lots of opportunities. Also, in terms of coming back to an earlier answer about what is happening at local level across London, yes, it is an opportunity.

Dr Onkar Sahota AM: I know that the big companies are already working on this and working on various scenarios, but it is in the SMEs that miss out. How are we helping them to cope with the challenge of climate change?

Gerard Lyons (Mayor's Chief Economic Advisor): In terms of specific measures, I am not sure of the answer. Let me check and come back to you on that.

Dr Onkar Sahota AM: That will be very helpful, thank you.

Jenny Jones AM (Chair): Thank you, we would appreciate that. I note that on climate change you said you do not have responsibility for this area. However, you do not have responsibility for unemployment, for housing, either; if I could suggest to you it is part of your remit?

Gerard Lyons (Mayor's Chief Economic Advisor): OK, I do take it seriously. I do get involved where necessary.

Jenny Jones AM (Chair): OK, do not say it is not your area because it is. That is my point.

Gerard Lyons (Mayor's Chief Economic Advisor): No, I take on board your point and I agree with you. I was trying to get across the point that Matthew [Pencharz, Mayor's Senior Advisor on Environment and Energy] is the guy really who has done a lot of work on this.

Jenny Jones AM (Chair): You did not mention Richard Blakeway [Deputy Mayor for Housing, Land and Property], who is the man for housing.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, I know. However, I could have done, yes. All of those are experts and they know more about their areas than me.

Jenny Jones AM (Chair): We are going to hear about the European Union (EU).

Andrew Dismore AM: We had a seminar in early 2013 about London's relationship with Europe or vice versa, and out of that you were going to do this review of London's relationship with the EU. My understanding was it would be published earlier this year. However, we have not heard anything further and I just wondered where it got to.

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, it is coming out in early August.

Andrew Dismore AM: It must be bad news if it is during the holiday period.

Gerard Lyons (Mayor's Chief Economic Advisor): The Mayor's schedule is very busy. The original intention was to produce it maybe for the spring time and then it was felt because of the European election that it would not be appropriate to produce it then. It is coming out soon and I am glad it is coming out soon. Therefore, given it is imminent, I am happy to talk to you about it at any time. It is probably difficult for me to talk to you about it beforehand. I testified to a couple of Parliamentary committees on Europe and therefore my personal comments on Europe are certainly on the record, shall we say.

In terms of the report, it does look at the relationship between the London economy and Europe. In fact the report has an overview that looks at the relationship between the London economy and Europe, and it has some scenarios in terms of economic scenarios for the future, linked to being in or out. It has a literature search. We could talk for days about how much research has come out on this issue. Then what we think needs to be reformed and what happens if we leave. They are the six areas in terms of the different sectors.

Andrew Dismore AM: What impact has the Mayor had on it? Has he seen an early draft and changed it?

Gerard Lyons (Mayor's Chief Economic Advisor): The date has just been set this week, I gave him the draft version today; therefore the Mayor has not had direct impact on it. The idea is that it is an independent report.

Andrew Dismore AM: The first he has seen of it is today?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes. I told him earlier this year. I have kept him informed about what I was doing on it. However, he was happy to leave it. Therefore, the first he will see it is today.

Andrew Dismore AM: Did he give you any instructions or guidance as to how to go about doing it?

Gerard Lyons (Mayor's Chief Economic Advisor): No. He has been very straight and Boris [Johnson, Mayor of London] does the detail very well. He does scenario planning and strategy very well. In terms of this report and the link with many of these other areas, he basically left it, as he saw it, for the expert to come up with the answer.

Andrew Dismore AM: It is your report?

Gerard Lyons (Mayor's Chief Economic Advisor): Yes, however, we commissioned - and you are probably aware - the economic scenarios. Even though this is an independent report, I thought it would be good to do a 20-year scenario and while I could do it, the danger is people might immediately be asking whose the scenario was. I therefore commissioned, or the GLA commissioned - I am not sure of the right terminology to use here - an outside independent group to do four different scenarios on the impact on growth, employment and the size of the economy.

Therefore, coming back to your question, it is my report, however, there is an important part of it that has been commissioned from outside because I felt it was better in terms of independence and everything for them to do it.

Jenny Jones AM (Chair): It is very bizarre that the Mayor does not give some sort of direction.

Gerard Lyons (Mayor's Chief Economic Advisor): No, sorry, OK. In terms of the written stuff, no. In terms of speaking to him, sorry, maybe I have given you the wrong impression. I have kept him informed of the work that was being done, so he is aware of what has been done. However, he has not said, "You must say this or say that", so, hopefully, I have given you the right impression and I did not mislead you with any of that.

Jenny Jones AM (Chair): No, thank you very much. Thank you very much for your time. I am sorry it has taken longer than we expected. It just shows that perhaps we ought to have you more often.

Gerard Lyons (Mayor's Chief Economic Advisor): In terms of the things to follow up on, if someone takes the minute, I will come back on those points.

Jenny Jones AM (Chair): Also, the piece of work that we are doing on the impact of climate change on London's economy, we will of course send you a copy. I will send you a signed copy and you can treasure it.

Gerard Lyons (Mayor's Chief Economic Advisor): I will send you a signed copy of my book in return.

Jenny Jones AM (Chair): Thank you. Welcome to our new guests, David Lutton and Jeremy Skinner. You are going to do a presentation, I understand?

David Lutton (Executive Director, Policy, London First): A very short one.

Jenny Jones AM (Chair): Great. I am sorry. We have taken rather longer than we expected to get to a point, so we will exercise lots of self-discipline over the next hour or less.

David Lutton (Executive Director, Policy, London First): You will hear from my accent I am not a local boy, but do not let that put you off when I am talking about an economic development plan for London.

Thanks for the opportunity to talk to the Committee about this today. I wanted to quickly give you an overview of where we are with this project and how we got there. London First is working with the London Enterprise Panel (LEP) and we have jointly appointed McKinsey & Company to create a set of priorities to allow London to realise its economic ambitions to 2036.

As it shows on page 2 of the report that you should all have, this is a jobs and growth plan. It is worth saying what it is not; it is not an attempt to identify and address all of London's challenges, but rather seeks to relate closely to other workstreams that are going on here at the GLA and London government that are looking at many of these challenges and therefore help to deliver the Mayor's 2020 Vision. To succeed, however, we do recognise that job growth needs to be inclusive and therefore we address some of the issues around broader participation in the London economy and London's success.

On page 3 there is a timeline, which sets out where we have reached thus far. This is a full-year project. The 12 months kicked off roughly in January, and it is a very good time to be talking to you because we have reached the halfway point, but we have not yet reached the recommendation stage and it is important to point that out. Where we are is in what we termed as phase 1, where we have been building a robust fact base. McKinsey & Company has been looking at all the work that has been done by the GLA in terms of the economic evidence base, they have done new analysis themselves, pulled everything together and also applied their international expertise in this area.

At the same time, we have concurrently run a process of talking to stakeholders in the business community and the third sector, urban experts, and working closely with people here at the GLA, with the aim of forming a view on how we reached where we are today and the issues are for London going forward. What we are not trying to do is pick winners; we are trying to identify drivers and enablers that will achieve the best results. That engagement process is rolling on over the summer period. It has already been pretty extensive. We have talked to over 200 leaders from across the sectors and that number is beginning to rise.

Success at this point for us is to go in with a shared set of priorities and then we can start to think about recommendations and solutions around those. The goal, therefore, is to get to a final report with a set of themes and actions that will be delivered to the LEP.Then there needs to be a discussion around how these actions can be taken forward.

To briefly outline where we have reached so far, our story for London is a successful one. There are many, many things to be celebrated here and in fact if we look at the city today, some of the biggest challenges that we see are what we might term the strains of success. These are the challenges of inclusivity for low-skilled workers who find themselves in a very competitive labour market, the challenge of keeping up infrastructure at a pace to cope with the rising population and the challenges of managing the high cost of living, particularly in housing, as you were discussing. This is where London is today.

When we look forward, what do we see changing? There are two big shifts. The first is a shift in the world's economy, east and south, and the question of how London best reacts to that shift as the centre of economic gravity moves. How do we ensure we sustain our position as a global hub for business and talent when the world's centre has shifted, at least geographically speaking? Secondly, how does London make sure it is equipped to cope with a very uncertain future? How can the economy be resilient, flexible and diverse? How do we cope with what we know will be destructive technologies in a changing labour market?

These shifts are creating specific challenges for London, particularly the challenge over inclusive growth. As we have heard earlier, international competition, a global trend towards increasing the shortage of high-skilled workers and a surplus of lower-skilled workers will continue. Secondly, we are likely to see a challenge around London's relationship, perhaps with the rest of the UK, particularly given the economic divergence between

London and the regions. Finally, there is a need to ensure that London has the governance tools to manage the challenges, to keep up the levels of infrastructure and investment that are required.

In summary, it is a great point to start, no burning platform, although we are beginning to see some strains of success. The global context will produce more challenges and reinforce some of the challenges that we have at the moment. These are not going to sort themselves out. Therefore, the hypothesis we are at, at the moment, and the big priorities for London we see are, first of all, sustaining London's unique appeal as a place where talent wants to come and business wants to come, and making sure that we retain a position in the world's headquarters as the world's economy shifts east. Secondly, building not just our strength in traditional sectors like --

Jenny Jones AM (Chair): We have had all this in our briefing, so I will stop you there. Thank you very much. That was very, very useful.

Dr Onkar Sahota AM: Can you tell me what the difference in the status between the proposed Economic Development Plan (EDP) and the Mayor's previous Economic Development Strategy (EDS) is?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Certainly. I guess the creation of the EDP reflects the changes that have taken place since 2010 and the Mayor's creation of the EDS, and particularly the establishment of a business-led LEP. Therefore, in the Mayor's 2010 Strategy, the Mayor is required to have regard to economic development and is effectively required to establish an EDS. That is the statutory document. Subsequent to that, with the creation of the LEP following the 2010 Election, the business members of the LEP in particular felt that, firstly, the evidence base that underpins the 2010 reports would usefully be updated and, secondly, they wanted to have their own voice and they wanted to establish what their business-led priorities for London would be.

Therefore, they are slightly different in terms of their genesis. In terms of the hypotheses and taking David's [Lutton] point that the work is only halfway through, they do not conflict with the overarching objectives in the statutory EDS. From my perspective, it is welcome that London First and McKinsey & Company are wanting to put in significant amounts of resource to help us refresh the evidence base, think further about London's future and also get a degree of business engagement and stakeholder buy-in to the things that we support.

Dr Onkar Sahota AM: Has there been any assessment of the actions of the 2010 EDS, have they been implemented right and have they have been successful?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Yes, up to a point. I do not think this Committee has done a formal review of the success of the objectives of the EDS. If I just take some headlines, the first objective of the EDS is to promote the overall London economy and we now see, as a result of that, we have decided that we will take a brave step 18 months before our biggest promotional event to merge the various promotional agencies of London. We have had the tremendous promotional success of the Olympics. It was a success in many other ways, but it was generally regarded as one of the greatest Olympics ever witnessed. We now see record numbers of tourist visitors and a still very healthy supply of FDI firms coming in to the capital, so I think in that sense we have achieved that objective.

Secondly, to maintain the competitiveness of the city. That speaks to lots of different competitiveness factors, some of which we have been more successful in than others. We have a more benign taxation regime, for instance, than perhaps where we started. We have a more challenging housing market than 2010. On the low-carbon economy, if you read the EDS, you will note that it references the need for a global transition to a low-carbon economy and that London should exploit the opportunities particularly in low-carbon finance that transition might present. My personal view is that the global economy as a whole has been slower in making that transition and therefore the adoption and the opportunities available to London have also been somewhat slow.

Jenny Jones AM (Chair): We are going to come on to that specifically.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): We are going to come on to that later.

In opportunities, the Mayor's action on apprenticeships has been a significant success, and on infrastructure, the position is mixed in that we won a renewed battle for Crossrail and that is being built at the moment. Thameslink; all of us know about that and that should open soon. We are doing quite a lot of work on a long-term infrastructure investment plan for the capital, which we will be launching later this month. Therefore, overall, the picture is good with some mixed successes in different areas.

Dr Onkar Sahota AM: I know that some of my colleagues will be picking up these areas later on, so I will not. Will you also tell me if the EDP will replace the 2013 Jobs and Growth Plan published by the LEP?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): We will certainly need some consolidation. The priorities of the Jobs and Growth Plan were on skills and employment, whereas I do not think there is anything in the emerging EDP that contradicts what we are doing there, which is to encourage employers to be more engaged in the labour market and to develop more informed customers. People can then know what skills they need and what outcomes they can expect from courses they undertake, and access to finance programmes where we are doing various work with SMEs and science and technology to create new funds to increase investment on the digital creative sites and the technology agenda. Partly that is the result of some earlier research that McKinsey & Company did, pointing out the potential benefits in life science and we created MedCity to promote life science and the Golden Triangle. Finally, the other one which resonates here is on infrastructure, which, as I say, I have been working on particularly.

Dr Onkar Sahota AM: Will you be undertaking any consultation with the Assembly as required for mayoral strategies?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Yes. This is a consultation. We will be consulting on the infrastructure plan when it is published at the end of this month with the Assembly and with a wider audience. All strategies, as far as I am aware, go through consultation. We will endeavour to consult with the Assembly and other stakeholders as much as we possibly can, particularly for strategies such as this and the infrastructure plan, that require a degree of consensus across political parties, because of the long-term nature of the investment decisions that we might have to make.

Dr Onkar Sahota AM: Will you be undertaking equalities or sustainability impact assessments for the EDP?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Yes, we will carry out an equality impact assessment (EqIA) probably in the autumn when we are nearer the end of the process.

Dr Onkar Sahota AM: Great, thank you.

Jenny Jones AM (Chair): Two points. This meeting really cannot be considered part of a consultation.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): No, I understand that.

Jenny Jones AM (Chair): No, and also it is very hard to believe that the plan is not replacing the strategy. I do find that very difficult to believe.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): The EDS will remain extant. As I say, they are not conflicting. The objectives which I have set out remain in place. We still want to promote the economy. We still want to make the economy competitive and so on and so forth. However, in terms of the actions that we undertake, then the success of this plan, the proof of the pudding will be in the eating. A lot of the actions that we have done to support the earlier EDS objectives have already happened. Therefore, in terms of the promotion of the economy, we have set up London & Partners and they are doing a fantastic job. We can now move on to other things.

Stephen Knight AM: In the aftermath of the financial crash and the recession, everybody said, "We must diversify the economy with export-led growth, manufacturing and so on". David said earlier you want to pick winners, but to some extent we are seeing focus on particular sectors of the economy that look like good prospects, are we not? How does the EDP prioritise between different sectors when determining what kind of interventions are needed?

David Lutton (Executive Director, Policy, London First): We are trying to identify sectors that have high potential to create growth and create jobs.

Stephen Knight AM: It sounds like picking winners.

David Lutton (Executive Director, Policy, London First): Yes. Identifying sectors, I disagree that is picking winners. In terms of how we went about doing this and identifying the economic sectors, McKinsey & Company have a tried-and-tested framework that they use. They used it in Chicago to do a very similar jobs and growth plan. It takes five lenses. If you go to page 6, you will see the lenses that were used to get a good 360-degree view of what London's strengths and weaknesses are as an economy.

The other really important thing is that the data does not tell you everything, as your session this morning demonstrates. That is why you need to go out and talk to stakeholders to understand whether what the data is telling you makes any sense in the real world. That is another strand of it.

Finally, the last thing is to look at London's international position and to look at the global forces and how they impact and what challenges they create. That is how they have come through this process of trying to get to these priority sector areas.

Stephen Knight AM: In terms of potential for growth, does it very much look at which of these sectors, which are already doing very well, that we could get growing even faster or does it look at those sectors of the economy that perhaps are not doing as well, that with some intervention we could make changes very strongly?

David Lutton (Executive Director, Policy, London First): Yes, when you look at London's economy, you start from looking at the financial services, which stands out and it is riding a crest of growth over the last ten years, as financial services across the world have. We are not going to see that type of growth in financial services repeat itself in the next ten years. It is always going to be an important part of London's economy. That in itself has driven professional and business services and the question is, without that force behind it, where is the growth going to come from in the future?

If you then start looking at pre-crisis and post-crisis, where the jobs were created and where the growth has come, it has come from tech centres, it has come, potentially, from tourism and it has come from creative industries. Tourism in particular is a very interesting one. When you look outside to the world and you look at what is happening as more of the world becomes richer, there is more opportunity for travel, even European travel. There is more opportunity in the future, so it is a mixture of looking out, looking in and looking at what has gone on in the past.

Stephen Knight AM: Perhaps I could focus in on the technology sector. Do you think that the technology companies are struggling to sustain and expand in London and how can we try to address some of the issues faced by technology companies?

David Lutton (Executive Director, Policy, London First): London's technology sector is really vibrant. Again, it is a good news story in the sense that our start-ups are good and we seem to be able to manage to be able to get seed funding. We have some of the top universities in the world that are increasingly getting better at commercialising. The challenge is to retain those companies as they scale up. There seems to be an issue around scale-ups. If you look at venture capitalist funding, which is only one measure of the technology sector in the UK and is a proxy to some extent but a useful one, what we see is a lot of seed funding but not as much second-stage funding compared to other international cities. Therefore, there is a question here about whether you can scale up significantly in London and whether the US is constantly seen as just a bigger opportunity. It is a deeper market; it is a larger market. Europe does not have an integrated digital market. Therefore, that is a challenge in terms of scale-up.

Technical talent and the ability to access technical talent seem to be a challenge. In the stakeholder feedback, we constantly get told that London's technology entrepreneurs are having great difficulty in finding coders and developers. There seems to be a skill gap there.

Stephen Knight AM: When you say that Europe does not have an integrated digital market, can you just drill down into that and say what the issue therethat compares unfavourably with the US?

David Lutton (Executive Director, Policy, London First): The US is one entire single integrated market of 250 million consumers. Europe is a larger market, but its services sector is not integrated in the way that a good sector is integrated for --

Jenny Jones AM (Chair): Different languages, perhaps?

Stephen Knight AM: Is it languages or is it --

David Lutton (Executive Director, Policy, London First): It is a regulatory issue, mainly. That will probably come out in London's analysis of its relationship with the EU, but it has been predicted that single digital services --

Stephen Knight AM: So it is something that the EU has yet to --

David Lutton (Executive Director, Policy, London First): Yes, to market in Europe; it would add 4% to GDP across the whole of Europe. There is a huge opportunity there and London is particularly good at that.

Stephen Knight AM: Therefore, that is something that you would like to see the Mayor lobbying for in Europe, the integration of the regulatory regime around the digital economy?

David Lutton (Executive Director, Policy, London First): We, as London First, have put out our own piece of work on London and the EU and that is one of the exact areas we would like to see go forward.

The final thing is high rental, so again it is a particular scale-up issue. It is not so much the incubator and the start-up space; it is when they move on to go to larger space and competing with more established firms for high cost. That would be the main challenges.

Stephen Knight AM: Thank you for that. I wonder if I can ask you about London's manufacturing sector. I said earlier this was the big home a few years ago and the economy would have an export-led recovery and manufacturing would see a new era of growth. We have seen a shrinking and manufacturing has continued to shrink, certainly the jobs anyway, and the rest of the UK over the last few years and it is projected to carry on doing so, in the figures we have seen, over the next few years.

Is that a subject for regret? Is there more that we should be doing and could be doing to ensure that low pound and low interest rates and all the rest of it, which ought to on the face of it lead to a good environment for manufacturing, bears fruit for London's economy?

David Lutton (Executive Director, Policy, London First): It is a really interesting question and it comes back to what London's economy is. Britain's economy is a service economy and effectively in London this is even more so than the UK. Our expertise is in services, not in manufacturing. The question is about how you export services and how you measure the export of services.

Secondly, the manufacturing centre is not identified as a high growth area in this plan because we are looking at, if you have limited resources, where you would be best focusing those resources to achieve the maximum impact in terms of jobs and growth. Manufacturing, as you rightly outlined, is in consistent and long-term decline. Having said that, specifically around the technology sector, there are some possible specialist manufacturing opportunities, particularly in prototyping and CD printing, but we do not see those as being of any significant enough scale to equal a manufacturing revival.

Stephen Knight AM: The issue I suppose is long term. Yes, manufacturing has been in decline, but in the more recent past, since the recession, we have seen low interest rates and a low pound. The climate for manufacturing ought to be much better than it has been historically, and therefore potentially we ought to think whether there is that potential for growth there and what we could do to unlock it.

I wonder if I could ask the same question to Mr Skinner, because the Mayor has previously said that manufacturing was a priority area in terms his policies and I have a quote here saying that manufacturing has great potential to grow and to increase exports. Is this no longer a priority for the Mayor in terms of seeing manufacturing growth?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I do not know whether he was speaking about the UK context where I suspect that is probably true.

Stephen Knight AM: I think he was speaking in a London context.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): The data shows that London, manufacturing, which was once the highest sector of employment in the 1970s, became the lowest sector of employment in circa the late 1980s and has gradually declined since. The rate of decline has decreased.

Stephen Knight AM: We are aware of the history, but, as I said earlier, the financial crash was a watershed. Everybody said they wanted to rebalance and manufacturing was going to lead our way out of recession and so on. The Mayor said as recently as last year that he thought there was great potential to grow manufacturing in London. Now we are being told historically manufacturing is weak and shrinking.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): The most important point is whether employment is growing, which it is, and that is, as David [Lutton] said, largely in the service industries, financial services, digital, professional and other business services.

Stephen Knight AM: Therefore, you do not see much future in manufacturing in London?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I do not want to say that. How can I put it? It would be great if there were an increase in manufacturing employment, which contributed to an overall increase in employment and that it provided a greater spectrum of jobs within the London economy. There is nothing that we are doing to prohibit or prevent that, indeed --

Jenny Jones AM (Chair): That is not a priority point; that is his question.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Indeed, the London Plan retains strategic employment lands within the capital so that there can be growth in various sectors. It is true, however, that this is not a focus of our efforts to achieve growth in jobs in the London economy.

Stephen Knight AM: Thank you for that clarification. Can I move on to the issue about attracting foreign subsidiary companies to put their headquarters in London? We have a higher number of these headquarters than any other city in the world, so in a sense this has been a success area for London. Is the LEP aiming to attract more and, if so, how will this benefit the economy?

David Lutton (Executive Director, Policy, London First): Yes, absolutely, it is a success story for London in terms of attracting foreign investment and there is more opportunity coming. If you look at McKinsey & Company's global institute research, most of the growth of the Fortune 500 will be from emerging markets over the next 20 years or so. Something like 80% of the Fortune 500 are from advanced Western economies at the moment and that will change to around 50% from emerging markets going forward. Therefore, there are huge opportunities for us to attract more headquarters.

The numbers that are listed here are companies of significant size, so these are subsidiaries that are $1 billion or more in turnover and they are not insignificant in that respect. There are two benefits. One is in terms of jobs, direct in itself, but the larger benefit, which is more difficult to measure and put an exact figure on, is how it gives fuel to the business services sector and supports that as major clients.

Stephen Knight AM: Do you think there is more that London can do to encourage foreign companies to put their headquarters in London?

Tony Arbour AM: Let them buy houses off-plan, perhaps.

David Lutton (Executive Director, Policy, London First): It is about London's business-friendly fundamentals that have been an important part for a long time. Fortunately we benefit from our time zone, from our language, from our rule of law, all of these things. Now, as the economy shifts east and south, then time zone, even language, might not be the same advantage. Therefore, we will have to work harder, we cannot just stand still.

Stephen Knight AM: Do you think there is a risk that we will perhaps lose our lead status in a place to put your overseas headquarters?

David Lutton (Executive Director, Policy, London First): No, London is the number one location. It is right up there as the top international city. As I say, there is no burning platform here, but I do not think there is any room for complacency. Our view is that we have to be constantly aware that there are other world cities out there actively vying to become global hubs in their region. We need to understand that, look at what they are doing and understand what we need to do to make sure that we stay number one.

Jenny Jones AM (Chair): Sadly, if you are at the top, there is only one way to go: down.

Gareth Bacon AM: There are two ways. You could stay at the top. What are other hub regions doing that we are not doing?

David Lutton (Executive Director, Policy, London First): There are a few examples. Singapore is one that is always being raised. They have an Economic Development Board. There is a single point of government service for international investors. A lot of the praise that comes to that is to do with the quality of the people that are involved in it. However, what we have to remember is Singapore is a city state and London is not a city state, therefore it is quite different in that respect.

Hong Kong as well has done some interesting things on its infrastructure development and it has had some innovative solutions around uses of uplifts in property value to pay for infrastructure. Therefore, there are some lessons to be learned there.

Gareth Bacon AM: What infrastructure are you talking about, within the city?

Jenny Jones AM (Chair): We are coming on to infrastructure in a moment and that might be useful.

Gareth Bacon AM: Anything else that other people are doing that we are not and that we should be?

David Lutton (Executive Director, Policy, London First): One of the key things is that these cities have more autonomy in terms of what they can do and more fiscal autonomy to be able to fund long-term projects to attract this type of business. What we are identifying at the moment is the fact that London is quite minor in that respect in terms of its governance. Therefore, the key question is when the governance that we have is fit for London's economy.

Jenny Jones AM (Chair): More powers to the Mayor.

Andrew Dismore AM: I was wondering about property. That is the other question I was going to ask. You went to look at Australia about trying to get on with infrastructure projects. Really, it takes time to get things done. What are the core reasons for the delays in trying to get things done? Could we cut them out, TfL, the Mayor's Office for Policing and Crime (MOPAC), other than the fact that we do not have control over the purse strings?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): It is a complex set of reasons. We need to start off from observing that infrastructure provision is fractured across the system, fractured in the sense that some services are controlled by the public sector, TfL, the local road network under the control of the boroughs. Other services are run by effective monopolies, Thames Water, BT, Openreach. Yes, others are duopolistic: BT and Virgin compete to provide fibre optic broadband to the home. In some areas there is flourishing competition, such as mobile telephony, where there is rich competition in the market. These structures were set up 20 - 25 years ago, a long time before the growth that we have witnessed in London over the last two decades was thought of being possible. Therefore, one of the problems is in the co-ordination and integration of the delivery of infrastructure across the capital.

In terms of how we improve that, we are working on that at the moment as part of the work on the long-term infrastructure plan. One of the issues we think is that the Mayor's London Plan, although it is a statutory requirement on the Mayor to produce, it is not a statutory requirement of the infrastructure providers and their regulators to take account of the London Plan. We think that is a huge problem in the legislative framework. Secondly, these people do not often meet. Quite often, we need to convene them. We need to do that more often, use the soft power of the Mayor to explain London's growth, where the opportunity areas are. Those things will help.

We have, however, shown that we can deliver infrastructure. The Olympics was a great testament to how London can rise if necessary to the challenge of a deadline. Although Crossrail was long gestating and took a long time to get through Parliament in terms of the hybrid bill process, it is now progressing on time and to budget according to the Chairman, who spoke about this yesterday.

Andrew Dismore AM: Yes, but is it ultimately going to be down to money? Crossrail 2 - we were talking about that one - almost went to council 30 years ago, so it has taken a long time to get there. Crossrail 2, well, you know, let us not talk about it. It is needed. Where is the cash? In the end, you can do as much co-ordination as you like, but if you do not have the bottom line to pay for these things or have control over the finances to maybe to borrow the money to pay for these things, at the end of the day they are not going to happen.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Correct. I completely agree with that.

Andrew Dismore AM: It is not just a decision-making process; it is a funding one.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): It is, and fiscal devolution will play a modest part in helping to meet the funding gap between the aspirations of the infrastructure that we think we will need. One of the problems of the fragmented landscape that I have outlined, is that it leads to great inefficiency and fewer opportunities for integration, and certainly that would be the first starting point in trying to achieve greater funding sources. Local authorities themselves are under a lot of funding pressures at the moment and are having to sweat their assets much more efficiently than they have done in the past and that is also generating new sources of funding. However, you are right. The overall bill is going to look very substantial and we will possibly need to look at new funding sources.

Andrew Dismore AM: Can I particularly raise the question of digital broadband rollout? 'Rollout' is probably an overstatement; it is more of a crawl-out. What are the reasons for it being so far behind? I just saw your chart, which says that now we are behind just about everybody except Madrid and Washington.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Again, the underlying reasons are related to the market structures that we have. For example, we invited Ofcom in to explain where there are gaps in connectivity in the capital and we asked them why they cannot make that information public. Their answer was that it would enable BT and Virgin to see where each other's respective assets were and that would not be good for competition, which we found a wholly unacceptable answer, I must say. It is an area where provision has not had the cold light of scrutiny poured on it and that is the first thing that we need. The Mayor is, I believe, trying to do his best through the SuperConnected Cities programme --

Andrew Dismore AM: Is that going to be enough? That is not a huge amount of money and there are so many restrictions on what it can be spent on. In particular, it cannot be spent on the things you do need do, which is to connect people up.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): There will be an offer, so we are looking at taking other more dirigiste action. We certainly want to map the connectivity of this city to provide robust connectivity ratings for domestic and business properties across the capital. We want to encourage greater delivery of fibre optic broadband to the home.
Andrew Dismore AM: Part of the problem is you cannot get a straight answer out of BT about these things.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Yes, and they often do not know where their assets are. One of our projects is to map all the digital assets that we have on the ground, the wired and cabling, to overcome that problem. It is a legacy problem that is not going to be fixed overnight.

The only other thing I would say is that we are rapidly moving to a more wireless world. Although London is not performing well on broadband, it is in a good position on 4G already. At the University of Surrey we have one of the leading research and development (R&D) centres in the world on 5G. They will be putting in applications to create a global standard come 2016 and we would expect it to become the global norm in the 2020s. That is not going to help SMEs today, but we do need to position ourselves for future technology and that is going to be an important contribution.

Andrew Dismore AM: I do not take a great deal of comfort from these answers. For example, when the Mayor gets a big development proposal coming for approval, should he not be making a planning requirement that the developers make sure that the new development is connected up to high-speed broadband?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): We are thinking of that, yes.

Andrew Dismore AM: You are thinking of it, but you are not doing it?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Indeed. We are going through the current --

Jenny Jones AM (Chair): A recommendation in our report, perhaps. May be good stuff. You are bound to do what we say in our report.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I think it would be a good idea.
Andrew Dismore AM: The other problem is that the last thing that I saw, for example, at Camden was, even when rollout is complete, only 75% of Camden will be connected up. We also have black spots and white spots or faint spots, even in places like Holborn, which is part of the Central Activities Zone or just outside it.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Part of that is also about the paucity of good data, because often those are self-reported speeds and sometimes that is to do with the capacity rather than the actual network.

Andrew Dismore AM: This is information from BT; it is not from anywhere else.

Jenny Jones AM (Chair): We are going to have to move on, I am afraid. I am terribly sorry. We have so much to get through still.

Fiona Twycross AM (Deputy Chair): What new measures will be in the EDP aimed at reducing in-work poverty among Londoners?

David Lutton (Executive Director, Policy, London First): In-work poverty is not a specific issue the EDP is addressing. Of course it needs to fit with any other plans that are going to be addressed in that. One of the key areas is that we are trying to understand what sectors do not just drive growth - I think there were some you mentioned earlier - while they drive jobs and some sectors contribute to growth and some to jobs, etc. Tourism, for one, stands out as something that creates a lot of jobs. Therefore, we are recognising that the plan has to get the right mix of high-skilled jobs, medium-skilled jobs, jobs at all levels. We think that the challenge for making those inclusive not only affects itself, as we have identified earlier, higher-skilled workers are in over-supply internationally in all advanced economies, and lower-skilled workers are increasingly competing in a highly competitive labour market. It is a challenge. As we have already identified, there are some skills gaps that London needs as well, so there is an opportunity there.

Fiona Twycross AM (Deputy Chair): Do you have any explanation for why the number of jobs paid below the Living Wage rose by 180,000 between 2008 and 2012, given the Mayor's public pushing on it?

David Lutton (Executive Director, Policy, London First): No. That is not something I have looked at specifically. Could you just ask me the question again?

Fiona Twycross AM (Deputy Chair): The number of jobs paid below the Living Wage in London has risen by 180,000 since 2008. The latest figures we have are for 2012 and 600,000 jobs paid below the London minimum wage, which was an increase of 180,000 since 2008.

David Lutton (Executive Director, Policy, London First): Yes, my explanation would simply be that low-skilled workers have not benefited in the same way as high-skilled workers have from London's growth and that is one of the challenges of growth: to make sure that they do move forward and that growth in London benefits all Londoners and not just one section.

Fiona Twycross AM (Deputy Chair): Is low pay in itself a risk to London's economic performance?

David Lutton (Executive Director, Policy, London First): From the point of view of talent, we would start from the point of view of businesses' access to talent and, if business cannot recruit their talent, then that is a barrier to economic performance.

Fiona Twycross AM (Deputy Chair): OK. Do you have any new outcome measures or does the LEP have any new outcome measures that have been developed to track the progression of low-paid workers who have accessed skills funding?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): That is not particularly my area. I do not service the skills and employment subgroup in the LEP, so I would have to come back to you on that.

Jenny Jones AM (Chair): We will write to you on that. Thank you so much. Our final session topic is the low-carbon economy.

Tony Arbour AM: Of course, Chair, we had that right at the very beginning where the suggestion was that everybody was very slow on this and therefore London was behind. I wonder, with your leave, Chair, if I can ask something completely different, which relates to this, which we have had before - it is page 20 - relating to airport infrastructure. I cannot see anywhere, nor did I hear any of you say, where you think the extra aircraft capacity should be in London and you have made it quite clear to us that this is somewhere where we are falling behind all our big city rivals. It must be one for Mr Lutton because I imagine Mr Skinner has to toe the party line on this one. Where do you think the new airport capacity for London should be?

David Lutton (Executive Director, Policy, London First): I do not have a view on where the new airport should be, but what we view is in terms of London's competitiveness, connectivity has always been one of the important factors. Being number one, whether that is the port many, many years ago or the most connectivity of any other global city, we are falling behind on that measure, especially when you look at where all the growth and the new Fortune 500 companies will come from in the future. We do not have the same levels of connections to, for example, the second tier emerging market cities as say Frankfurt has. Therefore, we are pointing this out as is it is a competitive issue and it also illustrates that decision-making in London can take a long time, whereas our competitors can make a decision and solve that problem.

Tony Arbour AM: London First is usually not reluctant to offer opinions on such matters.

Jenny Jones AM (Chair): Tony, could you move on to the session?

Tony Arbour AM: As I said, I thought that the matter was dealt with right at the very beginning when the suggestion was there were lots of opportunities, but we were simply being very slow. You did say that and I am sure I heard Mr Skinner say that on the low carbon economy. He said there were a lot of opportunities and we are not taking as great advantage of these opportunities simply because what was happening not just in the UK but in Europe as a whole, from the world, was much slower than you anticipated.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I did say that, your qualification of it is right, yes.

Jenny Jones AM (Chair): Perhaps I can carry on with the questions then.

Andrew Dismore AM: He is entitled to an answer to his question first. Where is the airport going?

Jenny Jones AM (Chair): No, no, no. Please.

Andrew Dismore AM: It is all to do with low carbon economy.

Jenny Jones AM (Chair): Of course it is, but both of them have declined to make their views known. Have you considered putting the whole issue of climate change into the London Development Plan? What we are hearing as a Committee from people like Lloyds of London and PricewaterhouseCoopers is that climate change is the biggest risk that they have to assess. Where are you on that?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I will defer that one to David as I can talk more about what we are doing on climate change, because in terms of the EDP that is more --

Jenny Jones AM (Chair): Climate change is about the economy. The economy is about climate change. You cannot chop them up like that.

David Lutton (Executive Director, Policy, London First): There are two ways we would look at it. One would be in terms of risk factors, so what impact would it have on some of the assumptions that are made in the risk factor? Then the other way of looking at it is what opportunities there are in terms of driving jobs and growth? Yes, there are opportunities in the carbon economy in terms of jobs and growth, but that is not the reason why you would address it. There are broader social issues and they are not significant enough to scale, so they are not fully considered within the context of this plan itself.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): What I was going to say is that within the context of developing infrastructure, the Mayor's climate change targets are still relevant, the 25% decentralised energy commitments and the 80% reduction in CO_2 emissions targets. Therefore, this is particularly challenging in the electricity domain, where we are very reliant on national Government playing its part to deliver a decarbonised national grid.

In terms of decentralised energy, you heard from Gerard [Lyons] earlier that we are pursuing a number of schemes; Camden, for example, and there are some others. We are also keen on exploring the potential for heat recovery and waste-to-energy projects. We would like to encourage new entrants into the market. We need to see greater innovation. We expect to see greater technological developments of renewables. My team is working on hydrogen as an energy base for transport and in other areas of the economy as well. Therefore, there are various programmes going on that relate to the transition to a low-carbon economy, and these are creating employment and jobs.

I am personally particularly passionate about the hydrogen based economy, because there are huge opportunities there. However, as David [Lutton] says, within the context of the overall economy and where jobs and growth are likely to come, it does not feature within the evidence base as being a significant growth sector. That is not saying it is not --

Jenny Jones AM (Chair): It is not a priority?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): It is a priority.

Jenny Jones AM (Chair): Oh, it is? However, there is not a focus on it?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I have given a number of schemes to suggest that there is a focus.

Jenny Jones AM (Chair): One of the things we heard as a Committee as well is that SMEs are not particularly geared up for the risk of climate change. Are there any ideas about helping them out? Big companies are making all the moves because they understand the risk and they have the money to find out exactly how it is going to hit their businesses, but smaller ones do not.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I cannot think of a specific SME-focused one. All the actions I have mentioned will both provide opportunities for SMEs and also help mitigate their risks. For instance, you take action on improving flood defences.

Jenny Jones AM (Chair): It is more about what they can do for themselves?

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): I suppose, if you are an SME, you are likely to be more dependent on the actions of others.

Jenny Jones AM (Chair): We will make some recommendations.

Jeremy Skinner (Senior Manager, Growth and Enterprise, GLA): Yes, that will be interesting.

Jenny Jones AM (Chair): Yes. That is more or less everything. Anything we missed out on? Just one last thing because, of course, with adaptation and mitigation, the group as a whole has been at the forefront of efforts of technology and ideas on this sort of thing. Do you think the LEP could support that and could drive that forward, in the sense that we can drive that and that could be an opportunity area for us? We talked about the risks and the opportunities and this could be an opportunity. I am just wondering, however, if you are trying to maximise it or not.

David Lutton (Executive Director, Policy, London First): You mean particularly in the carbon economy?

Jenny Jones AM (Chair): Yes.

David Lutton (Executive Director, Policy, London First): Yes, innovation and entrepreneurs are identified as a key priority for London, and what is interesting about London's entrepreneurial sector is it is not concentrated in any one area. It is spread right across the economy and there are definitely opportunities within that. A focus on innovation and entrepreneurship and helping smaller businesses to scale up and meeting some of the challenges that they have, are some of the things that we are doing. However, it is not specifically focused on low carbon.

Jenny Jones AM (Chair): Thank you very much indeed for coming and answering our questions.