

**London Finance Commission – 10 October 2016**  
**Transcript of Discussion with Panel One**

**Professor Tony Travers (Chair):** Thanks for coming. This is the second evidence session that the reconvened London Finance Commission (LFC) has held. We held one last week in London and we are going to hold another one, maybe next week or the week after, in Birmingham. I will come back to that in a moment. All of this is on the record, the meetings are recorded and thus obviously we can talk with that in mind.

Just to do a bit of background, the LFC, which you will remember was originally commissioned by the former Mayor in 2012, and reported in 2013, proposed that the full range of property taxes be devolved to London, but on a neutral-on-day-one proposal, where in a sense this was not proposing that London would have any more resource, simply control a bigger share of its own tax base. We made very clear at the time that these were proposals designed for London, but which could equally be adopted by any other city region, or indeed area. In the meantime devolution to Scotland, Wales and Northern Ireland, particularly fiscal devolution, has gone a lot further. Separately, city deals and combined authorities and the coming of Mayoral elections next year means that the whole question of sub-national government within England has moved on a lot as well. Therefore, Sadiq Khan, the Mayor of London has reconvened the LFC, particularly after the European Union (EU) referendum result, with a view to re-examining the question for fiscal and, now to a larger extent, public service devolution, with a view to producing a report. We are going to produce an interim report this week, mindful of the Autumn Statement, but with a final report by the end of the year, or the very beginning of next. That is just by way of introduction.

Self-evidently, holding evidence sessions outside London is indicative of the fact that although this is a London Finance Commission - and we would not neither have the terms of reference, or indeed locus, to report for the rest of England, as with the first report - but in terms of everything we say about London, it would be helpful if this was seen as contributing to the case made by other city regional cities for their own devolution, so that it is not seen as a London-only thing, partly because of the common sense requirement to keep the city's coalition together, but also because if we believe it is right for London it is hard to believe an equivalent set, or an analogous set of policies would not be right elsewhere.

I should say, for the record, I said this on Friday when the same thing happened. By accident we have ended up with a room only of men, no female representation at all. This is an accident of self-selection. We have obviously both genders represented on the Commission, it is just that by self-selection we have ended up here in this slightly unusual all-male configuration today. Anyway, enough of that.

What I would like to do just to is start the questioning myself and then encourage my colleagues to join in. I mentioned the EU referendum vote, and the result of the EU referendum. Perhaps I could ask whether any or all of you feel that the result of the EU referendum strengthens, or weakens, or has no impact on the case for devolving further powers to London, or indeed to other city regions.

**Phillip Blond:** If I can go first, I believe that this is what I think might be in the minds of Government. What is clear is that the Government is now following, rightly in my view, a countrywide devolution agenda, breaking just from the idea of focussing on Manchester, which you will know, is going to be slightly more flexible in some areas around questions of mayoralty, but still mayoralty will apply for city region areas.

Where I think London has a problem is that given the post-Brexit hit that many of these areas are going to face, the Government will view London and the southeast as doing very well thank you, as having enormous resources, and they will be very reticent about questioning what they see as the redistributive engine for the

rest of the UK. I think that London and the southeast will suffer, because it is doing so well, and it is not clear from the perspective of Government that, for instance, the mayoralty in London is particularly structured well and, therefore, its relationship to boroughs. The concern really will be outside of London. The case needs to be made, and can be made, that actually the devolution to London need not threaten the redistribution effects of London, but London-only policies will not fly now, unless they have a wider political merit, unless they extend the southeast beyond itself.

Of course you will know, if you look at the recent work of Professor Phil McCann we really are three nations: there is rUK - the rest of the UK - there is London and the southeast and there is Scotland. rUK, which has productivity levels akin to east Germany, certain parts, prospects are extremely bleak, that is where the focus will be. If I was London-centred, I would need to make two levels of representation. The first is that devolution is a win/win for the rest of the country, which I think is a case that they have not accepted year end, and you would need to make, and you would need to demonstrate how. One way to go about it is the relationship of catch-up regions to frontier or innovative regions, which we are very, very bad at.

In the absence of that, you are not likely to get a hearing, unless there is also some really interesting ideas around structural reform of the borough/mayoral relationship, particularly for the boroughs. London, again, is unique because the working classes who outside of London voted to leave inside London voted to remain [at the EU Referendum]. They are your big ticket issues that you are going to need to address.

**Professor Tony Travers (Chair):** All right. If I can ask the others to come in. How would you explain the paradox that given this report will include a chart, as did its predecessor, about how centralised Britain is, the most centralised large country in the world, so all the tools are available in the core of Government to achieve equal economic growth across the country and yet, oddly, that not only has not happened, as you have just characterised it exactly the opposite appears to have happened. If centralisation is not the answer, what would be the answer?

**Phillip Blond:** It is a very interesting question. As you know, it is a western phenomenon that the Organisation for Economic Cooperation and Development (OECD) data shows intra-country divergence is now wider than divergence between nations. The capital cities everywhere are doing better than anywhere else everywhere. If you look at the Industrial Revolution, go back to the origin in the Industrial Revolution, why did it happen in the north of England? Decentred capital, lots of regional centres had a merchant class that had built up an enormous amount of money that did not go to the centre. It had decentred intellectual class, lots of inventing clubs, etc., and it had a very effective periodicals network. None of these apply now. Everything capital is centred and only seeks a centralised return, there is no such thing as regional capital anymore. Secondly, you do not really get regional innovation in the way and the scope and the scale that you need. In terms of information, this 'Google world', we are much more widespread. The real problems are to do with centralisation of capital and innovation in return. The Government will view devolution to London as yet more centralisation. That is the epistemic problem that you have. You have to show them that devolution to London is part of a pan-country devolution and is not separable from it.

What you have to come up with, and here is the difficulty, you have to come up with an analysis of why the rest of the country is drained of power and resources and how helping London can help reverse that. If you were doing a political-economic campaign for London you would need to show what is in the interest of London is in the interest of the rest of the country. That has not been done yet and needs to be done. The work that is out there is to do with links between catch-up areas and centres and it has parallels in leaders and laggards-type economies. Everywhere else is a laggard. What are the institutions we can transpose to London to peripheral economies, if I can call them that, that can push them to the innovation frontier?

**Ed Cox:** Phillip is right about that as your overarching problem and the thing that you need to address. Just in terms of the particular issues he raised about, so international comparisons, I can provide you with a list of international references that will get into that debate. You no doubt have them yourself and know exactly where we need to refer to which, if you like, explains that in crude terms the British experiment with centralisation, which has taken place for the past, let us say, 80 - 90 years, has just run on 20 years longer than in most developed nations, where they turned things around and we are now beginning to see the benefits in many of those nations of that turning things around. We are still behind the curve, and I think ultimately we will get there. I found, personally, that a very good way to play at central Government is to say, "We are just so far behind other developed nations, we really need to catch up" and they like that narrative. It works well to feel that we are behind.

I wanted to address your question specifically about Brexit and the implications of Brexit and devolution. Phillip is right, it is less going to be obvious to Government that post-Brexit, or during Brexit we should be continuing to devolve, but actually I think the case is there. We published a report on the implications of Brexit for the north of England, and we have identified eight or nine areas where we think that Brexit is going to have significant implications. If I just pick a couple for the sake of a discussion about where I think devolution now is critical, trade and investment is obviously the big one. I am very concerned that almost by proximity, but also because of loud voices and the Mayor Sadiq Khan being one of those loud voices, London's interests will be heard very clearly in a national debate about what the implications of Brexit are going to be. In actual fact, London's trade with Europe is less than the north's trade with Europe. To that extent it is much more critical that the north gets its voice heard about what happens during Brexit, rather than necessarily London. Sorry, that is not an anti-London statement, that is just proportionally this is the significance.

**Professor Tony Travers (Chair):** No, sure.

**Ed Cox:** These matters will vary from region to region so, therefore, if you have a more devolved system it is more likely that the north will be able to get its voice heard, not just in Government frankly, but in the many other nations that we have to trade with. In that case, if you take immigration as well, we are about to publish a report on the possibilities of a devolved immigration system where we could look at regional visas and look at the possibility of what exactly does the north need by way of migration, compared to London. I know, again, Sadiq Khan has talked about that as a possibility for London, so there are two areas.

Then there is a deeper, softer issue, which the Prime Minister has already recognised and is playing into very well, if I might say so, which is the cultural/social issues that are associated with the Brexit vote. If we are to characterise that as partly, I do not think this is the whole story, the general public, blue collar workers in particular, wanting to give Westminster and big institutions a bloody nose and choosing the EU referendum as their opportunity to do it, then again I think there is a message which is people want more power. Scotland has expressed that in a certain way and I think the rest of the UK is now expressing that in a certain way as well. It seems to me that giving power, pushing power down, is actually a very positive response to the Brexit vote.

**John Wrathmell:** I was going to come at your original question from more of an economic point of view, which is I do not think that the referendum result changes the economics, changes the fact that the main challenge for the UK as a whole, and particularly for major cities, is around productivity, and also then around inclusion - how do you make sure that what growth does happen, the benefits are more widely seen? I do not think the referendum result changed that fact but it did clearly put a focus on it. Also, particularly the second of those inclusion issues, and that if we are going to see economic disruption from the renegotiation of the UK's trading relations with the rest of the world then driving of productivity is going to be essential. That takes you to we have got an Industrial Strategy on the way. The key issue for both yourselves and for us in

Manchester is what role does devolution and place play within that Industrial Strategy? What is the role of fiscal devolution more widely in giving cities the tools to drive productivity and drive inclusion?

Just to give one example that has come up in a Manchester context, clearly a lot of sectors are likely to be hit, if the reduction in migration and their sources of labour change, and I am sure that is a true of the London sectors as it is here in Manchester, so that challenge is across the country, but the answer to that might well be in a locality. It is, for example, how do you make sure we have the right skills system in Manchester and the right devolved powers to then respond to those bigger Brexit trends? It is a national challenge but local devolved responses on fiscal policy but on other areas that we need to be thinking through.

**Professor Tony Travers (Chair):** Not put words in your mouth, John, do you think that in Greater Manchester and, therefore, let us assume by extension in London, that those skills policies, which precisely feed into what Ed was saying about the implication of how the Brexit vote occurred, that that would be handled better in Greater Manchester, or in London, than it would be national government doing it. Is that what you are --

**John Wrathmell:** Without getting too far into the specifics, we have a particular problem in Manchester, and I suspect it is too elsewhere, of integrating what has happened in post-16 skills, with what is happening on adult skills. Partly that is because adult skills is being devolved, or some of the funding and control around it, whereas 16 - 19 skills is not. The answer to that, creating a more integrated system which responds better to the needs of businesses is to make sure that not necessarily that the whole thing is devolved, but there is co-commissioning so that it can be integrated properly at a local level.

**Chris Murray:** Just three points on Brexit and I want to say something about the barriers to achieving this. Three things I think make this more compelling in the context of the referendum result are around competition, firstly, some underlying factors of being exposed by the Brexit vote and also a kind of crisis of confidence in democracy, particularly at the national level. Devolution, we know, is linked to the competitiveness of places. The first Commission said, "Well, actually, the evidence is a bit vague on this whether devolution increases the competitiveness of cities or not", and I think part of the reason for that vagueness is it is very difficult to find places that are in transition. Places either are historically very devolved or very centralised. There are a couple of places that are transitioning, Japan and Chile are going through these processes at the moment, and they say that this is very positive in terms of their competitiveness.

With Brexit, I am not saying that European cities are completely restrained from competing with us by the Treaty, but they will be completely unrestrained without the Treaty, and we risk leaving cities in this country with far fewer tools in the box to compete with those cities. It is not a level playing field. They have much more control over resource, taxing spend, how they direct that, much more fleet of foot in attracting business and trade and so on, so there is a massive risk that we leave our cities, including London, out of the game.

The second is that there is a set of underlying factors beneath the Brexit vote, and I am not saying that this is what entirely drove Brexit, you can see when you analyse the voting patterns across the core cities that it is very clearly linked to persistently low living standards that have fallen over the last two decades, and that attempts to deal with that have simply failed at a national and a local level, if we are honest about it. The more sophisticated mechanics that we have developed over the last few years, particularly around public sector reform, are capable of dealing with that. These are issues that are largely to do with housing, with housing costs, with low skills levels and so in within the labour market. Devolution, it seems to me is an essential part, an essential ingredient in addressing those issues. The Government knows this, they know that this has to be dealt with, so there will be a move to do that, and actually devolution is a big part of how you do it.

On the democratic process, it would be a mistake, I think it would be quite foolish to imagine that what people were voting for in the referendum was for power to be transferred from one political elite in Brussels to another in Westminster, in Holyrood or in Cardiff Bay. I do not think that was the case. A lot of politicians have got that message very strongly. That crisis of confidence, it strikes me, is largely about national politics and not about local politics and local authorities, so I think there is a big opportunity there.

Having said all of that, that falls into what I call category one of making the case for devolution, which is why is it important, what are the dynamics behind that and what are the benefits you get out the other end, because devolution is a process, not an outcome. The outcome is houses, jobs, economy and so on. The other bit of this - it struck me when I was thinking about coming here today - that it seems a very short time indeed since we were last sat around a similar table having this conversation with the LFC, with the COG Select Committee and probably some of us can remember 20 or more years ago where we were having similar conversations. Therefore, actually a huge and important task for the Commission is to really try to get to the bottom of what are the barriers that have persistently gone in the way of any of this happening over decades, actually, of arguments that have been made.

**Professor Tony Travers (Chair):** Forty years since the Layfield Report, as I keep saying to everybody.

Let me move on to a second question then, which is related to everything we have said so far. Given all the history and the barriers we have just referred to, how far do you think it would be possible for, or should, central Government devolve fiscal and other powers to English cities? How far can we go here?

**Ed Cox:** I think it is absolutely critical. The evolution that we have seen to date, and we have all had our different roles, and our way to be positive about it, because we see it as a first step in the right direction, the different devo deals and so on, is tiny compared to what we really need to do. Fiscal devolution is to me absolutely fundamental to making real sense of devolution deals that are done already. Even as we sit here in Greater Manchester, I know it is to some extent heresy to say so, but the health and social care devolution that we are seeing here is really administrative. It will be transformative in the sense of the partnerships that are being created and the changes to services and so on, but in terms of any transfer of power or funding it is minimal. It is just literally a slightly different group of people around the table making decisions.

Let us not get caught up on that. The point I wanted to make on this is that it is essential that we find a way to unlock that 20, 30, 40 year problem that Chris has just outlined. To me there are three dimensions to it. There is a technical dimension, and the technical dimension, again forgive me, I do not mean for this to sound rude, in fact I am thrilled to bits there is an LFC, but the technical dimension fundamentally has to be about how we allow fiscal devolution without London running away with the crown jewels. That is the fundamental trick that we have to try to put off. I think that can be done technically, we can find a way over a 20 - 30 year period, whereby we could see fiscal devolution to different places through different revenue streams and we would slowly but surely re-gear our nation. That is a technical task, and for what it is worth IPPR is pulling for what we are calling a Centre for Fiscal Devolution. We want to get all those players that have a vested interest, including yourselves, in the room and say, "Who's doing what? Can we not create some technical model that will show that this could work over 20 - 30 years?" That is the technical problem. Michael Lyons got quite close to addressing that. However many years that is, 15 years ago, or whatever.

There is a political problem, and I think Phillip has articulated very well what the nature of that political problem is right now, but again London is critical to that and how you get the optics right, you need to be able to do it. I think we are in a very good place of that, Brexit gives us a good excuse if we can play that previous conversation we have just had. Right, what Manchester is doing give a huge amount of credibility to a political

process. Having Mayors in place in different places will also add to that. The political thing is coming around to the right place.

The big challenge is still though the public. That for me is the third element you have to unlock. For me it is incredibly difficult to even start a conversation about tax, frankly, with the general public, because their immediate perception of fiscal devolution is going to be more tax on top of what we are paying already, rather than better spent tax, if that makes sense.

**Professor Tony Travers (Chair):** Sure.

**Ed Cox:** We need to get PR agencies and we need to get, goodness knows who, in to advise us about how do we get a conversation going about where you pay your tax and how that tax is then used. We almost have to turn our existing tax debates much less about is Government taxing too much, or whatever, but who is taxing you and why are they taxing you, should it not be somebody else who is taxing you, because that is where you want to see your services delivered.

My last comment would be to say the business rates debate, which I think will get some profile now over the next 12 months or so, because businesses are obviously very concerned about it, is an opportunity to do that, because there is, for me, a huge perversity at the heart of the business rate devolution debate. Again, huge supporter of doing it, just as a first step in the right direction, but to use business rates to pay for some really core essential public services does seem to be -- it kind of opens a question --

**Professor Tony Travers (Chair):** Like social welfare --

**Ed Cox:** Exactly, so it opens a really, really important question to people about, "Well hang on a second, which taxes are we using for what issues? Is this really logical?" It is how you get into that public debate about the use of taxes that ultimately we will need to unlock. There are three dimensions, technical, political and public opinion.

**Dr Nick Bowes:** Just to shed a bit more light on some of the discussions we have had recently with the Treasury. I had a conversation with someone quite senior the other day and they made it very clear to us that they do believe in fiscal devolution, they have always believed in fiscal devolution and they want more fiscal devolution. I pointed out to them that giving bits of the country lumps of money to pay for statutory services that are basically dictated from the centre as to how they should be run is not quite what I have in mind about what fiscal devolution is. What they find really tricky is that autonomy bit - can we allow, say London, or Manchester, to be able vary or create totally new mechanisms for dealing with problems that are specific to that area? They find that really difficult. When we were talking about one particular local tax and Jeremy [Skinner] was in this discussion, and it was a permissive power for London to have a local tax, their excuse for us not even going there was, "Well, it would be very complicated, because if you had a different tax regime there it would confuse people who were in Manchester moving around the country". It was a hotel bedroom tax actually - so that we could not do that, it would be just very complicated and nobody would be able to cope with it.

They do not like the autonomy unless there are reasons why they want to stop it happening. Just coming back to something I had also said earlier, you made this point about the rest of the country wants more power - the Scots have exercised that in various votes at the ballot box over the last couple of years. I like to think that I am Sadiq Khan's voice of the north in his office. As you can tell I'm not a Cockney, but I know from when I go back talking to people where I come from that I am not sure they necessarily want more power, but they want London to have less power. The problem we face --

**Phillip Blond (Director, ResPublica):** Which London?

**Dr Nick Bowes:** This is the thing, because actually I think when they talk about power in London they are talking about the national institutions in London. Because if you go to parts of London where actually relative deprivation is probably that you have got some of the biggest contrasting problems in the developed world in London at very close proximity, the challenges that some of those communities face are very similar to your Rochdales, your Oldhams and your Stockton-on-Teeses. And actually accessing finance from the institutions that Phillip talked about, which are now quite concentrated in London, is as difficult in those communities as it is in the north of England. London benefits from the spill-overs of the jobs of the people who work in those institutions, but actually large parts of London are still a million miles away. Actually that strengthens the case for London having a greater say over things that affect London, because the contrast, we do not all benefit from all of the great fantastic things that the rest of the country think that we benefit from.

**Phillip Blond:** Yes, I do not think what I am going to say will be welcome to you. If fiscal devolution happens it is not going to happen in the main taxes, corporation tax, income tax in London, in my view. It will rightly happen in the northwest, it happened along borders with Scotland, not that the Nationalists have varied income tax rate, but if they do, and then you have Northern Ireland's corporate tax rate.

The arguments for varying the big tax rates are much more compelling in the north, in terms of stimulating the type of economic activity that they need. Again, if the Government is interested, rebalancing this from the old Government, but the agenda is very much there, it is very clear that if you look at regions that do capture, the only regions that capture in economic history are regions that trade globally. If your region does not trade globally you are in real, real trouble. It makes sense, therefore, to talk about devolution of things like tax rates, corporation tax and income tax, on that basis.

Where one can win is in two areas - one you have already discussed on cars, hotels, these additional taxes. The idea they cannot be done is just farcical. It does not stand a moment's intellectual reflection. It is done everywhere else in the world, they have local variations. The evidence is very strong. We know this globally, that having the ability to vary and hypothecate these taxes is both -- hypothecation is popularity, we know this, and also it gives you a much needed resource. Where London should be looking, and I am sure you are, is on the type of partnerships that can be struck with business. The type of joint ventures, the type of tax increment financing (TIFs), the type of land value capture, the type of businesses that you can launch as a London entity that could be utterly transformative. Given the level of business, given the level of value that can potentially be unlocked, particularly though things like permission, it is that development of completely innovative structures around infrastructure investment that you could argue for.

What is really interesting is linking the two, which is why I mentioned them. Linking these additional taxes together with infrastructure and how you could fund them. We at ResPublica, for instance, came up with a completely novel TIF mechanism for financing the HS2 link to Manchester, which is capturing the National Insurance Contributions from employers, above trend growth, to use to fund for infrastructure. That is the devolution that London could appeal to.

Again, let me make the case. I think London is in a difficult position to get what it wants, because it is structurally recognised by all people in private that it is not particularly well designed - the relationship to the boroughs, the Mayorality, what the Mayor controls and what the Mayor does not control. There is an issue in London, in my view, with pulling powers up from the boroughs and giving it to the Mayorality. There is quite a lot of strong evidence for that. I am sure it will not be popular with the boroughs but I do not see how you are

ever going to get public sector reform across London in any successful way without that, and that is where the real gains are going to be.

What needs to be recognised is that we now have three completely divergent, separate economies in this country and what they will need and what they will get are completely different. What London has to do is tailor its asks. The only ask that I can think of where what you ask for might be granted universally is around things like taxes on cars, taxes on density, taxes on visitors, taxes on population. Where I think you can innovate, as I said, is around what you can do to help fund infrastructure. If you will forgive me, I think we have a 'red Tory' Government and we have a new regional strategy, so London has to produce win/wins for the rest of the country which, to be honest with you, is very hard to do. London, if you are really being serious, is not an engine for the rest of the country. It cannot be really, it is decoupled. You have to in some sense recouple, and what you argue for has to be part of that recoupling.

**Phillip Blond:** Very quick ironic comment, you ought to just rebrand whatever you produce as the rest of the UK Finance Commission. I am sure many of the ideas might play better for the rest of the country than they would necessarily --

**Professor Tony Travers (Chair):** We always try to ride these horses, many devolutionary horses at the same time.

**John Wrathmell:** There is a challenge for us here as cities as well to make sure that we have the capability and capacity to take on fiscal devolution as well. Proving that would go some way to answering the Treasury's concerns, although I suspect not all the way. By 'capability' I mean both the Government and accountability side of things. The ability to make informed decisions, to be accountable to the public, it builds on Phillip's point about are the right governance structures in place in London to be able to do that.

The second aspect of it is: is the analytical capability there to understand our local economies and understand the impacts of taxation and what drives revenue, so that through your governance mechanism you can then make informed decisions? All of that is important because in the end if you are taking on responsibility for tax revenues and spending and more control you are also taking on risk and you need to understand how you manage that. Take, for example, Stamp Duty Land Tax. During the financial crisis the national revenue for stamp duty fell in half in the space of a year. As it turned out the national Government had a hard enough job trying to manage the impacts of that on the national economy. If you are thinking about devolving stamp duty, are the mechanisms and the tools there and is the understanding there to be able to take on that kind of risk and to be able to respond.

**Chris Murray:** The barriers seem to fall into three different categories. The first is about scale. That is very answerable when you have devolution to Wales and economies bigger than that. Structural mechanics, which again I think are highly answerable and even in the most advanced bits of the devolutionary landscape at the moment there are pragmatic solutions to this, for example on the health and social care integration programme here in Manchester. My understanding of how that operates is that is not full devolution, the people retain their budgets, retain their organisational status and operate within a statutory framework that they are obliged to co-commission through. You could think about a similar halfway house for fiscal devolution where there might be a retention, an assignment, of part of the tax base as a first step, without necessarily the ability to vary it. We seem able to devolve business rates so, frankly, all of that can be taken care of.

The third is about political will, and the political will to do any of this. That is often, it seems to me from the conversations we have nationally and politically, to be shorthand for accountability and how you deal with that through an institutional context and institutional structure. Again, that ultimately is answerable, but I think it

would be really helpful for the Commission to take that on as a task and to provide some very robust thinking around that.

**Richard Brown:** One query is Phillip and John have both talked a little bit about the governance chapters and it does have a complex and what has been quite an accretive Government structure. It would be useful to get any thoughts, particular from the Manchester experience, any thought of lessons to be learned for London. It is something we have pondered about at various times.

The other, I suppose an observation, is we have talked quite a lot about some of the economic taxes, corporation tax, income tax, land taxes seem to be one area where London has a particularly strong case. It is not about exporting growth, it is actually about tackling the runaway housing market, for example, and London is doing particular harm to the economic prospects of the city and actually by doing so is doing harm to the UK's general tax revenues. Any observations?

**Professor Tony Travers (Chair):** I will come back there. Yes, good points.

**John Dickie:** We talked about London as a redistributive engine. In a world where the Government is very serious about trying to rebalance, and that of course requires resources, a central part of the argument we are making is that were you to devolve a bit of fiscal power to London that would align much better in centres between London, Government and business and that would result in greater growth. Of course most of the proceeds of that growth would go straight to Treasury, it would not go to London Government. Therefore, in and of itself, is that not quite a compelling argument or does it just not land?

**Colin Stanbridge:** Very quickly, isn't the real problem the fear in Government about having to underwrite? You take the Thames Tideway Tunnel, it is one of the first big schemes where you have a real business pension fund. The only reason it works is because there is an underwriting of the Thames Tideway, £15 billion, or whatever the cost of Thames Tideway is. The real problem is how we convince Government that we are not going to screw it up - Manchester is not going to screw it up, London is not going to screw it up and actually they will have to come in and pick up the pieces. Is that not the basis of what they actually fear? History has shown them that maybe that will happen.

**Professor Tony Travers (Chair):** They are all very poignant, so let us try to pick them up now from the other side of the table. You were waiting - try to keep it short.

**Phillip Blond:** To John's question. If George Osborne was still in power he would nod vigorously at what you said, but he is not and they are not going to. The reason they are not going to is growth tends to stay where it is, redistribution by the state has been relatively a failure. What is interesting is I agree with you, if London creates this surfeit of growth it can do something really interesting. Actually, economic development suggests that what we need is partnership-type institutions between that growth, between the excellence that London has and the excellence that other places lack, curiously you are going to see a return to something like Mitterand-type decentralisation in this country. That, arguably, has been a great success in France. The grandes écoles etc, moving to Lyon and so on.

What is really interesting is we know trickle-down does not work, we know trickle-up does not work, but partnership seems to work. Therefore, how can we use the growth that we generate in a way that is not just free market? This Government recognises the limits of that. If you add that then you will win. This is my whole point I have been trying to make is: come up with new win/wins. There is no reason that London cannot do a joint venture with a project in the northeast. That would be what would unlock everything. Then to Richard's question, what was the first again?

**Richard Brown:** It is about the governance, lessons to be learned in London.

**Phillip Blond:** Yes, I think the governance in London is completely dysfunctional. The London Assembly has very little powers and very little utility, unfortunately, even though I think accountability and transparency are absolutely vital, and I think we need to recognise that. This is most evident in public service reform. In the devolution deals, outside of Manchester nobody really has aggressively followed a successful programme of public service reform - mostly because people who work alongside each other do not like each other and do not trust each other. I come from Liverpool so I know what I am talking about!

The boroughs are not particularly effectively in terms of public services, least of all for those who most need them. I want the Mayor in London, and I will be very clear about this, to become much, much more powerful, and to have a specific remit over public service delivery across the boroughs, to precisely integrate and produce wraparound services that can speak to those people for whom public services have clearly failed. Although it is not going to happen, I would strongly encourage us to think about reform of London's governance. Again the national and international evidence is absolutely clear - this is decisive for producing the extra add on. The third question was --

**Ed Cox:** I want to just come in on that governance point, because we also have to look at the Mayors that we are creating in the cities as also being fairly weak. Again, it is a much misunderstood fact that the Mayor of Greater Manchester is what we would call a 'barely Mayor'. He will be one amongst 11 people on virtually everything that is going to be --

**Phillip Blond:** At least in Manchester they agree and like each other, but in Liverpool they veto each other. What we would really benefit from is a very powerful study on the mayors we need versus the growth --

**Ed Cox:** We only have to look to Europe to see that. This is the thing we have got obsessed with this idea of directly elected metro Mayor, whereas if you look at some of the other city mayoral -- they are very diverse. We are arguing in terms of devolution, "Yes, let's have Mayors because Mayors are very visible and so on, but let's look at the diverse models we see in other powerful cities across the world. Let's not be obsessed with the United States model and how we bring that to bear.

**Phillip Blond:** I do not agree with that for the simple reason that because we need very powerful Mayors, that is what local government needs. If you get diversity you just have weak Mayors - they are weak enough already.

**Professor Tony Travers (Chair):** Let me put a question to all of you, because it has now come up very clearly. One thing that cities elsewhere in England, and Scotland and Wales, frankly, and London, have in common is that they are always trying to get over a hurdle, which Colin has referred to, which is the sense that if this is true of fiscal devolution. It is not stated in this way, but it is by implication the issue, if the word 'devolved power' somehow it would lead to bad things, that is broadly that somehow that you can go further, and this is on the record, so I will put this carefully, that somehow, unlike other democracies the political class outside Whitehall is so weak that it could not stand the strain of taking any political power, well that is a very curious place for a mature democracy to have got to, if I can say so from the chair. Am I exaggerating this point?

**Phillip Blond:** You are not exaggerating this point. What we have to demonstrate is the centre is failing. Right? When the centre has failed to deliver, outside of London, the rest of the UK, our UK has 40% less infrastructure than the OECD average, that is what that attitude has created. For me, the imperative I would

go for on fiscal devolution is the ability for each area to essentially authorise its own infrastructure spend independent of Whitehall. That would be a really radical devolution, and almost to set capital expenditure targets, let us be really interventionist, in order precisely so that everybody is not terrified of infrastructure spending, because if you do it correctly it can be an enormous boon. The worst thing about it outside of London is that we have to go to Whitehall to do the tiniest bit of track or the tiniest bit of road. Here London can lead. Can we use London's peculiar and enormous land value market in order to hedge and create type of guarantees, so we get partnerships between localities? That would be type of win/win that for a recent industrial policy for this Government they would love.

**John Wrathmell:** I think part of the answer to your question, Chair, is to prove that the cities outside London have fully thought through and understand what they are asking for. Sometimes, particularly in the fiscal devolution debate the proposals get too simplistic, "Let's have this tax" or, "Let's have this bit of responsibility", without then being able to answer the next set of questions, which inevitably are going to come from central Government along the lines of, "Well, how would you use that power? What would happen if these sorts of shocks hit your tax system? What do you do to deal with these boundary issue? Have you thought through all the behavioural responses?" The standard, in a way, tax policy-making questions. If we as cities are able to answer those, show we have thought through the issues, show we have worked our proposals, and that is based on some rigorous analysis, it starts to answer some of that scepticism from the centre as to, "Well, actually, are these places up to dealing with the devolution of power?"

**Chris Murray:** I think there is potentially a real cul-de-sac here, which is where we have been for quite a few decades, which is receiving challenges from the machinery of Government and responding to them. Clearly that can go on and on and on and at some point a decision has to be taken. We have had that decision in a modest but significant respect with the other parts of devolution that we have seen. We have not had it with fiscal devolution, which more broadly I think would probably benefit from being termed fiscal reform.

I do not think there is one answer to that, but we need to acknowledge that there is sort of a bit of a game afoot here and playing that in detail just continues the game. One way to get out of that I think is to have an independently-designed process that allows a place to take forward something, so everyone puts their cards on the table and says, "Right, OK, we are going to do this. We are going to try to make this work. We are not asking you to produce a load more paper about this, that and the other and have a big discussion for another decade. We are going to make this work, so here is the process that will achieve that". You have a phased process, you have steps within that, checks and balances, a strategy that business is going to be brought into, the community has got to be signed up to it and so on, then you do it and you do it in a few places. I think, frankly, that is the only way that is going to be taken forward.

Someone mentioned the point about connecting the particular tax to an outcome and I think that can be really important. Culture is a really good example of this, where Government spend on culture. To them it is just a cost, because you do not get anything back into your budget from that, but to the local business community, it is transformative. Hotel taxes would be a really good way of mending that sort of fiscal fracture early.

**Colin Stanbridge:** Hypotheticated: if there were such a thing, linking the yield directly to --

**Chris Murray:** A number of events.

**Colin Stanbridge:** -- the hotel sector or the visitor sector.

**Chris Murray:** Exactly.

**Ed Cox:** Tony, can I come in on John's point about aggregate growth, because for me it is just such a fundamental issue? It frames everything that Treasury does in this respect and it feels to me that that is one of those fundamental arguments that has to be broken down if we are going to make any progress with this agenda. Of course it is, in terms of numbers on pieces of paper, true that £1 spent in London is going to generate more aggregate growth for the rest of the country and can be redistributed if that were the case. But I think the two problems with the arguments are, first of all, as Phillip has touched on, it does not naturally trickle down and neither does Government appear particularly well-disposed to making sure that it is redistributed effectively to generate economic growth elsewhere in the country. It will redistribute it to deal with problems through grants and benefits and so on, but not to generate growth, so that is the first critique.

The other critique is around this term "incentives", which I do not really like, to be honest, because I honestly do not think political leaders in the north of England get out of bed in the morning and go, "Oh, do you know what, I cannot be bothered, because I am not really bothered about my city, because I can see that all the taxes are going back into London, so what is the point of doing it?" They do not think in those ways, but what I think is the converse of that is if they were saying, "We can keep the proceeds of our growth" then there is a different kind of dynamism that goes on, a different kind of focus on whether you are actually just trying to mop up issues to do with public services or whether you are actually trying to stimulate growth. For both of those reasons, I think we have got to really challenge this notion of net aggregate growth, because that for me undermines all of the conversations we are trying to have about fiscal devolution.

**Phillip Blond:** Just two points. First of all, I think Ed is completely right on that, because if you go for net aggregate growth, you get the situation that all money must be spent in London regardless. What would be nice is to have an investment plan of 20 or 30 years, calculate net aggregate growth from that from the future we want to build, rather than the present we inhabit.

But I think the crucial point I want to pick up on was what Chris said, and I think Chris, was that not the devolution agency that we recommended in the report we did with you or something similar?

**Chris Murray:** Something similar to that, yes.

**Phillip Blond:** Which I think is the right idea, which was the idea of an independent -- if devolution is a good, if regionalism is a good, I think what Chris said is absolutely right: set up an institution that can deliver it, that does not depend always on Government liking you or not or on civil servants being persuaded by you or not

**Professor Tony Travers (Chair):** A sort of Louis XIV problem.

**Phillip Blond:** Yes. Chris has called for it independently. We at ResPublica called for it in a piece of work we did with Chris for a devolution agency, but that might be another way to make your case, which is to say, "OK, you care about aggregate growth, fine. We know devolution is an aggregate good, but you cannot deliver the aggregate, because this is all too piecemeal". They are backing a What Works centre, for goodness sake. Why can we not create an independent institution and then that would listen seriously, I think, to London's cause? It would have to.

**Len Duvall AM:** Very quickly, Phillip, I thought you were somewhat pessimistic about where Government is and what focuses London in getting fiscal devolution. In doing that, you sort of also inferred that if London does not get something and/or that we all lose out, is that still the case on the premise that even though Government may think that it wants to slow down London, "You have had your bit, London and the south-east, we are going to look at these other areas for all sorts of reasons", were you implying that you thought

that that is what they were going to do, but actually that still would not be a good idea? You then went on further to sort out the notions of partnership between London and different regions.

**Phillip Blond:** OK. Here is where you are if you are Government at the moment, you are doing regional policy. The first question is: why do we want a regional policy? We need a regional policy because the only area of the country that is doing well is London. It is not an engine, it is completely uncoupled. It is unconnected to the rest of the UK, so regional policies for the rest of the UK, that is our focus. If we feed London under the current system, no good goes to anywhere, actually it draws out talent, it draws out capital and it draws out investment. That is the problem you have to face. I think if you have got the world's most important city in the bottom right-hand corner of your country, there has got to be better ways to use it. If the limit of our ways to use it is HS2, we are poor policy thinkers and we are not poor policy thinkers.

Can we think of different forms of partnership, that if it is a good for London, it can be a good for Hull or Newcastle or Liverpool or Wales? How could that be? Let us look at business. I will be very quick. Let us look at business. Business works where big business creates and shapes supply chains that feed it. We need to start thinking in those terms, how can we produce a big product for UK plc where the dominant entity somehow creates excellence outside of itself? I think that argument and making that argument in anything from education to research and development, to design, to all the multiple excellences that you have, including, by the way, as I have said earlier, offering some of the value you have as a kind of joint venture with areas that do not have value, that I think is the type of policy that they would be incredibly excited by, if that answers your question.

**John Dickie:** Point 1 is on the earlier point about growth. I do think we all need to be very careful we do not give the impression that we believe growth is a fixed sum and it can only move around from one place to the other. But on the supply chain point, we have done some work, for example, which shows that two-thirds of the gross value added (GVA) and two-thirds of the jobs around central office London development goes to regions outside of London across the UK, from Northern Ireland through to Scotland, through the north of England. Obviously one can always do more. Is this just a phenomenon that is not understood or is it just not enough or both?

**Phillip Blond:** Or not captured. The interesting question is - and you know this - most cities are doughnuts, where the middle classes live outside and then commute in to work and London is kind of the inverse of that. I think what would really be interesting is saying, "OK, we have supply chains, but where does the benefit of that accrue?" Arguably I suspect it accrues more to the centre than to the peripheral points. The interesting thing to ask is what else can we do that would make a genuine difference and a genuine enhancement to the good we already do? If growth is not a fixed thing, and I want London to grow, right, can we use it differently? Can we build on the research and analysis that is out there? Very simply, it is global trade. Post-Brexit, what I have always not understood is that we were told globalisation will help us, when all the evidence shows that globalisation has not helped the working class and the lower parts of the middle class for the last 20 years. The real key for London is teach everyone else how to be excellent and how to trade and I think that is the win we are looking for.

**Professor Tony Travers (Chair):** OK, we need to stop. This is fascinating, great stuff. I do not want to stop; only because we need to stop. Any of our witnesses, any of you like to say anything you feel you have not said and we ought to hear?

**Ed Cox:** I simply want to share some of the reports that IPPR North has written and trust that you are picking those up and whatever, because I think we are all making a very similar case. For me, the big trick here on fiscal devolution is to work together. There are other policy issues where a competition for ideas is a really

good place, but actually this is one area where I think that to play one area off against another is inherently unhelpful. A joined-up solution where you have got the entire think-tank political community all coming together and saying, "This is what we need to do" will actually unlock some of the minds of those in Treasury who at the moment are the biggest block to the whole thing.

**Phillip Blond:** The point I would just like to make is the relationship of London as a capital to its regions, it is unlike anywhere else in the world. It is completely unique, completely bespoke and behaves in a way that is an outlier, completely different to the way other capital cities behave. What would be really useful is capturing that and thinking how it could be done differently and how one could potentially add value. I think that is your agenda.

**Professor Tony Travers (Chair):** OK, very good. I would just add in the way of conclusion I think there is a paradox - there are so many paradoxes these days - wrapped up in responding to that point, Phillip, that of course in order to be able to do what you have just described, there would need to be more devolved power. That is the weird paradox: London cannot do that, Manchester cannot do it, Leeds, any of the cities cannot do it because they do not have the self-government capacity in order to think for themselves, or not even think for themselves - they cannot act on the basis on the basis of thinking for themselves.

**Phillip Blond:** If I was your policy advocate or your strategist, I would say, "Think of a new offer to make to the rest of the country and then dig back from that for the powers you need to make that offer".

**Professor Tony Travers (Chair):** OK, thank you. I would like to thank all four of you. You are very welcome to stay if you wish. I am sure you all have jobs to go to, but feel free to stay.