Minutes

Meeting: **London Finance Commission**
Date: **Friday 7 October 2016**
Time: **11am**
Place: **Committee Room 5, City Hall, The Queen's Walk, London, SE1 2AA**

Copies of the minutes may be found at: [insert url here]
Full transcripts of the meeting may be found at: [insert url here]

Present:

Commissioners:
Prof Tony Travers, Director of London, London School of Economics and Political Science (Chair)
Len Duvall AM, London Assembly Member
Nicholas Holgate, Chief Executive, Royal Borough of Kensington and Chelsea
Bharat Mehta, Chief Executive of Trust for London
Bob Neill, MP for Bromley & Chislehurst

Observer:
Dr Nick Bowes, Mayoral Director of Policy

Witnesses:
For minute 2
Cllr John Fuller - Vice Chair of the Local Government Association Resources Board
Baroness Couttie - Leader of Westminster Council

For minute 3
Gerard Lyons – Economist, advisor to the Mayor of London when the Commission was first established
Nicolas Kent - Visitors Art Foundation
Charles Rifkind - Visitors Art Foundation
Sue Terpilowski - Federation of Small Businesses

For minute 4
Sean Nolan - Director of Local Government, CIPFA
Akash Paun - Institute for Government
David Phillips, Senior Research Economist, IFS
Enid Slack - Director, Institute on Municipal Finance and Governance (by Skype)

Secretariat:
James Lee, Senior Policy and Project Officer, Growth and Enterprise
Jeremy Skinner, Head of Economic Growth, GLA
David Burgh, Secretariat Officer, GLA

1 Introduction

1.1 Prof Tony Travers welcomed Commissioners and witnesses to the meeting. The Commission was the second of its kind, following the 2012/13 meetings set up by the previous Mayor, and had similar terms of reference. These were to look at the potential for further devolution of tax-raising and/or spending powers to London, in the context of the wider settlement for Scotland, Wales and other parts of England. An interim report would be published soon, to be on record for the Chancellor’s Autumn Statement.

1.2 The meeting comprised three sessions. The first looked at tax raising powers and devolution possibilities in London, in the context of Scotland, Wales and the rest of the country, and also London boroughs and the rest of the local government community. The second looked at business and tourism, and the consequences of Brexit for London, while the third took an international view and considered research on the issues of growth, tax and devolution.

1.3 All witnesses were invited to make opening statements and the Commission were then given the opportunity to ask questions. Each discussion session lasted about one hour.

2 Close of meeting

2.1 Prof Tony Travers concluded by thanking all the attendees for coming to the meeting, and Enid Slack in particular for being available to join the discussion from Canada. The next session would be in Manchester on 10 October.

2.2 The transcript of the oral evidence session is attached at Appendix 1.

VCR:
Date: Friday, 7 October 2016
Location:
Hearing: London Finance Commission Oral Evidence Session

Start time: 11.00am
Finish time: 2.00pm

Commission Members:

Professor Tony Travers (Chair)
Len Duvall AM
Nicholas Holgate
Bharat Mehta
Bob Neill MP

Observer:

Dr Nick Bowes

Secretariat:

Jeremy Skinner, Head of Economic Growth, Greater London Authority
David Burgh, Secretariat Officer, GLA Secretariat

Witnesses:

Cllr John Fuller, Vice Chair, Resources Board, Local Government Association
Baroness Couttie (formerly Philippa Roe), Leader, Westminster Council

Nicolas Kent, Trustee, Visitors' Art Foundation
Gerard Lyons, International Economist
Charles Rifkind, Trustee, Visitors' Art Foundation
Sue Terpilowski OBE, London Policy Chair, Federation of Small Businesses

Sean Nolan, Director of Local Government, Chartered Institute of Public Finance and Accountancy
Akash Paun, Honorary Senior Research Associate, Institute for Government
David Phillips, Senior Research Economist, Institute for Fiscal Studies
Enid Slack, Director, Institute on Municipal Finance and Governance, University of Toronto

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Professor Tony Travers (Chair): We will give you a full hour. I do not think we need to introduce ourselves, really. It is obvious from the nameplates. Just to begin, firstly, thank you both for coming.

Secondly, this is an on-the-record event. It is being recorded and, therefore, we want to be able to use anything that is said today as part of the evidence that we bring to bear on our final report. I should say, lest it comes as a shock to you, that we will be issuing an interim report quite soon and that is because of the need to have something on the record before the deadline for the Autumn Statement. We need to do that and so, if you think, "It is very soon after we gave evidence that they reported", it is because we are going to have a final report either at the very end of this year or it might be published at the beginning of next.

Just one more thing: this is the second version of a reconvened London Finance Commission (LFC). The first one, as you will both know, was set up by the former Mayor, Boris Johnson, back in 2012 and reported in 2013. This reconvened version of the LFC was reconvened by the current Mayor, Sadiq Khan, and has similar objectives. That is to look at the potential for further devolution of tax-raising and/or spending powers to London, but to do it in the context of the wider settlement for Scotland, Wales and other parts of England, which has certainly developed apace since LFC1 was published.

Beyond that, we want to investigate in the context both of the boroughs and City Hall and of the rest of the local government community and later on today we are going to talk to representatives from the private sector and then from think-tanks. What we are trying to do here is to put together some evidence that will inform us when we come to writing a final report, which we hope will not only work for London but make sense for other parts of the country besides.

With that brief introduction, I do not know if either or both of you would like to say an minute or two's worth of introduction on your views on the subject of devolution before we go into the formal questioning part of the meeting?

Baroness Couttie (Leader, Westminster Council): I had not specifically planned to but I can do if that would be useful.

Professor Tony Travers (Chair): Just give two or three minutes of introduction each. That would be good, yes.

Baroness Couttie (Leader, Westminster Council): I, as you well know, thoroughly support increased devolution, particularly around the taxes in London. A figure that Tony has used many times is that London keeps 7% of its tax take; New York keeps 50%. We are a globally pre-eminent city. My borough in Westminster is actually key to that. We are the largest economy in the United Kingdom (UK), about 25% bigger than the City of London, although not many people realise that. The amount of business rates we collect is £1.8bn. Of that, we keep only four pence in the pound. It is absolutely essential for the whole of the UK that we maintain economic pre-eminence and we can do that only with the right level of investment. We can have the money for that investment only if we are allowed to keep more of the tax take within London.

At the moment, we are looking at various different strands of what potential devolution could be. Business rates is one of them. Setting aside the valuation that has just happened - which I could talk about at length maybe later - London gives about 10% of its total tax take to the rest of the country and keeps about 90% and so one could see a formula where that 10% could still be devolved to the rest of the country for funding what it needs and the rest of it kept within London. The key issue about that, if we were able to get that somewhat simplistic formula through, would be how that is governed and where it goes.

Luckily, in London, we have moved forward in huge strides in terms of our co-operation across borough boundaries. London Councils now is pretty collegiate, actually. As I have said many times, about 80% of what local government does is non-political and therefore there is absolutely no reason that we cannot work together on most things quite constructively. We are part of Central London Forward, which is the eight central London boroughs, four Labour, three Conservative and the City of London. We worked on the first Growth Deal for London and we worked very happily on that. It is about getting the long-term unemployed into work.

It is absolutely crucial that, whatever form of devolution occurs, the boroughs have a very serious voice in how that is spent for a number of reasons. Firstly, the boroughs where growth is most likely to be the highest - either because they start from a very high base and therefore the percentages may not be great but numerically they are or because they have the most potential on brownfield sites or whatever - may not necessarily be the boroughs where spending or the upside of that business rate take comes back.

It is politically often quite difficult to get through growth. I know that Nicholas [Holgate, LFC] in Kensington and Chelsea has had all sorts of problems with the Crossrail station just off the King's Road. We have had various problems; the "Paddington Pole" has been in the press. There are lots of boroughs where the leaders have scars on their backs from trying to push through things that would create growth for the local economy. Frankly, it would be very hard to ensure that growth potential was reached unless the local boroughs (a) had a say in how that money was spent and (b) made sure that they had some additional upside so that it was not always spent in the boroughs where need was perhaps most obvious but they had some reward for going through the pain of having that growth.

The other thing that one needs to take into account is that devolution needs to be to the right level of government. There are certain things that need to be done pan-London because, strategically, pan-London is the right place for it to be and transport infrastructure - or parts of transport infrastructure - is an obvious one for that. There are certain things that need to be done at groupings levels and there are groupings in London. Some work better than others, frankly, but there are groupings in place. There are different groupings for health than for economy; nevertheless, those groupings exist. There are some things - and, to pick out one of the biggest things that we do, adult social care - that have to be done at a borough level because we have to deliver to Mrs Jones, and Mrs Jones is not going to be known at the higher level of the Greater London Authority (GLA) but will be known only by local government. We have to be very careful in (a) how the funds flow down through the governance structure and (b) where the power and the decision-making is in that structure to make sure that it is going to work properly.

Professor Tony Travers (Chair): Great. There are a number of pointers to things that I would certainly want to pick up there. Thanks for that. John, would you like to say a few words?

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Yes, thank you. My name is John Fuller. I lead a local authority in Norfolk, a district council, but I lead for the Conservatives at the Local Government Association (LGA) on local government finances. I sit on the Local Government Pension Scheme (LGPS), the scheme advisory board for the Fire and other things as well. We are currently advising Gavin Barwell [Minister of State for Housing and Planning] on the Community Infrastructure Levy (CIL), which we are going to be reporting on presently.

Professor Tony Travers (Chair): Do send us a copy or give us a copy.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): It is the last one here before we hand it in next week and so there we are. I will make sure I do not leave it behind.

In the UK, local taxation is uncommonly centralised by any international standard and local government over the last few years has taken a greater share of the weight of cuts than other parts of the public sector and so I suppose on the one hand we are already on the back foot. The opportunity to have earned more money ourselves through our own efforts is, clearly, to be welcomed.

I ought to say that local government has argued for many years to have complete control over business rates and, now that we have it, we are going to have to make it work. Were we really careful what we wished for? We have to be careful with the increased monies coming in. It would be naïve to think the Government is going to give us more money and that will be it. No, there is going either to be more responsibilities - and, hopefully, we will talk about the nature of the responsibilities that we may be given in exchange for business rates - or, if there are no responsibilities, to be revenue-neutral. To be fair to the rest of the UK, if we raise more money, it may actually reflect in a reduction in other grants. Self-reliance is a two-way street.

We also need to recognise going forward - and Philippa [Roe] mentioned adult social care - that if we are to earn our way in future as a result of economic growth, which may go like that with a shallow increase, adult social care through a whole variety of demographic pressures, migration and everything else, is likely to go like that. Why would we want to sign ourselves up to something that, whilst it may look good on day one, is certainly going to diverge over time? That is a really interesting dilemma there.

Philippa makes the incentivisation point that I was going to make. In a rural situation - and I know that we are going to talk about London - in my own circumstances, I would be wanting to say, "This village here or this town needs to take 1,000 homes. What am I going to deliver in response to that?" It is no good saying, "We need 1,000 homes here near Norwich and we are going to build a bypass near Cambridge". That is not going to wash. It is the same here in London, I am sure. People need to be able to see a geography that they understand and the granularity point is worth exploring later.

Revenue: we are focused on revenue funding but capital funding, too, and I am not quite sure what is going to happen to the £5.3bn worth of European Union (EU) structural funds. Oftentimes, it is that capital funding that we have never really had before; it has bypassed and never touched the sides. Local government is going to have to fight for its share from the universities and what-have-you and that is a really big and interesting point there.

Again, to return to the Brexit-type of point, one thing to be avoided is, as we repatriate powers from Brussels, they do not get stuck in Whitehall but in turn pass through and are an opportunity not only for London but for other areas as well. Other areas might learn from London as well. Without prejudicing what you might be advising Gavin [Barwell], the mayoral CIL is an interesting point. Can councils and areas be held to help themselves and not just generally have their hands out? What sorts of fiscal mechanisms and borrowing? Clearly, London is first amongst equals in that place. It is an investable opportunity in the way that other areas - say Redcar, Port Talbot, wherever - might not be and we need to be balanced in the round. Those are some opening remarks.

Professor Tony Travers (Chair): Great. Perhaps I can start off the questioning, unless any of my colleagues want to jump in immediately. Given that, John, you have mentioned the EU referendum vote, which has undoubtedly changed the broader political horizons in Britain for years to come, perhaps I could kick off by asking you whether you think the UK's vote to leave the EU strengthens, weakens or has no impact on the case for devolving further powers to London, although not only to London necessarily. Does it have, in your view, a further impact? John has half answered that, but Philippa?

Baroness Couttie (Leader, Westminster Council): It increases the argument very strongly. We are going to go through a rocky patch while the negotiations go on. Thereafter, obviously, we do not know what the deal is going to be, but we need to ensure that globally we are still seen as the place to invest, to do business, to visit, to come and work. We can only do that if we show that we have confidence in London and that we are investing for that international interest.

London is creaking under some of its infrastructure. Many people around the country will say that London is incredibly rich, but actually local government is not. Its businesses are successful, but because the link between businesses and their success and local government just is not there, we do not benefit from that success, although hopefully we will if we get the devolution right. It is local government that invests in infrastructure to a large extent. We need to be able to invest, whether it is broadband, whether it is local transport, whether it is broader pan-London transport or whether it is public realm, so that when people turn up they see that this wonderful city is functioning and is an exciting place to be and is a pleasant place to be.

I can pick the example of Oxford Street. We have a big project for which we are bidding for tax increment financing (TIF) from the Treasury. Oxford Street is a globally renowned name and people come to London as tourists, they go to Oxford Street, they arrive and it is really not what they are expecting. It is the public realm. Because there has been the deterioration around Oxford Street, the shops have changed. We do not have the sorts of shops that we would want tourists to see when they come to this iconic street. It is not just Oxford Street; it is across the whole of London. If we do not make that investment, then we will see London slowly drop off the map.

We also have other real strains. Housing I am sure you will be talking about at some point. Unless we invest in the infrastructure to open up the brownfield sites that we have, we are not going to get the housing right. If we cannot get the housing right, we cannot have employees who can travel commutable distances to support our businesses. All of this will help to push London off the international stage and I know of many cities out there that would like to take our podium.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association):
London has so many natural advantages. It is a huge global city. It has the right language; it has the *lingua franca*, so to speak. It has the right time zone. It has the rule of law - do not underestimate that - and stable property rights. These are the sorts of things that we take for granted but the combination of those - and our location and global outlook - are all good.

Is that going to change with the EU? I just wonder. I was "in", so to speak, but the fact is that we are out. I do not see a material change in that relationship. We are all grown up and we have to deal with each other and there is a lot of sabre-rattling at the moment as it boils down.

I suppose there is a philosophical point. With all those advantages, has London become so "hot" in that respect that it is in danger of overheating? To what extent is a rebalancing of the economy not just going to increase UK plc but also release some of the pressures?
High Speed 2 (HS2), for example, might be an example with the commutable distances you mentioned. Business rates - and I am sure we will touch on this - are paid by buildings, but people consume services elsewhere. If you end up with HS2 - or in fact on the existing commuting lines in Kent and the Home Counties - their bins still need to be collected. Their grannies need to have social care. Leisure facilities need to be provided. Whilst I can see that it is superficially attractive that London would be keeping all of the taxes and property taxes raised there, the people - the software, so to speak - that consume services is on a much wider

canvas. It is a philosophical point. How do we relieve some of the pressure with capital investment, investment that you might like to have here in London?

Last week we heard Andy Streeter, who is one of the candidates in the West Midlands mayoral election, bemoaning the fact that in the West Midlands they get 14 times less transport capital than London and yet their opportunities to grow are equal and could potentially relieve some of that pressure. HSBC is building its new UK centre in Birmingham.

To what extent has London driven the local economy and will continue to do so? It has responsibility to help growth elsewhere, not only because that is a good thing but also to relieve its pressure. That is the tension that, hopefully, you will come to some settlement on.

Professor Tony Travers (Chair): I understand your point. Through the current system, London in effect pays more in tax by a significant margin than it retains and so there is a distribution mechanism, albeit a rather nationalised one at the moment. Given that, for example, at the Department for Communities and Local Government (DCLG) we proposed localisation of business rates and accepted there would have to be a redistribution mechanism there, can your philosophical point be met both on revenue and on capital, even if you devolve more than just business rates to London? You could devolve, say, other property taxes. It is not impossible, surely, to construct a mechanism whereby London retains an appropriate point but you could still have a mechanism built into the system that the LGA would be alert to, to meet those issues?

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Indeed. The LGA's position is that if you go there, you start with a vesting date and you have a point in time and then you grow from there, so you would have the growth. It would not be sensible to have just the total quantum retained because --

Professor Tony Travers (Chair): The principle of retention does not impede your point?

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): No, absolutely not. The LGA has been asking for this for years. The question is, at some stage, there are going to be resets and so that is the revenue side, but also one needs to take into account the needs formula. I do not want to go too much under the bonnet, but it has been 10 years since the relative need has been assessed and there has been a lot of migration and a lot of technical changes since then. Just continuing to give councils the same amount of money they had last year with just a little bit more is ignoring wholescale demographic changes from censuses and things like that.

Baroness Couttie (Leader, Westminster Council): I have a couple of points on that. I hate to speak on behalf of the whole of London when I represent only Westminster, but I think London in general accepts the point that some of its tax take needs to be distributed nationally. The rhetoric about 100% business rate retention has distorted the arguments somewhat with almost absurd ideas about what people are asking for. As I mentioned, for business rates, up until the revaluation we had last week, only 10% of the London tax take that went nationally out of business rates. We are not arguing for more than the 90% we had before.

I agree with the needs test. We have to make sure that, even though there will be adjustments on day one about what each council gets, we have to make sure that the needs assessment is right.

The other point I would like to make is about the economic impact that the success of London has outside London. In the development industry alone, 80% of the jobs created from a pound spent in London are created outside London. A pound spent in London has double the economic impact outside London as it does inside London. It is not just about spending on London for London's own success but the success of the whole country. It is right up to the north, because sometimes it is widgets being made or whatever. It is not just the southeast that benefits from it. We should not lose sight of that.

Professor Tony Travers (Chair): Much of the Transport for London (TfL) supply chain, for example, is actually outside London.

Baroness Couttie (Leader, Westminster Council): yes, absolutely.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): It is interesting, to take your point there on the retention of business rates, going forward the proposal is that the TfL grant is top-sliced out of the increase and the extra £30m. London already gets first pull in that regard and the interesting point will be that, where there is devolution and the other devolved areas also get first pull, is there enough of the second pull for anything else, especially with the EU structural funding? There needs to be an equality of approach across the whole country; not only the devolved areas can do it. There is potentially a slippery slope because Manchester and Liverpool, together with London, are apparently having business rates retention pilots. If they are taking the first pull, is there going to be anything else to come? How are we going to look after Redcar?

Len Duvall AM: Earlier you mentioned about the governance relationships around that and you talked about the needs assessment for just a minute but, if we can leave that to one side, I might come back to that.

Can we just talk about their say? You mentioned that local government wants to have a say in how it is spent. If we take something like business rates, the final 50% that is under discussion at the moment, business may have a view about how that money should be spent. Where are you and your colleagues in London on that discussion? I have heard a number of local government leaders saying, "Actually, it is down to us to decide where we want to spend that". Equally, if you want to have a say, presumably, over how the Mayor spends some of that 50%, does that not open up where others have a say about where local government spends that? Considering the pressures that local government is under and what it has faced in the past, it is a really contentious issue, is it not?

Baroness Couttie (Leader, Westminster Council): What I have said to our businesses in Westminster when we have discussed this with them is that I am very keen that they should have a say in how we spend the money - not a vote but a say - because, if we are going to get it right for economic growth, we need to know what they want. The businesses that we talk to understand the social responsibilities that we have as a local government and realise that we have to spend money on all of that and so they are not going to try to grab it all for what they want. They have a broader perspective than that. Therefore, we can have a healthy and grown-up dialogue with businesses to invest in what we need for them.

Interestingly enough - and we have found this with the West End Partnership - a lot of what business wants actually improves the environment for residents as well and so it is not either/or. With the exception, perhaps, of the night-time economy, I would say that the overlap is almost pretty complete.

Len Duvall AM: It would be fair to say, if we had a list from talking to business people, transport, business support in its widest forms, skills, housing. I am just saying. The real problem with some of this debate is about painting a picture. You have done it really well and you were one of the best I have heard so far in all the evidence I have taken at explaining what you could do if you had devolution of finance. You have highlighted some of the areas and what you are doing in your own borough.

In terms of the business rates, what would we spend that last remaining 50% on? What would be the priority if it was growth? From just talking to people, I have come up with transport, housing, business support and - there was a fourth one I just mentioned - skills. Is that fair to say what local government should be spending it on?

Baroness Couttie (Leader, Westminster Council): There are two more. One is broadband. We have a real dearth of good quality high-speed broadband and part of the argument for why it is not more widespread in central London is the economic cost of putting it in. Maybe there is something we could look at to support businesses in that. We are already in Westminster trying to solve that massive issue.

The other is unemployment, which is linked into skills, but in Westminster we have 10,000 people who are long-term unemployed and that figure has been the same for years. I have pledged to reduce it by a third and we can do so with the right sort of intensive support, but it is not cheap. I would use it for that as well.

Len Duvall AM: Of course, you can answer only for yourself but in terms of being around local government and your colleagues, where do you think the rest of your colleagues in local government are in that conversation? Would they broadly be sympathetic with what you have just said and say, “Yes, that is it”, or are they going to say, “No, I need total flexibility. That money comes in and I need to decide where the pressures are for the council”?

Baroness Couttie (Leader, Westminster Council): Obviously, everyone would like complete flexibility because that opens up all of the options for you. I suppose we would have some scope for complete flexibility because there are very marked local differences and particularly also things like public realm should also be included. If we had broad headings for the areas where the money could be spent, it would be acceptable as long as the details of how it was spent were left to the local authority. One of the issues we have had with some of the growth deals has been that it is great theoretically to get the money devolved, but we have to tick so many boxes that it is almost prescribed as to how we then deliver, which is maybe inappropriate for the patch.

Len Duvall AM: You sit on the London Enterprise Panel (LEP) for London. Would some of that business support/skills support be in working with boroughs in a grouping situation or down at local level? Where best would that work, when spending that money to boost growth or to reach some of the issues that you have outlined? I just want to be clear in my own mind on that.

Baroness Couttie (Leader, Westminster Council): It depends what it is, but I think we are all happy to work in groups. We are happy to work with the Mayor if it is something that is pan-London that would benefit us. The exact groupings need to match what it is we are talking about. It is not necessarily that the infrastructure group is Y and the skills group is X because it will vary as you come to deliver. For example, construction skills may be a different grouping than information technology skills.

Professor Tony Travers (Chair): Can I just interrupt and go on to your unemployment report? I want to move on to that. I know Universal Credit is still inching towards completing. Do you think, both of you, that local government would - or might in a different world - be better able to use the resources that are currently used through the welfare system at a local level to help people back into work? We cannot take on the whole welfare system, but let us just go there for a minute because you have mentioned unemployment.

Baroness Couttie (Leader, Westminster Council): Undoubtedly, we know what the skill shortages are and where the job vacancies are and we also know where our long-term unemployed are. They have very individual needs. There are a lot of mental health issues, substance abuse, depression and sometimes physical disabilities that an individual has. Again, it goes back to the granularity. The sort of support that you have to give that individual is really quite intensive, but the pound back you get for the pound spent is so worthwhile and it transforms people's lives. You can do that only at a very local level, although the entry into jobs may have to be a bigger grouping.

If I look at Westminster, for example, we are fortunate enough to have the highest concentration of jobs of anywhere in the country. We also have 30,000 vacancies that we cannot fill through lack of skills. We also have four of the poorest wards in the country. In one of our wards, 50% of the people are unemployed and 50% of those have mental health issues. Surely we must be able to spread that economic prosperity into not just those neighbouring wards, which we certainly should, but slightly more broadly. The delivery of the services to support the unemployed has to be granular, but access to the jobs may have to be in a larger geography, which is why I go back to this: it is the right geography that we need to think about when doing this.

Professor Tony Travers (Chair): John and then Bharat [Mehta].

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): If going forward we are going to earn our increases by the general increase in the economy, it is not just about building buildings or whatever; it is actually addressing on the same canvas or the same geography the consequences of lack of growth, and benefits and skills are part of that. It seems to me entirely appropriate to get people off benefits if we can and into skills and into work on the very same geography, that is smaller than a GLA canvas but larger than an individual borough.

I want to drift on to health as well, if I may, because it is a related point. It is said that British Airways is a pension scheme with an airline attached. It was interesting, Len [Duvall AM], because you gave a long list and I would add a few more, but the provision of healthcare and especially social care was not mentioned and yet - by the same British Airways example - so many authorities now are adult social care authorities that also do some other things as well.

It is interesting. If we are really focused on growing the economy for skills and all the other things you mentioned, is it now time to really focus on the role of councils and local government to grow the economy with skills and benefits in an accountable way with the right geography and some strategic oversight? Is it right that so much of the council tax we raise and so forth is just going on what is essentially an operational health issue? I am yet to meet anybody who says that we should not link health and social care. I know, Philippa, you have strong views that actually the whole health service should go into local government, but let us fight the battles that we can win. That would be my instinct.

Baroness Couttie (Leader, Westminster Council): It is not that I want it. It is too much of a poisoned pill.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Is adult social care the drag anchor that is preventing us from growing?

Professor Tony Travers (Chair): I really liked your point about subsidiarity and doing the right thing and devolution to the right level. I am glad that you included unemployment, particularly in Westminster with the figures that you have just given.

I wondered the extent to which you see the involvement of communities and organisations at a local level? It would be a shame if it was Brexit to Whitehall to City Hall and then possibly to local government and then it stops there and it is all statutory. What do you think?

Baroness Couttie (Leader, Westminster Council): I am entirely in sympathy with the point you are making and we already do work in partnership to deliver much of what we are doing to develop certainly around employment but around many other things as well.

The way that we are reorganising ourselves, not just because of budget cuts but because it is a better way of doing things, is around hubs and those hubs are not just going to be local authority services. They are going to be bits from the National Health Service, from charities that have evolved with us, from housing, etc, so that we have a one-stop stop. The people who are unemployed, for example, can come to one place and get the broader support that those long-term unemployed people need because, as is so often the case, people do not have one issue. If you have one issue, the chances are you have multiple issues as well and going to different places does not really help.

Working side-by-side with the private sector and the third sector is absolutely crucial to solving some of those. However, it needs to be driven by the local authorities because they know the partners in their areas.

Professor Tony Travers (Chair): Len?

Len Duvall AM: If we can go back, you mentioned the needs assessment. I would put it like, "How does Westminster help Bexley in some of the mechanisms and some of the thinking about that?" At what stage are you and your colleagues in local government? What sorts of conversations, discussions and papers have you commissioned about working and about how that redistribution would work in terms of business rates and how we carry London forward on a growth agenda?

Baroness Couttie (Leader, Westminster Council): The key for most of the local authorities is about getting the base right. We have had these censuses that go on, which significantly undercount our population. They do not take into account things like the transient nature of the population. Every year, 40% of our residents churn. Some of them are there for less than a year; quite a large number are there for less than a year. There is quite a number of factors that are not taken into account on that base figure, which creates all sorts of difficulties for local authorities.

Inevitably, there are going to be winners and losers and nobody likes to lose. The key thing is that it is seen to be fair and accurate. People will bite the bullet, even if they are losing, if they think it is fair and accurate. We have to think of better ways of doing it than the way it has been done in the past.

Professor Tony Travers (Chair): Very briefly, John, because we need to move on to tax.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): When Eric Pickles [MP, former Secretary of State for Communities and Local Government] was Secretary of State, he said that there were only three people who understood local government finance and he did not know any of them. It is an interesting one because it is so complicated, but really we ought to be - and the need is - informed about how many jobs you have, how many old people you have, whether there needs to be some sort of rurality because it is more expensive, but there needs to be an evidential basis.

You asked a question about how far local government has gone. We have gone as far as understanding some of the key components and now we have to fold that into it not necessarily to model but to understand the key influences. The horse-trading is going to be with the answer that comes out. It should not be simple just for simplicity's sake; there is going to have to be some texture when it is so remarkably different from what the current system is going to be. Then the argument is going to be over the transition. However, we need to have an evidential basis and that needs to come forward.

Professor Tony Travers (Chair): Brilliant. Now we need to move on to what I think will be, in a sense, the headline content of our report, which is the extent to which central Government should devolve fiscal and other powers to London and English cities local governments, concentrating on London for the moment, obviously.

How radical would it be possible to be? We live in a different world. The world has moved on and changed. Is it possible to imagine very radical devolution, particularly in the context of what has happened in Scotland and Wales?

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association):
London has so many global advantages and one of those is the finance. There is a difference - it is not obvious - between funding and finance. Funding is just writing the cheque. Financing is getting the money together to allow the writing of the cheque. Some of the world's best financiers are here in London. London is an investable opportunity. People will invest in London in a way that they will not elsewhere. There needs to be some relaxation of the ability to raise finance, whether it be by using the Housing Revenue Account, for example, as collateral, whether to participate in the Municipal Bonds Agency …. You can do that better when your sales price from your flats is £10,000 a square metre and it is only £2,000 a square metre elsewhere. All of a sudden, you have some opportunities. I ask out loud: why is that only Wandsworth has a Moody's credit rating and why are there no credit ratings for clusters of authorities on the sort of (Overspeaking)

Nicholas Holgate: I beg your pardon; we have a credit rating --

Professor Tony Travers (Chair): Kensington and Chelsea also has one.

Nicholas Holgate: -- which is limited only by the credit rating for the country above and so we were AAA until the country declined.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): I went to Moody's, but others are available. Then, OK, so a small number of local authorities have a credit rating but there is not a single instance of multiple authorities clubbing together on a single geography that Philippa [Roe] has raised to have a credit rating and to issue finance on a co-operative basis.

Professor Tony Travers (Chair): As far as taxes, LFC1 proposed devolving the full suite of property taxes to London's government. Do either of you think it is possible to consider a more radically devolved version of London, given that Scotland will soon have and Wales a bit after that will have income tax powers and other broad tax powers, whilst not introducing a local income tax - that is very radical - in one step, following the NDR localisation model, that the possibility of not setting the rate in London or the rules but assigning part of the tax basis as a step might work and might allow further service devolution? This is something we are looking at and so I am leading you somewhere we might be going anyway.

Baroness Couttie (Leader, Westminster Council): My thoughts are that, theoretically, anything is possible. We could end up in London with almost all taxes devolved to us and powers to do whatever services we want. We are certainly large enough in London. For Westminster alone, the economy is larger than nine European countries. By the time we get the whole of London together, we are certainly able to run ourselves completely independently if that is what we choose to do. The question more is whether it is the right thing to do --

Professor Tony Travers (Chair): Answer that question.

Baroness Couttie (Leader, Westminster Council): -- and what messages that sends to the rest of the country. It might be the right thing to do for London because I am sure we could plough lots of money back into what we do. Overall, we would find taxes would come down because we would be quite an affluent city. I am being positive about what the Brexit outlook will be, but we will continue to be a very strong city and so, for London, that might be the best route.

However, it sends a very bad message to the rest of the country because we are Britain's capital and we, as the capital, have a duty to be part of the country and to play our part financially as well. Whilst on day one you could set it in a way that meant that X per cent of what you raised from whatever taxes went nationally, life changes and, over 10, 15, 20 or 50 years, it may or may not continue to be appropriate. Therefore, even though I am a Londoner representing a London borough, I would hesitate to recommend such radical devolution of taxes because it would undermine us as a nation, which is more a philosophical point than it is a financial point.

Bob Neill MP: Do you find other nations that have significant devolution of taxes are undermined, though, Philippa?

Baroness Couttie (Leader, Westminster Council): No. It depends how far you go. I was talking about a nation state with all taxes devolved, just about all taxes.

Bob Neill MP: When you look at Germany, for example, where you add in state taxes, far more is raised at that level. It cannot be a situation where the nation is undermined, can it?

Baroness Couttie (Leader, Westminster Council): It is about 75%, I think. Tony may know the figures better than me, but I think about 75% of taxes in Germany are locally raised.

Professor Tony Travers (Chair): Yes, about (Overspeaking)

Baroness Couttie (Leader, Westminster Council): Yes, so they still have 25% or a quarter, which is still quite significant.

Professor Tony Travers (Chair): Your point is about a kind of Basque Country style - which I think is (Overspeaking) this way and it has been recorded - where, in a sense, everything is devolved and Spain effectively precepts off the Basque Country. I do not think you were going anywhere down that route.

Baroness Couttie (Leader, Westminster Council): Yes, it was the point you were making about Scotland and Wales, which was that they are very distinct. Obviously, they are part of Great Britain, but they are distinct as nations within Great Britain. I am not sure that we want to head to the point where London is seen as distinct as a nation compared to the rest of Britain. That is the point I was making. If you are linking to those two countries --

Professor Tony Travers (Chair): Sorry. If tax were devolved in part as assigned revenue, which happens significantly in Germany, I think, as Bob [Neill MP] implied, and London was still seen as working for the nation or part of the nation, you would be comfortable with that (Overspeaking)

Baroness Couttie (Leader, Westminster Council): I would, as long as we do not create a divisive situation.

Professor Tony Travers (Chair): That is fine. Thank you. John, you are now representing the rest of the nation (Overspeaking)

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): (Overspeaking) first of all, I will answer you in one way. I was coming down your little ramp [in City Hall] with my bicycle earlier on and there is that lovely aerial photograph with everywhere else that is not London is dimmed and shadowed out of it. You speak to the man on the street and you realise, "Where is London? It is within the M25". It is quite extraordinary how much dimness there is on your map within the M25. In that respect, London is quite tightly drawn, extraordinarily so. This evening I will be going on the Tube to Rickmansworth, which is in Hertfordshire. That is outside London by your definition and yet it is after 6.00pm and I can use my Oyster card and it is going to be easy.

The point, though, to come back to the point, is that you can raise more taxes and that is fine whilst taxes are going up, but you have to accept turbulence and risk. Oftentimes - and, Bob, you will know this from the work you have done - when there is risk, you need to take more reserves and more tuck. This is a constant challenge for local authorities. Why do we have so many reserves? When you put on extra things like council tax support and other things that are important, you have to allow for the fact that a significant local employer is going to close or the factory is going to close and you will end up with a Talbot-style situation. If you were going to take on more, there would have to be more co-responsibility over a larger canvas; an insurance fund, perhaps, and how is that going to work? You could postulate it coming off the central list. Telecommunications, transport and that sort of thing, which are on the central business rates list, could be an insurance fund. Of course, the other corollary is, if you are going to have more tax, you are going to be expected to do more. That is the whole point of devolution, but what would the Government give you? Have a deal with the Government. It is going to give you the turbulent things that are going to grow like topsy. Would you be sensible as London to take those on? That is the trade-off. That is the situation in Germany, for example. They are doing more risky things and a council or a state has not gone bust yet but some of the ones in [the United States of] America have gone pretty close.

Professor Tony Travers (Chair): One of the other interesting things about a place like Germany, I suppose, is the growth of the municipal bond market, is it not?

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Exactly, yes.

Professor Tony Travers (Chair): It is still comparably sluggish in the UK. I agree with you. There is a transfer and it is a risk if you take it on, but equally there is the opportunity if you have critical mass, which we can have in somewhere like London, to get the scale (Overspeaking)

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): To what extent can your pension funds get involved in this?

Baroness Couttie (Leader, Westminster Council): In terms of the risk, there is caveat that obviously we need to look at what is being devolved and make sure that the funds can be generated behind it to deliver. With the caveat of that, local government, certainly in London, would want to take that risk because it is much better that than having the arbitrary annual budget assessments and grants. At least you have more control over it and can predict better.

Professor Tony Travers (Chair): The DCLG when Bob was a Minister and LFC1 both argued that incentivisation - and in the first case it was 50% of the business rate and is now moving on to 100% and indeed possibly to other retained taxes - would boost growth. The DCLG produced research, which was endorsed by an academic colleague - it happened to be one of mine - that this is what would happen.

Do you think that if there were to be more devolution of taxes to London - and indeed to other cities and possibly counties but, again, staying with London - it would, as it were, incentivise higher levels of growth, which then would generate more taxes for the rest of the UK?

Baroness Couttie (Leader, Westminster Council): It certainly would as long as, when the services and things are devolved, there are not going to be so many tick-boxes that we are constrained as to what we can do. Devolution has to be proper devolution that gives us freedom to deliver how we think is best for our areas. If we are given those freedoms and the money to do it, we could make a huge impact, particularly in London.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): One area where there is quite a large consensus now is that, if part of the risk and the growth is going to be on business rates and we are going to be incentivised, there needs to be a long-term alignment of interests. At the moment, every seven years in this current cycle - but previously it has been a five-year business rates reset - you grow your business rates and then it is reset at the fifth year, but where is the incentive to do that? If we were to start today to try to get a very large inward investment, by the time it has gone through planning and then has been built, it is going to be five years before it comes on stream. At the point at which it starts to pay business rates, it is reset away.

We have to be careful that the whole design of local government finance, especially if we are going for the incentivised model, does not actually take away the incentive completely so that we need to have a partial review, not a complete review and, secondly, as you approach the end of a period, people do not hold back investment to wait until the next round. Again, it is a philosophical point but it is a design point. Therein lies an opportunity.

Professor Tony Travers (Chair): It is not a philosophical point; it is a real point.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Here is an opportunity for us as a sector to now shape this for the benefit of everybody. Who is to say that your growth resets need to be for the same period as the needs reset? At the moment they are being run in parallel but we could separate those.

Professor Tony Travers (Chair): Nick?

Dr Nick Bowes: We are in danger of furious agreement around the table, really. I am trying to propound a contrarian view to test the consensus. I would say that London has been an extraordinary economic success since, say, the Big Bang. Our argument is that we have been bit players in that, because we have been so constrained by Whitehall spending all the money and taking all the tax. Is it a corollary of the position of the devolutioneers that London would have been an even more fantastic success if only the propositions that Tony is putting forward had been implemented some years ago? Is that remotely plausible?

Baroness Couttie (Leader, Westminster Council): The answer to that is yes. We have been through an extraordinary period. The Sarbanes-Oxley [Act 2002] in [the United States of] America drove a whole lot of the City institutions over here, particularly for securitisation and stuff. That was massively beneficial to us and helped to drive the City and the perception of the freedoms of the City. There were other global things that were going on that allowed cities to boom and London benefited hugely out of it because of its location, the language, the law, etc, that we talked about earlier.

However, if we sit back and say, “London can continue to be as successful”, we do so at our peril. There are some very exciting cities elsewhere in the world with very benign tax regimes, both personal and corporate. We are very much more a global economy than we were before. Our infrastructure is aging and we have some very serious issues that we need to deal with, not least of which is housing, if we are going to maintain that pre-eminence. Much of the spending that needs to be done in London is actually done by government, whether that is local, regional or national, and we need to do that.

Professor Tony Travers (Chair): (Overspeaking) competition for tax base, not just within England, in which this system operates, but London under tax competition from other cities?

Baroness Couttie (Leader, Westminster Council): Definitely.

Professor Tony Travers (Chair): Internationally?

Baroness Couttie (Leader, Westminster Council): Internationally, yes. Also, depending on what deal we get on Brexit, it becomes more so because the benefits of being here potentially are slightly dwindled depending on what sort of business you are in and you might as well go to New York, Hong Kong, Singapore or even Paris, wherever it happens to be. We tend to have quite a transparent tax system compared to other nations, where, although the headline tax figures look potentially comparable or perhaps slightly less, with all the tax breaks and other things they get, they could be significantly less. That is a challenge for us.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): There are some bets that only governments can take. Crossrail, for example. I have not been involved in this, but I ask you: if the Government had not ponied out the dough for Crossrail, would you have done it yourselves? That comes to the heart of devolution and your Big Bang point. Does it require the outside agency of the national government with a national plan as one United Kingdom to even out the national economy and to give you a hand? To take your point to its logical conclusion, we would just keep all of our own money and that would be it. Is there the appetite - political, fiscal or whatever - to make those really big bets with huge construction risks, planning risks and legal risks, for something like Crossrail, which is transformational?

Understanding the boundaries between your ambition and the scale and the national interest is one of those things and probably it has gone to too much centralisation at the moment. You would not want to go totally libertarian, to the other extreme, because you would miss out on some of those national projects, which go into those little shaded areas on your map there beyond the M25. There is a benefit there.

Professor Tony Travers (Chair): Taking Nick's contrarian position, here is another potential contrarian position. Because we start off from a highly centralised position, it is always possible to see any devolution - within England at least - as setting one area off against another, particularly if it is London. Would it be possible to portray a more radical set of devolutionary decisions in relation to London as being good for south Norfolk, Yorkshire, Cornwall or the rest of the country more generally? Is that a saleable proposition?

Baroness Couttie (Leader, Westminster Council): I would say yes. I gave some statistics slightly earlier about the development industry. I do not have the same figures for other industries within London, but I am sure we can get them. We could also locate where those jobs are in the UK and, at the county level or city level, we could say how much that brings to that location.

Professor Tony Travers (Chair): Do you think London should do much more of this?

Baroness Couttie (Leader, Westminster Council): It certainly should. There is a very strong feeling that London has breezed through the recession, that everyone is a millionaire because their property is worth so much and that we are all terribly lucky, well off and comfortable, and that the north is very hard up and has had a very rough time. It is breeding quite a lot of unhealthy resentment and we have seen it in a number of different ways. We need to get a better understanding. I am not saying that London should get all of the money and the Northern Powerhouse is a bad idea; far from it. We do need to invest in the north and we do need to invest across the country in the infrastructure that is needed, but it should not be an either/or. It is important that London gets a fair share of the investment for the benefit of the whole country, but we need to sell that because at the moment it is not understood.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): We all benefit from London's growth, culturally as well as professionally and economically, not least because of the taxes that are paid. Many of the people who earn those taxes live outside London and - to go to my earlier point - they need their bins collected, too.

However, London is not an island. I sit here representing Norfolk when I come down here twice a year to City Hall with leaders from all the councils in the wider southeast, which includes the eastern region as well as the south, to try to work out, as London ripples into Essex and in turn to Suffolk and in turn to Norfolk, say, how we properly co-operate and where the common evidence base is. We do have an evidence base and we need to co-operate. Otherwise, you get all sorts of double-counting of commuting between areas. There has to be a guiding economic base and that needs to inform proper decisions. With that as the underpinning, we could have a narrative to sell this as you providing the right amount of overspill - if that is the right word - without overproviding, because there needs to be an evidential basis.

Again, there is that duty to co-operate point. The last Mayor and the current Mayor fully bought into that and that is to be welcomed because it breaks down those perceptions and barriers, certainly in the local authority families.

Professor Tony Travers (Chair): Nick, did you want to add anything? You are on this side of the table but, on this particular issue, you are in a sense involved as well as being on this side of the table. Is there anything on this issue that you would like to, by asking a question, put on the table?

Dr Nick Bowes: You have suggested that I am on both sides of the table now.

Professor Tony Travers (Chair): You are sort of, because the GLA has been mentioned.

Dr Nick Bowes: I am technically an observer, yes. I do not think so, no.

Professor Tony Travers (Chair): No? Good. We are coming up to nearly an hour. I will just ask my colleagues. Is there anything we have not talked about so far that you would like to raise? Feel free, as long as it is under the broad remit of fiscal powers or other devolution. Is there anything we have not touched on or you feel we ought to have?

Nicholas Holgate: The only thing I would try to tease out a bit more - and this has come up in some of the discussions that we have been having with the Treasury in particular - is that there is an appetite around partly devolving responsibility but there is less of an appetite around the autonomy bit of the devolution and giving London the flexibility to - business rates is a good example - as well as devolving the receipts, have some flexibility. They find that really difficult.

Do you have any thoughts about how we can help to sell that better? Without the autonomy bit, we cannot grow the city.

Baroness Couttie (Leader, Westminster Council): I understand why central Government does not want to let go of the levers and wants to keep so much control currently because, for so long, so much has been dealt with from central Government. Because we do keep only 7% of our tax take, etc, they are held responsible by the general public, even if it is not actually them who end up being the decision-makers.

What we need to do is with the changes persuade them that that responsibility in the eyes of the public as well as in reality will shift to whoever is the appropriate person. That will take some communication and it will take time, as people over time learn that it is not actually central Government. That has to be the key to it. I understand that if you are going to be pilloried in the press because of something you have not had any control over, you will get worried. I do understand that.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): What I would say on that one is that you are leading us to say, "The rateable value is set centrally, but can we tinker with the multiplier?" It is a fundamental part of the design of business rates that, upon a revaluation, the aggregate amount of money raised is the same. The multiplier is tweaked down so that the total aggregate yield is the same.

There are other tools. The mayoral CIL is a tool and some of the evidence we received on the CIL review said that following the election last May it is going to take until 2019 to get a CIL operationally in place. That is crazy. By that time, the market might have moved. Speed in setting things like CIL and delayering some of the excessive consultation would make you more responsible. There are provisions for the LEPs to raise money on additional business rates exclusively for infrastructure. Those things are to be wheeled out nationally and there are opportunities for you without breaking the self-healing part of the multiplier because then you would have the entire business community against you. I would say fight the battles you can win.

Baroness Couttie (Leader, Westminster Council): I would like to pick up on business rates. I could not leave here without mentioning it, given the valuation that we had last week. There is a real danger that London potentially could be seen as the cash cow for the rest of the country and that is very dangerous because money that you take out through additional taxes is money that is not then reinvested in London itself. With the valuation last week, most other areas of Britain saw their business rates go down; in London they went up substantially and in central London they went up just unrealistically.

In the streets of Oxford Street, Regent Street and Bond Street alone, which is only one small part of the West End, they have gone up by £125m. The profit margin for the retail outlets there is only 5%. They have to make an annual £2.5bn extra to pay that. We have an Oxford Street project and we are asking the private sector and their community to invest in Oxford Street and to make it this wonderful international street. If they have this extra financial burden on them, they are not going to make that investment. That investment is supposed to be generating 75,000 new jobs. We lose so much by hamstringing our businesses in that way. We will also lose a lot of our small retailers, which make the West End quirky and exciting and to which the "great estates" give discounted rents to try to keep them in the communities. We are destroying all of that.

The fundamental problem is that the business rates system is flawed. We need to tear it up, we need a blank sheet of paper and we need to start again. The idea that there is a fixed pot that represents the economy and that it can never grow except by the consumer price index (CPI) is a fundamentally flawed concept. It is simply not true. CPI is not sensible as an indicator of increased profits because it shows prices going up, but that does not mean that businesses are getting bigger profits because it is driven by things like oil prices, wages, rents and other things, not just extra demand. What we are having is businesses potentially penalised in ways that they cannot afford at a time when we ought to be really supporting them to support our economy. That is a bit of a plea there to relook at the business rates.

Professor Tony Travers (Chair): Thank you. I should probably have said this at the beginning. You chair, and I sit on, the West End Partnership. Our tax increment finance type of deal bid to the Treasury: it would be good for us to have that as evidence at some point because when it is fully evolved, it is a good model of how it is possible for groups of boroughs, two boroughs or most of one and a bit of another borough working together can come up with innovative solutions. It would be good for us to use that as evidence.

Baroness Couttie (Leader, Westminster Council): I am delighted for you to do.

Professor Tony Travers (Chair): Great.

Baroness Couttie (Leader, Westminster Council): Do I need to formally put it into you or can you just use the copy you have?

Professor Tony Travers (Chair): I have this. I do have copy. Yes, I can hand it across to the others, yes. Unless anybody else has anything, thank you very much for coming and for so elegantly expounding your views on these subjects. Of course, we are happy to receive any written evidence or any evidence from anybody you can get who wants to do it as well. We will, as I said at the beginning, be reporting in an interim way very soon and then finally at the end of the year. We are moving fast. Thank you both very much.

Baroness Couttie (Leader, Westminster Council): Thank you very much.

Cllr John Fuller (Vice Chair, Resources Board, Local Government Association): Thank you.

Professor Tony Travers (Chair): We will have a five-minute break.

(Adjournment)

Professor Tony Travers (Chair): Let us begin. Thank you all for coming. Last time I rather assumed everybody knew everybody but this time I am not going to assume that. What I would like to do is briefly go down your side of the table first and then our side of the table, just so that we know who we all are. Charles?

Charles Rifkind (Trustee, Visitors' Art Foundation): I am Charles Rifkind and I am today here representing as a Trustee of the Visitors' Art Foundation.

Nicolas Kent (Trustee, Visitors' Art Foundation): Nicolas Kent, also representing the Visitors' Art Foundation as a Trustee.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): I am Sue Terpilowski, representing the Federation of Small Businesses.

Gerard Lyons (International Economist): Good morning. I am Gerard Lyons. I am an economist. I am here in a personal capacity but in my day job, so to speak, I am Chief Economic Strategist at Wealth Investments and Economic Adviser to a think-tank, Policy Exchange.

Professor Tony Travers (Chair): It is fair to say that you were an advisor to the former Mayor of London when he commissioned the London Finance Commission.

Gerard Lyons (International Economist): Yes, that is correct.

Professor Tony Travers (Chair): Thank you for that. That is very good. Shall I come down our side of the table?

Jeremy Skinner (Head of Economic Growth, Greater London Authority): I am Jeremy Skinner, Secretariat.

Dr Nick Bowes: I am Nick Bowes. I am an observer but I am the Mayoral Director of Policy for City Hall.

Bob Neill MP: I am Bob Neill. I am the Member of Parliament (MP) for Bromley and Chislehurst - and so a London MP - and a former Local Government Minister and I am joint chair of the All-Party Parliamentary Group for London.

Nicholas Holgate: I am Town Clerk of Kensington and Chelsea.

Professor Tony Travers (Chair): I am Tony Travers from the London School of Economics.

Bharat Mehta: I am Bharat Mehta, Trust for London.

Len Duvall AM: I am Len Duvall. I am a London Assembly Member (AM) and I am representing the London Assembly on the Commission.

Professor Tony Travers (Chair): As with the previous LFC, we are a multiparty organisation and independent, obviously, of both the Mayor and the boroughs. As you will know, the current Mayor, Sadiq Khan, has reconvened the LFC and we are working closely with not only City Hall but the boroughs with a view not just to revisit what the first LFC did but to recognise that the EU referendum result was a remarkable moment for the UK and for England and for London and to, therefore, use that as a backdrop to revisit the question of how far it would be appropriate to London to bid for greater autonomy over taxes and expenditure. That was just a bit of background.

I should say, by the way, that the meeting is on the record. This is not a Chatham House rule event. It is on the record. Things are being recorded. Ideally, we would like to use both the oral and written evidence we are taking on our report. That is just so that we all know the rules of the game.

Perhaps I could start with a question in relation to the referendum result. I am not asking what you thought of it. Given what it was, do you think that the vote to leave the EU strengthens or weakens or has no impact on the case for devolving further powers to London and why? I know you are really here to talk about one aspect of the tax devolution and local taxation. Do not feel you have to talk about only that one issue. Perhaps I could start off with Sue, if you would like to kick us off. What would your response be? Does this make any difference to London's need for autonomy?

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): It further enhances it slightly. From our members' point of view, they have always been pro devolution of more powers to London anyway and it is a journey that we have been on for a couple of years now. Now, with all that is happening, it does maybe put a slight extra twist on it but, from our members' point of view, they feel that more devolution to London should come. It is a journey we have been on for a couple of years.

Professor Tony Travers (Chair): You would say, "Not massively but yes"?

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): Yes.

Professor Tony Travers (Chair): OK. Gerard?

Gerard Lyons (International Economist): In answer to the question, I would say yes, but to answer it I would say first that we need to look at the issues that come out of the referendum and then the implications. The answer is yes, in qualitative terms, there is a greater case for devolution; in quantitative terms, it is difficult to say. That needs to be explored further. That is how much further devolution there should be.

To reach that answer I would say that one needs, in my mind, to look at the referendum's implications in two ways. One a domestic mandate and, secondly, an international mandate so effectively a dual mandate.

In terms of the domestic economy, there is a whole host of issues that have been thrown up. The regional divide has become very apparent and, indeed, it was noticeable that in his speech at the Conservative Party Conference on Monday the Chancellor talked about the productivity gap between London and other cities. We can all question whether productivity is the best measure we should be looking at, but taking that as a given, because clearly the Treasury and the Chancellor have focused on that, they pointed out that the gap between the capital city and second, third and fourth cities in the UK is wider than in other countries. He did not say in his speech, but it is true, that capital cities - and you probably acknowledged this in your previous report - tend to be more productive than second and third cities but in the UK that gap is wider. Also, the referendum result has led to a greater discussion about the need for more infrastructure spending to connect other cities and the regions of the UK. Also, the skills agenda is likely come more and more to the fore. Even though I would say migration is positive for an economy, the scale of migration clearly creates issues.

I would say out of the large-scale migration we have seen in recent years into the UK, there are a couple of issues that are relevant to this question and this debate. One is that it has suppressed wages, particularly of unskilled workers, and also I would say over the last one or two decades UK companies have under invested in their staff, in their human capital. Maybe there is a natural reason for that. They could import or attract workers from all over the EU. The combination of wages being suppressed and lack of spending to upskill staff are areas that need to be addressed. They all come into this regional agenda and they are very relevant for your Commission in terms of the relationship between London and the rest of the country, and they justify more proactivity in terms of fiscal spending. The question then, in my mind, is whether that is at a central level or at a devolved or regional level.

The lack of shovel-ready projects might make central government, and there is a greater economic case to say many of these projects are better determined and better decided upon at the local level. In terms of the domestic aspect out of the referendum, that strengthens the case for devolution.

Then there is the global aspect, which is very relevant for London in the sense that London is a global city. Urbanisation is accounting for more global growth. Currently, the top six cities in the world account for half of global growth. It is expected, according to people who have looked at this - McKinsey and others, and I looked at it a couple of years ago when I was here at City Hall - that more and more global growth will be accounted for by cities in the future. The figure that is often cited is that the top 600 cities will account for two-thirds of global growth in 20 years' time, but the big difference is that the West has probably about 137 of those cities now. In 20 years' time it is expected to be 20 and so there is greater competition from new and middle tier cities. You could say that strengthens the case for devolving power to other cities in the UK but, from a London perspective, it strengthens the argument in favour of London trying to position itself globally and attracting talent and remaining competitive. Bringing the domestic and the global aspect together, there is a much stronger case for devolution but the extent of it is still up for grabs and to be determined.

Professor Tony Travers (Chair): Can I ask a very precise question based on the first part of what you said, which is that the Government has already committed to an apprenticeship levy and the Commission is already minded to argue that London's government would be better placed to decide exactly how to use that than the UK Government in London. Sue is nodding, which is encouraging.

What do you think? Would this be, given it is going to happen, be better used within areas where it is generated than in national use of the money or in national decisions about the use of the money?

Gerard Lyons (International Economist): The way you have asked the question tends to tempt out the answer "yes".

Professor Tony Travers (Chair): I should have added "or not"; forgive me.

Gerard Lyons (International Economist): Yes. Also, even though it is slightly tangential to this, the whole debate on grammar schools should have led to a greater debate on technical schools. That whole issue about technical schools and apprenticeships needs to be -- they may be slightly different but within the whole they are very related and, given the importance of education policy at the local level as well as at national level, there is a case for a greater say at the local level, but how that pie is divided up I could not say for certain.

Professor Tony Travers (Chair): That is a fair point. Sue?

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): I want to pick up something Gerard said earlier. Businesses do invest in their staff. What they do not think is they should invest in the soft skills that they should come out of schools with. That is one of the big problems we have here. By devolution of skills to London, we can start to look at the real issues: make people business ready in the soft skills. Things like debating coming back into schools and things like that, and allow them to function in a company. We do not mind training them about doing the job but what we do not think is we should put the schooling system back to being right. That is quite categorical. All the business groups will say that. It is unfair to say that we are not investing in our staff. We are investing in our staff but we do not see we should be fulfilling the school role, so just to put that on record.

Skills coming to London: the skill needs of London are completely different to a lot of other places and so we are best to look at it. A lot of the work that the LEP has spent doing over the last six years has been looking into what skills do London need over the next three, five, 10 and 15 years. We know the type of jobs that we are going to be creating. We know the type of work that is going to be happening here in London, and what I am passionate about is getting Londoners to do those jobs, so working at the schools level and going into places like

Tottenham and Croydon where we are putting lots of money into those areas, and upskilling the youngsters there to be able to do the jobs so that we do not have to import people in is a passion of mine and the FSB.

Professor Tony Travers (Chair): OK. Bob?

Bob Neill MP: Two points from me. One is specifically carrying on from Gerard's point and then one is a broader one and that is this. Gerard, you talked about the productivity gap, which clearly is a priority for Government, as is growth generally in a post-Brexit scenario. Do you find that there is some correlation between those countries - we will take Western Europe but other western countries as an example - where there is greater devolution to those second and third tier cities that you were talking about? The sense I get is that in France and Germany there is a good deal more fiscal devolution in those second and third tier cities, which have higher productivity rates than our second and third tier cities. Do you think that is the reason why we should be making the case for London devolution and perhaps a broader form of financial devolution?

Gerard Lyons (International Economist): In answer to that question, to make the case one needs to show the causality. There is a correlation but it might not be causality. Of course power within German is very federal, so it is a completely different way of government. Part of the challenge in the UK is that London dominates the UK economy whereas other capital cities do not dominate their economies. In Berlin there is a very different picture, as I said in Germany. Berlin is about 4% of the German economy. Paris is obviously defined in very different ways according to people but is roughly about 10%. Madrid is about 18%. London is over a quarter, and then the interconnections between the southeast and East Anglia in London makes the London role even more dominant and so that exaggerates this issue in the UK.

One needs to interact between London and other cities because one thing that is very noticeable in the UK is skilled, young workers tend to be attracted to London. When I looked at them before, the figures showed that in net terms young, skilled people under 30 migrated out of every city in the UK apart from Bristol and London. That impact is not so evident in other countries, so there is a correlation but I would be reluctant to say there is a causality from one to the other.

Bob Neill MP: Then there is the broad one. How then, given that scenario, do we drive the fact that London is a success and make the case that devolution for London need not be at the expense of the rest of the UK, but that it is actually advantageous to grow the London part?

Gerard Lyons (International Economist): That is a key part of the issue. It needs to be seen not as just London versus the rest. Of course, many of the issues that have been highlighted post the referendum in terms of the rest of the country are also there in London, but because we tend to think of the City and the financial district we often overlook the fact that London is an incredibly diverse city as well and there are very poor areas, lots of areas of London that need to be addressed. The skill would be to show that the regional issues in the UK are also issues that need to be addressed in London, and if you think they can be best addressed regionally in the UK by devolving power then the argument would be that they need to be addressed also in London by devolving power as well.

Bob Neill MP: I wonder if Charles or Nicolas [Kent] might have some thoughts around that diversity.

Charles Rifkind (Trustee, Visitors' Art Foundation): Only that there is a very good emotional argument for the desirability of devolving fiscal powers, in that the Brexit vote quite clearly showed that a lot of people are disenchanted with our political process and they feel very far away from politicians and decision-makers. If you can bring the fiscal powers into London it seems you have a much closer relationship between the voters and those people making those decisions. I think that is a very strong argument myself, and obviously we support that whole argument of bringing the powers from our particular campaign for the bedroom tax but that is another matter.

Bob Neill MP: That is driven by London's particular circumstances as an international destination?

Charles Rifkind (Trustee, Visitors' Art Foundation): Yes, absolutely. I was talking emotionally.

Bob Neill MP: You probably would not if you were in Birmingham, for example.

Charles Rifkind (Trustee, Visitors' Art Foundation): Yes. I was talking about the decision-making being closer to the people, which the referendum clearly showed was a very desirable thing to happen.

Professor Tony Travers (Chair): I notice that Birmingham did have a big sign up saying it had had an all-time record number of visitors last year when I was there the other day.

Nicolas Kent (Trustee, Visitors' Art Foundation): Funnily enough, somebody from Birmingham Council did come and see us. Their comment was, "Could we have 'This is our foundation in Birmingham'?" You could have "This is our foundation in Birmingham [in brackets] (Birmingham)". You could have it in brackets (Manchester). You could have in brackets (Edinburgh) and so they could be responsible for their own locations in terms of collection of revenue.

Bob Neill MP: You say your particular proposal for a visitor tax/bedroom tax is not a zero sum game in that sense as against the rest of the UK?

Nicolas Kent (Trustee, Visitors' Art Foundation): Yes.

Bob Neill MP: OK.

Professor Tony Travers (Chair): We will come back to that. Bharat?

Bharat Mehta: Gerard, I am interested in your point about wage suppression and lack of investment in skills. You are absolutely spot-on in that the cities will drive growth internationally. That relies on attracting skills, the movement of people, particular skills in a sense. Do you see a conflict there and dangers for devolution to London of fiscal powers, or just devolution generally, and national Government dictating who can come in and the ability to attract talent?

Gerard Lyons (International Economist): I am just going to have two parts to my answer, one directly that you have asked about, and second, given you mention national government, a different answer. In terms of migration, yes, it is important to avoid that conflict. My interpretation of the referendum and policy since has been that it is not the case of no migration, it is low migration. Migration is good for an economy. Indeed, London highlights that in all sorts of ways, not just economic terms but in uneconomic terms, but the scale of migration is clearly an issue that needs to be addressed.

From an economic perspective, we need to identify where the so-called skill gaps are in the economy. One of the interesting challenges is that it is not just skilled workers that we may need to be attracting. For whatever reason, British people might not want to do unskilled jobs so one would assume that latter point is addressed more by wages having to rise for unskilled jobs. In terms of attracting skilled workers, if one looks here in London obviously the financial sector, it was one in eight people in the financial, when I looked at the data a year ago, were from outside the UK but from the European Union. In the construction sector it was one in five people, so clearly it would seem to me there is a need at the local level to make clear the local needs in terms of that overall migration policy. It needs to be bottom-up not just top-down, so avoiding that conflict.

The second point that you did not ask about but you asked about the constraint from central government, it is not just the migration it is about funding all of this and the fiscal side. If you devolve more power to local areas then one benefit is greater openness and transparency, which should improve the democratic accountability, but the other issue is about the fiscal accountability in terms of the markets are always worried if you devolve power and politicians might be seen to be not trustworthy and, hence, the central Government would always argue they can always borrow at a cheaper rate. That is where I would see the greater tension being in terms of policy but, hence, the argument from the first Commission was about the tax rate in pounds.

The question you asked about migration could be a problem but I would think that common sense and a sensible economic approach would address that, but the greater constraint from the middle would be about the accountability of fiscal powers.

Professor Tony Travers (Chair): Can I just build on that? I do not want to take us off down a Brexit line, but we have to think about the London economy's potential to grow in the future because we are likely to make recommendations about the future, so we need to have in mind how the economy might develop. Given that unemployment is relatively evenly spread from region to region, and the highest region is probably about 7% and the lowest region is 3%, but migrants as a proportion of the workforce varies much, much more than from 40% in

London to low single figures in other regions. The impact of a national policy will be differential and, if that is the case - I mean some jobs might go to Londoners if they were properly skilled up - is there a risk that it would suck labour in from the rest of the UK?

Gerard Lyons (International Economist): That has to be the challenge. If young, skilled workers under the age of 30 just by their very actions migrate to London then that would be the case, the possibility with --

Professor Tony Travers (Chair): Is there a radical reduction in migration to London?

Gerard Lyons (International Economist): No. The argument is to address it in a different way to improve the attraction of other cities. You could create an enabling environment, better infrastructure spending as well. These things take time of course to make other cities attractive. Of course in economic terms there is a price mechanism here, both in terms of wages and also the cost of living. The elephant in the room for London is always the cost of living in London. If younger people see jobs available elsewhere, and they think the cost of living is more affordable, then they might be attracted elsewhere. In the first instance, the danger is the attraction of London might be the magnet to pull people in but it is about addressing those issues over time.

Professor Tony Travers (Chair): OK. Let us move on to - and we will come on to the precise issue of tourism, bed tax or whatever later - how far you think central Government should devolve fiscal and other powers to London and possibly to other English cities. LFC1 went as far as effectively a full suite of property taxes, probably 12% or 13% of all the taxes paid by London.

Do you think there is scope to go further I mean to a more radical -- given that Scotland and Wales have now moved to -- and we are not going to suggest this, I suspect, but we are just testing the water here? A part of income tax has been devolved both to Scotland and to Wales. Is there an argument for London and/or other cities to have a more radically devolved tax base? Would either of you like to have a go?

Gerard Lyons (International Economist): Sue [Terpoliwski] is pointing to me. The way you have asked the question, you have highlighted that it is a very ad hoc approach, which would suggest it could go in any direction in the future. Coming back to Robert's question when he asked about Western Europe, there is a case to look at best international practice here. Not just in terms of capital cities but the relationship between capital cities and other regions. I am also going to approach it from a different perspective and say: what are the economic needs for London and other parts of the country? It is almost the three Is - innovation, investment by the private sector and infrastructure spending - and then I would tend to think, "What is the best way to improve each of those, not just in London but across the country?"

Take infrastructure, shovel-ready projects are talked about but when I speak to people they normally say the most important part of infrastructure is broadband and things like that. Is it possible for London to interact with other parts of the country to get a proper solution for this, so it is not seen as London versus the rest, it is London working together? The big danger is to have London put in one camp and the rest of the country in another camp because that reinforces issues that might be there deep in the psyche already, so working together.

I would work backwards from what is necessary to improve the investment climate, whether it is tax exempt areas, things to get private investment in, the whole innovation agenda links into schools, etc, infrastructure as well. It is about shovel-ready projects. Then I think that comes out to an answer. If I was at the centre the natural tendency would be to think there is an immediate cliff edge type of solution or a gradual approach, and the natural tendency at the centre would be to go for gradualism.

Professor Tony Travers (Chair): You will have travelled abroad a great deal to other cities and in LFC1 we had an appendix. We are having evidence in the next session from Toronto about the extraordinary difference between UK cities and any other city you look at, capital or otherwise. They all have a much wider range of taxes that they control and set. In a sense the UK cities - not just London - are extreme outliers in this regard. Is there anything in economic theory that suggests that the British have this right and everybody else has it wrong?

Gerard Lyons (International Economist): Economic theory?

Professor Tony Travers (Chair): I mean anything: economic theory, economic practice, anywhere in economics that tells that this is the right way to do it.

Gerard Lyons (International Economist): Normally our biggest export is our pessimism, so we tend to (Overspeaking), but in terms of post-Brexit, are there any things in the changing relationship that will make it better, like state aid rules presumably will be very different in the future and what opportunity does that offer would be one question I would be asking.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): We have long argued that London should have an infrastructure bond or some mechanism of raising money for infrastructure projects, because there is a general feeling across the whole of the UK that London has had too much money spent on it and yet there is lots more we need to do, so we have been advocating that for quite a long while.

As long as the right balance and checks are in place we are not against more devolution and fiscal powers, but we are very worried on two areas. One is the inner/outer London area. Everything always concentrates on the inner, and the outer often gets forgotten. To cite a thing, there are the crossings that are coming in across the Thames and the east. All of those are going to be paying including the Blackwall Tunnel, yet it is free from the centre to the west and out. It always seems the outer areas end up the poor relations in all of this because everything gets sucked into this high growth area of the Central Activities Zone (CAZ), and so we do have some concerns that, if it does come, we need a much better way of looking at how we manage this so that it is much more fairer spread across London as a whole and look at the outer zones.

We are seeing migration from the centre of our members out. There is no two ways about it. It is too expensive for them to be in the CAZ and the surrounding areas or they have been forced out because of PBR. There are a lot more concerns being raised about the connectivity of Zones 4, 5, and 6 and how you get around them without having to always come into the centre. Infrastructure is a big issue for our members.

We have already talked about skills as well, being another area and looking at how we can get the education system working smarter and better, because we think there is a lot of wastage in there; what could be done. Another thing is road taxes. London does not keep any of its road taxes that are raised from cars and people in London and so we are thinking that is an area that we should be lobbying Department for Transport (DfT) to get some of that money back because it goes to the rest of the country and not to us.

Gerard Lyons (International Economist): Coming back to Sue's comments, and indeed it was part of my second answer to Bharat's question, is about the financing of this. More people are talking about innovative solutions, particularly in the environment of low interest rates. There is a search for yield, particularly from pension funds and this is an area where there is more active discussion and, obviously, coming back to your question about London, the fact that the City is here. That is a natural area where there could be a lot more further work done and maybe engaging with City financial institutions, pension funds, and the second thing is about the future revenue streams. That self-financing infrastructure becomes a lot more attractive.

The challenge of course for London is that in recent months -- and indeed the Chancellor himself touched on this yesterday when he was interviewed by Bloomberg in New York. He was saying rather than look at economic growth per head and productivity per head - and I am not sure if that is the right way to go - the challenge is that in London per person the spending is so much higher than elsewhere and you need to provide a case as to why that is not the only way that this should be looked at. It needs to be looked at, the final output as well. The danger is that because London's starting position is so much better than the rest of the country in terms of spending per head --

Professor Tony Travers (Chair): When you say "spending per head", do you mean --

Gerard Lyons (International Economist): Infrastructure spending per head when you break it down per person. It was a figure I heard quoted twice this week, not the actual number but, in qualitative terms, that London has more infrastructure spending per head of its population than any other part of the country.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): That is the flawed Institute for Public Policy Research (IPPR) one?

Gerard Lyons (International Economist): It is, yes.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): That is where the whole of HS2 is put against London instead of spread across the whole of the country and so it is not sound economics.

Gerard Lyons (International Economist): I completely agree and that is an important point, I would suggest.

Professor Tony Travers (Chair): As a Commission we need to look at that. Nicholas has a question. What is that about?

Nicholas Holgate: It is treading around the terrain you have both been exploring. Sue's examples would lead one to think that there were some really big gains to be made from investment in and around London, not neglecting outer London. That is the incremental reflection of the point Gerard made at the start about productivity and London versus other parts of the country.

In the short term, if you have a fixed supply of public expenditure, whether revenue or capital, frankly, is there in effect a degree of choice between continuing to invest in your apparently high productivity or whatever index you prefer to use, which is going to yield more tax, etc, or should we be going a harder road investing in other regions sooner because there is a more of a gap there? Is the gap that you talked about at the start actually one is the reflection of the other because of the flows of skilled young people, or whatever, they are symbiotic?

What it would be really helpful to have, post-Brexit if necessary - but it might be a mug's game or it might be too abstract - is a sort of growth model as to where you get the bigger dividend sooner, and where devolution of spending and tax comes into this is that it is a route through which, if you thought that there was a virtuous circle of investment of all kinds in London yielding a bigger return forever maybe but certainly for a long time, from which the rest of the country would benefit through natural tax take and so on, then actually there is a really good means to an end. You can see that reflected in incentive effects and so on as well, but it comes back to me to: how do you interpret the productivity gap in the first place? Is it a false antagonism or is one the reflection of the other and what on earth do you do if that is the biggest growth dividend, given that apparent starting point? Sorry to make a speech instead of a simple question.

Gerard Lyons (International Economist): Like all the questions it is very interesting. An example of it might be this debate about HS2 versus High Speed 3 (HS3) because the high productivity that attracts the investment would argue for HS2. The idea of catchup would argue for HS3, that is interconnecting the northern cities, ie a classic example and we all know the arguments that come to the fore there. There is no right or wrong answer. It depends on how you would measure success.

In terms of a cost benefit analysis, I would assume the Treasury would tend to go for the former, i.e. the high productive areas justified investment hence the case for, for instance, HS2. There is a case for all of this.

It is not just London versus the rest. I remember watching the Scottish National Party conference on TV a few years ago. Their economic debate was about this in a different way, about the urban versus rural areas across the whole of Scotland. The question you have asked can be seen at different levels, but London versus the rest just brings it to the fore. I do not think there is a right or wrong answer but it can be couched in different ways.

Professor Tony Travers (Chair): I will bring in Sue and then, yes, I am conscious you are sitting patiently there. I am going to bring you both in now, Sue.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): There is also the realisation of an ecosystem because high growth areas need the ecosystem underneath them to support it and so you cannot just look at one bit without looking at the whole ecosystem. That is where we need to be a lot smarter in the UK, looking at our ecosystems and how we can immerse those two together. That is why we are really fearful that London can lose its micro and small businesses ecosystem and then that could cause major problems, because the high growth companies can only be high growth if they have the right support mechanism underneath. You need to look at the lot together, at how we can get it all working smarter.

One of the big problems we find if you talk to a lot of the FSB members around the country and the big cities, if I talk to my members about exporting half of them will say, “We are doing business with Liverpool”. They are exporting from there. They have a very, very small mind set and so we need to look at the support mechanisms that are out there and look at the Northern Ireland model where they have done quite a lot of work with the UK and see if we can get that growing. That would help a lot more, but that needs infrastructure. That needs connectivity. People need to be able to get between London and other places much better.

Charles Rifkind (Trustee, Visitors’ Art Foundation): Taking you back to one of the questions in terms of the property scenario and raising taxes, at the moment we have seen Brexit occur and we have seen the currencies at the moment drop by 15% to 20%, which means there could be further influx of foreign investment coming into UK property. Currently the stamp duty component is a massive deterrent to the local inhabitants, because to try and find the money for the stamp duty component is very high. If one was to turn that round and say the vendor was to pay the tax, and you had a sales tax of circa 3% take of an automatic sales tax, it means you are picking everybody up automatically on the sale and the lawyer pays the money indirectly, the receipts on the property industry currently in central London could be massive. That 3% sales tax occurs in the US; it occurs in New York. There is a similar component where you pay on completion. That money could then go towards infrastructure costs, specifically for infrastructure costs because you are seeing houses of £1m, £20m or whatever. They are not paying anything. They are not paying any taxes. They are coming and they are going and if that was implemented at this point in time you would receive on completion the circa tax, which could then go directly into London or other cities, specifically for infrastructure costs.

Professor Tony Travers (Chair): Bob?

Bob Neill MP: On that one, Charles, at a national level, in national government, we always rather set our faces against hypothecation.

Charles Rifkind (Trustee, Visitors' Art Foundation): Yes.

Bob Neill MP: Is there an argument that the public quite likes hypothecation because it gets a sense of what it pays for, and should we in a devolved structure be maybe more willing to hypothecate under those circumstances? Does that give you an opportunity perhaps to do that?

Charles Rifkind (Trustee, Visitors' Art Foundation): Particularly with high values in central London, it seems odd that that money is - and it is over 50% of (Overspeaking) receipts - currently coming in from London and they have been damaged over the last 12 months significantly. With Brexit - as happened and as we have seen in the last 12 weeks with the currency - there has to be significant overseas money coming back into the UK property companies.

Professor Tony Travers (Chair): One of the many hopes for the first LFC, and certainly I hope for this one, is that if there were substantive devolution, not only of the base of them, the yield of these taxes, but also the operation of them, then it would be far easier for London's government to envisage operating taxes differently. There are a number of problems with stamp duty, land tax, some of which the Scottish and Welsh Governments are beginning to tackle, where they have had the devolved power. We would hope that in a world that we are imagining, that London's government would be able to operate these taxes in a more modern, efficient and effective way.

Charles Rifkind (Trustee, Visitors' Art Foundation): In New York, the purchaser's solicitor pays the money directly to the New York State tax and to the Internal Revenue Service (IRS). It is on completion and so it is immediate. It is an extraordinary collection point.

Gerard Lyons (International Economist): In terms of property taxes, there was the Mirrlees Review Commission and it highlighted that stamp duty was the most stupid tax possible and the then Chancellor raised the stamp duty after, so he obviously had not read it. For land value tax (LVT), all these arguments can be put forward, and so radical change is justified.

In terms of hypothecated, I would need to think further on this but if one is linking revenue from housing to building of housing, the concern would be if for any reason your revenue stream was hit how that would then impact your supply chain of housing. While there may be some justification --

Bob Neill MP: You would not want a one-way street in terms of (Overspeaking)

Gerard Lyons (International Economist): Yes, and you would not want a stop/start. Though, clearly, just building property, we need to increase the supply of housing full stop.

Nicolas Kent (Trustee, Visitors' Art Foundation): It is way outside my field too, but picking up on the point that Sue made about road taxes, I just wonder. Where does the airline tax go? London gets half the damage and does it ever go back to London in any way?

Professor Tony Travers (Chair): It is a UK tax revenue at the moment, though interestingly there has been debate about Scotland. Scotland has inherited it and so that begs questions for northern airports within England. Let us move on to the possibility in the first LFC report and inevitably - although I must not prejudge our final deliberations in this second one - we are interested in the idea of creating a permissive environment in which smaller revenues are available, not necessarily used, but are available to London's government.

With that in mind, you have produced a paper, which you kindly sent to us, for and on behalf of the Visitors' Art Foundation outlining the proposal for a tourism tax for London. Now we have to tread carefully. We have not decided finally where we are going on all of this, but perhaps you could say a few words about how you got to the idea and why you think it might be a good idea.

Charles Rifkind (Trustee, Visitors' Art Foundation): Two years ago - and like all of us we travel around the world - I was in New York. Being in New York, if you go to the Metropolitan Museum of Art and the Museum of Modern Art, you pay circa $25 to go in. If there are two of you that is $50 to go in and when you check out of your hotel you look at your hotel bill and you see four city taxes. When you come home and you are on your aeroplane on the way home you suddenly think, "I had a very nice time over the weekend but everywhere I went I paid". When you start thinking about London, you start thinking, "I go to the museums and I can go free. I can go to the galleries. I can go to the libraries. I can go to 137 museums in London and I can walk round free for a weekend, and I check into a hotel and there is no additional tax bar the Value Added Tax (VAT) component of it". It did not feel quite right and when one starts to look at other cities around the world, London almost seems to be the only city effectively that is not picking up taxation or a component to it.

I sit on the boards of the Tate and the Design Museum, and everywhere we are looking to raise money continually because the museums are open and they are free for people coming through the gates. We tabled the idea among a group of people and as the group of people got bigger and bigger, everybody kept coming out with the words, "A brilliant idea", in terms of: why do you not pick up the hotel guest, effectively on a voluntary basis to start with, and identify circa £2.50 per guest per night. If one was to run that sequence through - and I think you have seen it in the report - if it was across all hotels in London, of which there are 137,000 bedrooms, it would deliver £100m a year; £100m a year over ten years' time, is a serious amount of money coming back. We went round a number of hotels in the West End, circa 30 hotels, and the mood from the hotels was incredibly positive because, if we take The Connaught as an example, the Connaught's reply was, "We would encourage this and we may even pay it personally, as opposed to ask the guests, because we feel the hotels are there providing a facility for people to enjoy the culture or the exhibitions of London". That was a very important statement in terms of hearing what some hoteliers will say, "We do believe we provide a service".

If it was across all hotels then there would be the British Hospitality Association (BHA) or whoever coming forward saying, “We would be anxious at the £70 to £100 bracket”, but at the top end of the bracket it was almost like everywhere we heard, and it has not been coming from one person, “It is a brilliant idea in terms of trying to deliver something for London”. Currently there are 18 million visitors coming to London on an annual basis. They are sort of walking the streets, sort of walking free and it just does not feel quite right because if somebody knew they were specifically going for something, as opposed to just a general pot, it is a different matter. The idea was that the Business Art Foundation, and it has been formed, was to be the giver of the amount of money coming in, so there would be a grant allocation in terms of if people wanted to - I will make it simple - put an exhibition on, for example, in Regent’s Park of Henry Moore’s [English sculptor and artist] and that needs sponsoring, then the sponsorship money would come from this particular grant facility and, therefore, there would be another exhibition in London for people to enjoy and so the money would be circulated around effectively.

Professor Tony Travers (Chair): This is absolute hypothecation?

Charles Rifkind (Trustee, Visitors’ Art Foundation): Yes.

Professor Tony Travers (Chair): I am not criticising. I am just checking. OK.

Charles Rifkind (Trustee, Visitors’ Art Foundation): If you follow that through, wherever we have been with the story it is like, “Why is it not in place? If all other cities in the world are effectively charging, why is London not charging?” The mood has been for the last 25 years for museums not to charge. The Government policy is: there is an allocation of funding. We would not want this money to be a reduction of money going to the museums from the Government. It would effectively be a contribution or an additional amount from London to grant back out of grant allocations for museums to put on or to host other cultural events, and one would widen that in terms of not just cultural events but in sponsoring artists remaining in London in terms of components because artists cannot afford to stay in London at the moment and they are moving into other districts.

Nicolas Kent (Trustee, Visitors’ Art Foundation): We are very much dovetailing it with the Mayor’s cultural initiative and we are trying to focus it mainly on creating job opportunities for people as well, thinking outside the box and getting into the outer boroughs very much and developing opportunities there.

Bob Neill MP: Charles, you talked about it in terms of a voluntary approach as one way of doing it. If it is a voluntary approach, who actually administers it and to whom are the people who expend it accountable and how do you then make that work if it is a city tax as in New York where it is different?

Charles Rifkind (Trustee, Visitors’ Art Foundation): The voluntary component is very much the smaller revenue receipt, naturally. You are dependent upon people ticking the box in the hotel. Of the 100% of guests coming into the hotel, you might get 40% or 50% ticking the box but if they are there five or 10 nights they might not tick them so much. The hoteliers would like to be seen to be doing all the same thing together, so in a sense it is like the very positive response from hotels, but it would be wonderful if the City took on almost like the responsibility in terms of it was the Mayor's direction in terms of what was coming forward.

Bob Neill MP: That must mean that the members could administrate or must have accountability for it, because it is public money and so it has to be a publicly accountable person who is responsible for expenditure.

Charles Rifkind (Trustee, Visitors' Art Foundation): Absolutely. At the moment we have a set up but that would have a board representation from the Mayor's office in terms of playing that out in terms of public responsibility; absolutely.

Bob Neill MP: Thank you.

Nicolas Kent (Trustee, Visitors' Art Foundation): There is also a problem with the opt-in and the opt-out, and we have to resolve that. That has not been resolved at Treasury level. Nobody quite knows what that legislation means at the moment. We were hoping at the very least that could be clarified for charitable purposes.

Bharat Mehta: Maybe you have answered this but you are assuming that this is additional money?

Charles Rifkind (Trustee, Visitors' Art Foundation): Yes.

Bharat Mehta: Why would it not be a pound-for-pound cut from central Government?

Professor Tony Travers (Chair): Yes, I saw that. Would the Government not simply cruelly cut the money from these institutions, pound-for-pound? How could you guarantee that they would not do that?

Nicolas Kent (Trustee, Visitors' Art Foundation): There are ways of doing it. You make it additional. You make London much more attractive. You make it more attractive in outer boroughs by doing a lot of these initiatives and you develop things. You could also make sure that the British people -- now that this is the one opportunity Brexit has given us, before you could not say to a British person, "You do not need to pay this" and then a French person could have said, "Well, I do not need to pay it either because of European competition rules". Once we leave the EU, anyone who is already supporting museums through their taxes which they effectively do through central government can opt out of this and would not need to pay, so it could only be for overseas visitors, so that would at least clarify that very much.

Bharat Mehta: It still does not answer my question.

Professor Tony Travers (Chair): If you are in outer London, though, if you are saying that I can see that to answer Bharat's question - and indeed my question - if it was new things in outer London it would be much harder for the Government to cut it, than if it was an extra thing in Regent's Park or funding existing museums and galleries, would it not? You see the point (Overspeaking)

Nicolas Kent (Trustee, Visitors' Art Foundation): Things like workspace being sponsored by museums for artists, say, way out in Barnet or somewhere like that, so that you actually could subsidise workspace, you could help creative artists and curators working in different areas. A lot of work could be done and its focus could be that it is London-wide and it is trying to refresh the parts of London that visitors on the whole do not visit, and give more access to Londoners to those sorts of museums. Also there is the wear and tear that the museums are getting, by more and more tourist traffic, that they are needing to use their main funding for and, therefore, they are not enabled to experiment and innovate in the way that they might want to.

Bob Neill MP: I am just thinking how it works. Suppose I run a smallish hotel in Bromley and I have a foreign visitor who might come for business purposes, they are unlikely to be a great gainer by the additional cultural benefits, either in Bromley or indeed in the West End. What is in it for them and is that potentially a bit of a disincentive, particularly at the smaller end of the hotel sector? How would we manage that?

Professor Tony Travers (Chair): That is in your old hotels model, I am assuming.

Nicolas Kent (Trustee, Visitors' Art Foundation): You could find initiatives between, say, the central museums, like the Victoria and Albert Museum **(**V&A) or something, who might want to put an exhibition in Bromley with a museum based in Bromley or a park in Bromley or a building, so that generally you would work on collaborations to try to spread the central art out to the outer boroughs. I think a lot of good initiatives could come that way and they would be very good for the local people as well as for tourists.

Professor Tony Travers (Chair): Can I ask? Would your all-hotel scheme, would you imagine, embrace Airbnb?

Charles Rifkind (Trustee, Visitors' Art Foundation): Yes, and cruise ships.

Professor Tony Travers (Chair): And cruise ships?

Nicolas Kent (Trustee, Visitors' Art Foundation: There is a huge income to be had. A lot of cruise ships dock out of Greenwich and there is quite an income to be had from that.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): Also Tilbury.

Nicolas Kent (Trustee, Visitors' Art Foundation: Yes.

Bob Neill MP: Then you have a problem because Tilbury is outside the boundary.

Nicolas Kent (Trustee, Visitors' Art Foundation: Yes, Greenwich is not obviously.

Bob Neill MP: Yes. How do you actually make this work in the context of a traveller going into London, which does not respect the boundary?

Professor Tony Travers (Chair): It depends. If it was voluntary, I suppose you could do it.

Bob Neill MP: Then you could do it anywhere.

Professor Tony Travers (Chair): You could do it. If it were London --

Nicolas Kent (Trustee, Visitors' Art Foundation): If it is compulsory then there is not a problem either because if you are docking within the greater London area then you pay the tax, pay (Inaudible) too.

Professor Tony Travers (Chair): Sue, do you have anything to say about this? I suspect your smaller members, where they are hotels, would be less enthusiastic about this kind of scheme - I am not putting words in your mouth here - than some of the larger hotels might be. Do you detect that?

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): We had a mixed reaction to it because obviously we have heard that this was being discussed and it has been mixed. Some of the high end small boutique hotels are very similar to you. They are almost saying they are swallowing the cost within their own charge rate. The problem we have is the much smaller hotels where it is the working man who is coming here, the salesman that comes down and stays for a week or so, that only comes to do his work. He virtually eats in his room to keep the costs really low. He does not go out. Those are the hotels that say they are fearful that those people will stop coming down --

Nicolas Kent (Trustee, Visitors' Art Foundation): But it if it only overseas visitors then that problem is solved.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): That would be fine. That is solved. We would be very much that it would have to be overseas. The last presentation we got from London and partners before I left the LEP was that there is a vast majority of people that come to London that are UK-based rather than overseas, and that is what I would not want to stop because then that just reinforces this negative attitude of London being expensive. If it is only overseas they would be much more willing.

Nicolas Kent (Trustee, Visitors' Art Foundation): Then it is clearly additional money and begins to answer your point, Bharat, too, that because it is coming in from overseas visitors it is helping the cultural institutions London-wide and it is dealing with some of the costs that they have to absorb through wear and tear.

Charles Rifkind (Trustee, Visitors' Art Foundation): We are seeing since Brexit, a significant drop in the currency, as I said earlier, and that will encourage even more people to probably come to London in the next two or three years, and they are still walking round free on a cheaper entry price without picking any component of it up, but what we will probably see is hotel prices moving up to try to take that into account. We will probably see probably an element of inflation, which you probably all know better than I, but in terms of kicking in on every front; on every front.

Professor Tony Travers (Chair): I do not know if there is anything that we have not raised so far, which you think that a Commission of the kind we are ought to be looking at or thinking about as we move forward to writing a report about the possibility of further devolution? Any key messages that you would like to --

Charles Rifkind (Trustee, Visitors' Art Foundation): One thing I would add is that, if you identify any of the other cities around the world - it is almost all the other cities - there is a component of a city tax. It seems odd that London, where we have so many visitors, is not identifying that this is an area we wish to go.

Gerard Lyons (International Economist): The general public always like the idea of taxes going down. They do not like the idea of new taxes, and it is important that devolving power is not seen as another way of just taxing people. Therefore, people have to be seen to benefit directly. Clearly, you have addressed all the issues but post-Brexit? I personally thought that your first report was very good indeed. I am not just saying that because I am in this room here, but the question naturally to be asked is: how would it change post-Brexit? Nicholas talked about some opportunities in his area, and the second thing is obviously, given the Government's agenda or apparent agenda, how London interacts and co-operates with other parts of the country and so it is not us versus them or London versus the others. They are the key issues.

Nicolas Kent (Trustee, Visitors' Art Foundation: One very small point for the cultural sector in general, there will be huge costs, post-Brexit, for any collaborations with foreign artists which happen all the time. That is going to be a cost and I do not know how you defray that or whether there is any way with devolution --

Professor Tony Travers (Chair): I am not disagreeing with you but why would it be much different than now?

Nicolas Kent (Trustee, Visitors' Art Foundation: Work permits for anyone who comes and the whole bureaucracy involved in it is very costly. That is definitely going to happen I would imagine.

Professor Tony Travers (Chair): That is presumably already the case for visitors from America or China who (Overspeaking)

Nicolas Kent (Trustee, Visitors' Art Foundation: Yes. But on the whole, for instance, the whole theatre industry is predicated on free movement of labour throughout Europe. It is going to have a huge imposition on the difficulties they are going to have and costs.

Professor Tony Travers (Chair): Although we are not a commission on the future of how labour - I will put this as carefully as I can - how businesses in London acquire, retain and successfully drive up the productivity of labour, clearly is important to us indirectly because if that is not got right then the idea of a growth model is harder to sustain, although it is a helpful thought. That is good.

Sue Terpilowski OBE (London Policy Chair, Federation of Small Businesses): Just a couple of points. One is that from the micro and small business point of view, the cost of being a London business is significantly higher in London than in all the other major cities and, therefore, anything that keeps rising that cost actually makes London less attractive for them to be here. They are now getting to the stage where they are much less profitable, so you are talking about productivity but actually profitability of London businesses are now seriously being hurt. 35 - 36% increase in business rates this week hitting London businesses. That is a hard cost coming straight out of the business and they cannot put it on to anybody or on to their costs. Each time these costs come in it does hurt London businesses and makes them less fair than other businesses.

The other thing is business rates. Whereas we actually back business rates coming to London we are just very mindful that it is not seen as a cash cow and that there are real checks and balances in there that micro and small businesses still get some form of relief and are helped. Otherwise it will make London very unattractive to micro and small businesses and then the ecosystem will all go.

Professor Tony Travers (Chair): Just to reassure you - and both Gerard's wise words - we are most definitely going to signal that this exercise is not about putting up the overall tax burden; and secondly, as LFC1 carried with it this implication - and Gerard mentioned the Merle's review - it is amazing how little of the wise words of the Mirrlees review were carried through into modern tax practice. London's Government might just think more about the operation of things like business rates and whether they are fully appropriate in the way they may have been in the past. The whole way in which business tax operates in the UK is well beyond our purview, but this bit is within our purview and that question is inevitably begged at the point there is devolution, and it would be much easier for London business to make the point at that point. Yes, Charles?

Charles Rifkind (Trustee, Visitors' Art Foundation): I would like to just finish by saying I would not mind if it considers the taxation point. I would like it to be seen as a consideration of a cultural contribution in terms of how it is perceived in terms of it is putting back into society in central London. We have identified a £2.50 threshold, which delivers £100m. If this was a 2% component or even more, and you added the Airbnb, it goes considerably beyond the £100m band and so it is a significant amount of contribution that could come in and I think the timing at the moment - probably from many fronts - is almost perfection.

Professor Tony Travers (Chair): OK. Thank you all very much. Thanks for coming and for giving us your time. As I say, we will be producing an interim report relatively shortly and a final report towards the end of the year or the beginning of next year, and if you have any other evidence you would like to send into us or any work on the impact of the business rate revaluation, do let us know but, otherwise, thank you all very much.

(Adjournment)

Professor Tony Travers (Chair): Thank you all. I should say first, Enid, can you hear and see what we are doing and indeed where I am? Can you hear all of this?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto) – by skype: Yes, I can, thanks.

Professor Tony Travers (Chair): Excellent. What I am going to do first is just to go around the table, for everybody's sake. Why do I not start with you, Enid? Welcome from Toronto, which I am assuming is where you are. Can you just say why we have asked you, who you are and what you do very briefly? We will go around the table for everybody else then.

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): Thank you very much, Tony. My name is Enid Slack and I am the Director of the Institute on Municipal Finance and Governance at the Munk School of Global Affairs at the University of Toronto. We do work on the fiscal health of large cities and ~~state regions~~ here in Canada and ~~also~~ around the world. Three years ago, when the LFC was ~~first brought into being~~, I did a paper on comparing London's fiscal autonomy to that of six other international cities. I have redone that study and updated that study for this version of the LFC as well.

Professor Tony Travers (Chair): Great, thank you very much. I must say that I use that table relentlessly. It is a brilliant table, if I can just say that, well beyond the confines of the LFC. Akash?

Akash Paun (Honorary Senior Research Associate, Institute for Government): My name is Akash Paun and I am a Fellow of the Institute for Government in London in Westminster, which many of you may know, a think tank that works to improve government effectiveness in the UK. I lead our work on devolution. My focus has mainly been on devolution to Scotland, Wales and Northern Ireland, but it is very good to be engaging in this debate on the future of London as well.

Professor Tony Travers (Chair): David?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): I am David Phillips. I am a Senior Research Economist at the Institute for Fiscal Studies, which is a research institute based in London. I lead our work on devolution in local government finance, traditionally more in Scotland and Wales, but we are setting up a big new programme on local government finance in England starting off later this month, and also did some work on the EU inside the EU work programme.

Professor Tony Travers (Chair): Good. It is nice to see you. Sean?

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): Hello, all. I am Sean Nolan. I am the Director of Local Government and Policing for the Chartered Institute of Public Finance and Accountancy (CIPFA). My background is heavily local government at treasurer level, but also a number of national roles as a result of that. The policing bit reflects the fact that I have quite a lot of experience around police financing and also some national representative roles in that capacity as well.

Professor Tony Travers (Chair): David, would you like to say --

David: David, the Secretariat here at the GLA.

Professor Tony Travers (Chair): Thanks. I am Tony Travers from the LSE and I am chairing the LFC, too.

Jeremy Skinner (Head of Economic Growth, Greater London Authority): I am Jeremy Skinner from the Economics team here at the GLA. I am leading the Secretariat.

Dr Nick Bowes: My name is Nick Bowes. I am the Mayoral Director of Policy here at City Hall.

Bharat Mehta: My name is Bharat Mehta, Director of Trust for London. We are a grant-making body in London.

Len Duvall AM: My name is Len Duvall, a London Assembly Member and representing the views of the London Assembly on the Commission.

Professor Tony Travers (Chair): I feel I should say, Enid - and I meant to say this earlier - that we are a bit male-dominated today, to put it mildly, and I need to observe this because the Commission itself has something of a gender balance. It is just a self-selection issue today. Thank you for helping us with this from across the Atlantic.

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): My pleasure.

Professor Tony Travers (Chair): Not only that, obviously, and so thank you very much. I would like to open by saying a few words, as I did with the previous two sets of witnesses.

As you said, Enid, the previous Mayor commissioned the LFC in 2012, which reported in 2013. It made a case - radical by UK standards but modest by international standards - for devolution of, in this case, property taxes to London's government. At the time, we did not much look at service devolution, if I am honest.

In the interim, Scotland and Wales have had substantial - either proposed or in some cases real - devolution of tax-raising powers, including in both cases income tax, not quite implemented but soon to be. I know David [David Phillips, Senior Research Economist, Institute for Fiscal Studies] has done a lot of work in Wales in particular; he and I met there not so long ago. Beyond that, in England there have been further moves towards city, regional and other county/regional devolution. The whole thing has moved on and the newish Mayor, Sadiq Khan, has reconvened the LFC to look at these issues once again.

Professor Tony Travers (Chair): What I would like to begin by asking of our witnesses is how far you think the UK's vote to leave the EU strengthens, weakens or indeed has no impact on the case for devolving further powers to London. Akash, you looked enthusiastic immediately and so I have caught your eye.

Akash Paun (Honorary Senior Research Associate, Institute for Government): Sure. It is an interesting way of phrasing the question. The vote to leave the EU does not affect the material case in favour of devolution in particularly substantial ways. There is a very strong case that you have made in previous reports of this Commission simply based on the fact that we still have a very centralised fiscal constitution.

What the vote for Brexit does is provide a more favourable context to be having this debate and potentially opens something of a window of opportunity for London and other parts of the UK to re-examine the devolution arrangements. Clearly, there is going to be a big debate about issues such as to what level of government powers being brought back from the EU should be transferred. I have been up in Scotland recently and certainly they have their eyes on certain prizes of policy areas, currently highly Europeanised, that potentially will be fully devolved.

There are big questions for the UK Government about what will replace EU regulations and there is debate about if we are going to withdraw from the European single market. What do we need to do to ensure that there is an effective UK single market? Or to what extent will regulatory powers around things like state aid and employment regulation, work permits, all these kind of things, as well as fiscal powers be devolved and will there be potential for divergence? Then of course there is this debate about what happens to EU budget streams and that is obviously a major concern for devolved governments, local government and London in different ways.

What we are expecting now is quite a major reopening of the territorial constitutional settlement in which there will be an opportunity for London and other sub-national governments to make the case for further powers.

Professor Tony Travers (Chair): Thanks, Akash. David?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): I would echo that it does not really affect the principled case for devolution. It does change some of the things that can be on the table, the ones that Akash mentioned there, and it changes the types of taxes that could potentially be devolved. There are EU rules which prevent the devolution of indirect taxes in the UK. It is a lot harder to devolve VAT to a city than it is to devolve a United States (US) style sales tax, but potentially that is an option on the table that would not have been there before.

It also might change it if we think about devolution in a slightly more mercenary way as well from a London perspective. Over the last 15 to 20 years, London revenues have grown substantially faster than the rest of the UK. There could be a question of whether that would be something that would change post-Brexit.

The way that devolution has been working in Scotland and Wales, at least so far, and the way it was discussed in the last Mayor's Commission, is a lock-in effect at the start. If you start in a period where your revenues are relatively high and you do less well in the years ahead, you end up losing out. If you start from a position where you are relatively low, you end up winning.

Depending on what impact Brexit has on London versus the rest of the UK's economy, it could change whether this is from a purely 'win or lose' point of view, a good or bad time for London to go towards devolution. It could have impacts on that kind of thing.

Akash Paun (Honorary Senior Research Associate, Institute for Government): Yes, is there a risk London is buying at the top of the market, so to speak?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): Yes.

Professor Tony Travers (Chair): That would undoubtedly affect the way in which the starting off, 'nobody gains or loses' arrangements were negotiated as happened with the Barnett formula for Scotland.

I will come to you last, Enid, just to allow you catch up on the domestic stuff here.

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): No problem.

Professor Tony Travers (Chair): I thought it would probably be helpful to you if we went through the UK witnesses and then came to you to give a global view on this. Sean?

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): Chair, just a slightly teasing comment on the back of the last comment; it presupposes the rest of the country is not watching what is happening in London. I will come back to that later because there must be some definition of "stability" in all this that is worth unpicking.

Brexit and devolution raises something around a potential change in value judgements. Let me just unpick that for you. I know it is very dangerous to interpret too closely what happened in a sense. Intuitively, part of the analysis is that you have a whole swathe of people who felt either emotionally, economically or socially alienated from something that has that crude generalisation. Whilst the headline devolution feels like it could be a methodology to help solve that, I cannot help thinking that the terms of trade need to change. At the moment, devolution as a piece of machinery/architecture has the trickle-down growth effect as being in its prime. I cannot help thinking that, as it currently stands, would have solved that alienation problem.

I was born in Manchester and proud of it and I was born one-and-a-half miles from the city centre. The ward I was born in voted 90% or something Out and half a mile or three-quarters of a mile into the city centre, it voted In. So Greater Manchester in the scheme of maturity in English local government would claim to be a relatively mature devolution context. I cannot help thinking that the terms of trade as to what devolution means post-Brexit will change.

Also, the other potential change on the ground is this bit that I was jokingly teasing David about: let us hope the rest of the country is not watching. It changes potentially a value judgement about the extent of allowable divergence in spending power of a local capacity between areas. That could have an impact on the value judgements around the nation's comfort in a particular area's capability of growing a lot faster than others because of what it plays into in terms of that alienation point.

Professor Tony Travers (Chair): Very good. I am going to ask my colleagues to come back to all of you.

Enid, I can see that you are in a slightly different - arguably better - position to make a judgement of this kind. You can watch this Brexit vote from outside the UK. Given what you know about other cities in the world and other big upheavals that have taken place, would you judge that this does move us to a direction where devolution is a more rational policy or actually safety first would mean the opposite?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): That is a good question. With or without Brexit, there is a strong case for local fiscal autonomy for cities like London. We know that the governments that decide what expenditures they are going to make and then are responsible for raising those revenues to meet those expenditure requirements tend to be more responsible and more accountable to taxpayers.

There is literature that suggests that when local decision-makers use their own resources rather than central Government resources, there is some evidence that that facilitates local spending control. There is ~~just bearable~~ government when they are responsible for raising the revenues that they are spending.

Fiscal autonomy also gives cities flexibility to respond to things like Brexit, ~~so~~ changing economic circumstances, changing local circumstances, changing demographics. There are a whole lot of reasons why local fiscal autonomy is important. I love the property tax. I have written a lot about the property tax and it is a great tax for local governments. However, it can never raise the kind of money that cities need to deliver the services that they deliver. ~~There is~~ a broad range of services; some ~~will be distributed~~, some like private goods. It is never going to be enough. It is politically contentious everywhere in the world so cities need something else.

London would benefit from having greater local fiscal autonomy similar to the other cities that we looked at in our study. In terms of Brexit, we really do not know what the impact of Brexit is going to be. Maybe you do over there; I certainly do not know it here in Canada.

Professor Tony Travers (Chair): That is all right. Nobody here knows either, do not worry.

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): There are a lot of things. It may mean that it is harder for London to attract skilled workers and international students, and they may need some tools to be able to do that, both expenditure tools and perhaps some tax policy tools as well.

The case is certainly not weakened by Brexit and it is strengthened in terms of the need to be able to control your own destiny. I suppose one downside is that from a central Government point of view, the greater autonomy it gives to London the less able it may be to redistribute resources to the poorer regions of the country because it will not have enough resources to do that. That may be more of a problem post-Brexit than it was before.

Professor Tony Travers (Chair): Great. Very good, thanks very much. Would any of my colleagues like to --

Bob Neill MP: Can I just pick up on Sean's point about allowable divergence and what you think that means in practice? Does that mean on the one hand you might say that, if you want people to be more connected, you should allow more divergence or does it on the other hand say we actually ought to be adopting a more centralist approach to make sure that we are not left out? How do you see it working?

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): These are judgement calls and Enid's last point is a point that I was trying to make, which was the value judgement may change about what the society of the moment feels is a reasonable balance.

In terms of allowable divergence, what I find myself reflecting on is, if I look at London as a capital, I can articulate to myself a number of particular needs it has around infrastructure, realities to do with being the capital city and realities to being the powerhouse. Equally, in London its citizens and residents also operate in the same space as other citizens and residents around access to vital local government services.

The challenge that Brexit potentially unearths is if this kind of devolution ends up with a situation with those common vital services, you have the potential for a greater spending power on those because you are the capital city rather than any other reason.

Professor Tony Travers (Chair): It extends the postcode lottery problem. Is that what you are saying?

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): Exactly. There has also been a postcode lottery and so none of us are pure about this but I am just thinking that that is what I think, not that you go back to being centralist. You have to have incentives and a degree of redistribution. Over time, there could be a nervousness in policy-making nationally, not the types of things where a case should be made for London around the capital infrastructure, but these common vital services. That is not the postcode lottery but what is ultimately a not unacceptable divergence in spending power nationally across the piece when it comes to local government services. That is what I was alluding to.

Bharat Mehta: To what extent should we be emphasising in the report that the picture that a country has is not necessarily the one that actually prevails? London has cheek-by-jowl poverty, a higher level of poverty than anywhere else, etc.

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): I completely agree. To me, that is a slightly different question in the sense that one could stress test the profiles. You could become comfortable, not that you are narrowing to a common position but that you understand what the impact is generally. I repeat that that to me is a value judgement. Somebody in a position of authority will be comfortable with whatever that looks like. That is the point I am making.

Professor Tony Travers (Chair): Can we take that to the other witnesses? The divergence, local decision-making and capacity to have different services in different cities - or in Canada from province to province - is normally seen as just what happens when you have some local control. Let us stay within England for a moment. Scotland, Wales and Northern Ireland are somewhat different now. We can never escape the idea of trying to have everything the same everywhere. David/Akash, is this a sort of British cultural attribute that somehow makes localism of any kind virtually impossible? I hope not.

Akash Paun (Honorary Senior Research Associate, Institute for Government): It is not a British cultural attribute. It is interesting. Opinion polls on desire in Scotland for further powers will sometimes find completely inconsistent things. Yes, Scottish people support devolution of income tax or control of benefits and pensions; no, they do not want those rates to be any different to those in England. You get that kind of cognitive dissonance if you try to work out exactly what the public want.

The point I was going to make though in response to the previous exchange is I think this is almost a sort of political positioning issue for you and for London more generally. Yes, there is potentially a risk that any campaign for greater fiscal autonomy or fiscal devolution to London will be seen as an attempt by London to want to hoard resources and not contribute to the national pot, not support parts of the country that voted for Brexit and that kind of thing, the issue that was just referred to.

Obviously, it is clear in the principles and the recommendations of the 2013 report - and as I understand it, is the starting point again for your work - that at the start of any new fiscal settlement, there will be a fiscally neutral impact. That is something that people will not initially quite get so there is almost like a public and political education side to this. What the recommendations are seeking to achieve is to localise certain fiscal levers so that London can hopefully grow faster in future and make a greater contribution than it already does to the national Exchequer. The case is not, “Look, London is responsible for 30% of national tax revenue. We should be able to keep all of it from the start". People will struggle to understand that at the outset.

Len Duvall AM: If we go back to the original report of 2013 as a starting point and the arguments Enid made well about the flexibility to be able to respond, in the new era we face post-Brexit, it comes to me about whether more of the same is going to work for this country. Can we do it more efficiently in that sense? The overarching issue is about growth or maintaining the economic situation where we are, bearing in mind that that will go in peaks and troughs.

Are there any issues that you could suggest for us in terms of the UK contribution or any evidence around that we might want to consider where devolution can help in terms of making sure that, as we think it is a new era - and there is that different challenge for this country - therefore London has to respond to that challenge because of its unique situation in terms of the contribution we make to the rest of the UK, as well as deliver for ourselves about growth? What could those levers be? What could a new settlement be that reassures those people in the executive at the centre that this makes sense for the UK and makes sense for London? Are there any international issues around that? Are there any things that you have come across that you think on devolution may be the case in terms of the challenges we face?

Professor Tony Travers (Chair): Can I address that to you, Enid, perhaps first? Growth is clearly important now and is important looking forward. From your international research, do you think that, as Len has just asked, growth or the potential for growth would be improved by a greater devolution of tax-raising power?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): ~~I do not think there is much literature on that.~~ There is some literature on the importance of large cities to the economies of countries so if the large cities are thriving, the whole country will benefit from that. ~~There is not really anything on devolution of taxes to large cities and what that means for economic growth.~~

It does give me the opportunity to make the other point that we raise in the paper. That is that compared to the international cities we looked at - I am sure if we looked at more, the conclusion would be the same - London has very little local fiscal autonomy ~~really~~ compared to the cities we looked at, Berlin, Frankfurt, Paris, Madrid, New York and Tokyo. We can add Toronto to that list. ~~**Demuro**~~(?) is complaining that we do not have enough local fiscal autonomy and not enough taxes to meet the expenditure needs.

London is at the bottom of the list by far with the council tax and now the supplementary business rates. New York has 20 taxes. I am not saying that 20 is the right number or that those are all great taxes, but it does have a lot more room to manoeuvre with those taxes. Similarly, Tokyo and all of these cities have both local taxes and shared taxes where the central Government will raise, for example, an income or a value added tax and share some of the revenues with their cities.

David Phillips (Senior Research Economist, Institute for Fiscal Studies): I would just echo what Enid was saying there. We have looked at the literature or what literature does exist on this. In the UK context, there basically is none because we have had for such a long time a centralised system, you could not look at whether decentralisation would have an impact on growth.

The only studies I am aware of that looked at this have been about the nationalisation of business rates in 1990. Some of them seemed to suggest that once it was nationalised there was a slowdown in growth in non-residential space construction. If you interpret that as an effect of the policy, it would suggest that this policy had a negative effect on development. However, other things were going on at the same time. You are not sure. Compare the 1980s to the 1990s; many other things changed.

Also, in the 1980s even though local businesses were devolved, the funding system operated in a way that changes in grants kind of compensated you if your business rates improved or not. You know the kind of movement that launched us into a national system, they did not really change the incentives. It is strange to think it would have an impact anyway. For the UK, there is not much evidence and that that is there is not very robust.

There is some evidence in some other countries and the best evidence comes from Switzerland. They have had quite a few changes over time in Switzerland, how much redistribution there is between the different cantons. What they found is that devolution of powers *per se* does not necessarily improve performance. It is where that devolution of powers is combined without having an impact on the budget of the Government. If you were to cut taxes and that was to grow your tax base, you get to keep that growth effectively. They found that when there is less fiscal equalisation, devolution has a bit more of an effect on economic performance.

That brings us back to the difficult point here about how does this play off against the rest of the UK. One way in which you can make this square the circle is say that we can devolve more powers to London but we are going to retain a degree of resource equalisation. So if London's tax base improves, a little bit of that still goes to the rest of the UK and *vice versa*. That may, as you say, still maintain this social contract with the rest of the UK by supporting the rest of the UK. The evidence in Switzerland would suggest if you did that then the impact of devolution might not be so positive for growth because it is those incentives and risks which is what actually spurs devolution to do for the economy.

Professor Tony Travers (Chair): There is a trade-off in effect between the growth potential and the --

David Phillips (Senior Research Economist, Institute for Fiscal Studies): Insurance because it is classic.

Professor Tony Travers (Chair): Yes, exactly. OK.

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): To your central question about how the future could be, how devolution could look like; it is better managing the future challenges. I do think the point around the capability at least of being much more fleet-of-foot and responsive in response to the change in circumstances is quite a strong point.

More generally on this, to me I find it always much easier, relatively, to make the case for greater devolution and fiscal devolution to London. The bit I find the most challenging is the narrative about what happens to the rest of England. I do not think that is just cultural. Just look at revaluation. You are talking about major shifts of resources and you need to have a narrative.

As I say, personally and intuitively I get completely the case if it was just talking about London as its own. It is now so interrelated, both philosophically but also economically with the rest of the country. If I come back to a positioning point, it is really important to think about the narrative about how you are explaining the impact on the rest.

If I could just offer a cautionary note. In the four years between 2009/10 and 2012/13, just for a point of reference, business rates and stamp duty combined went up by about 88% in London.

Professor Tony Travers (Chair): The net or the yield?

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): Yield, yes, and the next highest was 25%, something like that, and one area of the country was zero. With this bit about being fiscally neutral on day 1, you still have to have a narrative about what is going to happen at year 4. You do not need to be very bright - and I am not pretending I am that bright - to actually spot that is a very obvious thing that is going to happen.

It is back to my point, if I may, Bob, about well, if you have that degree of growth in spending power - 88% compared to 25% - what is it you are saying about the differences in social equity? I do not mean the north. I do not want to be pompous and create a West Lothian question here but it could be West Sussex, could it not? West Sussex and Greater London: you could have that degree of difference and the narrative about the rest of the country is the thing that needs most work.

Akash Paun (Honorary Senior Research Associate, Institute for Government): I was not going to respond to that point directly. It was a different kind of answer to the original question. I do not know the economics literature in the way that my fellow panellists do and so I cannot comment on that.

One other way in which devolution ought to be looked at from the first principles and drive better policy-making is through competition between governments at different levels of the UK, seeking to outdo each other for political reasons, learning from each other and so on. The reforms to stamp duty/land tax are an obvious case that one can point to over the past few years where that has clearly happened. Everyone knows we had an antiquated, unreformed slab system of stamp duty that Treasury never quite got around to doing anything about until it was devolved to Scotland. Then John Swinney [Deputy First Minister of Scotland] announced fairly sensible reforms to the system there. George Osborne [MP, former Chancellor of the Exchequer] immediately felt compelled to respond and actually to undercut the Scottish Government, which then had to respond in turn.

That dynamic will not always produce necessarily better quality, of course, and there are concerns about "race to the bottom" and that kind of thing. Certainly in that case, you can see that devolution did lead to sensible reform of that particular tax.

Professor Tony Travers (Chair): OK. I am going to move on to the actual key issues we are facing here and perhaps start with you, Enid, to ask the question. Given the international evidence and experience that you have, to what extent do you think London should become self-financing? Against the backdrop of other cities and what you know from federal and unitary countries, how far could or should London go?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): Given where they are starting from, it is a long road to being self-financing but it should go pretty far and it may take time to do that.

Again, when you are reliant on other levels of government for your funding, that is not a stable source of revenue and it is not a predictable source of revenue. If central Government suddenly finds it is in financial difficulty, the first thing it does is it cuts back on its transfers to cities. It is not stable and it often has strings attached so you have to follow central Government priorities, not your own priorities. Again, you do not have any control over how you spend the money.

For ~~a whole lot of~~ reasons, depending on other levels of government, ~~it~~ is not a good way for a big city to go. Again, around the world the cities we looked at, there is always some central Government funding and an argument can be made for some central Government funding, particularly for major infrastructure that benefits the whole country. As much as possible, cities should be able to raise their own revenues, determine what they want to spend their money on, and then on how you are going to raise the money to pay for it.

I said briefly before - and let me come back to it - the importance of matching revenues to expenditure. Cities do so many different things. They do things that are what we would consider private services, things like water, sewers, garbage collection, transit, and that is where user fees come in.

There are other things they provide that have what we call collective benefits. Everybody benefits but we cannot identify the individual beneficiaries, ~~having~~ parks, policing and fire protection. That is where a property tax, maybe an income tax, comes in.

Then they do a lot of ~~redistributed stuff like~~ social housing, social assistance and the property tax is not appropriate to pay for those kinds of services. It is not the most progressive tax but income tax is.

Then the last group I would say are the things where the benefits of the services go across the boundaries ~~to the city and that may be some~~ transportation, maybe even some social services. That may call for a role for central Government.

I have mentioned a lot of services ~~but~~ a lot of different ways of paying for it and what you are doing now is largely paying for all of it out of council tax and transfers from central government. I ~~am not hearing~~ much control over what you are doing. You should go pretty far towards self-financing but, given where you started, you cannot go there tomorrow.

Professor Tony Travers (Chair): Yes. David, what about tomorrow or, indeed, a week after tomorrow?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): Can I make some more points to you? One of the first issues it raises is a similar point to what we found in Scotland. In Scotland, something that became sacrosanct in the debate about devolution was the idea of no detriment. When you devolve a tax or you take off a block grant is what that revenue is. In Scotland's case, because spending is a lot higher than revenues in Scotland, you would end up devolving all the taxes and still having a chunk of spending that needs to be funded by a central transfer. Clearly, that is not a politically sustainable position because the rest of the UK would be thinking, "You are not paying into the pot. We are giving you extra money on top".

In London's case, you would end up with a situation where all the money in London would be spent and this would be a whole chunk of revenue in London that would not be going to the rest of the country. Would that be politically sustainable in London? There is a question about if you move towards complete self-financing, if spending does not equal revenue, there are going to be some transfers involved and is that actually sustainable in a world where you are trying to look self-funding? There can be an issue there.

I should say that IFS does not have a position on where London should go in terms of the degree of devolution. This issue comes down to a question: is this about giving London extra levers in terms of policy powers; is it about giving London an additional power to change different taxes, whether it is a business nature or whether it is stamp duty or income tax. You can do that but still have the degree of tax base equalisation around the country I talked about earlier. In that case, London has powers over the revenues but it is not really self-financing but it still gives you the levers.

Or do you want to move to a system where you actually close the tax bases off and those revenues, once devolved to London, stay in London? The issue there is then that there is less insurance across the UK.

The question that needs to be answered is to what extent it is felt that London should still be contributing to a general pool and to what extent should it be drawing back from that central pool.

Professor Tony Travers (Chair): That is very clear.

Bharat Mehta: Ultimately, any fiscal devolution to London should really be attempting to address the inequalities, the differences that we have within London as well because they tend to get masked when you look at London as a whole. The evidence is there about the levels of poverty in London, inward poverty, severe child poverty, etc. In almost all of those kinds of things, you will find London probably at the top of the league.

The case is to what extent should we be making that as a case? It is about the rest of the country but it is also about equity within London.

Akash Paun (Honorary Senior Research Associate, Institute for Government): Yes. One thing I was going to add was before one even starts a debate about devolution of additional taxes to London that are currently centrally controlled, there is a huge amount one could do to more full devolve the local taxes. Council tax and business rates are counted as if they are fully devolved taxes, but they are really not within English local government in the way that they are to Scotland, Wales and Northern Ireland. That would be a starting point. If there was a great deal more autonomy to control and reshape that system, one could start redesigning it in a more progressive way with different council tax bands and that kind of thing, but without having to enter a debate about "Should we start devolving income tax and trying to close the vertical fiscal imbalance?" That is the important first step in the debate.

Professor Tony Travers (Chair): OK, let us move on. Again, Enid, bear with us on this one. You may have a view on it but it may sound as if it is less relevant. We will come back to you and another question for you in a moment.

Given the enormous reforms that are taking place or have begun to take place for Scotland and Wales, which appear to breach all the rules - Wales will have income tax powers, I think, but on the other hand clearly relies on significant transfers from UK Treasury - is this any kind of precedent at all? Or is it just so unique to the quasi-federal nature of the UK now that London cannot read anything across from it?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): I will give my interpretation of how I have seen the debate about devolution in London versus the debate in Scotland and Wales. I hope this is not taken the wrong way but at least in Wales and Scotland the devolution is really about powers of responsibility, accountability and incentives.

The Welsh Government does not necessarily expect to benefit from tax devolution *per se* in terms of greater revenues unless it actually manages to grow its revenues and change policies. It is about giving them the tools and the incentives in order to do more on the economy and do more on the revenues and to become, I guess, a more mature form of government.

The impression I have - and this is only an impression; it may be unfair - is in London a bit more of the debate is about London is not getting its fair share of the revenues that it is raising at the moment and devolution could potentially be a way of addressing that. That is quite a different kind of argument for devolution to the ones in Scotland and Wales. I am not saying it is a bad argument or there is not some kind of justification for that, but it does seem to be a somewhat different kind of thing.

Related to that, Scotland and Wales are not big net contributors to the UK fiscal position. London is a big net contributor. Centre for Studies did a study recently that over the last ten years London has gone from providing and procuring for the next 24 cities in revenue to the next 37 cities in revenue. If London had been devolved 10-15 years ago, that would have been a huge chunk of revenue out of the rest of the country.

The arguments in Scotland and Wales are different because of what is being argued for and also they are a bit different just in terms of they are not going to make that much of a difference to the UK's overall fiscal position if they are in or out. Whereas London in or out of the national system could have a much bigger impact on what is available for the rest of the country. Maybe that is fair but is a bigger issue that needs to be considered.

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): I would agree with that and I would make the point that, notwithstanding what David said, what has happened in Scotland and Wales should read across into the England reasons. For the reasons David explained, it is very difficult to then go one step further and say that creates a unique position for London. It creates a momentum for that kind of thing across the whole of England, rather than just London.

Professor Tony Travers (Chair): Perhaps I can move on to a question more directed at you, Enid, which is to do with the existing local tax base. Both the council tax and the now retained 50% of business rate are each in their way problematic, but in fact the whole suite of property taxes is problematic.

From your international experience, does the localisation or the local handling of these taxes allow greater rationality in the functioning of the base and the functioning of the tax itself? Is the actual power to run the tax devolved more in many or all cases?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): Are you talking specifically about the property taxes or are you talking about all taxes?

Professor Tony Travers (Chair): Let me give you a case in point. We have - you mentioned it yourself - the council tax which is currently based on 1991 relative property values and has never been rebased. It has a top and a bottom cap. That might be the best way of running a tax but it might not.

I just wonder whether in other cities that have property taxes, the cities themselves ever have control over the base and the operation, the actual functioning, of the tax or is it national or state or provincial that does it?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): Generally, it is the latter. Generally, where cities have property taxes, the tax base is set by the central Government or provincial or state governments. In the Canadian context, every province has provincial legislation that applies to municipal governments and their ability to raise these property taxes. Generally, the tax base is uniform across a province. In some US jurisdictions and a couple of Canadian jurisdictions, the tax base is set locally.

The issue is not so much the tax base as the tax rates. There could be a case made for why the tax base should be uniform across a provincial or national jurisdiction. What is important is that the local governments are able to set the tax rates themselves without limitations. There is not a lot of experience with that. You know the US model. You know proposition 13 and how cities in California ~~can~~ raise the taxes more than the rate of inflation when there is reassessment. There are all kinds of rules and then that tends to be the case.

It seems to me the most important thing is to have the ability to set the tax rate, more so than ~~(Several inaudible words).~~ Having said that, I see the problems with the council tax. I am not a big fan of banding and I know that the properties have not been reassessed since 1991. I do not know if that could be done better by local governments than by central Government. As I said before, the property tax is politically contentious everywhere and mayors are always running on their ability to not increase the property tax. I am less concerned about the base than I am about the rate setting ability of cities.

Professor Tony Travers (Chair): OK. We need to draw this to a close. I do not know if any of our witnesses or any of my colleagues have one final question. Yes, David?

David Phillips (Senior Research Economist, Institute for Fiscal Studies): I have one final point and I will just raise it very briefly. We will not talk about it now but one of the issues that needs to be thought about in the London context is what in the Scottish context is called the block grant adjustment. This is a point when you devolve a tax you make an initial adjustment to the funding you give because you are now raising more revenues, but then you need to find a way to index that adjustment you make over time.

That could be a very important aspect of a London devolution settlement. If everybody expects London's revenues to grow more quickly than the rest of the UK as they have traditionally, there will be a lot of pushback saying, "You are only taking it because you think you will grow more quickly than the rest of the country". You need to find a way to index it to what might be an expected rate of growth in revenues in London and if London does better than expectations or worse than expectations, they lose or gain. That could be a way of making the system more politically sellable to the rest of the country and arguably fairer to the rest of the country. It is actually London winning or losing if it performs better rather than just reaping the rewards that would have happened anyway in the absence of extra or better policy-making with devolution.

Sean Nolan (Director of Local Government, Chartered Institute of Public Finance and Accountancy): Just one point. London has a massively strong case that needs to be made around major infrastructure and how it secures certainty around that investment. That feels to me in the area of what it would be good to have mechanisms that locally give you that certainty around major infrastructure. That is a much more powerful thing to sell, so to speak, in the national context than the somewhat complicated debate about what does it mean for expectations around basic services between areas.

Akash Paun: Yes, briefly I pick up what David was just speaking about, which comes back to the comparison with Scotland and Wales. In the Scottish and Welsh debates, Scotland in particular, a lot of the case for fiscal devolution has of course been around closing the vertical fiscal imbalance or the gap between the spending power of the Scottish parliament and its tax-raising power.

The big difference between Scotland and London is, as David has just referred to, Scotland has a block grant that has no strings attached. It is not ring-fenced and it is transparent. Say what you like about the Barnett formula system, but it offers a degree of transparency in the level of spending being devolved that does not exist for London or local government, more generally in England.

Yes, one side of this debate is obviously what fiscal levers should be devolved but the more you can get towards a much simpler and more transparent system, that would be a prize worth fighting for as well.

Professor Tony Travers (Chair): Very good. Enid, before we come to a close, is there anything we have not talked about that you expected us to talk about or something like a message you would like to send us?

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): No, not really. I just reiterate from our study comparing London to the other six international cities how much more it depends on transfers than these other cities. These other cities seem to be functioning very well.

There must be a role for transfers. There is a role for equalisation. There is a role when the benefits of services within a city spill beyond its boundaries and provide benefits to the rest of the country. I am not saying there should not be any transfers, but the more London has control over its own resources, the more flexible it can be in providing services to the people of London.

Professor Tony Travers (Chair): Great. On that very good way of ending, I would like to thank you and just say one word before we finish. I do think that this afternoon's debate has made me think a bit harder even than normally. There are two issues that I always tend to run together. One is how to extricate ourselves from a highly centralised system and the other is what a good system would be if we had it. Inevitably, one leads to the other but a lot of our time we are talking about how to extricate ourselves from a very centralised system whereas what ideally we would want to be is in a better system. Then the question is: what would the better system be? I am sure that is not unique to this sphere of endeavour.

I would like to thank all of you for coming this afternoon. Enid, I would like to thank you very much for your attendance today but also for all the excellent work you have done on this subject for LFC1 and LFC2. I hope to see you in Canada or somewhere soon.

To the rest of my colleagues, thank you for all your time today and I will declare the first evidence session of the LFC over. For those of you who are coming, I will see you in Manchester on Monday morning where we are off to next. Thanks, Enid. Thank you, all.

Enid Slack (Director, Institute of Municipal Finance and Governance, University of Toronto): Thank you.

All: Thank you.