

Devo max for London?

Urban government and fiscal autonomy

Tony Travers

BG@LSE

The heyday of British urban government

- 19th century development of 'municipal corporations'
- Growth of public services within local government
 - Poor Law, refuse collection, highways, utilities, sanitation
 - School Boards
 - Housing
- Funded by rates and, to a minor extent, grants

London

- The City and parishes were reformed in 1899 to create 'metropolitan boroughs'
 - Further reform in 1965 to create 'London Boroughs'
- City-wide government first provided by the Metropolitan Board of Works
 - London County Council (1888-1965)
 - Greater London Council (1965-1986)
- Evolution of a two-tier system of London government
 - As in the rest of the UK, funding from rates, charges and (small) grants

Powers and funding changed during the 20th century

- A number of services were nationalised and/or transferred to the centre, eg
 - Water, gas, electricity
 - Health, ambulances
 - Higher and further education
 - Schools
 - Transport (though returned)
- Central grants grew from less than 5% of income to almost 80%
 - Now about 25% (50% if education excluded)

Local government income compared to all UK tax

	Rates	Grants	Rates:Grants	All UK tax	Rates as % of all UK tax
1872	17.6	1	18:1	73.1	24
1914	71.3	22.6	3:1	198.2	36
1939	191.4	140.2	1.4:1	1006.2	19
1980	6122	11684	0.5:1	54331	11
2012	26300	110000	0.23:1	542.5	5

The UK's international position: tax revenue as % of GDP

	Local government	State/regional government	Local + state/regional	Central government	Social security	Total
Canada	3.1	12.2	15.3	12.8	2.9	31.0
France	5.8	0	5.8	14.4	23.9	44.2
Germany	3.0	7.9	10.9	11.8	14.3	37.1
Italy	6.8	0	6.8	22.6	13.4	42.9
Spain	3.0	7.3	10.3	9.5	11.7	31.6
Sweden	15.9	0	15.9	22.8	5.6	44.5
United Kingdom	1.7	0	1.7	26.9	6.7	35.5
United States	3.9	5.2	9.1	10.3	5.7	25.1
OECD (2010)	3.9	5.0	8.9	20.2	8.3	33.8

GVA and GDP; public expenditure

- London's GVA/GDP: £274bn
- London's public expenditure: £89bn
 - of which:
 - Central departments c£59bn
 - Greater London Authority c£ 9bn
 - Boroughs c£21bn

[Note all figures are broad estimates, taken from different sources]

GLA and Borough (ie 'local') income

- GLA and Borough locally-raised funding:

- Council tax £4.3bn

- *Fees & charges* £2.5bn

Paid to Exchequer:

- *(NNDR Yield* £5.3bn)

Local taxation is small in relation to all public expenditure in London – 2009-10

- London's public expenditure: £89bn
 - all central and local government
- Council tax (£4.3bn) would fund 4.8% of all public expenditure
 - Equivalent to 1.8% GVA/GDP
- CT + 50%NDR (£7.0bn) would fund 7.9% of all public expenditure
 - Equivalent to 3% GVA/GDP

Local taxation is even smaller in relation to all tax paid in London

- London total taxation = £97-£100bn
 - All revenues, eg Income Tax, VAT
- Council tax is 4.4% of all tax paid in London
- CT + 50%NDR would be c7.1% of all tax paid in London

London Finance Commission

- Set up by the Mayor of London to review London's tax and public expenditure position and the possibility of greater autonomy
- Terms of Reference include:
 - Comparisons with other countries, regions and cities internationally and in the UK
 - Examine the relative scale and distribution of London's public expenditure,
 - Consider the plausibility of a 'Barnett Formula' style settlement for the capital
 - Examine the potential to devolve to London's elected leaders both more of the taxes Londoners and control over expenditure
 - Analyse the benefits (with particular regard to promoting jobs and growth) and costs, and advantages and disadvantages, of different options and make recommendations.

Research initiated

- 1) This review in historical context
- 2) Literature on the impact of devolution and decentralisation
- 3) London compared to major international cities
- 4) London's tax and expenditure position
- 5) The Barnett Formula
- 6) Tax options
- 7) Capital income and expenditure

This review in historical context

- Kilbrandon, Layfield, Raynsford/Lyons
 - Much study by committees and commissions, but no reform
- Devolution in 1999 and 2000
 - Scotland, Wales, London
 - Little fiscal freedom
 - But, dynamic for more reform
- Calman, Holtham
- Scottish independence debate/Devo Max...
- Heseltine Report

Literature on the impact of devolution and decentralisation

- Academic evidence is mixed
- Little consensus on whether fiscal devolution is beneficial to economic growth or not
- Measuring the degree of fiscal devolution in a region is difficult
- Outcomes for regions are influenced by many factors - such as existing regional disparities, regional policy and national economic performance
- Preference for immobile taxes where fiscal devolution takes place

London compared to other cities

- London's international position has led to many comparisons and comparative exercises
- LFC to commission work on a number of other cities, eg
 - New York
 - Paris
 - Berlin
 - Tokyo
 - Hong Kong

London's tax and expenditure position

- To consider the longer-term trend of changes in the tax yield in London and the likely path of expenditure
- Is the London tax yield likely to increase?
- Growth in this yield would provide evidence about the possibility of 'capturing' part or all of it
 - 'Assigned' or locally-determined taxes
- Greater Manchester has agreed an 'Earn Back' deal

The Barnett Formula

- History...
- Still used to split UK public expenditure between the four nations of the UK
- Might a similar settlement for London be appropriate?
- Alternatively, should the Barnett Formula be abolished?

Tax options – if there is agreement about the need for greater autonomy

- Local determination or assignment?
- Immobile taxes probably best
- Property taxes good
 - Council tax, NDR, Stamp Duty
- VAT not lawful under EU rules
 - But, sales tax?
- Income tax
- Smaller revenues, eg tourist tax, environmental taxes, road pricing...

Capital income and expenditure

- London's population is growing sharply
 - 8.2m today to 9m in 2020 and 10m in 2030
- Need for infrastructure investment
 - Railways, roads, schools, utilities
- Public sector capital spending in decline
- Need to facilitate private investment in 'public' infrastructure
 - This requires a framework for investment and easier planning for major projects

Process and final report

- Evidence-gathering now under way
- Research papers commissioned
- Interim report in late December 2012
- Deliberation between December 2012 and March 2013
- Report to be published in April 2013
- Hope is to embed ideas in all the major political parties

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