

**Economy Committee – 24 November 2015**  
**Transcript of Item 8 – London’s Changing Economy Since 2008 – Productive, Flexible, Inclusive?**

**Fiona Twycross AM (Chair):** We will move on fairly promptly. Apologies, again, to the guests for the late start of our second session of what has turned out to be a pretty packed meeting. We have Sir Edward Lister, Fiona Fletcher-Smith and Gerard Lyons, who have kindly come to talk to us a bit more about the measures available to the Mayor to influence London’s economy and labour market. Tony, you have the first question this session.

**Tony Arbour AM:** This relates to the way the jobs market has performed in London. I am very struck at the hollowing-out of the market, in the sense that we are told that there is very extensive job mobility right at the very bottom but in the middle of the job market mobility has declined because employers want to hang on to skilled workers. Is there anything in that?

**Gerard Lyons (Chief Economic Advisor):** I was not sure whether you were directing that to someone, sorry.

**Tony Arbour AM:** Pretty much everything is directed to you, surely.

**Gerard Lyons (Chief Economic Advisor):** Thank you. Good morning. It is a pleasure to be here again.

In terms of the question, it is hard to give a definitive answer to that in the sense that other people might have a different view. However, one of the interesting features of this post-crisis economy has been that economic recovery has been relatively weak compared to post-recession recoveries in the past. Although it has to be said, that given the extent of the financial crisis that hit the UK and in particular London back in 2007, 2008 and early 2009, how the economy has performed has probably been better than expectations at that time. Given the economy, in terms of economic growth, the employment picture has been particularly impressive.

It was interesting to note that early on in the post-crisis phase there was a big debate as to why this was the case. It links directly to your question, Mr Arbour. It seemed to be that employers were holding on to staff; either because they were optimistic about the eventual rebound in the economy and/or they were holding on to skilled staff, as you suggest. Whatever the reason in the early stage of the recovery, there is no doubt that as the economy has gathered some momentum the employment picture has improved further in terms of all types of measures. There was evidence – certainly in the early stages – of the economy’s performance post-crisis that employers were very doing as you suggested, holding on to staff for a combination of reasons, one of which was likely to be keeping hold of their skilled staff.

**Tony Arbour AM:** Job mobility is very important, is it not, to the London economy?

**Gerard Lyons (Chief Economic Advisor):** Yes.

**Tony Arbour AM:** Presumably, skilled workers know that they are a valuable commodity. Is it skilled workers themselves, knowing that they are valuable to their current employers, sticking out for better work conditions or is there just possibly a feeling – because they have all lived through this crisis – that it is best to hang on in there for fear of finding something worse?

**Gerard Lyons (Chief Economic Advisor):** Again, it is difficult to give a definitive answer to that because it is hard to base it fully on the facts, but we can make some assumptions and try to read into the situation.

No doubt, just as employers clearly took an expectation about what was going to happen to the economy, so too did employees. There was so much uncertainty back in 2008 and 2009, as I indicated in the previous answer, that it was a surprise relative to what economists were expecting that employers held on to staff so much. In that respect, maybe employees were just thankful to be remaining in their positions. As the economy gathers more momentum, one would expect to see greater labour mobility if employees are more confident about the future.

Of course, as well as the headline figures of people in work increasing, we have seen changes in terms of full-time employment, part-time employment and, as we heard in the previous session, people on zero-hour contracts. There might be some evidence of greater flexibility coming in in terms of how contracts are broken down.

Coming back to the employee situation, it depends on a whole host of factors: their own individual circumstances, the sector in which they are working, as well as future expectations about the economy.

Certainly, coming back to your original proposition, I agree that greater flexibility tends to be seen as a positive for the London economy.

**Tony Arbour AM:** Do you think that there is confidence in the London economy on the part of employers? Secondly, are employees confident, as we have just been talking about? You said right at the very beginning that they wanted to hang on in because they were grateful still to be employed.

**Gerard Lyons (Chief Economic Advisor):** Clearly, there are different issues for employers and employees. Employers might be worried about the whole cost of London for some of them if they are in international sectors. For employees there are issues about the housing market, rental, etc. We should probably take those as given.

Coming back specifically to the employment situation, the data suggests that the employment picture in London has clearly improved. If we take the latest figures in terms of percentage of people in work back in 2008, it was 69.1%. In 2014, it was up to 71.2%. The latest figures for the three months to August of this year show that the employment rate is at 72.5% of all those of working age. That is the highest figure since records began in 1992. On that basis, it is a healthy jobs market. Clearly, it differs. Maybe across sectors people might have different perspectives based on their own opinion. The headline figure suggests a very healthy jobs market. At the same time, we are now starting to see wages picking up as well. Against the backdrop of relatively low inflation, all of that should be encouraging for both the employer and - more importantly, maybe - for the employee as well.

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** Can I just jump in? There is also the issue of skill shortages out there, which one should not lose sight of. If you are in one of the sectors where there is a severe skill shortage - construction being absolutely the most obvious one out there - and you are a contractor or developer, you are not going to let go of anybody unless you are forced to. If you can get hold of the people, you keep them and you keep them tightly to you. That is not good for the economy in the sense that this skill shortage is undoubtedly affecting the cost of construction.

I am using that only as an example, and you could run the same example for several other sectors. It is affecting cost. It is also affecting availability and is actually slowing down a key employment area. The answer to that one is very much about increasing skill levels. Until we get that done we are not going to be able to do much else.

**Tony Arbour AM:** Very briefly - as an aside on the booming figures of the number of people who are in work - could it be that the nature of work has changed? It is suggested that very many more people are now

working from home, running their own microbusinesses and things of that kind, people maybe who would hitherto not have been seen, if you like, as working and therefore entering into the statistics.

**Gerard Lyons (Chief Economic Advisor):** Yes. In terms of that type of people, they are normally kept in terms of self-employment. The number of self-employed in London has increased. It is still relatively low compared to what some people might expect it to be in the future if the number of people working from home continues to rise. The number of self-employed in London was 14% last year. Back in 2008, it was 12%. Those figures are identical to the UK national average.

There has been an increase in the number of self-employed, but there has been an increase in numbers in work and in part-time employment as well. Certainly, in a technologically driven era, there might be more scope for people to work from home. Also, at the same time, as older people remain in potentially active employment, they might increasingly work from home. Obviously this links into wider issues such as the need for the digital space in London to continue to improve to allow people to work from home. On top of that, of course, transport is an issue because London has the benefit of attracting lots of workers in from outside of the London area as well. It stretches and links into other areas. Certainly you would expect to see, in a technologically driven era, more people working from home but at the same time we are still seeing many people preferring to work for employers.

**Tony Arbour AM:** Thank you, Chair.

**Fiona Twycross AM (Chair):** Thank you. Murad?

**Murad Qureshi AM:** Thank you, Chair. I will move on to the next area of questioning: London's labour market productivity. Gerard, I will start with the economist. We all know that growth in activity supports real wage increases. Why is that it appears London has fallen behind in growth in productivity from the rest of the country?

**Gerard Lyons (Chief Economic Advisor):** Yes. In terms of productivity, maybe I could just before directly answering your question put it in the context that at a national level there has been a whole debate in recent years about the so-called 'productivity puzzle' in the UK. It touches the point Sir Edward Lister made a second ago about skills in the UK and it touches on the rate of investment in the UK. It also raises wider questions as to whether it is not just structural issues, but whether it is the nature of this cycle as well.

At a national level the productivity puzzle has been a key issue for policymakers. You are right that when one looks at London relative to the UK, in the post-crisis period the rate of productivity growth in London has been slower than the rest of the UK. When one looks at output per person productivity in London, as measured by that index, it is about 77% higher than in the UK. In Paris it is about 67% relative to the rest of France. In New York it is about 35 or 36% relative to the rest of the US. Obviously you can cut productivity data in different ways. If one looks at some of the big capital cities in comparable countries - France or the US - the capital city has higher productivity than the rest of the country. That certainly is the case in London versus the UK but with a much higher gap, shall we say.

Given that, I am possibly less worried about what has happened in the last few years because there is a cyclical element to it. Also, it is reflected in the fact that employment growth in London has been high relative to the rest of the UK. Productivity is not always everyone's favourite measure in terms of how one looks at performance. London has seen outputs pick up higher than the rate in the UK but it has also seen employment increase at a faster rate than the rest of the UK. Taking those together, it would suggest that productivity growth in London has been at a slower pace relative to the rest of the UK. Given that we have such a big productivity outperformance versus the rest of the UK, it is less of a concern than implied by the question. Certainly it is about trying to understand why it is.

It is also important to appreciate that in a service-driven economy productivity might not always be the best measure. Productivity really came into its own when one was looking at output in a manufacturing-driven economy. Many economic indicators have not really adjusted with the times. That is particularly relevant for London given the importance of services in a whole host of areas. If the economy were to see stronger future growth, then one would like to see productivity growth pick up.

I have two final points relative to employees and workers. If productivity growth does pick up in London, then it should be reflected not just in higher profits for companies but higher wages.

The second point is that at a national level; the Bank of England certainly looks at productivity for future projections of inflation. Therefore, if productivity picks up at a national level, then that should give the Bank of England more confidence about future inflation and maybe delay increases in interest rates. If one looked at the two indicators that are very important for many people in London – wages and interest rates – it does come into the debate both at a city level and at a national level.

**Murad Qureshi AM:** My latest reading of inflation is that it is practically zero at the moment.

**Gerard Lyons (Chief Economic Advisor):** Yes.

**Murad Qureshi AM:** We did get some insights into productivity earlier when one of the workers was talking about doing 16 beds an hour. I am not sure you could do more. It takes all day to start even thinking about changing my bed let alone 16 in one hour.

In the first session we had some representatives of employers. I had the sense that they were in denial about this. For example, I mentioned that in Paris workers there are actually doing in four days what we do in five. It strikes me possibly that investment by employers is probably one thing that has not kept up with what is happening in mainland Europe.

**Gerard Lyons (Chief Economic Advisor):** It covers a whole host of areas. I listened to the last session. Certainly the answer linked into that was about training, which is the point the trade union representative made. There is a need – if you want productivity to increase – to not only have high-skilled workers but the tools they use need to be high-skilled in some way, shape or form. Obviously, making the bed, we can go into different aspects there.

It comes back again to the point Sir Edward Lister made about skilled workers. It is about structural issues. Investment is a key part of this. A good thing linked into this in London is that the data I have looked at recently shows educational standards in London are really improving both at primary/secondary and at a tertiary level. Assuming they stay in London to work – and the bulk of workers come from London, although obviously it varies from sector to sector – that should give us confidence about future potential productivity levels. However, I completely agree with you that investment on behalf of employers is vitally important here.

**Murad Qureshi AM:** Thank you. I suspect that if we had asked the hotel workers, a lot of them would have been graduates from abroad. Should we know the figure?

**Fiona Twycross AM (Chair):** We cannot really speculate but we could ask them for information on that.

**Murad Qureshi AM:** Yes. I am always surprised by that, which is my personal opinion. I should apologise for coming in late and not hearing more about what they had to say.

Finally, Gerard, I am going onto Onkar's [Sahota AM] area a bit here but I will just give it to you and let you respond to Onkar. What has been the Mayor's approach to this issue of productivity? Has he done anything specific other than the more general stuff?

**Gerard Lyons (Chief Economic Advisor):** Yes. I am not sure if Sir Edward [Lister] wants to come in here.

I have spoken to the Mayor. It has come up in a number of conversations we have had. I have done a few pieces of work for him on productivity. He specifically has asked me about productivity levels in London versus other cities. We have also talked about productivity in the UK versus other countries. He has requested - and I am just finishing off - a piece of work on the competitiveness of London versus other international cities. Within that, productivity is an important issue. When that work is finished I will share it with you, if you want.

Coming back to your question, yes, the Mayor has asked me about this extensively and he has often produced a long list of different questions. Your question about productivity in the UK versus France certainly came up a lot earlier this year in terms of national debate. It also linked into the fact that productivity might not be the best guide. For instance, the fact that so many French people want to live in London compared to the number of UK people who live in Paris would suggest that the productivity figures are not the best guide to where people necessarily want to work. Employment growth in France is much less than in the UK. Whereas the 'shock absorber' might have been laying off staff in France, the 'shock absorber' might have been productivity not growing as much as it could otherwise have done here in London and in the UK. Certainly there is evidence to suggest that in some sectors the French invest at a much greater rate than in the UK. That is an aspect to it.

The gist of it is that it is a complex area. Certainly the Mayor has been trying to get behind what is explaining the outcomes.

**Murad Qureshi AM:** OK.

**Fiona Twycross AM (Chair):** Onkar?

**Dr Onkar Sahota AM:** Thanks. With this question I will start with reviewing what you have said and then you can come in. You have in your briefings the comments made by the Federation of Small Businesses (FSB) and also by the London Chamber of Commerce about what the Mayor could do notably in terms of skills, housing, infrastructure and pay. These were the five areas that he could have an impact on.

Looking at that, other than what the Mayor has done, what more could be done to support Londoners to get wealthy jobs and to make London a rewarding capital for our workforce?

**Fiona Fletcher-Smith (Executive Director - Development, Enterprise & Environment):** Shall I kick off? The first item on the list is around skills. You will be aware that the Mayor, through his chairmanship of the London Enterprise Panel (LEP) has constantly made a plea for a more responsive and flexible skills system. The work we are doing now with the LEP and London Councils is about a positive dialogue with the Government about the devolution of the skills system in London.

The feedback that we have had - not just from FSB and the Chamber but from employers whom we talk to on a regular basis - is that the skill system is behind the times. They deliver a set of skills, but they are not the skills that a particular sector would need. It hits us hugely, as Sir Edward [Lister] has said, in the construction industry. It has hit us in technology. We have calculated that about 22% of the higher-level skilled jobs are vacant. That is affecting businesses' ability to be productive and to deliver.

What we are asking the Government for is complete devolution of the skills budget and the skills system for London. Obviously we will wait for the Comprehensive Spending Review (CSR) tomorrow but it is in excess of £1 billion a year. That will be for all post-16 training. The Mayor will kick this off in terms of the devolution by chairing the steering group for the area-based reviews of the further education (FE) colleges, which will start early next year. As I say, it is a very positive dialogue with the Government.

What is linked to this is as well is the Chancellor's announcements on apprenticeships and the employer's levy. We are in dialogue with officials and the Mayor at ministerial level about how that could work for London. Again, everything that we are about is trying to get a system that delivers what employers need, rather than a system solely based on learners' desires. To be fair to the learners, it is an imperfect market in that they do not really know or understand which job is going to give them security of income and career progression opportunities going forward. We are right in the middle of it.

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** If I could just follow some of that through, in the FE sector at the moment we have 48 FE colleges in London and we have 33 London boroughs. To put it into context, either we have an overprovision of FE colleges or they are not necessarily operating in the most economically viable way.

We have this issue that Fiona [Fletcher-Smith] has raised about the way in which the colleges are rewarded. They are basically paid for people on seats rather than for outcomes. Certainly they are not paid on the basis of what jobs they get.

We have a far-from-perfect careers advice service. We know that. Indeed, we put quite a lot of money at one stage into the school system to try to improve career advice and to try to help that along. We have mixed messages coming through the education system as far as work is concerned. The best example I can give was the trouble we had - admittedly, it is now more than a year ago - with the Tunnelling Academy when some children were being advised, "You do not really want to go and do that job. It is not really the sort of job for you". It was more because people envisaged tunnelling as being people with pickaxes on the coalface rather than driving £1 million machines underground, probably earning three times what the teacher ever earned and having the world at your feet as far as career prospects are concerned. I am just trying to say that the messaging was all over the place. It has become better but it has still a long way to go. That is about career advice, which is a real worry to us.

It is about the FE colleges not necessarily providing courses that employers want. We talked about construction, which I always go back to because it is the one I know the best. When you talk to the employers in that area about the Construction Industry Training Board (CITB) levy and the way CITB works, for example, they are rude about it. It does not deliver for them what they want. They all want to have a much bigger involvement in the actual provision of training. They want a much bigger say in it.

We have also other fairly obvious problems. Being blunt about it, if you are an apprentice bricklayer and you are a good bricklayer, you are not going to stay an apprentice for more than a few weeks because you will quickly realise you can earn a damn sight more money just because you are good at it. It is as simple as that. If you have the skill, you will get out there and do it. Therefore, we have that kind of problem out there as well. We are perhaps forcing people through courses that do not necessarily suit every young person.

Where does that take us? What does the Mayor want to do? As Fiona [Fletcher-Smith] said, it is about us having much more influence on those FE colleges and much more influence on the courses. We want to have control of those budgetary levers. We want to make sure the money flows with job outcomes. We need to get involved with the FE college review because that is going to be very painful across the boroughs. There is going to be a reduction. How do we make sure what we have at the end of this process is something that is really fit for purpose for London? That is where we are doing an awful lot of lobbying of the Government and

talking to the Department for Business, Innovation & Skills (BIS) a lot. We are really keen to get mayoral involvement in that area.

That is not to say that we are trying to squeeze the boroughs out, by the way. We do think there are certain areas that are better done by the boroughs. We do see this as being little bit of joint working. Certainly some of those hard-to-reach groups are probably much better done at borough-level than by us. However, we can give a much better framework.

That is where the Mayor is going with all of this. That is where our priority lies and that is really where we are putting all our effort.

**Dr Onkar Sahota AM:** What about other areas you have not touched upon such as housing and infrastructure?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** Yes, I fully accept those ones. On housing, we have to acknowledge that the old models - in my opinion and I appreciate that this is not shared by everybody by any means - of social rent and affordable rent are going to be in deep trouble following the Housing Bill. They are going to have to change.

Therefore, in my opinion, we have to go down the route, as the Americans and Europeans have done, of the private rented sector (PRS). That is attractive for lots of reasons. Firstly, you can build scale and we can get numbers through very quickly. Secondly, if you have market rent discount arrangements - and there can be a blend of different discounts, everything from 80% down to 40% or whatever is applicable - they can be tenure-blind, which is very attractive as well. It is an entirely different model.

At the moment, a lot of the boroughs are struggling to understand that model. It does then get into building viability models and how you do it and also how you, as a developer, get a return on that because it is not easy initially to see how you get that return. We think it can be done by covenants and other mechanisms that keep that social housing content in the PRS in the economy for the longest period possible, maybe 20 years or 15 years, whatever is applicable. We believe that that is the way we can get a lot of additional low-priced housing out there, which will help to deal with that problem and, indeed, is probably the only way. It is the European model. It is the American model. One cannot help but make the point that it works pretty successfully there.

On the infrastructure, I am afraid that it is back to this old problem about the further you live out, which of course means the cheaper the property, the higher your fares are. That is a real problem. It is shown up best, in my opinion, with somewhere like Ebbsfleet in Kent, which has the capability of building thousands upon thousands of potentially low-priced homes but you are into such massive train fares that unless you have £5,000 a year to pay for your season ticket, how do you get into London to pay your mortgage or whatever? Transport mobility is a big challenge. It will be a growing challenge because we need to open up a lot of that housing in outer London, which will be affected by fare structures. That is something we have to look at again in the future and something we have to constantly keep in mind. It is a different type of problem. We have not thought that way in the past. We are going to have to think that way in the future.

**Dr Onkar Sahota AM:** What do you think will be the impact of a mandatory London Living Wage by, say, 2020?

**Gerard Lyons (Chief Economic Advisor):** I was going to say something else about what the Mayor was doing very briefly before answering that.

In addition to creating and enabling an environment with a focus on infrastructure, housing and transport, one of the interesting aspects of the last few years particularly post- crisis has been the recognition that London

has a key financial sector that we should be proud of and play to our strengths, but at the same time there is a need to diversify the London economy so that there are other clusters of activity. I would say that the Mayor has played an important role in trying to help to not only play to the strengths of what currently exists in London such as the City and the financial consulting sector, but also support, both directly and indirectly, the growth of new clusters, MedCity being one cluster linked to life sciences, Tech City, as has been already mentioned by Fiona [Fletcher-Smith], universities as well and also the creative sector. In many respects, while the City and the associated businesses of professional financial services and consulting are still very important, we have seen City Hall pushing to give more momentum to some of the other clusters of the London economy. That has been an important aspect both in how the economy has done in the last few years and hopefully how it will grow in the future.

Coming to your question about the mandatory living wage, when the living wage was introduced by the Labour Government 11 or 12 years ago there was a whole debate at that time about whether it would be positive or negative. However, everyone accepted that the real benefit of having a compulsory National Minimum Wage was that it stopped exploitative pay which, at that time, was quite significant. It was still below 10% but, if I remember rightly, it was at 7% to 8%. It was a high figure. The National Minimum Wage was very effective in putting an end to exploitative pay as such.

Since then, obviously, there has been a big debate about the London Living Wage. You heard in the last session some of these issues mentioned. The success of the London Living Wage has been that more employers have taken it on board. Obviously, it would be nice to have even more employers take it on board. The voluntary aspect has been an important part of the London Living Wage. If you force small and medium-sized firms to pay too high a living wage, they might decide to have fewer people in work. It is getting the balance right. Coming back to your question, the fear is that if you have too high a living wage, then it might be at the expense of less people in work.

When the Chancellor announced the new living wage in the summer by 2020, the independent Office for Budget Responsibility (OBR) did an analysis. Its implication was that if you added 1 million jobs you might be losing 60,000 because of the living wage being set too high, but by implication it would fall disproportionately on smaller types of firms.

In answer to your question, it is very hard to quantify because you have to have all these other variables happening at the same time. In an environment where the economy is very strong and more jobs were being created, it should be the main positive driver. However, certainly there will be an impact primarily on small-sized firms that do not have room to manoeuvre. They could be forced to take on less staff or, indeed, possibly even lay staff off.

**Tony Arbour AM:** Can I quickly ask? On that statistic, did you say that if there were 1 million jobs being paid the London Living Wage the lost jobs will be just 60,000? Statistically, that is nothing.

**Gerard Lyons (Chief Economic Advisor):** Yes, it was not for London. That was the independent OBR looking at the whole UK-wide implications of the Chancellor's planned 2020 living wage.

**Tony Arbour AM:** It is the living wage, not the London Living Wage?

**Gerard Lyons (Chief Economic Advisor):** The living wage. Not the London Living Wage, just be precise.

**Tony Arbour AM:** Thank you. Thank you, Chair.

**Fiona Twycross AM (Chair):** Can we clarify that is the National Living Wage?



**Gerard Lyons (Chief Economic Advisor):** Yes, the National Living Wage.

**Fiona Twycross AM (Chair):** Yes, thank you. Stephen, did you want to come in?

**Stephen Knight AM (Deputy Chair):** Just on that one point. We heard earlier from one of our witnesses that the Hilton, for instance, in New York pays £16 an hour to the people making the beds. Do you think it employs fewer people making beds because it has to pay those rates, or is it more likely that a hotel room in New York costs a couple of dollars extra a night than one in London?

**Gerard Lyons (Chief Economic Advisor):** I took note of what was said by Kevin Curran. In fact, I approached him after and I have asked him to send me that piece of work. Maybe after I have had a chance to look at it I will come back and answer your question. The way you have asked your question would suggest that, yes, there are other issues.

**Stephen Knight AM (Deputy Chair):** The problem we have with London's economy is that low pay is dominant in sectors where we know there are exploitative practices of the type we heard earlier this morning. In a sense having a voluntary scheme - asking people to do something voluntarily when they are exploitative employers - is unlikely to be successful in coping with issues of exploitation given that the sort of people who are engaging in these kind of practices are less likely, perhaps, to be the ones who care about their ethical standing.

**Gerard Lyons (Chief Economic Advisor):** There are three low-pay sectors in the London economy: social care, hospitality and catering, and the cleaning services. If these issues arise, then you might be more worried that they would arise in those low-pay sectors. It is a whole complex area. Certainly you want to have a living wage where it has an impact for the workers who are receiving it. All the evidence suggests productivity performance improves for those on living wages. What I heard from the other session were issues linked in particular to one key sector. Certainly it needs further examination.

**Stephen Knight AM (Deputy Chair):** It strikes me that low pay in the sector is likely to be linked to all these other kinds of issues.

**Gerard Lyons (Chief Economic Advisor):** Yes, quite possibly.

**Stephen Knight AM (Deputy Chair):** You are right; low pay is dominant in these key sectors. That is where the focus needs to be.

Chair, may I ask a question on another area I wanted to follow up on? Sir Eddie talked about the housing issue and London's housing crisis - which is often talked about - and the high cost of housing. Does the Mayor want to see house prices in London fall and, if so, by how much?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** I do not think want anybody wants to see the price of houses fall.

**Stephen Knight AM (Deputy Chair):** You have acknowledged there is a crisis and housing is costing too much, but you do not want them to fall?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** What we want is for the rate of increase to slow down. The current rate of increase is unsustainable. The current rate of increase will not go away unless we increase supply.

**Stephen Knight AM (Deputy Chair):** Sorry, you do not think house prices are too high but just that they are going up too fast?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** I am saying to you that I do not think falling house prices would be a very popular decision for many people. Secondly, you will start to switch off the construction market, which is the last thing you want to do. What you need is more to come through the system.

**Stephen Knight AM (Deputy Chair):** We all need more. Presumably part of the reason one needs more is the argument that if you provide more supply prices will come down.

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** All I am saying is that if you provide more, prices will stabilise more than they are at the moment. That is what you want.

**Stephen Knight AM (Deputy Chair):** Can I just be clear? You do not --

**Gerard Lyons (Chief Economic Advisor):** Just to reinforce what Sir Edward Lister is saying --

**Fiona Twycross AM (Chair):** We are getting slightly off the economy and the labour market.

**Stephen Knight AM (Deputy Chair):** I am sorry.

**Gerard Lyons (Chief Economic Advisor):** The Mayor cannot control it as the price is set by the market.

**Stephen Knight AM (Deputy Chair):** I am not asking him to control it.

**Gerard Lyons (Chief Economic Advisor):** Normally, you can influence price or output/supply. Certainly all the evidence from City Hall is that the determination is to improve the supply of affordable housing. We cannot influence how many people in the UK want to migrate to London, how many people internationally want to migrate to London, the rate of population growth and also people's expectations. Banks, quite frankly, want to lend for housing. All of these are factors are outside the control of City Hall and the Mayor and, indeed, outside the control of any single individual. What we can try --

**Stephen Knight AM (Deputy Chair):** I appreciate some of that. My question was really quite a fundamental one. People talk about there being a problem that London housing is too expensive. The Mayor says the answer is to build more.

**Gerard Lyons (Chief Economic Advisor):** Yes.

**Stephen Knight AM (Deputy Chair):** Presumably that means the answer to bringing prices down is to build more, but we are told the Mayor does not want prices to come down.

**Fiona Twycross AM (Chair):** I appreciate that this is a really important area but we are running late.

**Stephen Knight AM (Deputy Chair):** I am sorry, Chair.

**Fiona Twycross AM (Chair):** People are starting to go away from the labour market, which is what this investigation is about. Kemi, was your question about the labour market?

**Kemi Badenoch AM:** Yes, it was about the labour market and it does touch on Stephen's point. Would you agree that falling house prices would create lots of people with negative equity, which would affect their flexibility to move around and be able to participate in the labour market fully?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** Absolutely. The damage from that would be enormous.

What I was trying to argue, if I may, earlier was that you have to get other models out there for those on lower pay. I am suggesting that those other models are things like the PRS. There is evidence that that is moving now. We are doing some work here at City Hall to get some advice out to the boroughs as to how they calculate the viability of those kinds of schemes. That is work underway at the moment. There is evidence that some of the big players in this area are showing an interest. People like, if I may, Crown Estate are buying land in places like Bermondsey to build schemes like that. That is a fundamental change. A few years ago they would never have done that. They are now doing it. British Land has a massive scheme and so on. These are the sorts of people that are now looking at this. I am suggesting that is one of the ways we can get low-priced units of housing out there for people. I am not saying it is the only way, by the way, but it is the quickest and easiest.

**Kemi Badenoch AM:** Thank you.

**Fiona Twycross AM (Chair):** OK. Can we move on to Darren's question, which is the final question?

**Darren Johnson AM:** Yes, I promise not to cover housing. I am on the Housing Committee anyway.

**Stephen Knight AM (Deputy Chair):** Yes.

**Darren Johnson AM:** Sir Edward, can you just spell out in terms of devolution what would be a good deal for London in terms of improving the labour market, the business environment and productivity?

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** Number one: control of the skills agenda in London. That means direct influence on the FE colleges, the courses that are being provided and everything else that goes with it.

Greater involvement in apprenticeship grants and how those are distributed is a secondary area that would be very powerful. Those are probably the two most obvious skills-based things. Both of those are achievable by City Hall. For the next Mayor, probably the greatest prize is to move that forward over the next four years.

There is probably a third one in the skills area, which is to recognise that skills training is not necessarily done by FE colleges; it can be done by other entities. There is evidence of that. For example, the Fashion Retail Academy in Oxford Street, which is largely owned by the Oxford Street stores, is a very successful training ground where all the people who go through it end up with jobs in Oxford Street, as you would expect. It is a great success story. There are other models out there that we can --

**Darren Johnson AM:** Presumably the Mayor is better placed to take a cross-sectoral overview than the current arrangements that we --

**Sir Edward Lister (Chief of Staff and Deputy Mayor, Policy and Planning):** It cannot be on a borough basis. Nobody understands borough boundaries when it comes to skills. People move across boundaries. It is really very much a City Hall type of function. I am not saying that there is not a role for boroughs in this. I do think particularly - as I mentioned earlier - that the hard-to-reach group is better done on a local basis. The

boroughs are probably better equipped at that. That is where City Hall and the boroughs must work together to create the best model that we can.

**Darren Johnson AM:** I would be keen to get Gerard Lyons's views on this. Do you believe that there are any risks for London in terms of skills, the labour market and so on in terms of the devolution package?

**Gerard Lyons (Chief Economic Advisor):** On risks, the key thing is that if more responsibility is given to London and more devolution, then the budget needs to go with it. When one looks at the international comparison, our direct competitors in other international cities have greater control of their spending. If more power is to be ceded to London in skills, etc, then to be able to achieve maximum potential the key thing is to have the funding to go with that. That is the biggest risk, I would say.

**Darren Johnson AM:** That is an argument that continues to be made by City Hall across all sides. Thank you, Chair.

**Fiona Twycross AM (Chair):** Thank you. We will end the meeting there.