

*London First*

**A White Paper for Sustainable  
Economic Growth**

**The views of London business**

March 2011



# A White Paper for Sustainable Economic Growth

## The views of London business

### Introduction

The Government is in the early stages of a programme of spending cuts and tax rises designed to cut the UK's fiscal deficit. Necessary as these measures are, economic growth is the best solution to the UK's fiscal predicament<sup>1</sup>. Only the private sector can deliver this growth.

This paper, drawing on the views of London's business leaders from across a range of sectors, identifies policy changes where the Government can act now. These proposals require neither spending increases nor tax cuts. Nor do they pick winners. Instead, they amount to a package of policy reforms which would support business in creating jobs and increasing the growth of the UK economy.

London First recommends:

- **An open economy** which allows legitimate migration and encourages tourism
- **A flexible labour market that supports high employment**
- **An approach to tax policy that supports growth** through stability, predictability and international competitiveness
- **An efficient and proportionate regulatory framework**, aided by earlier involvement in EU policy development, and including a planning system which facilitates development
- **Public policy that supports the development of vital infrastructure**, including airport capacity in the South East

# 1 An open economy

The UK, and particularly London, has long been an attractive and welcoming place for those who want to work, study, invest or visit here. This flow of new people, ideas and money drives the UK economy and secures London's place as a global city. These flows must, of course, be regulated – for example to prevent undue strain on public services, the crowding out of UK citizens from jobs, or risks to our national security. However such regulation must be efficient and proportionate.

## Allow legitimate migration

The introduction of the immigration cap, due to become permanent on 6 April 2011, does not, as currently structured, meet the test of efficiency and proportionality. It will prevent contributions from economically valuable people and presents an image of a closed UK economy. Individuals categorised as tier 1 (highly skilled migrants) and tier 2 (skilled workers who have a job offer) are significant net contributors to the UK economy (paying taxes and typically relying on the private, rather than public, provision of services). According to the Migration Advisory Committee report, a reduction in net migration of 10,000 would reduce GDP after one year by £559 million<sup>2</sup>. These migrants, combined with overseas graduates from the UK's leading universities, play a critical part in creating the deep talent pool which is a key reason for international business choosing the UK, and particularly London, as a place to invest<sup>3</sup>.

An internationally attractive education sector adds value to the UK economy (international students alone contribute £8.5 billion to the economy)<sup>4</sup> and provides the future talent for UK-based businesses. It is vital that our universities remain open to international undergraduate and post graduate students. Pre-degree courses must also remain accessible as these act as stepping stones to UK university education<sup>5</sup>.

The visa process for short term visits can also act as a barrier to business. As other European countries provide more flexible, cheaper and quicker routes to obtaining visas, the UK will lose out on international meetings and business events.

The Government should:

- 
- 1. Make the exemptions for intra-company transfers and those earning over £150,000, and the “no limit” on entrepreneurs and investors, permanent features of the cap.**
  - 2. Require the Migration Advisory Committee to undertake an annual review to ensure that business is not suffering from the restrictions.**
  - 3. Ensure businesses can continue to recruit the best graduates from UK universities, irrespective of their nationality; that universities can attract the best international undergraduate and post graduate students; and that the routes into UK universities via legitimate sub-degree level education remain open to international students<sup>6</sup>.**
  - 4. Enable a framework for short-term business visas whereby UK businesses with robust internal procedures can acquire trusted status and get fast track approval within 24 hours.**
-

## Keep Britain open for tourism

Tourism delivers £22 billion in revenue, provides over 2.5 million jobs<sup>7</sup> and indirectly supports a further 1.2 million jobs<sup>8</sup>. London acts as a hub for the country as a whole.

The growth in tourism from new markets offers a major opportunity for the UK. China is a good example: 54 million Chinese went abroad in 2009, spending some \$42 billion. The United Nations World Tourism Organisation predicts that China will be the world's fourth-largest source of outbound tourists by 2020, with 100 million overseas visits.

Yet in 2009, only 110,000 Chinese visitors came to the UK against two million for the EU's Schengen countries. 25 European countries are part of the Schengen visa scheme which enables travel around all member states with a single visa - making it hard for the UK to compete as a destination for visitors. This lack of competitiveness is compounded by the UK's bureaucratic approach: a UK visa application from China takes an average of 15 days to process and cannot be applied for online; all visas, irrespective of risk, require a visit in person to a visa office.

The potential benefit of liberalisation is illustrated by the removal of visa restrictions on Taiwanese tourists in 2009, which resulted in a 36% increase in visitors within the first year<sup>9</sup> and further research has suggested that the relaxation of Chinese visa rules would result in a £165m boost to UK luxury retailers alone over two years<sup>10</sup>.

The Government should:

- 
- 5. Reduce the time and cost involved in obtaining a UK visa such that it is no greater than that involved for other major countries; and provide a low cost, 24 hour, visa process for those holding Schengen visas<sup>11</sup>.**
-

## 2 A flexible labour market that supports high employment

Flexible labour markets, where employers can both easily recruit and, when necessary, cut their workforces with the minimum of cost or bureaucratic hurdles have higher average levels of employment than those with less flexibility<sup>12</sup>. Similarly, reporting rules and workplace regulation, however well-intentioned or desirable individually, can cumulatively reduce competitiveness, growth and employment.

Industrial action which affects essential services and has a substantial knock-on cost to the economy needs to be tackled. The frequent industrial action on London's transport network not only has an economic cost - an estimated £48 million every day that the underground is closed<sup>13</sup> - but also causes reputational damage. Tighter restrictions should be applied to strike action on essential public services, such as a threshold on the number of union members voting to strike.

Industrial tribunals cost business £1.6 billion in 2010 as the number of tribunals increased by 56% to 236,100. Employees can bring claims at no cost to themselves and claims are often settled by businesses, even where they have no merit, because it is cheaper than seeing the process through. Tribunals are also often very inefficient and subject to last minute postponement. A disproportionate cost to reward ratio is also a problem in health and safety litigation where, for a reward of £5,000, case costs can be in excess of £20,000.

The Government should:

- 
- 6. Commit not to introduce any further legislation which imposes net additional administrative or cost burdens on business for the life of this Parliament.**
  - 7. Provide a minimum timeframe between issuing final guidance on employment legislation and the implementation date, to give businesses sufficient time to amend their policies, processes and systems.**
  - 8. Implement swiftly the proposals set out in the Government's consultation<sup>14</sup> to increase the service qualification period from one to two years before an unfair dismissal claim can be brought, charge a fee for employees who go to a tribunal and streamline the tribunal process.**
  - 9. Introduce tighter rules to reduce the incidence of strike action including a requirement for 40% of balloted members to support strike action, as well as a majority of those voting.**
-

### 3 An approach to tax policy that supports growth

#### A stable and predictable regime

The right fiscal environment can support investment and in turn create GDP growth and jobs.

The UK has previously held a reputation for a stable and predictable tax regime<sup>15</sup>. However, unanticipated, and in some cases poorly developed, sudden tax policy changes - such as the introduction of the 50% top rate of income tax, the reduction of personal allowances for those earning over £100,000, increases in national insurance contributions, the non-doms levy, changes to pensions tax relief and the banking bonus tax - have undermined this reputation<sup>16</sup>.

The Government has made some positive moves towards restoring stability and the consultation on tax policy making, launched with the June 2010 Budget, has been welcomed by business. However, reputation is more easily damaged than repaired.

Government tax policy development, consultation and implementation processes must demonstrate stability and predictability and eschew sudden changes made for reasons of short-term political expedience. Removing policy shocks from the system is key to securing UK tax competitiveness and will encourage domestic and international investment.

The non-dom levy provides a good case study. Speculation around the scope of the hastily announced but unspecific non-dom levy, driven by the open-ended nature of the consultation, caused more reputational damage than was justified by what, in practice, was a relatively limited measure. The resulting £30,000 levy has been a net cost to the Exchequer. HM Treasury estimates show 5,400 non-doms paid the levy in its first year, representing £162 million. Against this, Inland Revenue figures show 11.5% of non-doms left the UK in 2008-2009. This cost the UK about £800 million in lost taxes (non-doms pay £4 billion in income tax and another £3 billion in other taxes such as capital gains, VAT and stamp duty)<sup>17</sup>. There has also been a 25% reduction in applications<sup>18</sup> - an opportunity cost to the UK.

The cost to business of tax is not simply the amount of tax paid but also the associated implementation and ongoing compliance costs: the annual administrative burden of the UK tax system in 2005 was £5.1 billion<sup>19</sup>. Taxes should aim to be efficient and hence collection and administration costs, both to the Exchequer and business, should be minimised.

The Government should:

- 
- 10. Implement a clearly defined and consistent consultation process, based on explicit and narrow parameters. This should be applicable across all taxes and readily accessible by tax payers, and commit to commissioning and publishing business-led impact studies prior to the introduction of new taxes.**
  - 11. Commit not to change the tax or disclosure treatment of non-doms within this Parliament and, subsequently, without due process as set out above.**
-

## A clear direction for policy

In the June 2010 Budget the Government announced its intention to lower corporation tax over the next four financial years and committed to confirming the majority of changes to tax law no later than three months before either the tax year in which they come into effect or publication of the Finance Bill in which they are to be included. These positive measures need to be built on to provide a clear direction of travel for all other major taxes (including but not limited to income tax, national insurance contributions, capital gains tax and excise duties).

## An internationally competitive tax regime

International problems require international solutions. Unilateral action by UK Government (such as the imposition or variance of the bank levy), can damage competitive and undermine perceptions of stability. They can also lead to future uncertainty and change, should a multi-national or global solution be agreed later.

Where a competitive advantage might be secured through unilateral action, this should be independently verified and if possible quantified.

London First has welcomed the Government's ambition to become the most competitive corporate tax regime in the G20 and argued for a similar commitment for the personal tax regime. In a service driven economy such as the UK and an environment where globally mobile talent is critical to success such as in London, it is essential that the personal tax regime does not act as a deterrent to locating and investing in the UK.

In particular, London First has argued that the temporary introduction of the 50% top rate of income tax is damaging the UK, and particularly London's competitiveness<sup>20</sup>. Critically, given this paper is fiscally neutral, it is unclear whether this rate will raise any additional funding as it is above the revenue maximising rate<sup>21</sup>. We would welcome a commitment now to return to a top rate of 40% by the end of the current Parliament together with a commitment to make the UK the most competitive personal tax regime in the G7 and a highly competitive regime within the G20.

However for this paper, the key point is that the Treasury lacks dynamic tax modelling capabilities. It is unable to assess whether the 50% rate will, over the medium term, generate more in revenue than it loses. The development of such a model, capable of factoring the behavioural impacts on individual taxes and across the broader tax regime, would not only aid in the setting of tax maximising rates but also provide guidance for identifying where tax incentives, e.g. to potential high growth SMEs, are likely to yield returns many times greater than the cost.

The Government should:

- 
- 12. Provide a policy framework which sets a clear direction of travel for key taxes.**
  - 13. Avoid unilateral action out of step with direct competitor jurisdictions and instead agree international commitments to tax changes aimed at addressing international issues.**
  - 14. Develop a dynamic model for assessing optimal tax rates and modelling the impact across the tax regime of changes to specific tax rates.**
-

## 4 An efficient and proportionate regulatory framework

UK regulation and its enforcement must be efficient, proportionate and evidence-based to ensure that the business environment remains competitive and distortions are minimised. The Bribery Act provides an example of how the potential distortions (through reductions in business spending) can undermine the positive intentions of the regulation.

### Influencing the EU regulatory agenda

Much of UK economic regulation is driven by measures agreed by the European Union. The UK needs to improve its capacity for early engagement with EU policy development. Though the UK represents 12 per cent of the EU population, its citizens make up only six per cent of Commission staff. The UK is now the least well represented country in the Commission by head of population, with the exception of the newly-joined Romania<sup>24</sup>.

Specific London market experience provides a valuable insight into certain EU regulatory functions, such as financial services, irrespective of nationality.

It is important to ensure that the EU policy agenda does not damage the UK's competitiveness at a cost not only to the UK but also to Europe as a whole. Also, UK implementation of EU regulations should not disadvantage UK business.

The Government should:

- 
- 15. Appoint a Cabinet Minister to take responsibility for the UK's relationship with the EU across government.**
  - 16. Ensure the UK Permanent Representation to the EU organisation is well resourced and proactively promotes the UK's agenda.**
  - 17. Ensure the UK has early involvement in, and clear routes for the early influencing of, EU policy. For example, Government might establish a fast track secondment programme with UK industry, coupled with making EU secondment a valued criterion for promotion to the higher levels of the UK civil service.**
  - 18. Ensure a target of 20% of all staff of the relevant European Supervisory Authorities to have had practical experience of London's financial services.**
-

## A planning agenda for growth

Other areas of public policy remain largely or exclusively set by Westminster, land-use planning being one example. Ensuring the built environment meets the needs of today's businesses and employees, is not only an important industry and potential area for jobs in itself but also supports wider economic investment and growth. Facilitating this development is the role of the planning system.

The Government is proposing to introduce an additional tier of neighbourhood planning via the Localism Bill. London business is concerned that this will add to development costs at a time when viability is fragile and, in the worst case, serve to prevent development when local residents object, irrespective of the wider economic arguments. Indeed, Government appears not to see businesses, voluntary organisations or employees as part of local neighbourhoods. Localism could also have an impact beyond the planning regime, with national businesses subject to differing regulations and processes in different parts of the country.

Ensuring the views of business are recognised in local decision making will be vital in the event that, as raised in the Government's *Local growth: Realising every place's potential* consultation<sup>25</sup>, a portion of business rates are retained at the local authority level.

Recognising the Government's determination to press ahead with this agenda, set out below are some reforms which could improve the planning system.

The Government should:

- 
- 19. Ensure businesses are proportionately represented in neighbourhood forums, particularly in urban areas where some neighbourhoods are predominately inhabited by businesses rather than residents.**
  - 20. If business rates are retained at a local level, ensure the process for determining local spending takes direct account of the views of the business tax payer.**
  - 21. Implement the outstanding recommendations in the recent reviews designed to simplify the planning system and related consent regimes, notably the Killian Pretty review<sup>26</sup> and Penfold review<sup>27</sup>, and ensure that new planning system reforms do not undo the recommendations already implemented.**
  - 22. Provide a more efficient process for delivering significant economic development by extending to major regeneration schemes the unification of planning and non-planning consents currently used to facilitate the delivery of large infrastructure projects.**
  - 23. Require any London boroughs which do not offer Planning Performance Agreements to support large, strategic development to explain why<sup>28</sup>.**
  - 24. Enable routine planning applications to be dealt with by approved private sector companies in accordance with the local authority guidelines thereby freeing up the resources of local planning authorities to focus on dealing with large, strategic applications which will have the most significant impact on the local area.**
  - 25. Develop a transparent framework which enables developers to contribute financial resources to local planning authorities to spend on staff resources in order to free up other resources to focus on large, strategic applications.**
-

## 5 Public policy that supports the development of vital infrastructure

For the UK to continue to remain attractive to international investment and to provide opportunities for UK businesses to grow and compete in the global economy, business needs to be supported by world-class infrastructure, not just in terms of transport but also communications networks, energy supply and water and waste facilities.

### Better transport

The Government, rightly, has prioritised investment in transport infrastructure based on its long-term contribution to the wider economy. London business particularly welcomes the decision to maintain the construction of Crossrail and investment in London's Tube modernisation and Thameslink upgrade. But while acknowledging the need to deliver new capacity to meet growing demand on London's congested networks, the Government maintains a zero-growth approach to airport capacity in London and the South East. Heathrow - the UK's largest business airport - is running at close to 99% of its permitted runway capacity, with the result that it is subject to the most delays of any European airport of its size. Gatwick is nearly full at peak times.

London's links to the world are critical to business. If London is to remain globally competitive and play its part in shifting the UK economy towards business investment and net exports, its international air links will need to grow.

The Secretary of State for Transport has announced his intention to develop a new national aviation policy framework - the first such review in almost a decade. London First believes that the Government should not pre-judge the outcome of this review by limiting its scope. It should consider the substantial economic benefits of air transport alongside all options for new capacity. There will be difficult balances to strike. The local environmental impact of flights, alongside carbon emissions, should be inputs to a credible, transparent and consistently applied framework which prioritises investment based on its long-term contribution to the wider economy.

There are also issues regarding the reliability and resilience of the transport network and the impact this has both on the cost of doing business and London and the UK's international reputation. London's road network is subject to frequent disruption, with road works adding to the broader problem of congestion which costs between £2 to 4 billion per year<sup>29</sup>. Those that cause the disruption should pay the cost<sup>30</sup>.

The inability of London's airports to cope with the recent bad weather not only cost business but damaged London's reputation as a world class city.

The Government should:

- 
- 26. Make clear that its forthcoming review of the framework for sustainable aviation will rule in all options for new capacity in the first instance and deliver a timely solution.**
  - 27. Introduce a lane rental scheme on strategic roads which incentivises utilities to complete work efficiently, while deregulating the process for roadworks on local roads, and employ similar measures for Highway Authorities' own roadworks.**
  - 28. Use the forthcoming Regulation Bill to sharpen incentives for airlines and airport operators to provide better service and increase penalties for service disruptions.**
-

## An efficient and resilient energy supply

The UK requires significant investment in new electricity generating capacity to maintain security of supply, support economic growth and help meet our long-term carbon reduction targets. However, the current national policy framework fails to give private investors the confidence and certainty to invest in the new infrastructure required.

Delays in getting a connection to the electricity distribution network for a new development cause significant extra costs<sup>33</sup>. The fundamental problem is the shortage of spare distribution capacity in central London, combined with a regulatory framework which tends to incentivise the distribution company to build new capacity on an ad hoc, rather than on a planned basis. This is primarily a matter for Ofgem, the economic regulator.

The Government should:

- 
- 29. Implement the reforms to energy markets and major infrastructure planning that will give investors the necessary confidence to invest in new low carbon generating capacity, in particular nuclear.**
  - 30. Require Ofgem to take into account the needs of business users when setting price controls and establish a mechanism to permit the forward funding of capacity<sup>34</sup>.**
-

## Endnotes

<sup>1</sup> The Government produced a consultation document recognising the need to support private sector growth and outlining its approach: *The path to strong, sustainable and balanced growth*, November 2010.

<sup>2</sup> Limits on Migration, Migration Advisory Committee, November 2010

<sup>3</sup> According to the CBI / KPMG London Business Survey (2010) skills and talent pool was London's key strength. 2010 Cushman Wakefield European Cities Monitor, the availability of qualified staff the second most important factor for businesses choosing to locate.

<sup>4</sup> Research undertaken for the British Council: The value of UK education and training exports: an update: Pamela Lenton, Dr of Economics, University of Sheffield, September 2007

<sup>5</sup> 131,000 non-EU students attended sub-degree courses at educational establishments licensed by the UK Border Agency in 2009

<sup>6</sup> For further information see London First's response to the Student immigration consultation: [http://www.londonfirst.co.uk/documents/London\\_First\\_T4\\_UKBA\\_consultation\\_response.pdf](http://www.londonfirst.co.uk/documents/London_First_T4_UKBA_consultation_response.pdf)

<sup>7</sup> News Release Economic & Labour Market Review January 2011, ONS

<sup>8</sup> Economic contribution of UK hospitality industry, Oxford Economics, 2010

<sup>9</sup> EU and Taiwan Trade and Investment Fact File, European and Economic Trade Office, 2010

<sup>10</sup> Research undertaken by Global Blue and reported in the press:

<http://www.ft.com/cms/s/0/ae31f484-2c9d-11e0-83bd-00144feab49a.html#axzz1Es7Zq3Vg>;

<http://www.telegraph.co.uk/news/worldnews/asia/china/8323318/Complicated-Chinese-visa-rules-cost-UK-hundreds-of-millions.html>

<sup>11</sup> Select Committee on Culture, Media and Sport [Eighth Report](#), July 2008, recommendation 17, supports the plans for a "Schengen add-on visa", which would make visits to the UK for those already holding a Schengen visa a more affordable proposition.

<sup>12</sup> See Developing an Index of Labour Market Adaptability for the UK, Employment Relations Research Series No. 85, Department for Business Enterprise and Regulatory Reform, Nov 2007

<sup>13</sup> RMT tube strike will cost London economy £48m, 24<sup>th</sup> August 2010, London Chamber of Commerce

<sup>14</sup> Resolving workplace disputes, January 2011

<sup>15</sup> See Z/Yen *Global Financial Centres* report (7 reports to 2010); CRAI *The Impact of Taxation on Financial Service Business Location Decisions*, February 2008; Bourse Consult, *The Competitive Impact of London's Financial Market Infrastructure*, April 2007; Oxera, *Stamp Duty, its impact and the benefits of its abolition*, May 2007. Also Taxation of the Financial Services Sector in the UK Predictability and Competitiveness, Charles River Associates for the City of London Corporation, 2010 for more details

<sup>16</sup> A survey on the UK's tax competitiveness found that the proportion of groups surveyed that were actively considering leaving the UK had more than doubled, from 6 per cent the previous year to 14 per cent, and that those groups included four in the FTSE 10016.

<sup>17</sup> <http://www.telegraph.co.uk/finance/comment/damianreece/8256127/Non-dom-levy-is-a-costly-mistake-for-Britains-economy-and-its-society.html>

HC Deb, 14 February 2011, c556W

<sup>18</sup> See Non Doms and the UK Economy 2010, [Cass Business School](#) for more details

<sup>19</sup> administrative Burdens – HMRC Measurement Project, KPMG, 2006

<sup>20</sup> Prior to 2010, the UK's top rate of personal tax was 40%. At a top statutory income tax rate (data combines national and sub-national taxes) of 40%, the UK had the 18th highest rate out of the 30 OECD member countries (as at 2009). More critically, the UK rate and hence the rate at which London was competing to secure skilled workers was below that of New York (US: 41.9%); Frankfurt (Germany: 47.5%); and Paris (France 47.8%). As would be expected, the 2009 headline rates in Hong Kong and Singapore of 15% and 20% respectively were considerably below the UK's.

<sup>21</sup> Taxing the rich – can it raise any money for the Government?, Institute for Fiscal Studies.

<sup>24</sup> HR Key Figures Card Staff Members, European Commission Human Resources and Security, 2010

<sup>25</sup> Local growth: realising every place's potential, October 2010

<sup>26</sup> The Killian Pretty Review: Planning applications - A faster and more responsive system, November 2008

<sup>27</sup> Penfold Review of non-planning consents, Final Report, July 2010.

---

<sup>28</sup> Planning Performance Agreements (“PPAs”) are not used as widely or as consistently as they could be with less than half of London councils currently operating PPAs .

<sup>29</sup> The Mayor’s Transport Strategy and Colin Buchanan, Roadworks Count, 2010

<sup>30</sup> Road Sense, London First, 2010

<sup>33</sup> As an example, the cost of a one week delay can be £100,000 in project management costs alone

<sup>34</sup> For further discussion see World Class infrastructure for a world city, London First, November 2010

London First  
3 Whitcomb Street  
London  
WC2H 7HA

+44 (0)20 7665 1500

[www.londonfirst.co.uk](http://www.londonfirst.co.uk)

Contact: Jane Archer

[jarcher@londonfirst.co.uk](mailto:jarcher@londonfirst.co.uk)