

**THE BRIGHTEST  
STAR: A MANIFESTO  
FOR LONDON**

*Ben Rogers*



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All faults lie with me.

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# EXECUTIVE SUMMARY

With the UK less than a year from a General Election, this essay makes an argument for what London needs from a new government and what a new government needs from London.

London occupies a peculiar place in our national political discourse. Many politicians and media commentators take the view that London is too big and ‘successful’ for the nation’s good. And we know many voters share their misgivings. Insofar as London features positively in national discussions, it is often as an example of a city that has got, in the person of the Mayor, the sort of decentralised powers that other, less powerful, cities and regions in England need.

Yet each of these points gets it wrong in important respects.

First, and most simply, London represents a great national asset. As one of the world’s leading cities, it shines very brightly, attracting business and visitors from across the globe. The UK does need to do more to promote our big cities outside London – these under-perform by international standards – but the country would be a much poorer and less influential place without its capital. We need to be thinking not about how to curtail London’s success but how to sustain and build on it, while ensuring that it makes the greatest possible contribution to the rest of the UK.

But if London brings wealth and influence, it also faces big challenges. It is far from the case, as is sometimes suggested, that London has it easy – that it enjoys rude health while the rest of the country struggles. In fact London’s star shines almost too brightly. As it attracts and retains more and more residents, visitors and investors, there is a real risk of the city falling victim to its own success. London has long had exceptionally high levels of poverty and worklessness. But over the last decade living costs have increased dramatically while earnings have stagnated, making the city an increasingly tough place for modest and middle-income households, as well as its many poor ones. Moreover, with London set to grow by

as much as a fifth in the next 20 years, equivalent to a city the size of Birmingham, these pressures are only likely to intensify.

Finally, and most importantly, while London does have more power than other English cities and city regions, and has made good use of these, it does not have all the power that it needs. The self-government it enjoys is very limited by international standards, or indeed, by UK standards – both Wales, with a population of three million and Scotland with a population of five million, have more power than the capital, with its population of eight million plus.

Against this context our political parties and indeed the national media need to start thinking much more seriously and creatively about London than they currently are. Indeed, the case for radical thinking is greater now than it has been at any time since Tony Blair came out in support of a Mayor for London back in 1996.

The arguments and recommendations presented here fall under four broad headings:

### **Self-government**

The majority of the recommendations made here call for rolling back the reach of the UK's over-centralised state and giving greater powers to London government and ultimately to London's citizens. The arguments for greater devolution are now well established and, as the Scottish referendum campaign illustrated, the British public are strongly supportive of them. It is a matter of basic democratic principle that power should be pushed downwards to the lowest feasible level. Places are different with distinct problems and opportunities and need local, tailored-made policies. Local solutions tend to be better at engaging local knowledge, winning local buy-in and leveraging latent civic capacity. Devolving more power to Britain's nations, regions and cities becomes all the more pressing when government has to find massive savings, as the next government will. We can no longer afford the luxury of a large central state.

These arguments have particular force when it comes to London. First, London – Western Europe’s biggest city, with its high-skill, innovative international economy, diverse, fast growing population, distinct transport and other infrastructure needs, and great inequalities – really is unique. Policy made to fit an average English place is rarely well-adapted to anywhere, but it will tend to be particularly poorly adapted to the capital.

Second, London has proved itself well qualified to take on further powers. The creation of the GLA, led by a directly elected Mayor, has been a success story and has won the allegiance of the vast majority of Londoners. But London’s borough councils also have a good story to tell – they are now widely regarded as some of the best in the country. A city that laid on the 2012 Olympics is more than equal to designing an effective property tax regime or running its own skills programmes – especially when the central government’s property tax regime is so manifestly regressive and dysfunctional, and nationally-run skills services have such a patchy track record.

Much of the current discussion of devolution as it applies to London tends to focus on the case for fiscal devolution. In 2012 the Mayor of London established an independent London Finance Commission, chaired by Tony Travers. This set out a strong case for giving London greater power to design its own taxes and retain some of its tax-take in exchange for the withdrawal of the central government grant. It can’t be right that 74 per cent of London’s income comes from central government grant, compared with 31 per cent in New York and only eight per cent in Tokyo. A new government should adopt all the recommendations of that report in full, including the devolution of property taxes to London government, along with full discretion over smaller taxes (eg ‘tourist taxes’). In the longer run, a proportion of income tax should also be assigned to the city. Even if all the recommendations of the London Finance Commission

were implemented, London's tax-raising powers would be modest by the standards of many cities.

But devolution should not stop with tax-raising powers. A new government should also devolve much more power over regulation and services. Of course there is a vital role for Westminster and Whitehall in domestic policy – in running macro-economic policy, establishing and maintaining a strategic system of national infrastructure, and national frameworks of welfare entitlements and public services, among other things – but London should be given far greater powers to design and run services in areas like childcare, education, skills and employment, affordable housing, health and social care and criminal justice. It should also have more powers over a wide range of laws and regulations, most notably minimum wage and planning.

### **A more accountable London government**

As a counter-weight to decentralization, a new government will also need to look at ways of strengthening the accountability of London government – if the Mayor and boroughs are to get more power, new measures will be needed to ensure that they use it responsibly. First, the London Assembly needs boosting, for instance by giving it powers to vet senior Mayoral appointments and veto Mayoral strategies. But there are also strong arguments for replacing the current Assembly with one made up of borough Leaders or other London borough councillors. Second, a new government should introduce a proportional system of election for London's councillors – too many London councils are or are close to being one-party states, leaving too many voters unrepresented.

### **Thinking like a capital**

Some will argue that giving London more power will only hurt the rest of the country – after all, London already towers over other British cities. Yet if greater devolution does indeed boost London's economy, the rest of the UK will be set to benefit too – both through

strengthened supply chains and additional tax income going to the Treasury. London's principal competitors are not Manchester, Bristol or Edinburgh but cities like New York, Paris, and Hong Kong. Policies that ensure that London remains competitive relative to these won't detract from other UK cities but help them. London's slice of the cake might get bigger but the rest of the cake, enjoyed nationally, will get bigger too.

That said, London does have a tendency to act and think in quite an insular way. It sometimes seems happier with its identity as a global city than a capital one – more interested in what is going on in New York than in what is happening in the rest of the UK. The Mayor, for instance, has only very limited dealings with the counties and cities around London. To his credit Boris Johnson has established a formal alliance with the Core Cities – the organisation representing the UK's largest cities beyond London – but this alliance is in its infancy. And London hardly bothers to collaborate with the cities and counties around it – there is scarcely any joint working across the Greater South East.

In the end, much of the initiative for addressing national misgivings about London and building more positive ties with the rest of the UK has to come from the capital. But there are some things a new national government could do. First, it could set up a commission of inquiry, perhaps jointly with the Mayor, to look at how London's contribution to the UK could be maximized. There might, for instance, be more that the capital could do to signpost visitors and investors interested in London to other British cities and regions. Or it might be that London's great cultural and educational institutions could be making a greater contribution nationally.

Second, the government should promote greater co-ordination between London and the rest of the South East. London's world-class universities and research establishments need, for instance, to be encouraged to collaborate with those beyond the

capital – especially Oxford and Cambridge. Though London and the South East arguably have the greatest concentration of academic firepower anywhere on the globe, they would become an even more formidable research and economic force if they did more to pool resources and develop joint initiatives.

Finally, a new government should give serious consideration to the case for allowing London to expand, and for neighbouring areas that want to join it to do so. Government should in particular explore the merits of establishing a mechanism to allow the triggering of a referendum in areas around London that might want to become part of it. Places like Slough, Luton, Thurrock and Dartford could benefit from joining the capital, with its pan-regional government, strategic housing and planning powers, integrated transport system, and effective system of borough collaboration. But the benefits could become all the greater as London government gains more power. These places would in effect become part of England's most powerful and dynamic city region, with a strong regional government focused on promoting jobs and growth and improving services. But it is not just these areas around London that could benefit. They in turn could play a role in meeting London's growing need for new homes and work spaces. Any move to integrate places into the capital might be strongly resisted by local council leaders, but it could well win the support of ordinary residents, especially commuters.

### **Civic city**

The recommendations set out in this essay are addressed mainly at political leaders in Westminster and a new national government. But there is little point in giving London government more power if that government remains remote and bureaucratic. So the final chapter of this essay sets out an agenda for London government itself – one focused on strengthening integration, social interaction and civic life in the capital, and making government and public services more engaging.

Some of the things that attract people to London are its tolerant and welcoming culture, rich public realm and cultural offer and buzzy social life. But high levels of migration, population growth, growing inequality and cuts to public spending are all putting pressure on these. The city will need to find new ways of preserving the qualities that make it the alluring, successful place that it is.

# INTRODUCTION

With a general election approaching, this essay makes an argument about what London should be looking for from a new government but also what a new government should be looking for from London. It is a manifesto for the capital.

There are two connected reasons why we badly need to be stimulating thinking about London's future now. First, London occupies an increasingly peculiar position in the UK, Europe and the world. That position has changed faster than most people realise and demands fresh policy thinking. Yet there is a marked absence of much new thought among the political class and media. There is no end of to and fro about the future of the British nations or the northern cities, but precious little about London.

### **The rise and rise of London**

London has long been a world city – a world capital even – but never more so than today. Despite the development of distance-shrinking technologies – the telephone, the car, the plane, and now the internet – cities are becoming more not less important engines of innovation and economic growth. This is true in the emerging economies of Asia, Africa and South America, where economic development is being driven by urbanization, but it is also true in developed economies, with cities becoming more productive, relative to other locations. Moreover, the premium attached to city success has got greater over the decades – the gap between successful and less successful cities has widened. The world, as Richard Florida put it more than a decade ago, is not flat but spikey.<sup>1</sup> And London, in particular, is benefitting.

On all significant measures – economic, cultural, and political – London is by far Britain's leading city. Europe's unrivalled global city, it plays a larger role in Europe's economy than New York does in that of North America.<sup>2</sup> Paris, its closest rival, has fallen behind both in job creation and productivity.

But London is not just the UK's – or even Europe's – most powerful city. It is increasingly the world's leading one, stealing a march even on its old rival New York. Yes, New York stands equal to or exceeds London on many 'global city measures'. It has, for example, more billion dollar companies headquartered there (217 to London's 193).<sup>3</sup> But much of New York's standing derives from its role as the capital of the US's vast economy. London, by contrast, is much more internationalized. The global rich have given up Swiss bank accounts for London property. London is now home to nearly twice as many billionaires as New York (72 to 43).<sup>4</sup> Nearly three quarters of new homes in Central London are sold overseas.<sup>5</sup> It has six of the world's top 100 universities – more than any other city can boast. Partly as a consequence, London attracts more international students than any other city – a quarter of London's students are from overseas.<sup>6</sup> And it has more graduates, by some way, than any of its counterparts.<sup>7</sup>

Moreover, London looks well-positioned to build on its standing as an urban superpower. It is of course very difficult to predict how any city will perform – cities can rise and fall with disconcerting speed. The coming of the 'BRICS' and other emerging economies are in some respects a threat – London was ideally placed physically for a bi-polar world, where Europe and the US were the world's major economic powers, but less so for a multi-polar one with the centre of gravity shifting South and East. However, it is very well endowed in other ways, with language, time zone, legal system, networks, cultural offer, public realm and built heritage all playing to its advantage. Recent work by McKinsey predicted that we will see the near-doubling, across the world, of billion dollar businesses over the next 25 years, with seven out of ten coming from the emerging economies – today there are 85 billion dollar businesses located in emerging economies but by 2038 there will be 230.<sup>8</sup> London is particularly

well positioned to benefit from this development as these new corporations look to find locations for their European, ‘Western’ or sometimes global headquarters – London already has more big company subsidiary offices than any other city in the world.<sup>9</sup>

For these reasons and others London’s star is currently shining especially brightly. Of course brightness is not the same as quality. The suit with the most sequins is not necessarily the best. Light can warm but it can also burn. It can illuminate but it can also dazzle. It can nourish but it can also suck dry.

There is certainly no denying that London’s ascendancy brings problems. London is growing much faster than the rest of the UK, and this is putting pressure on infrastructure, public services and above all housing. It is also exacerbating a long-standing wariness of the capital through much of the rest of the country. London’s position as one of the world’s major cities is fuelling a rise in inequality and the hollowing-out of parts of the centre of the city. It raises challenges of illegal migration, integration and cohesion, and it is arguably distorting the national economy – for instance by driving up sterling and hitting exports.<sup>10</sup> Indeed, on many measures London is quite simply not working. This is especially true for younger residents and low-income families, who feel increasingly squeezed, with flat-lining incomes falling behind fast-rising living costs. It is almost impossible for young families on ordinary salaries to buy a London home on their earnings alone.<sup>11</sup> And, inevitably, these pressures threaten the city’s on-going success, with high living costs and housing shortages, in particular, undermining London’s attractiveness as a place to live and do business. A growing army of Londoners are joining the ranks of the ‘Endies’ – Employed, no disposable income or savings.

But London’s leading position brings huge advantages and potential benefits too. The money that comes in is real. Research by Sandra Jones, a Centre for London Associate, suggested that foreign

owners of London properties worth more than £15 million spend on average £4–5 million a year in the UK, while those with homes worth more than £5 million spend £2–3 million a year.<sup>12</sup> Together they spend more than all Olympic-related tourists spent in 2012. Foreign students keep our universities afloat. London attracted more than a third of the UK's new overseas investment projects last year, creating or saving around 29,000 up to jobs.<sup>13</sup> But the money does not stay in London – it goes to the rest of the nation through 'supply chains' and taxation. Roughly half of the tourists who come to the UK primarily to visit London also visit another part of the UK.<sup>14</sup> A 2007 survey found that more than half of foreign companies that had invested in London had used it as a "springboard" for expansion into other parts of the UK and Europe.<sup>15</sup> Over the last decade or so London has contributed more than £12 billion each and every year (over and above what it has received in public expenditure) to the UK's public finances.<sup>16</sup> The London economy powers that of the South East, and together they make an enormous contribution to living standards across the country.

The gains to London, moreover, can't be measured in narrow economic terms alone. The city is an ever more important 'soft power'. Seventy years ago, London was known first and foremost as the capital of the British Empire, but we are seeing a gradual shift, as London becomes a more familiar and powerful 'brand' than Britain. The UK is increasingly conceived as the nation to which London belongs, rather than London being seen as the capital of the UK. Moreover, the capital is largely seen in positive terms – it's a great international 'brand'. The city consistently ranks top or near the top of city brand and soft power league tables – with help from the 2012 Olympics.

This is to some degree part of a broader pattern. As the world urbanizes, cities are becoming not just more powerful economic, but cultural and political forces, often overshadowing their mother nations. The US is perhaps an extreme example:

with Washington DC mired in ideological battles, initiative is moving to other US cities.<sup>17</sup> But the same can be seen elsewhere. Cities rather than nations are increasingly driving social and political innovation and leading the way in developing fresh solutions to our problems.<sup>18</sup> Cities are naturally cosmopolitan and find it easier than nations to collaborate internationally. It is sometimes said that a nation state is too big to tackle the small problems and too small to tackle the big ones. Paradoxically, cities can be well placed to tackle both. They are closer to their citizens, so better equipped to help them, but they are also more adept than nations, with their conservative, exclusive identities, at international collaboration. Whether the challenges are economic, social, environmental or governmental, it is often international city partnerships that are leading the way.<sup>19</sup>

But this only bolsters the point. As perhaps the world's leading city, London is well placed to play a leading role in the 'age of cities'. The capital is seen as knowing how to build a successful city – other cities want to learn the 'London recipe'.<sup>20</sup> It is in a good position to contribute to and benefit from international city collaboration. Indeed, it is already one of the world's leading centres of expertise in all aspects of urban development – from transport engineering to cultural policy, from hosting major sporting events to community cohesion, from architecture to local energy generation schemes, from smart technology to regeneration – and a leading provider of 'city services' around the world.<sup>21</sup>

### **Capital embarrassment**

So London finds itself in a peculiar position. On the one hand, it is riding high – a global powerhouse in a good position to benefit from on-going globalisation and urbanisation and cement its place as *the* global capital, with all the benefits that brings in terms of wealth and influence in the world. On the other hand, the cost of living in the city, the difficulty of finding a home and the pressures on transport and

public services have made it a tougher place to live for many Londoners, threatening the city's success.

This situation surely calls for national discussion and concerted policy thinking.

Yet London occupies a strange place in our national political discourse. Our leading politicians are very wary of seeming London-centric, with one notable exception. Boris Johnson, Mayor of London, is an engaging and eloquent champion of the city. Yet it's not clear that even his thinking about the capital is radical or ambitious enough – this essay sets out a more far-reaching agenda. Moreover, Boris' arguments are too readily discounted; as Mayor of the city, he is seen as *parti pris*.

On a wider scale, the Scottish referendum provoked an inspiring discussion about Scotland's future. There is, in particular, a firm consensus now that Scotland, and by association Wales, need to be given more power.

Scotland, however, has not had the stage all to itself. The Coalition Government commissioned Michael Heseltine to undertake a fundamental review of the UK economy.<sup>22</sup> He focused firmly on cities other than London: indeed, it sometimes seems that hardly a day goes by without a Coalition Minister pledging to do more to support the great cities of the North. The Conservatives, we are told, will make a commitment to devolve more power to these cities a central plank of their general election strategy. The same is true on the leftward part of the political spectrum. Take the *Condition of Britain* report by the IPPR – Britain's leading left of centre think tank. Billed as a fundamental rethinking of social and economic policy, it is nevertheless squarely focused on the rest of the UK. In so far as London features, it is cast as a problem – dominating the rest of the economy and promoting the 'financialisation' of the country. Andrew Adonis's report for the Labour Party follows Heseltine and the IPPR in making its objective the rebalancing of the British, or more particularly the English, economy and sets out a series of measures

aimed primarily at helping the big English cities beyond the capital.<sup>23</sup> The City Growth Commission, hosted by the Royal Society of Arts has a similar focus. Despite the extraordinary importance of London to the UK economy, none of the current main party leaders – David Cameron, Nick Clegg or Ed Miliband – have given a significant speech on the capital since taking up their position.

We don't have to look very far for the explanation of this anomalous situation: London is seen to be doing well for itself. The UK economy has the greatest regional disparities of any major EU country. But it has become even more unbalanced since the banking crisis. Some 40 per cent of new private sector jobs are located in the capital. From 2010 to 2013 there were more cranes erected in London than across the whole of the rest of the UK.<sup>24</sup> London shines almost too brightly, eclipsing everything else. Central government is too centralised, and by implication London is believed to be part of the problem. 'London' the place is conflated with 'London' the location of the UK's capital city and all the failures of government. Worse, London escaped relatively lightly from the financial crisis that seemed to emanate from a part of the city's economy. All in all, our political class appears to have become a bit embarrassed about the capital.

So when London does feature in national political discussion it tends to do so negatively – we worry that it is 'growing apart' from the rest of the country or promoting an ever more unequal and divided nation. Or we fear, worse still, that it is positively undermining other regions – acting, in Vince Cable's words, as a "giant sucking machine, draining life out of the rest of the country".<sup>25</sup> Arguments like this go down well across much of the UK. Only a quarter of British people outside London think the capital benefits their local economy – in Liverpool, Hull and Sheffield this falls to eight or nine per cent.<sup>26</sup> Moreover, insofar as London features positively in national political debates, it is often as an example of a city that already has many

of the devolved powers and strong leadership that other British cities need – especially if they are going to catch up with the capital. It is seen as a city that has got what it needs to prosper. Job done.

### **New thinking needed**

But refusing to engage properly with the problems and promise of London is not good enough. It is vital that we succeed in rebalancing the British economy and getting cities beyond the South East running at their full potential. Most nations would give a lot to have the world's leading city as their capital. It's a good problem to have. On top of which, one in eight of us live in London. Parts of the metropolis are as poor as anywhere in Britain. Indeed, London has the largest concentration of deprivation in the UK. It would be nice if national politicians paid the capital some attention too.

For these and other reasons we do need new thinking about London, and given that central government still exercises a lot more power over London's fate than does city government, we need some creative national thinking about its future.

Indeed, the case for having a radical and imaginative strategy for London is stronger now than at any time since 1996, when Tony Blair's opposition Labour party pledged to give Londoners a referendum on whether they wanted a Mayor. With the UK facing massive debts and London bursting at the seams, the case for thinking strategically about how to get the most from this great asset is answerable.

### **Overview**

The basic argument of this pamphlet is simple.

First, London is suffering from severe growing pains. For all its power and productivity, growing inequality, steep rises in basic living costs and a worsening housing shortage have made it an increasingly tough place to live – especially for those on lower incomes. For many hard-working Londoners

the old capitalist bargain – if you work hard and are careful with your money you and your family will thrive – has broken down. With the population due to increase by two million people over the next 20 years, and government budgets under increasing pressure, there is a real danger of the city falling victim to its own success. If the city is going to rise to the challenge ahead, it will need both to increase public investment in new infrastructure and other systems and services, and design and run these in new and more effective ways (Chapter one).

There is a strong and growing consensus that the British state is too centralised and that power needs to be devolved from central government to Scotland, Wales and to England's cities. Though London is sometimes seen to have got the power it needs, this is far from the case. Those who argued that London needed its own strategic pan-London government have been proved right – the Greater London Authority, created 15 years ago, has been a great success – but London still lacks many powers that similar cities in similar nations take for granted. Only if London gets more power to govern itself, can it possibly meet the challenges ahead. The problems London faces are so often peculiar to it that governing for Middle England or Middle Britain will rarely provide appropriate solutions for the capital. Though Londoners are much more concerned about the cost of living, and the cost of housing in particular, than they are about who runs what, most Londoners are broadly supportive of devolution (Chapter two).

The city certainly needs more power over taxation. London should be given the power to design its own property tax regime. This would allow the city to develop a more equitable and effective system of taxation, which could encourage and fund the infrastructure and housing the city badly requires and attract further investment and growth (Chapter three).

But London government should also be given more power and resource to drive improvement of public services, including education, health, criminal justice,

skills and employment and low pay. As things work now services are too often ill-coordinated and powers and responsibilities misaligned. Local government is often in the best position to tackle problems early on and in a joined up way (Chapter four).

So London government should be given more power. But any move in this direction will need to be matched by steps to strengthen democratic accountability in London. Two reforms in particular stand out. First, the powers of the London Assembly will need strengthening. Second, there is a strong argument for making London's councils more accountable through establishing a more proportional form of election (Chapter five).

London is often already seen as an arrogant and insular capital. While there is very good reason to think that greater devolution to the capital will help not only London's economy but that of the rest of the UK, as London get more power so it will have to work harder to keep the rest of the UK onside. Chapter six sets out a series of ideas as to how London could develop closer links both with the rest of the UK and with its neighbours in the greater South East.

Finally, this manifesto takes one step beyond an argument for devolution to London government. Effective government depends on a strong and active society. There is no point in passing power down from the centre to the city, if city government is itself a remote and machine-like thing. So this manifesto sets out an agenda for London civil society and citizen engagement as well (Chapter seven).



1

# LONDON'S CONDITION

This chapter offers a brief overview of the pressures and opportunities facing London.

### **Population boom**

Any discussion of London's future has to begin with its growth and the pressures on it. The basic facts are simple. From the beginning of the Second World War in 1939, London's population fell, as London's ports and industries declined. From the early 1990s, that began to change. Globalization and the emergence of a service- and knowledge-based economy played to London's advantage, as the city's strengths in financial and business services, higher education and research, and the creative sector bred further success. Now the city's population is growing by about 100,000 every year – the equivalent of 2000 new Londoners every week. Over the next year or so, London will exceed its 1939 population of 8.6 million. The GLA predicts that by 2020 there will be more than nine million Londoners and by 2035 around ten million.<sup>27</sup>

At the same time, the make-up of London is changing. While the metropolis has long attracted international migrants, the numbers that have arrived in recent years have far exceeded anything experienced before. More than half of all births in London are to mothers who themselves were born overseas. As a result, less than half of Londoners now identify themselves as white British. The age range of the population is also changing, as the proportion of children and old people increase relative to working-age adults.

### **A great global city**

London's growth is in some respects a tribute to it. On many measures it has adapted very well to the changes that have swept over it. As a result, people want to live in the capital and are excited by it.

The social thinker Charles Leadbeater has argued that all cities can be scored against two measures: systems and empathy.<sup>28</sup> He notes that both need

to be kept in their place. Part of the point of going to a market or taking a walk in a park can be to escape the world of systems and unwind. Likewise, none of us are looking for empathy from the Transport for London website, the electricity network or an automated bill payment system – we just want them to work. London's future depends on its ability to become a high empathy, high system city – we need to find ways of combining efficiency with civility and fellow feeling. In many respects London already scores well on both counts. Heavy investment in public transport has resulted in a much improved and widely admired system – the capacity of the capital's train system will have increased by a full 50 per cent between 2004 and 2030.<sup>29</sup> London's legal system is admired around the world. It has many strong public services – from health, through schools to the police.<sup>30</sup>

London also works, in many respects, on the level of empathy. Crime has fallen, and though migration has brought with it stresses and strains, the city has adapted to it well – the proportion of Londoners who report that people from different backgrounds get on well together in their local area has gone up from more than eight out of ten to more than nine out of ten in a decade.<sup>31</sup> Even when the tube or suburban railways are at their most crowded, passengers tend to treat each other with respect. The city has always had a wonderfully rich public realm, but its parks are better kept up than they were and pedestrians and cyclists are slowly getting more space. It also has a rich civil society, with countless neighborhood and community groups, book clubs and amateur sports teams, volunteers and charities.

### **Growing pains**

The growth of London, however, and its increasing globalisation, brings big challenges.

Housing is no doubt London's greatest problem. The need for new homes has outstripped supply ever since London started growing again, a quarter of a century ago. As a result, average London house prices

have increased four-fold in real terms since the late 1960s and are now more than twice the national average, growing at a much faster rate than wages. Rising house prices have led to rising rents, with average monthly rents in London now twice the national average, even though median salaries in London are just 27 per cent higher than the national median.<sup>32</sup>

Home ownership is increasingly unaffordable, particularly in inner London. More and more people are living in the private rental sector, including families and older people. Commuting has increased by ten per cent in a decade,<sup>33</sup> as people are squeezed out of the city. Overcrowding and homelessness are on the rise. Moreover there is little sign of any significant increase in the rate of new supply. It not surprising that Londoners now tell pollsters that housing is their top political concern, above transport, policing and the economy, or that seven out of ten renters think they will never be able to afford to buy their own home in the capital.<sup>34</sup>

Population growth is putting pressure on London's infrastructure as a whole, including transport, energy, water, and waste. The capital has run out of runways, and businesses complain about dodgy power supplies and slow Internet connections. London's sewers are so inadequate that whenever it rains raw effluent floods into the Thames. Despite all the investment in its transport system, much more is needed, including both major infrastructure projects – new river crossings in East London, and new rail lines and road improvements – and the retrofitting of the city so it works better for cyclists and pedestrians. Public services – schools, healthcare, criminal justice – face a similar crunch, and at a time when local services are facing at least another five years of further cuts. It is often claimed that London has a housing crisis, but it would be truer to say has a growth crisis.

The pressures arising from London's growth are inevitably hitting the economy hard. According to the London Chamber of Commerce, 42 per cent

of London businesses felt their ability to recruit and retain skilled workers was negatively affected as a result of increased housing costs.<sup>35</sup> London consistently ranks near the bottom of city league tables when it comes to the 'cost of living'.

London has also experienced growing inequality, with grave implications for social mobility. It is widely assumed that inequality is growing generally across the UK, yet on most measures it has remained fairly constant. In London, by contrast, the gap between rich and poor – already the widest in the UK – has been getting wider. The nominal salaries of the lowest decile increased by 26 per cent between 2002 and 2013 compared to an increase of 30 per cent for those on median salaries and an increase of 34 per cent for top decile earners.<sup>36</sup> The levels of child poverty in the poorest boroughs are nearly five times those of the wealthiest.<sup>37</sup>

Growing inequality is driven in large part by the changing labour market in London, with a thinning out of middle tier administrative work, and a growing polarization between highly skilled employment and low skilled manual and service work, with intense competition for the latter driving wages down. Workers in London have long commanded higher pay than workers elsewhere, but for the bottom half of the London workforce the London 'premium' has declined over the last decade – while it has remained constant for the top half. This is particularly true for the bottom ten per cent of London earners, whose wages have risen by only 26 per cent between 2002 and 2013, compared to 33 per cent for workers across Britain as a whole.<sup>38</sup> Around 600,000 jobs in London pay below the London Living Wage.

Where wages have more or less stagnated in London or actually fallen since the banking crisis, relative to national measures of inflation, costs have continued to rise faster in the capital than elsewhere. As we have seen, the cost of housing has gone up much faster than pay (and much faster than elsewhere in the

UK), but so has cost of public transport, food, energy and childcare. Take transport, for instance: between 2008 and 2014 London weekly earnings increased by ten per cent in nominal terms, yet Zone 1 underground fares increased by 47 per cent and bus fares by 61 per cent.<sup>39</sup> Likewise for childcare: over the last five years, the cost of nursery care has gone up by 41 per cent in London compared to 31 per cent nationally.<sup>40</sup> It's the same for utilities: the average London fuel bill increased by more than 50 per cent above inflation between 2001 and 2011. London, in short, is becoming an increasingly tough place for people of modest means. Even those who work hard and are careful with their money struggle to make ends meet. London is becoming a city of Endies – ‘Employed, no disposable income or savings’.<sup>41</sup> It's no surprise that more than three quarters of residents think “London is becoming a place for the super-rich, while people on normal incomes are being squeezed out”.<sup>42</sup>

On top of this, the capital has very high levels of poverty and social exclusion – it is this above all that makes the popular contrast between an overheated London and under-developed regions beyond it too simple. Some 27 per cent of London's children live in families who are below the poverty line, versus 20 per cent nationally.

In a particularly troubling development, in-work poverty has increased notably in recent years – a result, in part, of the hollowing out of the labour market already discussed. At the start of the 2000s the majority of children and adults in poverty lived in workless families (60%), now the majority live in a family where someone is in work (57%).<sup>43</sup>

The city has particularly high levels of youth unemployment – around a quarter of young people who could work don't do so, with the clear implication that the city's education system is failing many of those in its charge. Women also work at a lower rate in London than elsewhere – in large part due to the high cost of childcare.

While crime has fallen and confidence in the police has increased, London is still a relatively high crime city. As the riots of 2012 indicated, many young people in particular feel alienated from the city and its police. London's young offenders are significantly more likely to offend again than they are nationally.<sup>44</sup>

As might be expected of a rich but unequal and fast moving city, London's health services face big challenges. More than half the population are overweight or obese – London has higher rates of childhood obesity than New York.<sup>45</sup> The capital also has high rates of sexually transmitted diseases and very high rates of serious mental illness. Seven per cent of all adult deaths in London are attributable to air pollution, and over 85 per cent of the worst areas in England for nitrogen oxides and 'particulate matter' are in London.<sup>46</sup> One in ten children aged 5–16 have a diagnosable mental health disorder and one in eight Londoners suffer a mental illness each year – yet only a quarter of mentally ill Londoners receive medical treatment. More than a quarter of Londoners say they feel lonely often or all of the time.<sup>47</sup>

One final point: London is so large that comparisons with other regions in percentage terms can be misleading. Take youth unemployment: the North East might have marginally higher unemployment in proportional terms (one in 11 to one ten, but in absolute terms London (population of 8.4 million) dwarfs the North East (population 2.6 million).

### **Best of cities, worst of cities**

In sum, the picture presented by London is a complicated one. People often describe it in terms of a tale of two cities, and there is something in that. On the one hand, there is a very large number of residents for whom London offers a wonderful home. This is particularly true of older home-owners with some savings, who can enjoy (with their free Freedom Pass) all that the increasingly safe city has to offer. At the other extreme, there are people for whom

the city has ceased to work. This is true for example, of many working class suburban Londoners, who feel London has left them behind, who sometimes resent the changes that migration has brought about and who worry that their children will never be able to afford to live where they were brought up. It is equally true of the growing number of low and median income families in private rented homes, struggling to make ends meet and worrying about where they will go next.

But for many, the city is both the best and the worst of worlds. It is accepting, exciting and rich with opportunity – in 1977 only 41 per cent described living in London as exciting, but today it's 79 per cent.<sup>48</sup> However, stagnant wages, stiff competition for work and sharply rising costs can make it an extremely difficult place to get by in.

### **Meeting London's challenges**

Whatever weight we place on London's strengths and weaknesses, or however we identify its winners and losers, there is no denying that the city has some very big challenges to meet and will have to radically change the way it operates. Much can be achieved if the city becomes smarter and more innovative – if it gets better at joining up services, taking early intervention, making smart use of new technology and growing civil society. At the same time, London will require massive further investment in its infrastructure – including green infrastructure – and services. A report from Arups, commissioned by the GLA, estimated that London will need more than £1 trillion of investment in infrastructure and housing over the next 35 years, and this will involve investing in infrastructure at nearly twice our current rate.<sup>49</sup> A new government will have to find ways of helping London meet its large and growing challenges.

**2**

**POWER TO  
THE CITY**

The last chapter highlighted some of the main challenges faced by London. This chapter sets out the high level argument as to why devolving further powers to London is a necessary move in meeting them. Under the current arrangements, London does not have access to the vast majority of its own resources: over 95 per cent of its taxes are collected and distributed by central government.<sup>50</sup> But London needs very different solutions to the UK as a whole; unless policy is designed by London for London it is unlikely to solve the city's problems.

### **The dominant centre**

The starting point has to be to recognise that the UK has long been an extraordinarily centralised country, and in many respects remains so today. It was not always thus. Britain has deep traditions of local self-government, and during the 19th century the industrial cities outside London developed highly-effective municipal governments. But the effort of fighting two World Wars inevitably led to the concentration of power at the centre. In the first three decades after the Second World War, the rise of the welfare state and a faith in centralised planning saw the further extension of Whitehall's grip. Margaret Thatcher, though no friend of the bureaucratic state, gave the process a further push, partly from a desire to rein in left-wing city governments (including, of course, the Greater London Council and several London boroughs) and partly because centralisation has a tendency to feed off itself – once the media and the electorate gets the idea that central government is responsible for everything, central government insists on taking responsibility for everything. Indeed much of the erosion of local government happened almost inadvertently – perhaps because the British, with their strong traditions of local government, weren't sensitive to its vulnerability. But by the end of the 20th century, according to the Constitutional expert Vernon Bogdanor, the UK was one of the most

centralised countries in Europe.<sup>51</sup> Little wonder that the turnout for regional and local elections, at between 30 and 40 per cent, has long been amongst the lowest in Europe.<sup>52</sup>

Central government certainly has its role. As already set out, there are some things that only the central state is equipped to do, including protecting borders, setting down and enforcing a nationwide legal system, setting macro-economic policy, developing and maintaining strategic national infrastructure, and ensuring basic standards in public services and a fair distribution of resources across regions.

### **The case for devolution**

However, centralisation also has its limits, and the British state has long exceeded them.

At the most general level, basic democratic principle argues that power should be devolved as closely to the public as is possible. The more remote an authority, the harder it is to hold to account and the less likely it is to understand or represent the interests of voters and citizens.

But there are more practical reasons as well for thinking that the British state needs on-going devolutionary reform. Many of the problems government and public services have to tackle are highly complex. They benefit from early, strategic intervention and demand close working across public service and professional boundaries, as well as the effective engagement of civil society, employers and businesses. Moreover these sorts of problems have become more common than they were.

This is true when it comes to services aimed at individuals and families. While large centralised bureaucracies are arguably well-placed to deliver services of a standardised and transactional kind – say making universal welfare payments, or issuing passports and driving licenses – they are very badly placed to deal with problems like poor parenting, chronic ill health or the rehabilitation of offenders.

These problems can't be addressed through a series of discrete services, each following guidelines established by far away departments in Whitehall. They need early, coordinated and sustained attention – in the most extreme cases a 'case worker' approach, with a dedicated individual who can pull in the appropriate services and ensure that the 'client' has both the support and the structure needed. Even in less extreme cases, a preventative joined-up service is called for with, say, housing, health, employment and in some cases criminal justice services and non-state actors including community groups, charities and employers, working together.

This is, in effect, an argument for powerful, multi-functional local government. Whitehall, by common consent, operates in 'silos'. Locally run services are more easily joined up than remotely run ones; they have a better understanding of local needs, and are better placed to identify problems early on and intervene accordingly. They are also well positioned to engage citizens, voluntary organisations and businesses in their work. A powerful local state with tax raising powers and extensive spending responsibilities will also have good reason to intervene preventatively – in contrast to the present arrangements where central government picks up the bill for the weakness of the local state.

In 2010 the international consultancy firm PwC published a report looking at the benefits that would result if London could develop more effective public services. They focused in particular on three sets of problems – the management of chronic health conditions, worklessness and anti-social behaviour by young people. Drawing on a review of research and good practice, they concluded that the key to improving services and cutting costs in these areas was precisely to join up services, encourage preventative approaches, adopt a case worker approach for people in the greatest need, and empower service users to tackle problems themselves (through, for instance, personalised budgets).

They found that chronic ill health, worklessness and youth anti-social behaviour costs more than £10 billion in direct public spending, and concluded that on modest calculations, the widespread adoption of a more strategic and individualised approach to these problems would result in a saving of 15 per cent, or at least £1.5 billion annually.<sup>53</sup>

That which is true of individuals and families is true of places; cities also typically have complex problems or are presented with unique opportunities that can't be tackled with a centralised off-the-shelf approach. It is now widely recognised that developing successful new neighbourhoods or regenerating run-down ones is all about joined up thinking, joint working and engaging the larger local community. The same is true of cities. As a number of international and UK books and reports have set out, most economic activity takes place in city regions, and strong, well-led city regions are best equipped to foster innovation, promote business and drive growth.<sup>54</sup> As Greg Clark MP and Greg Clark the cities expert argued in a recent Centre for London paper, central government has a vital role to play in developing, updating and funding the 'the system of cities' – that is the background systems including national infrastructure, regulatory, business framework, that cities need to flourish.<sup>55</sup> However, the authors suggest, cities and city regions themselves need to be given the resources and the independence to develop bespoke 'city systems'. City leaders, not national government know what local infrastructure or skills development investment will be most cost effective. They will have a better sense of what a city can bear in the way of local taxation, where public spending should be directed, and where the economic opportunities lie.

### **London government – an impressive record**

True, there have been moves, over the last decade or so, to rebalance the UK's constitution. Britain is not nearly as centralised as it was. Tony Blair's government granted a relatively large amount of home rule to Scotland,

Wales and, to a lesser extent, London. The Coalition have given the devolved authorities further freedoms, while also making some modest moves to empower English cities and city regions outside London.<sup>56</sup>

But this rather proves the point, for the reforms that have been introduced have proved themselves both popular and successful.

Take London: though more than a quarter of those who voted in the 1998 referendum opposed the creation of the GLA, today only five per cent of Londoners say they favour its abolition. The Mayoralty has quickly won the support of the vast majority of Londoners.<sup>57</sup>

And the GLA has an impressive story to tell.<sup>58</sup> London's two Mayors have introduced a series of bold reforms and initiatives that it's hard to believe would have been introduced without them. These include the Congestion Charge – the first of its kind in the world, the Oyster Card, the country's first low emissions zone, a Mayor-backed Living Wage campaign, the Mayor's cycle hire scheme, a new Thomas Heatherwick-designed Routemaster bus, new space standards for all government-funded homes, large-scale tube improvements, and the development of the London Overground. The Mayor has used his democratic legitimacy – the Mayor of London has by far the biggest direct electoral mandate of any politician in the UK (indeed the second biggest in Europe after the French president) – to secure large spending commitments from central government, including the £15 billion Crossrail scheme. Similarly, both Ken Livingstone and Boris Johnson have used their standing as London leaders to great effect in promoting London abroad.

Perhaps the greatest feather in the Mayor's cap is the Olympic Games. It's true that national government played an important role in winning the 2012 Olympics, and ensuring that they were successfully produced – albeit at a greater cost than originally envisaged – but London would not have secured the games or curated them as successfully without the backing of the Mayor. It was the GLA that first championed Stratford

as a possible Olympic site, and since the Games finished, it has been the GLA and the Olympic boroughs alone that have led the increasingly successful-looking drive to regenerate the Olympic Park and surrounding areas. Again, it is doubtful that much of what has been achieved or is close to being achieved – including the likelihood of UCL, the V&A and the Smithsonian moving to the Olympic Park, creating a cultural quarter that could completely transform the identity of that part of east London – would have occurred in the absence of the Mayoralty.

All in all, it's hard not to feel that in a comparison between the GLA and central government, it's the former that comes out better. Just take the size of the two governments. Parliament presents an increasingly grotesque spectacle. There are now 1400 parliamentarians (around 650 MPs and 750 Lords). Of those, 130 are members of the government, a number that grows year by year. The GLA, by contrast, has 25 Assembly Members, and the Mayor has seven deputies.<sup>59</sup> Or look at the daily lives of David Cameron and his old school friend, Boris Johnson. The Prime Minister goes everywhere in a ministerial car, surrounded by a phalanx of bodyguards, advisors and bag carriers. The Mayor of London – despite leading an urban superpower, with a population larger than Switzerland's and an economy the size of Sweden's – cycles unaccompanied to his meetings. There is little doubt which organisation – national government or the GLA – is closer to its public, more efficient and better at getting things done.

The recent record of the London boroughs is equally impressive. In the 1980s the boroughs had a reputation for waste, political posturing and infighting. Fifteen years on, the worst boroughs are acclaimed as among the best in the country. As London Councils pointed out in the run up to the last General Election:

Between 2000 and 2008 London boroughs have driven up school results by over 40 per cent from 45 per cent receiving five or more good GCSEs to

64 per cent. Under the old Comprehensive Performance Assessment (CPA) inspection regime, London became the leading region rising from eight to 19 boroughs scoring four stars. Seven of the nine councils receiving four stars for children's services were in London. London was the highest scoring region for adult social services. The latest government inspection system – the Comprehensive Area Assessment (CAA) – shows London pulling further ahead. In December 2009 nationally 14 councils received the top score: six in London. One third of the 'green flags' issued by national inspectors across England came to London boroughs. Eight of the top 10 children's services in England were in London.<sup>60</sup>

London's boroughs have shown an impressive openness to innovation. In recent years three councils – Westminster, Kensington and Chelsea, and Hammersmith and Fulham – pioneered a 'tri-borough' shared services model, with senior officers running services across all three boroughs; the last two actually appointed a joint chief executive – the first in the history of English local government. The progress among those boroughs that in 2000 moved to elected Mayors – Newham, Lewisham, and Hackney – has been particularly striking. All three of the first Mayors have been elected three times, providing stability where there had been little in the recent past. In the late 1990s Hackney – to take just one example – was widely regarded as a failing council and narrowly missed having its leadership suspended by central government. Ten years later the borough won the 'Council of the Year' award in the 2008 Local Government Chronicle Awards and was shortlisted for the same prize in 2009. In 2001 Hackney had an approval rating of 23 per cent; in 2013 it was 74 per cent.<sup>61</sup>

We have been focusing on London, but a similar story could be told about the other devolved authorities. Scotland and Wales have performed with credit since devolution in 1999, with no evidence of economic or governmental failure.

However, if devolution has proved strikingly successful, it is also very partial. Local government gets only 17 per cent of its revenue from taxes; in the average OECD country it's 55 per cent.<sup>62</sup> Or take another measure: British local government raises only 1.7 per cent of GDP in taxation, where the OECD average is 9 per cent. Even in France, supposedly the acme of centralisation, local government raises 4.6 per cent – more than double the UK proportion. Even local authorities' control over 'local' taxes is tightly controlled by government, which insists, for instance, that local authorities hold expensive referenda before raising council tax. Moreover the great majority of local services and associated spending – including the great majority of the health and welfare budgets and much of the education and skills budget – are controlled from the centre. British central government is like a vast squid, with a very large body and thick tentacles attempting to fix difficult local problems.

This is particularly true where the English, as distinct from the British, state is concerned. Scotland and Wales *have* been given very considerable new powers over the last fifteen years and are promised more. In fact the Scotland Act 2012 gave Scotland increased borrowing powers, the power to introduce new taxes and the full devolution of stamp duty – and all the main parties are now promising Scotland complete authority over income tax. But this only serves to throw English centralism into relief. London, in particular, with twice the population of Scotland, has received little in the way of new powers under the Coalition and has been promised even less.

### **Public attitudes**

The public certainly takes the view that Westminster and Whitehall have too much power. This is clearly the case with Scotland, where the independence movement made an unexpectedly strong showing, but even the Unionist camp says it wants to see much further devolution. But it is also true elsewhere.

Only 17 per cent of UK adults outside London think that Whitehall and Westminster are responsive to the issues of the city where they live.<sup>63</sup> Though no one could claim that the demand for self-government has the same salience in London as it does in, say, Scotland, only ten per cent of Londoners say they most trust central government to make decisions about how services are delivered in their local area. Eleven per cent trust the GLA and 57 per cent their local borough.<sup>64</sup> Half of Londoners agree with the statement ‘London should be afforded the same kind of decentralised power offered to Scotland, Wales and Northern Ireland’; only a third disagree.<sup>65</sup> Indeed, there is some evidence that the British public are becoming more localist in their attitudes.<sup>66</sup>

The case for handing more power from central to city and local government is compelling.

#### Recommendation 1:

The UK has a very centralised system of government. Central government should devolve a broad range of powers – over taxation, regulation and services – to London government, as part of a broader programme of devolution to Scotland, Wales, North Ireland and other English cities and regions. Devolution to London is required regardless of the powers devolved to English MPs over English matters.

#### Recommendation 2:

Central government should commit itself to a target of ensuring that distribution of powers between central government on the one hand and regional and local government, including London government, on the other, moves close to the OECD norm over the course of the next Parliament.

# 3

## **NEW POWERS AND RESPONSIBILITIES: TAXATION**

As set out already, despite the devolutionary moves of the last 15 years, the UK remains a very centralised state. That said, the main Westminster parties – the Conservatives, Liberal Democrats and Labour – do appear to be coming round to the case for devolving more power to England’s cities and regions. This is partly perhaps because the arguments for devolution are hard to resist. It is partly, however, because the main political parties are now committed to giving more power to Scotland and Wales. Devolving more power to the English cities and regions is the best response to the grave constitutional problems that would arise if national parliament with, in total, a hundred Scottish and Welsh MPs, continues to run English affairs, while English MPs get a considerably reduced say in Scottish and Welsh ones.

So devolution is likely to be an important feature of the next parliament. For this reason it is especially important that we set out a devolutionary agenda for the capital – all the more so, as the national political parties don’t seem to be doing the thinking for themselves.

Political scientists sometimes make a distinction between two kinds of political power. There is the power to design, set and raise taxes, sometimes called ‘fiscal power’, and there is the power to determine how services are configured and where spending is directed – what might be called ‘functional power’. In the real world the two overlap. Fiscal devolution in particular brings a degree of functional devolution, as it tends to give taxing authorities the resources to determine not just how taxes are raised but how they are spent. Nevertheless, the distinction is a helpful one and is followed here.

### **A devolved property tax regime**

Fortunately, much of the thinking on what additional fiscal powers London should have has already been done by the London Finance Commission, chaired by Professor Tony Travers. The London

Finance Commission reconfirmed that London has extraordinarily little control over its finances.<sup>67</sup>

Against this background, the Finance Commission argued that London should be given control over all property taxes.<sup>68</sup> This would only increase London government's retained share of the capital's total tax base from five per cent to around 12 per cent – still a very modest proportion by international standards or by the standards of the reforms proposed for Scotland and Wales.

There are a number of reasons why property taxes in particular are a good subject for devolution. Three stand out:

First, devolving property taxes does not create loopholes that regional variation in other taxes, like income tax and corporation tax, can bring. While an individual or business can seek to game variations in tax rates between areas by moving their registered address to a low-tax area, you can't move a London property to, say, Reading.

Second, property tax devolution will allow London to develop a regime adapted to the city's special needs. Take tax on high value homes. Various politicians have canvassed the idea of introducing a 'mansion tax' on properties worth more than a million or two million pounds. Whatever the merits of this proposal, it is quite clear that it will have a very different impact in London, where £2 million properties are very widespread (most of them falling well short of mansion-sized), to, say, Liverpool, where that amount of money will buy you something quite like a mansion. Even in the Home Counties, £2 million buys a manor house. Or take the issue of under-occupation. A city like London, where housing is in desperately short supply, will want to look at using tax incentives to discourage homes being left empty or under-occupied – or indeed to encourage the redevelopment of under-used land. But the case for introducing these incentives won't be nearly as strong in regions where there is an ample supply of homes.

The point gets added strength from the fact that national government has systematically run shy of reforming or even revising council tax, which is now badly out of date and inequitable. The current banding regime was created back in 1993, based on 1991 property values, and takes no account of changes in relative property value since then. The top band of council tax, starting at around £350,000 in 1991, now covers an enormous range of homes, allowing for endless anomalies. A billionaire living in 1 Hyde Park, where a flat recently sold for more than £140 million, will pay only £1,353 in council tax, while a couple living in a suburban home in Enfield could pay as much £2,800. Owners of very expensive homes are expected to pay much more by way of domestic tax in New York and Paris, say, than London. You will pay more than \$200,000 a year in property taxes for the pleasure of living in a top of the range penthouse overlooking Central Park in Manhattan, but only £2,150 for a large stucco pile off the King's Road.

Finally, tax centralisation militates against London's development and economic growth. One of the reasons that we have systematically failed to build the homes and work spaces we need is that most of the taxes that these generate are channelled not to local communities affected by the new developments, but to central government. Residents are likely to resist new home building if they don't see any benefit to them locally. Conversely, they are much more likely to support it if they know that at least some of the extra taxes it would generate will go to reducing the local tax burden or increasing local public spending, which could relieve the pressures on infrastructure and services that new development brings.<sup>70</sup>

### Recommendation 3:

Central government should devolve responsibility for property taxes to London government, as recommended by the London Finance Commission. In particular, London government should be given

the power to: design a property tax regime suited to London's unique circumstances; set property tax rates; and retain all related revenues.

The devolution of property taxes should be the keystone of tax devolution, but there are other measures that need to be introduced, too. To begin with, there is a strong argument for allowing the GLA and the boroughs to borrow money responsibly against their assets and income. London government meets high standards of financial management. A clear 'prudential code' governs all borrowing, and only allows local government to incur debts to cover investment not revenue spending. Yet central government currently imposes limits on local government borrowing above and beyond those contained in the code. These limits should be removed.

**Recommendation 4:**

The GLA and the boroughs should be allowed to borrow money responsibly against their assets and income within the prudential borrowing code. Centrally imposed borrowings ceilings should be removed.

Next, as the London Finance Commission recommended, central government should commit to devolving a proportion of income tax take to London – the setting of income tax should remain a national responsibility so as to discourage tax competition across English regions.

**Recommendation 5:**

Central government should lay out a long-term plan for further tax devolution for London, including the assignment of a proportion of income tax. The power to set income tax rates should remain with central government.

Finally, the London Finance Commission argued that London should be given power over a range of small discretionary taxes including taxes on hotel bedrooms (a tourist tax), alcohol and unhealthy foods. Mayor Bloomberg appears to have used the latter to some effect in tackling obesity in New York – though once again, it does not follow that even if London were given these tax-raising powers, it would necessarily use them. Public health could be a big winner from fiscal devolution.

**Recommendation 6:**  
Central government should give London government power to raise small discretionary taxes including taxes on hotel bedrooms (a tourist tax), alcohol and unhealthy foods.

### **Answering Whitehall's concerns**

While the Coalition government has not given its views on the London Finance Commission's proposals, ministers and civil servants will likely have two main concerns; both can be answered. They will worry that devolving tax-raising powers to London will result in increased taxes for voters and businesses. Yet city government can choose to lower tax as well as hike it. The GLA, to take just one example, has declined to raise its share of council tax for the last six years, and this year actually reduced it. Many of the boroughs have also introduced council tax reductions.

Central government will also be concerned that giving London control over property taxes will favour London over the rest of the country. Yet on the proposals set out by the London Finance Commission, any reduction in tax going to the national coffers would need to be matched with a cut in government grant to London – the reform would be 'revenue neutral' for the Treasury, at least for the year of introduction. And as already set out, there is good reason to think that localisation of property taxes will boost the London economy, fostering new development. Given that most taxes will still go to central government – property taxes

only make up 15 per cent of all taxes levied in London – devolution is more likely to enrich the Treasury than impoverish it. This is one reason why the other large English cities (the ‘Core Cities’) have endorsed the recommendations of the London Finance Commission.<sup>70</sup> They don’t see giving London more power over property taxes as a threat to their own standing, though they do want the same powers for themselves.

**Recommendation 7:**

Central government should ensure that any reforms that reduce revenue to central government are accompanied by corresponding cuts in government grant to London for the first year.



# 4

## **NEW POWERS AND RESPONSIBILITIES: SERVICES AND REGULATION**

So much for devolution of tax-raising powers. What about the power to determine how public money is spent? Currently here, too, central government is very controlling. Less than half (around 42 per cent) of public spending in London is in the hands of London government,<sup>71</sup> and on present trends that proportion will continue to shrink, as national government cuts local government spending faster than its own.

With around £80 billion of public money spent in London every year, covering a vast range of services, there is not space here to lay out a detailed set of recommendations for every service, even all the largest ones. Instead, the analysis below needs to be seen as to some extent illustrative of the approach that has to be taken. Three principles, in particular, should guide devolution of services. First, wherever possible they should answer to a single authority – so enabling joined up services. Second, that authority should carry both costs and benefits of its interventions (or failures to intervene). Third, there should be robust accountability arrangements to ensure that policies reflect the priorities and decisions of the electorate, and that the activities of public authorities are properly scrutinised.

#### Recommendation 8:

Central government should affirm the principle that responsibility for the design and administration of London's public services rests with London government, unless central government can set out good reasons for centralisation. Public services should be reformed and responsibilities reassigned in accordance with this principle. Central government should keep restrictions on how and where central government grant is spent ('ring fencing') to a minimum, so allowing local authorities to develop more strategic and joined up services.

## **Housing**

Given that shortage of housing is now London's biggest problem, it makes sense to start with housing. While experts disagree about what has driven London's housing shortage or the best strategy to address it, with some pointing the finger at an over-regulated planning system, and others on land-hoarding of one sort or another, almost everyone agrees we need much more government investment in infrastructure to help unlock parts of London that are poorly connected to the rest of the city, and to release more public spending on affordable housing. That requires more government spending. This manifesto has already discussed the main ways of securing this: as set out above, devolving authority over property taxes to London should allow it to create a more effective and equitable system of taxation and fund more investment in infrastructure and house building at cheaper rates.

In addition, there is a strong case for devolving housing benefit to London. In the last decade the government has spent £50 billion on housing benefit in the capital – but only £17 billion on capital investment in affordable homes.<sup>72</sup>

While housing benefit has a role to play – it enables choice and can be a cost-effective way of supporting people who need help covering housing costs over the short term – it is not an efficient form of subsidy for people who need long term help (e.g., householders who for reasons of disability, age or care commitments will never be able to afford a market home).

Giving London control over housing benefit would give London government the power to design a regime best adapted to London's unique circumstances (which the current regime is not) and further concentrate London government minds on building more homes and bringing down housing costs, as a means of reducing welfare spending. Achieving a shift from 'benefits to bricks' will take time and need very careful management to ensure that households on housing benefit aren't adversely affected. It remains an important long-term

goal, though, and in the meantime, it will boost London government capacity to borrow and so invest in new infrastructure and homes.

**Recommendation 9:**

Central government should transfer responsibility for rent subsidies (Housing Benefit and its equivalents) to London government, enabling local authorities to determine a balance between investment in new housing and spending on subsidising rents appropriate to their area.

Centre for London has also argued that local authorities and housing providers should be given more discretion to set variable rents for higher earning social tenants. The Centre has estimated that a progressive social rent regime could increase affordable housing revenues in the capital by around £300 million a year.<sup>73</sup> The ‘Right to Buy’ policy could similarly be devolved to London government.

**Recommendation 10:**

Central government should give London power to design a social housing rent and sales regime suited to the city.

Finally, London government needs to be given more power over central government-owned land in the capital. Central government departments and centrally run organisations have very extensive estates in London, much of them poorly used. The NHS’s London estate alone is three times the size of Hyde Park.<sup>74</sup> The GLA has made a good job of developing land that it owned or acquired from the Housing and Communities Agency. Central government should give London government greater powers over all public sector land and associated assets within the capital. This should be managed as one estate, and used to accommodate London’s growing population and in particular meet the need for more affordable housing.

### Recommendation 11:

London government should be given powers over all public sector land and asset holdings inside London. This should be managed as one estate with a presumption that uses are rationalised so as to free up land for more low cost housing.

### **Education and young people**

Education is another policy area where central government currently has too much power. London schools have gone from strength to strength in the last decade, and while children from every socio-economic group do better in London than anywhere else in the country, poorer children do especially well. As research by Centre for London has shown, this can't be put down to 'external factors', like changes in London's population, or higher spending on London's schools – though higher spending did help.<sup>75</sup> In sum, starting from a very low point, London's schools became better – leadership and teaching improved. The boroughs themselves played a significant role in supporting school leaders and holding them to account, and the advent of Academies in turn helped drive up standards in Academy schools and more broadly. Yet the transformation would not have been as impressive as it was without the contribution of central government. From the beginning of Tony Blair's term in office, his team made a priority of improving London's schools. The Department for Education set up a team of top officials dedicated to raising standards – the London Challenge – and this worked very successfully to raise the sights of boroughs and school leaders; direct resources to where they were needed most; and promote good leadership and teaching practice – including the effective use of data, plenty of coaching and development opportunities for teaching professionals, and extensive mentoring. It also worked to increase the accountability pressures on the boroughs and schools.

It's tempting to see this as an argument for the importance of strong central government, but that's

not quite right. For central government can't make a priority of everything. In choosing to prioritise London schools, it chose not to focus on other things – including, implicitly, other regions. Equally, now that London schools are doing well, they can't claim any special attention from an increasingly stretched Department for Education, which, as we have seen, in seeking to free all schools from local government control, has taken on more and more of the roles once played by local education authorities. Even Whitehall can only do so much.

The proper lesson, as far as school governance goes, is the importance of having a focused, whole city approach with different tiers of government working together. There is every reason to think London itself, given the resources, could continue to drive improvement in its schools.

For all the achievements in London schools, moreover, big challenges remain. The Department for Education has failed to take a strategic approach to place planning, with the result that local authorities find themselves in a constant scramble to provide new school places for London's growing population.<sup>76</sup> The arrival of academies and free schools and the erosion of the powers and resources of the boroughs has made for a fragmented system. These schools are only weakly accountable to local communities or local government, and only distantly accountable to central government, which only gets involved in them if things start going very wrong. Decisions relating to the creation of Academies, admissions and exclusions can seem opaque or unfair.

Against this background, there is a strong argument for strengthening local accountability for London's schools. While the precise division of responsibilities between the various tiers of government is a matter for further discussion and experimentation, two points seem clear.

First, the boroughs have an important role to play. They should be allowed to continue to run schools,

where there is electoral backing for this and schools are performing well. Even where none of the schools in a borough are local authority run, the borough has a contribution to make in holding head-teachers, governing bodies and non-local authority providers to account. They also have a contribution to make through ensuring that there is an adequate supply of school places; that school leaders are collaborating; and that connections are being made between schools, other local services and employers. Nine out of ten parents with a child at a free school think local authorities have an important role to play in ensuring high educational standards.<sup>77</sup>

However, there are some local and ‘middle tier functions’ that seem better exercised by pan-London government than by the boroughs, including determining who should run local schools – the boroughs can’t act as school providers and also decide between providers. For this reason, the Mayor needs to be given new powers over London’s schools, and take on many of the responsibilities currently exercised by the DfE. Indeed, the Mayor should be required to set up an office for schools and young people led by a deputy Mayor or commissioner for schools and young people.<sup>78</sup>

Four responsibilities in particular stand out for the Mayor’s new office. First, it should be required to establish a strategy for young people and schools. This would, among other things, set out the Mayor’s vision and objectives for schooling in London, an evidence base, and London-wide policies on issues such as fair admissions, exclusions, integration and cohesion. Second, where there is a demonstrable need for a new school, the Mayor should be responsible for appointing new school providers. The boroughs should be encouraged to apply alongside other providers, and where they do not apply, their views should be sought on the bids that come in. Third, the Mayor’s new office should have the power to intervene where a school is failing or in danger of failing its pupils,

and appointment a new provider. Wherever possible the decision to intervene should be made in consultation with the relevant borough, but the final decision should rest with the Mayor and his or her Commissioner. Finally, there is also a role for the Mayor/Commissioner in playing the sort of role that the London Challenge played so well, including promoting collaboration across the boroughs and across school providers and ensuring that all schools have adequate improvement strategies and are embedded in school improvement partnerships.

Michael Gove himself recognised that his own department was simply too remote to support every Academy in the country, and towards end of his time in the DfE set up a series of ‘Regional school commissioners’ to provide some ‘middle tier’ oversight. Yet instead of creating a Commissioner for London, who might have answered to the Mayor, on the model of the Transport Commissioner, or the Coalition-created Police and Crime Commissioner, Michael Gove created three Commissioners for the ‘South East’, each one responsible for a wedge of London. This was a huge missed opportunity. With all respect to the new Commissioners, the role, for example, of ‘Schools Commissioner for North West London and South Central, with Special Responsibilities for Academies’, is hugely less alluring than that of Commissioner for London Schools, appointed by and answerable to the Mayor. The latter high profile post would undoubtedly attract outstanding candidates, on a par with Joel Klein who helped turn around New York’s school system under Mayor Bloomberg, or Sir Tim Brighouse, the hugely admired leader of the London Challenge (and who once held the government-appointed position of Commissioner for London schools). Indeed, Commissioner of London Schools could well emerge as one of the senior positions in the educational sector in the country, much as the Metropolitan Police Commissioner is one of the top two or three police officers in the country.

#### Recommendation 12:

Many of the powers currently exercised by the Department for Education should be devolved to the Mayor. The Mayor should be required to establish an office for schools and young people led by a Deputy Mayor or commissioner for young people. The Mayor and his Deputy should be required to establish a schools and young people strategy. The Mayor should be required to ensure all schools and school providers collaborate with the boroughs and with each other as appropriate and to promote cross cutting school improvement programmes.

#### Recommendation 13:

The Mayor should be responsible for appointing providers to set up and run schools, where new schools are needed, or take over failing schools. The appointment should be made through fair and open competition, with schools providers, including the boroughs, being invited to submit applications. This would apply to mainstream and non-mainstream schools, including Pupil Referral Units. The Mayor should be prohibited from running schools directly.

#### Recommendation 14:

Central government should oblige local (borough) education authorities to have regard to the Mayor's young people's strategy in the development of their own schools and young people's services. They should continue to have the right to run schools. Local authorities should continue to be responsible for local youth services including looked-after children.

### **Tackling worklessness and improving skills**

While London's schools have made great strides over the last 15 years, too many Londoners still aren't working, are under-employed or don't have the skills they need to find rewarding and well-paid work.

There is a strong argument for saying that local government is particularly well placed to lead on skills and employment. After all, regional, city and local economies vary one from another – skills and into-work services need to be allied to local economic needs and opportunities. Moreover local authorities are – or at least should be – major economic players in their local areas. They can leverage their connections with local employers and their spending power to promote apprenticeships, employment and in-work training schemes. Finally, most people who have never worked, been out of work for a long time, or work only sporadically will be excluded from mainstream society in other ways. They need coordinated ‘wrap around’ services that combine training, job opportunities and in work support with other non-work related services and interventions (e.g. health and housing). Local government is well positioned to provide this ‘whole person’ wrap-around approach. It is notable that the Work Programme – the government funded programme for getting long term people into work – is apparently serving people with disabilities and chronic health problems badly.<sup>79</sup>

Yet skills and employment remains very centralised. Government spends more than half a billion a year in further education and other skills provision in London – up to £8 of every £10 spent goes to programmes that are designed and delivered according to national guidelines.<sup>80</sup> Indeed, London has less authority over this area than some of the other big English cities, which have been given new responsibilities as part of the ‘City Deal’ programme.<sup>81</sup> The money funnelled from central government, moreover, goes to a complex variety of programmes and initiatives. The London borough of Enfield counted 14 schemes within its borders, confusing job seekers and employers alike.<sup>82</sup>

Against this background, government should devolve responsibility and budgets for further education, skills and employment services to London government. A skills and employment regime designed by London

for London would almost certainly look very different from the one we currently have.

**Recommendation 15:**  
Central government should devolve full responsibility and associated budgets for further education, skills and employment spending to London government.

## **Health**

London has some of the UK's, and indeed the world's leading hospitals and medical research centres – its doctors attract patients from all over the globe. It also contains many impressive community-focused initiatives and health services serving local Londoners. Yet London does not have a particularly impressive story to tell when it comes to health and wellbeing. As we have seen, London schools have improved dramatically, and there is a widely admired public transport system. But while cities like New York have gained a reputation for pursuing innovative and highly effective approaches to tackling health challenges, even those who lead London's health services tend to concede that the city punches below its weight.<sup>83</sup>

While there are of course countless interventions and reforms at different levels of governance and service that could help address London's health challenges, much of the problem lies with way health is governed in the capital. For too long, responsibility for improving health has been seen as the job of the NHS and the Department of Health. Yet these organisations are poorly positioned to drive health improvement – the Department of Health is too remote, and health improvement has to start not with NHS services but with public health policies and more fundamentally still, political-economic ones.

As the recently published report of the London Health Commission emphasised, there is much that the Mayor and the boroughs can do to improve public health and health services in the capital with the

powers they already have.<sup>84</sup> Planners and Transport for London have a big role to play, for instance, in encouraging walking and biking. Schools can promote healthy eating. The Mayor can encourage employers to take a greater interest in the health and wellbeing of their workforce. As the Commission also emphasise, the Mayor and London government now need to work together to develop a shared, London-wide approach to improving health and health services in the capital.

At the same time, London government needs to be given powers to develop a healthcare strategy that works for the capital. With the NHS run from on high, there is insufficient incentive for London local government to invest in public health, or for the Mayor to get behind controversial but ultimately beneficial hospital re-organisations. Moreover, London government apparently lacks some of the policy levers – like the ability to set a minimum price on alcohol, tax or ban unhealthy foods or proscribe unhealthy food outlets – that cities like New York have used to tackle their health challenges.

In short, central government should give the GLA a clear statutory duty to promote the health and wellbeing of all Londoners, and ensure the London government has all the powers needed to exercise this duty.

#### Recommendation 16:

London health services serve the whole country and include many national and international centres of excellent, but this should not blur a focus on getting the best health service for Londoners. Central government should require the Mayor to set up an office for health and wellbeing, led by a Deputy Mayor for Health or London Health Commissioner. The Deputy Mayor would publish a health strategy for the capital and chair a capital-wide body that would join up London's Clinical Commissioning Groups (CCGs). Additional services constituting national services, research and development

and teaching hospital provisions ought to be commissioned by NHS England and other national agencies.

**Recommendation 17:**

Central government should ensure that the London government has all the power it needs to promote healthy lifestyles, including powers to vary taxes on and proscribe the sale or use of harmful foods, drink and tobacco.

**Policing and criminal justice**

For most of its history, the responsibility for governing London's police force has rested first and foremost with the Home Office, albeit with a role for London government as well. With the creation of the GLA in 2000 more power passed to the Mayor and the Assembly and the present Coalition government has, to its credit, boosted the Mayor's position further through the creation of a Deputy Mayor for Policing and Crime with responsibility for holding the police to account. As a result, the need for further devolution is limited. Indeed, policing is the one area where it could be argued that London has not too little power but in certain respects too much. The Met continues to have a wide range of national duties – in relation for instance to anti-terrorism or investigating overseas crime – that arguably distract it from its primary job of policing London. There is a strong argument for ensuring the Met's national functions and responsibilities are transferred to national policing bodies, enabling it to focus on promoting London's safety and tackling London-based crime.

If London government now largely has the powers it needs over London's police force, however, this is far from the case when it comes to other parts of the criminal justice system. The court, prison and probation services still answer to the Ministry of Justice and the Home Office. Yet here too the case for decentralization is very strong. There is no reason

why prison and probation budgets should not be passed to London government, which could then commission the appropriate services – in the case of prison services, these could be provided in London or more often beyond. While the judiciary itself must of course remain independent, responsibility for running the courts could also be devolved to London government, which would then be in a good position to ensure close joint working between the police, the courts and other services and to promote court and criminal justice innovation more generally. Giving the Mayor and London's boroughs responsibility for criminal justice budgets would work to focus their minds on cutting offending and re-offending by investing in early and effective intervention – what criminologists call 'justice reinvestment'. The current Deputy Mayor for Policing and Crime, Stephen Greenhalgh, has called for prisons and probation to be devolved to London and has also argued that the Youth Justice Board should be cut back, with the greater part of its budget passed to local authorities, who are best positioned to prevent and address youth offending.<sup>85</sup>

**Recommendation 18:**

The Home Office should establish a review of the responsibilities of the Metropolitan Police, with a view to transferring non-London specific responsibilities to national crime and policing agencies, so that the Mayor and the Metropolitan Police can focus on London.

**Recommendation 19:**

Responsibility for prison and probation services, along with associated budgets, should be passed to London government, which would be responsible for commissioning prison and police services for London-based offenders. Any savings that London manages to make on spending on prison and probation through early and effective intervention should be retained by London.

## **Regulation**

Any society like ours relies on extensive and complex regulation. Yet there is a fine line between necessary and excessive regulation, and regulation must be sensitive to local context. Requirements governing road widths or space standards might make sense in towns and cities with a good supply of homes and space to spare but might hamper development or militate against good development in a city like London – it has often been pointed out that some of London’s most admired and expensive neighbourhoods would never get planning permission today. Childcare is another example: the special needs of London parents might well mean that regulations that work elsewhere in the country aren’t helpful in the capital. There are no doubt many instances where London requires more regulation rather than less – many Londoners want to see further regulation of the private rental sector, for instance – but there might well be cases where it requires less regulation rather than more. For this reason, the government should grant London government the power to suspend or modify centrally imposed regulation unless central government can offer good reason why its regulations should obtain.

### **Recommendation 20:**

**Central government should grant London a general power to suspend or modify centrally imposed regulation, unless central government can offer a good reason why a particular regulation or set of regulations should not be suspended or modified.**

## **Minimum wage and minimum wage enforcement**

Finally, London needs to be given more power over minimum wage and other policies that can help ensure that those who work are fairly rewarded. Centre for London has set out two policies in this regard. First, we have argued that local authorities should be given a role in promoting compliance with the minimum wage.<sup>86</sup> Responsibility for minimum wage adherence

currently rests exclusively with central government and its record is not particularly impressive: the best estimates suggest that around 300,000 workers in Britain are paid below the legal minimum wage yet, as of November 2013, only nine employers had ever been prosecuted for paying below it and only one had been 'named and shamed'. Local authorities are well positioned to enforce the minimum wage: they already play an enforcement role in areas like food and housing standards, and will have a good sense of which sectors and employers are most likely to be breaking the rules and exploiting their workers. A number of London's borough leaders have said that they would like to have powers to police and enforce the minimum wage.

Second, the Mayor should have the power to set a minimum wage for London. There is now a very strong consensus, across economists, politicians and employers, that a statutory minimum wage does not, where it is properly set, weaken competitiveness or cause unemployment. Yet as we set out in our 2013 report, *Capital Rising*, the distinctive nature of the London economy means that the national minimum wage has hardly any 'bite' in London.<sup>87</sup> The higher productivity of even low-skilled, low-paid London workers meant that the introduction of the minimum wage did not do much to boost their earnings. Applying the same calculations to the London economy that are used to set the national minimum wage, we conclude that London could bear a minimum wage between seven and 20 per cent higher than the national one.

Giving London its own minimum wage would not be in anyway idiosyncratic. Cities and sub-national regions around the world are setting their own minimums, with the US leading the way. Twenty-one US states now have their own pay floors and a growing number of cities are adopting one, including San Francisco and Seattle. New York's new Mayor, Bill de Blasio is currently lobbying to be able to set a New York City minimum wage, though New York State has already set one. Academic studies looking

at states and cities that have raised their minimum wage to a higher level than a neighbouring area have found little effect on employment rates or competitiveness more generally, though clearly a dramatic rise would have a negative effect.

**Recommendation 21:**

Central government should give the Mayor responsibility for setting a statutory London Minimum Wage, subject to approval by the London Assembly. The Mayor should be required to pay heed to the advice of the Low Pay Commission in setting the London Minimum Wage.

**Recommendation 22:**

Responsibility for ensuring that employers comply with minimum wage laws currently resides with central government. This responsibility should be shared with the boroughs.

**Conclusion**

This manifesto has made the case for further decentralization across a range of government activity. The package of reforms it is advocating, however, is not by any means a radical one. Most public spending would still be controlled by central government, including much local spending. The Mayor would still have no more powers than most developed economy Mayors take for granted. Moreover, the unusual two-tier nature of London local government will ensure that local power is not all centred in one place. This manifesto is not suggesting that government take on new powers, so strengthening the state against the citizen; it has simply argued that powers already exercised by government should be more widely distributed.



**5**

**STRENGTHENING  
LOCAL  
ACCOUNTABILITY**

It is clear that any strengthening of the powers and responsibilities of London government would necessitate a review of accountability arrangements to ensure that in the exercise of these new powers, elections were fair, and local authorities were properly scrutinised and held to account.

London government and London's people have little formal power to hold the Mayor to account between elections. The London Assembly in particular is a very weak institution. Virtually all it can do is overturn the Mayor's budget by passing its own alternative budget and amend most, but not all, of his strategies. It requires a two-thirds majority to exercise either of these powers.

The weakness of the Assembly powers arguably mattered little when the Mayoralty itself was relatively weak, but it has already taken on new responsibilities, and should take on more. In these circumstances, there is a strong argument, as set out in the 2013 report of the Communities and Local Government Select Committee, for strengthening the powers of the London Assembly.<sup>88</sup> For example, in line with local authorities with elected Mayors, the London Assembly should be able to call in Mayoral decisions before they are implemented. It should have the right to reject the Mayor's policing and crime strategy as it does other strategies. The Assembly should be able to reject the Mayor's appointment of any Deputy Mayor, as it can his appointment of a Deputy Mayor for Policing and Crime. This power should also extend to the appointment of chairs and deputy chairs of key GLA bodies, like Transport for London and Mayoral Development Corporations. Finally, the Mayor should be prohibited from appointing Assembly Members to his or her administration – something both Mayors have done. Assembly members cannot provide independent scrutiny of the Mayor while working for him or her.

### Recommendation 23:

The powers of the London Assembly should be strengthened as recommended by the 2013 report of the Communities and Local Government Select Committee. In particular, the Assembly should be given the power to: call in Mayoral decisions before they are implemented; reject all Mayoral strategies including the Policing and Crime Strategy; and veto senior Mayoral appointments including the appointment of Deputy Mayors. In addition the Mayor should be prohibited from appointing members of the Assembly to his executive team.

Next, a new government should look at reforming the way Assembly members are appointed. Members of the London Assembly are currently elected alongside the Mayor, but many have argued that the limited role played by Assembly members does not justify the (admittedly modest) expense of 25 full time politicians, and that the Assembly would be better made up of borough leaders or other councillors appointed by the boroughs. This would both be cheaper, and arguably ensure a more senior, heavier-hitting class of Assembly member. It would also encourage more joint working across the boroughs and between the boroughs and the GLA. The public might well look favourably on any reform that for once involved reducing the size of the political class. There are arguments on the other side – perhaps the greatest disadvantages would be the potential of creating a less representative Assembly or one with less time to devote to its duties. The current Assembly, elected using the Additional List System, ensures a place for Greens and other smaller parties; a borough led Assembly would likely be dominated by Labour and Conservative politicians.

**Recommendation 24:**  
Central government should commission an independent review of how the Assembly is appointed and explore the case for replacing the current Assembly with one made up of borough leaders or councillors appointed by them.

In addition, serious consideration should be accorded to giving Londoners the power to recall the Mayor – subject, of course, to proper procedures to trigger a recall referendum. Recall mechanisms have been introduced in other jurisdictions, including Canada, Switzerland and many US states and have largely been used responsibly. Londoners will not look kindly on any political parties or movements that attempt to make frivolous use of the power of recall.

**Recommendation 25:**  
Central government should commission an independent review into whether Londoners should be given the power to recall the Mayor of London.

Finally, there is an increasingly credible argument for introducing some form of proportional representation for the boroughs. There are now many London boroughs where the Labour party holds all or almost all of the seats, despite having only secured a little more than half of the vote on a low turnout. Take just two examples from the 2014 London borough elections:

- In Islington, Labour won 47 out of 48 seats on just 56 per cent of the vote;
- In Lambeth, Labour won 59 out of 63 seats on just 54 per cent of the vote.

The more power the boroughs gain, the harder it becomes to justify what are in effect one-party states. The case for establishing a more representative system becomes all the stronger if the London Assembly is to

be reformed, with the borough leaders or other borough councillors taking over the role of holding the Mayor to account.

**Recommendation 26:**

Central government should introduce a proportional electoral system for the London boroughs, ensuring that local authorities better represent the political judgements of their electors. This reform should be subject to the approval of local electors in a referendum.



**6**

**LONDON, THE  
GREATER SOUTH  
EAST AND THE  
REST OF THE UK**

London is, as already argued, a great national asset. One of only a small handful of truly global capitals, it attracts business and visitors to the UK from around the world, and plays a central role in maintaining our international standing and influence. But it has to be conceded that the capital can appear insular and arrogant at times. It seems to think of itself more readily as a global city than a capital one. It sometimes seems to be more interested in what is going on in New York or Hong Kong than Glasgow, Cardiff or Manchester. To his credit, Boris Johnson has made a step in the right direction by making common cause with Britain's Core Cities – the group of major cities beyond London – in campaigning for more devolution, but prior to this neither London Mayor had established any formal relationship with the UK's other big cities. Similarly, Ken and Boris have shown little interest in working with the towns, cities and counties of the Greater South East – though many of London's workers commute from outside the city, and London and its surrounding counties constitute, in effect, a single city regional economy. The GLA's inward focus was arguably justifiable in its early years, but that now needs to change – especially as the capital is viewed with alarming wariness throughout much of the country.

Most of the initiative here needs to come from London itself – and of course the cities and counties around it – but there are some things that a new government could do to help ensure that London is making a full contribution to the rest of the UK, and in particular, that a more strategic approach is adopted across the South East.

First, a new government should set up a commission, perhaps jointly with the Mayor, looking at how to maximise London's contribution to the UK. London might well, for instance, be able to do more to encourage investors and visitors who come to London to consider the rest of the UK. Or there might be more that London's many great cultural and civic institutions could do to beyond the city itself.

**Recommendation 27:**

Central government should establish a commission to look at London's contribution to the UK and how this can be maximized. This could be run jointly with the Mayor.

Second, a new government will need to encourage greater intra-regional co-ordination across the greater South East. Higher education provides a good illustration of the benefits that could result from this sort of joint working. Though London and the South East arguably have the greatest concentration of academic firepower anywhere on the globe, they would become an even more formidable research and economic force if they did more to pool resources and develop joint initiatives. Or perhaps the Mayor's new office for Schools and Young People should play a role in fostering school improvement beyond the capital.

**Recommendation 28:**

Central government should promote greater joint working across the cities and counties of the South East.

Finally, a new government should give serious consideration to the case for allowing London to expand and for neighbouring areas that want to join it to do so. Government should in particular explore the merits of establishing a mechanism to allow the triggering of a referendum in areas around London that might want to become part of it. Places like Slough, Luton, Thurrock or Dartford and many other towns and districts are tightly tied to London's economy could benefit from joining the capital, with its pan-regional government, strategic housing and planning powers, integrated transport system, and effective system of inter-borough collaboration.<sup>89</sup> The benefits could become even greater as London government gains more power; these places would in effect become part of

England's most powerful and dynamic city region, with a strong regional government focused on promoting jobs and growth and improving services. It is not just these areas around London that could benefit, though. They in turn could play a role in meeting London's growing need for new homes and workspaces. Any move to integrate these places into the capital might be resisted by local council leaders, but it might well win the support of ordinary residents, especially commuters.

**Recommendation 29:**

Central government should give towns and districts around London an option to 'opt into' in the capital and become London boroughs. Rather than resting with local councillors, the decision on opting in should be decided through local referenda.

7

**LONDON –  
TOWARDS  
A RICHER  
SOCIAL LIFE**

We have argued that the next government needs to give more power to London on the grounds that city and local government are best positioned to tackle the problems the city faces.

But any benefits that will result from the shift of power downwards will be limited if London government simply hugs its new powers to itself or wastes them funding soulless new developments, expensive, inflexible IT systems, or impersonal, top-down services. The challenge will be to match new governmental powers with more accountable government and the promotion of a richer urban life.

While cities offer great material advantages – they generate innovation and minimise the costs of production and consumption – the quality that most of us value most in them is their sociability. This sociability can take an almost endless variety of forms: it can be found in family and extended family life; flirtations, romances and friendships; work place collaboration and collegiality; the give and take of public services; attendance at and participation in cultural events; neighbourliness and local community endeavour; political campaigning and charitable activity; or simply the civility of the public realm. (Sitting in a café reading a book or walking alone in a local park can be a social activity in the way that reading a book at home or a country walk are not). London provides some of the world's best opportunities to enjoy a sociable urban life. Even for those on lower incomes, there are a remarkable number of free things to do, such as parks, museums, libraries and, for the old and young, public transport.

The rise of the internet, which might have been expected to weaken the pull of city social life – why meet face to face, when you can meet online? – seems, if anything, to have enhanced it, expanding social circles and facilitating social connectedness of all kinds. Half a century ago, society looked to be taking a 'private' turn, as people moved to the suburbs and spent ever greater amounts of time fixing up their homes, driving

their cars or sitting in front of their TVs – with what turned out to be alarming consequences for trust and civic participation.<sup>90</sup> But what seemed like a profound and enduring shift in way of life now looks increasingly like an aberration, as younger generations are settling in cities, trading ‘space’ for ‘place’, watching for participating, and owning things for ‘sharing’ them. These shifts have been more profound in the US than in the UK, but we can see them played out here too, in the expansion of London or in the decline, across the UK, in car ownership.

Government at any level can’t of course ‘deliver’ city sociability on its own; much of the initiative lies with the city’s citizens and ordinary public servants, voluntary organisations and charities, employers and businesses.

At the same time everything that government does in London shapes the social life of the city for better or for worse, and all levels of government need to make a priority of promoting it. London government will need in particular to focus on five priorities:

### **1 – Enhancing neighbourhood planning and governance**

First, we need to find ways of enhancing neighbourhood planning and governance. London is unusual in that its lowest tier of government – the boroughs – are relatively powerful, but also relatively remote. Many cities have smaller units of super-local governance closer to the citizen (for example Paris’s arrondissements, New York’s community boards), albeit weaker than the boroughs. At the same time, the boroughs are arguably too small to make another parish level of government viable. While the last Labour government allowed for the parishing of London, parishes have been very slow to develop.

The challenge then is to find less formal, more lightweight forms of governance that can tap into local civic spirit, meet local concerns and further local ambitions. Perhaps the answer lies in piloting short life, ‘pop up parishes’, with limited, temporary

tax raising powers to address particular issues – rehabilitating a local park, say, or building an adventure playground or widening streets and making roads safer.<sup>91</sup> Business Improvement Districts provide a model of how these ‘Community Improvement Districts’ might work. Perhaps we should be looking at ways of enhancing the powers of London’s growing family of Neighbourhood Planning Forums. Or perhaps London will find ways of making formal parishes work – one has already been created in Queens Park and others are likely to follow.

## **2 – More responsive and engaging public services**

Second, London needs to *push* forward in creating more responsive and engaging public service and leveraging community, charitable and business contributions to them. This will involve, among other things, creating and cultivating community level institutions, especially nursery schools, after-school activities and youth clubs. As we have seen, the high costs of early years and child care services hits London’s economy and discriminates against mothers. Additionally, the public have long identified ‘lack of activities for teenagers’ as one the things that most needs addressing in their local areas.

The capital also needs to do more to boost the local presence of community safety services. A Mayor or boroughs with more power, for instance, could create a layer of ‘community justice panels’, staffed by volunteers trained in restorative justice and mediation, below the level of the magistrates to resolve local disputes and deal with incivility and low level crime. The Mayor also needs to continue to promote neighbourhood policing, which, with the cuts to the police service, faces an uncertain future.

## **3 – Realising the potential of the peer to peer economy**

Third, London government should make a priority of realising the potential of the web-based collaborative or ‘peer-to-peer’ economy and encourage a greater

sharing of lazy assets – the car in the drive, the sofa bed in the living room, money sitting in a bank account – and under-used time and skills: the neighbour willing to babysit, the local mother who can do some book-keeping. Conventional business models and tax policies are threatened by new peer-to-peer services like AirBnB, Uber and Taskrabbit and peer-to-peer lending services like Zopa – and these certainly can't be given a free rein. But conventional regulatory and tax regimes aren't always well adapted to them; they will need reform, and peer-to-peer services have huge potential, especially in a large, dense city like London. They offer more sustainable and often more sociable, as well as more economic, ways of living. They can help make life, in what is for many a very tough city, a little easier.

#### **4 – Promoting integration**

Fourth, the Mayor and the boroughs will need to continue to ensure that London does not become a city of separated communities. One of the qualities people often single out as making London special is the way different social classes have lived cheek by jowl. London remains on many measures a remarkably integrated city (there is little ethnic residential segregation) and on other measures it is becoming less segregated (e.g. inner London as a whole is less segregated than in the 1980s because more owner-occupied housing has been built in deprived (ie 'brownfield' areas), but there are also worrying trends. Schools are much less integrated than residential neighbourhoods. Voting patterns follow fairly strict racial lines. Some council estates continue to feel very cut off from the rest of the city and poorer families are being squeezed to the edge of the city while the centre and new 'prestige' developments along the Thames are in danger of becoming enclaves of the super-rich, equally isolated from the life of the rest of the capital.

#### **5 – Enhancing London's public realm**

Finally London government will have to continue to invest heavily in its public realm. Much of the city's

social life is lived out in its streets, squares and parks. The growing popularity of cycling, the development of smart vehicles, and the decline of car ownership and car use could all work in favour of a livelier, safer streets and roads. Yet other trends – above all the pressures of population growth coupled with cuts to local public spending – could push London in the opposite direction. The Mayor and the boroughs, Transport for London, the Canal and River Trust, the Environment Agency, and the Port of London Authority, will have to work hard to ensure that London's streets, squares, parks and increasingly its waterways, work not just for drivers and passengers but for the broader public as well.

London is already a very social place and, despite all the difficulties that growth and globalisation have brought, it is, in many respects, becoming more so all the time. The challenge is to build on this and create a richer and more inclusive and empowering social life. This is important for London and its residents, but it is also important because, for all its faults, London shines brightly through much of the world.

# SUMMARY OF RECOMMENDATIONS

## **Overview**

1—The UK has a very centralised system of government. Central government should devolve a broad range of powers – over taxation, regulation and services – to London government, as part of a broader programme of devolution to Scotland, Wales, North Ireland and other English cities and regions. Devolution to London is required regardless of the powers devolved to English MPs over English matters.

2—Central government should commit itself to a target of ensuring that distribution of powers between central government on the one hand and regional and local government, including London government, on the other, moves close to the OECD norm over the course of the next Parliament.

## **Property Taxes and Borrowing Powers**

3—Central government should devolve responsibility for property taxes to London government, as recommended by the London Finance Commission. In particular, London government should be given the power to: design a property tax regime suited to London's unique circumstances; set property tax rates; and retain all related revenues.

4—The GLA and the boroughs should be allowed to borrow money responsibly against their assets and income within the prudential borrowing code. Centrally imposed borrowings ceilings should be removed.

5—Central government should layout a long-term plan for further tax devolution for London, including the assignment of a proportion of income tax. The power to set income tax rates should remain with central government.

6—Central government should give London government power to raise small discretionary taxes including taxes on hotel bedrooms (a tourist tax), alcohol and unhealthy foods.

7—Central government should ensure that any reforms that reduce revenue to central government are accompanied by corresponding cuts in government grant to London for the first year.

### **Public Services**

8—Central government should affirm the principle that responsibility for the design and administration of London's public services rests with London government, unless central government can set out good reasons for centralisation. Public services should be reformed and responsibilities reassigned in accordance with this principle. Central government should keep restrictions on how and where central government grant is spent ('ring fencing') to a minimum, so allowing local authorities to develop more strategic and joined up services.

### **Housing, Social Rents and Housing Benefit**

9—Central government should transfer responsibility for rent subsidies (Housing Benefit and its equivalents) to London government, enabling local authorities to determine a balance between investment in new housing and spending on subsidising rents appropriate to their area.

10—Central government should give London power to design a social housing rent and sales regime suited to the city.

11—London government should be given powers over all public sector land and asset holdings inside the London. This should be managed as one estate with a presumption that uses are rationalised so as to free up land for more low cost housing.

## **Young People and Education**

12—Many of the powers currently exercised by the Department for Education should be devolved to the Mayor. The Mayor should be required to establish an office for schools and young people led by a deputy Mayor or commissioner for young people. The Mayor and his deputy should be required to establish a schools and young people strategy. The Mayor should be required to ensure all schools and school providers collaborate with the boroughs and with each other as appropriate and to promote cross cutting school improvement programmes.

13—The Mayor should be responsible for appointing providers to set up and run schools, where new schools are needed, or take over failing schools. The appointment should be made through fair and open competition, with schools providers, including the boroughs, being invited to submit applications. This would apply to mainstream and non-mainstream schools, including Pupil Referral Units. The Mayor should be prohibited from running schools directly.

14—Central government should oblige local (borough) education authorities to have regard to the Mayor's young people strategy in the development of their own schools and young people's services. They should continue to have the right to run schools. Local authorities should continue to be responsible for local youth services including looked-after children.

## **Employment and Skills**

15—Central government should devolve full responsibility and associated budgets for further education, skills and employment spending to London government.

## **Health**

16—London health services serve the whole country and include many national and international centres of excellence, but this should not blur a focus on getting the best health service for Londoners. Central government should require the Mayor to set up an office for health and wellbeing, led by a Deputy Mayor for Health or London Health Commissioner. The Deputy Mayor would publish a health strategy for the capital and chair a capital-wide body that would join up London's Clinical Commissioning Groups (CCGs). Additional services constituting national services, research and development and teaching hospital provisions ought to be commissioned by NHS England and other national agencies.

17—Central government should ensure that the London government has all the power it needs to promote healthy lifestyles, including powers to vary taxes on and proscribe the sale or use of harmful foods, drink and tobacco.

## **Policing**

18—The Home Office should establish a review of the responsibilities of the Metropolitan Police, with a view to transferring non-London specific responsibilities to national crime and policing agencies, so that the Mayor and the Metropolitan Police can focus on London.

19—Responsibility for prison and probation services, along with associated budgets, should be passed to London government, which would be responsible for commissioning prison and police services for London-based offenders. Any savings that London manages to make on spending on prison and probation through early and effective intervention should be retained by London.

## **Regulation**

20—Central government should grant London a general power to suspend or modify centrally imposed regulation, unless central government can offer a good reason why a particular regulation or set of regulations should not be suspended or modified.

## **Low Pay**

21—Central government should give the Mayor responsibility for setting a statutory London Minimum Wage, subject to approval by the London Assembly. The Mayor should be required to pay heed to the advice of the Low Pay Commission in setting the London Minimum Wage.

22—Responsibility for ensuring that employers comply with minimum wage laws currently resides with central government. This responsibility should be shared with the boroughs.

## **Strengthening Local Accountability**

23—The powers of the London Assembly should be strengthened as recommended by the 2013 report of the Communities and Local Government Select Committee. In particular, the Assembly should be given the power to: call in Mayoral decisions before they are implemented; reject all Mayoral strategies including the Policing and Crime Strategy; and veto senior Mayoral appointments including the appointment of Deputy Mayors. In addition the Mayor should be prohibited from appointing members of the Assembly to his executive team.

24—Central government should commission an independent review of how the Assembly is appointed and explore the case for replacing the current Assembly with one made up of borough leaders or councillors appointed by them.

25—Central government should commission an independent review into whether Londoners should be given the power to recall the Mayor of London.

26—Central government should introduce a proportional electoral system for the London boroughs, ensuring that local authorities better represent the political judgements of their electors. This reform should be subject to the approval of local electors in a referendum.

### **London and the UK**

27—Central government should establish a commission to look at London's contribution to the UK and how this can be maximized. This could be run jointly with the Mayor.

28—Central government should promote greater joint working across the cities and counties of the South East.

29—Central government should give towns and districts around London an option to 'opt into' in the capital and become London boroughs. Rather than resting with local councillors, the decision on opting in should be decided through local referenda.



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The 2015 General Election will be an important one for London. The city is one of the most dynamic and admired in the world and attracts business and visitors from across the globe. But London's star shines almost too brightly. Its very success is putting huge pressure on housing, infrastructure and living standards – at a time when public money is in short supply.

Yet our national politicians often seem unwilling to acknowledge the importance of London to the UK or the scale of the challenges it faces.

The Brightest Star sets out a bold agenda for the capital, centred on the devolution of power from central government, along side measures to strengthen the accountability of London leaders. Without these reforms there is a real danger of the city falling victim to its own success and becoming an ever tougher, more polarised place.

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