LONDON of CHAMBER
COMMERCE AND INDUSTRY

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1 May 2026

Dear Sir or Madam,

London Chamber of Commerce and Industry response to the "London's Calling: Unlocking productivity in the capital" Call for Evidence

Introducing LCCI

The London Chamber of Commerce and Industry (LCCI) is London's hub for the business community, representing over 11,000 companies across all sectors and boroughs. Our membership includes microbusinesses, SMEs, large employers, educational and cultural institutions and multinational firms, offering a broad perspective on the operational pressures shaping London's economy. We represent these businesses in policy discussions that affect the operating environment in the capital, including workforce, infrastructure, and investment conditions.

Methodology

Our response to the APPG for London's London's Calling: Unlocking Productivity in the Capital is informed by the LCCI's Skills Committee, which convenes senior business representatives from further education, higher education, SMEs, and large businesses to discuss the skills needs of London businesses. The LCCI additionally sits on various Greater London Authority working groups on skills and employment. All this activity supports the wider LCCI's skills policy work, informing policy papers, surveys, and consultations ensuring we reflect the real-world needs of employers and educators.

LCCI has conducted the London Quarterly Economic Survey (QES) in partnership with leading polling organisations for over two decades, tracking labour market conditions alongside wider business trends such as investment behaviour, cost pressures and operating conditions. Our latest QES for Q1 2026 identified extensive recruitment challenges in the capital throughout 2025, with around two-thirds of firms that were hiring experiencing difficulties. The challenge was especially pronounced for skilled roles, where half of businesses reported no recent recruitment.

Executive Summary

This submission from London Chamber of Commerce and Industry sets out the key factors constraining productivity in London, drawing on evidence from the Quarterly Economic Survey and direct engagement with businesses across various sizes and sectors. It identifies a systemic misalignment between workforce skills and business needs, alongside infrastructure delivery challenges, as the primary barriers to sustainable economic growth.

On skills, London's productivity is constrained by persistent shortages in both transferable and technical capabilities, compounded by a structural mismatch between education provision and labour market demand. While the capital continues to produce highly qualified graduates, businesses face ongoing difficulties recruiting for mid-level and applied roles needed to operationalise innovation. These challenges are being accelerated by rapid technological change, particularly the adoption of artificial intelligence. This is increasing demand for digital and technical skills, as well as baseline AI literacy, while also requiring significant reskilling as routine roles are automated. SMEs face additional barriers to adoption, including cost, limited capacity and regulatory uncertainty.

The evidence highlights the need for a more flexible and employer-responsive skills system, including expanded modular training, reform of the Apprenticeship Levy, and stronger integration of work experience within education pathways. Continued access to international talent, including through routes such as the Graduate Visa, remains critical to maintaining London's global competitiveness.

However, skills challenges cannot be addressed in isolation. Productivity outcomes are shaped by wider structural factors, including housing affordability, transport connectivity and access to workspaces, which influence labour market participation and business growth. High living costs in particular are contributing to the loss of talent and constraining workforce mobility.

In parallel, infrastructure constraints are limiting London's ability to support business expansion and investment. These challenges stem less from a lack of infrastructure than from delivery complexity, cost pressures and uncertainty. Long planning timelines, fragmented approval processes and inconsistent funding frameworks delay the progression of projects, while rising costs of finance and materials reduce investments. Strategic assets such as Heathrow Airport illustrate the national importance of London's connectivity, with impacts extending across UK supply chains and trade flows.

Digital infrastructure represents a growing area of concern, with gaps in capacity and affordability affecting the adoption of data-intensive technologies. At the same time, infrastructure constraints in housing and commercial development continue to exacerbate affordability pressures and limit business growth.

Overall, London's productivity challenges reflect a system-wide issue requiring coordinated reform across skills, infrastructure and economic policy. This includes creating a more predictable and investable environment for infrastructure delivery, strengthening alignment between education and employment pathways, improving access to talent, and addressing structural barriers such as housing and transport. Sustained, long-term investment and clearer national leadership will be essential to ensuring that London remains competitive and continues to support national economic performance.

Skills

Aligning education with employers' needs

London's productivity constraints are increasingly shaped by a combination of persistent skills shortages, structural mismatches, and rapidly evolving capability requirements. Businesses across sectors continue to report deficits in transferable skills such as communication, resilience, and cultural intelligence – gaps that have become more pronounced since the 2008 financial crisis and intensified further following the pandemic. Employers now operate in a higher-cost environment and require individuals who are as work-ready as possible from day one. Our Q1 2026 QES reported that around 43-44% of firms reported no recent hiring across 2025. The education and training system continue to under index on practical experience. There is a clear mismatch between academic provision and labour market needs. While London produces a strong pipeline of highly qualified graduates, particularly in fields such as life sciences, economics and the arts, firms struggle to recruit for the wider range of roles needed to operationalise and commercialise innovation. This reflects a broader systemic issue, where pathways into employment are not sufficiently aligned with business demand.

Since 2008, these challenges have evolved from more localised or sector-specific shortages into a more systemic misalignment driven by technological change, shifts in the labour market, and reduced access to international talent. In this context, maintaining routes such as the Graduate Visa remains critical to ensuring that London can continue to access global talent and remain competitive internationally. At the same time, technical and digital capability gaps have widened. Although London retains global leadership in areas such as artificial intelligence, fintech, and life sciences, firms consistently report shortages in mid-level technical skills and difficulties in translating research excellence into commercial outcomes.

Artificial Intelligence

The emergence of artificial intelligence and related technologies is accelerating these trends and introducing new workforce challenges. Across London's innovation clusters, including the life sciences and technology hubs, AI is reshaping both the nature of work and the skills required to perform it. Routine and entry-level roles are increasingly subject to automation, requiring significant reskilling and job redesign. There is also a growing need for baseline AI literacy across the workforce, including the ability to critically assess outputs, understand underlying risks such as bias, and apply these tools responsibly. Evidence from LCCI engagement with businesses highlights concerns around cybersecurity, data protection, and intellectual property, particularly as AI introduces new vulnerabilities and lowers the barrier to sophisticated cyber threats. More broadly, firms face uncertainty around the regulatory environment, which is often perceived as unclear, underdeveloped and uncertain compared to the US (minimal regulation) or EU (stringent regulation).

These technological shifts are also placing new demands on infrastructure and governance. AI adoption requires substantial compute capacity, energy, and water supplies, raising concerns about sustainability and the local impact of infrastructure development. This needs addressing, especially in the heavily developed region of London and the South East.

In sectors such as life sciences, innovation is further constrained by fragmented systems and complex institutional landscapes. Businesses report difficulties navigating relationships with universities, local authorities, and NHS trusts, particularly when seeking to access data, test new technologies, or bring products to market. While initiatives are underway to create more streamlined, "single front door" approaches, the current system remains difficult to navigate, particularly for smaller firms.

SMEs in particular face a distinct set of barriers in adopting AI and digital technologies. While there is clear recognition of the potential benefits in terms of productivity, efficiency, and new product development, adoption is constrained by cost, limited internal capacity, and time pressures. Many smaller businesses lack the in-house expertise required to implement new technologies effectively and struggle to engage with training opportunities. Regulatory uncertainty further delays investment

decisions, while the wider support landscape is often perceived as fragmented and difficult to access. Businesses therefore require more accessible and affordable training provision, clearer and more proportionate regulation, and targeted financial support to facilitate adoption. There is also a need for practical, trusted guidance to help firms navigate technological change and implement solutions in a way that is both effective and responsible.

A flexible skills system

Addressing these challenges requires a fundamental shift in the design and delivery of the skills system, with a stronger emphasis on flexibility and employer responsiveness. LCCI members highlight a policy misalignment between apprenticeships, the Growth and Skills Levy, and Lifelong Learning Entitlement. There is a need to expand modular and micro-credential provision to support lifelong learning, enabling individuals to upskill and reskill throughout their careers rather than following linear education pathways. Greater employer involvement in curriculum design is essential to ensure alignment with labour market demand, alongside reforms to the Apprenticeship Levy to allow more flexible use of funds, including shorter and non-traditional programmes and targeted units that better reflect employer needs, particularly for SMEs and sectors such as the creative industries. Expanding the number and diversity of approved training providers would further improve access and system responsiveness. Embedding meaningful work experience within education pathways would help bridge the gap between study and employment. Structuring provision around

accredited, hour-based components would also support the development of "stackable" qualifications, enabling greater flexibility, progression and mobility across the labour market.

Living standards

However, skills policy cannot be considered in isolation. The evidence demonstrates that productivity is shaped by the interaction between skills and wider structural factors, including housing affordability, transport connectivity, childcare provision, and access to appropriate workspace. High living costs in London are contributing to the loss of talent, particularly among early-career workers and those from underrepresented backgrounds. In sectors such as life sciences, the availability of affordable and flexible laboratory and office space is a critical enabler of growth, while transport and childcare constraints continue to limit labour market participation more broadly.

Examples from London and internationally illustrate the importance of integrated, place-based approaches. Local initiatives such as the development of life sciences networks in boroughs like Islington demonstrate how coordination between schools, employers, and local authorities can support skills development and sector growth. At the same time, comparisons with North American cities highlight the advantages of more coherent governance structures and greater local autonomy, which enable faster decision-making and more effective collaboration. In London, the multiplicity of governance layers can make it difficult for businesses to identify the right entry points and build the partnerships needed to innovate and scale.

Across all of this evidence, a consistent theme emerges: London's productivity challenges are driven by a broad system-wide misalignment between education provision, business needs, and the enabling environment in which firms operate. Addressing this will require coordinated reform across skills, employment, and economic policy, alongside clearer national leadership on AI and digital infrastructure. It will also require stronger mechanisms to connect businesses with the support and institutions they need, improved communication of career opportunities to widen participation, and sustained, long-term investment in both people and places.

Infrastructure

In terms of infrastructure, London's constraints reflect a combination of delivery complexity, cost escalation and systemic uncertainty, rather than a simple deficit in provision. Evidence from LCCI' London Quarterly Economic Surveys (QES) indicates that external shocks in recent years have exposed the fragility of delivery pipelines, with firms frequently shifting from expansion to resilience. In this context, infrastructure planning is increasingly constrained by long lead times, coordination requirements and reduced certainty over funding and timelines.

This has direct implications or productivity, as delays or gaps in infrastructure provision limit the ability of firms to scale, invest and access markets efficiently.

Transportation

London's transport system underpins access to labour, customers and supply chains, while international gateways such as Heathrow Airport play a critical role in linking the UK to global trade and investment. Heathrow alone facilitates approximately £200 billion in trade annually, underlining its national economic significance. Where capacity constraints, funding uncertainty or delays to upgrades occur, the effects are transmitted through recruitment challenges, reduced market access and inefficiencies in goods movement. These impacts are not confined to London but extend across UK supply chains, given the capital's role as a primary economic hub.

Commercial and housing

Across commercial and housing development, infrastructure constraints are closely tied to planning and delivery systems. Prolonged decision-making, fragmented approval processes and limited institutional capacity continue to slow the progression of projects from proposal to implementation. This affects the timely delivery of housing supply, commercial space and supporting infrastructure, all of which are critical to business expansion and labour mobility. Delays in housing delivery contribute to affordability pressures, which in turn affect workforce retention and participation, particularly among early-career and lower-income groups.

Higher costs

Cost pressures further compound these challenges. Data from the LCCI's QES highlights rising costs of finance, materials and business rates as key constraints on investment. When these pressures coincide with uncertainty around infrastructure delivery, firms are more likely to defer or cancel planned investment. This is particularly evident in sectors reliant on physical space and connectivity, where decisions to expand, relocate or invest in new capacity are closely linked to the availability and reliability of infrastructure.

Connectivity

Digital connectivity represents a more uneven but increasingly critical constraint. While London benefits from relatively advanced digital infrastructure compared to other UK regions, gaps remain in coverage, capacity and affordability, particularly for smaller firms. As businesses adopt more data-intensive technologies, including artificial intelligence, the reliability and scalability of digital networks become central to productivity. The challenges in this area can limit the uptake of new technologies, reduce operational efficiency and weaken London's competitive position in high-growth sectors.

Taken together, these constraints have implications for both London's competitiveness and wider national economic performance. As the UK's primary gateway for trade, investment and innovation, inefficiencies in London's infrastructure system have spillover effects across regions and sectors. Delays in transport upgrades, housing delivery or digital investment can restrict labour mobility, disrupt supply chains and reduce the overall efficiency of the UK economy. Addressing these issues therefore requires a coordinated approach that improves the predictability, sequencing and delivery of infrastructure, alongside measures to manage costs and strengthen system capacity.

Conclusion

London's productivity challenges reflect a combination of skills mismatches, rising cost pressures and infrastructure delivery issues that together limit business investment, workforce participation and growth. Addressing these issues will require a coordinated, system-wide approach that better aligns education with employer needs, improves access to talent, and creates a more predictable and efficient environment for infrastructure delivery. Without sustained reform and long-term investment across these areas, London's ability to remain competitive and support wider UK economic performance will be constrained.

Yours Sincerely,

Karim Fatehi OBE Chief Executive Officer

London Chamber of Commerce and Industry