The Mayor of London welcomes the opportunity to respond to the Political and Constitutional Reform Committee’s timely inquiry into the future of devolution following the Scottish referendum. The inquiry comes at a crucial time, with the results of the referendum having catalyzed strong calls for further devolution from across the UK.

The Mayor is campaigning for fiscal devolution to London and other English cities – specifically devolution of a suite of five property taxes: council tax, stamp duty land tax, business rates, annual tax on enveloped dwellings and capital gains property disposal tax. This follows from the recommendations of the independent London Finance Commission (LFC), chaired by Professor Tony Travers, which reported in May 2013 which looked at how London’s funding arrangements could be improved to cater for current growth and plan for future growth.

After the Mayor fully endorsed the findings of the LFC, in September 2013 he joined forces with the Core Cities – Birmingham, Bristol, Cardiff, Glasgow, Liverpool, Leeds, Manchester, Newcastle, Nottingham and Sheffield – to launch the City Centred campaign, which calls for the devolution of property taxes to all of England’s great cities to allow them to plan for, and invest in, their future and compete on the international stage. All these cities see the clear benefit of having a secure, sustainable income stream that is not so fundamentally reliant on decision-making in Whitehall.

The devolution being called for through the City Centred campaign relatively small – at the moment London keeps about 5% of the taxes they raise, and with the combined suite of property taxes this would go up to about 11.5%, meaning that the Treasury would still keep 88.5% for redistribution across the country. Allowing London and other cities to keep this extra 6.5% would have a transformative effect on their ability to plan, and on the ability for local people to have a real say and a stake in the growth of their areas. It would give cities a far greater base to prudentially borrow against, allowing for serious and visionary local planning and delivery.

This comes against the background of the massive predicted growth of England’s cities. London’s population is expected to hit 9m by 2020 and 10m by around 2030 (growing by the size of Birmingham every decade), and new and improved infrastructure is urgently required to underpin this welcome growth. The Mayor has set out his ambitions in his London Infrastructure Plan 2050, published in July, but for these to be realised London needs a secure funding stream that will allow for detailed planning and delivery. The devolution of the five property taxes is fundamental to this.

It is important that the debate around devolution does not entirely focus on the issue of English votes for English laws – while this is an issue that is worthy of serious discussion, it ultimately will not resolve the urgent need to devolve powers and freedoms to cities to allow them to grow.

This evidence relates to the Committee’s questions that are of specific relevance to London.

London and the Scotland context
The fact that significant further fiscal devolution has been offered to Scotland demonstrates that the UK Government has accepted the clear benefits, both in terms of growth and local accountability, of devolving the fiscal levers required to stimulate growth away from Whitehall. The Government has been clear that accountability is one of the main driving forces behind devolving greater powers to Scotland - the Scottish government will be more accountable to the Scottish people, and people will be closer to where the big decisions affecting their lives are made.

This guiding principle of accountability should also inform moves to devolve powers and funds to London. London government enjoys a high level of trust amongst the city’s residents and has demonstrated competence in executing its responsibilities, creating jobs and growth with limited fiscal resources. This provides a solid basis for the devolution of taxation powers that is fully in sync with the localism commitments and ambitions of all the main political parties. However, examples of decentralisation show – whether Scotland, Wales or outside the UK – devolving budgets and doing deals are not enough. Local areas, whether national regions or city economies, need strengthened fiscal powers to maximize the benefits of decentralized decision-making.

All parties have agreed significant fiscal powers for Scotland. These include a share of VAT and all of income tax. Given the size of London’s population and economy, along with the maturity of its government, London’s bid for property taxes to be devolved to the capital is, in comparison, modest. However, it would provide the capital with a stable, long term income stream against which the city can plan and invest and bring Londoners much closer to those taking decisions on their behalf.

As with many of its international competitors, London government enjoys a direct line of accountability through an elected Mayor, though unlike those competitors, London government is restricted in its executive function through a centralised funding regime. As noted by the Governor of Tokyo in the London Finance Commission: One Year On report, ‘true local autonomy can only be achieved when local government areas are able to manage their finances and provide administrative services using their own powers and resources’. Tokyo retains around 70 per cent of its taxes; New York over 50 per cent; and London approximately 5 per cent. International evidence clearly suggests that cities perform equally well, if not better, when managing more of their income independently.

The lingering and out-of-date centralism of the UK’s governance structures has frustrated the ambitions of London, and other English cities, to deliver the infrastructure, jobs and housing that will allow them to grow their economies and the Mayor agrees with the final report of the City Growth Commission, published in October 2014, that the current centralised decision-making system is not fit for purpose.

The City Centred campaign is therefore calling for fiscal devolution that will give cities more powers to shape their own destinies – specifically the devolution of the suite of five property taxes to cities. This is not on a par with the devolution being offered to Scotland (on top of the introduction of the new Scottish income tax rate in 2016) but it sets out a clear ambition for cities to be less reliant on Whitehall.

Devolution in England should move at the pace of the fastest - London and other great English cities are ready to take on fiscal devolution now, and the country’s growth will rely on its cities which are a crucial source of solidarity and innovation. London has already been
forging ahead, with the Mayor and London boroughs agreeing 10 key principles that will underpin future decisions on how devolved taxes are invested in the capital. This could be translated to other city areas with combined authorities.

The Next Stages for Devolution

- The Mayor wants to see all areas taking greater control of their own future growth where there is the ambition, governance structures and accountability to do so.

- He would strongly encourage all political parties to be more ambitious in the devolution proposals and to commit fully to empowering England’s cities through the devolving of property taxes – an issue that will be of crucial importance in the run-up to, and after, next year’s general election. The Mayor has been campaigning, through the City Centred campaign, for all the main political parties to include the granting to greater financial freedoms to cities in their 2015 general election manifestos, and to commit to taking this forward immediately after the election.

- HM Treasury must also undertake a robust and comprehensive analysis of how the full suite of property taxes can be devolved to London and other English cities as soon as possible. As detailed policy work on devolution of taxation powers to Scotland and Wales has already been undertaken and put into practice, it should be possible to translate this to consider the case in London and other cities.

- The City Centred proposals for the devolution of property taxes are predicated on the income from devolved taxes resulting in a corresponding reduction in a city’s government grant. As any increase in London’s Gross Value Added (GVA) as a result of fiscal devolution would benefit the public purse (e.g. income tax, VAT, corporation tax), this fiscal neutrality ensures equity in the redistribution of tax income across the country. Non-property taxes (i.e. those that will be centrally retained following devolution) will capture the main uplift as a result growth from city infrastructure investments, meaning the whole of the UK’s economy stands to benefit from the growth of London and other cities. There is therefore everything to gain from these proposals, with benefits accruing across the country.

The Timetable for Devolution

- The Mayor believes the Government should be more ambitious in its timetable for devolution and set out clear goals for devolving economic powers to England’s cities, as well as a deadline for when the Treasury will have completed its economic analysis of how this will be taken forward.

- The Mayor is very keen that the mechanics for granting this devolution to London are begun as soon as possible, and would not wish for these to be delayed by any attempts to fundamentally reorganise local or central government which would only serve to slow this hugely important and urgent task.

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