MAYOR OF LONDON

London Finance Commission

One Year On

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Being the Mayor of London is the best job in the world. Since I was first elected the capital has continued to surpass even the most optimistic expectations, a melting pot of energy that has brought new ideas, new jobs, and a spirit of enterprise that is jealously admired the world over.

It is no wonder then that London is growing. We expect to have nine million residents by 2020 and ten million by 2030, a frankly staggering, and welcome, increase of around 100,000 people a year. We are growing by the population of Birmingham every decade.

London urgently needs infrastructure to deal with this growth – housing, transport, and the many facilities that every resident should expect from the greatest city on earth. My 2020 Vision sets out my ambition for the future, but to achieve this London needs to have secure funding to invest, rather than relying on Whitehall hand-outs for every great new idea.

In 2013, the independent London Finance Commission published its convincing report on how public spending in the capital could be better managed, and to greater economic effect, if Whitehall devolved property taxes to London's government. It is an idea I fully support, delivering a steady source of income, bringing decision-making closer to Londoners, and allowing the capital to boost the whole of the UK's economy further.

We live in a time of devolution – similar, and greater, powers have been devolved to Scotland and Wales is getting the same. It is time for London, and the other great English cities, to get their own settlement.

Boris Johnson
Mayor of London

The London Finance Commission made proposals which were radical by the standards of the United Kingdom though modest in the context of international cities.

In the year since the commission reported, senior members of both the government and opposition have proposed giving English cities greater access to their own resources. These signals are welcome.

The British constitutional arrangements are sufficiently robust to allow London and other city regions to control their own property taxes. There is a growing consensus that England cannot be left out of the evolving devolution given to Scotland and Wales.

England is one of the most centralised democracies in the world. London and other cities are currently forced to compete with each other for resources paid in tax by their own residents and businesses. Not only is this inefficient, but it assumes Whitehall can make appropriate local decisions for Manchester, Leeds, Birmingham, London and all other cities.

During the past year, the Mayor of London and London Councils have collaborated to reach a consensus on how fiscal devolution can be managed in London. The Core Cities and city regions have worked with London to create a more powerful case for devolution. The time has surely come to liberate England from centralism.

Tony Travers
Chair, London Finance Commission

The London Finance Commission's ideas have reverberated well beyond the capital. The Core Cities have embraced the powerful argument that proper fiscal devolution will revolutionise our ability to progress the big plans that will change our cities for the better.

When we speak with one voice as England's greatest cities – which combined make up more than half of the national economy and almost half of the national population – we're a force to be reckoned with. The government must ensure that our combined ambition to fast-track growth is backed up with the real, lasting freedoms and funding that are critical for the future.

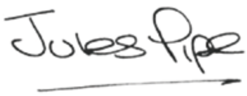
With the financial freedoms suggested in the commission's report, which are modest but offer huge potential for change up and down the country, we can all get on with what we were elected to do, and make our local areas better places to live.

Sir Richard Leese
Chair of the Core Cities Cabinet and
Leader of Manchester City Council

London Councils was very pleased to have been part of the London Finance Commission's work. One year on it is true to say that the report has been both influential and inspirational. That is evident when you look at the increasing number of UK cities and organisations recognising the need for greater devolution within England and proactively working towards achieving this aim.

The work on this issue does not stop here. We will continue to call for London's government to be given greater freedom to determine and use the resources raised from taxpayers to improve the quality of life for Londoners.

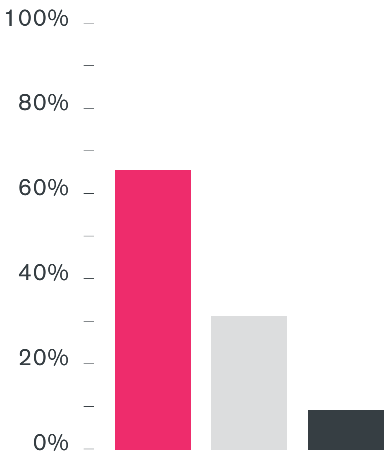
However, this is not an issue for London alone. It is about embracing the role all cities could play in driving innovation, stimulating growth and delivering a better return for the whole country – given the powers and the freedoms to do so.



Jules Pipe
Chair, London Councils

The need for stable funding

London's income from central government grants



London 66%
New York 30.9%
Tokyo 7.7%

- England is the one of the most centralised countries in the western world. London has a fraction of the financial freedom its global competitors, like New York, Tokyo and Paris, enjoy. A staggering 66 per cent of London's income comes from central government grant, compared with 30.9 per cent in New York, and only 7.7 per cent in Tokyo.

- Scotland has been given significant fiscal devolution, including setting a Scottish income tax rate, and the government is planning similar powers for Wales. This will

9 million

is the expected population of London by 2020

10 million

is the expected population of London by 2030

'The more control local governments have over the revenue they raise, the easier it is for the public to hold them accountable for delivering results, which helps make governments more innovative and effective. Across the world, city leaders are tackling the biggest challenges we face – from fighting poverty to addressing climate change – with bold new ideas. But doing so requires money. Empowering cities to invest in their own futures not only makes them stronger, it makes their nations stronger, too.'

Michael R. Bloomberg
Mayor of New York City, 2002-13

allow them to reinvest locally-raised taxes, freer from constraints put on them by central government. The same reasons apply for London government and other English cities and regions: devolving fiscal powers keeps decision-making closer to the ground, makes political leaders more accountable and allows more integrated investment decisions.

- London needs freedom to invest in its infrastructure. The capital's population is expected to hit nine million by 2020 and around ten million by 2030. Without new houses, jobs, transport options, schools, leisure spaces and all the other things that are the touchstone of life in the city, this growth will be unsustainable.

- Giving London control over the five property taxes – stamp duty land tax, council tax, business rates, annual tax on enveloped dwellings, and capital gains property development tax – would help. As the commission's report showed, it would increase London government's retained share of the capital's total tax base from five per cent to around 12 per cent. A small change for national government but an important one for London.

- Since the commission's report was published, the Mayor and London Councils have been working together to iron out the practicalities on how devolved funds would be managed and distributed in London. They have produced detailed governance commitments as set out below. London is now ready to negotiate and implement a devolved settlement.

- The report has backing well beyond London. The Core Cities of Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield have joined the Mayor and London Councils to call for fiscal devolution for all of England's great cities. In an historic move, the Mayor, London Councils and the Core Cities launched a joint campaign – City Centred – to set out the clear benefits of fiscal devolution.

- Devolution can be achieved without affecting the financial settlements of, or taking resources from, other parts of the country. The proposals would be revenue neutral at the point of devolution, meaning that no extra cash is being sought beyond what the cities already receive.

- The proposals should benefit the Treasury and the UK as a whole, as increased growth in London, and in England's other great cities, would increase the national tax take, allowing more money than ever to be distributed to where it is most needed.

‘Metropolitan taxes, an own-source revenue of Tokyo, make up about 70 percent of Tokyo’s total revenue, and consist of corporate taxes (35 per cent), asset related taxes (29 per cent), individual inhabitant tax (18 per cent), and local consumption tax (nine per cent), among others. National treasury disbursements are only about six per cent of our revenues.

It goes without saying that true local autonomy can only be achieved when local governments are able to manage their finances and provide administrative services using their own powers and resources. To this end, I believe it essential for authority and revenue sources to be devolved to local governments.

Thanks to these valuable resources, the Tokyo Metropolitan Government is able to formulate long-term plans to support Tokyo’s citizens and companies. It should thus be the goal of all cities in the world to secure their own sources of revenue.’

Mr Yoichi Masuzoe
Governor of Tokyo

‘London’s success cannot be taken for granted. The capital’s infrastructure, so important to enabling growth in the past, needs a 21st Century approach. If London is to continue as a world-leading city, we need new ways of planning and financing our physical and technological infrastructure. The London Finance Commission’s report showed the way forward, not just for London but for other cities in the UK.’

Harvey McGrath
Deputy Chair, London Enterprise Panel

How would it work in London?

33%

of UK stamp duty land tax generated in London

The Mayor and London Councils have agreed a set of governance principles which will underpin future decisions on how devolved taxes are invested in the capital. These will ensure investment is made in strategic infrastructure projects over the long term. The principles are set out below.

'More powers for cities means more stability and certainty as local governments can plan over the long-term, rather than having to rely on the whims of Westminster.'

Baroness Jo Valentine
Chief Executive, London First

1. **Each part of London government should have a stake:** Elected leaders of all London local authorities and the Mayor have confidence in the governance arrangements.

2. **No exclusion:** No borough or group of boroughs can be excluded from the benefits of London's success or become disempowered from addressing local needs.

3. **No overriding:** The interests of the Mayor cannot be overridden by the boroughs or vice versa.

4. **No deadlock:** Arrangements must prevent or break deadlock.

5. **Enforcement:** The system must enforce binding decisions and these decisions must reflect a clear initial consensus.

6. **Simplicity and clarity:** The reformed system should be as simple as possible, distinguishing clearly the responsibilities of the GLA, London boroughs and the London Assembly.

7. **Stability:** Existing responsibilities should be maintained where possible.

8. **Potential for reform:** A tax devolution agreement should allow for, by agreement, periodic property tax reform and changes to any within-London distribution arrangements.

9. **Practical operations:** A joint GLA and London Councils officer group would provide standing, technical advice and support to inform the Mayor and borough politicians' decision-making on matters of significant joint interest.

10. **Decision rules:** A new system would require a new set of rules for how decisions are made.

The consensus within London government in support of greater financial autonomy from Whitehall demonstrates a strong strategic partnership which has been developing for some time.

This has been at the heart of London's innovation and growth, making sure the UK remains a top destination for international investment and business. London's main competitors are not other UK cities but world cities such as New York, Tokyo, Paris, Hong Kong, or Frankfurt.

And access to London is an important reason why investors choose the UK, bringing jobs and growth across the country. The benefits of this are not confined to the capital but permeate throughout the UK. Through supply chain activity, infrastructure investment in London leads to jobs and growth in other areas.

This applies to London's financial services sector which is complemented by internationally-renowned financial specialisms in many other cities. The relationship is symbiotic, with strong regional centres increasing London's global appeal – providing growth opportunities for financial and related professional services and access to a wider talent pool.

At present, London and other English cities compete for many central government grants. This is inefficient, wasteful, bureaucratic and slow. More fundamentally it means that local areas play to the government's tune rather than lead and respond to their own unique set of challenges.

We want London to contribute more to and take less from the national pot. The commission was clear that devolving taxes to London government is an effective way to do this.

There is a strong commitment to devolution across the main political parties. The coalition pledged early on to devolve decision making away from the centre to those close to the action.

One year on, the spirit of devolving responsibility away from the national centre has led to a number of major changes. There are now four new combined authorities with greater powers over housing and transport. Combined authorities, like London, can intervene in strategically important planning issues, particularly on housing and transport.

This needs to go further. London and other cities should have control over certain tax revenues in order to invest in local infrastructure to support economic growth.

London's government already enjoys a higher level of trust compared to national government. This democratic bond shows a confidence among Londoners that its government will act in their interest. This would be increased further by making London government more accountable to its residents in managing the suite of property taxes – bringing much needed investment in the capital's infrastructure to boost economic growth.

Government remains enthusiastic in wanting to improve local accountability and promote economic growth by empowering local areas. As we have seen, this has been backed by tax decentralisation in Scotland and Wales, along with smaller steps at the local level. However, national government needs to commit to fiscal devolution in principle and follow this through by establishing a framework for devolution for the country.

We reiterate that the London Finance Commission's recommendations remain modest – the suite of property taxes only represent around 12 per cent of London's total tax revenue currently collected by central government. The risks are low but the pay offs are potentially very high.

‘The model set out by the London Finance Commission is the kind of model that all cities should be considering and arguing for.’

Alexandra Jones
Chief Executive, Centre for Cities.


BOROUGH MARKET
BOROUGH MARKET
Wyndham House Poultry
Northfield Farm
BOROUGH CHEESE COMPANY
HOOK & SON
ORGANIC RAW MILK
WHOLE
SEMI
SKIM
£3

Localism commitments so far

All the main political parties are committed to the idea of localism, and we have seen significant advances in the past 15 years.

In 1998, there was a Mayoral referendum in London, and the following year the Greater London Authority Act set up the Mayor of London's office and London Assembly. Similar reforms established the National Assembly for Wales and the Scottish Parliament.

Powers have been devolved to these organisations from Whitehall over the past decade, and in 2010 the coalition government promised 'radical devolution of power and greater financial autonomy to local government'. The Localism Act 2011 gave new powers over housing and planning to the Mayor and GLA. It also established new Local Enterprise Partnerships to lead on promoting growth across their local areas. A business rates retention scheme was introduced to allow local councils to keep up 50 per cent of receipts stemming from local growth.

The City Deals programme also saw cities making bespoke deals with Whitehall for funding based on particular local projects and work streams. The eight Core Cities negotiated these first with a further 20 city areas invited to bid for deals in February 2013.

But devolution in England pales in comparison to the fundamental shift of powers from Whitehall to Scotland and Wales. The Scotland Act 2012 put in place the most significant fiscal devolution since 1707, including a £2.2bn capital borrowing power for the Scottish Parliament, power to introduce new taxes, and the full devolution of stamp duty land tax from April 2015.

The Wales Bill sets out similar devolution to Wales, and the run-up to the Scottish independence referendum has seen even greater promises for financial autonomy for Scotland, including control over income tax.

The government has clearly acknowledged the huge potential of fiscal devolution to allow local areas to take charge and provide significant growth through local, accountable leadership.
All political parties have recently announced new proposals for devolving more powers to local areas. While these are welcome, they are simply not ambitious enough if we are to achieve the economic growth we all want to see.

The influential House of Commons CLG Committee agrees, and in its recent report on fiscal devolution argues strongly that Whitehall must give cities the financial freedoms they need to invest and grow.

The committee calls on all parties to commit to more ambitious devolution in their general election manifestos.

It's now time for English cities – which make up over half of the UK's total economic output and are home to around half the country's population - to be granted a similar level of autonomy to Scotland and Wales so they can grow their local, and the national, economy.

'City Hall needs greater freedom to invest in what London needs rather than having to appeal to the Treasury every time we need a Tube extension or a new road bridge.'

Colin Stanbridge
Chief Executive – London Chambers of Commerce

‘Cities, like people, work best when they are given control of their own destiny. They take responsibility, make decisions, and achieve great things. London is no different. It’s a great world city and needs to have the powers to invest and create more homes and ever better transport.’

Tony Pidgley CBE
Chairman, Berkeley Group

FAQs

Q: Why is London government asking for these powers?

A: England is one of the most centralised countries in the western world, meaning our cities have to take their begging bowls to distant Whitehall if they want funds for exciting new local projects. With London's population growing by about 100,000 people a year, investing for growth has never been more urgent.

Q: Isn't the government already delivering this devolution?

A: No. While the government's city deals have been welcomed across the country, they adhere to the old mentality of councils having to go cap-in-hand to central government to make deals. This is time consuming and pitches city-against-city. We are asking for a far more fundamental reform that would get rid of this infantilised relationship.

Q: Is this just a London power grab?

A: No. The Core Cities Group – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield – has recognised how crucial these reforms would be to their own growth. For example, if all the Core Cities urban areas could perform at the national economic average, £1.3bn would be put into the economy every year. The Core Cities have joined with London to campaign for devolution. Any growth as a result of fiscal devolution is a win for both city and country.

Q: Is this too ambitious a request for the government?

A: No. We are only asking for a relatively small level of fiscal devolution – five property taxes that will mean that London retains around 12 per cent of its total tax take for local reinvestment, up from the measly five per cent it currently is allowed to keep. New York keeps over 50 per cent of taxes generated in the city.

Q: Would this reform be complicated to do?

A: No. The Treasury has already done the sums and delivered the devolution of property taxes to Scotland and is doing the same for Wales. Given it fully recognises the enormous growth potential of devolution elsewhere, we are simply asking for London to be given similar power.

Q: Do the proposals mean that central government has less to redistribute to the rest of England?

A: No. The Treasury would still control about 88 per cent of London's tax take, and as London invests to grow there would be a net increase in overall taxes for the Treasury (through income taxes and other national taxes), potentially benefiting the entire country.

Q: Would these proposals simply take resources away from rural communities?

A: No. The proposals have support of MPs representing rural areas and of countryside groups. Giving cities the power to grow their economies will have positive knock-on effects across the country, including in rural areas.

Q: Would the Mayor and London's councils ever be able to agree on how to spend devolved funds?

A: Yes. The Mayor and London Councils have been working closely over the last year to make a deal on how decisions would be made and are united in their mutual ambitions for London's future growth.

Q: Who would be responsible for setting taxes like council tax under a new system?

A: These decisions would be taken at the local level by London's government, depending on which tax. This means decisions on business rates and council tax will be made closer to where they affect local people and businesses, where they can have a real say.

Q: What would stop a future Mayor from massively hiking up taxes?

A: No city leader would want to destroy their tax base and their ability to invest for the future. Parliament will want to see appropriate checks and balances set up so that any changes to taxes would be equitable and agreed on by London's government as a whole.

A suggested manifesto commitment for all parties

Cities play a crucial role in the UK's economy and maintaining our international competitiveness. We want to promote an environment in which all our cities can thrive and grow, delivering new jobs and infrastructure to their residents and benefiting the whole of the UK's economy.

Delivering devolution to English cities will ensure that funding decisions are made closer to the people they will affect and will build on the powers that have been devolved to Scotland, Wales and Northern Ireland over the past 15 years.

Specifically we will:

- Deliver the devolution of five property taxes – Stamp Duty Land Tax, business rates, council tax, annual tax on enveloped dwellings, and capital gains property development tax – to Greater London and the city regions of Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield. This will help them invest for the future, free from Whitehall interference.
- Analyse how similar powers could be devolved to other cities, towns and regions in England.
- Consider what further powers and funds could be devolved to local government to allow local economies to reach their potential and ensure that investment decisions are taken, where appropriate, close to the people and businesses they will affect.

‘If we want a thriving future for the whole of our country, we need to entrust in our major cities the income to invest in their own growth.’

Richard Threlfall
Head of Infrastructure,
Building & Construction, KPMG

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