The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

1 February 2023

Dear Chancellor,

Re: London Property Alliance's representation to the 2023 Spring Budget

This submission is being made on behalf of the London Property Alliance (LPA), which represents more than 400 of the leading owners, developers, investors and professional advisors of real estate across central London. It is the name used for the joint work of the two not-for-profit membership bodies City Property Association (CPA) and Westminster Property Association (WPA). The LPA sits at the heart of London's Central Activities Zone (CAZ+) which accounts for some 7% of England and Wales employment, generates 11% of UK GVA and contributes about one fifth of England's business rates revenue.[1]

The LPA considers that it remains vital, from both a domestic and international competitiveness perspective, for the UK capital's economy to continue to grow. As our latest Global Cities Survey[2] highlights, there is increasing evidence that competitor global cities are starting to improve their performance at a faster rate than London and move ahead by other measures. London's position as a pre-eminent centre of growth and wealth generation cannot be taken for granted.

Fiscal surpluses[3] generated by the capital are essential to help facilitate the transformation of the UK's core cities and regional economies. In short, Levelling Up requires growth across all areas, not growth at London's expense. But London's ability to grow is in part contingent on continued sustained investment from the public sector due to very centralised way in which decisions are made in England.

Tackling regional disparities and delivering the incentives and resources for long-term growth

The LPA supports the Government's policy agenda of addressing regional disparity and closing the productivity gap between London and other British cities. Devolution of further fiscal powers to local government in London and across the country will, we believe, assist that process. A strong UK is in London's interests, just as a strong London is in the UK's.

As London's fiscal surplus returns to positive territory, the LPA considers a proportion of this should be ringfenced to support continued public investment within the UK capital – along the lines of a City Deal. This should form a key policy driver when seeking to boost UK growth, competitiveness and employment along the lines of an "invest to grow" model.

[1] See Arup's work commissioned for the LPA: https://drive.google.com/file/d/19ReNEKsg9n6Fl9vtzgBiHXDKAjNVfIO4/view
[2] https://www.londonpropertyalliance.com/global-cities-survey-january-2023/
[3] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2020

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In addition to its capacity to generate growth, London continues to be home to some of the poorest most deprived communities and levels of child poverty in the country[4] and the case for a transfer (or retention) of public resources to the city should take this into account fairly. Eight London Boroughs were ranked in the most deprived 30% of local authorities when looking at the proportion of their neighbourhoods which were the most deprived nationally – and six of these (Tower Hamlets, Haringey, Hackney, Islington, Westminster and Kensington & Chelsea) are in central London, cheek by jowl to significant wealth[5].

Whilst London has benefitted from capital investment and revenue support over recent decades (much of it funded by London over and above central government support, such as for the Elizabeth Line, just under 70% of which was funded by the capital[6]) there is an ongoing requirement for additional resources and policy changes to address the challenges faced by the city in relation to climate change; the affordability and supply of both housing and commercial space; skills and critical worker shortages; as well as inadequate digital infrastructure, which may undermine competitiveness in the post-Covid business environment. We ask that Government considers the following as part of the Spring Budget:

Fiscal devolution: Further fiscal devolution to the Greater London Authority and the boroughs would enable London government to have the financial capacity and incentive structures to deliver infrastructure and secure long term economic growth.

Measures should include the retention of a greater proportion of business rates revenue (including under any proposed wider reforms) and the ability to consider the adoption of other additional levies or taxes to facilitate the delivery of infrastructure. The Elizabeth line is a good example of how this sort of approach can be used; approximately two-thirds of the project will be paid for by London businesses and the railway's farepayers.[7] (The South East which is a major beneficiary of the railway has made no additional contribution towards its costs.)

In line with our previous submissions, we also call for urgent progress in the review of the business rates system and ask for clear recommendations to make the system fit-for purpose as well as fair and responsive to a 21st century digital economy.

Transport funding: The recent funding settlement for Transport for London (to March 2024) whilst welcome, will leave a substantial weakness in the transport body's financial ability to ensure sufficient capital renewals expenditure, to the tune of some £500m per annum. Already, TfL is around £2.5 billion behind on its capital renewals requirements.[8] We ask for a long term, stable capital (and revenue) funding package (see below) to support continued investment by TfL in its existing public transport and road infrastructure, including a

[4] See for example https://cpag.org.uk/child-poverty-london-facts

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/IoD2019_Statistical_Release.pdf

[6] http://www.infrastructure-intelligence.com/article/may-2022/all-aboard-elizabeth-line

[7] https://www.crossrail.co.uk/about-us/funding

[8] https://tfl.gov.uk/corporate/publications-and-reports/business-plan

continuation of the Underground upgrade programme which is needed to secure capacity and improve reliability. Without this, there is a risk that the system will fall into terminal decline, as is the case with New York's subway system. A continued funding package for the further introduction of sustainable travel initiatives and projects which create more facilities for pedestrians and other non-motorised road users would also be welcome.

Regional connectivity: Support for London's existing infrastructure should be complemented with a clear plan for network growth and improved regional city connectivity. Examples include extensions to the Elizabeth line and the Tube network, such as the Bakerloo line. Work on Crossrail 2 should be remobilised. These schemes can help to further improve access to higher paid jobs for less well-off communities and spread the benefits of central London's continued economic growth and prosperity to more families.

Recognising the economic imperative for tourists and office workers to return to central London

During the pandemic sectors in central London's business "ecosystem", such as culture, retail and hospitality, were disproportionately impacted compared to other cities. Whilst the situation has significantly improved thanks to a combination of Government support and steadily returning footfall, significant challenges remain in restoring the economy to pre-pandemic levels.

We call on the Government to provide the long-term financial framework, resources and policy flexibility needed to enable London to recover fully and rebuild. This would allow the culture, retail and hospitality sector to maintain London's unique and important role as the nation's 'shopfront': attracting international visitors and foreign direct investment.

In relation to workers, we know that there are significant agglomeration benefits to productivity associated with increasing the "effective density" of workforce jobs in areas such as central London[9]. We therefore ask that the government considers the following as part of the Spring Budget:

Tax free shopping: The decision to end the VAT RES scheme leaves Britain as the only country in Europe not to offer tax-free shopping at the point of purchase. This has been damaging not only to London but to other regions of the UK.[10] We ask that the OBR is commissioned to undertake an independent analysis of the overall fiscal and economic impact of the impact of restoring tax free shopping on the UK economy. We also ask that the Government looks again to allow reform to current Sunday trading laws to allow for extended hours in International Retail Centres, such as London's West End.

TfL fares: As noted above, we call upon the Government in the spending review to provide a three-year additional revenue support package for TfL to safeguard services and to facilitate more innovative and flexible ticket models to help accelerate the return to office. This would provide TfL with much needed stability over the medium term and the ability to continue to promote and, where appropriate, subsidise active travel measures. Changes to fares might include removing peak fare tariffs on Mondays and Fridays and providing tax relief on

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[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/706671/agglomeration-elasticities-existing-evidence-and-future-priorities.pdf

[10] https://internationalretail.co.uk/wp-content/uploads/2022/11/20221110_AIR-TFS-ES_Final.pdf

season tickets. As highlighted in our latest Global Cities Survey,[11] a number of EU cities are enjoying higher levels of ridership compared to pre-Covid benchmarks. This is in part a reflection of their less fare-box dependent funding structures which mean that affordability at the point of use is less of a constraining factor compared to London.

Private and public sector collaboration to support the return of office workers: Local authorities, property owners and major occupiers have a critical role to play in making city centres as attractive as possible to support high levels of occupancy and footfall. This includes investing in our built environment and open spaces, and having flexible planning policies which support the activation of streets and the delivery of high-quality public realm and buildings.

National Government also has levers to support these efforts, including the aforementioned devolution of discal powers; reform of business rates - including allowing councils to retain and reinvest more income locally; and tax policies which recognises the value that office-based work brings to city centres.

HM Treasury to support central London in leading the path to Net Zero

Central London has a crucial role to play in meeting the UK's commitment to Net Zero Carbon (NZC) from an occupier investment perspective, but also as one of the most-dense urban geographies in the country. The path to NZC in this context has many forms, from being part of a wider ESG agenda, ensuring deployment of capital in climate mitigation and resilience projects, to future technology investment and behavioural change all delivering carbon reduction across the built environment and transport sector.

As well as meeting the key objective of carbon reduction, there are also significant benefits to be derived through improved public health and wellbeing from the introduction of further active travel, increased biodiversity and enhanced "green" and "blue" infrastructure, along with improved air quality.

In order to address these challenges, we would recommend that the government considers the following as part of the Spring Budget:

VAT on retrofit: Given the unique challenges faced by central London owners and occupiers we call on the Government again, to exempt VAT for retrofit projects in order to accelerate the transition to NZC and to rapidly increase the energy efficiency of both commercial and domestic buildings.

Retrofit grant funding: In addition to the potential exemption of VAT on retrofit projects we would call also for the creation of a dedicated capital grant scheme to support the funding of retrofit measures across residential and commercial buildings. The intensive nature of such works often requires full or partial decant, or relocation, which within the central London context adds significant cost and complexity to projects. Furthermore, the very nature of

[11] https://www.londonpropertyalliance.com/global-cities-survey-january-2023/

many of our buildings - often historic within the area - adds a level of complexity and risk which makes delivery of such measures extremely challenging.

Development of green homes: By the very nature of the high land values within central London, residential development often delivers limited or no affordable housing on-site, despite there being a chronic need. In fact, delivering affordable housing for key workers and working Londoners is key: these residents bring much more social and economic value than their salary. However, increased costs in relation to meeting and exceeding current and future sustainability criteria may result in a further viability squeeze on affordable housing provision. Therefore, we call upon the Government to consider the provision of additional grant funding to support the development of green homes within central and inner London where land values are highest.

Conclusions

The UK economy is facing some of its strongest headwinds for three generations. High inflation with an anaemic, even negative, rates of economic growth are anticipated to persist into 2023. With Covid behind us, there is now an opportunity for London to play its role in helping the Government to deliver sustainable growth and wealth creation for UK plc.

As the UK's key geographical economic driver, London continues to compete internationally for investment and yet also suffers high levels of deprivation and poverty, as well as long term sustainability challenges. We believe our package of proposed measures go some way to tackling these problems for the benefit of the city and indeed all those with a stake in its success, across the United Kingdom.

Yours sincerely,
Yours faithfully,

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