Transcript of Seminar – How Can London Bounce Back? London's Response to the Economic Downturn, 10 December 2008

Dee Doocey (Chair): My name is Dee Doocey and I would like to welcome you to City Hall for this Economic Seminar on behalf of the Economic Development, Culture, Sport and Tourism Committee which is managing this event.

Let me start by welcoming our keynote speakers. Nicola Horlick, Chief Executive of Bramdean Asset Management; Will Hutton, Executive Vice Chair of the Work Foundation; and Anatole Kaletsky, Associate Editor of The Times. We have also got a very high level panel: Nigel Bourne, Director, Confederation of British Industry (CBI) London; Stuart Fraser, Chairman of the Policy and Resources Committee at the City of London Corporation; Adam Lent, Head of Economic and Social Affairs at the Trades Union Congress (TUC); Peter Rogers, Chief Executive of the London Development Agency (LDA); Colin Stanbridge, Chief Executive of the London Chamber of Commerce & Industry; and last but by no means least, Nick Winch, London Policy Manager, Federation of Small Businesses. Thank you all very much for being with us today. We are delighted to have you with us.

Now, as you know, most of the political debate and the media coverage about the economic crisis has been about the efforts of national government, but our focus today is not on national government, it is about how London should respond to the economic downturn and, in particular, the role that Mayor and the London Development Agency can play to support London's economy and to maintain its competitiveness. So it is really the need to look forward, not backwards. We will not be debating what the Government can, should or has not done; we will not be looking at who is responsible for where we are today. We are where we are and that is it. We need to look forward. We need to focus on what practical steps can be taken to help Londoners in these changing economic circumstances.

So let me just begin very quickly by explaining how the session is going to work. We are going to start with three scene-setting speeches from our three keynote speakers and then I am going to go to the audience for brief comments and reactions. We will then move to the question and answer session with our panel. Now, we asked you in advance of this session to send in your questions and we have had a huge response. So we have selected a representative sample of these questions and in some cases we have merged a number of the questions where they cover the same area. After each question is asked members of the audience will have the chance to ask supplementary questions and I would emphasise that we want this session to be as interactive as possible. We really do want to have maximum audience participation. However, I must stress that our time is limited so please can I encourage you to keep your questions brief, the panel are going to keep their answers very succinct, so that we can fit in as many of possible.

At the end of the question and answer session Joanne McCartney, who is sitting over on my right and who is Deputy Chair of the Committee, will do a brief summary of the key points raised in our discussion.

So, without further ado, it is my great pleasure to ask the first of our keynote speakers to start the discussion. Anatole Kaletsky is an economist, commentator and Associate Editor of The Times writing on economics, financial markets and economic policy. Anatole's career in financial journalism stretches back to 1976. Please welcome Anatole Kaletsky.

Anatole Kaletsky (Associate Editor of The Times): Thank you very much. I am afraid I am going to defy the instructions a little bit – although I will be looking forward – by stepping back and beginning with the causes of what has happened, which I think inevitably will require at least a couple of minutes in order to draw some reasonable conclusions about the consequences and the economic outlook.

I think we need to understand the causes because there is a lot of confusion about two different aspects, both of which are valid. There were a number of policy mistakes which triggered what I described as the life-threatening heart attack phase of this financial crisis, which really only began two months ago with the bankruptcy of Lehman[Brothers]. Putting Lehman into bankruptcy was described by a friend in Washington, who I went see, a former Treasury official in Washington, as probably the biggest policy mistake made by the US Government since its failure to respond to warnings about Pearl Harbour. I think that may well be how history sees it.

That is what triggered the sudden total collapse of the financial system and very shortly after that the world economy literally – almost literally – began going off a cliff as many of you have sensed in your businesses over the last two months.

Underlying that policy mistake, or at least setting the scene for that policy mistake, of course were some much longer term, more fundamental changes in the world economy which. again, I will just refer to – there are only six minutes so I am not going to go into any detail on any of this – really created the conditions for that. The one that is most obvious that everybody talks about is the unprecedented leverage that was created in the economy and the financial systems, unprecedented levels of borrowing. I think actually that emphasis is slightly wrong. The fact that leverage got unprecedented in the last decade was neither surprising nor particularly damaging. It was that it got beyond unprecedented to levels which in many areas were almost insane, that really triggered the problem.

Unprecedented leverage over the last decade is not at all surprising and I would argue was actually quite desirable because the extension of credit to larger and larger parts of the world economy and within an economy like Britain, lower and lower down the income spectrum and the small business spectrum, was a perfectly natural and desirable development. What I have called the democratisation of credit, the availability of more elaborate and more flexible credit instruments right across the population and right across the business community, was a major forward step in economics and in technological development, and have created essentially a new product comparable to new products we have seen in technology like mobile phones, personal computers, the internet, and the fact that there is more leverage in the economy today than there was 20 years ago is no more surprising than the fact that we have more mobile phones today than we had 20 years ago or more personal computers. This was genuinely a new product that became available and it was perfectly natural for it to be used. However, rather like in the internet bubble of the late 1990s, the market took this perfectly natural development up to and well beyond its logical extreme. There was an overshoot in leverage and that was what created the extraordinary vulnerability which led to the collapse after Lehman.

Another even more fundamental issue, though, that is related to this growth, this unprecedented leverage, has been the unprecedented imbalance in savings and investment across the world economy. Essentially, to put it similarly, with China and Japan doing all the world's savings while most of the world's consumption was done in the United States, UK and many parts of Europe, Italy, Spain and France and so on.

Now, this imbalance in savings meant that there were these enormous flows of money going across the world economy, essentially from China on the one hand, to put it simply, to the US and the UK and Southern Europe on the other. That is what created the conditions for this huge growth and excessive growth of leverage in these economies, the consuming economies of the world. Now the importance of that, particularly to London, is that London became the entrepôt, the crossroads, the mechanism by which all these savings were recycled around the world. So whether or not this was a healthy phenomenon for the world economy as a whole, it was an extremely healthy phenomenon for the prosperity of the City of London because the City of London was the channel through which these trillions of dollars and pounds of global savings flowed from the excess savings areas in Asia to the excess consumption areas in Europe and the US. So those are the background causes.

Now, what were the consequences of this sudden seizure, this heart attack in the world financial system? Well, the first is that there is a recession, there is a cyclical extremely severe downturn, which I will come back to in a minute. The second, though, is that there is a big structural change which is likely to be a permanent or at least a long-term structural change particularly relevant to London. Seventy percent of the growth of debt relative to gross domestic product (GDP) in the US and also in the UK over the last 15 years was debt within the financial sector. It was not households, it was not mortgages, it was financial institutions lending to one another. That is the de-leveraging process that is now occurring at break neck speed. Most of the de-leveraging that is going to happen is not going to be households and consumers repaying their debts, it is going to be financial institutions forcibly repaying to one another; an enormous contraction within the financial system. So that is the structural change that we see which is going to particularly affect London and which I think is unstoppable even after the recession that is now hitting the global economy is reversed.

If I have time I just want to give an illustration of how this structural change works. In the old pre-financial revolution, if you like, economy, if a company wanted to engage in investment – let's say Tesco wanted to open a new warehouse – it would go to a bank – Lloyds TSB is the biggest bank in the country – borrow £1 million, build the warehouse. £1 million of debt is created. In the new post-leverage financial economy it would work very differently. Tesco would go to GE Capital and arrange to lease this warehouse. GE Capital would then issue commercial paper in the money market so that would create a £1 million lease obligation. GE Capital would then go to the commercial paper market and borrow £1 million. That commercial paper would be bought by a hedge fund. The hedge fund, in turn, would borrow that money from its prime broker, perhaps Morgan Stanley or Lehman Brothers. Lehman Brothers, as we know, had no money so it would go to another bank on the interbank market, perhaps JP Morgan and borrow £1 million from that. JP Morgan might not have enough sterling assets on its balance sheet so JP Morgan would turn around to a British bank with excess assets, Lloyds TSB and borrow £1 million. The net result of those transactions is that Tesco gets its £1 million and it comes from Lloyds TSB. In the process, however, something like £7 or £8 million or £50 million, depending on how many links there are in this chain, of additional debt is created.

Now, what essentially has happened structurally as a result of this de-leveraging is that all the intermediate links of this chain have been squeezed together like an accordion and, in principle, this could have happened without any huge damage to the non-financial economy. Tesco would still get its £1 million at one end, the £1 million would still come from the depositors of Lloyds TSB and just all the intermediate debts and liabilities would be repaid. That would have been an orderly de-leveraging and to a certain extent that was going on until we had the Lehman crisis. Once a single link in that chain was broken it became impossible for the whole system to function and all hell broke loose. That is essentially where we have got to today. That structural change is not going to be reversed at least for 5, 10 or 15 years.

The last thing I want to say though is about the cyclical situation, and I will be very brief. Of course the world is now facing a very serious recession and in many senses it is unprecedented. We have just some precedent in de-leveraging. This is the first recession in the post war era where all parts of the world economy are going down at the same time. America, Britain, Europe, Japan. So we have an extremely serious and unprecedented situation on that side. On the other side though we also have some unprecedented, if you like, inflationary moves. There is unprecedented fiscal stimulus. Governments are borrowing money in a way they never have before. Central banks all over the world have a freedom to print money. They have already reduced interest virtually to zero and interest rates are going to go to zero all over the world. This is something that has never happened before in 5,000 years of history and moreover the next step is, as I say, the central banks having reduced the interest rates to zero are going to print money essentially without limit and they can continue to do so because nobody is expecting inflation.

So we have two unprecedented things. If you like an immovable object on one side which is this world economy paralysed by the credit crunch, on the other side you have an irresistible force which is the force of monetary and fiscal policy, and what it comes down to is the old playground puzzle that our kids always talk about, what happens when an irresistible force hits an immoveable object. The outcome is indeterminate but experience suggests that in the real world forces are more likely to be irresistible than objects immoveable. So that is where I will leave it, thank you very much.

Dee Doocey (Chair): Thank you very much, Anatole. Our next speaker is Will Hutton. Will is the author of several best selling economics books, he writes a weekly column for the Observer and is also a Governor the London School of Economics. Please welcome Will Hutton.

Will Hutton (Executive Vice Chair of the Work Foundation): Good morning, everybody. I will pick up from where Anatole [Kaletskey] left off because Anatole and I, our ideas kind of overlap, sometimes they are intentional and sometimes they enforce each other. How bad is it at present? Well, it is pretty bad. Is it likely to get worse? Probably. None of that is particularly interesting; you all know that. The big question is, will there be a recovery? Maybe as soon as the second half of 2009, or in 2010, and that is really where the debate is. We know that the economy is declining and just over the last three months, as I read this morning, our Institute of Economic and Social Research shows that GDP declined by one percentage point and it is accelerating, for reasons that Anatole has explained.

My view is that the combination of policies that have been put in place, the cut in interest rates to 2% and the big reflation, the recapitalisation of the banks and now if you believe this morning's Financial Times - I think this will happen and I think it is important for London that it happens, by the way – is the extension of the Crosby scheme which was to reopen the closed securitised markets with £100 billion guarantee for the issuance of asset-backed securities. I think the Treasury is going to do something bigger than that. It is going to try to open the securitised markets, for a whole class of securitised issues, including business finance, student finance, car finance, leasehold finance and mortgage finance. That is what interestingly George Osborne [Shadow Chancellor of the Exchequer] has been pressing for. I think he has been correctly pressing for that and it is the last brick that will fall into place that I think would mean in the second half of 2009 the credit flows in Britain would probably be equal to the credit flows in the second half of 2008. Here is the important point. If there is a reflation in America as big as Barack Obama [President-elect of United States) promises and oil prices as low as this do what they have normally done, we know we can probably make the following statements.

2009 is going to be the worst year for the London economy probably since the mid 1970s but it will get better in 2010. That is, I think, the best guess. I rather share Anatole's view. That said, the Treasury in its forecast, much mocked by the way for being optimistic, but actually what the Treasury warns is that GDP in the middle of the next decade will still be 4% below what it would otherwise have been. That is a measure of how serious this is.

The reason for that is the structural adjustment, of which Anatole spoke, and a large part of is going to take place in the financial services sector. Britain's financial services sector in terms of gross value added (GVA) is around 9% of GDP. In France and Germany, benchmark countries, it is around 5%. Now, London is an international financial centre and it will remain an international financial centre, but plainly the Treasury is warning, and they are right, that actually that share of GDP occupied by the financial services sector is going to shrink in the decade ahead. My hunch is it will shrink from 9% of GDP to kind of 7% or 8% of GDP - still formidably large but lower than it was in the last decade. That is important for London because 27% of jobs, broadly defined in the London area, are in financial services.

So we know that probably – probably – 10% to 15% of those jobs are going to go forever and that the proportion of employment in London occupied by financial services will move towards around 20%, a sustainable 20% rather than the current 27%. That is a big story for London; a huge story for London.

The next big industry in London, of course, is the culture and creative industries in the private sector and its size is very, very influenced by demand. It has been very buoyant demand, running at 4 or 5% year on year growth, in London even bigger because of the impact of equity withdrawal. The buoyant London housing market has been a fantastic market for the creative industries, one reason they have grown so large. That is going to be another area which structurally is going to take a hit, part of that 4% of currently lost GDP. So London actually is going to see a very difficult 12 months ahead of us. Very difficult indeed. There are going to be a lot of job losses, they are going to come particularly in the financial services sector, the property market, commercial and residential is going to carry on, I think, substantially weak. Although in talking to one or two leading estate agents and lawyers, that actually when prices get to 30% off their peak level there are people now coming in and saying, "Well, 30% off their peak price in the summer of 2007, now in December 2008, that is 18 months ago, and there may be another 10% or 20% fall in the property market but, frankly, the 30% we will pocket that, we will take it and if we are not clever enough to hit the bottom, too bad". On that basis there are the beginnings of some interest in both the residential and commercial property market. It is far too soon to say it is green shoots but just recognition that markets actually do have a proclivity to stop falling. Do not believe that this kind vertiginous fall will last forever.

Now, I am going to group my remaining remarks in clusters of two. So what can London do over the next 12-18 months to mitigate the severity of what is taking place and to capitalise on the gentle upturn that I think will emerge in 2010 and 2011? Well, I think the first thing that some of the gentlemen here should do, Colin Stanbridge, Nick Winch, Peter and everybody actually, is really push like mad to make certain that the Treasury does reopen the securitised markets in London. The biggest single reason why the wholesale money market is shut, the single biggest reason why we have a credit crunch, it is the single biggest reason for the precipitous and vertiginous deleveraging and actually you gentlemen should speak with one voice on that. Actually, no criticism, but you should have done before frankly. You should have been campaigning on this for six months because that is the single most important cause of the London's economy's difficulties and the City of London's difficulties and the national economy's difficulties. I have been arguing for some kind of guarantee, Crosby guarantee, for at least the last six to nine months, and it has been a lonely business.

Secondly, I think that the measures the government have taken to try to improve the labour market nationally are ones again London should jump on. There are a lot of unfilled vacancies that are not filled quickly enough and the government's announcement in the pre-budget report (PBR) of this employment partnership, trying to accelerate the movement of people who have lost jobs into those employers who are hiring seems to me to be an absolute imperative. So that is an area where I think London can do something.

Certainly, and probably most importantly, the Olympics. This is a monumental construction project and it has all kinds of catalytic impacts on London employment and London economic activity. The configuring of it has the kind of maximum multiplier and spill over effects, not just in the five boroughs but in the whole of east London and actually, frankly, in west London, seems to me an imperative. I am not certain that that opportunity has been grasped as aggressively as it should have been.

Longer term, I very much agree with Anatole's point about securitisation being a new technology, a new innovation. I strongly disagree with Mervyn King [Governor of the Bank of England] and others who say that because the markets are now so badly burnt and have effectively closed the securitised markets – I will be interested to hear what Nicola [Horlick] has to say – that actually the market has passed judgement; this is a kind of passing madness and forever done. I think that securitisation was a bit like … I called them last night at an event that Anatole and I were talking at, they are analogous to a general purpose technology.

I quite like this notion of general purpose technologies and I am going to spend 30 seconds talking about it because I think it is very important to London and its future. General purpose technologies are technologies like the wheel or, in history, the railway, the three-masted sailing ship. Unbelievably when ships went from two masts to three masts they could navigate oceans, they were transformatory. That is the point about a general purpose technology. It is a technology which has much bigger impact beyond its sector than just a normal innovation. Here is the point: there were four of these in the 19th century, there were eight of them in the 20th century, the expectation among the innovation theorists is that there will be twelve to sixteen of them in the next 100 years.

Because lean production in the car industry – and manufacturing is a general purpose technology – I think securitisation could have that kind of taxonomy. Of course, there are bubbles effects. The introduction of these technologies, like a railway boom or a car boom or an electricity boom, people getting their fingers burnt, there are bubbles, there are collapses. The introduction of these technologies is always associated with disruption. So it should not be a surprise, as Anatole has said, what has happened to the securitised markets in the London. Let's actually get them reopened, let us get them regulated so that people can do high volumes of business with some reason security that the counter-party is going to be trustworthy. There are going to be many more of these general purpose technologies in the decades ahead.

Just think already of what impact the internet has had on London: on newspapers, on the film industry, on the music industry, it has been transformatory. It is a general purpose technology, it has brought new companies out of nowhere. Google, Microsoft, Yahoo, Nokia, Vodafone. That has all happened in 20 years. Now, the story of the next 30-40 years is going to be technology that is cascading on us. That is the knowledge economy and London has to think in terms of how it is going to capitalise on this knowledge economy.

The financial services sector was a sub-plot of a bigger story of knowledge economy and this city, with its 8 million people, its enormous environs, its extraordinary infrastructure, needs to think of itself as the knowledge economy heart of Europe and to think about the innovation systems it is going to build and the soft and hard infrastructure it is going to build to support that. If London starts laying those plans as part of the way it gets out of this crisis over the next 18 months, it can follow through in the decades ahead and really become an engine for growth, not just for the people who live here but for the rest of the national economy. Thank you very much.

Dee Doocey (Chair): Thank you very much, Will. Our final speaker is Nicola Horlick. Nicola has over 20 years of fund management experience, has been responsible for leading the development of some of the UK's best known fund management companies. You are very welcome, Nicola.

Nicola Horlick, Chief Executive Officer of Bramdean Asset Management: Good morning, everybody. I think that Anatole is absolutely right. The big, big mistake was letting Lehman Brothers go bust. I think really, frankly, it has been disastrous for the world economy and disastrous for London. Will has highlighted just how important financial services are to this city, in the wider sense of the city, and indeed to the country in terms of our GDP. I really think that in the future we are going to have to think about how we can have a more diverse economy.

If you go back in history and look at what has happened over time, when Mrs Thatcher came to power and the pound was extremely strong, we saw the decimation of our manufacturing base. In many ways that was quite a good thing for the UK because it made us focus on what we were going to do next because there was turmoil and disaster in terms of the economy. We picked on financial services; we were extremely lucky because London sits in the middle of the time zones, and that is not a frivolous point because the fact is that if you are the global head of equities, for example, at a big investment bank, if you are sitting in London it means that you can talk to the Far East in the morning, Europe during the middle of the day and the US in the evening. That is why so many of those very senior roles have been moved to London giving us the opportunity to become one of the biggest financial centres in the world. In addition we speak English and clearly the big investment banks are American owned, so it was it never going to be Frankfurt. Quite apart from anything else you need a large amount of people to support such a huge industry and there are only 800,000 people living in Frankfurt so it really never was going to be Frankfurt.

So we were very fortunate because we were able to take this particular ball and run with it and what we saw was many of our highly talented graduates coming out of university and pouring into financial services. We saw enormous growth and that has been extremely beneficial for London and for the entire country and bailed us out of a huge problem, otherwise we could have become a second world nation frankly. At the same time we saw the move of manufacturing away from the UK to the Far East and that was a trend that was happening across the world. So we saw Western production moving to the East because the consumer was demanding lower and lower prices. People wanted to buy t-shirts for a pound, they wanted to buy things more cheaply and that is the trend that we have seen.

As Anatole said, this created a savings imbalance, because what tends to happen in the East is that they save money whereas we tend to spend it and that is something we are going to have to address over the coming years. It is something that I think politicians have to think about very carefully. It is all very well having tax cuts and trying to encourage people to spend but actually, at the end of the day, it is equally important to encourage them to save, especially when you have an aging population. The aging population is causing huge problems for this city, for example. We have to support people, we have to have care systems in place which are not as good as they should be, the expense of people living well beyond the age we expected them to live beyond, there is not sufficient pension provision because people have not saved sufficiently. What really bailed us out on a temporary basis was the very sharp rise in house prices because what it meant was that people can scale down at the end of their working lives, take out equity from their houses and use that to support themselves in their old age. What is going to happen if the housing market goes sideways for the next 20 years and that opportunity is no longer open to them? They have not saved enough, they have not got the right pension provision, it is going to put an enormous burden on the state. So there are all sorts of things that London has to think about.

We are going to have to accept, as Will said, that the financial services market will be smaller, that the industry will be smaller, there will be fewer people employed. That is the reality and we are going to have think about how we re-deploy those people.

I know that education is something that has been emphasised enormously in this building, and trying to promote greater skills. That, I think, is completely essential. In the future the only way that we are going to be able to grow our economy, which is pretty mature, if we cannot rely on ever more earnings coming from financial services, is to create new areas of expertise. We have been brilliant at financial services, we have been brilliant, as Will said, at various media areas, advertising and all that sort of stuff. We have to have more areas where we can compete on the world stage. That means investing in skills, investing in technology, investing most importantly in education. Encouraging people to stay in education for longer and to achieve higher levels of skill so that we can complete in the world economy.

In the very, very short term, I think as Will and as Anatole has said, there is very little we can do. We are going to have a really horrible 2009. London is going to suffer. We do have certain things to look forward to like the Olympics which will create employment through huge construction projects and so on, and bring large numbers of tourists into this country. There is also something that no one has mentioned, the decline of the pound which is, I think, beneficial in that it means that more people will come and visit London and tourism will increase. So there are some positive benefits. There is also the benefit of the fact that interest rates have fallen to a very low level. Energy costs are falling to a very low level. All of that reduces the immediate pressure but it does not get away from the fact that 2009 will be a pretty uncomfortable year.

The one thing I would say to everybody sitting on this panel is that they should be urging the long-term view to be taken. That we have to invest for the future – and when I say the future I mean for the next 30-40 years – to ensure that Britain continues to be successful. That is why I would prioritise education, training and skills as being the main way to get out of the mess that we are in. Thank you very much.

Dee Doocey (Chair): Thank you very much, Nicola. Before we move on to the questions and answers, shall we have just a few comments and a quick reaction from the audience? Does anyone want to comment on anything you have heard from any of the keynote speakers?

Carol Thompson-Ellis (President, English Law Students Association): My name is Carol Thompson-Ellis, I am President of the English Law Students Association. Just a quick question: on the one hand, I think one of the speakers mentioned it is important to save and, on the other hand, they are also saying that having lower interest rates is beneficial and it might even go down to 0%. Isn't that a contradiction? What about the people who do save, what is the benefit to them?

Dee Doocey (Chair): Thank you. I am going to ask the panel to pick up these points when they answer the main questions.

Rob Killick (CEO, cScape): Rob Killick, CEO of cScape. The comments that I think Anatole Kaletsky made about the global imbalance between the productive East and the consuming West, surely the implication of that is that this has to be resolved by a shift of wealth absolutely over a period of time unless we in the West can create some more productive industries.

Tim Bennett-Goodman (Apex Arts): Tim Bennett-Goodman, Apex Arts. Do you think this is the time to go into the Euro Zone and will we?

Stuart Mawer (University of Westminster): Stuart Mawer from University of Westminster. I was just wondering if you could clear up my ignorance, please, of what securitisation is.

Dee Doocey (Chair): I think that is quite a specific one so can I ask the keynote speaker to just very, very briefly to clear up what securitisation is. Very briefly, please, Will.

Will Hutton (Executive Vice Chair of the Work Foundation): I will try and do it quite simply. Imagine you are a company, we will call you XYZ company and you have £100 million in profits and you issue a bond in the normal way. The interest on that bond, let us call it a £100 million bond and let us say the interest on it is 5%, so you will repay that £100 million over, let us say, ten years and you have got to pay the interest over ten years at 5% a year. So you have got £100 million of profit and 5%, so £5 million is paid on the interest and then you have a sinking fund to pay off the £100 million bond, let us call that – this is so rough and ready it is not true but it is just for understanding – another £10 million so you have got £100 million of profits and £50 million is going to be spent on servicing that bond, setting up the sinking fund and paying its interest.

Now, what is securitisation? Securitisation, of my £100 million profit £5 million of it comes from ten car parks I own or I own a fleet of taxis or I have got three high rise office blocks and I take the rent or the income from that asset, the £5 million, and I hypothecate it to a special purpose vehicle. Sometimes that special purpose vehicle can be in London but generally speaking they are in a tax haven and then the investor buys a security which has that hypothecated £5 million. When it all began in America with Fannie Mae [Federal National Mortgage Association] and Freddie Mac [Federal Home Loan Mortgage Corporation], who began this story in the 1970s and 1980s when they securitised mortgage payments from primary mortgage borrowers in the States, it of course had a quasi government guarantee. What your American investment banks did back in the late 1980s, early 1990s, the great pioneers were Goldman Sachs and Merrill Lynch, the big birth of securitisation actually was from a caravan park in Arizona where --

Dee Doocey (Chair): Well, I think that is probably enough of an explanation.

Will Hutton (Executive Vice Chair of the Work Foundation): What you are doing is it is a much more innovative way of doing finance, you can spread the risk, you can have a portfolio of risk which you could not do before. What went wrong with it was people began to smuggle in all kinds of dodgy income streams over and above the good ones, so you had collateralised debt obligations that were doubled with an income stream or trebled--

Dee Doocey (Chair): Well, I have not got any more time to smuggle in.

Will Hutton (Executive Vice Chair of the Work Foundation): That is what a securitisation is. Thank you.

Dee Doocey (Chair): Thank you very much. The gentleman who asked that, I am going to test you by asking you to write a paper on it in a minute!

Let us move on to the main questions, please, for the panel. The first person asking a question is Sheikh Aliur Rahman.

Sheikh Aliur Rahman: Good morning. The first question is the Mayor has announced that the London Development Agency will spend £23 million on measures to support small businesses. Is this enough and what should it be spent on?

Dee Doocey (Chair): Thank you very much. Peter Rogers, is it enough and what is it going to be spent on? Before you answer, Peter [Rogers], can I just mention that there were a couple of other questions along the same lines that we sort of rolled into one and I think we have told you the areas that those cover.

Peter Rogers (Chief Executive, LDA): You have. The answer is quite simply no. I mean you have heard some of the numbers that people are talking about. This is nothing more than something which is apalliative. It is certainly not anything that can resolve the problem.

What we can do – and hopefully you have all seen this which came out to every home in London last week, a million and a quarter – we spend £150 million in our budget and the £23 million is on top of that. It picks up some of the things that have been said. The pound is currently an opportunity to spend in the UK rather than one where you would go and spend elsewhere. So we are running some short-term campaigns to try and induce near-Europe visitors over Christmas, help retail, help commercial, help hotels. January/February, traditionally very difficult months, are going to be even more difficult. We have invested in an extension to the Docklands Light Railway (DLR) which is a 50% uplift in capacity going east, help the Olympics, medium term investment. The other will be access to finance schemes for small business and hopefully it will move it on.

All of that is part of the process that but the LDA does a lot. Its budget is £500 million, which is not very much in terms of what we are talking about. What we can do is use our influence to get assistance to small and medium enterprises (SME). Some of the major accountancy firms are doing pro bono work for us advising on managing credit, managing debt, looking at how you can reduce inventory to create cash and help yourself through difficult times. The most important bit is most small businesses are not aware of the services on offer or how they contact them. That is one of the reasons we put that pamphlet out. There is an awful lot of work that is available, an awful lot of assistance available but the unfortunate part is it is not accessed very well.

Dee Doocey (Chair): Thank you very much, Peter. Nick Winch, have you got anything to add.

Nick Winch (Federation of Small Businesses): In answer to the question, clearly £23 million is a relative drop in the ocean. I think the important thing is you have to start from recognising the role that the small business sector plays. Roughly 70% of new jobs in London historically have been created either by the self employed or by micro businesses starting up. One of the things if we are going to see increasing levels of unemployment is we have to make sure that that can continue. So therefore we have to support that sector very firmly. We did a survey this week of business owners which showed, picking up Peter's [Rodgers] point, that 50% of business owners admitted that they did not feel they had the advice or the information that they need to help see their business through the current economic crisis. What that is saying is that is of those who have admitted, there are probably a lot more who do not admit it or are not aware of it.

I think the things like the information sheet that the LDA have put out are a very valuable start but I would say to them it is a message that you have got to keep saying again and again and again. You come back to the fact that if Nescafé run a commercial to get you to buy Nescafé they do not just run it once on the television, they keep the message going again and again and again. The small business community is a very difficult community to get hold of. I think that there are measures that we could do in London quite quickly and quite easily. There are various construction projects which we know we are going to do at some stage in the future, we are going to do them. They will not get any cheaper the longer we delay so I think we should be bringing forward as much as we can issues, for example, in building houses, in insulating homes to make them more energy efficient, we could be obviously bringing forward Crossrail and obviously boosting the Olympic delivery.

We also need to be making sure that London gets its fair share of the £1 billion small business survival fund which the Chancellor announced in the pre-budget report. It is still not entirely clear how that money is going to be made available to small business but we have got to be making sure that the small business community in London is, if you like, at the head of the queue. A lot of it does come back to this question of information and advice. It is a huge challenge for the LDA, it is a huge challenge for Business Link. I am sure that all the business organisations in London will do what they can to help get the message out that there are areas of support that the business community themselves need to tap into.

Dee Doocey (Chair): Thank you very much, Nick. Can we have some supplementary questions from the audience?

Tim Heath (Chief Executive, East London Small Business Centre): Tim Heath, Chief Exec of East London Small Business Centre. I did actually ask a question, it was up on the screen and I would just like to follow it through. We have been lending and supporting small businesses for over 30 years now and it strikes me, from my experience having been involved with the organisation for 11 years, that small businesses based in communities have an issue with trust and they trust local organisations to support them, they do not trust things that are too closely connected with mainstream. So some of the things that the LDA are trying to do are probably misplaced.

I would also say that we have been lending for 20 years to these small businesses, and at the present moment we are rescheduling about six loans a week and that gives you an indication of how difficult it is out there. That means our capital base of ability to create more lending to help the businesses through these difficult times is very tricky and I would suggest to the panel that more funding needs to be put down at the grass root level. Thank you.

Peter Rogers (Chief Executive, LDA): I think I ought to make the point that we are not a bank and we are not very good at assessing risk and we are not very good at doing the things that the normal banking sector should do. Good risks and lending finance are banking duties. What I think is quite clear is banks are not lending either in the way they used to nor at the rate they used to.

There may well be a case where there is a very good business that needs some additional finances, gap funding, where there is a new product which could be developed. That is one of the bits of the £23 million that we are looking at to see whether we can increase from a 30% LDA fund to a 50% fund to recognise the banks are not lending quite as much.

Let me also be quite clear, I am not proud, I do not think that we have all the answers. I do not think that the big firms have all the answers and I agree that community support often creates trust with communities that big businesses do not. So if there is an offer and an opportunity, we are perfectly happy to use it and certainly we will build on it.

Male Speaker: It is a suggestion actually. A lot of small businesses come to us and they say, "Look, it is good to have training available, it is good to develop skills" but what they really need is someone who can help them market their product and services which are sometimes very, very good but they cannot really afford it so if funds are there allocated towards training and development sometimes small business cannot take days off to go out there. They need practical support as opposed to other options that are available. So as well as doing the training and development support, I think we should look at other ways of helping small businesses.

Dee Doocey (Chair): OK, thank you very much. I think that is probably one of the things I hear most often and I am sure my Assembly colleagues agree that it is the practical support that everyone needs.

Nick Winch (Federation of Small Businesses): I think it is important to recognise that unless you have run a business now for probably 13 years you have had no experience of doing it in the rough times. One of the things that I think we do need to focus on is this question of, if you like, mentoring businesses. There are a lot of people there who have either finished their career at work or have been made redundant out of a good job who may well be able to do a mentoring programme to help the small business owner survive.

Dee Doocey (Chair): OK, thank you. Let us move onto the second question which is from John Neal.

John Neale (UNITE Union): John Neale from UNITE Union. Given the downturn in financial services, what other sectors of London's economy should now be supported?

Colin Stanbridge (London Chamber of Commerce & Industry): Just a couple of words, I have taken Will's [Hutton] advice in the past. In fact I have based my choice of mortgage on advice he gave me in the 1980s and I based my choice of career on advice he gave me in the 1990s when he told me the company I was working for would never succeed because it was a family-owned firm. Will probably does not remember that. So I think we have to take what Will has to say with some experience that it does work.

I would just like to say about the points that have come out and about what we can do with the other sectors of the London economy that we might want to support, there really is no silver bullet, there is no one measure that is going to happen. I think that when we have hopefully got over the credit problems that face those small firms, and maybe Will's advice is exactly the way we will get over those credit problems, it does give us a chance to look at a whole series of areas that may be we have not looked at for some because of the dominance of financial services.

With every major illness, and Anatole [Kaletsky] was telling us it was a major heart attack, what do you do then? Well, you reflect on your life and where you should be going. I think we at the Chamber are very keen that we do that now. For example, manufacturing. Manufacturing, the last Mayor told us in no uncertain terms that manufacturing was dead; it was a complete waste of time. I think now is the time to think maybe manufacturing is not dead. Exporting, the Government changed the rules on exporting and changed the small amount of funding for trade missions. Well, we are talking to the LDA about trying to change that because now we should be looking at trading.

Will talked about the Olympics. CompeteFor which is the website using new technology that allows small businesses to access the opportunities of the Olympics, we are now working with the LDA and other business organisations to widen that to, for example, Transport for London (TfL). We know there are going to be a lot of public sector contracts out there. We need to make sure that we widen those opportunities as much as possible.

So I think there are a whole series of areas where we can look at those bits that have been overlooked because of, as I say, our, perhaps, over-dependence. One would not say it is not important and it will not still be important in the future but perhaps over concentration on financial services.

Nigel Bourne (CBI London): Yes, I would certainly agree with what Colin [Stanbridge] has said and I think re-examining what we do in London is vitally important. Picking up on some of the points that Nicola [Horlick] made in her remarks, there is certainly a lot of scope for looking at manufacturing. Of course they are never going to compete with China in terms of manufacturing t-shirts for £1. We never would be able to do that. What we do have in the UK – and it is important that we preserve what is left of that and encourage what is left of that – and what we do have in London is a high level of technological and innovative expertise. It is actually trying to make the most of that and going back to that very high level, high value added manufacturing that we have seen in the past. I think if you are going to do that then the other thing you have to do alongside that is to look at how you are educating and how you are training your future workforce. At the moment, certainly, I do not think we have got that right and what we need to be able to do is to get back to a lot more higher education where we are looking far more at those engineering, science, mathematical type degrees, many of which have fallen down the league tables in recent years.

So there are certainly some great opportunities there. If you want to read something about a great vision for manufacturing in the UK, there was a speech given at Imperial College by Sir John Rose who is the Chief Executive of Rolls Royce, which you can find on the internet, which is a very visionary speech but a great piece of work and gives some indication of where we could go with that.

Marian Larragy (London Civic Forum): I am Marian Larragy from London Civic Forum. It has been mentioned that London needs to diversify its economy and it has been mentioned that there are large construction projects which are in the pipeline. My question really is: have people give thought to or are people aware of a study that the previous Mayor commissioned looking at the building of Terminal 5 and the extent to which people who lived in the area got access to jobs. The piece of work was done by Professor Linda Clark of the University of Westminster and it tapped into some huge issues in relation to how our construction industry is structured and the kind of things that we need to do if we are to move away from the very short, not very highly skilled training and construction projects that rely a great deal on bringing in migrant labour, which is very low paid. So this opportunity at the moment, where we are going to have some our extremely talented and experienced parts of the work force available to move sectors, perhaps they should look this study and see if they can bring their minds today on how it should be implemented.

Roland Caine (Location X): Roland Caine, Location X, it is a film service company. There seems to be an acknowledgement that training, particularly adult training, is a vital component to this recovery and there seems to be a declared government commitment to lifelong learning. There also seems to be a massive reduction in adult education facilities in London. I am thinking of the City Lit and other fine adult education bodies that have been starved of funds. Is there anything the Assembly can do to reverse this trend?

Rob Killick (CEO, cScape): Hi, Rob Killick. This is a proposal really. As part of the legacy planning for the Olympics I think it would be a very good thing to create a hub for innovation on that site. It is one of the things that is really lacking, particularly in information technology (IT) in the UK, although there obviously is stuff out in Cambridge. I think given its proximity to the city, the transport links and everything else, it is an ideal opportunity to create something which would have a long term impact on our ability to deliver on the knowledge economy.

Saiful Alam (Double Barrel Design & Consultancy): I am Saiful Alam from Double Barrel, just a quick question on something that Colin [Stanbridge] mentioned about public sector contracts and things like that. A lot of small business find that they fall at the first hurdle of pre-qualification questionnaires (PQQ) and, you know, all sorts of barriers that are put in. We know there is a lot more accountability for public funds and there is a lot more to actually look after but at the same time what can actually be done for SMEs so that they find it a bit easier to get over that because local businesses find it difficult to work with local authorities. It is that much of a barrier and battle. Forget across the whole city but just even their own local authorities.

Adam Lent (TUC): Yes, I think there were a lot of points raised there about skills and training and I do not think there is any doubt at all that it is going to be absolutely vital that a way of getting out of this recession for London and for the whole country in general is going to have to be a stronger emphasis on training and skills and there is a question about sectors as well, about identifying those sectors which can pull us out of recession and when we look at those sectors that have grown very well in the last few years, sectors like telecommunications, and the creative industries which have already been mentioned and you speak to people in those sectors, they identify skills and training as one of the factors that really potentially might stop them flourishing in the future if they cannot plug those gaps. Talking about an explosion of training and upskilling in the UK is one thing. There are some practical issues that need to be addressed and maybe some other members of the panel can address that, or people in the audience.

Firstly, who is going to pay for this? This has been an ongoing debate between government and business about who is going to pay for a major upskilling in the UK. Currently there are some very good companies out there which are paying for their employees to get excellent training. There are some companies which are interested in paying for that training. Certainly one issue we have identified is the trend for outsourcing in many sectors has actually damaged training because under those conditions a number of large companies say, "Well, it is not our responsibility to train, we just buy in the skilled labour/workers from other companies and it is that company's responsibility to train" but those companies do not want to spend the money on the training.

Then finally the other point is identifying what skills are needed and what training is needed and that comes down to the Government playing a much more proactive role in being willing to say, "These are the sectors we want to grow in the UK economy and we are going to anticipate the skills needs of those sectors and work with business to train the workers that are needed in those sectors". There is movement on that in the Government. Very recently Peter Mandelson (Business Secretary) at Department for Business, Enterprise and Regulatory Reform (BERR) has been making some very good sounds about that but it has taken an astonishing long time for the government to recognise the need to anticipate and support key sectors.

Stuart Fraser (City of London Corporation): First of all let's talk about education. I cannot remember when people were not talking about education and skills. It has been going on forever. We do actually spend a fortune on education. We roll out an enormous number of graduates every year. I will be contentious and say are we educating in the right way, is it not more money is required but a better resource use and from money that we actually have. It is interesting when we were in China. China, as you know, is rolling out millions of graduates. This is the big threat. Talk to the businesses and they say they are not worth the paper they are written on, most of them, in terms of actual skills of business and doing the work and everything else.

We, we cannot keep saying, "We have got to spend more money" because it is not unlimited. Indeed we are facing a future where the money is going to be very limited for a long period of time, simply because of the excess that we have spent now. So I do think that it is really a question of not more money but how we would be more effective in it.

The other thing too is you have to have in mind the market actually works quite well. A lot of talent has been creamed off of the universities, the top talent by the financial services industry because the disproportionate amount of money that they can earn at a relatively young stage. That is no longer available. These people will move into their disciplines. Instead of studying engineering and becoming an engineering analyst in an investment bank, they might actually go into engineering. I think there will be a lot of creative talent which will be released from the financial services industry. I do very much share the view, and particularly, if you like, with smaller businesses and locality, we spend a lot of time and effort in mentoring. We try to do a lot of buying locally but businesses have to be educated in how to scale up to the requirements that we need. They are running a perfectly good small business but they need to go from being very small to small to medium to begin to cope with the flow of orders. Indeed, if we can do that the local authorities can pool their purchasing more together in geographic areas, indeed in London, to provide more for the local community and I think that is very important.

I think the comment I make about the international construction industry is – and it is the same as financial services – we do not have the domestic skill base and, indeed, even if we did it is so cyclical that you would have a surplus at some point and a shortage at the other. We have been able in the last few years with the construction industry to import very well skilled, not just cheap but well skilled, labour from the new countries in Europe and from elsewhere. Many are now returning home. You have to have a sort of, if you like, core of domestic people that are skilled in these areas and when the boom times come you bring in people from outside and when it contracts they will probably naturally go back. In the financial services industry we are so international and global, our workforce is so international and, indeed, I suspect that many of them, now the difficult times are here, will not be resting domestically on our redundancy payments and their out of work payments, they will probably be looking around the world for where they can go next to find somewhere to go, maybe not even in financial services. So they have a huge flexibility and I think that also helps us here.

I think, in general, certainly let us not stop talking about it but let us talk about how we actually educate people for the real world.

Dee Doocey (Chair): OK, thank you. I am going to ask Colin Stanbridge to come in on the last point on this. I really do want to emphasise though that our job today is to look at what we can do to help London, in particular what the Mayor and London Development Agency can do to help this situation.

Colin Stanbridge (London Chamber of Commerce & Industry): Absolutely. I would just like to echo the point made by the gentleman there about the difficulty for SMEs, and especially small SMEs, to get into the public procurement area. That is why we are incredibly keen on CompeteFor because one of the benefits of CompeteFor is that if you register you register once, it takes you about 48 minutes, 50 minutes to register on there and if you do not have the sorts of things the gentleman was talking about, the sorts of things public procurers will want, you are diverted to Business Link who hopefully will be able to give you those skills.

I think the point about education and skilling is an incredibly important one. I think what we need to look at, at the moment, is whether we have the right flexibility. As Stuart [Fraser] said, we have had a lot of money spent on skills and skills training, do we have the flexibility to ensure that that money is actually targeted at the right areas? For example, the 10%-15%, as we heard, of jobs going in the financial services. Some of those people will be highly educated. Well, all of them are probably highly educated but not very au fait with perhaps starting their own business, and maybe a percentage of those will want to start their own business, does Business Link have the flexibility to be able to target those sort of services? I think it is important that we look at this flexibility because in our experience it has not really existed in the past and there is not the flexibility to react to the needs of the economy and business.

Adam Lent (TUC): Can I say very quickly a lot of people are losing their jobs in other sectors other than financial services. They are not all people who are incredibly well educated, well paid. We had announcements of huge job losses in the transport sector as well. Those people also need to be targeted and be given the support and training to find new jobs as well. The Mayor and LDA should also be playing a role in that.

Peter Rogers (Chief Executive, LDA): It seems clear to me that there are a number of issues here about education. Fifty percent of kids coming out of school in London have five General Certificate of Secondary Education (GCSEs) A to C and 50% of jobs on offer in London require degrees. There is an in-built deficit in terms of the labour force and educational outputs from our schools. It needs to be done in a different way and that, again, is one of the things the Mayor is doing, is looking at a cabinet, not imposing them on local authorities because we have been accused of that, but working with local authorities to improve local education outcomes.

When you look at the potential of what could be on the Olympic Park, the East End could be rejuvenated and re-energised if it became an intellectual hub for the world. Not just around IT but environmental sciences and all the new emerging things that need to be done. Adam [Lent] and I were talking about this, this is the chance for a new Victorian age where you invest in infrastructure which lasts the UK for the next 100 years. Crossrail starts to build jobs next week. It starts to build up in numbers next year and it goes progressively on from that as well as the Olympics. The opportunities for small businesses are there but let us remember small businesses employ people and there are 250,000 people in the construction industry. The development industry has stopped. Any housing development predicated on sales just will not be built and there needs to be new models and picking up Will's [Hutton] point private rental and securitisation may be a way of getting that unjammed but you cannot do it when you are seeing falling equity stakes because people are having their homes repossessed.

One of things that I think needs to be looked at is a serious equity release scheme for families and individuals in temporary trouble with an option to repurchase the equity on defined terms from the Government or somebody else like the Homes and Communities Agency which will keep them in their homes, keep them in a position where they can pay off their arrears, their credit card bills, their car loan debt and then when they get their job back or when they rebuild their lives they are in a position to repurchase their home in a different way. I think we need to look at different models which are not the models that have traditionally worked but we need to think differently about the sort of opportunities that are there and that again is something that the LDA can do. It does not have the money to do it but it can make the connections and use its influence across government to raise those sort of issues.

Dee Doocey (Chair): The next question is from Shane Clarke.

Shane Clarke (London Bridge Business Improvement District): Shane Clarke, London Bridge Business Improvement District. The Mayor has said he is pushing ahead with over 50 major infrastructure projects to ensure that London remains globally competitive. Does the panel agree it is time to apply Keynesian economic principles and bring forward publicly funded infrastructure projects?

Nigel Bourne (CBI London): Yes, I think what we have at present in London is some major infrastructure projects, Crossrail, tube improvements, Thameslink, projects like that. There is more money being spent on infrastructure projects in London now than there has been since the Victorian age as somebody was saying earlier. It is absolutely vital that what we make sure of is that those projects have the funding to enable them to continue at the pace which was always originally intended, if it is possible to accelerate them well, yes, you can do that. The reality is that for some of these projects actually accelerating them and building them faster really is not a practical proposition. We do have to make sure that we have the funding and, where necessary, the skills to enable those projects to continue.

I think particularly on that, the tube modernisation is an area where that funding is going to be important simply because what we have an opportunity to do now is build the tube we are going to want in 10 or 15 years' time. In fact, one of the interesting things about the tube is because the tube does not need any planning permission you can actually get on and do things quite quickly. Some infrastructure projects inevitably are longer term just in terms of getting that planning permission and being able to make a start on them. Keeping the foot on the gas to actually get those projects delivered is vitally important and this is a great opportunity to do that really.

Stuart Fraser (City of London Corporation): I think we can count ourselves lucky in the sense that we do have these major projects in hand ongoing and they are there. I do agree with you, we have looked at Crossrail, indeed, as to whether or not it can be accelerated, it is just not possible; the whole thing fits in like a jigsaw, the tube and everything else but we do have – let's be a bit more optimistic – some very good things going on in London here and the job of the LDA and others is to ensure that these things are done on time, on budget and we get value for money.

Chris Cook (LETSlink London): Chris Cook. We are accustomed to thinking that public equals state and private equals owned by a limited company. That is the convention. In Glasgow, for instance, we have three municipal limited liability partnerships (LLPs) which are conventionally funded but I am pointing out that it is only conventional that borrowing is necessary for public projects. I believe it is possible to come out with a new generation of, let's call it, municipal equity. Not using conventional funding structures but simply by unitising the future revenues from assets that, let's face it, may last for 100 years. As somebody pointed out, the Victorians invested on that scale and only recently bonds have been paid off that were 100 years in the pay off. I do not even believe that it is necessary to have borrowing for this when you can come up with, in the trust framework, a partnership framework, a new generation of municipal equity, I believe, could revolutionise the funding of these structures. It is not necessary to borrow, it is only conventional.

Tim Bennett-Goodman (Apex Arts): Tim Bennett-Goodman, Apex Arts. I submitted this question specifically in relation to the cultural and creative industries in London, and since I put the question in we have been told that interest rates have never been so low since 1951. Of course we all remember what happened in 1951, the Festival of Britain. Now, although an incoming Tory Prime Minister soon scrapped that, the legacy directly was the Royal Festival Hall and indirectly the whole of the South Bank cultural centre.

Dee Doocey (Chair): Sorry, what is your question?

Tim Bennett-Goodman (Apex Arts): Do you not think we should learn the lessons of history?

Colin Stanbridge (London Chamber of Commerce & Industry): I think the Olympics gives us a great opportunity to do exactly that. People forget, of course, that the Olympics is not just about the sporting activity, it is about the cultural activity too. I think one of the great things about the Olympics is that it gives us that opportunity to showcase all the creative industries and the power of the creative industries that we have in London. I would just like to echo the point that has been made about big projects, like the Olympics. I think the key thing is not bringing them forward, although if we can we should be looking at that, it is making sure that we do not skimp on the investment that we already have allocated or planned. I think we have to make sure that if there comes a time when we are talking about trimming back on the Olympics or things like that, we should understand that this would be the wrong thing to do and we are talking about an investment in the future that can help us out of the present mess we are in.

Peter Rogers (Chief Executive, LDA): I think big projects are important but there is a limit on the available finance. What is important is to make the right decisions and when you make decisions on costs at one of the stadia or one of the facilities you also need to think about the longer-term costs in terms of legacy and trade it off. Whether that is in deferring capital spend or whether it is increased revenue costs because you have dumbed down on the initial design, those things need to be done now. David Higgins [Chief Executive] of the Olympic Delivery Authority and I had a very early conversation when I arrived in May about the three stages of the Olympics: building it, operating it for two weeks and then leaving it. You cannot leave the leaving it stage until after the games. You need to think about what it needs to be there and then.

Coming back to the question about what could it be in terms of an offer, if you think of Disneyland you have got the Fantasyland with castles in the west, you have got Businessland in the middle with Canary Wharf and the city and you could have something quite exciting about Tomorrowland out in the east. It needs to be thought through now. One thing I would like to emphasise, we are the centre of the world in terms of medical research, in terms of some of the top-end educational offers and we do have a world offer to make in some of the more creative and innovative sectors and we ought to be exploiting them.

Andrew Bosi (Friends of Capital Transport Campaign): Andrew Bosi, Friends of Capital Transport Campaign. What about the next generation of major projects? Crossrail was safeguarded in 1989, it should have been built years ago and it should have been in place before the Olympics. Crossrail 2, as it is now called, was also safeguarded in 1989 and we are nowhere near planning let alone implementing that. There are other schemes like Cross River Tram, which the Mayor's transport adviser says has been parked, it has not be abandoned altogether. We should not be parking these otherwise we are going to bump into another problem next time there is an economic downturn.

Simon Pitkeathley (Camden Town Unlimited): Simon Pitkeathley, Camden Town. One of the issues around Crossrail, although I support it – I think it is a very good idea – is that it is partly paid for by a levy on business. Does the panel think this is an appropriate thing to do at this time? Another baby in the bath water of the business rate supplement, of course, is business improvement districts who have quite an interesting coalface interaction with business at a time when we have heard that it is quite difficult to get close to them. I think there is quite a serious risk to some business improvement districts through that supplement and I am not sure that adding property owners, who would be a very reluctant part of that electorate, into the mix is necessarily a good thing at this time.

Nigel Bourne (CBI London): Just picking up on the point that was made about future transport projects. I think that is extremely important. I know one of the things that Peter Hendy [Commissioner, TfL] is keen to do is to ensure that when we are looking at projects that we are going to undertake in the future that we actually do try to keep a pace of the new and differing requirements of London and London businesses and I think this is very important. We have had this problem in London and probably throughout the whole of the UK for many years. Because it takes so long to actually deliver a transport project, we can, at the end of the project, finish up delivering something that we do not really need any more or what we needed was something that was not quite that and was something a bit different but it took us 15 years to get there and we built the thing we thought of 15 years ago. So a much quicker way of doing that, and I hope that what we have seen in the Planning Act will help that in terms of looking at major infrastructure projects and speeding up the whole planning situation on those projects.

I think the other point is on supplementary business rate, we did a survey on our members on supplementary business rate and its use to build Crossrail and there was a general agreement that business really had to do this, business understood that London needed Crossrail and frankly it was only by business agreeing to that supplementary business rate that you are going to get Crossrail.

So, happy with that situation but what we really do not want this to be is the thin end of the wedge in London so that every time another transport project comes along you are coming back to business the whole time for another supplementary business rate and a concern throughout the whole of the UK, particularly in these troubled times, that local corporations could be using this as a way of raising additional funds. So something that really needs to be used with some care in the future.

Colin Stanbridge (London Chamber of Commerce & Industry): On Crossrail, the London Chamber of Commerce was one of the first organisations to lobby for Crossrail many, many years ago. We are now lobbying for Crossrail 2 and have been for some time. We think there is a very strong economic argument, possibly even stronger – if you look at the poverty map of London – for Crossrail 2 going ahead. So we will continue to lobby for that and I think it is a point that we have to achieve.

Just one small point about what we could do with the Olympic Park. My feeling very strongly is that the Mayor should be lobbying JK Rowling now to ask her to licence London to build Hogwarts on the Olympic Park. Hogwarts would be an attraction that no one would want to miss and of course we will have built all the great communications that will allow thousands if not millions of people, visitors, to go there every year.

Dee Doocey (Chair): Thank you, I like that!

Nick Winch (Federation of Small Businesses): Just picking up various points. As regards the 2012 thing, I think one of the things that we can do is try to bring forward the tourism marketing potential of 2012. It is very striking in previous cities there has been a build up of tourism prior to the games and I think the sooner we can frontload that the better. In particular obviously with sterling at a relative low level it becomes a more attractive proposition.

As regards the question of business rates, business levy and business improvement districts, I think there is certainly a view amongst some of the business community in, for example, Croydon that they are not likely to see any particularly direct benefit from Crossrail in terms of the route. I also think that maybe we have not done enough in terms of getting money out of the benefit, the value-added from the redevelopment of sites by the Crossrail route. I also would point out that I think that we are concerned that where you have business improvement districts the businesses themselves are going to get hit now twice with the bid and the levy. I would very much hope that the Mayor will consider stating that in those areas where there is a current BID, the levy should not come in until the BID has had the opportunity to be renewed. In other words, you have got two or three years left of the BID, let us not hit the levy until the businesses have had the opportunity to decide whether they wish to review the BID because otherwise they are going to get hit twice.

The other concern I think we have about the Crossrail funding package is what concerns me is the business contribution may become the elastic and that as the costs and the overruns grow that it is the business community that is seen as the ones who can pick up the slack because it will not come from central government and the Mayor is not prepared to put up the council tax. So there is a danger it would just be the business community that picks up any overruns.

Andrew Wakefield (Merton Chamber of Commerce and Enterprise Agency):
Andrew Wakefield, Merton Chamber of Commerce and Enterprise Agency. It is not just Croydon that is questioning the value of Crossrail. One of the problems with the conversation that has gone on about infrastructure is a lot of it is central London, big sky infrastructure improvements. If we are going to take seriously the needs of a small micro start up business, they are not really going to benefit from that and the expenditure on infrastructure in outer London, particularly orbital transport links, which is why the knock on Croydon tram link extension is such a dangerous idea, needs to be addressed seriously.

London is made up of 32 boroughs as well as London and the localism of local authority areas and sub-regional, like South London, has to be addressed.

Peter Rogers (Chief Executive, LDA): The Mayor has launched an Outer London Commission (OLC) to look at exactly those issues and if you look at Crossrail it is very dangerous just to think of it coming into Tottenham Court Road. You have huge growth potential all the way along there from Hillingdon to Ilford and all points in between. I think it is very dangerous also to think about transport investment as the end and not the means because if you start developing local economies you can automatically think about doing transport differently.

So let me just give you an example. Most buses are full coming into London and empty going out of London in the mornings and the reverse is true of the night. If you start developing suburban economies you avoid the need for people to waste two hours of transport and you create a different model, and you create a different economic development offer in the suburbs.

Stuart Fraser (City of London Corporation): I think we said at the beginning, or sorry, heard it here that the budget for this area here is about £500 million a year, or whatever, so this is peanuts in terms of what we call infrastructure.

What I think certainly we could be doing, and certainly the GLA could be doing is we in the City of London keep trying to educate people out in the rest of the country, the subsidy that goes out from London every year to the rest of the country, it is huge. It has gone on for years and years and years. It has gone on at a time when our infrastructure is falling apart, the tube and everything else. We need to be much bolder in promoting the benefits of investment in the South, if you like, how it benefits the Midlands and the North. We need to do more work on this, we need to get it more clearly understood, because at the end of the day the money is with the Government. At the end of the day it is the disposition of MPs in London and outside of London, and I can tell you when you talk to them it is very difficult for them without any material at all to defend investment in London which they see as perceived to be streets of gold and everything else like that when we know completely the opposite, in many areas it is not. I think that the GLA could be doing a lot more now co-ordinating that and making it a much more effective marketing campaign to the rest of the country. We need our fair share of national resources in London.

Ben Walker (Regeneration Renewal): Speaking on Stuart Fraser's point, it is an interesting point about the subsidy going out of London and it is, without doubt, true. However, the northern cities' line is that Londoners are very, very good at moaning about their supposedly crumbling transport infrastructure and what Manchester and Liverpool and Newcastle say is, "If that is crumbling transport infrastructure, we would like some too, please" because they do not have any at all. So it is not quite as simple as saying that we are hard done by because compared to what they have got we have got a great deal. So how do you suggest the Mayor squares that circle if he is going to go and fly the flag for London?

Nigel Bourne (CBI London): If you look at the past history, just carrying on from the point that Stuart [Fraser] made, if you look at the way in which London's revenues have been dispersed around the rest of the UK, certainly it has been shared out really to London's disadvantage. I think what you have to bear in mind in London is we have a population of 9 million to move around that if we are going to maintain London as a competitive business centre, as a world city, then we have to have that infrastructure and surveys that we do of our members show that only about a third of the people think that the tube, for example, is in the state that it should be in and there is about a third who are sort of reasonably happy with it and a third who are unhappy with it. That goes for the roads and a whole lot of other things. We do need that investment and we do need that money to stay in London.

Dee Doocey (Chair): The next question is from Ian Mackay.

Ian Mackay: What steps should be taken to ensure Londoners, including those facing redundancy, have the right skills to find jobs?

Adam Lent (TUC): We talked a great deal about skills in general. Those who are facing redundancy, a key factor has to be a real shift in the way that employment services and training agencies are working in London. They need to move on to an emergency footing, essentially. They have to work in a way that when major redundancies are announced in a firm, for example, they move in, work with that firm, work with the people facing redundancy, to identify what their current skill sets are and where they can be improved, and work very quickly to get those people retrained and into jobs that might be available, for example, arising out of the infrastructure projects we were speaking about just now.

There is some development on that in government. There is more money for rapid response type activities and that is very important. One thing which is slightly dispiriting, as you will have seen today, is that the White Paper on welfare reform has been announced. There is still a very strong emphasis in government on NEETs, young people who are not in education, employment or training – which is very important – but there does not seem to have been a complete acknowledgement from government that the position for Londoners and across the country is changing very rapidly. The real issue that has to be dealt with is people facing redundancy now; not only people who are facing long-term unemployment. One issue we know from previous recessions, for example in the early 1990s, is those who do become redundant, a third of those tend to go on to face long-term unemployment. We have to stop that happening in this recession.

Peter Rogers (Chief Executive, LDA): I hate to refer you to the leaflet. It refers to about four or five programmes which will assist in exactly that.

Dee Doocey (Chair): Sorry, just before you go on has anyone seen this leaflet? Could we have a show of hands if anyone has actually seen this lease which the London Development Agency has produced? OK, so very, very few. Perhaps we can get some …

Peter Rodgers (Chief Executive, LDA): There were a million distributed. It is on the web. You all ought to look at it. It actually is a good document. One of the things that government and public sector do is make 'if you want to get a job this is where you go' statements very complicated by calling it some clever title which means nothing. This puts it back into English so I would refer you to it.

One thing I was going to take a bit of issue with was until Adam said, "Or part of it". We cannot just focus on people who are going to be unemployed and help them. A number of people will find their own solutions. During the boom years there is still a hardcore 30% of people of employable age who are not working in London. They are capable of contributing to the economy and given that the migrant labour force that has just had a 30% pay cut because of the exchange rate, they may disappear and there are opportunities to develop new skills and get people to contribute. I am a great believer in more people paying tax produces a better result than fewer people paying more tax. I think we need to really think about the offer but I do believe we need to change our products from totally dealing with NEETs, which we never did, to a more balanced programme of dealing with short-term redirection and relocation as well as the creation of the next skills needs for business.

Colin Stanbridge (London Chamber of Commerce & Industry): It brings me back to my point about flexibility in terms of the skills industry. We have a skills industry in London. We have got a lot of money on it so we should spend a lot of money on it. We need to make sure that the skills that are being provided and given to people are the skills that are going to get them these jobs. I would be the last one to say that education and skills is all about making you fit to work but I do think now is the time to be looking at the flexibility of the agencies we have got; to try and demystify the jargon. I did a snap survey of members at one meeting and asked them if they knew what level 1, level 2, level 3 qualifications were, and absolutely nobody knew. There is a whole industry that has its own language that we need now to demystify and make sure we are actually talking to businesses. I am glad to say we are growing a much better relationship with Business Link. We are doing focus groups for the LDA. We need to ensure that what our small businesses are saying is actually translated into the skills that have been given, therefore, those people who get those skills will be able to get the jobs that will help us out of the recession.

Nick Winch (Federation of Small Businesses): I agree entirely with what Colin said. I think there is too much of a fixation on national vocation qualifications (NVQs) and on formal training and not enough recognition is given to the very good levels of informal training that is done in the workplace; the business owner training his staff and so on. I think it would be very helpful if there was a method of recognising the value of that training; of letting it count towards recognised qualifications so that the business owner, the guy who is providing the training for his staff, is not just seeing it in terms of something that he is doing that does not lead anywhere, and nor do the staff members themselves feel that.

I also think we need to recognise that one of the big problems that businesses are reporting is where they have got the shortages are, as has been said, the post graduate level but also the people who are not yet ready for work; the people coming along who are not aware that you need to turn up on time or how to answer a telephone; the very, very basic skills that make somebody employable.

My final point is I think we need to recognise that if we only concentrate on those people who are being made redundant we will never tackle the long-term endemic crisis of worklessness that exists in London.

Nigel Bourne (CBI London): The thing we have not mentioned here – which I think is very important in this whole skills mixture – is the London Skills and Employment Board that is chaired by the Mayor. The vice chairman is Harvey McGrath who is also now the chairman of the London Development Agency. This is a private sector led board that has put together a new skills strategy for post-19 skills in London. This is a great opportunity to make this work and to get much better provision of post-19 skills in London which is going to be much more customer focused. They have really just started down that road but I think we what have to do is ensure that this is given every chance to succeed because it is a great chance to make a new start and really improve what has happened in the past in that particular area.

Dee Doocey (Chair): Thank you very much. Our penultimate question is from Christine Yau.

Christine Yau: Christine Yau of Chinese Community Centre and China Town Art Space. I also own a restaurant in Soho. Do get a card from me later. The question is the Mayor has launched reviews into sustaining London's position as the leading financial centre and the GLA's offices abroad. What should the Mayor be doing to ensure London remains globally competitive?

Stuart Fraser (City of London Corporation): I am obviously talking from the point of view of financial services which, as I fully understand, is a contracting industry. I think the key issue, for us certainly, is openness. We have to remain an extremely open society as I said earlier. Many of our skills are brought in. Hopefully over the years to come more will be home-based but it is such a fast moving area that we need to have a global resource in terms of talent. Frankly, if we do not offer it, it will go elsewhere. Again, when I was in China recently, they have all the buildings and infrastructure; they do not have the talent and that is what they are over here now recruiting.

I think talent retention is extremely important. Clearly it is going to be the area of regulation where obviously there is going to be more regulation but we need sensible and intelligent regulation; not a bunch of form filling. We also need to be well aware that 70% or over 70% of all new financial regulation that affects London comes from Brussels so we have to work very hard in Brussels to ensure that legislation there is not simply looking at continental Europe – inward looking – and we suffer as an international centre from rules being imposed. That is a lot of work to do there in remaining competitive going forward.

I come back to the point that the world will recover. We will look back on this at some point as being a bad period like we have had bad periods before. We have to make sure that we remain competitive because there are billions of people out there who do want to have a living standard in the next 50 years or more; the ones we enjoy now. They will need financial services and mortgages and insurance and all the other things that go with it. There are huge growth opportunities longer term but to remain competitive we have to be vigilant. I will say this: I think this is well understood by government across the piece that London has to remain there. What we need is obviously support and I think we can fairly say the Mayor gives us a lot of support in this in terms of saying that London has the challenges it faces, not immediately. It is not an immediate challenge but we know the shift of financial and other power from the West to the East, we need to be there if we are going to remain a global city.

Colin Stanbridge (London Chamber of Commerce & Industry): I think I would like to echo what Stuart said about regulation. I think there is an understandable desire to somehow hit back at what people have seen as being excesses. I think, if not resisted, we need to make sure we are focusing in on bringing in regulations and a regulatory regime that tackles the problems. Having worked in a very regulated industry I know that principle-based regulation where the onus is on those people working there being able to make their own decisions, rather than looking up a list of rules that never really hits the point that they are on, is a much better way of doing that. That means the responsibility is on the companies and the financial institutions to allow their staff to be able to do that and to encourage their staff to do that, but I do think it is a key element in making sure that we remain competitive.

I do think investment in infrastructure is important. We did a report thanks to Europe Economics earlier in the year looking at the competitive threat of Mumbai, Shanghai, Dubai and Moscow; the emerging cities. What came out of that was it was not just making sure that financial services in London - though that is very important - remain pre-eminent. It was also about making sure that London itself remained pre-eminent; that it was a city people wanted to come, work and invest in. That is all about making sure that transport works, the cultural life works, the broad span of restaurants is still there, and I think that is what will keep us competitive.

Adam Lent (TUC): Obviously financial services are very important to London and it will continue to be very important as other members of the panel have made clear. I note that in Nicola's comments about what makes London very attractive to financial services, she mentioned a number of things. She did not mention special tax treatment or lax regulation but these are the two things that we often hear from financial services as being the most important things and those are the things that if there is any change in those will drive financial services away.

I think what we have to recognise about regulatory changes that will come into financial services, a lot of this is not going to be driven by the Mayor or the UK government; it is going to be a global shift. There is huge pressure around the world – from the States as well now – for a new regulatory environment for financial services across the world, and the Mayor has to recognise that financial services in London are going to have to change to that new environment; to present itself in a very different way. So calls for greater deregulation or maintaining special tax treatment for financial services are not going to cut it in the future.

Colin Stanbridge (London Chamber of Commerce & Industry): We should also learn the lessons of history. Learn the lessons of Sarbanes-Oxley[1] which was great for the London Stock Exchange. Has it really done what it intended to do? Has it really regulated the financial system in America in a way that the architects wanted? I am not sure it has. Of course we need regulation but we have to look at that regulation and ensure that it actually works rather than sounds good.

Nick Winch (Federation of Small Businesses): In a sense this conversation is about things which London does not necessarily have total control; it is a matter for government and so on. What I think we do have control over is trying to make sure the whole London journey, if you like, is a pleasant one. If you are looking at where you are going to locate a business or whatever, what is it like if you arrive at Heathrow? What is it like if you go to hotels? What is the welcome? Do the streets feel safe? Are they clean? Those are the sorts of issues which can bolt on that may, in the end, tip the balance and are issues over which London itself has some degree of control.

Nigel Bourne (CBI London): I was really going to make the same point that Nick has made. One of the reasons that people like coming to London and setting up their business here and living here is simply the quality of life and we all know that is made up of a whole bundle of very important things. One aspect of this, which I think we must concentrate on and which the Mayor has the power to concentrate on, is the whole subject of crime and security. People have to feel safe on the streets. It is particularly an issue I think when unemployment starts to rise and it is something that needs time and attention spent on it to ensure that what we do have is a city that people feel is a safe city to be in and walk alone in at night.

Janet Le Patourel (Citizens Advice Bureau): This question really relates to the previous discussion about the role of education and training. We have heard this morning about the advice needs of small businesses and also the fact that not all people losing their jobs are going to be city high-flyers. I wanted to emphasise the central role that advice agencies can have in this whole situation and to ask you what steps you are taking to ensure that advice agencies are enabled to meet the increased demand for their services and that people get the information and advice they need to help them find work quickly. As an organisation which is proud of a long tradition of

[1] Formally the Public Company Accounting Reform and Investor Protection Act of 2002 in United States law

volunteering, I would also like to flag up the role that volunteering can play in helping people acquire the skills they need to get into or back into work.

Dee Doocey (Chair): Thank you very much. I am sure that is music to Peter's [Rogers] ears but we will come back to Peter in a minute.

Audley English (London Equal Opportunities Federation): My question is that it is quite clear that 2009 is going to be doom. The majority of Londoners are ethnic monitories now and my question is that. with the downturn in the market, especially in the financial industry and those people coming onto the job market, already you have a high proportion of black and ethnic people out of work doing job training skills. Now there is this influx of intelligent people coming onto the market. What opportunities are there for them? What hope is there for them to get jobs? Where are they going to go in the future? Some of them are on sink estates living in deprived conditions. What hope is there for them? Maybe you can answer me that.

Ian Baker (School for Social Entrepreneurs): I would just like to welcome the point that Peter [Rogers] made focusing on the 30% of people who currently are not in work. As someone who lost their job at the end of the dotcom boom and was classified as long-term unemployed, it was not actually so awful. I have probably got more sympathy now for the people who have generations of unemployment in their family. My point is are there opportunities now to focus on a more bottom-up approach to creating work in communities to complement the very vital top and trickle down approach that we have mainly heard here this morning.

Peter Rodgers (Chief Executive, LDA): Citizens Advice Bureau: I totally agree with what you said. In terms of funding, local authorities fund an awful lot of CABs and they will certainly need to look at the workload that is going through them because undoubtedly, given the sort of pressures in terms of unemployment and whatever, they should be anticipating an upturn in demand for advice and for services around benefits and all the other things. My guess is they are already doing that.

With regards to the second issue, picking up the 30%, we cannot focus just on dealing with people in employment, out of employment, back into employment. We need to deal with all parts of the community and it will require difficult choices. We will not be able to do all of one. We will not be able to do all of the other but we must make sure that coming out of this we are in a position to have a better position than structural unemployment and no hope on some of our estates. If we do not deal with that then the next generation of kids on those estates will grow up with exactly the same ambition, which is none. So, we need to deal with that.

I also think community businesses are a real opportunity now and one of the things that the LDA is looking at is the position of single parent families and whether there is a possibility of creating community nurseries to enable people to go out to work so that business is sustained by that employment and it creates its own micro-employment. We are talking to a number of local authorities about whether they would be interested in developing that sort of model and then it can be extended. I do believe the community businesses have a place. Proper regulation of nurseries is important, just as it is for proper regulation of financial services. One thing I have not heard anybody say this morning is financial services should be deregulated. What we have said is it needs to be sensibly regulated and, in my view, who better to do it than the people who were in that industry and have had their reputation tarnished by the last few months.

Dee Doocey (Chair): OK, let us have the final two questions from the audience.

Ben Walker (Regeneration Renewal): Picking up the point about quality of life, which I think is a good one, in terms of attracting business and talent. One thing that London Government has done since it was launched in the late 1990s, both under Ken Livingstone and Boris Johnson, is to create a vision for London and I think it has been a very successful development having London government here. It has also been good at changing the environment in London. Is it now time that we devolve yet more power and more budgets to London so we can get these quality of life improvements quicker and more efficiently than going through the choked arteries of Westminster to do them?

John Biggs (AM): At risk of sounding like a populist old leftie, but it is not meant in this way and it is directed at Stuart Fraser, I think financial services have been seen for a long time as an export industry. It seems obvious to me that the current crisis presents an opportunity which is, we are all nostalgic about the Victorian age, that in fact our financial sector was instrumental in building the infrastructure and economy of this country and investing in strengthening our cities. Is there not a great opportunity for our financial sector in reinventing its model perhaps? Fewer quick bucks but more solid return bucks in investing in the infrastructure. I suppose it goes back to the first question which is £23 million from the LDA is virtually nothing, but a few hundred million or billions from the city invested in infrastructure is a lot more effective.

Stuart Fraser (City of London Corporation): If I could touch on a couple of others before that last one. I am not an expert in this area but I have worked on regeneration schemes and talked to various people. It does seem to me that core of the unemployed – the structurally unemployed – are more likely to be more involved in crime than perhaps the newly unemployed, if you see what I mean. It was touched on before, but the fear of crime is hurting our image abroad. Crime is perceived to be rampant in London if you live overseas because that is all they see when they read a newspaper and I think that is a real issue from a competitive point of view. People fear coming to London that they are going to be in a high-risk environment. We do need to tackle that and I think that is very important.

The point about physician healing yourself is absolutely right. I think the skills that were used to devise these vehicles could be equally used to devise ways of avoiding them in the future. I will say there is very little chance of anybody putting together a highly toxic bit of waste and selling it to anybody for the next few years. The reverse is the problem we have now: no risk taken. That is the problem we have now. People are so risk averse, they are not doing anything.

Coming onto John's [Biggs] point I think, to be honest with you, the city always would say it does not have a particular bias. I do not think you can go along to the businesses and say, "Thou shalt invest into the UK". You have to bear in mind the city, for many years, financed the overseas exploits of wars and things like this and built railroads and things like that. It has a long history of being international and global. I suspect that in terms of risk now that domestic opportunities will be viewed much more favourably. You do not have a currency risk or an unknown political risk that you have elsewhere. Certainly some of these areas where people have been investing there is now clearly a much greater political risk than there was six months ago. Almost by natural tendency you will find that financing at home is going to be preferred at the moment to financing overseas. It is a market shift that will take place. It does not need direction. Come up with the opportunities in the UK and I am sure there will be the people there.

As I said, with this attitude it is going to take quite a long time to bring risk back and if I could make a plea, let us not say we should not have risk. You need risk. All new businesses are risky. They need financing. All new products are risky. All we have to do is to make sure those who are not financially prepared to take those risks are not involved with these things. In other words, high risk goes with high-risk investors. That is what regulation is all about in my view: making sure there is not a misunderstanding. When you put your money in the bank it is not bet on a high-risk enterprise over there which means you could lose it all. That is what I think the regulation is.

Peter Rodgers (Chief Executive, LDA): I personally think there is a real case for doing the things that Stuart said and I have got very little to add to that. It seems to me to be self-evidently true.

Dee Doocey (Chair): let's move onto the final question from our audience.

Paul Regan (London Citizens): Paul Regan, London Citizens, which is a broad-based alliance of churches, mosques, schools and trade unions working for the common good. The question is if all workers currently on the national minimum wage were paid the London living wage, it would mean an increase of approximately £3,000 per annum for each worker. Would the panel agree that this would support London's economy by increasing spending power?

Adam Lent (TUC): It would certainly increase spending power. It is very important that people do have money in their pockets and feel confident enough they have money in their pockets to go out and spend. We know that what creates recessions is a complete decline in confidence and people stop spending and obviously that is what we are in at the moment. The move by the Mayor to introduce the London living wage is extremely welcome and something we welcomed and I know there are a number of other authorities looking at this.

I am afraid to say there are some more fundamental fights that have to be made in other parts of the public sector and in the private sector in London. We know that there are millions of public sector workers in London who the Government is still insisting on a 2% pay cap and that is obviously damaging their spending power and we know there are private sector institutions in London, and the CBI, for example, is arguing very hard at the moment for no increase in the minimum wage, let alone the London living wage. We are arguing very strongly that is going to reduce spending power and is only going to throw us into a deeper cycle of recession.

We do have to recognise though that the considerations that the Low Pay Commission when they set the minimum wage take into account is will there be an increase in unemployment if the minimum wage is set too high? That is a balance that we always have to keep in mind. We cannot increase wages so fast that it means the businesses go bust and people end up on the dole, especially under the current circumstances. My feeling is that the business community is setting the bar far too low and overstating that case in order to save on their wage bill.

Nick Winch (Federation of Small Businesses): Quite clearly, low pay has to be addressed, but I also think it is important that people need to be confident that their jobs are secure. I think there is a danger that you can raise the bar too high. One of the problems that existed with the national minimum wage, and certainly our members report that very few of them have ever had a problem with the national minimum wage in London, that wages have not been as low as that in London. I think there is an issue about the fact that it is a national minimum wage and we should be trying to regionalise it to reflect different costs of living around the country.

One of the problems that businesses do report they have is that if you are quoting for a contract that might last over a period of three or four years, for example, that the historic unpredictability of what will come out of the increase in the national minimum wage makes it very difficult to budget for how much you are going to charge for the goods or services you are providing. There does need to be recognition of the requirement and the realities of life for the business as well as addressing the issue of low pay generally.

Stuart Fraser (City of London Corporation): Yes, I think there are a couple of things I have to say and this is coming back to the realities of the situation of where we are: the toughest recession probably any of us have ever seen. If you can do that in the public sector, who pays the public sector? It is either the Government that pays the public sector – that is you, the taxpayers – or if it is local authority it is the ratepayers, which I presume is you. I guess the money has to come from somewhere, so somebody's gain is somebody's loss at the end of the day so it is a balancing act.

You are seeing at the moment a slight reversal within the private sector. What people are doing now is taking pay cuts to stay in work in the private sector. "The choice is yours. I need to cut my wage bill by 10%. You can all take a 10% wage cut and remain employed or I cut 10% of the workforce". That is the reality of where we are. Obviously everybody aspires to having a decent living wage. If this went through as a tax on business, that they were not going to be compensated by some fiddle around with the business tax, or whatever it is, it would raise unemployment. It is as simple as that. Nobody is in a position, in my view, to accept a much higher wage bill.

There will be opportunities, hopefully in the future, and that is a question of timing. It is like there is always a magic pot of money that nobody pays for that can resolve all our problems, and if there is one thing we have learnt from this situation is, there is not.

Nigel Bourne (CBI London): Really just to amplify what Stuart [Fraser] has said. When we look at next year – and this is not a very comfortable message – I do not think many of us have an idea of what next year is going to be like. Certainly from businesses' point of view, and I am sure from local authorities' point of view as well, anything they can do, even if they can maintain their wage bills at the same level as this year, that will probably be one result. I think there will be organisations out there which have to cut those wage bills as well and that is going to be an unfortunate fact of life. It is going to be uncomfortable. Going back to the point about the CBI looking for no increase in the minimum wage, that is one of the reasons we are looking for that at this particular time.

Colin Stanbridge (London Chamber of Commerce & Industry): All good employers want to keep good staff, therefore, they are well aware that they have to pay whatever the rate is that will keep those staff. The good employers will always try to do that. One statistic: something like 86% of London companies employ less than 10 people. In those companies cash flow and being able to pay the rent, pay the wages, is vital and there are going to be real pressures on them. As I say, good employers will pay above the minimum wage where they possibly can because it is in their interests.

We also have to be aware that, for example, the Government put corporation tax on those – made some movement in that direction in the pre-budget statement – and raised the corporation tax for small businesses. So, there are lots of threats and problems that those businesses are going to have to tackle. Wages will be one of them. I am sure they will want to pay what they can.

Adam Lent (TUC): Just a couple of points. Yes, there are good employers out there who pay their staff a good wage but there are also a lot of extremely bad employers out there. There are some very good employers who contract out to bad employers and wash their hands of the wage arrangements in those companies they contract out to. It is very important the minimum wage is maintained at a decent level to make sure that bad employers do indeed pay their staff a decent wage.

On this issue of having a different minimum wage for London and the South East to the rest of the UK, you hear that quite often. It sounds an attractive idea but I am extremely dubious about it because what it effectively means is that you are creating low pay sectors of the country so the minimum wage in certain parts of the country could potentially be much lower over a number of years than it is in London and the South East. That is very problematic. That basically means you are hard wiring in the north/south divides as we used to call it, for example. It also means you are encouraging people to come to London and the southeast to get that high minimum wage and we know the sorts of pressures that has brought onto infrastructure and housing. We do not want to hard wire that into the economy going into the future.

Dee Doocey (Chair): I am happy to take a couple more questions from the audience. I am then going to ask the Deputy Chair Joanne McCartney to sum up and when Joanne has summed up I am going to ask Peter Rogers of the LDA to respond.

Paul Regan (London Citizens): Just a right to reply. The GLA calculates the London living wage on the basis of what a family requires to meet their very basic costs in London with no luxuries. Our calculation in London Citizens is that the average family, when they get the London living wage, do not actually have any more spending power because they pay more tax and they claim less benefits; 90% of it goes back to the Treasury and, therefore, there is an argument that the public service could be funded by the Treasury in order to make sure all people in local government and other public services do get, not poverty wages, but the wages on which they can meet their basic living costs in London.

Mark Bacon: Local resident. Just to give you a positive idea, I think over the coming years London has an opportunity to become the world education centre. It really is already starting that and if you look at the world demographics: 1.3 billion Chinese, 1.1 billion Indians, the winners in the future are going to be the cities that takes the special relationship with India and China further. I think that is already established. I think we have a great education system here. I think we really can become the world's leading education centre that will build all sorts of bonds for the future, kick started by the Olympics. In terms of a proposition for the LDA I suggest you need to seriously talk to the leading headmasters of maybe Westminster, St Paul's, Eton and Harrow and get them around the table. Every year they turn away hundreds, soon to be thousands, tens of thousands of applications from overseas because they do not want to swamp the system with people from overseas. I think it is a great opportunity for the future.

Speaker 1: This is a plea rather than a question.

Dee Doocey (Chair): I am looking for questions rather than pleas.

Speaker 1: In that case I will try and turn it into a question.

Dee Doocey (Chair): "Does the panel agree that …"

Speaker 1: Small businesses tend to be run by highly motivated individuals with a great deal to lose, in particular their house. Does the panel agree that if there is a limited pot, that a larger percentage ought to be directed towards small businesses which will generate a much bigger return? There is a much bigger multiplier at work for small businesses.

Nicky Gavron (AM): Thank you for taking me. I was spurred on by the last speaker who talked about an opportunity. I just wondered how much the panel felt that the combination of business and political leadership – and we have both here – could open up new markets in greening London? Not just greening London but collaborating with other cities. We have a cosmic market here in terms of retrofitting buildings. We have huge opportunities in terms of new technologies for transport; for replacing the environmental infrastructure; energy, water, waste, the big CO_2 emitters together with transport. If we had done it in the 1990s would have high carbon and now must be low carbon – also the leapfrog technologies; the ones that are really going to accelerate CO_2 reductions. So, an opportunity to invest and see that investing is good for productivity. Tackling climate change is good for the economy and of course it is good for quality of life.

Where are the new financial models? The new leapfrog finances? We heard about one: unitising rather than securitising but where are the new business models and new financial models which are going to carry us forward?

Dee Doocey (Chair): Thank you, Nicky. That is the final batch of questions. I am going to ask all of the panel to respond starting with Nigel.

Nigel Bourne (CBI London): I am still writing questions down.

Dee Doocey (Chair): You do not have to respond to every question.

Nigel Bourne (CBI London): I will start, if I may, with Nicky's [Gavron] question. One thing we must not lose sight of in everything else that is going on is the opportunity we have to act on climate change in London. We had a meeting yesterday with Isabel Dedring (Mayor's Environment Advisor) looking at this very point. It is vital that we really do keep the pressure on with that and do not have our attention taken elsewhere. There will, I am sure, be a number of business opportunities, both here and abroad, that will come as a result of that. I think that moves on to a much bigger subject about opportunities that can come out of recessions. If you go back and look at previous recessions there are business opportunities but you do have to actually look for those and it does need a positive attitude to pick up on those. Those opportunities are there and that is why the good businesses will actually start once we move a little bit further down the road, if they are not doing so already, to look at what opportunities are out there for the future. Certainly there are going to be lots of opportunities in London. We have a great, world-class educational base that we can build on and one of the other things we have to look forward to in the future is the Olympics and that is absolutely going to transform this city, I can promise.

Dee Doocey (Chair): Thank you very much. Stuart , some brief comments please.

Stuart Fraser (City of London Corporation): Yes, certainly I agree with the education base. It is one the thematics that have and we keep hitting the drum on that one and will continue to do so. The question of working together with government and business as apolitical, and I do have to say we all work very happily with this place here [City Hall] and that place over there [The City of London], so very much together I think.

One thing about leapfrog technology and some of these other technologies, they are all very, very high risk. If you are looking at alternative energy it does really benchmark itself in commercial terms off the price of existing energy: gas and oil. So, at $140 a barrel there were a lot of alternative energies which were economic and could have been taken forward, but at $40 a barrel, they do not work. There is an issue of how government – whatever level it is – can help and assist and remove some of these huge risks that are there. Leapfrog technology is exactly the same . even ignoring that. These are very high-risk ventures. Many will flop and there will be the one that really drives it forward. So, again, you need to work somehow or other with business. Can I make a plea here, if you wanted one way of doing it, you have got to have more equity ownership. The guy over there, his equity ownership is his house. You have to have equity ownership. You cannot rely on debt all the time to do this because you have to have flexibility with it and we have to bring equity back into fashion. That is to do with taxation policies which have really hindered that progress over a period of time. If we are going to take more risk, let's make sure we have a financial structure that can handle that risk and that is working in cooperation with all government levels in these areas.

Adam Lent (TUC): I agree every much with Nicky Gavron's point that the green economy is absolutely central and is a key sector which will help us get out of recession and there are some very exciting initiatives happening which we could look at. For example, the initiative in San Francisco to turn that city to create a new infrastructure to allow people to move over to electric vehicles and travel around the city in electric vehicles in a very convenient fashion. We could look at similar initiatives in London.

The other members of this panel may not like this but when you look at countries like Germany and Denmark where they really have massively ramped up and grown their green sector and green companies, it has been done because the government has been very clear about the regulatory environment for those sectors. They have said, "These are the regulations. This is how much we want to cut carbon emissions by. This is how we want this sector – energy for example – to develop and cut its carbon emissions. That is very important; not just because it makes the businesses do that but it attracts investment. Investors will go to sectors where they know there is some element of certainty. If they know the regulations are serious and will be met, then people are much more likely to invest in those sectors and we need to do something similar in this country and in the city.

Dee Doocey (Chair): Thank you. I am going to skip Peter because he is going to sum up, and go to Colin.

Colin Stanbridge (London Chamber of Commerce & Industry): I agree that government has a role in this but I think it is one of stimulating and making sure there is a demand there that leads to the companies and people with good ideas coming up with it. It comes back to my point about manufacturing. There is a whole area in London, there are a number of firms doing it, a number of members of the Chamber doing it, who have very good ideas but they need help also from government. Whether that is stimulating, for example, the loft insulation business by making more grants available to home owners that then demand that there are very good fitters that come along and do that and, therefore, increasing employment is one way.

The other way, just to get back to the international aspect of this, is we need to look again at the way we stimulate exporting in this country. We have turned against it and thought that inward-investment, which is obviously incredibly important, is where we should be spending our money. I think we also need to now looking at ways of spending a bit of money – and it isn't large sums of money – stimulating exports and, therefore, we can hopefully stimulate those people to come up with the green manufacturing processes that will help us and play a part on the world stage.

Nick Winch (Federation of Small Businesses): Picking up Nicky's [Gavron] point. Earlier on when we were talking about investment there was a lot of discussion about large-scale projects. The important thing is there can be the small micro investments that make a real difference, particularly on the environmental issue.

It is very clear that London is going to have some pretty tough times ahead but I do not think we should undersell the city. I think we should recognise and actively promote the enormous merits London has: its assets, whether they be cultural, geographical, historical or whatever. We need to be going out and saying that the ingenuity of London and the entrepreneurship of Londoners is, given encouragement, will be the catalyst that delivers the recovery. It is an issue over which we have control ourselves. They can see London out through this recession but what they do need is the support and help and advice.

Dee Doocey (Chair): Thank you very much. Joanne McCartney is going to sum up and then Peter Rogers will very briefly respond.

Joanne McCartney (Deputy Chair): I have been scribbling notes all morning but I have got the rather invidious task now of trying to summarise the range and quality of the debate, and the insight that you have all given us today as well, but I am going to try.

I am going to start by briefing talking about those speakers that set the scene for us. They talked in part about the causes of the economic downturn; about the fact we are a global economy now and London cannot escape that. There was talk about the democratisation of credit which was to the benefit of the growth of London's financial services but now those financial services are left with most of the debt and that is hurting too. We heard from those scene-setters about the fact that next year is going to be very difficult for London, particularly in the jobs market and those Londoners who are going to be facing unemployment, particularly in that same financial sector. We heard about the reduction and shrinkage that is likely to happen in that financial sector over the forthcoming years.

We also heard a little bit about what is happening now, the Government's unprecedented financial stimulus. We had a debate and I learnt about what securitisation markets were; about the possibility of opening them up; that could stimulate growth. We heard a little bit about when recovery would come. I think most of the speakers that set the scene this morning say that although next year will be very uncomfortable, that there were the green shoots that we could see happening that would hopefully will lead us out of an economic downturn in the following year. I think the plea from all those speakers, that the people on this panel have a part to play in this, need to look to the long-term and not just short-term measures.

I then took quite a lot of notes about the questions that were asked and your contributions as well and I think these are particularly worthwhile to us, as Assembly Members, because it gives us some ideas – and I got some ideas – of possible work we could do in the future out of what you said. It gives us a very good grounding as to what is happening out there in London and the types of questions that we should be asking Peter [Rogers] from the London Development Agency and other agencies around this table in the future when they come before us.

In the case of small businesses, some of the issues that I picked up were about the better advice and information that was needed, and on a regular basis. It cannot just be one leaflet going out. It needs to be continual following up. London needs to get its fair share of the small business fund and that is a lobbying job for all these players and also for the Mayor and the Assembly as well to take part in that. Public procurement could be a lot simpler and a lot better for small businesses and giving small businesses simple procedures to buy into that procurement and the billions of pounds that local authorities and public bodies give out in business.

We then had a debate around diversification of London and I was happy to hear the statement that manufacturing is not dead. We then had a debate about how we could invest for the future for new and emerging technologies. Particularly we heard about the strength of London in the creative sector, in high technologies and one of the roles the London Development Agency could do is anticipate that growth and do a lot of work identifying future growth so it could put investment in those areas, in particular with regards to its skills and training agenda.

We had a debate then about bringing forward infrastructure projects. The pieces I picked out were that it is important that projects continue. They employ a great many people and they are vital for the growth of London's economy, and that we do not skimp when we invest in those big infrastructure projects. I also heard that perhaps we should be 'parking' certain transport schemes because they have not got the funding at the moment. There was a gentleman that talked about Croydon and how important outer London orbital transport projects are if we want to develop outer London hubs of employment as well.

We on the committee need to bring forward and ask questions about the Olympics. I know Dee [Doocey] is leading on this as well but I like the idea that we could bring forward the tourism offer and marketing London sooner and try to bring that project forward. We heard concerns about the operation of the business rate levy, particularly for those businesses who are in their business improvement districts.

Towards the end of the morning we concentrated on the employment market and those facing redundancy. The messages I got from you then is the London Development Agency can ensure there is a balanced programme of skills, both in terms of young people entering the job market for the first time but also those that are losing their jobs and need that quick reskilling back into the job market quickly; but also a balance between the highly skilled jobs and those where we need basic skills as well. It was interesting that the leaflet that Peter [Rogers] brought from the LDA, not many of you were aware of. I think he tried to explain that it is a leaflet about demystifying the jargon and putting things more simply. That is something the LDA could have a vital role in and I have no doubt we will be asking him whether he is achieving that when we next meet him.

London's competitiveness in a global market: the things I picked out of that were the need to retain talent and attract talent and skilled people into our economy. There was a plea from members of the panel for sensible regulation of the financial services industry so we do not lose that competitive edge. There was also a plea for investment and infrastructure and that the Mayor, in particular, could have a great role in making London a welcoming city with a good quality of life so people want to come and set up business here and stay. I also picked up the fact that there is a huge amount of work done by the voluntary and social and community enterprises in London and what support is out there for them, and I am glad that Peter is looking at that as well.

We then had our final debate on the London living wage and, if you like, whether it harms competitiveness or whether it improves it. I am glad that all parties felt that the low-pay issue was an issue for London – we had varied views of what effect it would have – but I think it was a very good point that to keep good staff you need to pay appropriately and that will support your business in doing that as well. It was also the point that to us, here at the Assembly, that as public bodies when we are contracting out services, we have a duty too, to ensure that staff are treated well and that we, in turn, get that quality of service back.

Perhaps even if next year is going to be difficult for London's employers, perhaps with the upturn hopefully in 2010, they may be more receptive to working on those London living wage issues.

A few final points I want to make and one is the huge coalition that we could build in this room and with you about lobbying for London; about London getting a better share of the national taxpayers' purse; about really selling London and its importance to the rest of the country and that opportunity can also come out of economic downturn. We can look towards diversifying and looking at those economies such as the green economy or creative industries where we could work harder and push those industries. Also, that all of us together can be responsible for talking up and promoting our city.

Finally I would like to urge you to look on our website at past Assembly reports because there have been reports into creative industries, particularly film; into apprenticeships and working in the construction industry. We have touched on these works before but, as I said, what has come out of today certainly has given us some ideas of where we can go next with a lot of our work here. You may be interested to know that in January we are starting a scrutiny on small businesses and we will be examining in further detail some of the issues that many of you have raised today so we need your help doing that so we will no doubt be in touch. Again you can contact us with that.

As mentioned by Dee [Doocey] at the beginning, we will be publishing a report arising out of this meeting today and we will ensure that every one of you that we have contact details for, we will send that report to you. Can I just thank you for your input today. It was certainly worthwhile for me being here for learning from you and you will have helped shaped our work for the next few years. Thank you.

Dee Doocey (Chair): Thank you very much, Joanne, for that excellent summation. Peter, I am not going to ask you to pick up every single point but the key points that you think have come out of today.

Peter Rodgers (Chief Executive, LDA): I think this is a sort of glass half empty, glass half full day. The glass half empty is about the immediate concerns facing individuals and small businesses in particular. The pressures on them for advice, the need for support and where do they get it and making sure that they know where to get it seems to me to be the big priority. Equally it is the same for individuals: "If I am going to lose my job where do I go?" and "If I have lost it, what do I do?" and "If I need help, where can I get it?" The same questions concern individuals and businesses but I think that is a phase that we have heard should end within a year.

If you call that 'resilience phase' you then move on to 'rebuilding phase' and we have heard there are huge opportunities in the medium-term. Crossrail and the Olympics present huge opportunities for investment. They present real opportunities for jobs and rebuilding the reputation for the UK, because a lot of London investment is UK investment and that is the point about arguing our case nationally. If we do that then we also have an opportunity in the medium term to think about the Olympics. I am quite pleased to pick up the question about centres of innovation and excellence around education, medicine and environment; all of them really can be ideal solutions in terms of a new generation of industry in the east of London.

In the longer term we have the renaissance opportunity which is exploiting the opportunities of that investment. If we do that properly then it seems to me that promoting London in the UK and worldwide is critical for that, and living up to the offer in terms of what the city promises, what it does in terms of its processes and what it does in terms of the systems it operates within are going to be crucial to that.

Overriding all this for me is rebuilding the reputation of London as the world's financial centre. It is very easy to think just of the financial centre and financial services as 25% of London's employment. It also sustains an enormous amount of other employment, whether in the support sector, restaurants, theatres, service sector, and low-paid jobs depend very heavily on those businesses and also on the spend from them in terms of their economies as well.

So, in the short run I think we are in the 'half empty' mode but I hope we can very quickly turn into the 'half full' mode and quickly make it full through the sort of exploitation of the massive investment that is coming through. Personally I am quite heartened by the conversation this morning in terms of the opportunities. We just need to make sure that the short run is not as damaging as it otherwise could be.

Dee Doocey (Chair): Thank you very much indeed. Can I finally thank Joanne [McCartney] for her summation and all the members of the Economic Development Committee that have come here today. Can I thank our speakers and panellists for their contributions and also I would like to thank the officers and the staff of the GLA who have worked so hard to turn this into what I think is very, very good session. More than anything at all, thank you very much for all your contributions and for being so interested. Thank you very much.