

## Business Energy and Industrial Strategy Committee Post Pandemic Economic Growth

1. The London Assembly warmly welcomes the opportunity to respond to the Business, Energy and Industrial Strategy Committee's inquiry on post pandemic economic growth.
2. The London Assembly is the cross-party, 25 elected member body that holds the Mayor of London to account and investigates issues that matter to Londoners. The London Assembly's Economy Committee scrutinises the work of the Mayor relating to economic development, wealth creation, social development, culture, sport and tourism in the capital, as well as considering issues of economic importance to Londoners.
3. Over the month of June 2020, the Economy Committee held an investigation into the challenges faced and support needed by businesses in London during and after the COVID-19 pandemic. To support this investigation, the Economy Committee met with Deputy Mayors Rajesh Agrawal and Justine Simons OBE, plus representatives from key national and London-focused business groups.<sup>1</sup>
4. Our submission to this inquiry is based on the evidence these expert witnesses gave during this investigation and the conclusions we have since drawn as a Committee. Where appropriate, we have quoted directly from witnesses.

### **What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?**

5. ONS data shows that businesses in London have been faced significant financial difficulty since the onset of the pandemic. Over 20 per cent of businesses report declines in turnover of more than 50 per cent – the highest rate for any other region in England.<sup>2</sup>
6. Data from GLA economics, the GLA's economic analysis service, show that London's real Gross Value Add (GVA) fell from 2.5 per cent in Quarter 4 of 2019, to 1.6 per cent in Quarter 1 of 2020, implying a reduction of output by 4.1 percentage points in just one quarter – the largest fall in output since the 2008-09 financial crisis.<sup>3</sup> At current rates, GLA Economics project a further decline in real GVA to -16.8 per cent for 2020 - from a growth point of 4.6 per cent in 2019.<sup>4</sup> The business activity index for private businesses in London showed slight recovery in May at 30.8, however this was following a historic decline to 13.4 in April.<sup>5</sup>
7. In London, the economic impact of COVID-19 has been severe. The unemployment rate rose from 4.3 per cent in Quarter 4 of 2019, to 4.7 per cent in Quarter 1 of 2020.<sup>6</sup> London

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<sup>1</sup> Guests included: Richard Burge, Chief Executive, London Chamber of Commerce and Industry; Caroline Julian, Director of Policies and Programmes, Creative Industries Federation; Helen Clark Bell, CEO, Love Wimbledon Business Improvement District; Laura Citron, CEO, London & Partners; Bernard Donoghue, Director, Association of Leading Visitor Attractions; Rowena Howie, London Policy Chair, Federation of Small Businesses; David Sheen, Public Affairs Director, UK Hospitality; and Kate Nicholls, CEO, UK Hospitality.

<sup>2</sup> The Office for National Statistics, [Coronavirus and the economic impacts on the UK: 2 July 2020](#), July 2020

<sup>3</sup> GLA Economics, [London's Economy Today](#), June 2020

<sup>4</sup> GLA Economics, [London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections](#), June 2020

<sup>5</sup> GLA Economics, [London's Economy Today](#), June 2020

<sup>6</sup> GLA Economics, [London's Economy Today](#), June 2020

accounted for close to 12 per cent of the UK's 9.1 million furloughed workers nationally, with 1.075 million Londoners furloughed – more than any other region in the UK.<sup>7</sup>

8. SMEs<sup>8</sup> make up the majority of London's businesses and make a significant contribution to London's employment and turnover. They are well represented in most sectors, from hospitality to professional services. Aside from their economic value, small businesses are vital to the prosperity of London's high streets. Small businesses often go beyond their 'formal' role and perform additional social functions. This includes providing information and support, providing a space for religion and spirituality, cultural footholds and day to day contact with a range of other people.<sup>9</sup>
9. Unsurprisingly, these businesses have been more vulnerable to the impacts of COVID-19 and the lockdown than larger businesses. Small businesses often have less resilient balance sheets than larger businesses, often have lower cash reserves,<sup>10</sup> and can have greater reliance on key individuals, whose work availability may have been disrupted by sickness, childcare responsibilities, or shielding.<sup>11</sup> Richard Burge, Chief Executive of the London Chamber of Commerce and Industry made this point when he said:

*"[SMEs] are emotionally resilient but in fiscal and capital terms very weak."*<sup>12</sup>

10. There are a number of measures that the Government could implement to ensure businesses in London are better supported. Firstly, the rateable values for businesses in London are significantly higher than any other region in the UK. The England average rateable value was £33,000 as of 2018/19. In London, that figure nearly doubles to £64,000.<sup>13</sup> This leaves too many businesses in London ineligible to access Government support measures, such as the Retail, Hospitality, and Leisure Grant due to the £51,000 threshold. As Kate Nichols, Chief Executive of UK Hospitality said:

*"Very, very few hospitality businesses, if any, in London will have a rateable value of £51,000. Nationwide, about 71% of hospitality business activity takes place in premises with a rateable value of more than that. In London, that rises to 93% of hospitality business that take place in a venue/a premises with a rateable value of more than that. They have been excluded from that grant support."*

11. **To address this, the Government should urgently review and raise the threshold for the Retail, Hospitality and Leisure Grants Scheme for businesses in London.**
12. Secondly, we are concerned that many SMEs are facing challenges in accessing the Government support through the Bounce Back Loan. While we commend the Government on its quick action to address some of the challenges faced by businesses in accessing loans - banning the requesting of personal guarantees for loans and introducing the Bounce-Back

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<sup>7</sup> HM Revenue and Customs, [HMRC Coronavirus \(COVID-19\) statistics](#), June 2020

<sup>8</sup> Those with 1-49 employees

<sup>9</sup> The Mayor of London, [High Streets for All](#), September 2017

<sup>10</sup> Money Control, [COVID-19 impact: Smaller businesses with weaker balance sheet may not survive](#), April 2020

<sup>11</sup> Continuity Central, [Key person risks are critical for many UK small businesses](#), August 2019

<sup>12</sup> London Assembly Economy Committee, [Covid-19 Business Impacts](#), June 2020

<sup>13</sup> Local Government Association, [Average rateable value \(local rating lists\) in an area in England](#), N.D.

Loan to more quickly aid smaller businesses<sup>14 15</sup> - we are concerned that smaller businesses are not receiving the access, and support needed, to access the financing instruments required to survive this crisis. This was reinforced by Richard Burge, who told the Committee:

*"I feel that over the past five to six years the banks have started to become very risk-averse about small businesses in general and particularly about the hospitality sector. Banks tend to relate to small businesses through an algorithm rather than through personal small business mentors and contacts and so decisions are taken on the basis not of understanding a business but a perception of the sector in which that business sits. They have suffered from that."*<sup>16</sup>

- 13. In order to combat this, the Government should require banks involved in Government backed loan and grant schemes to provide in-person support to SMEs that require it.** This is a simple step that would have a significant and positive impact on the SMEs that have faced challenges due to the lack of support provided by banks.

**Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?**

14. Having heard from witnesses across London's business sectors, it is evident that the hospitality and tourism sectors, as well as the creative industries, are in most in need of on-going Government support.

**Creative Industries**

15. London's creative industries have grown at a greater rate than any other region in the UK, with a Gross Value Added (GVA) increase of 73.3 per cent between 2010 and 2017.<sup>17,18</sup> In 2017 the creative industries in London alone contributed £52 billion to the UK economy.<sup>19</sup> As Caroline Julian, Director of Policies and Programmes, Creative Industries Federation noted in her evidence to the Committee:

*"Before the pandemic, this was the UK's fastest growing sector, generating £111 billion for the economy. That is greater than automotive, aerospace, life sciences and the oil and gas industries combined. £58 billion of that economic value was generated in London."*<sup>20</sup>

16. Data from the Department for Digital, Culture, Media, and Sport shows that in 2019, nearly one-third of jobs in the culture and creative industries (excluding the digital, gambling,

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<sup>14</sup> HM Treasury, [Chancellor strengthens support on offer for business as first government-backed loans reach firms in need](#), April 2020

<sup>15</sup> Department for Business, Energy & Industrial Strategy, [Guidance: Apply for a coronavirus Bounce Back Loan](#), April 2020

<sup>16</sup> London Assembly Economy Committee, [Covid-19 Business Impacts](#), June 2020

<sup>17</sup> GLA, [Developing the evidence base for London's Local Industrial Strategy – Interim report](#), August 2019

<sup>18</sup> GLA, [Creative Enterprise Zones](#), ND

<sup>19</sup> The Mayor of London, [Multi-billion impact of London's creative industries](#), October 2019

<sup>20</sup> London Assembly Economy Committee, [Covid-19 Business Impacts](#), June 2020

sport, and telecoms industries) were based in London, providing work for 911,000 Londoners.<sup>21</sup> These jobs hold long-term social and economic value, as most of them – 87 per cent – are considered at low risk of automation.<sup>22</sup> For every job within the creative industries in London, there is an additional 0.75 jobs supported within the creative supply chain.<sup>23</sup>

17. The UK's cultural and creative industries face significant challenges due to the pandemic and will continue to do so into 2021, particularly when the Government support schemes come to an end. Caroline Julian said:

*“This impact is being felt by all parts of the creative industries because of their diversity and interdependence. Those reliant on footfall... and audiences will be particularly hit, like performing arts venues, festivals, live events and the artists and workers themselves. Also, those working in publishing who rely on high street sales and other parts of the sector such as animation and visual effects, for which London is also world-renowned, expect to experience significant impacts later in the year, which is a really big worry because that is when the furlough scheme and other support schemes come to an end.”<sup>24</sup>*

18. The Government must take a strategic approach to helping the cultural and creative industries rebuild better than they were prior to the onset of COVID-19 – this should especially be the case for London, given the contribution the creative industries make to London and the wider UK economy. Specifically, we recommend that:

- **The Government include the cultural and creative industries in the Government's COVID-19 recovery plan.** The UK's cultural and creative industries have been largely omitted from the Government's broader planning regarding the re-opening of the economy post-COVID-19. While we see the value in the Government's Cultural Renewal Taskforce, and very warmly welcome the Government's £1.57 billion rescue package, we are unable to understand why UK culture and creative industries are not included in the Government's COVID-19 recovery strategy. As a core aspect of London's economy now, and hopefully into the future, it is essential that the Government establish when and how the cultural and creative industries will transition out of lockdown, as well as how the Government plans on supporting the industries going forward.
- **The Government should establish an enhanced furlough package for the cultural and creative industries, that reflects the long-term challenges they face and the nature of their business models.** The UK's cultural and creative workforce face significant challenges, and many workers, such as those working in theatres will likely not be able to return to work for some time. It is therefore crucial that the Government establish an enhanced furlough package for cultural and creative workers; adaptable for those who work as freelancers, and capable of being delivered at scale to ensure that the sectors

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<sup>21</sup> The Department for Digital, Culture, Media, and Sport, [National Statistics: DCMS Sectors, Economic Estimates: Employment](#), April 2020

<sup>22</sup> The Mayor of London, [Culture for all Londoners](#), December 2018

<sup>23</sup> The Mayor of London, [Creative Supply Chains Study](#), October 2019

<sup>24</sup> London Assembly Economy Committee, [Covid-19 Business Impacts](#), June 2020

do not face further damage due to workforce losses. Otherwise, we risk losing some parts of the creative and cultural offer in perpetuity.

## Hospitality and Tourism

19. Tourism plays a pivotal role in London's economy and London plays a pivotal role for the wider UK tourism industry – with London's cultural and creative attractions acting as a gateway for tourists to the rest of the UK.<sup>25</sup> The sector employs 700,000 Londoners – 1 in 7 Londoners – and alone accounts for 11.6 per cent of the capital's GDP.<sup>26</sup>
20. By 2024, London & Partners, the Mayor's promotion agency for London, established by the Prime Minister when he served as Mayor of London, estimated in 2017 that domestic and international visits to the country will reach 40.4 million annually, with 25.7 million of these being international visits.<sup>27</sup>
21. The entire UK tourism industry has been heavily impacted by the COVID-19 outbreak, with VisitBritain modelling a 54 per cent decline in visits to the UK, and a 55 per cent loss in expected inbound tourism income for 2020, when in December 2019 they had expected UK tourism to grow by 2.9 per cent.<sup>28</sup> Its expectation now is for the tourism industry to lose out on £15.1 billion of their pre-COVID-19 forecast.<sup>29</sup>
22. Factors contributing to the crisis facing the tourism industry in London include the lockdown measures, the disruption to public transport, the closing of major attractions and until recently, the mandatory quarantining of visitors upon their arrival to the UK.
23. When giving evidence to the Committee, Bernard Donoghue, Director of the Association of Leading Visitor Attractions, highlighted the challenges the industry is facing:

*“Some of our members like Shakespeare's Globe, the Southbank Centre, the National Theatre and the Royal Albert Hall are facing significant financial problems because of having to adhere to physical distancing measures and therefore have massively reduced their capacity upon opening, which for some visitor attractions is not economically viable.”<sup>30</sup>*

24. Like tourism, London's hospitality sector plays a pivotal role in London's economy. The sector employs nearly 3.2 million people UK-wide, with nearly 18 per cent of jobs based in London, providing work for 568,000 Londoners – or 10 per cent of London's employment.<sup>31</sup> Data from 2017 shows that nationally the hospitality sector generated £72 billion in Gross Value Add to the UK economy, with businesses in London accounting for £16.7 billion – considerably more than any other region in the UK.

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<sup>25</sup> London & Partners, [A Tourism Vision for London](#), August 2017

<sup>26</sup> London & Partners, [A Tourism Vision for London](#), August 2017

<sup>27</sup> London & Partners, [A Tourism Vision for London](#), August 2017

<sup>28</sup> Visit Britain, [2020 Tourism Forecast](#), N.D.

<sup>29</sup> Visit Britain, [2020 Tourism Forecast](#), N.D.

<sup>30</sup> London Assembly Economy Committee, [Covid-19 Business Impacts](#), June 2020

<sup>31</sup> UK Hospitality, [The Economic Contribution of the UK Hospitality Industry](#), October 2018

25. The most recent Business Impact of COVID-19 Survey shows that the hospitality sector has been amongst the most affected by the COVID-19 outbreak. Data released in April 2020 shows that the UK hospitality sector as a whole saw a 21.3 per cent drop in sales during the first quarter of 2020.<sup>32</sup> In the two weeks between 20th April and 3rd May, 61.5 per cent of businesses across the Accommodation and Food Service industries saw decreases in turnover of more than 50 per cent.<sup>33</sup>

26. In light of on-going social distancing measures, there is no doubt that the hospitality and tourism industries will require considerable and sustained support. Specifically, we recommend that:

- **The Government review the introduction of business taxes for hospitality and tourism operators with a view to giving businesses the best chance of success:** The hospitality and tourism sectors have been especially hard hit by the COVID-19 pandemic, and are unlikely to be in the financial position needed to meet financial obligations. UK Hospitality recently called for the hospitality business rates holiday to be extended to March 2022, to give the industry more time to recover.<sup>34</sup>
- **The Government should review its guidance for hospitality venues, with a view to strengthening social distancing provisions:** It is imperative that the Government coordinate with the hospitality industry to establish what more can be done to enable to the safe opening of hospitality venues, without risking another COVID-19 outbreak. The Government should also accelerate the development of guidance for larger hospitality sites like conference and exhibition venues, so that they too can open safely.

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<sup>32</sup> Hospitality Insights, [UK hospitality sees Q1 sales drop 21.3%](#), April 2020

<sup>33</sup> The Office for National Statistics, [Dataset: Business Impact of COVID-19 Survey \(BICS\) results](#), June 2020

<sup>34</sup> UK Hospitality, [Press statement: Hospitality heavyweights unite to call for ambitious package of business investment](#), July 2020