HOUSE OF COMMONS

Communities and Local Government Committee

Oral evidence: Fiscal devolution to cities and city regions, HC 1018

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Written evidence from witnesses:

Panel 1 (Questions 240-282)

Greater London Authority

Panel 2 (Questions 283-319)

London Assembly

London Councils

London Chamber of Commerce and Industry

Watch the session

Members present: Mr Clive Betts (Chair); Bob Blackman; Simon Danczuk; Mrs Mary Glindon; David Heyes; Mark Pawsey; John Stevenson; Heather Wheeler; and Chris Williamson

Panel 1 Questions [240-282]

Witnesses: **Boris Johnson**, Mayor of London, gave evidence.

Chair: Welcome to the Mayor of London. Thank you very much for joining us on this occasion. Just before we begin with our questions, could we ask Members of the Committee to declare their interests for our records? I am a Vice-President of the Local Government Association; if we just go round and we all put on the record our relevant interests.

Mrs Glindon: My husband is a councillor on North Tyneside Council, as is one of my members of staff.

David Heyes: I have two members of staff who are local councillors.

Chris Williamson: I have two members of staff who are elected councillors.

Simon Danczuk: My wife is a local councillor; my father-in-law is a councillor; and I have three members of staff who are councillors, all in Rochdale.

Mark Pawsey: I have a member of staff who is a local councillor.

Heather Wheeler: I am a Vice Chairman of the LGA, and my husband is leader of a district council.

Q240 Chair: That has got us started. Once again, thank you very much for coming to give us evidence on this important inquiry that we are conducting on fiscal devolution to cities and city regions. Mayor, I suppose in the end what is really important is what the difference would be to the residents of London if these powers that you asking for were devolved to London. Would people not ask, "Would it really matter whether it is George and Eric who pull the levers of power or whether Boris gets hold of them instead? Will it really make any difference to us?"

Boris Johnson: The answer is of course yes, it would, Mr Betts. Thank you very much for having me before your Committee and thank you indeed for the work you are doing in looking at fiscal devolution. This is a reform whose time has really come. The difference it would make, not just for London but for all the Core Cities that have so far signed up to it, is that they would have, in circumstances where their economies have got massive capacity for growth—they are the locomotive of the UK economy—stability and certainty of funding. I think that is very important.

If you look at what is happening in London, the history of government in London and the finance of great projects in London, two things really stand out. The first is that it is so stop-start: you get commitment for something like Crossrail, which is great, but then you have to argue again for every penny packet of further funding. It would give London government, at all levels, both City Hall and boroughs, the ability to plan ahead, to look at the needs of the city and to think long-term, just because there was that knowledge of the stability of funding. It clearly also would give greater scope to borrow and therefore to do more, and it would of course give those authorities in London and elsewhere a strong incentive to go for policies that maximised the growth of that suite of five property taxes that we are talking about.

I just want to stress, for the benefit of all members who are not from either London or any of those five Core Cities, this would not to be the detriment of any other part of the UK. After all, if the tax yield in London were to grow as a result of this incentive, then we are only talking, in the suite of five property taxes, of about 12% or 13% of overall tax yield. George or Eric, to get back to your question, Mr Betts, would still dispose of the lion's share; they would still have 88% to play with and to redistribute, so it is a win-win.

Q241 Chair: Regarding the link-up with the Core Cities outside London, which came to the game after the London Finance Commission reported, was it them saying, "We want to grab on to your coat tails," or was it London saying, "Well, actually this is a bit of help to us," because it gives a bit of political balance to what you, as a Conservative Mayor, are trying to achieve that Labour Core Cities are trying to join with you?

Boris Johnson: I cannot remember exactly, but I think it was just a happy harmony of interests. It was perfectly obvious to all of us that this was a great project. Everybody can see what is happening in Scotland and in Wales. What has England got out of devolution? Not a sausage. It was time to do something. It is something that appears natural to loads of people around the country.

Q242 Chair: Loads of people around the country are more than just London and the Core Cities, though, are they not? Places like Oxfordshire, where you used to have a parliamentary constituency, are all being left behind by this. Are they going to be excluded from this process?

Boris Johnson: There is no reason in principle why they should be left behind at all, but you have to start somewhere. The cities patently are clear areas of local authority and local control. This may be disputed in the case of some of the cities that we are talking about. but certainly in the case of London, there is an obvious political entity that has pretty clear boundaries and a pretty clear identity, which I think is the way forward.

Your Committee, Mr Betts, will be familiar with the figures. From memory, London currently spends, or London bodies altogether—the boroughs and City Hall—currently spend about 7% of all the taxes that are raised in London, compared to 50% in New York, I think 77% in Tokyo and so on. We are comparatively fiscally infantilised in this country, and this is a chance to do something about it.

Q243 John Stevenson: Out of interest, why do you think England has such a culture of centralisation?

Boris Johnson: It is a historic thing. I suppose it is just the way the Treasury has always conceived things. We are like France, really. The two most centralised countries in Europe are Britain and France, and we are outliers. It is moving in the other direction, though; you are seeing very considerable devolution happening now in Scotland. Whatever happens this September, it is pretty clear to most people that, such are the polls, the argument for yet more devolution to Scotland is not going to go away. If you ask me why there is such an obsession with centralisation, I would point to the Treasury and their obsession with keeping a firm grip on public expenditure, without recognising that actually a lot of the council tax has been held down in London, much more than in the rest of the country. If you devolved these powers to local government, you would actually bear down on expenditure much more and you would bear down on the propensity of politicians to raise taxes.

Q244 John Stevenson: Your comment about Scotland is interesting, as is your comment about decentralisation in England. You are obviously an advocate of fiscal devolution, but the central Government is saying they have "no current plans to transfer more powers to the Greater London Authority". How are you going to persuade them otherwise?

Boris Johnson: By sheer sweet reason and force of argument. I really think it is in the interests of central Government to recognise that this is the way to get growth going. Also, by the way, it is pretty obvious to everybody that the balance between the property taxes that we have been discussing is in need of reform and review. I do not know whether your Committee has yet delved into this, Mr Betts, but it strikes me that, if you look at the balance between council tax and business rates, it is something that needs thinking about. Obviously there are various stipulations to protect business rate payers from politicians whacking up business rates, which are very important, but it is high time that local government was given the responsibility of a revaluation of the council tax rates. That seems to me a nettle that no Government has grasped. No one has had the guts to do it and it is not going to be done at a national level, but it could be done this way.

Q245 John Stevenson: What sort of timescale would you suggest, if Government was sympathetic to devolving tax-raising powers?

Boris Johnson: In an ideal world, what I would like to see—this is obviously what we are working on—is the inclusion of this scheme in all the party manifestos. It would move forward in the next Parliament.

I am delighted to see the massive audience we have, Mr Betts, on the subject of fiscal devolution of the suite of five property taxes to the great cities of this country. It is obviously a subject that grips the imagination, and quite rightly. This should be something of such non-controversial narcoleptic qualities as to be in every party manifesto. It is a very, very modest devolution. We are not talking about any extra cash; it is a £1 for £1 swap of the suite of five property taxes being assigned, ascribed, to the cities, with no loss to the Treasury in year one. As I point out, if there is growth in taxation in London or elsewhere, then the Treasury benefits anyway.

Q246 John Stevenson: It is interesting that most politicians seem to go from local government to Westminster politics. You are slightly unusual in that you have gone from Westminster politics to local politics.

Boris Johnson: I am a municipal politician, a proud municipal politician.

Q247 John Stevenson: If you were to return to Westminster—

Boris Johnson: In that vanishingly improbable event.

John Stevenson: You can tell us that, one way or another. Can you assure this Committee then that, if you were to return, you would ensure that this fiscal devolution does actually happen?

Boris Johnson: Yes. Sorry; I am not meant to be discussing this sort of hypothesis, but I think it is a great idea. Britain is a complete outlier. Apart from the French, who are totally manic in their centralisation, we are the most centralised country in Europe. The tradition of the Conservative Party, Joe Chamberlain from Birmingham, Manchester liberalism—we should be getting back to this kind of idea. We should be getting back to very proactive, strong, city-led government that has an incentive to go for growth. I think it is something that all parties should support.

Q248 John Stevenson: If you ever return as Secretary of State for Local Government or some other position in Government, you will support devolution?

Boris Johnson: It is an honour that I dream not of, but genuinely I think it is a great idea. We are very encouraged by some of the conversations that we are having, though obviously you are correct to draw attention to the particular response that we had earlier.

Q249 Chris Williamson: Good afternoon. Would it be fair to say that the essence of your proposal is that London keeps more of its property taxes, resulting in Government having less to redistribute to the rest of the country, according to need?

Boris Johnson: No, that is not quite right. All we are saying is that, out of the general grant that is given to London, you should in year one designate the suite of five property taxes henceforth to be raised, set and spent in London. That would give an incentive to government in London to maximise growth, to go for policies that stimulated more of that than SDLT, council tax, business rates, annual tax on enveloped dwellings, capital gains tax and all those coming into their coffers.

At the same time, what would happen is that, of course, general taxation would rise and so the Treasury would benefit from that uplift as well, as I said at the beginning. For 88% of the taxes coming from London, the benefit of the increment would be felt in the Treasury and that would be there, Mr Williamson, for redistribution to the rest of the country.

Q250 Chris Williamson: You will appreciate that at the moment the current business rate yield around the country does not match need in every area. We have this system of tariffs and top-ups that I am sure you would be familiar with. Would you envisage something similar for a London-based system—tariffs and top-ups—to make sure it is redistributed around the capital? If not, how would you see it?

Boris Johnson: That is going to be the issue, because clearly there will be a need to redistribute the taxation within London. After all, I think I am right in saying that the City of Westminster alone produces something like—I cannot remember what exactly—2% or 3% of UK GDP; it is something huge. There would have to be a redistribution, but there are plenty of people in London government who have experience of that. There is no reason why we should not be able to do that again.

Q251 Chris Williamson: Do you have any thoughts or something you could share with us today as to how London would assess need within the capital and how you would secure fairness around the whole of London?

Boris Johnson: Clearly you would have to have an equitable arrangement between the boroughs, City Hall and central Government. There would have to be a trilateral negotiation about how the system was going to be set up, how it was going to be administered and how each of the taxes was administered and spent, in detail. Together with London Councils, there is no reason whatever in my view—this is a view that I think is supported by Jules, who you are going to hear from, and a view that I think London Councils would agree with—why it would not be possible to get to a fair distribution of what you are quite right to point out are very unequal revenues. Put it this way: why should we not in London be just as able to distribute those funds fairly and equitably, and in a democratically accountable way, as Government Departments in Whitehall, which is what we currently rely on?

Q252 Chris Williamson: My question is how you would assess need. I think what you are saying is that is still something that you are formulating, but there seems to be a willingness, if I am paraphrasing you correctly, within the London boroughs to reach agreement on that.

Boris Johnson: Yes. I do not want to anticipate what Jules is going to tell you, but there is certainly strong support for this idea, both from the boroughs and also from business, which is very important. Clearly one of the apprehensions is going to be whether we can trust all these politicians with the business rate, because businesses do not vote in the way that council tax payers do and "they'll stiff us" will be the anxiety. We think we can build in safeguards to protect business and to protect policies that go for growth.

Q253 Chris Williamson: A final question from me in relation to stamp duty. Obviously it is appreciated that in recent times stamp duty in the capital has doubled— that could provide for a pound-for-pound reduction in the government grant in the first place.

Boris Johnson: Stamp duty from London now provides 33% of all stamp duty revenues.

Chris Williamson: What I am saying is that therefore that could then enable a reduction in government grant, pound for pound. Assuming that carried on, would your system allow any national redistribution of excessive yields from, for example, ongoing ballooning stamp duty?

Boris Johnson: If I may say so, Mr Williamson, that is the key point that the Treasury is currently focusing on. You are absolutely right to identify it. They do look at SDLT and London yields and think, "Why should we let these guys have all that?" I repeat to you that it is a misconception, because they are not actually forsaking any revenue. It would still only be a small fraction of the overall grant given to London and, if the tax yield went up, then the Treasury would benefit anyway. There is a sort of psychological problem in the Treasury, in that they are looking at this SDLT thing and thinking, "Oh my goodness, this is a fantastic cash cow. We cannot possibly transfer it to local government," but they would not in fact be doing any such thing.

Q254 Chris Williamson: If I could elaborate a little on that, are you saying that they are getting the income stream to the Treasury by another means? Are you saying that there should be some overt mechanism to top-slice excessive yields from ballooning stamp duties?

Boris Johnson: Do not forget that what goes up can go down as well, and we have seen plenty of property crunches as well, historically. It is not a one-way bet, and it would be up to London government at all levels to manage those taxes in a sustainable way.

Q255 Chris Williamson: It sounds from what you are saying that you are not particularly keen on any overt interference.

Boris Johnson: What we are trying to say is, once you have made the devolution, I am not particularly keen on some sort of complicated claw-back mechanism. That might be something that you wanted to consider.

Q256 Chair: To follow up on that, certainly the current system of partial localisation of business rates has a reset mechanism, which I think will probably operate in 2020, not before. Would you envisage any reset mechanism at all for any of these property taxes once they were devolved to London government?

Boris Johnson: What do you mean by "a reset mechanism", Mr Betts?

Chair: Essentially to look at the distribution of business rates between the various authorities, recognising that some authorities would have done a lot better than others in the intervening period.

Boris Johnson: As I said earlier, I think that generally we have got to a situation now where, if you look at the difference between London and almost any other city, in terms of the balance of property taxes, it is absolutely crazy. When we all go out campaigning, most businesses and shops feel they are absolutely being clobbered by business rates. I am afraid, if you look at council tax and you look at the top rate of council tax that is being paid in this city, it is really, in my view, inadequate by comparison to what is being asked in our competitor cities. Look at what they are paying in New York; look at what they are paying in Paris. I think it is time for a rebalancing. As I said earlier, local government is the place to do it. I do not think this will be done nationally. I do not think any government is going to have the cojones to do this. You might as well get on and devolve it to the cities.

Q257 Chair: Once devolution happens, there is going to be no reset in your system then.

Boris Johnson: There would be a revaluation.

Chair: Yes, but there would be no reset in terms of a redistribution back to other areas where the rate of growth from property taxes may not have been as large.

Boris Johnson: I see, so you are going back to Mr Williamson's idea that, if there was a sudden spike in SDLT—

Q258 Chair: What is going to happen with business rates, as they stand?

Boris Johnson: We could look at that. I would prefer just a clean devolution because, after all, as I say, this is no net loss to the Treasury and it is an incentive to go for growth.

Q259 Chair: The Treasury might see it—and I am sure they can argue the case better than I can—that if this change had been made in, say, 2009, then there would now have been a net loss to the Treasury, because they would have missed out all the growth in stamp duty and capital gains tax that has happened in the intervening period, would they not?

Boris Johnson: Yes, but they have been awash with money from income tax and all the other tax yield. We are still only talking about 12% of London's overall tax yield. They would still have benefited massively from growth. As I said to Mr Williamson, these property taxes, particularly SDLT, are very fickle indicators. That can go down as well as up. What I am saying, and this is the attraction for the Treasury, is that it would be local government and city government that would take that risk. The risk of it going down would be with us, not with the Treasury, if you see what I mean.

Q260 Mark Pawsey: Mayor Johnson, you are making a strong case for the devolution of powers from central Government to London, but without telling us what exactly you mean by "London". Do you mean powers to you as the Mayor? Do you mean powers to you working in conjunction with the boroughs, or could the boroughs do this on their own? Who are these powers going to be given to?

Boris Johnson: That is an important question.

Mark Pawsey: One that you will consider in depth.

Boris Johnson: We are ad idem on this, the boroughs and I. I do no want to go into too much detail about how the various taxes would be divvied up and how it would work, but we are very confident that—

Q261 Mark Pawsey: If you are going to make a case to Government to hand those powers over, then surely Government would reasonably want to understand how they are going to be divvied up within London. We are using the term "London" very loosely today.

Boris Johnson: We are very confident that you can have a transfer of those taxes to London government at all levels and that arrangements can be made that will satisfy both City Hall and the boroughs. I want to stress that that is work that is currently going on and is, as far as I understand it, very productive and successful.

Mark Pawsey: The negotiations are currently taking place.

Boris Johnson: They are.

Mark Pawsey: And nothing has yet been determined.

Boris Johnson: They are, but I would say—I do not want to anticipate what Jules will say or indeed any other of your speakers—nobody thinks that this is a deal breaker.

Q262 Mark Pawsey: You would accept that, if Government is going to go along with this proposal, it is reasonable for them to understand exactly how those powers are going to be spread, so one can assume that you will hold off really pushing this thing until such time as—

Boris Johnson: Yes. Mr Pawsey, this is not beyond the wit of man. After all, in New York you have city authorities; you have borough authorities. It is well understood that they dispose of the 50% of tax raised in New York in their various ways, and that there is an agreement between them.

Q263 Mark Pawsey: Mayor Johnson, you are aware that we visited Manchester and we have taken evidence in Manchester, where the Leader of the Greater Manchester Combined Authority said that he felt he was ahead of London, because they are already working together.

Boris Johnson: He is, and I quite agree. It is very frustrating, because they have got this earnback deal, which is a kind of variant of what we are trying to get. What you need is a policy or fiscal arrangements that will stimulate growth.

Q264 Mark Pawsey: What Lord Smith said was that they do not have any of the tensions that currently exist in London between the Mayor and the boroughs.

Boris Johnson: The tensions? I am not aware of any tensions.

Mark Pawsey: There are no tensions?

Boris Johnson: It is the first I have heard of it.

Mark Pawsey: Maybe you should have a word with Lord Smith.

Boris Johnson: Lord Chris Smith?

Mark Pawsey: No, Lord Smith of Leigh.

Chair: He is Chair of the Manchester Combined Authority.

Boris Johnson: I am not aware of the tensions that Lord Smith alleges.

Q265 Mark Pawsey: Let us assume that these powers are transferred. Do you see the role of the London Assembly changing? Would it have a different role if there were more tax-raising powers within the executive within London?

Boris Johnson: I do not think that there will be much change to the role of the Assembly, because they are there to scrutinise my budget. They continue to have that role. This is very important: we are not asking for new competences. This is not about competences. It is about fiscal devolution; it is about stability of funding and going for policies that maximise growth.

Q266 Mark Pawsey: Mayor Johnson, you have also spoken about distortions at the border and what the relationship is between Greater London and those authorities on the edge, where they would not have the tax-raising powers that the Greater London Authority would have.

Boris Johnson: They would continue in their current client status, vis-à-vis Whitehall, and that obviously is something that we could not change overnight. If the move towards devolution in London and the Core Cities was to lead to greater fiscal devolution and greater fiscal accountability for local politicians, that might be a good thing for the country as a whole.

Q267 Mark Pawsey: Given the influence of London on those authorities at the edge, you would not be making a case for extending your powers into Kent and Essex.

Boris Johnson: We have no territorial ambitions. The Oyster card—we have extended the Oyster card to Luton now, have we not? Anyway, we have plans with the Oyster card. Although the Tube network does operate outside the Greater London area, we have no territorial ambitions.

Q268 Mark Pawsey: There was an issue in Manchester where they acknowledged that—

Boris Johnson: The Oyster card is going to Gatwick, I should say.

Mark Pawsey: The drive-to-work area extended beyond the Greater Manchester area, and the area that Greater London will influence will extend well beyond the Greater London boundary.

Boris Johnson: That will not apply in the fiscal sense. Clearly there are lots of ways in which, as I have said, we have bits of London transport that run into the periphery, the Oyster card and so on, but I do not think there would be any kind of political impact. It would be good for the whole country, because people would see the advantages of fiscal devolution for local politicians. It would galvanise local politics.

Q269 Simon Danczuk: I just wanted to stick with governance for a moment. From my understanding, what you are proposing for London really is more complex governance—sucking in more and more powers, the potential need for qualified majority voting amongst the boroughs, and bureaucrats running all over the show. It sounds like you are creating some sort of mini European Union for Greater London.

Boris Johnson: What?

Simon Danczuk: That is the model that you are proposing. To get to the question, do you not think that the people—

Boris Johnson: No, we want sovereignty. We are asking for greater cession. We want an end to the centralised Brussels-like control that Whitehall is exercising.

Simon Danczuk: You are creating your own model of it though, Boris; that is the issue.

Boris Johnson: No, on the contrary, this is a devolved approach. It involves less centralised control.

Q270 Simon Danczuk: Do you not think the people of London should get a chance and a referendum to vote on whether this devolution takes place or not?

Boris Johnson: I think the people of London would be very keen on this. Obviously I am a vicious and vehement enemy of bureaucracy everywhere, and I can point to the things I have done across London government to reduce bureaucracy and indeed to reduce the number of people engaged in bureaucracy, but I do not think this would have anything like that effect. I see no reason to employ a single extra person to do this. We are talking about a fiscal devolution that I think will be very popular with Londoners and give them a sense that, when they are electing their politicians, they have much more of a duty to them and to policies that will actually go for growth and for their interests.

Q271 Simon Danczuk: You support a referendum to test whether the public of London think this devolvement should take place. You support that.

Boris Johnson: You could either have a referendum or you could have an election, provided it was clearly put. The policy should be clearly put to the people of London and the Core Cities, yes.

Simon Danczuk: You are happy with a referendum. There is no other way of doing it.

Boris Johnson: I am not against a referendum; I just do not happen to see that it is absolutely necessary. I am worried, I have to tell you, thinking about it out loud for the first time, that we might not get a spectacular turnout. Although people might want to go to the barricades with the cry of, "Give me the suite of five property taxes or give me death," I am not sure that it is one that will—we might have an embarrassingly low turnout in a referendum.

Q272 Simon Danczuk: You could combine it with some other elections.

Boris Johnson: You might want to do it like that, yes.

Q273 Simon Danczuk: Let me just turn to one or two other questions about business rates, etc. Who would be responsible for the operation of business rates and council tax under this fiscal devolution?

Boris Johnson: Again, that is all very much for negotiation between us and the boroughs. Council tax and business rates would probably be shared, as they currently are between us and the boroughs, between the GLA and the boroughs. With SDLT and CGT, there might be more of a role for City Hall there, with the boroughs having a share.

Simon Danczuk: That needs to be sorted out.

Boris Johnson: That is what we are talking about now.

Q274 Simon Danczuk: If I have heard you correctly throughout this session, Boris—correct me if I am wrong—you have been suggesting that you think businesses should pay a little bit less in business rates and London residents should pay a little bit more in council tax to rebalance it.

Boris Johnson: Not all residents obviously. A lot of residents would be paying less. If you look at outer London, you could certainly argue that council tax would come down. Lots of parts of outer London might come down. If you compare what a Russian oligarch is paying on his stuccoed schloss in Kensington in annual council tax compared to what such a gentleman might be asked to pay in Paris, New York or anywhere else, the difference is quite stunning. No one has yet grasped that. I am by no means an advocate of a mansion tax—in fact, I vehemently oppose such an idea—but we cannot go on forever without looking at our council tax valuations, in my view.

Q275 Simon Danczuk: We are agreed that your general view is that, in principle, business rates should come down and council tax should go up. That is the general thesis.

Boris Johnson: For some people, for some dwellings, yes, I think they should.

Q276 Simon Danczuk: Finally, all these plans work well in a slowly growing economy as we are now in—if that picks up, all the better—but in the South-East it is certainly better than it is up north. All these plans work well in a growing economy. What happens when a recession hits yet again? Who decides on where the cuts take place across London?

Boris Johnson: Clearly there has got to be a decision by local government. In so far as the responsibilities are devolved locally, then that is where the decisions should be taken. Again, I am glad you mentioned the possibility of a downturn, because it is very important. The Treasury should understand that things do not always go in one direction. SDLT is not always going to be this enormous cash cow, and there is a downside risk to local government in taking this devolution, but the incentive therefore is to go for policies that will promote growth and to avert the kind of downturn that you are talking about.

Q277 Simon Danczuk: Just to conclude, is it you, the Assembly or the boroughs that would decide where the cuts fall?

Boris Johnson: It depends what it is in. If it is transport, police, fire, housing or whatever, then I would take a lot of the decisions. If it a lot of the other services, the boroughs would take the decisions. There is a pretty clear division of competences. It is very important to recognise there is no proposed change in the division of competences between the boroughs and ourselves.

Q278 John Stevenson: Can I just take you back to council tax? You have clearly ruled out the idea of a mansion tax, but would you support extra council tax bands, particularly for more valuable properties?

Boris Johnson: I think that is the kind of thing you need to look at. You need to look at some way of reflecting what has clearly been—I do not happen to have the answer now. This would be a matter for negotiation and discussion between City Hall and the boroughs about how we were going to do it. There is a reason this has not been done; it is because it is very difficult and very unpopular. That does not mean that it is not the right thing to do.

Q279 Chair: Just coming back to the business rate question, there has been speculation—I think even the Prime Minister joined in with this—that there might be such a fundamental review of business rates that they might be scrapped altogether and replaced with something like a sales tax. Would that not effectively pull the rug from the whole of your fiscal devolution?

Boris Johnson: I would not necessarily oppose that by the way, but it would not at all. In New York, for instance, a sales tax is what the city levies.

Q280 Chair: Would it not be much more difficult to localise?

Boris Johnson: No, they have a local sales tax in New York.

Q281 Chair: You would not have any concerns over that at all.

Boris Johnson: I would need to have a look at how it would work and I would need to be persuaded it would not have any adverse impact on the economy. As I say, business rates at the moment, in the way that they are working, are doing a lot of damage. They are against enterprise and they need to be reformed.

Q282 Chair: I will turn the question around another way then. Would it be an important element of any review of the business rates system that whatever emerged out of it was capable of fitting into a fiscal devolution package?

Boris Johnson: Yes. I see no reason why that should not be the case. If you went for a sales tax, I do not see why that should not be part of the taxes that we are trying to devolve.

Chair: That should be one of the criteria that is bedded into any review.

Boris Johnson: Yes. You have the advantage on me, Mr Betts, in knowing about this plan to go from business rates to a sales tax.

Chair: I am no closer to the Prime Minister than you are.

Boris Johnson: If that is indeed the intention, then that is news to me, but it is good news.

Chair: Unless there is anything else you would like to add this afternoon, thank you very much for coming along and giving evidence to us.

Panel 2 Questions [283-319]

Witnesses: **Darren Johnson**, Chair, London Assembly, **Jules Pipe**, Mayor of Hackney and Chair of London Councils, and **Colin Stanbridge**, Chief Executive, London Chamber of Commerce and Industry, gave evidence.

Chair: Good afternoon. Thank you all for coming. Just for the sake of our records—there are three of you here—could you just indicate who you are and the organisation you are representing today?

Jules Pipe: Jules Pipe, Chair of London Councils by virtue of being the directly elected Mayor of Hackney.

Darren Johnson: Darren Johnson, Chair of the London Assembly.

Colin Stanbridge: Colin Stanbridge, Chief Executive of the London Chamber of Commerce and Industry.

Q283 Chair: Thank you very much for coming. The first obvious question is: why does London need this fiscal devolution? There has been an awful lot of change in governance arrangements in the last few years, particularly with the creation of a Mayor and the Assembly and different powers being transferred, so would a bit of stability for a time be appropriate? Are things not working pretty well without all these fiscal changes?

Darren Johnson: London has to fight for every penny. There is no sign of either this Government or a future Government queuing up to massively increase the grant to London, so we do need to look at being more self-sufficient and a fiscally neutral but devolved fiscal regime. The sort of taxes that the Mayor was discussing, as well as freedom on borrowing, which was another key point from the London Finance Commission—those things are absolutely vital if we are to accommodate a growing city. The population is going to be growing very substantially in London. We are not looking necessarily at additional government grants for London, so if we are to get our transport infrastructure meeting the needs of a growing population, if we are to tackle the housing crisis in London and get the sort of social housing and affordable housing investment that we need, we absolutely need to have more control over our own finances.

As the Mayor was just saying, we are not talking about a massive shift of power from Whitehall to London. Rather than being in control of 7% of overall tax revenue in London, we are looking at increasing that from 7% to 12%, so it is not a massive shift, but it is a significant shift and it is vital to accommodate the needs of a growing population.

Colin Stanbridge: London still has many needs. I know around the rest of the country there is probably a feeling that London gets everything and the streets are paved with gold, so why should London get more? Those people who are living in London, those people who are going to live in London, know that there are serious problems that need to be addressed. Darren is absolutely right; housing is one of those.

We would also talk about transport infrastructure. I think the London Chamber of Commerce was one of the first organisations, in 1973, to write a paper about the need for Crossrail. Maybe in a few years' time we will have Crossrail. In our opinion, we should now be building Crossrail 2, if we are going to meet the needs of a growing city. Of course, those needs also translate into the success of the rest of the country. With a successful London, as the Mayor has pointed out, 88% of taxes will be redistributed in the same way, which means that billions of pounds raised in London will, quite rightly, go to other parts of the country. If we want to keep that going and we want to be able to compete with other cities, then we need to make sure that our infrastructure, housing, social care and all those things are well financed. We see that we are only going to get that by having some way of raising money locally to spend locally.

Jules Pipe: I would just add to those points that, at the moment, we do not have stability, have not had stability and there is not stability going forward. As you have said, Chair, the current set-up for business rates, the recent change, is not likely to last the course until the planned reset in 2020. It may be torn up before then, whether it is the new homes bonus that comes in—and there is allegedly a reward for building new housing—and London loses £70 million at a stroke for it to go to the London LEP. It will not be the boroughs that got the houses built and want to spend it; it will be another body that decides. These are all constant changes in the system, and there will be more going forward. I do not think that the idea, “We have this in place now, so let’s see how it goes,” is an option anyway, in practice.

Q284 Chair: When you are all ready, after all these deliberations, discussions and working parties, if the Government said tomorrow, “Okay, do it,” how quickly could you get ready?

Jules Pipe: I do not think the Government is going to say tomorrow to do it. All of us are playing the long game on this, not least in view of the fact that nothing concrete would happen this side of a general election. Even the City Deals that we are trying to negotiate through the London LEP to try to follow, yes, in the footsteps of Manchester Combined Authority to some degree, which is ahead of London, although we are in discussions with Government about that now, realistically we realise that it is just laying the groundwork for perhaps a City Deal in the future, after the election. This material—the London Finance Commission report—is that writ large. We are not expecting it to happen tomorrow.

That said, there are plenty of negotiations going on—the bits that Boris was referring to about discussions between the GLA and London Councils, representing the 32 plus the Corporation. All these things are being covered off, mainly in principle at the moment. We do have principles about how all this would work. The actual nitty-gritty would obviously depend on what kind of deal we can strike with Government.

Q285 Chair: How publicly available are those principles?

Jules Pipe: I could read some of them to you now, if you would like. Perhaps you want to come back to me.

Darren Johnson: On the point about how long it would take, we tend not to spend huge amounts of time ticking off the fine detail, the hypothetical situation. For example, with the Localism Act, once there was a clear decision from Government that they were going to look at devolving more powers from central Government to City Hall, then the Mayor, all the London boroughs through London Councils and the Assembly worked together to formulate some very fine details. We put those proposals to Government and, on the whole, most of those were accepted and enshrined in the Localism Act and the Policing and Crime Act. Once the principle is agreed by Government and that message comes down from Government, London government collectively has shown that it is capable then of coming together to negotiate the detail and agree something that different partners in London government are all happy with.

Colin Stanbridge: If the Government was to signal that this was a runner, it would focus minds. That is what we actually need. As has been demonstrated this afternoon, we need far more detail on how the actual arrangements are going to work in practice. For any scheme like this, those gaps would have to be filled in before the Government would agree to let it go ahead. Saying it is a runner would mean that then the gaps would have to be filled in and, therefore, we would get some speed in terms of agreement.

Jules Pipe: They were in paragraphs 35 to 36 of our submission. Paragraph 35 is really about what the London Finance Commission was suggesting as an outline for what was appropriate for the Mayor to determine on his own, the Mayor and boroughs collectively, the Mayor and groups of boroughs collectively, groups of boroughs to determine collectively and individual boroughs to determine. There already are now things that are the purview—

Chair: It is a bit like Simon's description of the European Union at local level.

Jules Pipe: It is as it is now. Council tax is set locally and how it is determined is set locally. There is a formula for what goes to the Mayor of London and what stays with the boroughs. Equally, we did the same with business rates; it was down to the Mayor and the boroughs to determine how much of business rates stayed with the boroughs and how much went to the Mayor of London. All this happens already. That was just five different types of level or grouping that would have a stake in those decisions to be made, but it is just really what is in place already. As for principles about a governance system, the simple principles are about elected leaders of all London authorities and the Mayor having a stake in it, ensuring that no one borough or groups of boroughs can be excluded from the benefits of London's success or become powerless to address the needs in their borough, and issues about voting and not allowing boroughs to veto the Mayor and things like that—

Q286 Chair: We will probably come on to some of those details in a little while.

Just one point, Jules, if I could: this was mainly about fiscal devolution, but also connected to it are ideas about devolving powers on skills, employment and the Growth Deal. Is that an essential balancing part, that it is not just about control over finance, but more control over the ability to spend that money in a way that really helps people in London?

Jules Pipe: Absolutely. In fact, I would recommend this report, which was only launched this weekend at a conference near here—a policy review, which is making that case for change from the centralised top-down approach that we take in this country. It is one of the most centralised countries in the world, yet there is a raft of evidence to show that, if Governments carry on outlining the national outcomes that they would like to see, but allow localities to come up with the solutions, then those solutions provide better outcomes and are cheaper. It is almost everybody wins. Government still gets to say what the outcomes are, as they are legitimately allowed to having won a mandate at election, sometimes, but the localities achieving those outcomes, or being held to account publicly if they fail to do so, are cheaper and more effective.

Q287 Mrs Glindon: I want to talk about equalisation and redistribution. How would the redistribution of devolved tax yields within London be organised?

Jules Pipe: It was done before, up until the 1980s. When we did not know what the business rates settlement was going to look like, a fair bit of work went on between London Councils and the Mayor's office about how, in different scenarios, it could operate. It did not hold any fear for anyone, because London had been involved in such a system before. I presume it ended in the 1980s when poll tax came in.

On issues around need as well, all this is going to have to be looked at again because, in the current system, effectively need has been set in aspic since the new business rates settlement came in. I would imagine that by 2010, if not long before 2010, there would have been disparities created and it is inevitable that needs will have to be looked at again. Broadly, there is agreement across London leaders, the boroughs and the Mayor's office that there will have to be a balance between measures that incentivise growth and measures that address need.

Darren Johnson: We already have those mechanisms in place: for example, things like the retained business rate. Mechanisms have been put in place for the Mayor and the boroughs to work together. When housing powers and funding were devolved to London, the Mayor set up a mechanism that involved both borough representation through London Councils and the Mayor's office, so it is not anything new putting in place mechanisms the Mayor and the boroughs can work together on, according to their different responsibilities. That already happens on a whole range of things.

Colin Stanbridge: I would hope that it would also lead to a new relationship with business. One of the problems at the moment is that businesses overwhelmingly feel that councils are not connected to them. In a poll we did, only 12% of our members felt their council was aware of the needs of their business. One of the hopes we have about this is that councils and the Mayor would have to become far more involved in the needs of business, because the growth—the amount of new money that was going to come out of it—would only come from those businesses. We would hope that that would fix the mind of politicians to regard consulting with business as a real obligation on them, not just because we may have some statutory role—and we have been thinking about whether there should be a statutory role for business in consultation on this—but also because, if they are going to get the money, they are going to need to make sure that businesses agree with what they are doing.

Also, presumably, in certain boroughs, if we have different enterprise zones and different sorts of arrangements, there is a danger the businesses might go from one borough to another if they do not feel looked after. There is some evidence that businesses would do that. We feel that it would have a rather good effect on the democratic accountability to businesses of local politicians and, hopefully, it may even get more businesspeople to want to stand for the Assembly. Only four out of that 24 on the Assembly have real business credentials. Maybe we could have a businessman or businesswoman for Mayor.

Q288 Mrs Glindon: Do you think that it is possible to demonstrate a suitable equalisation system just to show how fiscal devolution would work? Is it possible to bring that kind of an example forward now?

Jules Pipe: It is certainly possible but, as I say, at the moment we are relying on the evidence of either what goes on at national level at the moment or the fact that it did happen in a more localised way, certainly for London, up until the 1980s. We do not have a specific model at the moment, not really having a feel for the direction this is going nationally, although now the whole idea is picking up more speed towards devolving finances and decision making.

Q289 Mrs Glindon: Do you think it would be a good idea to have such a model, so that you could make the case?

Jules Pipe: Yes is the short answer.

Colin Stanbridge: We are going to have to have a model, are we not? No Government is going to allow this to go ahead if they have not seen the details of how it is actually going to work. The Mayor talked about a referendum or involving this in the next Mayoral elections or certain elections; you are going to have to have something of some detail. You can be assured that business groups, and mine absolutely, will be looking very closely at whatever model comes out of it and will want to know that model before we go ahead.

Darren Johnson: Everyone accepts that more detail is needed. As this becomes more and more of a reality and more and more of political reality and a real opportunity, negotiations will get more serious and more detail will emerge. I do not think we are looking at radically different mechanisms than already are in place across government in London to ensure equalisation, redistribution mechanisms and so on. We have those in place already for the fiscal powers that we have already.

Jules Pipe: Business rates and how that system works at the moment is an example of that; it is a relatively complex mechanism, but it demonstrates that these things are achievable now, as they were before. As far as these particular taxes are concerned, no one is pretending that we are not at a place of simply discussing principle and actually getting agreement on principle, rather than an actual model.

Q290 Mrs Glindon: The current business rates retention scheme includes a levy on those authorities that experience disproportionate growth, which is redistributed nationally. After fiscal devolution, would you be happy to see such a levy applied to London's property tax yield?

Jules Pipe: That is a matter for discussion when arriving at the final settlement that is made. Going back to what Boris said earlier, if the settlement was that London would have to live with any downside and absorb any drop, one can make a case for minimising the amount of disproportionate benefit it would have to pass on. In reality what would happen is that, yes, there would be: the deal would end up being that there would be some sort of tax, take for the rest of the country, on disproportionate benefit, in return for the fact that, if there was some catastrophic failure—that would actually affect the entire country: if it affects London; it affects the entire country—it would be dealt with nationally. That is for determination and for debate when we grapple our way to an actual settlement, but clearly a mechanism can be devised to do it, because it already is in business rates.

Q291 Chair: Is there not a fundamental contradiction in what you are arguing for, as far as London and the rest of the country are concerned? You are saying that London should be entitled to keep the future growth from its property taxes, knowing that London is going to do relatively well compared to the rest of the country. That is an incentive for it to help the economy grow and take the benefits itself but, within London, you accept that some parts of London will not have the same potential to develop and grow as others, and therefore you have a redistribution mechanism within London, but not one to reflect the problems outside.

Jules Pipe: I do not think it is entirely inconsistent. It comes down to whether the Government, on behalf of the rest of the nation, wants 100% of something or a different percentage of a much larger growth of revenue and to overall be better off. Within boroughs, there is a desire between all the boroughs and the Mayor that no part of London is left behind. All of the capital city has to work in the way that perhaps sometimes it does not at the moment, and we do need more investment in places such as extending the Docklands Light Railway up to Barking and Dagenham, for example, which would be hugely beneficial to getting more housing built, and a bridge over the Thames east of Tower Bridge. All these things will generate further growth, and the case that we want to make is that it would be better for the nation's economy as a whole, so therefore everybody would benefit. The net cake would be bigger is the argument.

Colin Stanbridge: It is the 88% of taxes that are still going to be redistributed in the same old way, and the whole idea of this is to achieve growth in London to make the economy of London even better. Therefore, one hopes and we would feel—if not certain, strongly feel—that there is a very good chance that this will make us more economically successful, which then of course is distributed to the rest of the country anyway.

Darren Johnson: The clear principle in the London Finance Commission report, which the entire Assembly signed up to and welcomed, was that if this change were to take place it would be fiscally neutral for the first year. Obviously, once London has more control over its tax revenues, priorities and so on, even though it is relatively small—we are talking going up from 7% to 12%—things will change, but it does not disadvantage other parts of the country. Indeed, I would very much welcome demand this fuelling demand in other parts of the country for similar forms of devolution in other cities.

Colin Stanbridge: Also, we realise that this debate should not be about London; this needs to be about the cities of this country. We would be encouraging other cities to do the same, so, presumably and hopefully, they would have the same success.

Jules Pipe: I can reverse that: they do not need any encouragement, because all the Core Cities have endorsed the London Finance Commission report, would like to see that happen in London and also the same for them. One of the key arguments is that everyone would be better off. It is not about making London better off at the expense of the rest of the country. That is a key thread that runs through this.

Darren Johnson: Professor Travers made a very good point at an earlier session that, if you were going to look at one place in England to do this, then London would be a very good starting point, simply because we have the robust governance structures in place already. We already have the arrangements and the mechanisms for the Mayor and the boroughs working together and so on, so if you were going to do this in one place in England, then London would be the place to start. It is certainly not just saying that we just want this for London and are going to turn our backs on the rest of the country. I would like to see this rolled out, very much so.

Q292 Heather Wheeler: I am interested in trying to get behind all this with the future governance arrangements. I know you have had one or two comments already about it, but really how do you think you are going to deal with voting on issues, whether it is 50% plus one or the boroughs? I still have not quite worked out how you are going to do it.

Darren Johnson: We already have some mechanisms in place on things like this. In terms of checks and balances in the system, when we are looking at the Mayor's role and the Assembly's role, obviously the Assembly would be carefully scrutinising any proposals that came forward from the Mayor but also, I would expect, just as we have a check and balance with the Assembly being able to amend or veto budgets, the Mayoral strategies and so on, a similar mechanism would be in place in terms of new tax arrangements, so that the Assembly would have a scrutiny role. Through a qualified large majority, it would then be able to act as a check and balance, should there be anything that was particularly perverse. Again with London Councils—Jules can obviously explain this in far more details—working collectively and at borough level, mechanisms again are in place to ensure that there is proper scrutiny and accountability.

Jules Pipe: There are numerous things on a smaller scale that are done collectively across the 33, just because the whole of London's 33 operate as a Section 101 committee, making decisions, whether they are about borough grants money, the Freedom Pass and all sorts of issues that affect London. As I mentioned earlier, the decision that we came to about the split of local government's share of business rates between us and the Mayor, again it was decided across the 33.

There are lots of examples of groups of boroughs working together, in the same way the Manchester Combined Authority works. Already, whether it is the growth boroughs in the east of London, again having a Section 101 committee that decides pooled funding between the boroughs, the West London Alliance—the tri-borough arrangement as well in West London—there are examples where boroughs have come together and pooled money or examples where boroughs have come together to distribute money that has come from elsewhere.

Q293 Heather Wheeler: Where is the voice of business? They do not have a vote at all.

Colin Stanbridge: Business is never going to have a vote.

Q294 Heather Wheeler: We are not going to go back to the old days of businessmen having a business vote.

Colin Stanbridge: No, I do not believe businesses are going to have a vote. Again, we may want to look at statutory consultation of business. We have the London Business Board, of which I happen to be Chair, which brings together the major business organisations. There are lots of ways of bringing business in, but what I really hope is that, if this is going to go through, then councils will see the need to make sure that they do reflect what businesses need in a way that they do not at the moment. They know that the councils' economic success is going to depend on the success of their business. It will not just be about lip service; it will be about having to make sure that you create the right conditions for businesses to succeed.

As I said before, my hope, which may be slightly naïve, is that businesspeople will see that there is a real opportunity. If you ask a leading businessmen, "Why don't you become Mayor?"—in fact I have done it with a couple of leading businessmen—their first reaction is because the Mayor really does not have any power. He has not got any money power. "How can I control things?" Now, the Mayor and local government are going to have far more power, and I hope that will attract businesspeople to want to stand as councillors, to stand for the Assembly and, as I say, maybe even stand for Mayor.

Q295 Heather Wheeler: In effect, apart from influence, you are pretty much giving up.

Colin Stanbridge: No, we are not giving up at all. We will be using our ability to talk to councils and the Assembly to make sure that, when they come up with these detailed proposals, businesses are in there in a way that gives the businesses some real feeling that they are making a contribution to the decision making.

Q296 Heather Wheeler: Good luck with that. So a small minority—if you go for voting, how do the smaller political parties get any traction at all? You can just dismiss them.

Darren Johnson: I do not want to sound like a scratched record, but look at some of the existing mechanisms that we have in place, for example in terms of the fire authority at the moment in London. Seats are allocated on that board proportionally across both the Assembly and London borough representation to ensure it is proportionate, so it is not just a completely majoritarian view that you are getting. Those different viewpoints have then been reflected in the decision making, so we can ensure that there are proportionality mechanisms that could reflect the different political colours of different boroughs.

Colin Stanbridge: If I just go back to your scepticism for a moment, it certainly will be better than it is now, because the effects of the decision making, both at City Hall and in the boroughs, will be very apparent to those businesses. For a borough that does not seem to be reacting to the needs of business, people will vote with their feet and go elsewhere. We are not asking for a lot here in the London Finance Commission; we are asking for a bit of ability to control and invest in London and, therefore, have local accountability in a way that we do not have at the moment. I agree that we will have no statutory hold over it, except perhaps in a consultation, but sure as heck it is going to be more apparent and, therefore, hopefully people are going to be more vocal. As I say, it is going to be better than it is now.

Q297 David Heyes: Mr Johnson, you seemed, in your early answers, to be displaying some confidence that the existing accountability mechanisms would be fit for purpose in the event of fiscal devolution. Is that your sense or is there a need for the Assembly powers to be revisited?

Darren Johnson: I very much welcome the recent piece of work that your Committee did, and I think you made some excellent recommendations in terms of some small increases and changes in powers for the Assembly. I do not think we are looking at a radical overhaul. What I basically see is that, where the existing scrutiny and check-and-balance mechanisms exist in other areas, such as on strategy, the budget and so on, we would also see similar mechanisms put in place for sign-off on any fiscal plans that were being put forward for approval by the Mayor. You would expect there to be a vote at the Assembly that could, by a large majority—whether that is the current two-thirds or whether that was brought down sometime in the future, to 60% as has been suggested—you would have some mechanism as a check and balance.

Generally, we are just looking at extending the existing mechanism. Your Committee did touch on this in your previous piece of work. One area where you would need to look at enhanced powers for the Assembly is over the Mayor's budget and particularly over the capital budget. At the moment, we only have a check-and-balance power to amend the revenue budget, not the capital budget. If you were getting these new responsibilities, it would be absolutely vital to give that check and balance also to the Assembly.

Q298 David Heyes: May I test you on the role that you envisage for the Assembly in relation to the boroughs and the additional powers? If we are going to see borough groupings, for instance, making these sorts of decisions, is there a role for the Assembly in relation to their accountability?

Darren Johnson: If you were looking at individual boroughs or groupings of three or four boroughs, I would very much expect the scrutiny of that to take place at borough level with the various boroughs working together. Obviously there would be scrutiny and a check-and-balance function for sign-off and scrutiny at the borough level in the relevant boroughs, but I would not see our role as getting bogged down in the localised decisions through any borough arrangements. We would be focused on the London-wide strategic city-wide issues, as we are in other areas of policy.

Q299 David Heyes: What about pan-London decisions? How would they be accountable through the boroughs, as Mr Johnson is saying?

Jules Pipe: On a city-wide basis, through the GLA and through the Mayor; on performance at the local level, at the borough level through the borough scrutiny system. In groupings of boroughs, there has been a suggestion by the Centre for Public Scrutiny about local public accounts committees—not an additional set of people, but basically a coming-together of scrutiny members from the affected boroughs to hold the executive arrangements over those groupings of boroughs to account. That kind of thing already does happen. As I say, with the Manchester Combined Authority you have representatives of the executives coming together to do things for their region. If that was accompanied by a coming-together of scrutiny arrangements to look at how things were progressed by that executive body, that is one way of doing it.

Q300 David Heyes: You would therefore want to resist any proposal for the Assembly to play any role in scrutinising pan-London decisions by the boroughs.

Jules Pipe: Then it would be somewhat top-down from above trying to hold the lower level to account, which at the moment does not happen and has not proven necessary. The Assembly does not scrutinise the decisions that the London Councils makes as a 33-person body. Obviously we engage, we come along to their scrutiny sessions and give evidence, so there is an accountability, but it is for information and is a soft accountability. It is not that we are answerable up, because obviously we are answerable to the people in our localities and to the scrutiny functions that we have in our localities.

Darren Johnson: Obviously there is dialogue and we often have London Councils witnesses coming to our hearings and so on to give a borough view, but the formal accountability mechanism for the boroughs will be at borough level, and for the Mayor will be at London Assembly level. That has been well established.

Q301 David Heyes: You envisage it being done by agreement, by consent, rather than by the imposition of new rules.

One final comment: back to the Assembly again, you referred to previous suggestions that were made by yourselves and by this Committee. Do you still think there is a case for lowering the threshold for amending Mayoral decisions in the event of devolution? It is a two-thirds majority at the moment; should it be lowered?

Darren Johnson: It is a position that is held by a majority of the Assembly. It is one of the areas where there is no unanimity, but on virtually all of the other issues that have been put forward to your Committee, both in this investigation and the previous one over the powers of the Mayor and the Assembly, there has been unanimity. It is one of those issues where there is no unanimity at the moment, but there is a majority view that the threshold should be lowered to 60%. It would not be low enough to act as a brake on the executive Mayor taking the lead role in day-to-day decision making, but would make it somewhat easier for the Assembly to be able to act as that final check and balance.

However, whatever threshold we have, we need the same threshold for everything, so it would be ridiculous to have a 60% threshold for strategies and a 66.7% threshold for council tax or whatever. We need a common threshold across the whole decision making process.

Q302 David Heyes: That is to be thrashed out.

Darren Johnson: That is to be thrashed out. I personally would like, and the majority view on the Assembly would like, to see the threshold brought down, but there are other ways as well that could enhance things. One of the recommendations that we put to this Committee on the previous piece of work that you did on the GLA that was one of the recommendations in your final report was that we should have call-in powers over Mayoral decisions. The Mayor should produce a forward plan, as every council is required to do in local government, as every directly elected Mayor is required to do in local government. If you are giving the Mayor these additional decision making powers and additional responsibilities, it is even more important for the Assembly to have those small but significant checks and balances, and scrutiny powers over Mayoral functions.

Q303 Mark Pawsey: Can I go back to the issue that we spoke about in the earlier session about the discussions that are taking place with how devolution will work and what we mean by "London"? How far have those discussions gone? If you are going to go to Treasury and say, "We want these powers," you have to be pretty clear, amongst yourselves and between yourselves and the Mayor, as to who is getting what. Where are those discussions currently?

Jules Pipe: As I have said before, it is very much about the point of principle at the moment, and actually getting agreement on the principle, and then we can work up the mechanism to achieve it. Take when business rates came in: all 33 boroughs engaged, along with the Mayor of London, in the possibility of creating a London pool. We did a lot of work on that and then, the way the business rates system turned out, it meant that, if we adopted the pool, because of specific decisions that were taken about whether TfL money was included or not, it made it a tariff pool rather than a top-up pool, so the whole of London would have been worse off. We did a lot of work on doing a mechanism. We have not got to that point where we have specific proposals at the moment.

Q304 Mark Pawsey: What sort of timetable are you working to? If you are going to go to Government with a reasonable proposition, then they will want to know exactly what is going to happen. When will you be ready?

Jules Pipe: I cannot give a timescale because, as I say, this is playing the long game, to be honest. To be frank, if people are set against this because we have not got something fully formed, then we can spend an awful lot of time fully forming something, when Treasury is just going to say, "No, we're not interested. This is remaining a centralised state." The argument at the moment is absolutely about the principle, and I think we need to have a settlement on the principle before people are marched up a hill to spend an awful lot of time and money, and officer time when there is a diminishing number of officers in local and regional London government.

Q305 Mark Pawsey: Is your objective for a principle decision before May 2015, for example?

Jules Pipe: As I hinted at before, really a lot of the direction of travel that we will go as a country and as London will be poring over manifestos to get published in 2015 to see who is in favour of taking this forward. I have to say, I do think this links very strongly to what others touched on earlier about the links through to devolution of other current funds within Government. Taking DWP, for example, the current Work programme and the kind of work that is being done in boroughs up and down the country working with those who are furthest from the labour market and getting them into sustainable jobs. Those local programmes are having much greater success with that cohort of people, for all the reasons about those programmes being closer to those people and to the employers and potential jobs, and with voluntary groups that can actually do the work on the ground. There is going to be far less money available in the future, so all these things that have more efficacious outcomes and are cheaper are pushing this devolutionary drive that inevitably will feature in all three party manifestos—or even four party manifestos—going forward in 2015.

Colin Stanbridge: It is important that we do not get lost in the detail, when actually it is the principle we want to sell for the manifestos. In fact, manifestos are not going to go into huge detail about the actual intricacies of how the money is going to be split up. What we want from the manifestos is a statement to the effect that, in principle, if elected as a government, they would look at the devolution to the major cities of more fiscal powers. Then you would have huge pressure for us to come up with all those details, and the reality that, actually, if they have said that, there is the chance that they are going to adopt it.

Darren Johnson: If you look back at the devolution to London in the Localism Act that is exactly what happened. The Government set a principle that they were minded to devolve further powers to the Mayor and to London, and then that meant, once that principle was established and that clear message came down from Government, that London Councils, the Mayor and the Assembly got together and worked out a lot of detail. We put in joint submissions on the White Paper; we had widespread agreement right across London—all-party agreement. We hammered out the details and we got most of what we asked for, because the principle had been established and then we worked together to put forward the detail. Something very similar will happen if we get the principle established on fiscal devolution.

Q306 Mark Pawsey: You are telling us that things will be sorted out, but clearly we want to know as much as we can about what the new architecture is going to look like. Let us take stamp duty land tax, for example: would business and the boroughs be happy for that to go all to the GLA, for example?

Darren Johnson: There are issues about where the funding comes and where it is set. Clearly you would not want 33 different sets of stamp duty, or obviously you need a mechanism to distribute the proceeds of that. Business rates you would want to see set locally, as is council tax. Of the suite of taxes that are being proposed for devolution, some would be decided London-wide; some would be decided locally or in groups locally; and then there would be an appropriate mechanism for distributing between the boroughs and the Mayor.

Q307 Mark Pawsey: The Mayor sounded very keen on the idea of regular revaluations. Would you like the power for London to organise its own revaluation, separately from the rest of the country?

Darren Johnson: The Mayor made the case absolutely. I completely agree with the Mayor on that but, for example, that particular revaluation policy you would want to be London-wide. You would not want each borough to have its own devolved revaluation policy, although you want each borough to be able to set its own council tax and so on. Decisions about banding and then decisions about revaluation would have to be decided across the whole of London.

Q308 Mark Pawsey: You would be happy in principle for revaluations to take place in London and not take place in the remainder of the country.

Darren Johnson: That is one of the principles of devolution, yes. We will be seeing similar in Wales and so on, as part of the devolution package that they are looking at.

Colin Stanbridge: Given that there are lacuna, as you might say, in terms of the detail, it is easy to pounce on that and say, "Tell us this and tell us that. How will that add up and how will that go?" The truth is that will happen if we feel that there is a real reason this is going to go ahead.

Mark Pawsey: You cannot say, "I'm not going to give you any detail because it might not happen."

Colin Stanbridge: No, I am saying that there will be detail when the principle is generally accepted. What I am saying is that this principle, to my mind, is a huge step forward. The work of the London Finance Commission is a huge step forward in giving people like myself ideas that we could actually put forward, rather than the idea I was peddling five or six years ago, which was that £24 billion worth of tax is raised in London, spent elsewhere, and we want a bit of our money back, which was not a terribly sophisticated argument, it has to be said. I am not particularly proud of having peddled that argument, but it struck me as something one should be saying for London, because there are lots of things that London needs and would benefit the rest of the country if we had a chance to do.

Bridges are a very good example. We have a campaign at the Chamber for more bridges east of Tower Bridge to balance the 22 west of it. We are never going to get there going to Government. We might have a chance of getting there by going to the Mayor and to the boroughs, and we actually have something that the Treasury just cannot kick into touch, because actually it is well worked out, in terms of what Professor Travers, Jules and the London Finance Commission have come up with. It is a workable idea and a workable principle. That is a huge step forward. I am sure the Committee will, in their report, make clear that that is something new, in terms of the arguments. The detail needs to be filled in.

Mark Pawsey: It is all about building bridges.

Colin Stanbridge: It is always about building bridges, as every politician knows.

Jules Pipe: In the case of stamp duty, it is likely that that would very much largely lie mainly with the Mayor, and that would really be reflecting what offsetting grants were switched off. If it was TfL, for example, that probably would absorb most of that stamp duty. There might be potential for a small degree of local borough retention, if we felt that that incentivised the right kind of growth, but it would be a small part.

As for revaluation, the problem with revaluation in this country is that we have allowed the idea to get abroad that it means that, because the council tax valuations were done in 1991, if we have revaluation it just means that people get inflation for the last X years up to 2014 and everyone’s would inflate, as opposed to just the redistribution within the locality. It is perfectly doable just inside London, and it would mean you could do it on the basis that the councils do not actually even take a larger amount than they do now in an individual borough. It just means that different people pay a different amount relative to the valuation changes within the borough. Certainly within my own borough, there have been places that have gone up—there have been places that have gone up hugely—yet that is not reflected in the council tax that people are paying, and I think that is replicated 33 times over in the capital.

As for detail, I feel that it would be a bit uneven, anyway, being able to supply chapter and verse on the finest detail, because anywhere in the system, whether it is SSA, the four-block model or the current system, what transparency is there to local people and local businesses about any of those systems that have come, gone and are there at present, compared to the clarity of what is being proposed now about, "Here is an amount," and then with very simple—whether there are additions has been discussed today, about disproportionate benefit and the top slice. All those things are relatively simple compared to discussions behind closed doors about ministerial—

Q309 Mark Pawsey: That may be the case, but what you are asking is for Government to effect a transfer of powers. You cannot say to the Government, "Take a leap into the unknown, because we are pretty good chaps and we can get on with own another better than you think we can." Lord Smith clearly thought there were tensions that the Mayor did not agree with, but you still have to get that argument made within Whitehall. It strikes me that, until such time as you have a clearer idea of what you are asking for, it is very difficult for Government to say yes.

Jules Pipe: We have a clear idea of the what, and we know what we need to do on the how, but we have not sat down and detailed the way mechanisms would work, until we have won the argument on the principle.

Darren Johnson: We are at early stages yet. The London Finance Commission report came out last year. We very much welcome that you are doing this exercise now, but we are at early stages. There is obviously time to work up more of the detail while arguing for the principle but, as I said previously, it is only when the principle is established at Government level that you really get the very fine detail being hammered out between the different parts of London governance, as happened with the Localism Act.

Colin Stanbridge: We know we are not going to get this through unless we have that detail. First of all, we have to get them to buy into the idea as a good one. Of course, they are not going to give the go-ahead of transfer of power without that detail. We will have to provide that detail. It is not as if it will not be there; it just is not there at the moment.

Q310 John Stevenson: Can I just continue with Mark's questioning about the tax aspects with one additional question? There is an assumption that, if all this happens, it is going to be wonderful for London, London is going to be this great success and tax revenue will pour in, but if fiscal devolution was also given to other parts of the country, particularly the counties surrounding London, and they decided, "Hang on, SDLT. Let's put in a lower rate than the London city is doing," you would start to see an exodus of individuals, investment and tax revenue out of London. How would you address that issue?

Darren Johnson: In principle, the more power that each part of the country has to look after the interests of its residents and businesses in the area that it represents, the better. The closer decision making there is, the better. We also have to remember that we are not talking about relaxing the very stringent control mechanisms that we have in this country for public expenditure. It is not like the United States where the system is very lax. In terms of our auditing measures and so on—

Q311 John Stevenson: This is not about public expenditure; this is about raising tax. If you have a competitive tax environment where other people have lower taxes, you could see a lower tax revenue going into London.

Colin Stanbridge: As a business organisation, we would welcome competition. It seems to me perfectly obvious that we would want to welcome competition, and also it would have the effect I was talking about earlier. That would mean that your local councils, your boroughs, your GLA and your Mayor would have to make sure that they were fulfilling their part of the bargain, as far as business was concerned. They would have to consult with business. It would not just be, "Let's talk to business," and then they can just go off. If there was a chance that they were being competed with from outside of London, then surely the obvious thing, as business would, would be to go and say, "What can we do to make you stay?" That would be good from our point of view.

Q312 John Stevenson: The logical conclusion to your argument, then, is that fiscal devolution is a good thing, right across the United Kingdom.

Colin Stanbridge: Absolutely.

Jules Pipe: We get these border issues, both with Scotland and Wales, and London's economy is bigger than both. I would say that there are ups and downs, and we have to accept that that will be part of a systems; otherwise the only alternative is no competition and it is done as now, centrally imposed.

John Stevenson: That is one of the advantages of having a centralised national tax regime.

Jules Pipe: Then we lose incentives, as has been mentioned.

John Stevenson: You could argue it is more of a level playing field.

Jules Pipe: Colin, level playing field—how does that work for whom you represent?

Colin Stanbridge: The real competition is not from outer London; it is from other cities in Europe or in the world, as far as we are concerned. All those cities, as you well know, because Professor Travers outlined it in his evidence, have far more ability to control their own destiny, to set their own rates, to do the incentives that are needed. They are the real competitors. People are not going to go to—I do not know—Watford, the sort of people we are talking about. They are going to go to—I am just trying to think of somewhere starting with "W"—they are going to go to Paris or Stockholm.

Q313 John Stevenson: I would not fully agree with you, but I want to move on to a question about the role of business. Colin, you highlighted why you thought business might be more interested in local government if local government actually had power to raise tax, and I get that. Where the politicians come on this issue, what do you see as the new relationship between business and local government if there were fiscal devolution?

Jules Pipe: I am tempted to take a more local view, simply as a borough leader rather than Chair of London Councils, in thinking about how we engage with our businesses about trying to maximise their growth and grow our local economy, and also with a view to maximising the local residents that we get into those businesses. We will talk to the local hotels in the south of our borough, and they are contributing to funds to train local people to get into those jobs, or whether there are bars and clubs that want to contribute to a higher presence on the street of enforcement during the evenings. That engagement is very much about trying to create places, rather than simply a relationship about input into taxation decisions.

Darren Johnson: At the London-wide level, there is already engagement through the London Enterprise Partnership, which you would see playing a key role in an advisory capacity still. You would see that playing a key role in discussions and decision making about the future.

Q314 John Stevenson: That is fine. The LEP attracts the larger businesses; it does not attract the smaller business. How do you involve the smaller businesses because, at present, to a certain extent, small businesses pay national business rates? Why bother having anything to do with them?

Colin Stanbridge: The FSB is the only business group on the LEP.

Darren Johnson: The LEP certainly should not be just about the voice of large business.

John Stevenson: They are the ones who engage. What I am trying to get at is where the smaller businesses get involved with the local council. Where is that engagement with them?

Darren Johnson: As Colin was saying, the engagement gets much easier and there is far more incentive for them to engage if they are talking to people who have the fiscal responsibilities to actually set the taxes, and the freedom to spend the proceeds of those taxes. It does not follow that engagement will automatically happen, but it will make it much easier if they see that they are talking to the politicians and to the public bodies that genuinely have responsibilities over things like business rates.

Q315 John Stevenson: I will go back to your point. I accept the one you made earlier that there is more likely to be engagement, but is there not also a risk to business that, with the more flexible ability of local authorities to increase taxes, the politicians will listen to the voter rather than to the business and you actually could end up with businesses being taxed more, rather than less?

Colin Stanbridge: Yes, there is a risk; there is no doubt there is a risk, but we think it is a risk worth taking. Actually at the moment, the bigger risk that London does not get the right sort of investment, either locally or London-wide. Things have to change. When the details come out, we will be looking very closely at our involvement, our businesses' involvement, in that decision making. I think that, actually, the Assembly probably will need more powers. Hopefully, because the Assembly is spread across London, that gives a chance to lobby people to make sure that, for example on new taxes—we have not talked about this—there is the opportunity for the Mayor to introduce new taxes. We would want to look long and hard about the way that this is approved. In that consideration, the Assembly may well need those powers, because we would want to lobby as many people as possible either for or against that particular tax.

Q316 Chair: To come back to the point the Mayor touched on to a degree, it is all very well when we are talking about all the benefits of growth and all the things that London is going to be able to do that it cannot do now, because it does not have the resources, but thinking back to 2008, say a recession comes. Property taxes are notorious for bearing the brunt of the consequence of recessions, and stamp duty is there to fund the Mayor's activities. Can you see a situation where the Jubilee Line is now suspended because stamp duty returns have not been as high as expected? It is a risk, it is not?

Darren Johnson: It is obviously a risk but, even in times of economic hardship, if London is to have and the elected bodies are to have more of a say on the destiny of the capital, we can better manage both the hard times and the good times. Yes, obviously there are risks but, if decision making is closer to the people of London and less dependent on central government grant, in all economic circumstances that is actually going to be better.

Colin Stanbridge: We were very active during the Comprehensive Spending Review. Some of the Committee may have seen our posters in Westminster Tube Station about possible cuts to the Transport for London budget. We would feel that we would have much more chance of lobbying locally to get those cuts either rethought or changed than lobbying central Government, which is a bit like lobbying Kafka's Castle.

Chair: You would lobby people locally to pay higher taxes to fund the—

Colin Stanbridge: The point is that, if there is a downturn, then we are going to be at the mercy of somebody cutting something, whatever happens. I would rather be able to lobby people a bit closer to home than, as I say, Kafka's Castle.

Darren Johnson: When I greet international delegations from other cities at City Hall, they are absolutely amazed and astounded that the Mayor of London has to lobby central Government to get money to build a new bridge, a Tube line extension or something like that. They just find that concept absolutely amazing: that at that micro-level of decision making, the Mayor of London has to lobby and has so little power to raise revenue.

Jules Pipe: Colin's last point was the point that I was going to make. If there is such a downturn that it hits the property market and in the new system London suffers, it would have just as much difficulty as the national Government facing such a downturn.

Chair: Except central Government can borrow for certain things, in a counter-cyclical way, which you would not have the power to do at local level.

Darren Johnson: The London Finance Commission report does talk about lifting restrictions on borrowing for London and other cities.

Chair: But not for revenue purposes.

Darren Johnson: It is not for capital purposes, but it is the capital spending that you would want to protect in times of hardship and so on, so I think it is important. As CIPFA made clear, there are already very robust mechanisms in place for ensuring that borrowing is for proper proven value-for-money projects anyway, so we already have some very tight regulation over that, so there is no need for borrowing caps on top of the very strict criteria that we have on borrowing anyway.

Q317 Bob Blackman: Just one very brief question: do you see a difference between how the arrangements will work in outer London compared to inner London? Clearly, Colin, your perspective of people who have the choice of going from the centre of London to Paris, Berlin or wherever is true but, equally, I can tell you in my borough, we have just lost two businesses that have gone, funnily enough, to Watford.

Colin Stanbridge: Sorry, I did not mean to—to anyone from Watford, I apologise.

Bob Blackman: The key here is that, yes, there is a choice in outer London. You can just go across the road almost and you are suddenly in a lower-priced area. Are there going to be differences for outer London compared to inner London, and what do you do about that, in terms of equalisation?

Darren Johnson: There have to be differences. We do not want one size fits all for the whole capital. Clearly things like stamp duty and so on are very, very different from central London boroughs to other boroughs. Business rates would have to take account of local circumstances, and that is why there were very clear proposals in the London Finance Commission report that, at some level, things would be appropriate for London-wide decision making and at, at another, for individual boroughs or groups of boroughs. That is absolutely right.

Q318 Bob Blackman: Can I be clear? In groups of boroughs, are you talking about outer versus inner London? Are you talking about north-west London, north-east London and so on? What would be your idea of groupings of boroughs, because this is significant in how this might turn out?

Darren Johnson: The main idea was geographical groupings of boroughs, but it obviously has to be down to the individual boroughs to come up with arrangements that work for them.

Jules Pipe: The driver would be functional economic areas. That would be the biggest driver, rather than any necessary geography or inner/outer. It would be mainly adjacent boroughs that shared common economic interests.

Q319 Bob Blackman: How big a grouping do you think that would be?

Jules Pipe: I would imagine half a dozen. That would be typical.

Darren Johnson: There would have to be differences, but these differences could be handled far more sensitively and far more suitably at the London level than through Whitehall. That is the main point to make.

Colin Stanbridge: We would love to see boroughs fighting for businesses to go and locate there. That would be very good for business and, actually, it goes to the point of, "We don't have a vote, but maybe we have an economic power."

Chair: Thank you all very much for coming and giving evidence.