Leaders' Committee

Local Government Finance update: Autumn Budget 2017 and London business rates retention pilot pool 2018-19

Item 7

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Summary

This report provides an update to Leaders' Committee on the key announcements in the Autumn Budget 2017 that impact on London local government. These are set out in greater detail in the member briefing at Appendix A.

The report also updates Leaders' Committee on the progress of the 100% business rates retention pilot for 2018/19, confirmation of which was announced in the Budget.

Recommendations

Leaders' Committee is asked to note and discuss:

- the key announcements in the Budget that relate to London local government; and
- the progress of the London business rates pilot pool for 2018-19.

Local Government Finance update: Autumn Budget 2017 and London business rates retention pilot pool 2018-19

Introduction

1. On 22 November 2017, the Chancellor Philip Hammond delivered his first Budget of the new fiscal timetable, taking tax and expenditure decisions for the financial year ahead.

2. The key announcements in the Autumn Budget relating to London local government included: confirmation of the London business rates pilot for 2018-19 (see paragraphs 18-22 below); significant policy announcements relating to housing; changes to business rates indexation and revaluation periods; universal credit; and additional funding for the NHS.

Autumn Budget 2017 - key policy announcements

3. London Councils has published a member briefing (appended to this report) setting out in detail the key announcements in the Budget that impact on London local government, which are summarised below.

<u>Local government funding outlook</u>

4. Lower than previously forecast economic growth and productivity forecasts, together with the continued commitment towards deficit reduction, mean the outlook for local government funding remains difficult. Despite confirmation that the Government is not going to make the remaining cuts £1.1 billion to departmental budgets in 2019-20 that had been planned, the cuts imposed by the last Spending Review and the 4 year settlement that followed remain in place. As a result, London boroughs will still have to find savings of £1.6 billion between now and 2020.

<u>Business rates</u>

5. In addition to the confirmation of the 100% business rates retention pilot in London in 2018-19, the most significant announcement was a change of indexation of business rates from RPI to CPI from April 2018 - 2 years earlier than previously planned at a cost of £770 million in those 2 years. The Government did confirm that local government will be fully compensated for this loss of income, but has not yet confirmed the mechanism for this.

6. It also confirmed that business rates revaluation cycles will be reduced from 5 years to 3 years following the next revaluation, currently due in 2022. A consultation on implementation is due in the spring.

Housing

7. Housing measures dominated the Budget, with the main headline committing government to raise housing supply by 300,000 per annum by the mid-2020s. The Government is adding an additional £15.2 billion to support this. The last time this level of building was reached was in 1977, when local authorities built 44 per cent of that total.

8. The HRA cap will be lifted for some local authorities, however this is limited by the fact that it won't happen until 2019-20 and, not all councils will benefit as they will have to bid to increase borrowing, which will be limited to £1 billion across England.

9. With regard to post-Grenfell remedial work, the Government is making £28 million of additional funding available to RBKC to support victims including new mental health services, regeneration support for the Lancaster West estate, and a new community space. However, the Budget did not confirm additional central funding for remedial works, but simply repeated the call for councils to contact DCLG if they could not afford "essential" works.

10. Councils will be able to increase the Empty Homes Premium from 50% to 100% in order to improve local authorities' abilities to tackle empty homes, however it is arguable whether it will be strong enough deterrent for many property owners who are keeping their properties empty.

11. An additional £2 billion was confirmed for the Affordable Homes Fund which shows Government wants councils to play a role in housebuilding, however it is expected that London's share of the pot will not meet the 72,000 new homes the Government says are needed in the capital each year.

Health and Adult Social Care

12. The Budget confirmed an additional £2.8 billion will be made available to the NHS in the next three years, with £335 million available immediately to help the NHS to increase capacity over winter. In addition, £2.6 billion of the £3.5 billion of new capital funding for the NHS in England will be for Sustainability and Transformation Partnerships to deliver transformation schemes that improve their ability to meet demand for local services.

13. Beyond announcing an additional £42 million for the Disabled Facilities Grant in 2017-18 and a green paper outlining plans to promote parity of esteem between mental and physical health conditions, to be published in December, there were no significant measures relating to adult social care. Prior to the Budget, the Government announced that the green paper (originally planned for this autumn) has been pushed back until the summer of 2018.

Universal Credit

14. From January 2018, eligible claimants will be able to access up to a month's worth of Universal Credit within five days as an advance. The period of recovery will extend from six to twelve months. From February 2018, the Government will remove the seven day waiting period, and from April 2018 claimants on Housing Benefit will continue to receive this for the first two weeks of their Universal Credit claim. Roll out will be more gradual, with all jobcentres implementing Universal Credit by December 2018.

Children's Services

15. The Budget included no measures to address the financial pressures in children's services. London Councils submission to HM Treasury ahead of the Budget highlighted the impending crises in children's social care funding and high needs funding for children with special educational needs. As reported to Leaders' Committee in October 2017, London boroughs overspent by around £100 million in children's social care last year; together with a similar scale of shortfall in high needs funding in London. This will increase pressure on children's services departments and will become unsustainable if left unaddressed.

Autumn Budget 2017 - London Councils' response

16. In addition to a factual on-the-day briefing for officers, London Councils published a briefing for members (attached at Appendix A), and published press releases in relation to:
    - The 2018-19 London business rates pilot pool[1];
    - Housing announcements[2]; and
    - Universal Credit[3].

[1] Available here: http://www.londoncouncils.gov.uk/node/32981
[2] Available here: http://www.londoncouncils.gov.uk/node/32984
[3] Available here: http://www.londoncouncils.gov.uk/node/32987

17. In addition to national and trade press coverage, the Chair also gave an interview to Sunday Politics London that was aired on 26 November.

Business rates pilot pool 2018-19

18. On 10 October, Leaders' Committee and the Mayor agreed in principle to pool business rates in a London pilot of 100% retention in 2018-19. Leaders' Committee delegated authority to the 5 elected officers of London Councils (the Chair, Deputy Chair, and three Vice Chairs) to take the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this. The elected officers discussed this in October and agreed a final distribution option to take forward with government, on 1 November following discussions via the party groups.

19. The Chair wrote to all Leaders on 10 November confirming the proposal that London Councils and the GLA would take forward to gain agreement with Government. This set out:
    - the pool principles;
    - the basis for distributing any net financial benefit (15% to reward growth; 35% to reflect population; 35% to reflect Settlement Funding Assessment; and 15% set aside for a "Strategic Investment Pot");
    - the preferred option for governance of the strategic investment pot; and
    - the expected evaluation process that government would undertake.

20. The Government formally announced in the Autumn Budget that the London pilot of 100% business rates retention in 2018-19 has been agreed. The terms of the 100% pilot have been agreed via a memorandum of understanding (MOU) between the Chair of London Councils, the Mayor, the Secretary of State and the Minister for London.

21. Now that the final proposal has been agreed, each authority will need to take its own decisions to support the creation of the pool and the framework for its operation by mid-January. The precise form of those decisions will depend on boroughs' own constitutions and delegation arrangements. In order to facilitate and support authorities in taking these decisions, advice on the legal framework and governance options for the pool has been circulated to Chief Executives and Finance Directors, along with other supporting material to help facilities those local decisions.

22. The preferred option for the pooling agreement will be an MOU between the 32 boroughs the City of London Corporation and the GLA, which will include the details regarding the establishment and operation of the pool, and will set out the governance principles and mechanism for the ongoing decisions about the pooled Strategic Investment Pot. At the time of drafting this was due to be circulated w/c 27 November, along with a wider pack of further supporting information.

<u>Next steps</u>

23. The timeline to make the pool operational is as follows:
    - Government publishing draft baseline figures in the provisional settlement (Mid-December).
    - Boroughs taking formal decisions to participate in the pool and the framework for its operation within 28 days of the Provisional Settlement (by mid-January 2018).
    - Final baselines published in final LGF Settlement (February 2018).
    - Pool goes live (April 1 2018).

Recommendations

24. Leaders' Committee is asked to note and discuss:
    - the key announcements in the Budget that relate to London local government; and
    - the progress of the London business rates pilot pool for 2018-19.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix A – Spring Budget 2017 – Member briefing

Autumn Budget 2017

On 22 November, the Chancellor of the Exchequer Philip Hammond delivered the first Autumn Budget of the new fiscal event cycle. As well as the usual updates on the performance of the economy and the state of the public finances, the Chancellor made a number of key policy announcements relating to local government. This briefing sets out the key details relevant for London Local government.

Overview

This is the first autumn budget of the new fiscal event cycle. The government will, however, continue to respond to the OBR's economic forecasts in the spring in a "Spring Statement" from March 2018.

At this stage, it is too early to confirm what the exact impact on local government will be and more detail is likely to emerge over time. The key headlines for London Local government are summarised below.

Key announcements

- **London business rates retention pilot** – the government has agreed a pilot of 100 per cent business rates retention in London in 2018/19.
- **Business Rates RPI to CPI indexation –** will happen in April 2018 (two years early) costing £770 million in those two years. Local government will be fully compensated, but it's not yet clear how.
- **Business rates revaluations –** will move to three yearly revaluations following the next revaluation, currently due in 2022. A consultation on implementation due in the spring.
- **Council Tax –** power to raise empty homes premium will be doubled from 50 per cent to 100 per cent from April 2018.
- **Housing investment** – an additional £15.3 billion of new investment will be made available to support the delivery of 300,000 additional homes by the mid-2020s nationally.
- **HRA borrowing cap** – will be lifted for areas in highest need, but not until 2019/20 and local authorities will have to bid for it (this will be limited to £1 billion nationally).
- **Grenfell Tower** - £28 million additional to RBKC to support victims including new mental health services, regeneration support for the Lancaster West estate, and a new community space.

- **NHS** – additional £2.8 billion will be made available in the next three years - £335 million immediately to help the NHS to increase capacity over winter.

Not mentioned in the Budget...

- **Adult Social Care** - The adult social care green paper has been pushed back until the summer of 2018 (as announced last week).

- **Fire Safety** - there was no commitment to fund the additional fire safety costs – simply reiteration that councils should contact DCLG if they cannot afford to undertake essential work.

- **Children's Services** – there was nothing to address the growing crisis in children's social care or high needs funding.

Economic Outlook

- Persistently low productivity growth is expected to hold down growth throughout the forecast period and, instead of returning to the pre-recession trend, OBR now assumes that productivity growth will remain significantly below historic levels for the foreseeable future.

- Alongside the Budget, the independent Office for Budget Responsibility (OBR) publishes updated economic forecasts and an assessment of progress towards the government's fiscal targets. The government remains on track to meet three of its four fiscal targets: bringing the structural deficit below 2 per cent in 2020/21 ('fiscal target'), ensuring debt falls as a percentage of GDP by 2020/21 ('supplementary target') and keeping welfare spend below its cash limit ('welfare cap'). The OBR expects the government to miss its fourth target of balancing the budget by the middle of the next decade ('fiscal objective').

Key Economic and Fiscal Indicators

- The OBR summarises the change in fiscal outlook since the Spring Budget as "a better fiscal position now, but weaker prospects looking forward". Estimated 2016/17 public sector net borrowing has been revised downwards from £51.7 billion in the Spring Budget to £45.7 billion in the latest forecast. Despite a stronger than expected immediate fiscal position, borrowing is then not expected to fall as quickly as previously forecast over the medium-term. Public sector net borrowing is now forecast to fall to £30.1 billion by 2021/22, £13.3 billion higher than forecast at the Spring Budget.

- Revisions to borrowing forecasts have primarily been caused by a "significant near-term fiscal giveaway" in the Budget along with downwards revisions to growth forecasts.

- Inflation forecasts have been revised upwards in 2017, with inflation now expected to peak at 2.7 per cent rather than 2.3 per cent as forecast at the Spring Budget. While inflation has been pushed above target in the short-term following the depreciation of the pound, the OBR expects CPI inflation to fall back below the inflation target of 2 per cent by 2019.

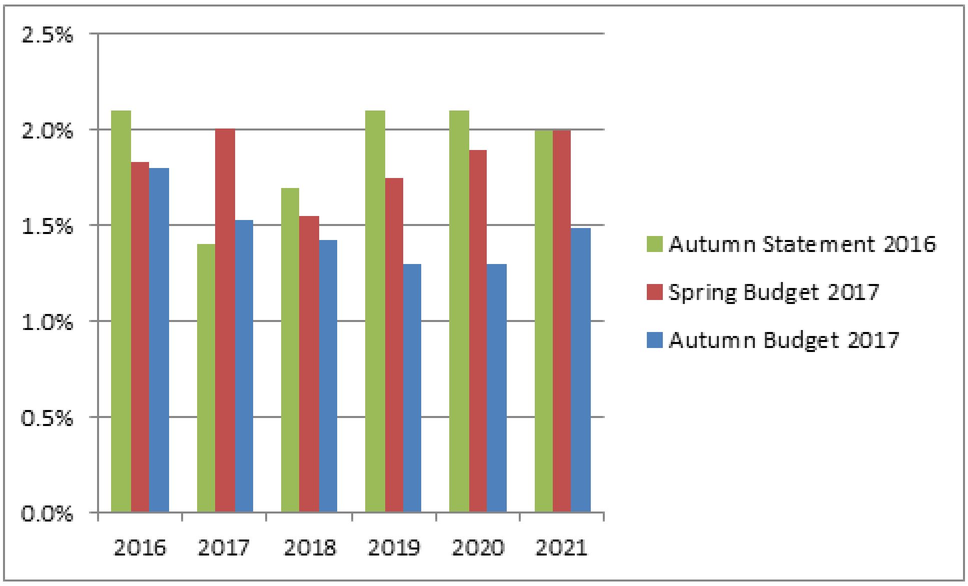
Table 1 - Key Economic and Fiscal Indicators

	2016	2017	2018	2019	2020	2021	2022
Gross domestic product (GDP) growth (%)	1.8	1.5	1.4	1.3	1.3	1.5	1.6
Public sector net borrowing (£bn)	45.7	49.9	39.5	34.7	32.8	30.1	25.6
Public sector net borrowing (deficit % of GDP)	2.3	2.4	1.9	1.6	1.5	1.3	1.1
Public sector net debt (%)	85.8	86.5	86.4	86.1	83.1	79.3	79.1
LFS unemployment (% rate)	4.9	4.4	4.3	4.4	4.6	4.6	4.6
Employment (millions)	31.7	32.1	32.3	32.4	32.5	32.6	32.7
CPI Inflation (%)	0.7	2.7	2.4	1.9	2.0	2.0	2.0

Growth

- Chart 1 shows the downwards revisions to growth forecasts since the Spring Budget, causing a weaker medium-term fiscal outlook for government debt and the deficit.

Chart 1 - Change in GDP growth forecasts since Autumn Statement 2016



Key announcements

Efficiency Review

- The government has decided not to proceed with the remaining £1.1 billion reduction in spending in that had been planned for 2019/20 as part of its Efficiency Review to save £3.5 billion over the Spending Review period (announced at Budget 2016).

London Devolution

- **100 per cent Business Rates Retention** - The government has agreed a pilot of 100 per cent business rates retention in London in 2018/19. The Greater London Authority (GLA) and London boroughs will come together to form a pool and invest revenue growth strategically on a pan- London basis.

- **London Health and Social Care Devolution** – Although not referenced in the budget speech or the Treasury's red book, the long awaited Memorandum of Understanding between London and national partners was published on 16th November. It sets out a framework for achieving greater collaborative working between all partners, and enabling the London system to exercise greater influence over health and care in the Capital. To read the MOU click here.

Business Rates

- **Indexation** – The planned switch from RPI to CPI inflation will be brought forward to April 2018 (two years earlier than planned).This will cost £2.3 billion over five years nationally (£770 million in the first tow years. Local government will be "fully compensated" for the loss of income. It is assumed that this will be funded by section 31 grant, but this is yet to be confirmed.

- **Reliefs** – The £1,000 business rates discount for public houses will be extended by one year to March 2019 – again this will be fully funded.

- **Revaluations** – The frequency of revaluations will move to three years following the next revaluation, currently due in 2022. A consultation on implementation is due in the spring.

Council tax

- **Empty homes premium** – Local authorities will be able to increase the council tax premium from 50 per cent to 100 per cent.

Housing

An additional £15.3 billion of new financial support will be made available creating a total of at least £44 billion of capital funding over the next five years (including grant, loans and guarantees) to support the target of 300,000 net additional homes per year by mid-2020s. Initiatives include:

- Local authorities in areas of high demand - details to be confirmed - will be invited to bid for increases in their HRA borrowing caps from 2019/20, up to a total of £1 billion by the end of 2021/22.

- The Budget confirms the extra £2 billion promised by the Prime Minister in October for the Affordable Homes Programme.

- An additional £1.5 billion will be put forward for the Home Building Fund to support SME builders.

- £630 million small sites fund to unlock 40,000 homes through investment in infrastructure and remediation.

- £2.7 billion to more than double the Housing Infrastructure Fund.

- £400 million of loan funding will be made available for estate regeneration.

- £1.1 billion for a new Land Assembly Fund to help unlock strategic sites – including new settlement and urban regeneration.

- Government will explore options with industry to create £8 billion of new financial guarantees for house builders and purpose built PRS.

- £34 million to develop construction skills by scaling up existing training models.

- The HCA will expand to become Homes England – bringing together money, expertise and planning and CPO powers to facilitate the delivery of new homes where they are needed.

<u>Local Housing Allowance</u>

- Government will increase the Targeted Affordability Fund by £125 million (£40 million in 2018/19 and £85 million in 2019/20) in areas of greatest pressure.

<u>Right to Buy</u>

- Government will proceed with a £200 million largescale regional pilot of the Right to Buy for housing association tenants in the Midlands.

<u>Homelessness</u>

- Government will provide £20 million of funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector.

- The government will launch a new taskforce to advise it on its target to halve rough sleeping by 2022 and eradicate it by 2027.

- £28 million for three new housing first pilots in Manchester, West Midlands and Liverpool.

Grenfell Tower fire response

- RB Kensington and Chelsea will receive a further £28 million for work around mental health and counselling, regeneration and community space.
- Local authorities and housing association must undertake essential fire safety works. Councils should contact DCLG if they cannot afford to undertake essential work.

Planning

- Government will consult on policies to increase density in urban areas, including:
  - *Minimum densities for housing development in city centres and around transport hubs.*
  - *Greater support for the use of compulsory purchase powers for site assembly.*
  - *Support the conversion of empty space above high street shops.*
  - *Making it easier to convert retail and employment land into housing.*
  - *A permitted development right to allow commercial buildings to be demolished and replaced with homes.*
- On delivery, a consultation will be launched on:
  - *Expecting local authorities to bring forward 20 per cent of their housing supply as small sites.*
  - *Speeding up the development process by removing the exemptions from the deemed discharge rules.*
- **Planning permission** - Oliver Letwin MP will chair a review of unbuilt planning permission and if there is evidence of land banking then government will intervene through CPO and direct intervention.
- **Section 106** - Restrictions on pooling Section 106 funds will be removed in certain circumstances where a local authority has adopted the Community Infrastructure Levy (CIL).
- **CIL** – levels will be indexed to house price inflation rather than build costs. It will become easier to set and revise CIL levels to help react to changing market circumstances. Councils will also be able set different rates for properties changing between land uses.

Health and Social Care

- **NHS Funding** – the government will provide £2.8 billion of additional funding in England to 2020. £335 million of this will be provided over the coming winter, £1.6 billion in 2018/19, and £900 million in 2019/20.
- **Disabled Facilities Grant** – The government will provide an additional £42 million for the Disabled Facilities Grant in 2017/18, bringing the total budget for this year to £473 million.
- **Qualifying Care Relief** – the government will extend the qualifying care relief simplifications to cover self-funded Shared Lives care payments.
- **Banking fines** – the government will allocate over £5 million in banking fines to Scotland, Wales, and Northern Ireland, to support projects around mental health for veterans of combat, support for injured police officers, and other similar schemes.
- **Mental Health** – A green paper will be published in December, outlining plans to promote parity of esteem between mental and physical health conditions. The budget commits £28 million to those affected by the Grenfell Tower tragedy, including funding of mental health services, regeneration support, and a new community space.

- **Sustainability and Transformation Partnerships** - £2.6 billion of the £3.5 billion of new capital funding for the NHS in England will be for local groups of NHS organisations to deliver transformation schemes that improve their ability to meet demand for local services.

- **Adult social care Green Paper** – This was not mentioned in the budget, and is now expected to be published in summer 2018.

Industrial Strategy, Transport and infrastructure

- **National Productivity Investment Fund** - The Budget increases the size of the National Productivity Investment Fund (NPIF) from £23 billion to £31 billion and extends it into 2022/23. This money is targeted at areas crucial for productivity: housing, transport, R&D and digital communications.

- **Crossrail 2** – The government will continue to work with Transport for London on developing fair and affordable plans for Crossrail 2, including through an independent review of funding and financing.

- **Air quality** – The government will provide £220 million for a new Clean Air Fund and is launching a consultation alongside Budget on options that could be supported by it.

- **Upgrading infrastructure** – the Budget announces a £1.7 billion Transforming Cities Fund to improve local transport connections and commits £385 million to projects to develop next generation 5G mobile and full-fibre broadband networks, both funded from the NPIF.

- **Local full-fibre networks** – Full-fibre is the gold standard for fast and reliable broadband. The government is launching a new £190 million Challenge Fund that local areas around the country will bid for to encourage faster rollout of full-fibre networks by industry. Children in 100 schools around the country will be some of the first to benefit, starting with a pilot in the East Midlands in early 2018.

- **Pothole fund** – The government is investing an additional £45 million in 2017/18 to tackle around 900,000 potholes across England.

- **Skills** - The Budget invests an additional £406 million in maths and technical education, and in helping people develop the skills they need to succeed in the new economy. The Lifelong learning initiatives include £8.5 million over the next two years to support Unionlearn, an organisation of the Trades Union Congress to boost learning in the workplace, and £30 million to test the use of AI and innovative EdTech in online digital skills courses.

- **Digital rail upgrade** - The government is allocating a further £5 million from the NPIF for development funding for a digital railway upgrade on the South East and East London Lines, and will also fund a digital signalling scheme at Moorgate.

Schools

- **Mathematics** - Additional support will be provided to support maths teaching, including £18 million to support specialist maths schools and £27 million to expand the Teaching for Mastery maths program. Schools will also receive an additional £600 for every pupil that takes Mathematics or Further Mathematics A-level.

- **Computer science** - £84 million will be provided to upskill 8,000 computer science teachers and £20 million will be provided to support the introduction of T-levels.

Welfare

- **Universal Credit** – from January 2018 eligible claimants will be able to access up to a month's worth of Universal Credit within five days as an advance. The period of recovery will extend from six to 12 months. From February 2018 the government will remove the seven day waiting period, and from April 2018 claimants on Housing Benefit will continue to receive this for the first two weeks of their Universal Credit claim. Roll out will be more gradual, with all jobcentres implementing Universal Credit by December 2018. £8 million will be allocated to trialling approaches to increase earnings of individuals on Universal Credit.

- **State Pension and Pension Credit** – the basic and full State Pension will both rise by 3 per cent in April 2018, with the Standard Minimum Guarantee also uprated. This is funded by an increase in the Savings Credit threshold.

Public Sector Productivity

- **Public Value Framework** – the government accepts the recommendation of the Barber review, to implement a public value framework tool to measure the effect of public spending.

- **GovTech** – the government will commit £20 million over three years of R&D funding to support procurement of innovative products. In parallel, the government will create "GovTech Catalyst", a small unit in the digital service to give businesses a clear access point to government.

- **Strategy** – the government will continue workforce planning, management, and monitoring, and conduct a review of its balance sheet to make better use of its £1.7 trillion in assets and £3.7 trillion in liabilities. The government will also create a Public Service Leadership Academy to share best practice in leadership across public services.

- **Public Sector Pay** – the relevant Secretaries of State will be writing to the various Pay Review Bodies to initiate the 2018/19 pay round, call for evidence on each profession, and await the PRB recommendations in the spring.

Commentary

The second budget of the year provided few welcome announcements for London local government, and was more significant for what it didn't say than what it did. Although the Chancellor confirmed the government is not going to make the remaining £1.1 billion cuts to departmental budgets in 2019/20 that had been planned, the cuts imposed by the last Spending Review and the four year settlement that followed remain in place. As a result, London boroughs will still have to find savings of £1.6 billion between now and 2020.

To some extent the Chancellor's hands were tied by the lower than previously forecast growth and productivity forecasts which, together with the continued commitment towards deficit reduction, meant the outlook for local government funding remains bleak.

Housing measures dominated the Budget, with the main headline committing government to raise housing supply by 300,000 per annum by the mid-2020s. The last time this level of building was reached was in 1977, when local authorities built 44 per cent of that total. If the government wants to achieve this target it must remove the constraints placed on local government and allow it to make a meaningful contribution to the target.

One such constraint is the Housing Revenue Account borrowing cap, which London Councils has consistently lobbied to be removed. The announcement that the cap will be lifted for some local authorities, while welcome, is limited by the fact that it won't happen until 2019/20 and, not all councils will benefit as they will have to bid to increase borrowing which will be limited to £1 billion across all councils.

On the issue of post-Grenfell remedial work, London Councils estimates the cost across just 21 councils (not including RBKC) is likely to exceed £400 million, including £53 million of immediate remedial work in 2017/18. It was therefore disappointing that the Budget did not confirm additional central funding for these remedial works, but simply repeated the call for councils to contact DCLG if they could not afford "essential" works. In order to meet these additional costs, funds will be redirected away from investment to increase local housing supply and maintain their existing housing stock.

The Empty Homes Premium is a welcome addition to local authorities' abilities to tackle empty homes but is arguable whether it will be strong enough deterrent for many property owners who are keeping their properties empty. While the additional £2 billion confirmed for the Affordable Homes Fund shows that government wants councils to play a role in housebuilding, London's share of the pot will not meet the 72,000 new homes the government says are needed in the capital each year.

Particularly notable by their absence were any measures to address the funding crises in adult social care and children's services that London Councils has consistently highlighted in our lobbying. On the former, the green paper previously promised for this autumn has been pushed back until summer 2018. More ominously, there was no indication that the government recognises the impending crises in children's social care funding and high needs funding for children with special educational needs. London boroughs overspent by around £100 million in children's social care last year; together with a similar scale of shortfall in high needs funding in London. This will increase pressure on children's services departments. This pressure will become unsustainable if left unaddressed.

With regard to local government funding there were some significant announcement relating to business rates. The switch from RPI to CPI indexation of business rates two years earlier than planned, from April 2018, is concerning. While the government has said that this will be compensated for, it has not yet clarified how. This demonstrates the wider exposure of local authority budget planning to central decision making. In the longer term, as we have previously highlighted, this seemingly small change will reduce local government income by a cumulative £80 billion over 20 years. It demonstrates why full devolution of business rates – power to set, collect and distribute the tax – to local government is necessary to ensure financial sustainability over the long term.

In this respect, the confirmation of the 100 per cent business rates retention pilot in London in 2018/19, which it is estimated could deliver an additional £240 million of financial benefit to London Government next year, is a small but welcome step towards greater local control of the taxes that are raised in the capital. While a long way short of the fiscal devolution envisaged by the London Finance Commission, it will not only provide short term financial benefits, it will strengthen the governance and decision making arrangements between the two tiers of government in London that will produce broader strategic benefits over the longer term.

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Links:

Autumn Budget 2017 (GOV.UK)

This member briefing has been circulated to:

Portfolio holders and those members who requested policy briefings in the following categories: Local Government Finance