

# Overview and Scrutiny Committee Supplementary Agenda

Monday, 23 January 2017  
**7.00 pm**, Committee Rooms 1 & 2  
Civic Suite  
Lewisham Town Hall  
London SE6 4RU

For more information contact: Salena Mulhere (Tel: 020 8314 3380)

## Part 1

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# Overview and Scrutiny Committee Members

Members of the committee, listed below, are summoned to attend the meeting to be held on Monday, 23 January 2017.

Barry Quirk, Chief Executive  
Thursday, 12 January 2017

Councillor Alan Hall (Chair)

Councillor Gareth Siddorn (Vice-Chair)

Councillor Obajimi Adefiranye

Councillor Abdeslam Amrani

Councillor Chris Barnham

Councillor Paul Bell

Councillor Peter Bernards

Councillor Andre Bourne

Councillor David Britton

Councillor Bill Brown

Councillor Suzannah Clarke

Councillor John Coughlin

Councillor Liam Curran

Councillor Brenda Dacres

Councillor Amanda De Ryk

Councillor Colin Elliott

Councillor Carl Handley

Councillor Maja Hilton

Councillor Simon Hooks

Councillor Sue Hordijkenko

Councillor Mark Ingleby

Councillor Joyce Jacca

Councillor Stella Jeffrey

Councillor Liz Johnston-Franklin

Councillor Roy Kennedy

Councillor Helen Klier

Councillor Jim Mallory

Councillor Sophie McGeevor

Councillor David Michael

Councillor Jamie Milne

Councillor Hilary Moore

Councillor Pauline Morrison

Councillor John Muldoon

Councillor Olurotimi Ogunbadewa

Councillor Jacq Paschoud

Councillor John Paschoud

Councillor Pat Raven

Councillor Joan Reid

Councillor Jonathan Slater

Councillor Luke Sorba

Councillor Eva Stamirowski

Councillor Alan Till

Councillor Paul Upex

Councillor James-J Walsh

Councillor Susan Wise

Overview and Scrutiny Committee		
Title	Devolution Update	
Contributor	Overview and Scrutiny manager	Item 5
Class	Part 1 (open)	23 January 2017

## Reason for lateness and urgency

The report has not been available for five clear working days before the meeting and the Chair is asked to accept it as an urgent item. The report was not available for dispatch on Thursday 13 January 2017 because officers needed to clarify the most up to date position. The report cannot wait until the next meeting because there are no further meetings scheduled for this municipal year..

### 1. Purpose

- 1.1 To provide the Overview and Scrutiny Committee with an update on progress, on the points the Committee previously noted, when considering Devolution at its' last meeting.

### 2. Recommendations

- 2.1 The Overview and Scrutiny Committee is recommended to note this report.

### 3. Devolution update

- 3.1 On the 24<sup>th</sup> of October the Committee received an update on devolution in London from the Chief Executive as part of its regular focus on devolution. The Committee noted the following views:
  - Distribution of Business Rates across London based on need should be sought
  - The London Finance report should be circulated to PAC and OSBP members when it is published, for their further consideration
  - Officers should consider the impact of Brexit on the Council and Lewisham
  - The STP should be published as soon as possible and consultation with local people commence

#### Distribution of Business Rates across London based on need should be sought

- 3.2 The Council responded to the two government consultations regarding Business Rates in the Autumn of 2016:

- (1) Business Rates Reform: Fair Funding Review: Call for evidence on Needs and Redistribution,
- (2) Self-sufficient local government: 100% Business Rates Retention

- 3.3 A Lewisham Council response was submitted to the Fair Funding Review, and the Council was a signatory to a joint response by London Councils & the Greater London Authority. The draft responses to both consultations were considered and agreed by Public Accounts Select Committee and Mayor and Cabinet before submission. The responses both referenced the need for distribution based on need.

The London Finance report should be circulated to PAC and OSBP members when it is published, for their further consideration

- 3.4 The London Finance report is due to be published imminently. As soon as it is published it will be circulated as requested to members of PAC and OSBP. An interim report was published in October 2016 and is appended to this report for information.

Officers should consider the impact of Brexit on the Council and Lewisham

- 3.5 The Government is currently proposing to introduce a Great Repeal Act which will enable a “lift and shift” to convert all law currently referencing EU Regulations into UK law on the statute books. The intention nationally is to then vary the UK laws over time based on the sovereign decisions the Government may make once the UK has left the European Union. The impact of this on the Council can only and will be reviewed in due course.

- 3.6 Detailed consideration of the potential economic impact of Brexit cannot be undertaken until further detail of Brexit, how and when it will be implemented, is known. One early suggestion was for employers to assess how many of their workforce were EU nationals and consider the possible risk if these staff were unable to continue residing in the UK. However, organisations could only do this if they have this data already available from pre-existing records: they cannot now ask staff for information about their nationality. It would also only be partial information as an individual’s circumstances and UK residency might be effected by other considerations.

- 3.7 The STP should be published as soon as possible and consultation with local people commence

The South East London STP was published on 7 November 2016, and the supporting background documents were published on 28 November 2016. The Our Healthier South East London Programme proposed a public consultation on a service variation outlined within the STP, elective orthopaedics, but not on the plan in its entirety. Consultation will take place on substantial service variations that are proposed as a result of the STP in due course.

#### **4. Financial implications**

- 4.1 There are no financial implications arising from this report: the impact of changes to business rate retention will need to be considered in due course.

#### **5. Legal implications**

- 5.1 There are no legal implications arising from this report.

For further information contact Salena Mulhere on 0208 314 3380

# London Finance Commission 2: Interim Report

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## Foreword

London's economic health is important for the whole of the United Kingdom. Almost a quarter of the country's output and broadly 30 per cent of its economy-related tax-take is generated in the capital. Any threat to London's economic resilience is also a threat to other regions. The uncertainty which has followed the result of the EU referendum is unprecedented in recent times. It means that the robustness of London's outward-looking and globally-successful economy is more than ever important to the Exchequer and to UK economic growth. There is a need for urgency as the UK is likely to have started the process for leaving the European Union by the end of the current financial year. The Mayor of London, Sadiq Khan, re-convened the London Finance Commission to assess which powers London needs to manage this uncertainty. This interim report outlines a number of policies which the Commission believes will create the conditions for London to grow.

The London Finance Commission's first report, commissioned by the previous mayor, Boris Johnson, had proposed a modest devolution of tax-raising powers to London. Under these 2013 proposals, council tax, business rates, Stamp Duty land tax and property-related capital gains tax would have been fully devolved to London's government. The proposed reform was intended to provide incentives for economic growth, to allow the more effective use of taxpayers' resources and to offer the possibility of improving the operation of property taxes.

Subsequently the government has taken modest steps towards the further localisation of business rates, though there has been no movement on the Commission's other proposals. However, in the same period, Scotland and Wales have been offered a more radical package of devolved tax powers, including the control of part of income tax, while proposals have been made for Northern Ireland to vary corporation tax rates.

In this interim report the Commission welcomes the steps already taken by the government since 2013. It is important that the work currently under way in relation to business rates and service devolution continues in its current form. The Commission is concerned with possible further improvements which could immediately build on what is currently being achieved by

the government, the mayor and the boroughs, not least to support higher rates of economic growth.

Next May, elections will be held for new city-regional mayors in several areas of England outside London. A number of the devolution deals recently struck with other localities go beyond the powers already vested in London's government. It has become clear that devolving power to different parts of the UK is a dynamic process where there is step-by-step progress over time. This interim report seeks to build upon the logic of the government's approach by outlining a framework which would allow iterative steps to be taken to achieve further devolution of taxation and expenditure to London. The Commission's view is that this will increase economic output in London and the UK.

The vote to leave the European Union makes the case for further devolution more acute. The risks and opportunities that Brexit creates affect the country not only at the national level but within its nations, regions, cities and other localities in different ways. These cannot all be managed by national government. London's government is well-placed to support business and residents and to prioritise investment in areas that enable economic growth.

The Commission recognises that some may think that facilitating London's further economic success will somehow be unfair to the rest of the country. This view risks misapprehending the role that London plays in supporting economic activity across the whole of the UK. There is not a fixed total of UK GDP and the evidence suggests that London's growth and that of the UK as a whole are closely intertwined because of their strong mutual dependencies (in trade, supply chains, and so on). Nor is it the case that part of a successful city-regional economy can be moved by diktat from one part of the country to another. Such efforts in the past, particularly the 1960s and 1970s, were not crowned with glory. London attracts international investment which would otherwise go elsewhere in the world - to New York, Singapore or Frankfurt – rather than elsewhere in the UK.

London already contributes significant amounts of the UK's tax revenue - £127 billion (or over 20 per cent) in 2013/14. This is well in excess of the amount of public expenditure devoted to London (£93 billion in 2013/14) which means that London generated a net fiscal



contribution of £34 billion in 2013/14. However, far from isolating London from the UK, devolution has the potential to strengthen the economic integration of different areas of the country. When London grows, the UK grows. In taking on more fiscal and service responsibility, there will be a stronger incentive for sub-national governments to assess how best to use the resources available to them to generate economic growth. These resources include London with its leading global position and sectors of relative competitive advantage. London's trade with the UK will also grow as the city grows. The capital already trades extensively with other areas of the UK: TfL contracts alone buy goods and services from Scotland to Cornwall and are worth millions to local companies across the UK. Further devolution offers a new model of economic growth for the UK at a time of significant uncertainty.

Moreover, despite its apparent affluence, London has the largest concentration of deprived communities and households in the UK. At present, the centralised nature of UK government makes it virtually impossible for the mayor and the boroughs to bring about the required structural change to address the types of inequalities Londoners face, from housing to household income. London's government works within a structure where Whitehall ministries continue to maintain control over funding for the welfare system, skills, schools, the health service and over much housing policy. This control limits the ability of London's government to tailor provision at the local level, aligning funding and delivery to provide high quality services and achieve greater cost efficiencies. Devolution to London would allow the city's government to develop bespoke policy for its citizens and manage its budget efficiently across areas of policy, rather than be tied to a mix of funding streams channelled through government departments and other agencies. Similarly, further devolution to other city regions would allow them, also, to govern for their needs.

This report makes the case for a more radical devolutionary settlement for London. It argues that by giving London's government greater power over the tax-base and public services, the city's leaders would be provided with stronger incentives to develop its economy and opportunities to reform public services.

## Summary of Key Points

The London Finance Commission's interim report sets out a range of options which could strengthen the capital's fiscal powers and delivery of high quality public services. This builds on its recommendations in 2013 in its first report, *Raising the Capital*. In updating its work, the Commission has noted the following.

- By international standards, London remains an outlier in the low level of taxes that it controls. See Table 1 (Annex 1).
- Indeed, within the UK, the Commission's suggestions are modest when assessed in the context of devolution of tax powers in Scotland, Wales and, to a lesser extent, Northern Ireland.
- The government is committed to economic growth. This objective, along with strengthening the accountability of local decision makers to their electorate, has formed the rationale for stronger tax powers in the devolved nations.
- The government recognises that fiscal devolution strengthens growth incentives – that by devolving fiscal controls, Scotland and Wales are rewarded for decision-making that increases economic output. This principle is also central to the Government's decision to allow local areas to retain 100% of business rates.
- Business rate retention is a good initial step forward but full devolution is necessary to improve the efficiency of this and other property taxes and London's finances are best served through controls over a broader tax base.
- There is also the possibility of assigning a proportion of taxes such as income tax and VAT. These would align well with providing stable funding for significant infrastructure projects and further devolution of public services.
- London's government should have permissive powers to set new (generally smaller) additional or alternative taxes and levies, as exist for cities in other countries.
- The aim is not to increase or reduce the overall tax burden but to have a wider set of tax raising powers to underpin expenditure and investment, to support economic growth and thus to increase the overall tax yield for London and the rest of the country.

- There is a need to develop a more consistent, rational and coherent approach towards the taxation of property in the capital.
- London's government, if it were able to control and reform these taxes, is likely to adopt a system tailored to London's needs than the one-size-fits-all national system we currently operate within.
- Devolution to London's government would enable tax reforms that would foster economic growth as compared with the status quo where national government appears unable to reform taxes which means their operation inevitably inhibits growth.
- Explicit controls would be in place to safeguard business, in particular linking any increase in the business rate in future to increases in council tax. Strengthening London's fiscal powers would therefore be a win for London business.
- The reform and more efficient operation of devolved taxes in London would enable delivery of higher quality public services.
- Brexit implies the need for radical change and London cannot miss this opportunity to reform local taxation and improve the delivery of public services, which support growth in the rest of the economy.
- Finally, many of the measures we propose here, as for the recommendations made in the original London Finance Commission report, should be available for other cities and local authorities.

## Introduction and Background

The London Finance Commission was reconvened to help the Mayor and London's boroughs improve the tax and public spending arrangements for London in order to promote jobs, growth and greater equality. Professor Tony Travers of the London School of Economics and Political Science (LSE) chairs the Commission. Its members continue to be drawn from across political parties, London's government (both the Greater London Authority and London boroughs), Parliament, business and the capital's communities.

The Terms of Reference set a number of objectives: to review and assess existing arrangements for government funding of London, to examine the relative scale and distribution of London and the United Kingdom's public expenditure, to examine options for change within the changing context of the UK and its relationship with the European Union, to set out the advantages and disadvantages, of a number of options and make recommendations and to ensure the Commission's recommendations are in the best interests of the UK.

The Commission builds on its first report, *Raising the Capital*, which focused on the need for infrastructure investment to support the capital's growth. The Commission continues to make this case but places further emphasis on revenue funding and spending on services. Indeed, the main argument set out in this interim report is that a broader tax base with stronger fiscal controls at the local level will support the delivery of more integrated and efficient services and increased infrastructure investment.

This report serves as a further call for evidence and as a background paper for our evidence gathering sessions that we will be holding in London, Birmingham and Manchester during October.

### ***Raising the Capital: the report of the original London Finance Commission***

The London Finance Commission's first report, *Raising the Capital*, assessed the case for strengthening the fiscal powers of London's government. It concluded that fiscal devolution provided stronger growth incentives for London's government. Devolved tax-raising powers

and higher growth would enable greater potential to borrow private capital for additional investment in London's infrastructure. The increased returns on the infrastructure built or improved would service this additional borrowing, provide for further investment opportunities and enable a national dividend. The Commission recommended that, in the first instance, the full suite of property taxes should be devolved to London's government – not least to enable their collective reform. The Commission recognised that this was not without its risks. However, it considered that London's government was mature enough to both manage and service this additional financial commitment and would benefit from a long term income stream.

*Raising the Capital* was endorsed by London's government – London Councils and the then Mayor of London, Boris Johnson – and business. London government recognised both the economic and political (civic) value - devolving fiscal powers would make local decision-makers more accountable to Londoners and increase the transparency of investment decisions. The Commission's argument for stronger fiscal powers was not confined to London. The Commission drew on the expertise of commissioners and evidence from outside the capital. It recommended the model for other cities in order to drive economic growth. The Commission's conclusions were not radical by UK or international standards: Scotland already had powers to set a Scottish rate of income tax; many of London's competitors, including New York and Frankfurt, enjoy greater fiscal autonomy, with the ability to finance a range of services and infrastructure programmes through a broader, local tax base.

### **Recent progress towards greater devolution**

The Commission's main arguments have informed much of the devolution debate since, particularly for English cities. They were endorsed by the Core Cities group and acknowledged by other major Commissions and inquiries.<sup>1</sup> In the devolved nations, government has gone further in making the link with economic growth and greater accountability of elected decision-makers. Devolved income tax powers are included in the current Wales Bill; both the Scottish and Welsh governments have powers over local property taxes. The Scottish government, for example, has used these powers to reform Stamp Duty Land Tax and

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<sup>1</sup> For example, the Independent Local Government Finance Commission and the Communities and the Communities and Local Government Select Committee inquiry, *Devolution in England*.

introduce a Land and Buildings Transaction tax which made the tax more efficient by removing the 'slab' structure. This improved system was subsequently adopted by the UK government for England and, separately, in Wales.

In England, the government has latterly agreed a series of devolution deals with a number of cities. This policy has led to a range of services being devolved with local variations in each deal. In Greater Manchester, the deal included powers in relation to the £6 billion a year health and social care budget. In parallel, substantial work towards greater devolution has been undertaken by London Councils and the Mayor.

Alongside service devolution, the government announced in October 2015 that local areas would be able to retain 100 per cent of business rate income from 2019/20. Combined Authorities which have or will have elected mayors would be given the additional powers to agree a business rate premium to fund infrastructure investment. The arguments in favour of strengthening local fiscal powers outlined by the Commission in 2013 – incentivising economic growth and strengthening accountability – have been at the centre of progress on devolution to date.

## Interim Conclusions

### Tax devolution - progress since 2013

In *Raising the Capital*, the Commission argued that strengthening London government's fiscal powers would incentivise economic growth and should start with the devolution of the full suite of property taxes. In grouping these, the Commission recognised the value in tailoring them to the London market and reforming them together rather than treating them in isolation. The Commission recognises that the government has taken further steps to decentralise business rates, though there has been no movement on the Commission's other proposals.

#### *Property taxes*

There remains entrenched unfairness, inefficiencies and incongruity within and between property taxes. On council tax, the current bands bear little relation to the value of the property. There remains a clear need to consider the current burden of council tax and apply gradual and judicious reforms. London's government is best placed to carry these out. By devolving the power to manage the operation of property taxes, London's government could improve council tax (alongside other property-related taxation) to ensure greater fairness.

#### *Business rates*

The government's aim in allowing local government to retain 50 per cent of business rates, and in its recent proposals to move to 100% retention by 2020, was to incentivise local government to encourage economic growth. In reality, these incentives have been blunted by other aspects of the current operation of business rates. First, in effect, councils only benefit from increases in the physical stock of business property and not necessarily business activity. London's knowledge economy has a higher rate of start-ups and innovation in tech, digital and creative and life sciences. These businesses require a stronger supply of shared work space and add on space. Second, the appeals process has led to a huge backlog of appeals, with great uncertainty about the eventual tax take for local government in many areas. Finally, the most recent revaluation has created problems for many London businesses by dramatically increasing their tax bill. It will *reduce* the tax yield in the rest of England

(despite *increases* in rateable values there) and will increase the financial dependence of English local government on an ever smaller slice of the London business property market. Irregular revaluations and the impossibility of any business predicting its longer-term NDR bill hamper good business planning.

Therefore we believe that the Commission's previous recommendations are even more valid than in 2013. Decoupling London from the national system would allow rates to better reflect local property markets. London's government should set the business rate multiplier in London. Business should be protected through linking the business rate multiplier to changes in the council tax levels, following consultation with appropriate stakeholders.

#### *Other taxes and levies on property and property development*

Resources are raised from property and property development in London in a variety of ways, which the Commission is also reviewing, alongside alternative and/or additional measures. These include existing mechanisms like the community infrastructure levy, s106, business improvement districts and the use of council tax precepts. In addition, the Commission is considering possible reforms such as a levy on land value uplift and wider potential changes to property taxation more generally. Non-domestic rates and Stamp Duty land tax are, as currently operated, sub-optimal ways of raising revenue. We are convinced that if London's government had the power to manage the full suite of property taxes and levies, and had permissive powers to develop new mechanisms, it would develop more consistent, coherent and economically-logical approaches, which would foster rather than hinder growth.

#### **Other taxes**

The Commission has begun to review the potential for devolving and reforming other taxes and introducing alternative ways of capturing more of the value of the capital's economic growth. The Commission is looking at a range of potential fiscal powers that would broaden the tax base available to London government, but not increase the tax burden on individual households and businesses. As in its first report, the Commission is clear that any devolution of fiscal powers would be neutral from day 1, and not disadvantage other areas of the country or the Exchequer.



The Commission recognises that not all taxes are suitable for local control. It is not advocating that London automatically follows the precedents set in Wales and Scotland. It also does not believe that just because other international cities have control over many more taxes that it would be right slavishly to adopt their approach. On the other hand, the Commission is convinced that the current balance is far too centralised, with virtually all control being held by Whitehall and that there are various good candidates for a medium term programme of devolution and reform.

#### *Apprenticeship levy*

The Government is currently proposing to introduce an apprenticeship levy from April 2017 which, if introduced, the Commission considers should be devolved to London government (and almost certainly to other local authorities). London's employers have made significant strides in increasing the number of apprenticeship positions in the economy. A hypothecated tax stream such as this should be devolved alongside existing skills and employment budgets. There are stronger rationales for such an approach in light of Brexit: London's economy requires the city to have the ability to target resources at sectors with the potential for shortfalls in labour once the UK leaves the European Union; and London government is likely to be more responsive to business needs in the capital, both in terms of its detailed design and operation and the deployment of the funds raised.

#### *Income tax and VAT*

Income Tax is a relatively stable tax and raises a significant amount of revenue in London (£38.6 billion in 2013/14). It would be a good financial foundation for a more radical move towards the devolution of services, e.g. health and education/skills, and major infrastructure investment. We recommend that London initially be assigned a small percentage of its income tax yield, increasing as and when such service devolution occurs and/or when major capital projects are agreed. This would have the advantage of incentivising growth in the tax base (i.e. moving more people into paid – and more highly paid - employment). It would provide a stable base against which London government could prudently borrow for capital investment. It would support the provision of a suite of devolved services. It is a relatively modest proposal compared to previous recommendations (such as the Layfield Report in 1976) and very

modest compared to the position in Scotland and Wales. We also believe that London be assigned a small proportion of VAT on the same rationale.

In having a stake in national taxes such as income tax and VAT, London's government would enable a broader and more stable fiscal base from which to finance high quality services and infrastructure. It would give London's government a larger stake in the success of the economy overall. It also would encourage investment only in those projects that would lead to higher economic growth, feeding into tax revenues. The Commission notes that such a proposal would not alarm Londoners. In a recent poll, just under half of Londoners (49 per cent) surveyed said they would support retention of a small amount of income tax (5p in every one pound) for London's government (versus 21 per cent who disagreed; the rest did not know or neither agreed nor disagreed).

#### *Minor taxes and levies*

Finally, as recommended in its first report, the Commission considers that London's government should have access to a range of locally specific levies, such as have already been introduced including the congestion charge, the Olympic precept, the business rate supplement for Crossrail 1, and might, in future, include environmental levies or a small levy on visitors (of the kind found in many overseas cities) to support culture and tourism, again subject to appropriate due process. The Commission will be considering options such as these in more detail in preparing its final report.

#### **London's future – supporting growth**

We consider that devolution of fiscal powers and the assignment of national taxes should be revenue neutral to the Exchequer from day 1 of any reform. Devolution of taxes would be matched by the reduction of grants by an equal amount. Fiscal devolution could also proceed ahead of service devolution through London paying a 'tariff' to national government from its devolved or assigned tax base. Either way, fiscal neutrality could be agreed and effected in practice - the Treasury would continue to collect a majority of taxes generated in London and redistribute these to other areas. Following the 'day 1' changes, growth (or diminution) in the devolved tax base would be for London's government to decide and manage above some agreed baseline trajectory.

However, as well as a fiscally neutral scenario on day 1, we are also mindful of the capital's growth and the need to fund major infrastructure investment and adequately fund local government services for a growing city (and following many years of austerity). Assuming London's government was then successful in growing its devolved tax bases, this resource would provide additional investment for the capital's infrastructure and public services. We are also mindful of the concerns among London businesses about increases in business taxation, particularly business rates following the most recent revaluation of business properties.

Our overall contention is that reform is long overdue and must occur if London is to meet the twin challenges of out-of-date and dysfunctional property taxes (which inhibit economic growth) and funding the major infrastructure investment (especially in transport and housing) needed to support a growing city and enable it to continue succeeding for the whole country. Such problems are now acute.

## Governance

In its first report, the Commission made clear that new governance systems and structures would be required if fiscal powers were devolved to London's government. Such arrangements would need to be 'sufficiently robust to cope with the variety of possible situations, but sufficiently simple to be efficient and without the need to invent additional structures as new and unforeseen situations arise'. The Commission continues to support the governance principles agreed by Mayor and London Councils, which state amongst other things that the interests of the Mayor cannot be overridden by the boroughs or vice versa, and that the system must enforce binding decisions which must reflect clear consensus. Greater powers for both tiers of government would, potentially, also require some further consideration of scrutiny arrangements – including by the London Assembly in respect of the Mayor. The Commission also upholds the principle that a further devolution or reform of business-related taxes would need to be carried out in consultation with and enjoying the support of business. Furthermore, in order to obtain business buy-in, it might be necessary to develop a mechanism for business ratepayers which would allow them in specified circumstances to trigger a referendum if they believed any annual increase in the business rate multiplier was excessive.

In its final report, the Commission will set out the types of governance reforms which could be considered were the government to agree a more ambitious programme of devolution with London government. The Commission notes that Londoners are supportive in principle of the idea that London government should have more control of tax and spending on public services in the capital. 58 per cent agree that devolution would be a good thing while only 14 per cent disagree.

## Conclusion

There is no reason why London's fiscal or public service powers should not be strengthened. Research undertaken for the re-convened Commission shows that major cities outside of the UK enjoy significantly greater fiscal freedom. Indeed, the UK is a significant outlier compared to all other major OECD countries. Such centralised government is bad both for sub-national areas and for Whitehall. Central government has to manage the minutiae of local public services in London in a way that would be inconceivable in, say, New York or Tokyo.

This report recommends steps towards a better-run country. It builds on the proposals of the first London Finance Commission by providing a pathway to more radical devolution of taxation and public service powers. In doing so, we recognise business has a major role to play in securing the economic growth that will generate additional tax revenue. The Commission believes it is essential that safeguards are in place to provide confidence that taxation on companies (who do not have a vote) cannot be raised unreasonably.

On the other hand, we believe that if London's government were responsible for operating a wider range of taxes, it could modernise and improve them. The governments of Scotland and Wales have been adept at suggesting better ways of operating Stamp Duty. Council tax, non-domestic rates and Stamp Duty land tax are all in need of improvement. Moreover, London's government could operate the suite of property taxes in a more intelligent way than is currently the case.

The Commission also believes there is scope to devolve an assigned share of one or more major national taxes. In the first instance, as with the government's existing proposals for business rates, all London's yield would be transferred to London's government. Such a transfer would make it possible to further reduce grants and/or to transfer significant additional service responsibilities to the GLA or the boroughs.

In addition to the incentives to growth that a larger tax-base would provide, control over a wider range of services would give London's government greater scope to tackle long-

standing deprivation and inequality. It is hard for central government to do this using UK or England-wide policy. Fiscal and service delivery powers enable flexible delivery and budgeting, tailoring interventions to break the cycle of long term unemployment. Fiscal devolution would also reduce service duplication, allowing London's government to look across its budget rather than working within silos. Devolution would also make it more likely that housing supply could be increased. Housing need is much greater in London than elsewhere in the UK. As a result, public support for action will inevitably be more likely to deliver results if London politicians are given more power and greater access to generate resources.

The first Commission's report was endorsed by other UK cities and received subsequent support from a number of Parliamentary and other sources. London's resilience and its capacity to compete internationally provide the Treasury with a tax yield which would be hard to replace were it not to continue to grow strongly. The capital's government provides the planning and development framework that can ensure this economy flourishes. The modest proposals in this document around fiscal devolution would strengthen the incentives for London's government to pursue growth-supporting policies, by giving them some of the tax revenues from that growth, while ensuring that the bulk of increased taxes continued to flow to the UK Treasury. London's economy is vital to the UK, never more so than in the uncertain years that lie ahead.

## Annex 1: Table 1

**Table 1: Taxation revenue attributable to local and state/ regional government as a percentage of GDP, 2013**

<b>Country</b>	<b>Percentage</b>
Canada	14.9
France	5.8
Germany	11
Sweden	15.8
United States	8.8
Italy	7.1
United Kingdom	1.6

Source: OECD Revenue Statistics

## **Annex 2: Terms of Reference**

### **Purposes**

The Mayor of London has re-formed the 2016 London Finance Commission to review, refresh and revise its original recommendations in the light of changed circumstances; in particular the referendum vote to leave the EU, the Mayor's new priorities, and the progress on devolution that has been made since the 2013 *Raising the Capital* report. As before, the Commission is to help the Mayor and London's local authorities improve the tax and public spending arrangements for London in order to promote jobs, growth and greater equality. He wants the Commission to examine the potential for greater devolution of both taxation and the control of public expenditure (capital and revenue) to achieve this goal.

### **Overall approach**

The Commission will hold a short initial inquiry and report by late Autumn 2016. This will include publishing interim findings and developing an evidence-based approach to its recommendations. Subsequent work by the Commission or others may then be requested by the Mayor, depending on its findings.

### **Objectives**

The objectives of the initial inquiry of the 2016 London Finance Commission are to:

- Review and assess existing arrangements for government funding of London, including capital and revenue. This exercise should assess how they compare to other countries, regions and cities internationally and within the UK and how revenues raised are distributed locally, regionally and nationally. The position in 2016 will be compared to 2013, as will the wider context of devolution within the UK and the significant democratic and constitutional changes since 2013.
- Examine the relative scale and distribution of London and the United Kingdom's public expenditure, within the context of the wider South East region, with a view to considering the plausibility of a ring-fenced settlement for the capital.



- Examine options for change within the changing context of the UK and its relationship with the European Union, including the potential to devolve to London's elected leaders both more of the taxes Londoners and London businesses pay and greater control over public expenditure decisions. Appropriate checks, balances and accountabilities will apply and the roles of the different tiers of local government will be considered.
- Set out the advantages and disadvantages, of a number of options and make recommendations.
- Ensure the Commission's recommendations are in the best interests of the UK.

The Commission should take account of existing Government consultation on reforms to business rates. The Commission will refresh the data from the original report to bring it up to date.

The key outcome to achieve is a devolution agreement in the Government's Autumn Statement and in subsequent fiscal events. A subsidiary aim is to help assess the options for funding Crossrail 2 and other major infrastructure.

### **Scope**

The Commission may consider all taxes raised and government expenditure incurred within London and make recommendations as it sees fit for improvements in accountability and local control. These reforms considered will be sequenced according to priority. The scope of the review will not be limited other than by the purposes and objectives set out above.

### **Members**

**Chair:** Professor Tony Travers, Director of London, London School of Economics and Political Science

Alexandra Jones, Chief Executive of Centre for Cities

Ben Rogers, Chief Executive of Centre for London

Bharat Mehta, Chief Executive of Trust for London  
Bob Neill, MP for Bromley and Chislehurst  
Dr Nick Bowes, Mayoral Director of Policy  
Councillor Claire Kober, Chair of London Councils  
Colin Stanbridge, Chief Executive of the London Chamber of Commerce and Industry  
John Dickie, Director of Strategy of London First  
Jules Pipe, Deputy Mayor for Planning, Regeneration and Skills  
Len Duvall, London Assembly Member  
Councillor Teresa O'Neill, Deputy Chair of London Councils  
Tony Pidgley, Chair of Berkeley Homes  
Sue Kershaw, UK Infrastructure, Head of Project and Programme Management, KPMG  
Nicholas Holgate, Town Clerk, Royal Borough of Kensington and Chelsea

#### **Observers**

Guy Ware, Director of Finance, Performance and Procurement, London Councils  
Ian Nunn, Director of Finance, TfL  
Jeff Jacobs, Head of Paid Service GLA  
John O'Brien, Chief executive of London Councils  
Martin Clarke, Director of Finance GLA

#### **Secretariat**

James Lee, Senior Policy Officer GLA  
Jeremy Skinner, Head of Economic Growth GLA