



Caroline Russell AM
Chair of the Economy Committee

City Hall
The Queen's Walk
London SE1 2AA
Switchboard: 020 7983 4000
Minicom: 020 7983 4458
Web: www.london.gov.uk

19 March 2018

(Sent by email)

Dear Mayor Khan,

Economy Committee response to the Mayor's draft Economic Development Strategy

The committee welcomes the publication of the draft Economic Development Strategy (EDS) and Integrated Impact Assessment setting out the overarching framework for economic policy and development in London over for the next 23 years.

The accompanying consultation document set out 15 questions, the first 13 seeking responses directly related to the draft Strategy. In particular, they request feedback on the Mayor's vision to create a fairer, more inclusive economy, how his approach might be improved on, including infrastructure and funding considerations, and how best the Mayor might work with the widest range of partners (including businesses, universities, Londoners, the public sector and other UK and international cities) necessary to achieve his vision. The remaining two questions seek consultees' views on the extent to which the IIA underpins the draft Strategy.

Our response focuses on the draft EDS. The committee's views are drawn from an evidence base that includes discussions with expert guests during the two committee meetings held earlier this year,¹ and past Assembly work. The response is divided into three sections:

- Section 1 considers the high-level aims and delivery aspects of the Mayor's draft EDS;
- Section 2 considers the approach towards creating a fair and inclusive economy in more depth, and the extent to which it will help address longstanding structural challenges in the London economy, and support sectors; and,
- Section 3 captures relevant past committee work not directly discussed during the committee's evidence sessions held earlier this year.

¹ Transcripts of the committee meetings held on 16 January and 20 February 2018 are available [here](#) and [here](#).

Section 1

High-level aims and approach of the strategy

The committee welcomes the focus on an inclusive and fair economy, that will give more people the opportunity to participate in, and contribute to the London economy. Economic growth must create opportunity for all sections of the population and distribute fairly the dividends of increased prosperity.² We welcome recognition in the draft EDS that inequality not only has a high social cost for society, but can also hamper long-term economic performance.

The committee also welcomes the Mayor's ambition for economic growth that is sustainable, inclusive and innovative, defined in the draft EDS as 'good growth'. However, the committee would like to see the final EDS set out the integration between these three aspects of growth more clearly. This could include identifying cross-cutting measurable objectives that demonstrate the collective contribution they can make to an inclusive growth agenda. Without these the draft Strategy runs the risk of creating an artificial division in assessing their impact, and of becoming a theoretical box-ticking exercise.

Similarly, we would encourage the Mayor to show how specific programmes or policies from other draft strategies will contribute to creating a fairer and more inclusive London economy. As pointed out to the committee by the Federation of Master Builders (FMB), for example, the final EDS could offer considerably more detail about the Construction Academy Scheme as the expressions of interests close. A scheme, intended to increase the numbers of skilled workers needed to build the homes Londoners so badly need, and which will cut across three major mayoral strategies – the London Plan, the Housing and Economic Development Strategies. The FMB indicated that better communication with the construction sector on the Mayor's plans for the scheme, and particularly the role SME builders will play in delivering it is needed.³ Clearly defining the links between the draft strategies, in working towards the common goal to create 'good growth' will help provide a more coherent message for stakeholders.

The draft EDS necessarily seeks to set an ambitious agenda, to tackle deep structural challenges that have long faced the London economy, including high living costs, low pay, and the lack of diversity in some skill areas.

Engaging the private sector

The committee supports the draft EDS' call for greater collaboration between the public and private sectors where appropriate. The Mayor will need buy-in from a full range of stakeholders, including the private and third sectors, to achieve his objectives. We do however think there is scope for the Mayor to more explicitly emphasise the critical role the private sector must play in creating a fairer and more inclusive economy. The final Strategy could usefully address the role of the private sector, particularly in terms of contributing to London's capital investment needs.

² See for instance, OECD 2018, [Bridging the gap: inclusive growth 2017 update report](#); RSA 2017, Inclusive Growth Commission report, [Making our economy work for everyone](#).

³ Transcript of the committee meeting held on 20 February 2018, available [here](#)

Private sector businesses will also have a vital stake in developing a future skilled and adaptable workforce. We would also welcome a clear statement from the Mayor, in the final EDS, on how he anticipates the private sector will contribute to this goal.

Defining and measuring success

The objectives in the draft EDS are, as one would expect, wide-ranging and will require input from an equally broad range of stakeholders. Summary of action boxes embedded in each chapter highlight key actions that will need to be undertaken. The final EDS should be clearer on how the actions are to be prioritised, the timelines for delivery, and how success will be measured. As noted in the committee's response to the draft Skills Strategy (December 2017), we would recommend a timeline for any proposals set out in the final EDS, showing whether actions will be taken in the short, medium or long term and who will be responsible for delivering them.

The committee understands that the final Strategy will include socio-economic indicators to monitor progress and assess the outcome of the policies and programmes in the draft EDS to create a fairer and more inclusive London economy. They will also include indicators that track the health of the overall economy on the longer term. We look forward to further details in the final Strategy.

There is also scope for the Mayor to further research and consider the viability of alternative innovative models of social financing, and to embed social purpose in Key Performance Indicators for the final Strategy. Chicago was highlighted to the committee as an exemplar city in driving some of these models.⁴ This could be particularly important in the current climate of uncertainty over investment in London and the additional uncertainty over access to EU funding programmes.

Section 2

Addressing long-standing structural challenges in the economy and supporting sectors

The draft EDS analyses the state of the London economy highlighting long-standing structural challenges it currently faces, and will continue to experience unless action is taken. These include persistent income gaps, low social mobility and the low productivity of London's workforce. Many of these were highlighted by the committee in previously published work, such as *The Hour Glass economy* (February 2016). The report showed that these challenges are symptomatic of a 'hollowed out' labour market. A decline in mid-skilled jobs, coupled with lower investment in workplace training have reduced opportunities for progression out of low pay, while skills shortage across the economy's sectors have contributed to subdued productivity rates.

The final EDS, could be strengthened by including direct connection between these long-standing structural issues and how it intends to address them. We recommend that the final Strategy clearly set out its contribution to tackling these long-standing challenges. It should

⁴ Transcript of the Economy Committee meeting dated, 20 February 2018, available [here](#)

include an explanation of how the five areas identified by the Mayor to create the conditions necessary for growth, actively contribute to the Mayor's economic fairness goals.

Workforce diversity and skills

Despite the impact of the 2008 global financial crisis London has seen record growth in employment in recent years, but this has not been the case among some specific groups and communities. Alongside this, there has also been a growth in the number of zero-hour contracts in London and a rise in the gig economy resulting in financial insecurity. Getting more Londoners into skilled work that suits theirs and their employer's needs, paying a London Living Wage as a minimum, will support the good growth agenda promoted by the draft EDS, and help lift people out of poverty.

One of the single biggest factors leading to child poverty in London is women, or in general second earners in households, not participating to their full potential in the labour market.⁵ The proportion of women in employment in London is the lowest of all regions.⁶ As noted in the committee's report, *The Hourglass Economy*, 43 per cent of low-paid jobs in London are part-time, and these are in the main filled by women. Timewise Foundation, in evidence to the committee, confirmed that part-time job opportunities decline as the salary increases. So not only do women find it hard to re-enter the market after having children but, once in a role which meets their work-life balance, they struggle to progress to another. According to Timewise, 77 per cent of people working part-time are unable to move on in their careers.⁷

The committee supports Mayoral initiatives such as the Good Work Standard and the championing of voluntary organisations' work, such as Timewise, that seek to expand the offer of high quality flexible work options for families. These, we believe, will need to sit alongside a pan-London careers advancement service for low paid Londoners, as recommended in our *Hourglass Economy* report. We are therefore pleased to note the Mayor's commitment to work with "London boroughs to develop a coherent and accessible all-age careers information, advice and guidance offer."⁸ We look forward to the final Strategy setting out in more detail, what part the all-age careers offer will play in encouraging in-work training and promoting life-long learning, as a way of both increasing productivity and ensuring people can progress in their careers.

The committee welcomes the Mayor's commitment to promote training provision that meets the needs of disabled people. Stakeholders are unanimously agreed on the need for a concerted effort to tackle high unemployment and its prevalence in low-skilled occupations of particular groups, including disabled people. The Mayor should work with London's sub-regions and the devolved Work and Health programme that will be rolled out over the course of 2018, to develop dedicated and targeted campaigns and programmes to support those groups back into work.

⁵ January 2018, London Assembly Economy Meeting, transcript, p. 25, available [here](#)

⁶ London Datastore 2016, [Employment by Self-Employed, Full time and Part time and Gender, Borough](#)

⁷ [The Hourglass Economy](#), London Assembly, February 2016

⁸ Page 58 of the draft Economic Development Strategy

In addition to gender diversity issues, representatives from the tech, construction and engineering sectors highlighted the challenges they are experiencing in attracting young workers – 18 to 24-year olds and individuals from BAME communities. While apprenticeships provide a route into work for many, these anomalies are also reflected in apprenticeship data. As highlighted in the committee's report *Apprenticeships: an un-level playing field*, (January 2017), apprenticeships have become an increasingly preferred route for businesses to provide in-work training. However, while a high proportion of apprenticeship starts are by women, and around 40 per cent of young people from BAME communities, they tend to be clustered in lower level and lower paid apprenticeships, with poor progression into the advanced and higher levels.

The current structure of apprenticeships may be a barrier to access. As recommended in our report, there is scope to explore the feasibility of flexible and part time apprenticeships as a way to increase access and to encourage more diverse participation. There are a range of initiatives in place to support employers in increasing employment and skills among young Londoners, including the recently announced £7 million Digital Talent Programme. However, the final Strategy would benefit from a similar focus on supporting increased employment among women and BAME communities over 24 years of age.

Supporting businesses: the provision of workspace

The committee welcomes the many programmes and measures in the draft EDS to support SMEs to thrive in London. Specific action to retain low cost and affordable workspace through the London Plan, and loans and grants administered by the Good Growth Fund is particularly commendable. Previous work by the committee, *Helping Small business to thrive in London* (November 2017), found that the lack of affordable workspace is restricting micro and small business growth in London.

Access to work space is a key concern across most sectors. Representatives from both the life sciences and tech sectors not only highlighted the lack of affordable work space, but also the limited availability of work space suitable to their specific needs, for example wet laboratory space and spaces that are digitally connected to a high standard.⁹

The market for flexible workspace in London has grown in recent years, and now caters for both the SME market and large corporates seeking flexible space (for projects or short-term expansion). This has helped to address some concerns about the lack of flexible workspace in more central parts of London.¹⁰ But there is more to be done to bridge the gap between demand and supply, including the provision of 'grow-into' space. The draft EDS recognises the need for more flexible and affordable workspace that can cater for a range of sectors. It is therefore, somewhat surprising that action to improve the availability of flexible workspace has not been specifically mentioned in the summary of actions box on page 95 of the draft EDS.

⁹ Transcript of the Economy Committee, dated 20 February 2018, available [here](#). Wet Laboratory space types are defined as laboratories where chemicals, drugs, or other material or biological matter are tested and analysed requiring water, direct ventilation, and specialized piped utilities.

¹⁰ City of London Corporation and The City Property Association, March 2016, 'Clusters and Connectivity: The City as a Place for SMEs'

Supporting business: investment options

The draft EDS notes that London's town centres and high streets are vital to the local economies across the capital. The committee welcomes the Mayor's approach towards 'reinventing' the high street and not simply 'supporting high streets'. We note the work by the Regeneration Committee on town centres which highlights the need for new investments to create good jobs, not just jobs and to establish quality social infrastructure to support community well-being. The final Strategy could include a specific campaign to ensure that high street businesses sign up to the Mayor's Good Work Standard.

Supporting business: business rates

The committee welcomes the Mayor's recognition of the significant challenge increased business rates pose for London businesses, and particularly for SMEs. Also his commitment in the draft EDS to continue to lobby for reform, and to press for devolved powers for its administration and management of the resulting revenues. The steep rise in business rates is a further pressure on the viability of SME businesses. The concern felt by many business owners following the rates rise in April 2017, has somewhat intensified with the anticipation of the new rates from April 2018 which will have less or no relief applied. However, the Chancellor's announcement to reduce the review cycle from five to three years is a step in the right direction.

Supporting business: Access to talent

Access to overseas talent once the UK leaves the EU, remains a priority concern for business owners across a range of sectors.¹¹ Data show that a significant number of jobs in London – some 600,000 – are carried out by EU-born workers. Certain sectors in the capital, such as the construction and hospitality sectors, are especially reliant on EU-born workers. There is a significant risk to the London and the UK economy if these sectors lose access to EU labour immediately after the UK leaves the EU.¹²

Discussions by the Government to grant permanent residency rights to EU workers in the UK has helped provide some assurance. The committee agrees that a flexible approach to migration will be needed. In our report *EU Migration* (January 2017), we highlight that any new immigration policy for EU migrants will need to go above and beyond a simple extension of the system used for non-EU migrants. However the government chooses to reconfigure immigration policy, a fast-track visa system for skilled EU workers will be critical for London, as will a transitional period to adjust to any loss in EU labour.

Exiting the EU will create a further spur for government to encourage businesses to recruit more UK workers, but this will require significant long-term investment.

¹¹ Transcripts of the Economy Committee meetings dated, 13 December 2016, 17 January 2017, 20 February 2018

¹² EU Migration, London Assembly, January 2017

Section 3

Fairer pay and employment practices

London's economy is changing, and as employment models continue to evolve, it is essential that workers' entitlement to fair pay, and good employment practices are maintained. While more people than ever are in employment, many of the newly created jobs are part-time and low paid - around one in five. The incidence of low pay in full time employees in the UK is among some of the highest globally.¹³ We are also witnessing a rise in self-employment (now around one fifth of workers), much of which is low-paid, driven in part by new digital platforms such as taxi-hailing or food delivery apps, and a growing range of employment relationships including fixed-term working and short or zero hours contracts. There will be benefits of these changes, for example, workers may be able to more effectively balance caring responsibilities with work, but there may also be risks. Further clarity is needed on workers' rights after the UK leaves the EU, and the minimum floor is removed. As the committee was told, "The EU has given us a minimum floor and we have in many cases, superior rights, but that is the importance. It is a level below which we cannot drop."¹⁴

As noted in the committee's report, *EU exit: workers' rights and the London Labour Market*, (February 2017), it is now time for a more radical think about the role of the Mayor and London boroughs in tackling low pay by raising minimum standards and ensuring better enforcement. The London Living Wage goes some way to alleviate the high costs of living in London, but there is a lack of any statutory basis for its adoption by London employers and so take-up remains low

Supporting London's sectors

The Committee heard from a wide range of businesses with regards to the possible impact of Brexit on their work. Our inquiry found that London is home to a wide range of business sectors which together deliver a highly productive and competitive economy generating 30 per cent of the UK's tax revenues. Businesses of all complexions and sizes are currently working through the impact of the departure from the EU and will establish ways of doing business under new terms. It is crucial that businesses across London and the UK remain active partners in developing the templates for future UK trading and regulation with our EU and world partners.

As such, the report *EU Exit and London's businesses* (April 2017) recommends that the Mayor should lobby Government to adopt a set of principles which will underpin the UK's EU exit negotiations, to ensure the London economy continues to thrive. Further details are available in the Committee's report, a copy of which is appended.

Of particular concern to London's economy is the financial services sector which creates roughly a fifth of the total value created in London's economy. In 2014-15, HMRC calculated the sector contributed seven per cent of the £291 billion collected from taxes on earning and onshore corporation tax. The sector employs 360,000 people and London is home to

¹³ [Low pay and in-work poverty: preventative measures and preventative approaches, European Commission, May 2016](#)

¹⁴ [EU exit: workers' rights and the London Labour Market](#), London Assembly, February 2017

over 250 foreign banks. The financial services industry relies heavily on financial passport rights with nearly 5,500 UK-registered companies using financial passports to access the EU market. We were therefore pleased to see the Mayor focus on this in the 'Supporting London's sectors' section of the draft EDS. We would like to see the Mayor continue to engage with this sector to ensure that London does not lose out to other EU cities like Frankfurt and Paris.

Childcare

The London Assembly's Economy Committee has a long-standing interest in ensuring access to affordable, flexible childcare provision across the capital. More recently, (December 2017), the committee met with stakeholders including the Deputy Mayor for Education, to discuss the roll-out of the 15 hours extension of free childcare in London for three- and four-year olds and to assess the scheme's impact on childcare providers and families. While the scheme is mostly welcomed by the early years sector and families, they raise several issues that seem to work against the initiative's aims to ease the financial burden of childcare for parents, promote a better work/life balance and support parents to get back to work. Getting the scheme right, and the provision of childcare more generally, will be a crucial piece of the puzzle to support economic activity.

Financial inclusion

As our recent report, *Short changed: the financial health of Londoners* (January 2018) highlighted, almost one in five Londoners are over-indebted.¹⁵ More and more Londoners are turning to high-cost credit providers, such as payday lenders, to meet their needs, and young people are more exposed to economic uncertainty and financial insecurity than generations before.

The committee welcomes the Mayor's commitment to work with partners to address the financial exclusion experienced by many Londoners. But as noted in our report, the lack of data makes it difficult to assess the full extent of the problem. And as recommended in the report, we look forward to the Mayor commissioning an annual survey of London households on their financial activity, in order to get a better understanding of London's 'underbanked' communities.

Digital connectivity

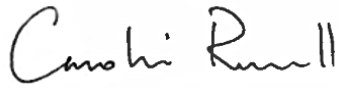
The digital economy has seen very rapid growth over the last seven years, from around 250 tech firms in 2010 at the launch of the Tech City initiative, to more than 5000 today. London remains one of the top 10 cities for innovation and among the fastest-growing technology clusters in the world, despite the challenges the sector could face, to continue to attract talent from Europe and globally, in a post-Brexit UK.

London's economy hinges on fast and reliable broadband, but superfast coverage for SMEs lags behind average coverage in urban areas (67% compared to 83%). SMEs make up over 99 per cent of London's businesses. The committee's report, *A Mayoral Manifesto for the Digital Economy* (December 2015) called for the Mayor to work with businesses to establish their connectivity needs, and to lobby government to introduce, as a condition of planning

¹⁵ [Short changed: the financial health of Londoners](#), January 2018

consent for new developments, a requirement to have installed 'super-fast' connectivity infrastructure. The committee welcomes the appointment of the Chief Digital Officer, and looks forward to further information on how this pressing issue will be progressed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Caroline Russell'.

Caroline Russell AM
Chair of the Economy Committee

Enc: Economy Committee report, EU Exit and London businesses (April 2017)

cc: Rajesh Agrawal, Deputy Mayor for Business