

**London Assembly (Plenary) – 24 October 2012**

**Transcript of Agenda Item 3: Question and Answer Session – London Finance Commission**

**Jennette Arnold OBE (Chair):** Can I ask the Assembly to welcome to the meeting Professor Tony Travers. We all know of his longstanding passion for London and his work at the London School of Economics and Political Science (LSE). He is with us this morning in his capacity as Chair of the London Finance Commission.

Professor Travers I would like to start by congratulating you on this appointment. I will just say to Members that we have agreed that Professor Travers will make an opening statement to Members, and then the questions to the opening statement will come in after the tabled questions. After that opening statement we will then go to the lead-off questions and Members will know - but let me just read them into the record - that the leadoff questions are as follows: the first is from Jenny Jones AM on the topic of the balance of taxation; the second is from Stephen Knight AM on the localisation of business rates; the third is from John Biggs AM on the weaknesses and opportunities for London's funding; the fourth is from Gareth Bacon AM on tax devolution. Once again, I remind you that once the question has been put it is then up to that Member to follow up with any oral supplementary questions, following which other Members can come in. So, over to you Professor Travers.

**Professor Tony Travers (Chair, London Finance Commission):** Well, first I would like to thank the Assembly and you, Chair, for your invitation to come and speak to you today. Just before I make the opening statement perhaps I can make an opening opening statement to say that, although the Commission has now been working since July, when we had our first meeting, we are still very much in the early stages of our work and so I need to be careful not to appear to pre-empt decisions that my colleagues will make as the months go on. Not too many months, of course, and I will talk about the timescales in the moment, but I just wanted to make that as a pre-emptive opening statement.

As the Assembly is I am sure aware, the genesis of the London Finance Commission was contained in the current Mayor's manifesto as put before the electorate last May. The Commission is a result of that manifesto commitment, although I think it is fair to say that the terms of reference that have evolved are rather more focused on looking forward and growth than the original commitment which I think had more to do with a fairer share for London and resources for London. I think we are now looking forward to a sort of future world in which the financing of London might be somewhat different, or not, depending on what we decide, rather than simply a bid for resources, and I would just like to put that point on the record.

The membership of the Commission is widely drawn: Assembly Member John Biggs, a distinguished Member of the Commission; the London Boroughs are represented both

at the member and office level; there are a number of independents and outsiders including the Chief Executive of Birmingham City Council and a senior figure from the Manchester Economic Development world. In that sense it is meant to be a broad based Commission and independent, but also to signal to the rest of the country that this is not simply a grab for money by London but more of a thought-through effort to see how London's position could be strengthened within the UK's constitutional and financial world.

As I say, we had our first meeting in July and around that time, just before and after that meeting, with the Commission's agreement, a number of papers were commissioned. I should add that the secretariat is being provided here within City Hall; officers have been provided to work with us and they have commissioned or worked on a number of papers, some of which are already available on the website that we have had created.

The papers and the research that we have started with I hope give a clue as to the kinds of issues we will be looking at in the report with a view to reporting on them. I will just go through them briefly. First we are having a look at the past efforts to devolve financial power to local and regional government in London. We must not be naive about this; the Layfield Committee and the Lyons Inquiry more recently toiled away in these particular fields and at the end of it not much reform happened. Having said that of course, the structural devolutionary reforms within the UK, and particularly the further debate about Scottish devolution, I think does give us a slightly greater chance that something might happen, although we must not be naive in assuming that radical things can happen; we have to understand the realities of where we start from.

So we are going to look briefly at past efforts to reform local government finance more generally in England. We are going to look at the economic literature on devolution. There is a great deal of academic effort being put into answering the question, "does the devolution of powers and finance make any difference"? I think it is fair to say, as with many academic endeavours, that the answer is that it is not entirely clear but we are looking at that as a separate issue. The third issue we are looking at is what is happened in Scotland, Wales and Northern Ireland and how that can be seen to relate to London given that Scotland and Wales have substantial political devolution of powers and may in future have more financial devolution. London of course has the same population as Scotland and Wales added together and a substantially bigger economy which can be seen to make things both easier on the one hand but more difficult on the other.

We will be looking at and have commissioned a paper on comparing London with other major global cities. One piece of research is looking at tax and spending in London; how much London pays in tax and how much is spent here. That analysis has been done before by the City of London and others. We will be building on that work and having some scenarios on how that pattern may evolve in the future. Remember that over the long period London pays significantly more in taxes than is spent here; London is a tax exporter. That is partly of course a reflection of the fact that there are more wealthy individuals in London so you would expect them perhaps to pay more tax, an issue to which I am sure we will return, and then the fifth or sixth paper that we have

commissioned is looking at possible tax options. There have been earlier inquiries into this kind of issue. The Holtham Commission in Wales and the Calman Commission in Scotland both went through a list of possible taxes that might be devolved to Wales and Scotland respectively. I think we will have our own version of that looking at various taxes and how they are more or less appropriate for devolution.

I think that is it for the papers we have commissioned so far. All I would say beyond that is that we have asked for written evidence from a number of institutions in London from the public and private sector, and of course other bodies with an interest in the subject. We have started to take oral evidence and had our first session in this building last week. We heard from four witnesses, including the former Mayor, and we will be holding another oral evidence session in November. After that comes the difficult part, the part after which we will have more to say, which is when we deliberate on the evidence that has come in and come to a view about what, if anything, we recommend about the future of London's position in within England and the UK in terms of, potentially, more tax raising powers, more devolved finance and therefore begging questions about powers to London.

I should add one final thing of course; the Commission has members from the GLA and from the boroughs on it. We have to see London as a whole and see it for the citywide government and the boroughs at the same time. We will deliberate after all the evidence has all come in with a view to reporting in April next year. It is not a very long inquiry and we will not be going on and on forever.

## **218/2012 – Balance of Taxation**

### **Jenny Jones**

*Should we shift the balance of taxation in London from income to wealth, for example with a land value tax?*

**Professor Tony Travers (Chair, London Finance Commission):** Hear this against the backdrop of what I have just said about not wanting to pre-empt what we decide, so this is an attempt to answer the question as far as I can. At the moment and so far we have asked the officials working with us to draw up a list of existing taxes paid in the UK and to score them in terms of their potential for devolution. For example, value added tax, which is always in a list of this kind, is very difficult to envisage devolving, partly because there are European rules impeding that possibility, we are told, and all reviews of this kind are told that.

**Jenny Jones (AM):** I do have a list of the things you are considering and there are some really good ideas here. I am also pleased to hear that your remit has changed. I thought it was too narrow. I would have preferred you to say that you want your remit to be to make London a fairer more inclusive city, but growth --

**Professor Tony Travers (Chair, London Finance Commission):** -- well let me just carry on, if I may. We are starting off with a list of the extant taxes. The idea of, for

example, a land value tax as mentioned in your question - but it could apply to other tax - is that while I am sure we will have evidence to say that a land value tax would be a better tax than, say, council tax, and some people will argue that, I think the difficulty that that would present us with if I can go forward to the deliberation stage, is that in order to deliver it we would have to reform the tax system. I want to draw a distinction between debating the possibility of devolving existing taxes and creating a new tax or reforming the tax system and then introducing that in London, which I think would be an even more complicated idea.

I am not saying we will rule out a land value tax, I am just pointing out that if we were to consider a land value tax it is hard to imagine that not being done for the whole of England. It is difficult to do it just in London.

**Jenny Jones (AM):** Well it could be done just here. The real benefits of a land value tax are of course that it taxes unearned wealth and it is also very efficient because it does not discourage people from doing anything and actually encourages them to develop land properly and to use it to its maximum potential. It means there would be fewer desolate areas where developers are just waiting for prices to go up. The third thing of course is that it is very difficult to avoid because you cannot take your land out of Britain and put it offshore. Actually, it is such a simple idea to put a levy on land at its undeveloped value, whatever is on top of it, and I see no problem at all with bringing it in only for London. The Institute for Fiscal Studies (IFS), their Mirrlees report recommended that land value taxation replace business rates, which many of us have a real problem with. I can understand your caution, but I just think, why not think a little bit bigger and actually move London on instead of just looking at the same things again and again.

**Professor Tony Travers (Chair, London Finance Commission):** I take the point about the Mirrlees report and the IFS's work which did indeed make the point you make, and indeed over many years I have been personally lobbied on this subject by the former deputy chair of Transport for London (TfL), whom many of you will know has been a long-time advocate of this policy.

**Jenny Jones (AM):** Indeed.

**Professor Tony Travers (Chair, London Finance Commission):** I come back to the challenge, if I can put the challenge back slightly, that of course it would be theoretically possible to recommend a tax unique to London. However, going back to what I said about the realisation that both the Layfield Committee and the Lyons Inquiry made recommendations that frankly led absolutely nowhere if I am honest, we have to understand the baleful history of trying to increase local autonomy in this country. If we recommend breaking London away, as it were, in terms of introducing a new tax in London I suspect that that would make it even more difficult for us to envisage getting anything done. That is not to say that the arguments you make are in principle incorrect; I am just talking in terms of the difficulty of saying that London should have a separate tax that does not operate in the rest of England.

It would be open to the Scottish Government to make such a reform because it passes its own laws, but in London we have to rely on the UK Parliament to make the change, and within the bounds of what is possible, which on the basis of history we have to understand is not a great deal hitherto, proposing a radical reform to one tax only to operate in London might present greater barriers to reform even than we will face otherwise.

**Jenny Jones (AM):** I do see that. I just think there are arguments you can make to the Government about land value taxation. For example, the land uplift on the Jubilee line was something like £10 billion and those house owners and landowners in the area benefitted, but only the businesses paid. It just does not seem fair somehow, that if you are looking for growth in London that the businesses have to fund all these large transport infrastructure projects. Would you just put it on your list to consider?

**Professor Tony Travers (Chair, London Finance Commission):** I will put it as a double negative; we definitely won't not consider it, if you see what I mean. It will definitely be something we look at, particularly after this morning. In the question that is written you raise a broader issue about the balance of taxation in London potentially being shifted from income to wealth. Again that is a more complicated issue because if one were to do that or even to recommend it, under the present arrangements, because there are more wealthy people in London that would undoubtedly tax London more. However, under the current arrangements all the money would go out of London. So, with all of these issues I think we have to keep in mind the challenge of whether we can introduce changes from which London benefits that do not disbenefit the rest of the country, but where any changes do offer London greater autonomy, which I think is the core of what we are trying to do.

It is a very interesting question. If this is done we have to be careful that we do things that actually produce more revenue for London and are not fully equalised to the rest of the UK. This has always been an impediment by the way in terms of extra bands for council tax. Under the present arrangement, which I realise is about to be reformed, any extra tax paid in London will be equalised away. That is a problem for London because of the very high level of equalisation we have, which is good in some ways but has this odd consequence that if you put taxes up in London, some of it could come back but most of it will not.

**Jenny Jones (AM):** Thank you.

**Roger Evans (AM):** I too spent a pleasant lunch some years ago being lobbied on this matter by Dave Wetzel [President of the Labour Land Campaign].

**Professor Tony Travers (Chair, London Finance Commission):** It is always fun.

**Roger Evans (AM):** Yes, and he made the point that Jenny [Jones] does that it would encourage better use of land in London. Does that not mean that if you are using a piece of land for residential purposes it will encourage you to put a block of flats on it, the higher the better, rather than just ordinary houses?

**Professor Tony Travers (Chair, London Finance Commission):** Well, I think other things being equal a land value tax would imply - forgive me I have not done detailed modelling of land value taxes - that those who own land would develop it as much as they could; it carries that logic with it. Of course it would be constrained by the planning system in London. Developers of land would already, other things being equal which they never are, want to maximise the yield from a development. This might give a further incentive to do that and bring land that is not in use back into use, it would, , so it would probably intensify a pressure that is already there, but I am assuming that, since we are not looking at the planning system, it would stay in place as a constraint on what some might see as overdevelopment.

**Roger Evans (AM):** It is not a very green thing to do is it?

**Professor Tony Travers (Chair, London Finance Commission):** It would depend how you interpreted green. In some ways further development on an existing site could be seen as green because it increases density, more people can walk and use public transport and the fact is that London's population is growing and it will have to house many more people, it will only become more dense, and in that sense it could be seen as environmentally desirable, but that is argument for another day.

**Roger Evans (AM):** Indeed. It may not be seen as environmentally desirable by the people who live close to it.

**Professor Tony Travers (Chair, London Finance Commission):** Everybody lives in an area where people are fearful of overdevelopment, but that is different. I took it in terms of the environmental sustainability type of argument rather than the people not wanting overdevelopment. I do agree though, that people might see that as encouraging higher development levels than they would want.

**Roger Evans (AM):** Yes, and effectively because land values in London are high this would be a tax on London.

**Professor Tony Travers (Chair, London Finance Commission):** It would, that is certainly true, because land values in London are high, though of course the existing property tax has this effect as well. However, it would almost certainly have the same effect again; that is that London would find its land values being much higher than those in the rest of the country. Therefore the taxes would be higher but that again raises the issue that I was trying to answer earlier on, which is that until and unless the yield of a tax like this could be ring-fenced to London, then there would be a risk that the bulk of the money would indeed go to the Exchequer, thence to the rest of the country.

**Roger Evans (AM):** Which is not really the purpose of the exercise we are engaged in.

**Professor Tony Travers (Chair, London Finance Commission):** The purpose of this exercise it seems to me, looking forward, to put it at its simplest, is how can London potentially capture a greater share of tax base growth over a wider range of taxes and perhaps have greater control over taxes than it has had hitherto.

**Roger Evans (AM):** Yes, thank you.

**Richard Tracey (AM):** Tony, you have already spelt out some of the complexities of trying to bring something like this in and you have discussed whether it would simply be London or whether it would apply to the rest of the country, but surely one of the other enormous unfairnesses of it would be at what level and percentage it came in and indeed who qualified. Liberal Democrat politicians have been talking about a mansion tax applying over £1 million or £2 million, which seems very unfair, but surely the really serious unfairness of this would be if young people trying to get on the property ladder found themselves being hit by a wealth tax like this. Enough now say that they just cannot afford to raise the deposit to get on the property ladder and this would simply make it far worse, would it not?

**Professor Tony Travers (Chair, London Finance Commission):** Your question quite rightly points to a wider problem in London, which is that wealth includes or embraces property values, and property values in London are relatively high in relation to income; that is the problem and it is a systemic one that I think in a sense we can all agree is an issue. Any reform of a tax system, particularly the local tax system, contains within it the fatal -- well, let us put it another way round: I think most national politicians in Britain remember the poll tax, the community charge, they remember the damaging effect that that had on the then Prime Minister to put it crudely, and as a result of that they are extremely wary about not only reforming local taxation but actually revaluing the tax base. The tax base for council tax is very out of date and the Government interestingly has just temporarily suspended the revaluation of the business rate. Oddly, these are both good for London because London property values are rising faster than elsewhere, so other parts of the country will lose out as a result of the failure to revalue the tax base.

Coming back to your question, there is no doubt that there is a problem for London; that any property or wealth based taxes will bear harder in London. If they are wealth taxes presumably they would bear directly on the wealthy. The problem with property is that for many Londoners you will be paying over the odds for property one way or another compared to the rest of the country whether you are wealthy or not. That is a challenge for all of these kinds of reform, that just because property is undoubtedly part of wealth for many people, it does not necessarily mean that all property taxes, if imposed, would fairly affect everybody in relation to their income. That is one of the challenges to reform local taxation, particularly because local taxation is one of the few visible taxes anybody pays in Britain.

**Stephen Knight (AM):** To pick you up on the point you have just made around the high property values in London, compared, I believe with most other developed countries, we have very few property and wealth taxes in this country; we predominantly focus on income and sales taxes. I just wondered to what extent you think the high cost of housing in London is partly driven by the fact that it is a tax free growth area for people, by which I mean it is a tax free investment and therefore that has partly driven the speculation that has driven property prices so high, what kind of economic impact that has on the city.

**Professor Tony Travers (Chair, London Finance Commission):** Your point is a fair one. Even if you look back at the domestic rates in 1989/90, domestic rates were a tax which was paid on a version of rental value and therefore there was no top and bottom like there is with council tax, which works on a ratio of 1:3 from bottom to top band. The old domestic rating system simply had values from the lowest value to the highest value in the country and many properties in London in 1989/90 were paying substantially more in cash terms than they do now in council tax. There is no question that compared with, say, the property taxes paid in New York on high end properties that in London the top council tax band in most boroughs is lower than you would expect in, say, that city. So far so good, in terms of your question. I think the difficulty however is, were one to reform it - even to just revalue the council tax base - you will get winners and losers, coming back to Mrs Thatcher [former Conservative Prime Minister] and the poll tax problem. At the point you make the reform, of course many people one might want to pay higher property taxes would do so, but a lot of other people one might not want to would also end up paying a lot more, and that is the challenge, particularly with such a visible tax.

Of course it would be possible to have higher property taxes and for some people the amount that they would pay in relation to their income would remain relatively tiny, particularly the very rich, but for a significant minority of people in London the extra bill would be very high indeed relative to their annual income. Think particularly of the challenge faced by a person who has lived all their life in a terraced house in part of London which used to be in a relatively deprived area and is now in a fashionable and chic area. They might find that their property value had gone up relative to others two, three or four times in a relatively short period. That being the case, though their income has not changed, particularly as they are older, their tax burden could suddenly change. I think the challenge of coping with that problem is one that is common to all proposed tax reforms. It does not mean we should not look for better taxes and reforms, otherwise we can propose very little, but I do think it is a challenge for all parties as they look to reform the tax system.

You can see, as I say, the response of the previous Government, the Labour Government, which abandoned council tax revaluation, and the present Government which is not holding a revaluation and is also in effect capping council taxes, as has the Scottish Government. Why, because council tax is a very visible tax.

**Stephen Knight (AM):** Thank you, if I can leave it there. I am going to run out of time.

**Professor Tony Travers (Chair, London Finance Commission):** Sorry, tell me to talk less!

**John Biggs (AM):** Goodness me. I think this is a very worthwhile debate although it may seem a bit arid to some observers and we need to make sure we do not get too academic about it. Would you agree with me that around the world probably the single greatest source of income for city governments tends to be, in one shape or form, from properties? You have said a couple of times now that property taxes are so visible and

so potent that virtually all political parties play 'chicken' with each other. Well, the opposite of 'chicken'; they are scared to look at it. Would you agree also then that part of the objective of this Commission is to try and find some areas of cross-party consensus that will make a case for London as a sort of London civic forum, and therefore also that we need to move the debate on?

I know property tax is too potent an issue to really look at, and that you get flat earth propositions such as that from Roger Evans earlier on, which is rather disingenuous; I do not think a land value tax would require everyone to build an 84 storey block of flats on every piece of land in London. It is rather mischievous and that is an example of how it is such a potent issue because it gets misrepresented all the time. Would you agree that there may be more other fruitful areas, because Jenny Jones's question talks about income and wealth and there may be areas of consumption as well? A lot of city governments raise revenue from taxing tourists, for example, and also from local sales taxes. People may complain about their council tax but they do not hesitate to pay 20% tax VAT on virtually everything they buy.

Not that I am looking to plunder London's economy, but there may be other areas about which you can have productive debates about raising money that are potentially win/win; they incentivise the city government without threatening the sovereignty of parliament, and do you have any ideas about what they might be?

**Professor Tony Travers (Chair, London Finance Commission):** Thank you for inviting me to pre-empt the report to which you will be a contributor! First on your consensus point, I absolutely see what we are doing as something that has to get the buy-in of all the major parties. That is, we are not going to get anywhere with anything we recommend if we are not involving the major political parties in Britain, because of what I would call the drip, drip, drip nature of trying to change anything in this sphere of endeavour.

As I said at the beginning, I think the debate about Scottish devolution, - devo max - does open a debate for England as a whole, of which London is a part, about whether you can have substantial further financial fiscal devolution to Scotland but not do anything in England. I do think we want to engage and involve all the major political parties with a view to building up a longer term consensus that greater financial devolution to London would be a good thing. I am a bit more optimistic on this front because both in 2007 under the previous Government and in 2011 under the coalition there has been a further move towards devolving power to the GLA, so it is not as if nothing can be done, although it is more difficult with tax.

On smaller taxes as I would call them, like tourism tax, again I absolutely agree with your point, and while I cannot say that we will recommend it we will definitely look at it. The thing that the congestion charge, the Olympic levy and the business rate supplement partly to pay for Crossrail did, is show that you can have one-off or minor taxes in London that are profoundly important to the city. So the business rate supplement has finally allowed Crossrail to go ahead, for which heaven be praised. The Olympic levy helped pay for the Olympic and Paralympic Games, which is another precedent, and the congestion charge, whether you like it or hate it, is an example of London going it alone

and keeping the revenue. So, a tax such as a tourism tax, which is something that has been mooted before, I think is something we will definitely look at and it may not be the only thing of its kind. Again, though, that would raise a serious question that we have not yet even started to discuss. Tourism tax would be distributed very unevenly around London. Some boroughs would collect a very large amount in tourism tax and others virtually none. That begs a question which I think we would have to come onto and consider in the Commission, which is, if we make any recommendations of this kind, how do they affect the GLA and the boroughs and does there have to be some way of capturing and dealing with that issue in the long term. I think sales taxes would fall in the same bracket. I am not saying we would advocate an additional sales tax but I think we have to look at such things whether or not we accept them.

**John Biggs (AM):** Can I just get another question out of the way which sort of falls off the back of this about accountability and is sort of an obvious question that I shall ask as an Assembly Member: how would you see the role of the Assembly changing or asserting itself in the event that London did have powers to raise revenues of one kind or another?

**Professor Tony Travers (Chair, London Finance Commission):** It seems to me that the more a Commission of this kind argued for financial, fiscal tax or general control of resource type devolution to London, then the more that concentrates power in the hands of the political executive which in London's case is the Mayor. That being the case, I think the more we recommended that the greater that would, in my personal view, build up the case for strengthening the Assembly's powers in relation to overseeing the executive. Just to go to Scotland again, if Scotland were to remain part of the UK but the Scottish Government were to inherit far more tax raising powers, which they are going to already in fact, then it is parliamentary system with all the normal parliamentary ways of operating. Whereas in London there is a single person executive and the Assembly is the overseer and scrutiniser of the Mayor and I am on record in the past as saying that my personal view - I cannot speak for the Commission - is that the Assembly's powers are not as great as they should be in relation to scrutiny and so therefore it seems to me that, were the Commission to propose greater fiscal and/or financial freedom for London for the GLA, it would be impossible to not then look at the knock on consequences for the scrutiny of the executive.

**Murad Qureshi (AM):** I just want to briefly go back to land valuation taxation if you don't mind, given Roger's [Roger Evans AM] comments. I hear what you are saying about local planning concerns that have to be addressed by local authorities, I hear what you say about anything being proposed having to be national and not just London, but you would accept that it would discourage land banking and a fair amount of empty sites? Forget empty properties, there are major sites lying empty. Would it not encourage those being moved on at least and the promotion of jobs and growth as a result?

**Professor Tony Travers (Chair, London Finance Commission):** Land value taxation has been put forward with great passion over many years and tried out here and there surprisingly less than one might of thought actually; experiments on it are fewer than one might think. Yes, you would expect, if it worked in the way it is

suggested, that it would discourage people holding land and buildings empty and inherently as an objective in a city that desperately needs more growth and development all the time, it is hard to see that that would not be a good thing.

**Murad Qureshi (AM):** I just highlight a few examples, such as Chelsea Barracks, that has been lying empty. I am not sure the Qataris [part of the consortium that own the Barracks] know what they are doing with the site anymore. They have become the new feudal landlords of London so things like this might actually move things on.

**Professor Tony Travers (Chair, London Finance Commission):** I think in fairness to the Qataris and the Chelsea Barracks development it would have gone ahead would it not, had there not been various earlier interventions. Your question is a good one in that it is aimed at a point we have raised indirectly already, which is that there is a relationship between pressure to develop and encouraging development in a city that needs it and, on the other hand, the planning system. In a sense, in the case of the Chelsea Barracks, all the incentives in the world would not have worked there because the intervention that delayed it, as I understood it, was one that came about because of a planning intervention, to put it discreetly. So even if you had a sharp land value tax, as I was saying to Roger Evans earlier on, the planning system would still act in the way it does. That could also discourage investment, but that is a separate issue and not one we are looking at.

**Nicky Gavron (AM):** While we are on land and talking about the planning system, currently the Assembly's Planning Committee is looking at the community infrastructure levy (CIL). That is, to a certain extent, a fixed charge, although there are lots of complications because it is set different in different boroughs and there is not necessarily a duty to cooperate and so on. On top of that is the Mayor's own CIL. I was wondering, this CIL is for Crossrail, but is the Commission going to look beyond that to the way CIL might be used by the Mayor in the future? Also, while we are talking about land taxes, are you looking at the tax incremental finance (TIF), because this could also be of great benefit to London?

**Professor Tony Travers (Chair, London Finance Commission):** It is a helpful question because one of the ways that the original terms of reference were amended was to build into them a far greater consideration of the impact of London's tax and spending system on economic growth, so that is an element of what we are doing. You are absolutely right that the CIL and TIF are part of the existing sort of tax system in London, which, depending on your view, contributes to or inhibits development. People have different views about the CIL. I think we will look at these issues. I am not saying we will do so in great detail because they are in a sense part of the extant mix of taxes and things that are like taxes that are available in London, but we will look at the question of incentives to growth. It goes back to the land value tax debate a bit as well because Jenny Jones is absolutely right that a development like the Jubilee line extension has produced windfall gains all along its length which are not really captured directly.

The question of whether the city can find a way of allowing development to go ahead in a way that captures the benefits of that development in order to reinvest them is a

highly powerful one. It is much more important in London than anywhere else. If you look across at cities in America the more buoyant ones have been able to use TIF type funding arrangements to build subway lines. New York is building a subway line at the moment using this kind of mechanism. The development at Battersea it seems to me is pre-eminently one where that kind of policy - TIF - might well finally unlock the development and allow it to go ahead.

What I do not think I can say is that we are going to look at the impact of CIL in detail, though I am sure we will consider it. Again, if you want us to look at it in more detail by all means suggest it. I will take away from the meeting that you would like us to.

**Nicky Gavron (AM):** We will think about that. It is emerging though, you see.

**Professor Tony Travers (Chair, London Finance Commission):** Yes, absolutely. If you have any evidence that would be helpful.

**Nicky Gavron (AM):** It is hardly there.

**Professor Tony Travers (Chair, London Finance Commission):** OK.

**Jennette Arnold OBE (Chair):** Let us move on to the second question in the name of Assembly Member Knight.

## **219/2012 – Localisation of Business Rates**

### **Stephen Knight**

*What evidence have you received so far concerning the so called "localisation" of business rates?*

**Professor Tony Travers (Chair, London Finance Commission):** The straight answer is that we have had a bit of oral evidence and some of the written evidence is coming in, so we may be too early to talk in terms of the evidence that has come in, if I can use your question literally. I think the honest answer is, not much so far. However, I think the localisation of business rate is an attempt, albeit literally half-hearted as half of it is now not being devolved, to decentralise the business rate to the local authority; at least the tax base if not the tax rate. I notice the word 'localisation' is in inverted commas in your question which is absolutely fair enough.

The interesting thing about the business rate local retention is that it does provide a potential model for other reforms. The great thing about the Department for Communities and Local Government civil servants and the way they handle these things is that they are extremely good at it in the way they make it possible to make changes of this kind without a massive upheaval, and in doing so they give us clues as to how you could devolve other taxes.

**Stephen Knight (AM):** Given local government's reaction generally to the proposals around the business rate I think the idea that it would be a model for how future things are not perhaps would not gain huge amounts of support.

**Professor Tony Travers (Chair, London Finance Commission):** I can unravel what I mean.

**Stephen Knight (AM):** One of the justifications for it was it would give an incentive to local government to promote regeneration and growth through retaining some of the growth in business rates, but critically the bit that they do not get to retain is the growth that comes from the value increase of those properties, which in London is where the growth comes from if you are successful in terms of regenerating an area or putting in a new railway, tube or whatever. Is that not one of the key weaknesses of what is being done here?

**Professor Tony Travers (Chair, London Finance Commission):** Yes, although of course as I said earlier on and you will have noticed, the Government has postponed the 2015 revaluation, so something that might have happened then will not happen; that is, any change in the values would be taken away from London potentially at that point. I do not think it affects the point you are making, however. So I agree - again I cannot speak for the whole Commission yet - with the idea that, if we are to have a reform of the retention of business rates, then when that happens, differentiating between growth generated by giving as it were planning permission on Greenfield sites and improving the rateable value of properties currently in use by improving them, personally I do not think even makes economic sense. I am with you 100% on that idea. I could see it was done because a number of London boroughs in recent years have seen substantial growth in their underlying business rate even though they have not generated lots of new properties, because in many cases they cannot.

I think the localisation of the business rate has been reduced to 50% and you are absolutely right, does not allow or will not allow authorities to keep any uplift that comes with underlying growth. Both of those things could be different and I think we will look at this issue with a view to, to put it crudely, making the Government's policy work better in the Government's own terms.

**Andrew Boff (AM):** Professor Travers, do you think that the localisation of business rates might assist local authorities in dealing with the blight of empty shops and derelict land?

**Professor Tony Travers (Chair, London Finance Commission):** It could do. Again, we have not looked at this yet and we are now in a sense looking at something that the Commission has not looked at and is also in the future, so this is more hypothesising on the way one might expect it to work. The business rate retention is certainly intended to encourage councils to think harder than in the past about building up their local business rate base because they will, in the case of many London boroughs, keep all of the growth and in the case of others, some of it. There will be other freedoms for boroughs to offer incentives to business rate payers and so on, which, taken with the incentive for growth could lead to, if boroughs choose it to, a more activist policy in

relation for example to managing high streets, but it will be up to the boroughs as to how they respond to all these freedoms and incentives. So the answer is, yes if they choose to do something, no if they do not.

**Andrew Boff (AM):** Yes, but do you think it would resolve this problem of where a developer buys a piece of land that has one classification, which is not very lucrative, and then plays 'chicken' with the local planning authority by leaving it derelict until they grant them planning permission for a more lucrative classification?

**Professor Tony Travers (Chair, London Finance Commission):** The honest answer is that I do not know. It might encourage the local authority to think harder and push harder for getting the property back in use and produce a higher business rate yield, that's for sure; it ought to do that. However, we come back again to the question of the interaction between a tax reform and the planning system, and what you are describing perfectly rationally is in part a planning issue as much as a finance issue, but I take the point.

**Andrew Boff (AM):** I actually do not separate the two that much.

**Professor Tony Travers (Chair, London Finance Commission):** No, I am agreeing with you on that; I do not think you can either, absolutely.

**Andrew Boff (AM):** Thank you.

**Jennette Arnold OBE (Chair):** Let us then move to the third question in the name of Assembly Member Biggs.

## **220/2012 - Weaknesses and Opportunities for London's Funding**

### **John Biggs**

*What are the principal weaknesses in, and opportunities for, London's funding?*

**Professor Tony Travers (Chair, London Finance Commission):** I think the principal weakness in London's funding is not unique to London or any other city in this country, which is that the United Kingdom has an unimaginably centralised public finance system. This has existed under what we can now genuinely describe as governments of all party. 96% of all the taxes paid in the UK are paid to the Exchequer. The remaining 4%, which is the council tax, is capped, in effect, so you could argue 100% of all taxes in Britain are determined by central government. If you look at the Organisation for Economic Co-operation and Development (OECD) figures they show that, certainly among larger developed democracies, the UK is way out on a limb; very heavily centralised. In fairness I think most opposition politicians and many politicians outside central government are on one side on this issue. I think there is a general sense that this is too centralised and something must be done, but once politicians get into government it proves very difficult to make the change that they in opposition and many other politicians and many commentators believe needs to be made.

I think that is the principal weakness. The UK is an outlier and London has an incredibly powerful economy, with enormous potential for growth, which begs the question within that, that if it were allowed greater freedom and autonomy, would it be possible to make more decisions about local spending and investment in its own long term interest? Again this is not unique to London, what I am saying would apply to Greater Manchester or Birmingham just as much as to London. The academic work suggests that decisions made nearer the point where tax is raised are going to be much more aware of what is needed locally than those that are made miles and miles away. Most decisions about major investments in Britain end up on a small number of desks in the Treasury, and many more of those decisions could be made on desks in this building or indeed on desks in boroughs. I do think that that is the weakness.

In terms of the opportunities, we know from other cities from very different political systems, and I do not want to pre-empt what we will find in the international research, but if you take New York, often used as a comparator, a city of the same population size and a similar economy there, 60%/70% of the income spent by the city is raised in local taxes. Do the skies fall in? Well, oddly not. Berlin, in a very different but still federal political system and a much poorer city in relation to Germany than New York is in relation to America, has enormous degrees of autonomy within the German state within a constitutional settlement created in the late 1940s. There are other cities with which London has relationships or with which it can be compared, that have far more devolved and financial and political systems where the world is not uniquely and oddly different or worse.

I think the opportunity is to take this very centralised political system and look at what the opportunities are in the short, medium and long term for allowing London a far greater degree of self-government. Not a city state, although I am sure that there are those who want a city state for London. I am not talking about Singapore here, but certainly moving in the direction of other cities overseas with which London is more normally compared and allowing more decisions about London to be made in the city.

**John Biggs (AM):** I have obviously had too many morning cups of coffee with you because that is exactly the answer I sort of wanted you to give. I wanted to push it a bit further though. It is not just about the Exchequer being very centralised, it is about parliamentary democracy being very centralised as well. This is a leading question in a way, but you cannot really just talk about financial devolution to London without talking about a further degree of political devolution. If one looks at what has happened in Scotland, Northern Ireland and to a lesser extent in Wales, there was a sort of constitutional gathering which led to people assembling a case for change. Would you agree that your Commission is sadly only really quite a small building block towards that?

**Professor Tony Travers (Chair, London Finance Commission):** Yes, I mean I hope I made the point earlier on that, as a Commission, we are realistic. The Lyons Inquiry was a great piece of work done over three years by Sir Michael Lyons who came to give evidence to us last week. Equally Nick Raynsford [Member of Parliament], who is on the Commission, undertook an Inquiry on the balance of funding between central and

local government for a year before that. Four years of review and at the end of that the then Government did not actually publish a formal response to the report. The limitations on what we can expect have to be seen against that background.

As I also said, the dynamics of devolution in Britain are fascinating, because for Scotland and Wales and for London, the fact is that the settlement of 1999 and 2000 has proven dynamic. In Scotland, Wales and London there have been further reforms - and there are going to be further reforms - which suggests there is a dynamic for decentralising power. It is different in London, partly because, unlikely Scotland and Wales which always had their own separate bureaucracies and government systems; London is embedded in central government and Whitehall. The more the Assembly, this Commission, the Mayor and others may propose decentralising power to London, the more it takes out of Whitehall and ministerial responsibilities what is in many ways the biggest single thing they have got, i.e. London. In a sense the more radical we are or the Assembly would be in any recommendations it ever made in this regard, the further we go towards breaking up Whitehall. That is why I think it is more difficult in England and we have to be doubly realistic. It does not, however, mean nothing can be done.

I have gone on without answering part of your question that I have lost.

**John Biggs (AM):** We are both too old to remember what that was!

**Professor Tony Travers (Chair, London Finance Commission):** Sorry, John. I think the dynamics of devolution suggest it is possible to go further so we must not assume nothing can ever be done, but we have to be alert to the fact that the more radical any solution proposed for London the greater the impact on Whitehall ministerial responsibilities. Oh yes, I remembered what it was. If a Commission of this kind were to make radical proposals about tax raising powers at the citywide and/or local level, you are absolutely right that it would carry with it the implication of the need for service devolution. That is, I am not saying we are going to do this, but were a commission to propose a radical decentralisation of fiscal power the capacity to raise taxes and control spending in London that would immediately raise questions such as, should London be more like Wales and Scotland where there is a devolution of power over health and education? Indeed, that would then raise the further question of the relationship between City Hall and the boroughs which in Scotland is very different than in London. It does have exactly the implication you suggest.

**John Biggs (AM):** A couple of further questions then perhaps. The first is that it seems to me that it is likely that change, if it happens, is going to be incremental in little things here and there that central government does not find particularly threatening; things that do not pose a risk to their sovereignty. Would you broadly agree with that?

**Professor Tony Travers (Chair, London Finance Commission):** Well I wish it were that.

**John Biggs (AM):** The second part of the question then is that you could envisage although I do not think there is much appetite for this now some kind of constitutional

convention in London which said that things are so dire here in our ability to determine our future and fund airports, or whatever it was he wanted to do - I am not suggesting we do fund airports by the way - requires us to beat the Government into submission on this and to fundamentally change the constitution of the country to give us law making powers or whatever, that is unlikely. In the absence of that it is more likely that we will have little bits and pieces that incrementally may make quite a difference in terms of the amount of money but do not really take away from government the power to pull it all away again, which they quite often do.

**Professor Tony Travers (Chair, London Finance Commission):** Objectively, that analysis must be correct. Britain is a relatively conservative country constitutionally and in this sense the reforms of 1999 and 2000 are almost shockingly radical. Certainly, devolution to Scotland and Wales, while being the right thing to do in my view, was shockingly radical. Subsequently, we have seen attempts at radicalism on the voting system or the House of Lords and pretty much anything less much less obviously capable of being delivered. It does not mean we must not try and I know you are not suggesting that. I think, again without pre-empting what we can say and do, we need to as it were point to things we can do or argue for realistically in the short term but without assuming that we can never do anything more in the long term.

I think if I can pass the question back to the Assembly, and I know it has looked at these constitutional questions before, I do think there is a separate question that we are not looking at that is about how far London could move in the direction of a city state and how far it would want to and what the implications would be for the government system more generally, but that is more a personal view than the Commission's view but the things are related.

**John Biggs (AM):** We are probably looking at things that could be seen as a win/win. I suppose business rates might be one potentially where you incentive the city and its boroughs to encourage economic regeneration, which in turn will bring wealth to the city but also to central government. There may be other areas where you can do that; nonthreatening areas. That is broadly it, isn't it?

**Professor Tony Travers (Chair, London Finance Commission):** Yes.

**John Biggs (AM):** It is not just Parliament that is broadly conservative and does not want to do things, there is an underlying question which we are all sworn to not ask, which is about the balance of powers between ourselves and the boroughs. I think Ken Livingstone last week suggested that we have five super boroughs. [Lord] Toby Harris [former Assembly Member] when he was here and prior to that when he was in London Councils said famously, or infamously, keep your tanks off our lawn. City Hall was very welcome as long as it did not do anything that threatened any of the power of the boroughs. Do you have anything to say about that or is that a no go area?

**Professor Tony Travers (Chair, London Finance Commission):** The number of boroughs?

**John Biggs (AM):** Well the balance of powers.

**Professor Tony Travers (Chair, London Finance Commission):** We are definitely, definitely, definitely not going to look at the number of boroughs, if I could just record that for posterity. That is nothing to do with us at all. However, your wider point is correct; some taxes that we might recommend will be more appropriate for the boroughs than the GLA and others will be more appropriate for the GLA than the boroughs. Even the ones that are more appropriate for the boroughs have the distributional challenge I mentioned earlier. Take a tourism tax on the one hand and vehicle excise duty on the other. I am not saying we are going to look at or advocate these but just to use them as examples, tourism tax would be particularly concentrated in central London, but vehicle excise duty would be concentrate in outer London because there are many more cars owned in outer than in inner London. If either or both of those were to be suggested for example, and we will certainly look at them, then the distributional consequences of allocating to the boroughs cannot be ignored. That then raises a question of whether, as I said earlier, the boroughs and the GLA together could have a role in managing the distributional consequences of such a reform. Exactly the same issue had to be discussed by the way in the context of whether there should be a London pool for the business rate reforms.

We may end up nudging into government issues because tax that might be more appropriate for the boroughs than for citywide government might be so ill-distributed that we have to be aware of that issue.

**John Biggs (AM):** While I have the floor I will just ask one other question which sort of flows off this. We talk about land value tax and council tax. I am a banker and I work at Canary Wharf and I earn £1 million a year or whatever and I buy myself a nice house in Kensington, and therefore I am susceptible to London taxes and London has the power to change those taxes. I am the same banker but I live in Sevenoaks which is outside Greater London. Should the Commission have any anxiety about the different treatment of those people?

**Professor Tony Travers (Chair, London Finance Commission):** It is a real issue for cities that are fiscally independent. The more money a city raises its own money within its boundaries, the greater the challenge of people who commute in. In London, more than in any other region, you can see this in the workplace gross value added figures there is a very large amount of commuting. A certain amount of the income earned in London is indeed exported in exactly the way you suggest.

Now, if London got to a position of having far greater control over its own tax base then the question of people who lived outside and worked in would become a challenge, a problem that would arise from the decentralisation of financial power to London, and there are ways of dealing with that. We have not investigated this, this is me speaking as me, but other cities have investigated ways of looking at that and I think it would become more of an issue the more devolved the financial settlement was for London.

**John Biggs (AM):** It gets messy.

**Professor Tony Travers (Chair, London Finance Commission):** It would be messy.

**John Biggs (AM):** You tax people at their place of work rather than their place of residence, for example, and that is problematic.

**Professor Tony Travers (Chair, London Finance Commission):** Highly problematic.

**John Biggs (AM):** Which leads me beautifully in to Gareth's [Bacon] question.

**Jennette Arnold OBE (Chair):** Let us go to the fourth question in the name of Assembly Member Bacon.

## 221/2012 – Tax Devolution

### Gareth Bacon

*Stamp Duty and Income tax have both been mooted as potential candidates for tax devolution from Whitehall to London. How would you see the devolution of these taxes working, in practice? Which do you see as a more attractive option?*

**Professor Tony Travers (Chair, London Finance Commission):** I am going to have to plea that we have not made decisions about this yet, so I will talk about the issues as I am sure they going to be debated by us in the Commission without necessarily coming down on one side yet.

Stamp duty is another example of a tax whose yield is disproportionately concentrated in London for obvious reasons. Some of the highest property values are in the city and as a result stamp duty is a major source of revenue. Indeed I think I am right in saying that moves have been made to explore this issue already within City Hall. So stamp duty is one potential option.

Income tax is much more evenly distributed, so even though there are spikes within London in boroughs like Kensington and Chelsea, Westminster and Camden, and other areas where income tax yield is low, actually it is much more evenly spread. In principle a local income tax at the borough level would be, in theory, a sort of possibility. However, there are profound difficulties as well that we can go into perhaps at another time.

Both taxes are theoretically possible, in fact at either level of government, but I would have thought stamp duty was more appropriate at the citywide level given how incredibly unevenly it is distributed, whereas an income tax gives an example of a tax that potentially could be available at either or both levels in theory. I am definitely not suggesting that this is going to happen.

If there were devolution of a tax such as income tax at the borough level, and this would be true of any tax, the thing you would expect it to do, and you can see this with

council tax, is that it would produce, unless it had no effect, different levels of tax in different boroughs and that would produce tax competition and people would move at the margin. It is hard to know how much and it would depend how variant these taxes were. We had a witness who talked about this last week who suggested that the most likely effect of devolving taxes to an area such as London or within London these days would be that the jurisdictions concerned would compete tax rates down, not up. The spirit of the age is competition to push tax rates down and certainly we can see internationally how corporation tax is being pushed down because each country is thinking that if they have higher business taxes the businesses will all go to another country, so they push them down.

It could well be that the devolution of taxes to London or boroughs within London might produce some degree of tax competition and that might push rates down, whether or not - a complicated issue and not my strong point - it then put the yield up or down. As you know, some economists believe that if you put tax rates down the yield would go up. I do not want to get into that debate, but I think we would get tax competition and the reason for inferring that is because, if you look at the level of borough council taxes they are surprisingly widely different. So although I am not sure it is seen as tax competition boroughs are already competitive, I would argue, both in terms of tax rates and planning policies. So you have competition already.

Your question then asked which is the more attractive option. I am going to get out of that one if I can be so upfront about it by saying that we really have not considered any of this, so I am giving you my immediate reaction to them. I think either or both can potentially be considered as options. Stamp duty as I said probably more plausible at a citywide level, income tax potentially at either, but that is just early thinking, not something that we have had a discussion about or decided.

**Gareth Bacon (AM):** Thank you very much.

**Professor Tony Travers (Chair, London Finance Commission):** That was a long, rambling answer.

**Gareth Bacon (AM):** It was quite a long, rambling question so I do not object to that. In April 2015 the Scottish Parliament's executive is going to be getting powers over setting, collecting and retaining stamp duty in Scotland. How much liaison is your Committee going to be having with them in terms of how they are setting that up and how that would work?

**Professor Tony Travers (Chair, London Finance Commission):** None so far but it is a respectable thought and we probably ought to. Scotland is fascinating because actually ever since devolution started in 1999 the Scottish Government has had the power, potentially, to vary income tax rates up or down by three pence in the pound, although they have never used them. You are right, they are getting more power over stamp duty and I think greater discretion over income tax. Who knows, in the debate about independence more devolution may take place. I think we will look at Scotland in more detail. Again it is all in the future so it is hard to see how it will all work when the powers are passed to Scotland, but one thing I would say is that listening to both the

Scottish and Northern Irish Governments talk about tax policy it is clear that they each think they need to be more competitive. I certainly heard Alex Salmond [First Minister of Scotland] make the point that he wants to have lower airport type duties, taxes on air travel in Scottish airports, and I am pretty sure the Northern Ireland executive wants to have a lower rate of corporation tax in order to cope with the low rates of businesses taxes in the Irish Republic.

You can see the dynamics of devolution appear to be for a greater interest in tax competition. I think we will look at what is going on in Scotland and take note of any implications that that has.

**Gareth Bacon (AM):** In Scotland stamp duty is going to be used for what they are calling I think mortgage innovation, and the Mayor, you are right, has written to the Chancellor of the Exchequer to see about retaining stamp duty rates in London, which I think were £1.3 billion last year, to use for housing projects in London.

Sir Michael Lyons when he came before you last week - I am going to quote him so I will read it - said, "Extra taxes are easy to justify if it clear to those paying them what the revenues are being spent on and it is easy to make that explanation if it's spent locally." I realise he then went on to clarify that in the case of London, but leaving that to one side for the moment, is that a sentiment you agree with?

**Professor Tony Travers (Chair, London Finance Commission):** I think he is absolutely on the money. I was implying this when I was saying that if there were to be changes to local domestic taxation, unless the benefit or extra yield is captured in London it is hard to see why many London politicians would see it as inherently a good idea. I think ring-fencing the growth of the yield and/or ring-fencing taxes for particular services probably is more palatable to those who pay them.

Going back to the question that John Biggs raised about tourism taxes, as I understand it there are some moves afoot in Birmingham to have some sort of ring fenced additional levy on the tourism industry to market and promote tourism in the West Midlands. I think that if people have a sense of how revenues are going to be used, be they businesses or citizens, they are more likely to be more comfortable with paying extra taxes; otherwise they cannot see where it is going. As you well know the UK Treasury have always been bitter opponents of this because it means less power in divvying up the cash at the centre. Question: would it be the same inside City Hall? Would it be the same inside boroughs? A hypothecation, the ring fencing of revenues may make it easier to convince the electorate to pay them, but the finance people in any financial part of any institution are probably never as enthusiastic about that as those who think their services will be higher funded.

I should add one other thing: all the work we are doing, and I must make this point very clearly, is based on the presumption that spending and tax rates do not necessarily go up or down. It is purely based on the freedom to make decision in London, should that be greater or not. We are making no assumption at all about whether the politicians concerned then push tax rates or spending up or down; that would be up to them at the time.

**Gareth Bacon (AM):** I think that is fine. The reason why stamp duty is superficially attractive on that level is that people already pay it. We are not asking for a new tax, it is not the reinvention of the wheel or the creation of anything new; it is simply devolving the revenue that is raised back to London where it is raised in the first instance. Last year it was £1.3 billion. That may vary as property values go up and down and house prices are affected. Do you think that there would be a danger, if the Government agreed, “Yes, Mr Mayor, you can have your £1.3 billion next year,” that they give with that hand and take back with the other in terms of other grants in other areas.

**Professor Tony Travers (Chair, London Finance Commission):** I would have thought it is almost inevitable, personally. I think the idea that the treasury would devolve a tax without taking away grant pound for pound is romantic, and anyway it would mean that the rest of the country had that much less money to spend on it because the tax would not be available for them. With any of these reforms, if tax powers are granted to an area, London, Scotland, Wales, I think it would be safe to assume that the Treasury would demand a pound for pound reduction in grant alongside that.

**Gareth Bacon (AM):** London is slightly unique in terms of the rest of the country as you said yourself in your opening remarks in the sense that London is a net tax exporter rather than receive; we raise more taxes here than are spent here. Do you not think there would be a robust business case that could be put to Government about the retention of stamp duty in London?

**Professor Tony Travers (Chair, London Finance Commission):** Thank you for helping me to clarify this. I think at the point of a reform the Treasury would probably net off any increase in tax autonomy with an equivalent reduction in grant, there forward it would be different, because potentially and particularly if the GLA or Scottish government had the power to vary tax rates, they could decide whether to put them up or down and then they could decide if they wanted to encourage growth in the tax yield with particular policies. That would be up to them at that point. I think looking forward if there is any devolution or decentralisation of tax raising powers to London then the growth in the yield thereon is one where it would be possible to envisage holding that in the city, but not at the point of reform.

**Gareth Bacon (AM):** The final question I want to ask you then is I suppose slightly mischievous in the context of where we are in the timescale and what we have said today, but in your opinion what is the likelihood of further taxes actually being devolved to City Hall?

**Tony Arbour (AM):** Nil.

**Gareth Bacon (AM):** Thank you, Tony.

**Professor Tony Travers (Chair, London Finance Commission):** It is an entirely respectable and reasonable question and a polite way of asking whether we are all

wasting our time, which is a fair question as well. The answer to that is that I would not have accepted doing this if I thought there was no chance. Going back to the point I made before, the fact that the GLA was set up and there have been two reforms which have further devolved powers to it suggest there is a dynamic in London. There is a realisation across the British political establishment and system that Britain is too centralised and something will have to be done, not only for London by the way, and as a result of that I think there are opportunities for small steps with a view to getting the British political establishment at the national level fixed on the idea that there could be bigger steps in the future.

**Gareth Bacon (AM):** Thank you.

**Nicky Gavron (AM):** Picking up on what you were saying earlier about hypothecation and recognising that you are trying to do a very important, long term job which may pay off, in the shorter term, how far is your survey of other cities looking at the ways in which other city governments have been enabled to set charges like congestion charging, or have the powers to set levies and so on, which they can hypothecate? The Mayor has two opportunities in London: CIL and congestion charging, and there could be others like that. Are you going to come up with a sort of menu?

**Professor Tony Travers (Chair, London Finance Commission):** This is one piece of work we are going to have commissioned actually because there is no extant piece of work that quite does it. We are going to have a piece of work done to look at what goes on in other cities and to try to make it comprehensible in London terms. One of the things I want the people doing this is to make it make sense in London so that we can all see what is going on in other cities through the eyes of the way this city operates. I think it will reveal that other cities have greater discretion over a range of taxes, not generally only one or two, and that those cities function perfectly well.

As I said earlier, and you of all people will appreciate this, the congestion charge, whether you think it is a good idea or not, is an example of a city given autonomy making a decision about itself which would, in my view, almost certainly never have happened if the same powers had been left only with central government. The great thing about decentralisation of decision making, not only in this field but in public health and others, is that it creates the opportunity for experimentation in Liverpool or London or wherever where other cities and other places can then see what happens and then follow or not as the case may be.

**Nicky Gavron (AM):** Exactly. What you would be asking for is more enabling legislation?

**Professor Tony Travers (Chair, London Finance Commission):** Personally, I think enabling legislation both in terms of smaller taxes and powers, though that is going beyond our Commission, would be a good idea. Just to go off the Finance Commission for a moment, I have always thought that if you look at the smoking ban, again whatever you think of it, instead of legislation for the whole of England in 2007, had there been enabling legislation in 1997 or 1987, some councils would have introduced a smoking ban and others would not, and we would have seen what happened and

whether it worked or not. If you look at what goes on in New York and the amount we hear about Mayor Bloomberg's experiments with banning trans fats and fizzy drinks, again, whether you think these are incursions on liberty and representative of the nanny state or a brilliant idea in terms of public health, at least the opportunity is there to try them. Other cities will do different things and we can look at their experimentation too.

I think the more we could see this as an attempt on the finance side to free up a bit of experimentation in a way that would have implications for public service experimentation then I would think we were doing something noble.

**Nicky Gavron (AM):** Good, excellent. One last question? You talked about incentives for growth. I think these would probably have to be national but London would benefit enormously. Are you looking a bit more widely at what might be financial incentives for growth?

**Professor Tony Travers (Chair, London Finance Commission):** Well in one of the pieces of work that I suggested at the very beginning we are looking at, with the help of the City of London by the way, to credit them for this, the future trend under different scenarios of the tax take and spending in London which, other things being equal, is going to lead to a widening I suspect of the gap between spending and tax, and the implications for growth if London were able to capture some of the growth and reinvest in itself. So, yes, we are looking at that.

**Jennette Arnold OBE (Chair):** Thank you very much. Let us now go back to your opening statement and let us see if there are any questions about that. I just have a quick one. You did not mention the relationship between your work and the work ongoing about Vision 2020. Can you just outline what the relationship is and confirm the timeline, because I believe 2020 will be reporting before your Commission, but I may be wrong.

**Professor Tony Travers (Chair, London Finance Commission):** First, apologies because I was asked and it is my failure to bring that in my opening statement. Your officials did ask me to so it is my failure, not theirs. The 2020 work is going on in parallel and if I am absolutely honest I do not know when that is to be completed. What I would say is that the work going on as I understand it is clearly complementary, and we will have to look at it, in the sense that one of the issues that has come up already in the Commission's work is the fact that the population of the city is growing, its economy is changing and will have to change, so the work of the 2020 team as it were, the people looking at that, clearly has implications for our understanding that will have to be financed. In particular, and this has already come up in the Assembly, is the need to provide appropriate infrastructure and to invest in it. They are complementary but I would be lying if I said we have had a great deal of involvement yet, but we will.

**Jennette Arnold OBE (Chair):** Thank you. Are there any other questions for the Professor? Yes, Assembly Member Gavron.

**Nicky Gavron (AM):** In the same spirit, how far are you going to frame for the Mayor any of the mechanisms he might be thinking about for the comprehensive spending review for London?

**Professor Tony Travers (Chair, London Finance Commission):** I should have said, we are going to produce an interim report in December. Whether that is a progress report or an interim report is an interesting question. A progress report contains the idea that it will be a description of what we have done, whereas an interim report would imply that we knew what we were going to conclude. The truth is that both of these reports will be ahead of the likely timetable of the spending review, assuming it happens of course, so I think we see what we are doing and indeed when this all started off it was made clear that it would be helpful if we did see what we are doing as a contribution to the city or bid, if you call it that, for the 2013 spending review.

As I hope I have suggested this morning, much of what we are doing goes far longer than that and is much more kind of deep rooted and for a longer term future.

**Jennette Arnold OBE (Chair):** There are no further questions which just leaves me to thank you for your answers to our questions here this morning and to wish you well with your work. We look forward to seeing the ongoing reports and/or the final report in April.

**Professor Tony Travers (Chair, London Finance Commission):** Can I just say, thank you for what was for me a really interesting set of questions this morning. Two things I should just add finally: one is partly under the pressure of John Biggs, but not only for that reason, we are trying to do almost everything we do as openly as possible; the hearings are all public, the papers are all public, there is very little we are doing that in my view should be other than public. It is just that some meetings are in private to allow people to let their hair down a bit and you must have this issue too when it comes to finalising reports. Other than that we are trying to do everything as openly as possible and I would be very happy to come along again when we are further through all of this if you want me to, when I do not have to keep saying, "We haven't decided, we haven't discussed, we haven't decided."

**Jennette Arnold OBE (Chair):** Thank you, I am sure we will reflect on that when we look at our programme planning in the New Year. Thank you very much, Tony.

**Professor Tony Travers (Chair, London Finance Commission):** Thank you.