

House of Lords Constitution Committee

Inquiry - “Future Governance of the UK”

Evidence from London First – May 2021

Introduction

1. London First is a business campaigning group with a mission to make London the best city in the world to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We are made up of over 175 leading employers across a wide range of sectors, overseen by a non-executive board of influential business leaders. We welcome this opportunity to share our views on the future of devolution in London.

The Principle of Devolution

2. The pandemic has caused significant economic damage to London and its Central Activities Zone (CAZ). The capital has lost many jobs and, according to London First research, London's unemployment rate now stands at 7% which is the highest of all UK regions¹. The heaviest blow has fallen on the young (those aged 16-24 have account for 57% of the fall in UK employment²) and on ethnic minority groups (with London's ethnic minority communities in the Central London Forward subregion facing an unemployment rate of 14.9%³).
3. The CAZ – the cultural, culinary, and hospitality hub not only of the capital, but of the whole country – spent months empty, with retail transactions down c.60% between January and July 2020⁴. Footfall fell to only 27% of the normal rate, which is considerably worse than in Birmingham and Manchester⁵. Businesses – especially SMEs – are struggling, with c.7% of SMEs in London closing and c.40% fearing permanent closure, in June 2020⁶.
4. Devolution has the potential to play an important role in recovery. The London mayoralty as an institution is, of course, still in its relative infancy. As we unlock, the Mayor of London and the Greater London Authority (GLA) will be faced with major challenges, but do not have all the powers they need to fully respond. A commitment to greater devolution of powers and funding to London and the other metro-regions across England is needed so that local areas can choose, deliver, and pay for their future infrastructure needs and policy priorities. If the long-expected white paper on devolution is to be superseded by one on levelling-up, it is important that the replacement paper also covers these issues.
5. The subsequent parts of this submission look at the specifics of where devolved powers would benefit recovery and future competitiveness.

¹ <https://www.londonfirst.co.uk/sites/default/files/documents/2021-05/CentralGovtsRoleInLdnRecovery.pdf>

² Uneven steps: Changes in youth unemployment and study since the onset of Covid-19, Resolution Foundation; 14 April 2021

³ "A detailed study of unemployment in London," Volterra Partners LLP for London Councils (March 2021)

⁴ "The Economic Future of the Central Activity Zone (CAZ) - Phase 1: Office use trends and the CAZ ecosystem - Report to the GLA," ARUP, Gerald Eve & LSE (January 2021)

⁵ "High streets recovery tracker," Centre for Cities (Accessed March 24, 2021)

⁶ "The impact of Covid-19 on UK small business," Simply Business (September 2020)

Taxation

6. Today, the Mayor and all the boroughs between them retain only a tiny proportion of the taxes raised in London. At less than 10%, this figure is dramatically lower than the equivalents in other major cities like New York, whose local authorities retain over 50%.
7. When Boris Johnson was Mayor, he set up the London Finance Commission⁷ to look at how this should change, which proposed **devolving more tax revenues to London government**. These recommendations should now be implemented to support recovery.
8. With these resources should come more responsibilities and a reduction in central government funding, making the London authorities more responsible for the raising of funds and more accountable for how they spend them. New devolution in taxation should include a combination of:
 - Business rates;
 - Apprenticeship levy underspends;
 - Immigration Skills Charge;
 - Council Tax;
 - Stamp Duty Land Tax;
 - Income tax; and
 - The retention of some nationally-levied charges (planning application fees, building control charges, land searches and licencing fees, vehicle exercise duty, future road charging, etc).

Transport

9. The financial state of Transport for London (TfL) was one of the big issues in the mayoral election campaign, not least because public transport services are critical in getting people back into and around the city. There has always been a tension between the responsibilities granted to the Mayor and TfL for running London's transport services, and the resources available to them under London's limited devolution settlement.
10. Pre-pandemic, the devolution settlement in London was already unstable, and had led to an over-reliance on the farebox, with 70% of TfL's revenue relying on passenger fares⁸. With the collapse in demand during the height of the pandemic, TfL's finances were hit very hard and significant bailouts from central government have been needed. In the short-term, it is necessary to support TfL to ensure it maintains London underground and bus service levels in 2021-23, even if footfall has not fully recovered. This will:
 - reduce perceived risk by providing more space per person;
 - ensure public transport remains convenient for its users; and

⁷ https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/Raising%20the%20capital_0.pdf

⁸ "Annual report & statement of accounts, 2019/20," TfL (July 29, 2020)

- prevent a potential ‘downward spiral’, where if people have a negative experience when using transport again, they may use it less, putting further pressure on funding and service levels.

11. In the longer-term, this crisis should be the catalyst for a fundamental rethink. The need for a **revised longer-term transport funding model** is clear, and it should involve the devolution of more fiscal control to London – as above – so the city can pay for its transport more directly and more fully. As well as these more traditional levers, several other innovative options should be considered. These include:

- **Replacing Vehicle Excise Duty with a London Vehicle Ownership Duty**

Vehicle Excise Duty (VED contributions from Londoners towards investment in the non-London road network are around £500m annually⁹. This system should be reformed to reflect the shift to electric vehicles. The new system should be based on a ‘membership fee’ approach where owners of vehicles pay an annual charge to the London authorities to be able to own a vehicle in London, which would be spent on London’s roads and transport infrastructure.

- **Smart road pricing**

This would help discourage the potential for increasing vehicle use and create a source of income for investment in the wider transport system. Some road users already pay a flat charge to drive in London (via the CCZ, ULEZ, or tolls). Evolution of this scheme to a more dynamic system reflecting the type of vehicle, and the potential impact it is having in terms of congestion and pollution would allow people the flexibility to drive where and when they wanted on the basis the impact of their journey was reflected in the price they paid.

- **Turning TfL into a London Mobility Service**

The range of mobility choices is growing, and incorporating these new travel choices as part of the transport family requires a different approach where TfL is more of a commissioning and licensing authority, providing a platform and common standards for new operators to enter the market.

Skills

12. To drive the recovery and get young Londoners ready for the jobs of the future, a business-led reskilling programme is needed. To ensure that the right people with the right skills can be matched to where they are needed, **city-regions should be better able to direct skills interventions in the most appropriate ways for their populations.**

⁹ <https://www.londonfirst.co.uk/sites/default/files/documents/2021-01/TransportInLondon.pdf>

13. Key developments in London's devolution would include:

- The devolution of London-specific National Careers Service Agency funding from the Department for Education to create a London Careers Service¹⁰;
- Devolution from HMT of the capital's share of the National Plan for Jobs;
- Sufficient powers and funding to support employees from sectors that have suffered the most during COVID-19 or because of automation via a London Adult Retraining Scheme;
- The implementation of an ambitious UK skills devolution programme overseen and coordinated by regional employer-led skills commissioning boards, that would allow London to operate this new institutional structure at scale and support even more Londoners, including targeting those from disadvantaged communities; and
- The creation of a London Apprenticeship Fund targeted at small firms and sectors affected by Covid-19 to re-start apprenticeship growth in the capital¹¹.

14. These programmes would not require any addition funding, only the devolution of powers and funding currently controlled by Whitehall.

Housing and Planning

15. In London, there is still an important role for the London Plan (and for other spatial strategies in the other city regions) to deal with strategic issues that cannot be dealt with as effectively on either a piecemeal borough-by-borough basis, nor on a wider, national basis which allows for limited recognition of local needs. This relates particularly to housing and employment markets which cover larger parts of London and beyond. The London Plan has provided a clear strategic policy framework for the capital, following the loss of vast swathes of industrial land in recent years under an uncoordinated borough-by-borough approach.

16. The London Plan should be used in as streamlined a manner as possible. Under a reformed planning system, as proposed by last year's planning white paper, central government should **devolve sufficient powers and scope to the London authorities to identify and outline the London region's strategic priorities** and respect those decisions. With strategic decisions made at a London-wide level, the boroughs will be able to develop detailed policies where a local response is needed and justified.

17. In London (and other city regions), a key benefit of the two-tier system is that the strategic authority can plan for strategic issues and take difficult decisions according to what is best for the region as a whole. It also means that growth

¹⁰ This could be topped up with devolution of Immigration Skills Charge funding raised in London

¹¹ This could be funded by returning any underspend by London apprenticeship levy payers from the Treasury to the mayor – estimated to be c.£460m (In 2018/19, IPPR/GLA estimated £470m in underspend by London levy payers. In 2020/21, the equivalent amount is likely lower at c. £460m, given OBR estimates expect a 2% total decrease in payroll taxes between 2018/19 and 2020/21.)

can be planned for in parallel with investment decisions on strategic infrastructure. We, therefore, believe that the two-tier planning system in London should be strengthened. Under this structure, the capital has benefited from a coordinated pan-London approach that has facilitated both economic and physical growth. London's business community strongly supports the ability for the Mayor – regardless of party – to set the strategic spatial plan for the capital and to have the power to take over the determination of planning applications of strategic importance. These powers are part of what helps to maintain London's global competitiveness and must be maintained as the Government's planning reforms are developed.