<u>Mayor of London response to the RSA City Growth Commission's call for evidence</u>

SUMMARY

- **Cities are primary drivers of economic growth and civic leaders must be afforded greater freedoms to promote local growth.**

- **While we reject arguments that London's economic success should be held back artificially to superficially 'rebalance' the UK economy, we fully support the idea of a multi-polar growth model; it is wrong to assume that growth is 'zero-sum'. We accept, for instance, the focus of the Regional Growth Fund on areas outside the capital to help stimulate the rebalancing of the economy. Trade is two way and growth outside the capital will help create demand in the capital.**

- **It is our view that civic leaders could promote growth more effectively if they were afforded the correct levers to act.**

- **We believe local actors are well placed to improve service delivery in ways that are tailored to local labour markets, and we encourage further initiatives based on the community budget model. We welcome the dialogue that has been opened up between cities and the Government as part of the Treasury's Growth Deal agenda.**

- **However, in the longer term, based on the recommendations of the London Finance Commission and as part of the *City Centred* campaign (a joint initiative between the GLA, London Council and the Core Cities), we are calling for the devolution of fiscal powers to cities and the relaxation of restrictions on local government borrowing for infrastructure, to enable city government to make more and better local investments.**

- **Enabling additional growth in cities will require a paradigm shift in central government thinking but our proposals are fully in line with the Government's localism agenda and build on the dynamic towards substantial devolution in Scotland and Wales.**

GROWTH AND CITIES

1. Cities make a vital contribution to the UK's economy. According to data collated by the Centre for Cities, they cover just 9 per cent of the UK's landmass but contain 54 per cent of the population and generate 60 per cent of its GVA with 53 per cent of all businesses and 72 per cent of all highly skilled workers.[1]

2. The prosperity of cities is linked to competitive strengths in a number of areas, including access to qualified staff, access to markets and an accommodating business environment. The concentration of businesses and people in which these features result increases productivity by putting upward pressure on the price of land, thus driving businesses to become more productive and people to become more skilled, and also through the agglomeration benefits to which the close proximity of firms gives rise.[2]

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[1] http://www.centreforcities.org/cities/

[2] For further information, see the GLA Economics Evidence Base: https://www.london.gov.uk/sites/default/files/evidence-base-2010-final-low.pdf

LONDON

3. In the UK and global context, London is a particularly successful city. It is one of the greatest business centres in the global economy and one of the strongest performing regions in the UK. ONS data shows that between 2007 and 2011 *"London's nominal output has risen faster than other regions; its employment and unemployment rates have fared better than other regions; it has seen a larger growth in its active business stock; it has seen an increase of over 250,000 jobs whilst most other regions have seen a decline; and the average incomes of its residents have increased when compared to residents elsewhere in the UK... From 2007 to 2011 London's economy (GVA) grew by a nominal 12.4% compared to between 2.3% and 6.8% across other UK regions..."*[3]

4. In our view, it is self-evident that London's economic success benefits other parts of the UK[4]. It is a net tax exporter[5]. It is understood that the strengths of sectors such as financial services in the capital pave the way for smaller clusters in other parts of the country ('near shoring'). Through supply chain activity, infrastructure investment in London leads to jobs and growth in other areas (for example the majority of Crossrail supply chain activity, around 8,310 full-time jobs, has taken place outside London)[6]. And, vitally, two-way trade links are very valuable to the national regional economies (see point 8)[7].

5. We consider there is a need for further research to be undertaken to understand the complex and multiple economic relationships between London and the rest of the UK. The current work being undertaken on cities by the BIS Foresight Team may be one practical way of achieving this[8]. However, we do not accept arguments that London's economic success should be held back artificially so as to superficially 'rebalance' the UK economy.

MULTI-POLAR GROWTH

6. By the same logic, we do not consider growth in the UK and in its cities to be 'zero-sum' and we fully endorse the concept of a multi-polar model of growth, which encourages nationwide growth as above (see point 4). We therefore welcome regional investment outside London, for example through the Regional Growth Fund.

7. In order to promote multi-polar growth, cities should be allowed the freedom to pursue policies and make investments in locally appropriate ways, through fiscal devolution and through changes to public service delivery, as set out below. The over-centralised way that public investment and city finances are currently calibrated means that cities are

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[3] ONS, 'London's economy has outperformed other regions since 2007' (http://www.ons.gov.uk/ons/dcp171780_302543.pdf)

[4] This situation is not new: from the eighteenth until the early twentieth century at least, London's extraordinary growth helped create demand for, and stimulated the innovation in, the goods and services provided during the industrial revolution, which took place across the whole of the UK in that era.

[5] London's finances and revenues, City of London, Table A-10, p56 http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2012/Londons_finances_and_revenues_OnlineVersion.pdf

[6] http://www.crossrail.co.uk/news/articles/new-figures-show-impact-of-crossrail-on-jobs-and-growth-around-the-uk

[7] http://www.centreforcities.org/research/2007/11/12/londonlinks/

[8] More generally we would encourage the RSA to work with Foresight as there are mutual areas of interest.

incentivised to compete for resources, which reduces trust and shared confidence between cities, rather than promoting the idea of mutually-beneficial multi-polar growth[9].

8. If cities had greater control over local matters they could better focus on their own comparative advantages (eg in London business services, science and technology and the creative industries). Specialisation of this kind increases trade and leads to greater overall prosperity[10].

DEVOLUTION

9. Civic leaders of all major cities, working with local stakeholders, are in a better position to understand the combination of investments that might be required to meet social needs, help grow local economies and create attractive places to live and work, than Whitehall officials and Ministers working in a number of remote, separate, shrinking and not always well-coordinated departments. Indeed, for several years it has been a priority for the Mayor of London and local authorities to have greater influence over economic development in the capital. However, with the Government reserving power over the majority of economic decisions and funding, the level of London government's direct influence has been limited. Cities including London are reliant on national systems to deliver local ambitions. In the capital, we have clear goals for how we want to achieve growth and why these are more effectively delivered at the regional level. We endorse the sentiment of Lord Heseltine's 2013 *No Stone Unturned* report that 'Government must now reverse the trend of the past century and unleash the dynamic potential of our local economies.'[11]

10. The success of this approach in London was evinced most obviously in the delivery of the Olympic Games and the continuing legacy work in East London, for which, of necessity, a strong local vehicle was created in the Olympic Delivery Authority (ODA) and now the London Legacy Development Corporation (LLDC), powerful bodies which have by and large transformed a once derelict part of London. However, it was only through national government enabling a local body to have substantial devolved powers and funding that success was achieved. The Government has continued this approach in London through the absorption of the London Homes and Communities Agency and the London Development Agency within the GLA and alongside Transport for London and the LLDC as part of the GLA Group. This provides powerful machinery under the Mayor of London's leadership, using the London Enterprise Panel LEP (LEP) (see below) as a means of joining up the effort to promote growth. Yet the machinery lacks the power to determine the use of key taxes to help achieve this growth.

11. We have also welcomed Community Budget initiatives in London as a way of improving service delivery by aligning local services with the local labour market. The West London Alliance's Whole Place Community Budget programme developed the 'Skills Escalator to secure employment' scheme. This brought various stakeholders together, including officers from the relevant local authorities, Job Centre Plus, the Skills Funding Agency, the National Careers Service and the GLA, as well as staff from local colleges, training providers and

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[9] Greg Clark, written evidence to the London Finance Commission, http://www.london.gov.uk/priorities/business-economy/championing-london/london-finance-commission/london-finance-commission-evidence

[10] See chapter 1 of the GLA Economics Evidence Base, https://www.london.gov.uk/sites/default/files/evidence-base-2010-final-low.pdf

[11] No Stone Unturned, p6, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf

organisations delivering the work programme, with the objective of reducing the disparity between the high skills requirements of jobs available locally and the lower skill levels of many of the resident workforce. In our view, opportunities for similar borough-based partnerships should be explored, particularly as the National Careers Service contracts (which will begin in autumn 2014) are expected to have much more of a locally driven service offer for businesses and individuals.

12. For cities to deliver a real step change in economic development, they need to be fully involved in setting the outcomes for the whole system rather than simply being invited to to bid into discrete pots or to direct small portions of government funding. The UK's highly centralised state infantilises the relationship between national and local and regional governments in the following ways. First, by definition, funding frameworks are set by national political priorities. This means that local areas, in their attempt to persuade central government to provide any funding, must try to demonstrate how their needs fit with national priorities. Their own real priorities are either ignored or dressed up. This leads to mutual distrust and cynicism. Second, national spending decision criteria are opaque. The most obvious – and important - example of this opacity is the Budget, which is set annually without any open consultation with London government (one quarter of the economy) by the Chancellor. Neither the Treasury nor DCLG has any systematic or formal approach to inviting submissions from the GLA Group and, at official levels at least, provides no indication of potential priorities worthy of consideration. This can lead to a scattergun approach in terms of requests for funding and policy changes – in the absence of any clear direction of travel, all routes can be attempted. As a result, local government can appear not to be able to prioritise. Third, the lack of devolved funding and fiscal power leads to decisions being taken by national government about local matters - for example about investment in small piece of infrastructure - that are not of national importance and should therefore be taken by the appropriate local authorities.

13. In London, the Mayor, local authorities, London Councils and the LEP are keen to make significant structural change to the funding mechanisms currently in place to ensure that all mainstream funding is aligned without exception to the jobs and growth agenda for London and to ensure that funding drives economic growth through increased competitiveness, employer productivity, sustainable employment and career progression. The Growth Deal initiative provides an opportunity for the LEP, Mayor and local authorities to continue to promote, champion and lead a strategic approach to economic growth for London. This approach will aim to make significant changes to the way funding is delivered in London, ensuring better outcomes and value for money by those that understand the opportunities and challenges in their communities.

14. But for meaningful change in which cities have genuine control over local matters, we are calling for fiscal devolution of the full suite of property taxes to city government. In May 2013, the London Finance Commission (LFC)[12] made a number of recommendations to the Mayor of London to improve financial arrangements for London government. Its overarching recommendation was as follows: *"London government should have the freedom to make appropriate investments in its own infrastructure both to cater for the growth already forecast for its population and economy, and to promote additional economic growth. Relaxing restrictions on borrowing for capital investment within prudential rules and devolving revenue streams, including from the full suite of property taxes, will afford London government the autonomy to invest in the capital and increase its accountability to*

[12] http://www.london.gov.uk/priorities/business-economy/publications/raising-the-capital

London's residents and businesses, without affecting the financial settlements of other parts of the country."

15. The Mayor of London and London Councils accepted all the recommendations of the LFC, which were also endorsed by the Core Cities in recognition of their applicability in other cities outside London. These bodies have subsequently formed the joint *City Centred* campaign to work together to make the case to decision makers for fiscal devolution to cities.

PRACTICAL AND CULTURAL CHANGES

16. At both local and central government level, policy and public sector interventions need to focus more on market failures, for example through streamlined and effective planning regulations, better education, and a greater prioritisation within a total level of public finances on infrastructure spending.

17. Within the England, one of the most centralised countries in the OECD, there is no doubt that a paradigm shift in the relationship between central and city government will be required if London and other cities are to take on meaningful powers to promote growth, in line with international cities. Legislation will be required to devolve fiscal powers, and central government must entertain mature peer-to-peer dialogue with city government to improve local service delivery, increasing efficiency and enabling successful local economic development.