

Leaders' Committee

Devolution and Public Service Reform Item No 6

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Summary:

This paper reports on London government's work on devolution and reform, with a particular focus on the progress signalled by the Chancellor's Autumn Statement.

It goes on, briefly, to provide a platform to begin to explore London's ambitions in respect of devolution beyond the Autumn Statement and the sorts of challenges it may face.

Recommendation: Leaders' Committee is asked to:

1. Consider and comment on the progress signalled by the announcement on London devolution made as part of Chancellor's Autumn Statement.
 2. Provide guidance on shaping the next stage of London's negotiations with Government.
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Devolution and Public Service Reform

Introduction

1. London Borough Leaders have driven a programme of work over the last two years in pursuit of devolution and reform of public services in London, working closely in partnership with the Mayor of London and the GLA. This led to the development of the London Proposition in summer 2015, which set out practical ideas for further devolution to London in support of public service reform.
2. This report opens with a summary of the joint devolution initiative which is being championed by the Mayor of London, following a Devolution Summit which he convened in July 2016. This paper goes on to provide an update on London government's work on devolution and reform, with a particular focus on the progress signalled by the Chancellor's Autumn Statement.
3. It goes on, briefly, to provide a platform to begin to explore London's ambitions in respect of devolution beyond the Autumn Statement and the sorts of challenges it may face. This builds on discussions at the November meeting of the Member Devolution Group, which met with the Mayor of London to consider the joint approach to Government on devolution and public service reform.

Background

4. The Mayor of London convened a meeting in July 2016 to consider further devolution for London. The purpose of the discussion was to take stock of where London had reached in its devolutionary and reform ambitions and to seek to gauge the initial views of key London Government and wider stakeholders about the level of appetite for further devolution and reform.
5. The meeting included cross-party representation by London Councils leading members, the City of London Corporation, the London business community, the London Assembly, the Mayor's Office and the co-chairs of the All Party Parliamentary Group for London, Bob Neill MP and Steve Reed MP.
6. The Summit discussed the importance of further and faster devolution to London, particularly in the context of the need to protect London's economy from the uncertainty

ahead, following the outcome of the referendum into Britain's membership of the European Union.

7. In the discussion, a number of key themes emerged:
 - Agreement that the work of the London Finance Commission needed to be updated to reflect the current context.
 - The Mayor would work through London Councils to ensure that boroughs were involved in the process, underpinned by an understanding that the fact that London is not a single homogenous unit.
 - Recognition of the importance of involving business representatives.
 - The importance of deepening the relationship between London and its immediate hinterland as part of the devolution agenda.
 - Recognition of the potential provided by the All Party Parliamentary Group for London.
 - The importance of building public engagement.
8. Following the Summit and meetings with Ministers, the London Finance Commission has been re-established. It has advanced fiscal devolution arguments in an interim report and will be confirming these in a final report before the end of 2016. The Chair and Vice Chair of London Councils serve on the Commission.
9. The Mayor, also, has been discussing the scope of a new London devolution initiative directly with the Chair of London Councils. In early September 2016, the Chair wrote to the Mayor setting out a framework for collaboration that would help build a sense of transparency and ownership in respect of this across London government. The London Councils Executive went on to agree the establishment of the Member Devolution Group, which met for the first time on 6 October 2016, to help steer London Councils' input to this topic. The opportunity for the Group to meet with the Mayor on this topic was regarded as mutually beneficial.
10. To support the developing work, GLA, London Councils and borough officers are working closely together, including via the Devolution and Public Service Reform Group. This was convened by London Councils and the GLA to support the development of joint work on Devolution and Public Service Reform in the Capital, including the 2015 London Proposition. The Sub Group includes representation from each of the borough groupings as well as professional and thematic leads.

11. The Mayor of London and the Chancellor agreed to a process of negotiation leading up to the Autumn Statement on 23rd November. It was subsequently confirmed that discussions would be conducted through six strands:

- I. Skills and Employment
- II. Health and Social Care
- III. Crime and Justice
- IV. Transport
- V. Housing and Planning
- VI. Fiscal Devolution

London's Proposition

12. In advance of the Autumn Statement, a package of key devolution requests was shaped within a framework that demonstrated how it contributed to protecting and growing London's economy. A briefing on the package is attached as Appendix A and the key themes are summarised below:

Skills and employment

- Potential further Skills devolution, including powers over the Adult Education Budget (AEB); 16-19 provision in the capital; any unspent apprenticeship and the National Careers Service.
- Potential further devolution of employment provision and advice to permit the provision of an integrated local offer.

Fiscal devolution

- Potential devolution of further tax and spending powers once the London Finance Commission has issued its second report in November.

Transport

- Potential devolution of further inner-suburban rail services to improve services and support new homes and jobs

Housing and planning

- Potential devolution of a range of powers to support the Mayor and boroughs in boosting housing supply, including areas identified in 2015 joint submission.

Health

- Devolution proposals that are emerging from the Health Devolution pilots as part of the London Health and Care Devolution agreements made with the then Chancellor, last December.

Criminal Justice

- Potential devolution proposals in respect of adult and youth reoffending together with other criminal justice agencies.

Autumn Statement

13. The Autumn Statement 2016 included a focus on devolution as a response to the country's low productivity rates and the desire to increase growth across the UK. The Chancellor's speech highlighted the potential for further devolution to London. The Statement and the supporting documentation included the following points of note:

- I. The Chancellor stated that the Government will continue to work with London to explore further devolution of powers over the coming months. It is anticipated that these will build on the conversations that took place between London Councils, the Mayor and the Treasury in October.
- II. The Government will transfer to London (and to Manchester) the budget for the Work and Health Programme, subject to London meeting certain conditions, including co-funding. This programme will be launched in 2018 and will focus on supporting disabled people and people who have been out of work for over two years back in to work. London Councils is working with the sub-regional borough groupings, the Mayor and the DWP to ensure that London meets the conditions.
- III. The Government re-confirmed its commitment to devolving the adult education budget to London from 2019-20, subject to readiness conditions. This was initially announced in the Budget 2015.
- IV. As part of an award of £1.8bn to LEPs across England in a third round of Growth Deals, £495m will go to London and the South East. The amount designated to London will be announced in the coming months, and will focus on funding local infrastructure, including:
 - Transport connections
 - House building
 - Skills
 - Digital connectivity

- V. The Government confirmed the GLA's Affordable Housing Settlement. This means that the GLA will receive £3.15billion to deliver over 90,000 housing starts by 2020-21.

14. The Chancellor's commitment to continue to work with London to explore further devolution of powers over the coming months signals the start of further detailed negotiations, potentially leading to subsequent detailed agreements in the run up to Budget 2017.

Member Devolution Group

15. The London Councils Member Devolution Group met with the Mayor of London on 17th November 2016 to reflect on recent engagement with Ministers and the prospects for devolution to London. It was understood that Government was keen to continue a conversation with London on a range of devolution and reform proposals and that there was scope for further progress to be made both across and beyond the thematic areas after the Autumn Statement and in the run up to the 2017 budget and beyond.

16. In discussion, Mayor Khan emphasised the importance of continuing the partnership between City Hall and London Councils and London local government on devolution, which had found favour with Government. The Mayor and members of the Group agreed that it would be valuable to reflect on options for strengthening and further embedding joint governance of devolved areas after the Autumn Statement.

17. The following points were raised in relation to the thematic areas of the proposition:

Devolution of 16-19 Skills funding: There was some recognition that this was a difficult ask of Government and it would be necessary to build the argument from first principles in seeking to demonstrate the benefits to the recently appointed Secretary of State.

Transport: The Group supported the continued articulation of the case around suburban rail and Crossrail 2. TfL were engaged in answering a number of questions that had been asked by the Department of Transport.

Planning: It was thought that any successful devolution of powers would be predicated on demonstrating that they could support shared objectives on housing delivery.

Health: it was noted that negotiations were progressing as part of a second London Health Devolution Agreement. The Agreement would draw on learning from the pilots and decision-making processes around the health estate were likely to feature. Members of the Group emphasised the importance of securing a London Devolution Agreement as a way of unlocking some of the potential challenges around integration and estates.

Fiscal Devolution: The Group was keen to ensure that the ambitions around fiscal devolution were not lost. There would be a renewed emphasis on the London Finance Commission after the Autumn Statement, as the Commission approached its final report. It would be important to ensure that the final report made best use of the available evidence in a way that linked its work to services and functional devolution, and framed the arguments in a way that secured traction with Government.

18. The Group began a consideration of potential next steps following the Autumn Statement and concluded that it would be important to:

- Build on the Autumn Statement and move on from towards Budget 2017.
- Make the best use of the final London Finance Commission report.
- Utilise the language preferred and understood by Government in developing a narrative that reflected the emphasis on place-based industrial strategies.
- Utilise examples of London's readiness for devolutionary reform by reference to work and examples in sub-regions.
- Be clear about the end point of the devolutionary work.
- Continue to 'chip away' on more ambitious fiscal devolution asks.

Next Steps

19. Having taken stock of the Chancellor's Autumn Statement, it is likely that London government will want to look again at the Capital's devolution agenda and reflect on lessons learned during the current round of negotiations. In particular, Leaders' may wish to consider the following:

- the scope to develop an enhanced narrative for London devolution that builds on place based aspirations in individual boroughs and sub-regions, along with examples of what is already being achieved. This could also link to place based industrial strategies – which the Government is looking to pursue.
- parts of the current portfolio of propositions which were not picked up in the Autumn Statement – which of these areas might London government want to continue to actively advocate?
- the scope for expanding the current portfolio of propositions and areas where greater devolution within the existing framework of London Government should be considered;
- the way in which London should respond to challenges that come from Government as part of further discussions, including on:
 - systems of shared governance that Government is likely to set as a minimum standard for devolution;
 - managing the transference of a of risk in relation to devolved function.

Conclusion

20. The discussion under this agenda item will provide the Committee with the opportunity to:

- Consider and comment on the progress signalled by the announcement on London devolution made as part of Chancellor's Autumn Statement.
- Provide guidance on shaping the next stage of London's negotiations with Government.

Background Papers

Appendix A: Briefing on the London Proposition to Government

Financial implications for London Councils

None

Legal implications for London Councils

None

Equalities implications for London Councils

There are no direct equalities implications for London Councils as a result of this paper.

However, core elements of the propositions are targeted at improving outcomes for groups of people with protected characteristics, notably improving employment outcomes for disabled people.

Appendix A : Briefing on the London Proposition to Government

A London Devolution Proposition November 2016

The Mayor of London and London Councils are seeking a new devolution deal from the Government to help London government drive economic growth and better represent the people they serve. This briefing paper sets out the case for a new London devolution deal for which we are seeking your support.

Why does London need a new devolution deal?

- London government desperately need new powers to invest a larger share of the income we generate in our economy to unlock further growth, rapidly up skill our labour force to meet current and future skills challenges, help long term unemployed Londoners get back into work; improve transport links for the growing numbers of commuters our businesses rely on; and deliver a housing policy that can boost the supply of much needed homes and that reflects the unique circumstances of London and its housing market.
- Various nationally-managed services need improvement if London is to deliver more growth. Southern rail is causing misery, and commuter lines won't cope with increased housing demands, particularly in south London. Too much surplus public sector land is being left idle. New school places greatly lag demand. Polluted air is shortening Londoners' lives. London's property taxes could hardly be more inefficient and unfair. Londoners furthest from the labour market need support and better skills to get them back into work. Londoners – both residents and businesses - want the Mayor and local authorities to fix these problems.
- The Autumn Statement on 23 November is a vital opportunity for the Government to commit to devolving further powers that we need to take on this challenge. This would provide a platform for the long-term task of supporting Government to ensure that London can meet the challenges of Brexit and growth.

London is unique and needs its own devolution deal

- **London is the powerhouse of the UK economy**
London's economy is around £370 billion per year and accounts for 22.5% of UK national income. Over the last decade London has contributed more than £12 billion each and every year (over and above what it spends) to the UK's public finances. In addition, London has accounted for 43% of all jobs growth nationally in the four years to 2014.
- **When London succeeds, so does the rest of the UK economy**
Our net exports of around £28.5bn boost the UK economy. 51% of international visits to the UK are to London, and London is the gateway to the rest of the UK, where

visitors spend £641 million. London's international orientation directly benefits the rest of the country. In addition, London imports around £405.2bn worth of goods and services from the rest of the UK. There is a strong correlation between London's growth and the rest of the UK – the reverse would be true if London's growth was at its expense.

- **London is growing faster and more than any other big city**
In 2015 it became bigger than ever before. It is now approaching a population of 9 million and is forecast to exceed 10 million in the 2030s. We need new powers to match this era of growth and London requires investment to grow, enabled by fiscal devolution. London also needs the financial resources to enable it to deliver excellent public services for a bigger city.
- **The scale of this challenge is unique to London so we need a tailored response led by London's government**
London government, given more freedoms, is best placed in key areas of policy to drive economic growth and development. Spurring growth through urgent measures to increase investment in housing, skills and infrastructure are needed. Business, big and small, trust London government – and want London government to run more of the global city they work in.
- **The problems in London are acute and substantial. In particular, the uncertainty caused by Brexit amplifies the need to do everything we can to support London's growth**
London's economy relies more on skilled migrant workers than any other city in the UK. 40% of Londoners were born outside the EU. Substantial Brexit risk to financial services with potential net job loss of 35k (or double that if related services are taken into account), according to CityUK. 81% of businesses in London feel less optimistic about the UK economy, with 75% ranking uncertainty over the UK's role in Europe as their top concern. And nearly half of London's businesses say that the result of the EU referendum will have a negative impact on their investment plans.
- **We support investment in other growth areas like the Northern Powerhouse, Midlands Engine, and smaller cities**
We recognise that investment and growth must not be seen nationally as a zero sum game, where investment in one place must be at the expense of others. If investment yields growth and there are ways of recycling that growth to finance the up-front

investment, then regions and cities should support each other. Hence we are working with the rest of the south east to develop our mutual investment priorities and why we support the work of the Core Cities and the Centre for Cities in promoting growth across the UK's urban areas.

- **Investment in London's transport and housing will produce high returns for London and the Exchequer**
Evaluation of past schemes like the Jubilee Line and its extension demonstrate very high levels of benefit and benefit to cost ratios and appraisals of present and future schemes including Crossrail 1, Crossrail 2, and the Bakerloo Line Extension show high

levels of benefit and strong benefit cost ratios. New approaches to appraisal that take account of dynamic effects, over time, across the whole city system suggest potentially even higher gross benefits for these schemes - as well as for housing investment.

- **Devolution will enable London Government to reform and better integrate a range of public services**
This will put the focus on cost effective prevention rather than costly failure, help London in trying to manage the challenge of austerity and help us make London more productive
- **Finally, London does not present a threat to the integrity of the UK**
We are not aiming to be an independent country. But London is different from the rest of England and needs to be run differently. Devolution enables differences to be taken into account for London and everywhere else.

What powers do we want to see devolved?

The devolved powers we are calling for include:

- **Fiscal**
Fiscal devolution enables greater transparency, democratic accountability, growth incentives and tax reform. London businesses pay an increasing share of the county's business rates. For example, London's proposed business rate reforms show how they could be better managed to sustain growth and services in the capital, while protecting local government funding in the rest of the country. In the short term, the Chancellor should take additional measures to mitigate the impact of the 2017 revaluation, which will disproportionately affect London businesses, including many SMEs which would not be classed as "large" businesses elsewhere in the country.
- **Housing**
Housing is the single most important issue facing London. Fewer new homes are being started in London than a year ago and the Mayor is not able to begin conversations with housing providers until he is confident that funding will be available. A devolution deal that would include a share for London of the national affordable housing capital funding and some housing and planning flexibilities, including more flexibility for boroughs on the use of receipts, borrowing powers and planning fees, will help to deliver more much-needed homes.
- **Transport**
The Mayor is not accountable for the majority of rail services in south London, despite being accountable for the long-term growth and prosperity of the capital. Devolving suburban rail services to TfL will bring enormous benefits to rail passengers, giving them the standard of services they deserve and need. There is widespread public, business and cross-party support for the proposals, including from London Assembly, MPs, London Councils and local authorities outside of London (including Kent, Sussex and Hertfordshire councils). The

Mayor's business case demonstrates how TfL will protect the interests of passengers using long-distance services and safeguards have been developed to ensure no long distance service will be detrimentally affected.

- **Skills and Employment**

London needs a bespoke skills devolution deal that allows us to take a strategic, whole system, all age (post 16) approach, to reassure businesses and protect London's economy. The skills system is simply not sufficiently responsive to the needs of London's economy. Greater powers and responsibilities for London Government will deliver a system that better meets the needs of the capital's businesses and those of all Londoners. This should include a Government commitment to ring-fence London's unspent Apprenticeship Levy and replacement funding for the European Social Fund.

Last year the former Chancellor announced that funding for the Work and Health Programme would be devolved to London government. We now need to see this funding transferred to enable London boroughs to commission services according to the needs of local populations and we are seeking this commitment in the Autumn Statement.

- **Health**

The previous Mayor and London health partners signed a London Health Devolution agreement and we now need a commitment to take this forward. The new agreement should incorporate firm action on a range of health devolution propositions in relation to better management and use of departments and NHS estates, health and social care integration and prevention.

- **Criminal justice**

High levels of victim disengagement, offending and prolific reoffending cause harm and cost to the public purse. London faces unique criminal justice challenges and devolution of both budgets and responsibilities for the justice victim services would enable London Government to tackle issues such as the link between deprivation, vulnerability and an individual's involvement in crime, make better use of existing resources and result in a safer London. A commitment from the Government to work with the Mayor on developing a suitable offer that agrees a memorandum of understanding would be the first step needed to make London safer for everyone.