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A NEW DEAL FOR LONDON

The business & economic case for further devolution in the capital

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Foreword

In an era defined by rapid change, urban centres worldwide are reimagining their governance structures to better respond to the needs of their citizens. London, as one of the most dynamic and diverse cities globally, should stand at the forefront of this transformation. As this report highlights, the broad case for fiscal devolution for London local government and indeed our other great cities is not merely a matter of financial redistribution; it is a crucial step toward empowering local authorities to deliver tailored solutions that reflect the unique challenges and opportunities faced by their citizens.

For too long, London government has been characterised by a centralised approach, with nearly all financial decisions resting in the hands of the national government. This model has resulted in a disconnect between funding allocations and the actual needs of the city's diverse population and its infrastructure and investment needs. Greater fiscal devolution would enable London government to raise and spend more of the revenue it collects in a manner that is directly aligned with city wide and crucially borough level priorities. This is good not only for London's economy but will also foster a more responsive and accountable governance structure from a political perspective.

As the report notes, the benefits of fiscal devolution extend beyond mere financial flexibility. Housing, transport, skills and other public services all benefit from being organised with a granularity and level of responsiveness that central government cannot match. For example, London faces a housing crisis that requires innovative solutions tailored to specific boroughs. With greater fiscal powers, local government can implement targeted initiatives that address supply and affordability, rather than relying on one-size-fits-all national policies.

London's business improvement districts (BIDs) have already demonstrated that their own version of fiscal devolution, where a small proportion of business rates are collected as an additional levy, can enhance the quality and experience of the public realm and indeed economic growth. By allowing local government to retain a greater portion of the taxes generated within their jurisdictions, the BID community represented by Primera and its constituent Central London BIDs, believes strongly that investment in local infrastructure and services can help London government stimulate economic growth and greater prosperity for all. A model that encourages a cycle of growth, through improved local amenities, leads to a thriving local economy that in turn boosts tax revenues, providing further resources for public investment.

At a time when the government has embraced economic growth as a top priority and recognises there is a democratic deficit in how our cities are served by local government, this report provides a timely reminder of the role fiscal devolution can play in addressing these challenges. The time for tangible action on devolution for London cannot come soon enough.

ALEXANDER JAN
Chair, Central District Alliance
Business Improvement District

Executive summary

Business and government have a shared, national mission around growth. It is a pre-requisite for rising living standards and the pathway towards achieving wider societal goals.

But there's a problem. The UK growth rate has slowed compared to previous decades, held back by low levels of investment and productivity.

London is not immune to these challenges. It may still be the UK's most productive region, and the most significant contributor to the UK's output. But annual productivity growth in the capital is now lower than many of our global competitor cities.

London remains the economic engine of the UK, so its performance has a material impact on the UK's overall economic performance. The UK cannot realistically raise its growth trajectory without major contributions from the major urban centres such as London, Greater Manchester, the West Midlands and Leeds.

It's vital that these regional economies – and other City Regions – are able to fire on all cylinders. A powerful way of doing this is through increased devolution. This paper sets out the business and economic case for devolution as a way to improve the UK's growth performance.

By devolution, we mean powers, finances and decision-making over policy outcomes, not simply autonomy over delivery for decisions already taken elsewhere.

We address the challenges and solutions from a London perspective, but the findings and recommendations have broader applicability for City Regions around the UK, and benefit from support across the political spectrum.

The arguments for devolution are well rehearsed. We think the most compelling reasons in favour of devolution are that it helps to get things done in these three ways:

1. **At speed:** because with the right powers and responsibilities, decisions taken locally can be made faster than if they are determined centrally.
2. **In-tune:** because a city region or geographic area that you can 'wrap your arms around' is best placed to work out the needs of that place and be more responsive to changing social and economic priorities.
3. **Joined-up:** because local leaders and institutions are more likely to be able to join up across silos, for example across housing, transport and decarbonisation, and apply systems-thinking for better end results in-keeping with a mission-based approach.

Despite recent changes, from a fiscal perspective and arguably more broadly, England remains one of the most centralised democracies in the G7 as highlighted by the OECD data on the share of overall tax revenues raised by local or state governments. Deploying the advantages of devolution could help to deliver on some of the UK's most pressing national challenges:

- **Growth**, by creating the incentives to grow revenue streams on a lasting basis so that local leaders become 'growth hungry'.
- **Housing**, by being more in-tune with local demographic need and providing homes closer to jobs growth.
- **Infrastructure**, by a better ability to join-up various economic & social infrastructure.

To seize these opportunities, we recommend four steps to greater devolution in the capital:

1 Embracing a 'flexible pot' approach for local government, so that existing funds can be consolidated and have greater impact.

2 Turning existing revenue streams into genuinely autonomous funding.

3 Making the Greater London Authority (GLA) and London Councils responsible for allocating spending across London.

4 Increasing tax-varying powers as appropriate checks and balances are developed.

Even though the Mayoralty in London is approaching its 25th anniversary and London has one of the oldest devolution settlements, it hasn't kept pace with some of the more recent devolution deals. So, as a priority, London should be granted a 'trailblazer' devolution deal that puts it on a par with Greater Manchester and the West Midlands.

This would see expanded responsibilities in a number of policy areas, including skills, housing and regeneration. The key facets of the deal that we would like to see in the capital are:

- A single settlement, with a consolidated, long-term budget more akin to government departments' budgets; and

- Full business rates growth retention, delivering fiscal devolution through a 100% business rates retention pilot for 10 years, with the prospect of specific growth zones offering additional flexibility.

The English Devolution Bill, and accompanying White Paper, is an imminent opportunity to act on these recommendations.

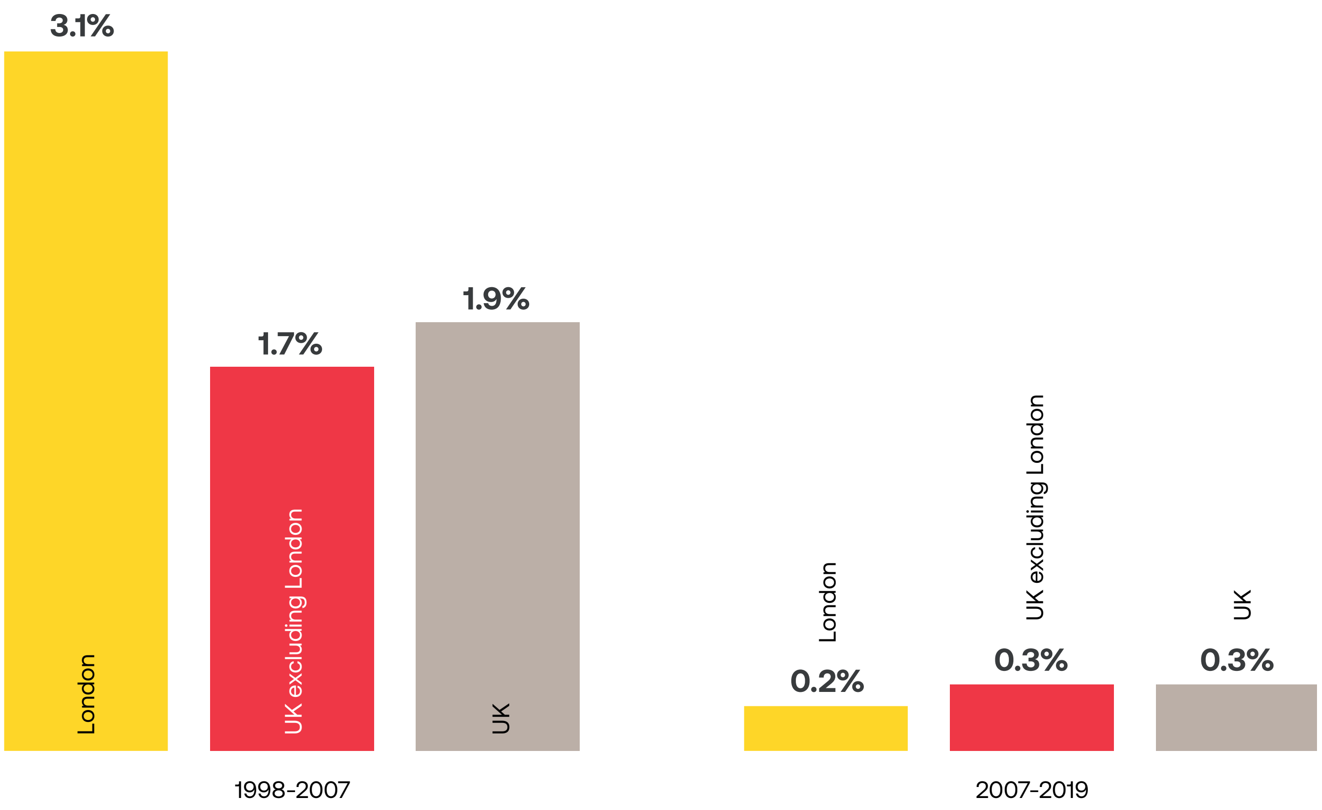
Section 1
Why we need to do it: the current state of play and a need to act

Today, London produces nearly a quarter of the UK's total output, makes up roughly 18% of the UK's total workforce jobs and contributes 21% of the country's total public sector revenue[1].

London is the UK's economic engine but scratch below the surface and its performance is stuttering.

While London remains the country's most productive region, it has gone from leading national productivity growth to lagging behind it[2].

Productivity: Average annual growth rate



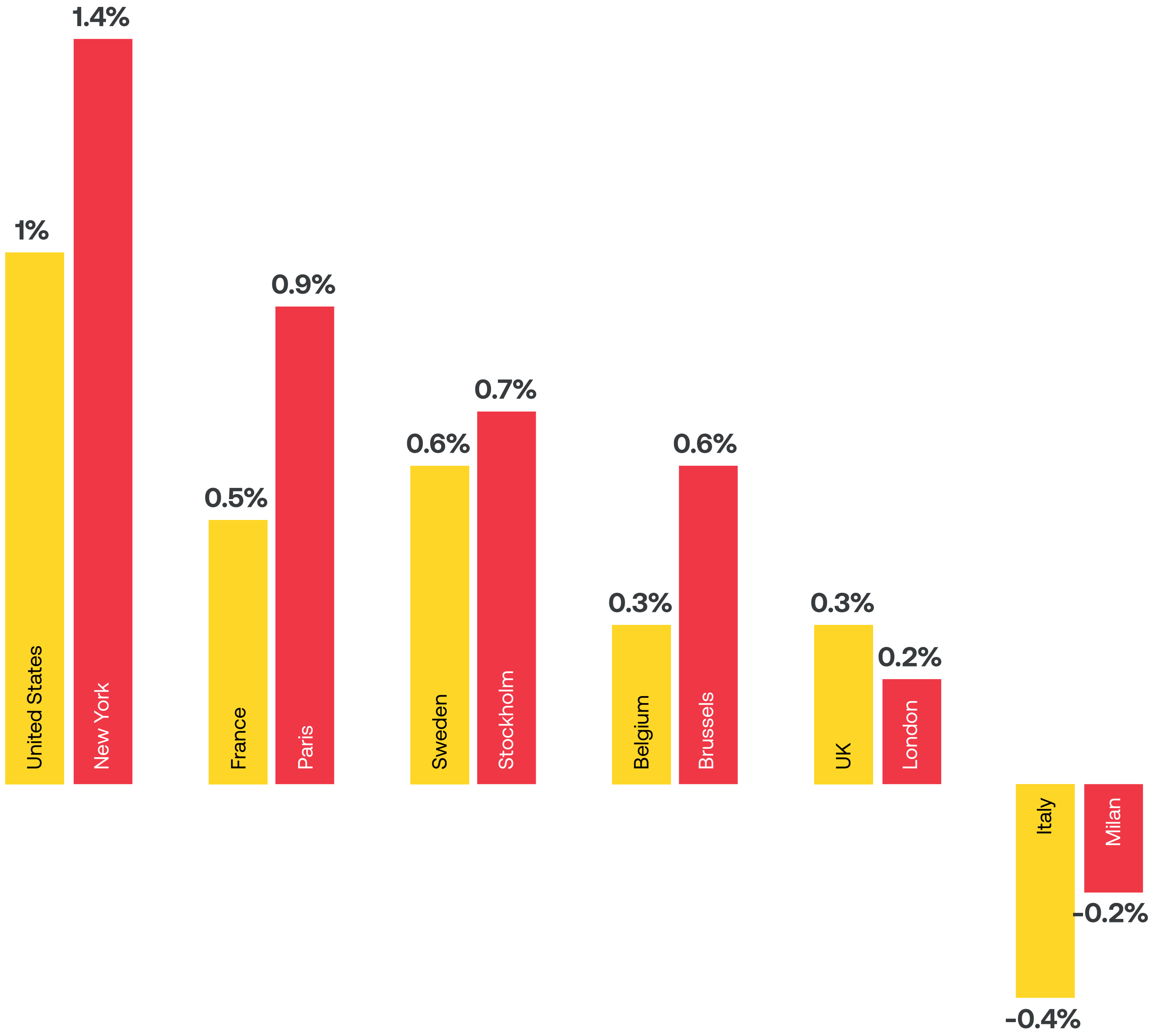
It's a similar story internationally, with annual productivity growth in the city between 2007 and 2019 on average just 0.2%, far lower than many of its global competitors.[3]

All this comes at a social as well as an economic cost. When adjusted for inflation, gross annual pay in the capital in 2022 was 7% lower than in 2010. And once housing costs are taken into account, a quarter of Londoners live in poverty.

The capital, like the rest of the UK, faces pressing challenges on growth, housing and infrastructure. To meet these interlinked challenges, it's vital that London has all the tools at its disposal to maximise its economic potential. The National Infrastructure Commission, for example, in its National Infrastructure Assessment says, "Decisions made at the local level are better able to reflect local preferences, circumstances, and information. Implementation is often most effective when undertaken at the local level. As such, when done well, devolution is associated with productivity benefits and reduced regional differences."[4]

Yet, as things stand, London is out of step with England's other city regions and other global cities. The trailblazer deals with the Greater Manchester Combined Authority and the West Midlands Combined Authority go beyond London's settlement in a number of areas, including a single settlement funding model.

Annual productivity growth: 2007–2019



Which powers are devolved?

The Institute for Government English devolution explainer, June 2024*

Level 1 deals offer only a limited "strategic role in delivering services". No level 1 deals have yet been concluded.

Level 2 deals can be concluded with county councils or combined authorities that are not led by a directly elected mayor. They offer control over the adult education budget, LEP functions, and the UK shared prosperity fund.

Level 3 deals offer more expansive powers and require the adoption of a mayor – either as directly-elected leader of a county council, or as chair of a combined authority. In addition to level 2 powers, they offer expanded powers over transport, local roads, urban regeneration and 30-year investment funds that combined authorities can allocate flexibly to support economic growth. Most of the existing Mayoral Combined Authorities hold the level 3 package of powers, as will the new mayoral deals going live in 2024 and 2025.

Metro mayors can also establish development corporations, with powers over planning and development, and can impose a precept on council tax to fund specific projects.

In some cases, where boundaries align, metro mayors have also taken on the role of police and crime commissioner.

Level 4 deals will be on offer to existing level 3 institutions subject to their meeting capacity, governance and institutional culture criteria. They offer extra powers around skills, careers and transport functions as well as a role in local energy planning. They will also offer flexible 'consolidated pot' funding in two areas, local growth and place, and housing and regeneration.

Finally, two **'trailblazer' devolution deals**, were agreed with Greater Manchester and the West Midlands in March 2023. These deals will devolve further powers over transport, skills, retrofitting, and housing. They also reform and simplify funding, consolidating multiple funding streams into more flexible 'single settlements'.

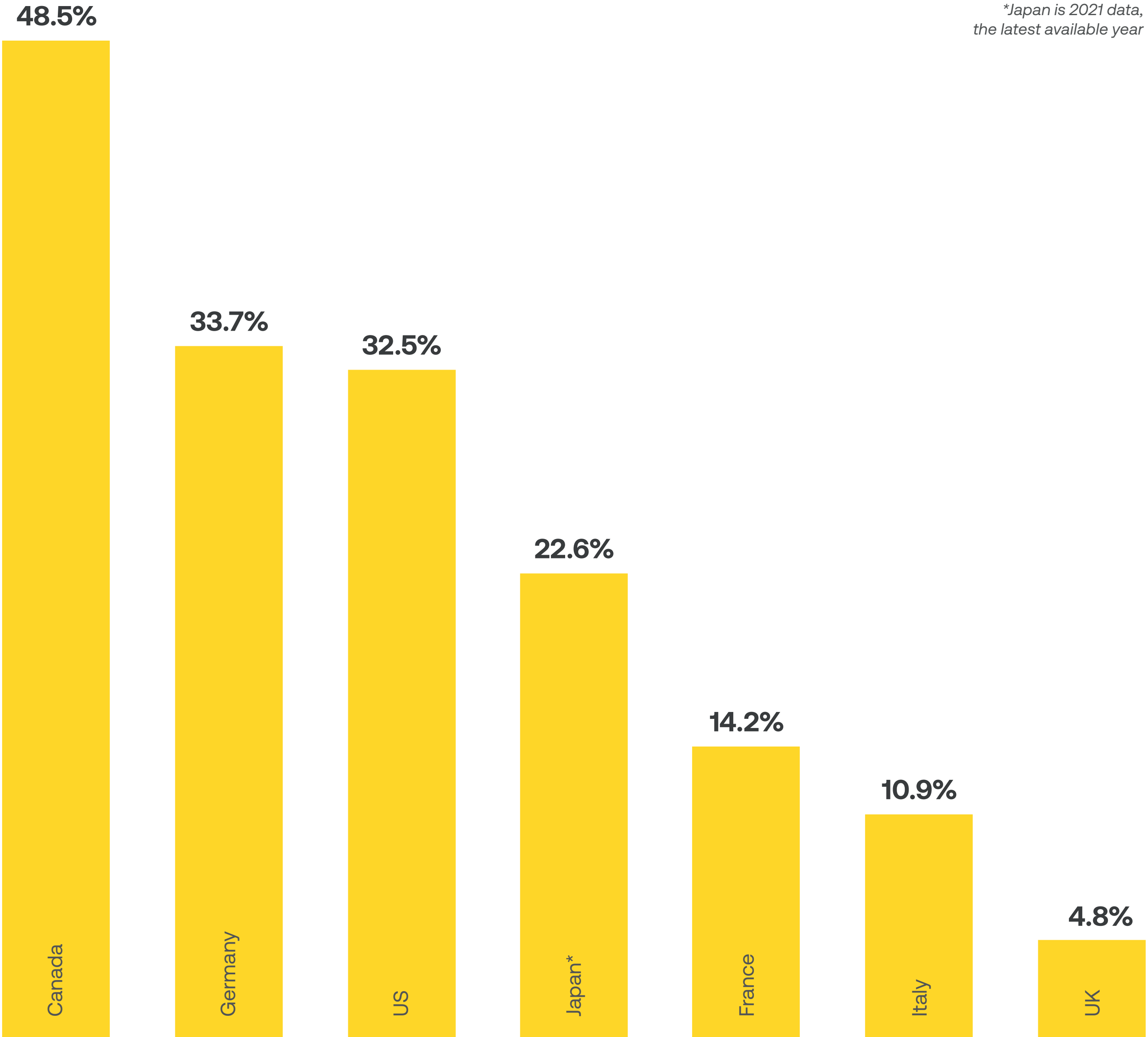
** This captures the state of play at the end point of the Conservative government in July 2024*

By international standards, the UK is among the most centralised developed countries in the world. As highlighted by the Centre for London and other studies, local authorities and the Mayor rely on funding from central government. No other G7 nation collects a lower proportion of overall tax locally, as shown in the OECD data:

Devolution is, of course, not a magic silver bullet. It's not easy, but it does make it easier to get alignment and to get things done. And, of course, just having the powers doesn't automatically make a difference, it's what you do with them that leads to different, better outcomes.

But in summary, London needs the full kit bag of tools to reignite its economic performance. It should be brought closer in step with other UK and global cities for devolved powers, and it's time to try a fresh approach.

Proportion of overall tax revenue raised by local or state governments (2022)



*Japan is 2021 data, the latest available year

Section 2
What devolution has to offer: helping to deliver national priorities

We think that devolution has lots to offer. Our starting hypotheses is that:

- "One size fits all" policies determined centrally, for many public services and capital programmes are costly, inefficient and unresponsive to changing social and economic circumstances. It also leads to sub-optimal decision-making.
- Cities will secure more of the social & economic infrastructure they need if they have the powers and the means to deliver them. If you ask Londoners (or other local populations) what they want, and then ask how they want to pay for it, they are more likely to embrace both the idea and the cost. This is borne out in examples such as Business Improvement Districts, where business opts into paying a levy for the services they want, or for major infrastructure projects such as Crossrail where the business contribution to its funding was vital.
- A city region, or other defined and manageable geographic area, is best placed to work out the needs of that place. It can also front-up things that might be politically difficult on the national stage, but are necessary for growth.
- Elected local government is best placed to allocate scarce budgets across competing priorities in their areas. Studies show that local politicians are trusted more than national politicians by the general public[5].

The arguments in favour of devolution have been well rehearsed. For example, the benefits in terms of improved economic and social outcomes are summarised by the Institute for Government in their paper on how the government should complete the job of English devolution[6]:

The case for devolution

A new deal for England, Institute for Government, May 2024

The Institute for Government sets out how devolution can lead to improved economic and social outcomes by:

- Enabling policy and services to be better tailored
- Enabling local leaders and services to join up across silos
- Empowering local leaders to make progress with transformational long-term projects
- Creating a 'policy laboratory'

And also lead to greater fairness and democratic engagement by:

- Giving regions a stronger voice
- Creating institutions that reflect & strengthen people's sense of civic identity
- Creating new opportunities for democratic engagement & participation

We think the benefits can be summarised as:

1. **Speed:** because with the right powers and responsibilities, decisions taken locally can be made, executed and adapted faster than if they are determined centrally.
2. **In-tune:** because a city region or defined geographic area is best placed to work out the needs of that place and be more responsive to changing social and economic priorities.
3. **Joined-up:** because local leaders and institutions are more likely to be able to join up across silos, for example across housing and transport, and apply systems-thinking for better end results in-keeping with a mission-based approach.

The benefits of devolution ought to create a virtuous circle, with increased growing tax yields, which in turn generates higher revenue that can be invested back into the place.

As well as this virtuous circle, fiscal devolution can also bring long-term certainty to funding, rather than projects being subject to annual or three-yearly stop-go decision-making by central government spending rounds. Breaking out of this stop-go cycle can help achieve more efficient project procurement and better on-going delivery.

Applying the benefits of devolution could lead to faster, better progress on some of the national priorities facing the UK in the following ways:

- Growth: local areas are more likely to back growth-enhancing policies, even if they are politically difficult, if they come with strong incentives to grow the revenue stream on a lasting basis. The Institute for Government[7] references work by the OECD[8] that shows tax devolution is more strongly associated with improved economic outcomes.

- Housing: local areas are more likely to be in-tune with their local housing market and demographic need. They are also more likely to be able to join-up housing with other infrastructure to ensure the right sort of housing mix, in the right place, with the right connectivity. This could help to boost the supply of affordable housing.

- Infrastructure: devolution enables more integrated regional planning, so that different aspects of infrastructure for transport, housing and economic development are mutually supportive. The National Infrastructure Commission in its National Infrastructure Assessment, October 2023 says "More devolution and bigger local transport budgets are essential for better maintenance and continued transport enhancements across the country." In London, this could include projects such as Crossrail 2 or the Bakerloo Line extension.

There are several proof points for where devolution has already made a positive difference on these issues:

PROOF POINT

1 Transport

Transport for London (TfL) has been one of the great success stories of devolution[9]. Public transport services have improved, ridership has risen, and modes of transport have shifted as the population has grown. Many of TfL's innovations, such as the integrated Oyster contactless payment system, have been copied in the UK and worldwide. The Centre for London[10] points out that integrating transport planning across the business and tube systems, alongside other modes, has laid the groundwork for the lowest modal share for private transport anywhere in the UK. Greater Manchester Mayor Andy Burnham's 'Bee Network' is also striving for a joined-up travel network across Greater Manchester. Other examples include Crossrail, which made use of an innovative funding model and resulted in a 10 per cent rail capacity increase in central London, relieving existing rail and Tube line congestion[11]. The Docklands Light Railway opened up further land for housing development. Investment in relatively modest projects, such as the London circular overground line or the Metrolink in Manchester have made a big difference.

PROOF POINT

2 Skills

Devolution of the Adult Education Budget to the GLA has seen enrolments rise significantly more than in non-devolved areas.[12] London's Education and Training enrolments between academic years 2020/21 and 2021/22 increased by 10%, significantly higher than the 2% increase recorded by non-devolved regions. In total, more than one million learners have participated in vital training and boosted their skills in the last five years since the Mayor of London took control of adult education funding for the capital. London's subregional partnerships were also delegated management of the Work and Health Programme, which helps those who are long-term unemployed or have disabilities into work. Three of four subregional partnerships equalled or exceeded the performance of nationally-managed programmes, which was a remarkable turnaround as London traditionally performed below other parts of the country prior to delegation.

PROOF POINT

3 Productivity

Devolution in Greater Manchester and other northern regions appears to be paying dividends, according to a Northern Powerhouse Partnership research paper.[13] Lord O'Neill, chair of the NPP, said "The local leadership in Greater Manchester has been laser-focused in delivering a consistent, ambitious economic vision targeted at inward investment and key productivity drivers such as transport, which is paying dividends now." The OECD[14] also finds ways of how devolution can spur productivity, and recommends a better match between responsibilities & financial resources, multi-year budgeting and strengthening the capacity to plan & implement integrated strategies as further devolution productivity drivers.

Section 3

How it should be done: stepping stones to greater policy, regulatory & fiscal devolution and a trailblazer deal for London

The principles of devolution identified by the London Finance Commission[15] have stood the test of time and should continue to be applied:

PRINCIPLE

1

Accountability

There should be a link between spending decisions and taxes raised.

PRINCIPLE

2

Transparency

The financing system should be as simple as possible.

PRINCIPLE

3

Efficiency & effectiveness

The preferences of citizens should be better met than if the same decisions were made by national government.

PRINCIPLE

4

Autonomy

There should be a choice about how much to spend and on what, such that it is not blocked from promoting local interests.

PRINCIPLE

5

Fairness

All parts of a country or city should receive acceptably fair service provision and face acceptably fair tax burdens.

We also endorse the 'stepping stones' approach to greater fiscal devolution that the London Finance Commission laid out:

STEP
1
A 'consolidated pot' approach

Reduce the constraints on money that devolved, local areas are already getting. By embracing a 'consolidated pot' approach, existing funds can have greater impact and be focused on where they are needed most. This is highly compatible with a mission-based approach to government.

STEP
2
Genuinely autonomous funding

Turn the revenue streams local areas get into genuinely autonomous funding, by giving them (e.g.) the business rates rather the revenues from them via grant funding. This gives local authorities a better ability to plan, and the big plus is they suddenly have an incentive to create the conditions for growing the revenue stream. At the very least, a significant proportion of tax-base growth should be retained locally over the very long term.

STEP
3
An intra-London distribution model

Give the GLA and London Councils responsibility for deciding how these revenues are going to be split up through an intra-London distribution model. The Shared Prosperity Fund, a central government funding stream available to local areas, is designed to improve pride in place through investing in communities and place and is a good proof point that an intra-London distribution model can work effectively. London is now anomalous in not having any shared governance between all of the democratically-elected leaders in a region the way that combined authorities do.

STEP
4
Twin-speed ahead, as capability, checks & balances are developed

Tax-varying powers require some checks & balances to be put in place. These should be developed on a twin-speed basis, as set out in the London Finance Commission report: with permissive legislation passed in the near-term to enable London's government to introduce new, smaller taxes; and a longer time horizon being required to design an approach for more substantial fiscal reform that guards against an undue and unsustainable shift of resources between London and the rest of the UK.

Putting in place the right incentives are an important part of having the right checks and balances in place. We think there is a 'quadruple' lock that incentives, checks and balances should be designed around, to ensure that devolution works for local citizens, local businesses, local government and the UK as a whole:

INCENTIVE LOCK
1
Ensure that local people see they are getting something out of it.

INCENTIVE LOCK
2
Ensure that fiscal devolution is fair to business.

INCENTIVE LOCK
3
Ensure that local government retain the proceeds of growth, so that they have the incentive to grow the revenue stream on a lasting basis.

INCENTIVE LOCK
4
Put in place checks and balances to ensure that London rightly pays its fair share and supports spending in other parts of the country.

Strong co-operation between the GLA and London Councils and the development of an intra-London distribution model is critical to the success of further fiscal devolution in the capital. The experiences and success of operating the UK Shared Prosperity Fund (UKSPF) should offer both reassurances and some pointers for how this could work in the future. London's UKSPF programme was co-created via an investment plan with London Councils in 2022 and on-going, regular engagement has seen the programme performing on-track.

Our immediate, priority recommendation to get investment, productivity and growth going is to grant London a trailblazer devolution deal, giving it powers, responsibility and fiscal autonomy on a par with Greater Manchester and the West Midlands. Critical component parts of this deal are a single settlement along the lines of a departmental settlement, a long-term 10-year time horizon, and full autonomy over business rates or their successor.

In the medium-term, a more ambitious level of devolution should be developed, allowing London and other city regions to make investments which will increase economic growth and yield higher taxes.

We believe that are strong arguments for granting large City Regions additional powers given they have the resources to pilot things, iron out any difficulties and create templates for other places to use. The English Devolution Bill, and accompanying White Paper, should provide further momentum and is an imminent opportunity to act on these recommendations.

This paper has been produced by BusinessLDN in association with a number of Primera's Business Improvement Districts. Our work has been informed by a steering group, but this paper does not necessarily reflect the views of the individuals or their organisations.

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Endnotes

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9 BusinessLDN / Deloitte Place Commission report, May 2023

10 Centre for London, Devolution in London the Unfinished Story

11 www.london.gov.uk\programmes and strategies\transport\rail and underground\the Elizabeth Line

12 GLA Adult Education Budget Evaluation 2021-22

13 Northern Powerhouse Partnership, Productivity in the Northern Powerhouse, June 2024

14 Centre for Cities, Devolution Solution: How fixing English local government will improve economic growth, July 2024

15 London Finance Commission, Devolution: a capital idea, January 2017

Our mission

We make it easier to grow your business in the capital

We work to deliver the bigger picture, campaigning to tackle today's challenges and to secure the future promise of London.

We harness the power of our members, from sectors that span the economy, to shape the future of the capital so Londoners thrive and businesses prosper. We support business to succeed — locally, nationally, globally. We link up with other cities around the UK, to ensure the capital supports a thriving country.

We campaigned for the creation of the office of London Mayor and Transport for London, for the Elizabeth Line, for congestion charging, we incubated Teach First and run the UK's largest annual jobs and careers fair, Skills London.

We create opportunities for our members, from sharing insights to providing platforms, from making introductions to finding new talent. We facilitate collective, organisational, and individual ambition.

Becoming a member of BusinessLDN helps to keep London and the UK working — for business, for Londoners, for the whole country.

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