Central District Alliance

LONDON HERITAGE QUARTER

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A new deal for London 2.0

The business and economic case for further devolution in the capital: an update

September 2026

London's devolution journey

In October 2024, BusinessLDN joined forces with Primera and the Eastern City, Central District Alliance and London Heritage Quarter Business Improvement Districts (BIDs) to make the business and economic case for further devolution in the capital in our paper *A new deal for London*.

Our calls for action on a "flexible pot" approach for regional government, so that existing funds could be consolidated and deliver greater impact, helped pave the way for an integrated settlement for London. And our recommendation to convert existing revenue from government grants into devolved funding streams owned by regional government so that they can retain a meaningful share of the proceeds of future growth is at the heart of the Government's *Rewiring the State* proposals for further devolution across the UK.

The Prime Minister has fired the starting pistol on a fresh wave of devolution throughout the country, including in London. The ambitions set out in *Rewiring the State*, including on skills, housing and transport, have the potential to improve the efficiency and quality of public service delivery and unleash growth throughout the country.

As the city region with the longest experience of devolution, London has the track record and administrative capacity to exercise greater control over spending and decision-making to benefit local communities and businesses in the capital and throughout the UK. And we welcome the approach of *Rewiring the State* in seeking to move at the speed of the most experienced city regions. Like other parts of the country, London has been held back by Whitehall. Although the capital has the most mature devolution settlement, in recent times aspects of it have not kept pace with other city-region deals, and it has failed to reflect London's role as a global city.

To seize this opportunity, BusinessLDN has again teamed up with London Heritage Quarter and Central District Alliance to set out what should happen now to optimise and implement the proposals set out in *Rewiring the State*. We address the challenges and solutions from a London perspective, but the findings and recommendations are also relevant to city regions throughout the UK.

"The next phase of devolution must give London the confidence and capacity to plan for the long term. Bringing decisions on transport, skills and infrastructure investment closer together would help create the conditions for lasting economic growth. Partnerships like BIDs can support this by bringing sustained business commitment and hyper-local knowledge to those long-term ambitions. Building on our 2024 report, we need a settlement that enables government and business to plan, invest and deliver together, to ensure we all benefit from the growth potential of this world-class city."

Ruth Duston OBE, OC
Chief Executive, London HQ

How devolution can help get things done

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The arguments for devolution are well rehearsed, and among the most compelling are that it helps to get things done:

- **At speed**, because with the right powers and responsibilities, decisions taken locally can be made faster than if they are determined centrally;
- **In tune**, because a city region or geographical area that you can "wrap your arms around" is best placed to work out the needs of that place and be more responsive to changing social and economic priorities; and
- **Joined-up**, because local leaders and institutions are more likely to be able to work across silos, for example housing, transport and decarbonisation, and apply systems thinking for better results.

The political tide may be starting to turn, but international comparisons show how much further there is to go. The UK is among the most centralised developed countries in terms of tax raising powers, and no other G7 nation collects a lower proportion of overall tax locally, as shown in OECD data.

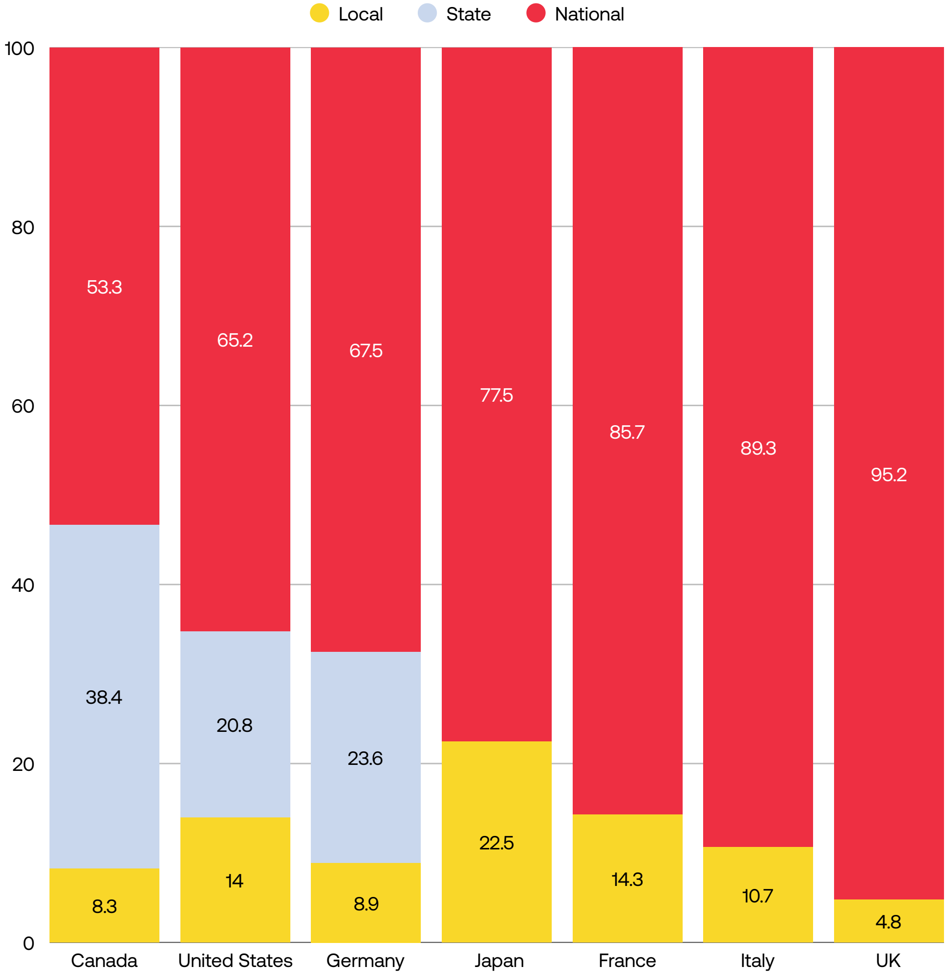
Devolution is not a silver bullet but it can make alignment and progress easier. Powers alone do not automatically make a difference – it is what you do with them that leads to change and better outcomes.

London needs the full range of tools to reignite its economic performance. The fact that much of central government is located *in* London does not necessarily mean that it is working well *for* London.

London's economy plays a pivotal role in funding the rest of the UK, as highlighted by the Centre for Cities report *Adding up: How to deliver fiscal devolution*, which shows a net £49bn of tax revenues that London sends to the rest of the country every year. This is an important responsibility that London, as the capital city, should continue to fulfil. The vast majority of any future tax growth in the capital will continue to flow to the rest of the country, ensuring that London continues to work with and for the whole UK.

To unleash growth and address historic underinvestment relative to international peers, it is time for a step change in approach and for our capital city to be brought more closely in line with other global cities for devolved powers.

Proportion of overall tax revenues raised by local or state governments (2023)



Source: OECD (Japan: 2022 data)

"London is within striking distance of finally seeing its financial freedoms restored to match its economic responsibilities and maturity as a leading world city. Retaining a bigger share of locally generated tax revenues – including any growth – can help us to finance and fund the infrastructure and services that underpin the capital's long-term success and generate prosperity for the country as a whole. Our updated report sets out how a stronger settlement rooted in the Government's proposed reforms can support investment in Greater London whilst crucially sustaining its contribution to the wider prosperity of the country."

Alexander Jan
Chair, Central District Alliance

Rewiring the State: next steps for London

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Skills and young people

What the Government has said in *Rewiring the State*

- Mayors will be empowered to offer a high-quality, locally tailored technical or vocational route from age 16, underpinned by gaining control of the skills budget for 16–19-year-olds.
- Mayors gain the powers, flexibility and accountability to bring together education, employment, health and local support into a clear route for young people.

What should happen next?

The Government should proceed at pace with devolving the full suite of vocational skills responsibilities to mayors to enable better, more joined-up approaches across different stages of education, informed by the London Local Skills Improvement Plan.

This should include much tighter integration between skills, employment support and careers services, such as a one-stop job centre and a London-wide careers service for all ages.

Transport

What the Government has said in *Rewiring the State*

- Mayors gain the power to shape their places through control over local transport, housing, innovation, local energy and cultural investment.
- Mayors will be supported to take public control of buses more rapidly and implement fully integrated ticketing systems.
- Local leaders will be given more control over commuter rail services, with the most established mayors – such as in London – working in much deeper partnership with Great British Railways.
- Mayors in places with integrated settlements no longer need to seek government approval for locally funded transport schemes, except those that interact with the national network.

What should happen next?

The priority is to turn the commitment to greater mayoral control into the financial and delivery freedoms needed to deliver priority schemes.

This should include removing, or at least significantly increasing, the £500m threshold above which locally funded transport schemes still require government approval, alongside greater flexibility for the Mayor to finance growth-enhancing infrastructure – including the ability to borrow against future revenues and use tax increment financing (TIF) and land value capture models to help fund priorities such as the Bakerloo Line Extension and West London Orbital and ultimately Crossrail 2.

The current project-by-project funding and approvals system can act as a drag on delivery and investment, so special Transport and Works Act orders powers for London and other Metro Mayors could help address this.

On rail, the promised deeper partnership between Great British Railways and Transport for London should happen swiftly and give London a meaningful role in shaping the operation, investment and development of commuter rail services, with better integration of services, fares and infrastructure across the wider transport network.

Housing

What the Government has said in *Rewiring the State*

- Mayors will benefit from greater devolution of the Social and Affordable Homes Programme (SAHP).
- With the goal of creating thriving places to live, mayors will be given much greater influence over funding currently controlled by Arts Council England and Sport England. To further this ambition, the Government will establish “Good Growth Funds”, which will be supported by the Local Government Pension Scheme as a key local investor.

What should happen next?

The Government should give mayors full flexibility to use the SAHP as they see fit in response to what is needed in their localities.

The Government should confirm the remaining allocation of the SAHP as soon as possible, and the Greater London Authority (GLA) should confirm its funding partners.

Public services

What the Government has said in *Rewiring the State*

- London and other areas will gain more local democratic control over their public services, from health to policing to education.
- Deputy mayor roles will be established with responsibility for key public services.

What should happen next?

The Mayor of London has had a direct mandate for policing in London since 2011.

London also already has many deputy mayor roles, including for planning, housing, transport and policing, so, for the capital, the next step is about ensuring those roles have the necessary powers and responsibilities to drive delivery.

Taxation

What the Government has said in *Rewiring the State*

- Grants from central government will be replaced with a share of local income tax for every mayor from 2028.
- Local councils and strategic authorities will also gain greater retention of the revenue from business rates.
- The Government will consider how these growth incentives can be balanced with the need for fairness between places. The Government says it will "rebalance public investment, including considering the balance of subsidy and other finance mechanisms, to ensure we are backing growth opportunities in all parts of the country".
- The Overnight Visitor Levy is now confirmed, with local leaders able to set out plans for how revenues will be invested by March 2028.
- The Government will consider how areas could benefit from increased land values from housing and infrastructure development, strengthening their ability and incentives to invest.

What should happen next?

Greater fiscal devolution, through the retention of part or all of locally raised taxes, swapped pound for pound with current grants, should be the foundation. The taxes devolved should, where possible, be ones, such as business rates, where local decisions can grow revenue. The proposal from the Centre for Cities think tank[1] to include a share of corporation tax retention would fit this description and merits consideration in the future to further lock-in local growth-enhancing incentives.

Mayors should be able to borrow against future revenue streams and retain the growth in tax revenues over time in the share of taxes that have been devolved.

The Overnight Visitor Levy is an important test case for mayors to demonstrate their pro-growth credentials by targeting the proceeds towards growth and, in particular, supporting and promoting the visitor economy. As a new and uncapped tax, it is important that mayors demonstrate how they are giving levy collectors a meaningful say over how the funds are used and calibrate the level to minimise the impact on competitiveness.

The Government should proceed at pace with enabling city regions to capture increases in land value that flow from infrastructure investment to fund that investment, through mechanisms such as land value capture including a "Residential-TIF" model (as set out in BusinessLDN's report in collaboration with WSP).

Finally, retention of a larger share of business rates is not a substitute for reform: the Government must make good on its manifesto commitment to replace the business rates system.

[1] Centre for Cities, Adding up: How to deliver fiscal devolution, September 2026.

Case studies: how fiscal devolution can benefit London

The Northern Line Extension to Battersea

The Northern Line Extension (NLE) to Battersea is an example of how a TIF approach can be used to help fund an ambitious transport and regeneration project.

TIF is a value capture tool that uses taxes on future gains in real estate values to pay for new infrastructure improvements. TIFs allow for projects to be financed upfront by borrowing, with repayments coming from the ringfencing of future tax receipts for a fixed period, typically from the development that the new infrastructure enables. This takes place within a defined zone, often referred to as “enterprise zones”.

A version of the TIF model has been successfully used to help fund the NLE to Battersea, completed in 2021 after the Government confirmed in 2012 that up to £1bn of borrowing from the Public Works Loan Board would be available to the GLA to finance its construction.

The contribution from the TIF model applied to the NLE is being made by capturing incremental business rates revenue generated and retained within the enterprise zone around the station site. The TIF is one part of a broader funding package, including developer contributions through the Section 106 agreements and the Community Infrastructure Levy regimes.

Such an approach was made possible in part by the large volume of commercial development realised at the site. And the overall funding package was the result of a conscious trade-off made by all parties to the agreement, which meant developer contributions to help fund the NLE were prioritised over that which could have gone to funding a higher level of affordable housing.

The TIF model applied to the NLE helped to unlock new, additional development through this investment in transport infrastructure. The development would not have taken place to the same scale or density in the absence of this infrastructure.

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The Bakerloo Line Extension

The Bakerloo Line Extension (BLE) is a proposed extension of the London Underground line from Elephant and Castle in Southwark to Lewisham, via Burgess Park, Old Kent Road and New Cross Gate, including the potential for a further extension beyond Lewisham to Hayes and Beckenham Junction utilising existing Network Rail tracks.

The scheme would transform access to public transport in southeast London, significantly reducing journey times and increasing sustainable travel options. It would support over 53,000 new homes along the route and around 9,700 additional local jobs.

The BLE is estimated to cost up to £8.7bn in 2021 prices. Various approaches to fiscal devolution in London could help to fund and accelerate delivery of the project.

- **The Government could grant the Mayor of London substantial and broader TIF powers**. For example, the Mayor could be empowered to introduce a new residential-TIF model which, if applied to the BLE for 25 years through council tax and stamp duty, could generate up to £2.2bn, also in 2021 prices, (£1.8bn council tax gross and £0.4bn Stamp Duty Land Tax gross) in nominal terms.

- **The GLA in conjunction with HM Treasury could develop a powerful wrapper in the form of a “London Infrastructure Deal”**, delivering a strong signal of intent and a package combining devolved capital, land value capture powers, some form of underwriting guarantee and planning/land assembly powers, with London committing to a defined pipeline of priority projects from the London Infrastructure Framework, including the BLE, in return.

* This figure reflects the upper scale of this approach over the 25-year period (theoretically the funding could be ringfenced for longer) but does not reflect a recommendation about the actual amount that could theoretically be used as contribution from this model to help fund the BLE. Further details are set out in Generating Land Value to Grow London: A New Residential Approach, BusinessLDN/WSP, January 2025.

What should happen now? Key principles and next steps

1. Further devolution should, as *Rewiring the State* proposes, proceed at the pace of the quickest, enabling those city regions with established track records and administrative capacity to move further and faster where they are ready to do so and go beyond a national minimum offer.
2. Effective local leadership should ensure that the quality of local public services is improved within existing budgets for the reasons set out above. Over time, this should enable city regions to deliver more with fewer overheads. Key to this will be ensuring services are genuinely devolved with local leaders given the autonomy to make decisions and deliver services without unnecessary central oversight.
3. The overarching further goal of fiscal devolution should be to support growth. This requires the devolution settlement to create structures that provide local leaders with long-term certainty to invest effectively, along with the incentive and means to grow their devolved revenue stream over time. This would mean that local areas are more likely to back growth-enhancing policies, even if they are politically difficult, in part because they have the resources from that growth to deal with its local costs.
4. Decision-making and control should be determined by who can most effectively deliver the services in question and drive growth. Some things are best decided once nationally, by central government; some things once for London, by the Mayor; some things done locally, by each London borough; some things done many times over hyper-locally, by BIDs; and some things best left to individual choices and actions by Londoners. From the landmark pedestrianisation of Strand Aldwych, spearheaded by Northbank BID, to local cleansing services and district-wide approaches to sustainability, freight consolidation and wayfinding, BIDs demonstrate the value of a strong local voice in delivering change at a hyper-local level.
5. The certainty of owning a revenue stream is efficient and enables mayors to plan with greater confidence, so fiscal devolution should come with an ability to borrow against future revenues without requiring case-by-case approval from HM Treasury, subject to London and other city regions demonstrating a track record of administrative capability and being subject to appropriate macroprudential oversight.
6. To address the “fair funding” question, as a baseline, London should receive a share of tax receipts commensurate in today’s money with its current level of grant and then keep the uplift from the future growth. The city will then be rewarded for pro-growth, pro-employment policies, while the growth in the Government’s share recognises the capital’s responsibilities to help fund public services across the whole of the UK.
7. City regions need to evolve their skills and capacity in line with the new powers they are given, including stepping up commercial nous and digital savviness. London has a good track record of being an effective client and for systems development, such as with the Oyster card for travel, and should look to build on this. As further powers are devolved, governance and scrutiny arrangements must evolve in step, ensuring transparent decision-making, clear accountability and oversight. Feedback loops, including a business advisory board, could help with this.

8. Those city regions with the greatest experience of devolution should support the development of administrative capacity in the newly established city regions. City regions with scale and maturity can help others by piloting new approaches to devolution. As more activities are devolved, city regions should step up good practice exchange among themselves, helping to ensure that lessons learned are shared and that good systems are replicated rather than reinvented.

9. The Government and mayors should embrace and encourage the use of development corporations and special purpose vehicles to help accelerate delivery and help raise private finance to support developments, for example with the redevelopment at Victoria Station.

10. City regions must ensure meaningful business engagement and consultation to increase their commercial capability and become more growth-hungry, particularly in cases where taxes are raised directly from business, so those firms have a say in how the tax revenues are used.

"The Government's ambitions around devolution are deep, broad and have the potential to improve the delivery of public services and unleash growth throughout the United Kingdom. Local leaders are best placed to know local circumstances and determine local priorities around the services they provide. And giving local leaders a greater share of the proceeds of growth gives them both the incentive to grow and, critically, the ability to spend that money to unlock growth in the first place. The roll-out of this new approach must move at the pace of the fastest, enabling those city regions which have strong track records and administrative capacity – such as Manchester and London – to build on their established devolution settlements so they work better for local communities and businesses."

John Dickie
Chief Executive, BusinessLDN

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Our mission

At BusinessLDN, our mission is to make London the best city in the world in which to do business, working with and for the whole UK.

We work to deliver the bigger picture, campaigning to tackle today's challenges and to secure the future promise of London.

We harness the power of our members, from sectors that span the economy, to shape the future of the capital so Londoners thrive and businesses prosper. We support business to succeed—locally, nationally, globally. We link up with other cities around the UK, to ensure the capital supports a thriving country.

We campaigned for the creation of the office of London Mayor and Transport for London, for the Elizabeth Line, for congestion charging, and we incubated Teach First. More recently, we played an important role in ensuring HS2 reaches Euston.

We create opportunities for our members, from sharing insights to providing platforms, from making introductions to finding new talent. We make it easier to grow your business in the capital.

Becoming a member of BusinessLDN helps to keep London and the UK working — for business, for Londoners, for the whole country.

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