Spending Review 2015

London Councils' Submission to HM Treasury

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LONDON COUNCILS

Introduction

London Councils represents London's 32 boroughs and the City of London. We believe local government is best placed to respond to the needs of its local residents and can help deliver the government's overall aims of deficit reduction, raising productivity and economic growth.

The Spending Review (SR15) will set the parameters of the public finances and related changes to public service delivery for the period 2016-17 to 2019-20. The past five years have seen unprecedented funding cuts to the sector: a trend likely to be repeated with austerity set to continue as the government aims to deliver a budget surplus by 2020. If services are to be maintained in a period of growing demand and spending restraint, an alternative approach to the status quo is essential.

The Spending Review represents a pivotal moment for the government to redefine its relationship with local government. London Councils welcomes the government's commitment to take English devolution a "big step further" in the Spending Review. London already has a unique set of governance arrangements and its unique set of public service challenges, delivering services to a complex and rapidly growing population whilst enhancing its role as the driver of economic growth for the rest of the UK, means that devolution in the capital must be necessarily different from elsewhere.

London Councils, together with the Mayor of London, is submitting a separate document *The London Proposition* alongside this submission which outlines our joint proposals around devolution and public service reform.

This submission focuses on the broader question of where government spending priorities should lie for the next four years. It is important that the pressures caused by population growth in London and new burdens relating to new government policies are recognised in the Spending Review. Reform of the finance system should also be a priority to give councils a stable platform to maintain public services, raise productivity and drive economic growth during a period of continued spending reductions.

Chapter 1 looks at London's unique circumstances with regard to:
- its contribution to the wider UK economy;
- the scale of the financial challenge facing London local government; and
- the disproportionate growth in demand for public services in London.

Chapter 2 outlines how these particular pressures manifest themselves in specific services in London, and what the government must do to ease this pressure.

Chapter 3 sets out the three overarching solutions needed to maintain and improve public service delivery across London:
- devolving power and responsibilities to drive public service reform;
- reforming the local government financial system; and
- exploring long term fiscal devolution for London government.

Chapter 1
London's unique position

London is different to the rest of the UK. It drives economic growth across the country, is more populous than Scotland and Wales combined, and has some of the most complex social problems that come with being Europe's largest and most diverse city. It is a place of great contrasts, with some of the most deprived areas of the country sitting alongside the most affluent.

This chapter explains how London is unique in terms of its contribution to the economy; its disproportionate funding pressures; and exponential growth in service demand.

London's contribution to the UK economy

London's role as a financial and business centre has helped it lead the economic recovery. It is a centre for high productivity growth industries, such as professional and financial services, and the information and communications sector. Over the past decade more than three quarters of a million private sector jobs have been created in London, which continues to outperform the rest of the UK with jobs increasing by 2.9 per cent over the last year, compared with a 1.9 per cent increase for the UK overall[1]. Despite having 13 per cent of the population, London now accounts for 22 per cent of the UK's total GVA[2], and a fifth of all UK businesses are located in the capital[3].

London also drives economic growth across the whole country. Businesses headquartered in London account for between 5 and 22 per cent of employment in each of the other 62 cities in the UK. If London maintains its historic growth rate, the GVA of the 14 other largest metro regions will be almost £1 trillion higher by 2030 than in 2013 as a result[4]. In 2013-14 it generated £127 billion of taxation for the Treasury (21 per cent of the UK total)[5], with £93 billion spent of public services this represents a net fiscal contribution to the economy of £34 billion; up from £11 billion during the economic recession in 2009-10.

London Councils agrees with the government's view that: "re-balancing the economy means building up every part of the country. London's growth supports the growth of the whole UK"[6]. Arguments in favour of re-balancing the economy by enhancing one area at the expense of others are misleading. Economic growth is not a zero sum game. Rather, London must be given the tools to unlock even greater growth for the rest of the country.

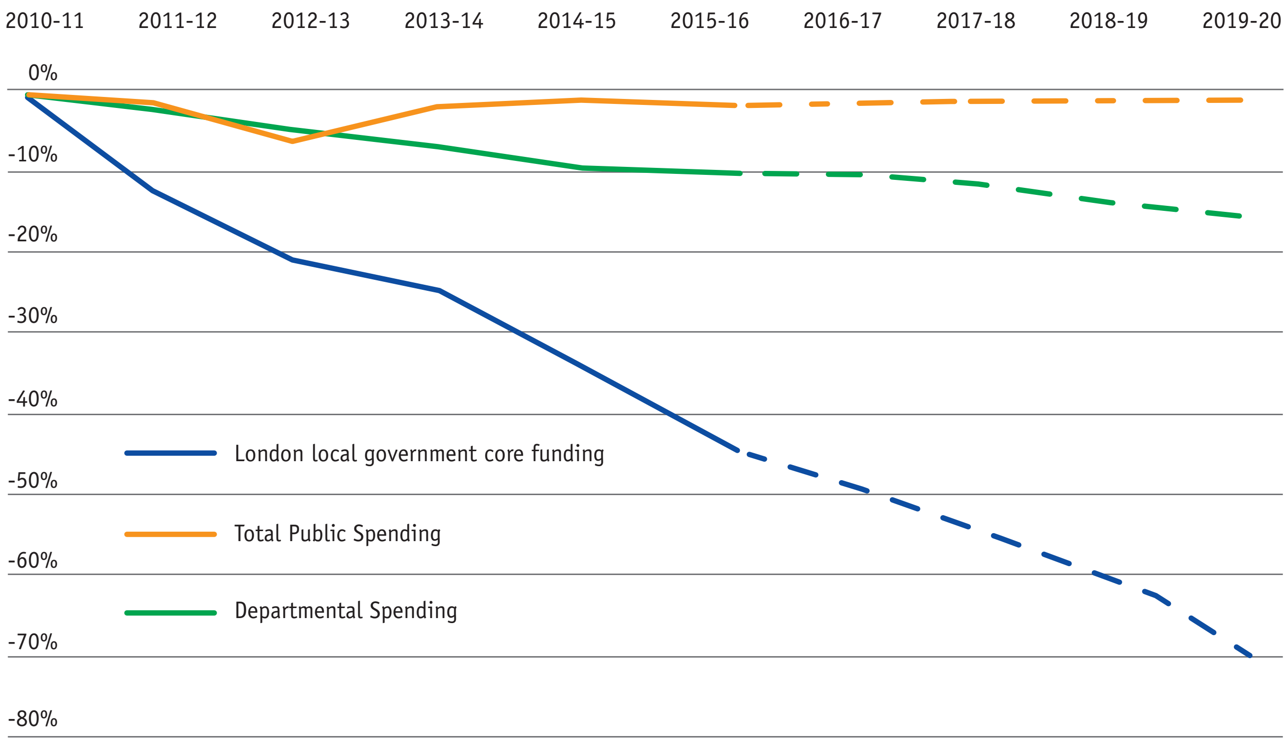
The financial outlook

Over the last two spending reviews local government has seen larger proportionate spending cuts than any comparable part of the public sector. The 28 per cent real terms cut at SR 2010 (covering 2011-12 to 2014-15) was closer to 35 per cent once additional cost shunts, such as council tax support localisation, are taken into account. Again, SR 2013 saw 10 per cent real terms cut in 2015-16 to the DCLG local government resource budget, leading to a 15 per cent cut to core local government funding, while other departments were cut by just 3 per cent.

1 GLA, London Datastore and dashboard June 2015 update: http://data.london.gov.uk/?utm_campaign=Data-Dash-june+2015&utm_source=emailCampaign&utm_medium=email&utm_content=
2 https://www.london.gov.uk/priorities/business-economy/publications/gla-economics/regional-sub-regional-and-local-gross-value-added-estimates-for
3 Centre for Cities, Cities Outlook 2015 (2015)
4 Centre for Cities (2014), Cities Outlook 2014, pp.20-21
5 City of London Corporation, "London's Finance And Revenues" 2014 https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/London's-Finances-and-Revenues.aspx
6 Summer Budget, 2015

Between 2011-12 and 2015-16, London local government has received a disproportionate cut to core funding of 44 per cent in real terms on a like-for-like basis[7]; slightly worse than 43 per cent for the rest of England. Over the same period, departmental spending has reduced by 10 per cent and total public spending by just 2 per cent (see Chart 1 below).

Chart 1 – **Estimated real terms changes (%) to public spending – 2010-11 to 2019-20**



Note: Core funding estimates based on modelling of 40 per cent real terms cut to DCLG departmental budget

Source: DCLG, Local Government Finance Settlements 2010-11 to 2015-16; London Councils' modelling and OBR projections for 2016-17 to 2019-20.

Government funding for the sector is likely continue to reduce beyond 2015-16 at a similar rate to that experienced since 2010-11. The Chancellor's Spending Review announcement[8] confirmed protections would continue for the NHS, schools, and international development budgets, and that the Ministry of Defence would receive a new ringfence (as announced in the Summer Budget 2015). Non-ringfenced departments have been asked to draw up plans for 25-40 per cent real terms cuts (16-33 per cent in cash terms).

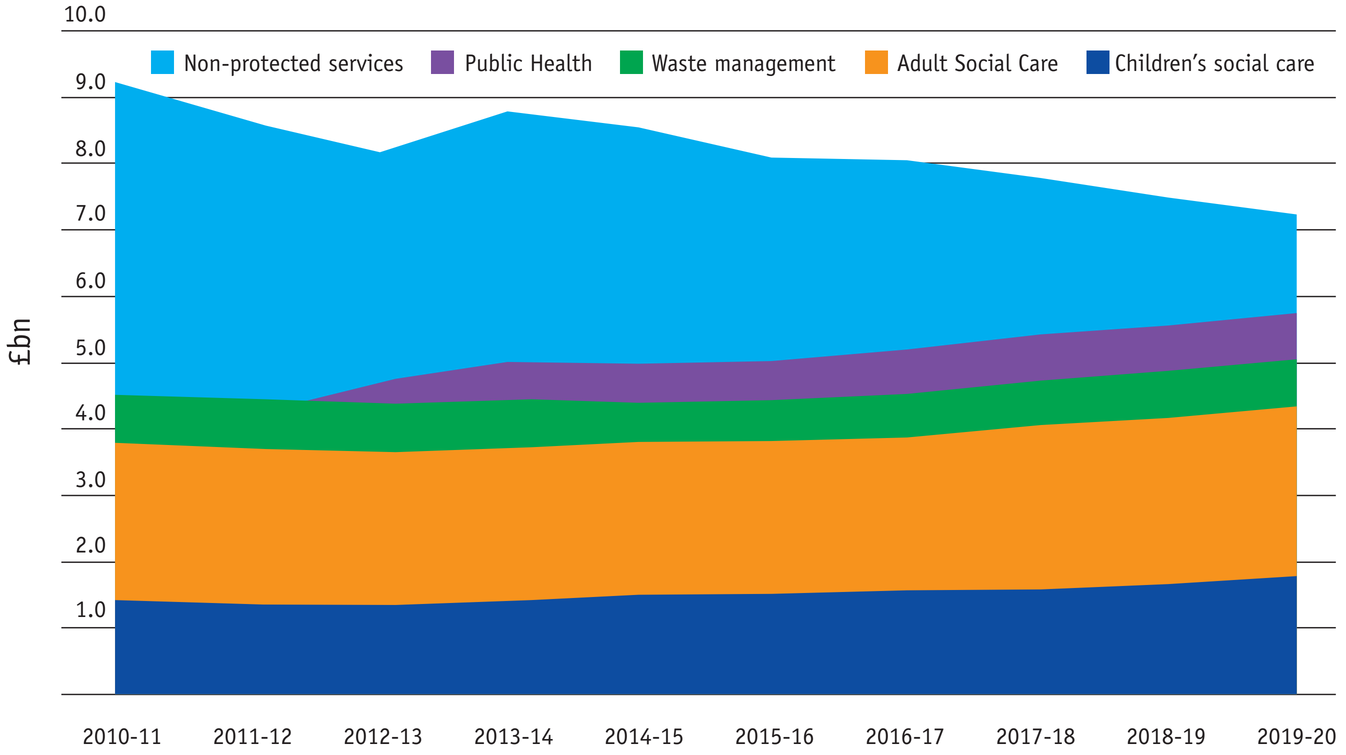
If the treatment of local government funding over the last two spending reviews is repeated, it is likely that the cuts to DCLG budgets will be closer to 40 per cent. This would result in an estimated further reduction to core funding from central government of around 44 per cent in real terms by 2019-20 meaning a 70 per cent reduction over the decade to 2019-20 (see Chart 1 above).

If current rates of growth in demand and inflation continue, unprecedented cuts on this scale could lead to a funding gap in London of over £3 billion (31 per cent) by 2019-20, and that includes larger assumptions about increases in council tax and business rates[9]. The equivalent figure for England is 25 per cent.

7 Core funding is defined here as Formula Grant from 2010-11 to 2012-13, and Settlement Funding Assessment from 2013-14 onwards. Like for like means outturn figures are compared with adjusted figures for the previous year – as presented in each local government finance settlement.
8 https://www.gov.uk/government/news/spending-review-launched-by-chancellor
9 Council tax base and rates assumed to increase by 1.5% per annum from 2016-17 in line with historic trends, and business rates assumed to grow by 1% per annum across the period.

Over this period, if the principal statutory responsibilities of local government – namely, adult and children's social care, public health and waste management – were fully funded, they could account for almost 80 per cent of all local government revenue expenditure in London (£5.7 billion of £7.3 billion). Spending on non-protected services would need to be squeezed by as much as 58 per cent by 2019-20. Under these circumstances the sustainability of the current levels of non-statutory services would not be possible.

Chart 2 – **Projected expenditure on services – 2010-2020 London local government**



Source: DCLG RO and RA data, 2010-11 to 2014-15; London Councils modelling 2015-16 to 2019-20

Exponential growth in demand for services

Population growth presents London with unique challenges. Around 60 per cent of the estimated funding gap is due to rising demand for services caused in large part by the impact of demographic change.

The latest projections estimate London's population will rise from 8.6 million in 2015 to 9.1 million by 2020 (an increase of 6.4 per cent). This is more than twice the anticipated rate of increase for the rest of England (3.1 per cent) over the same period. London's growth will account for 28 per cent of all population growth in England over that period.

Table 1, over page, shows there is a similar trend in the demographic cohorts that most drive demand for key local government services. It shows above average growth in every category compared with the rest of England. London's larger relative working age population means that growth in adults aged 18-64 will have a particularly disproportionate impact in London (accounting for over 60 per cent of the national growth in that demographic) compared with other areas.

Table 1 – **Percentage change 2015-2020: London v England – key demographic**

	Estimated % growth 2015 to 2020			London's % share of England growth between 2015 and 2020
	London	Rest of England	England	
Total population	6.4%	3.1%	3.6%	28.0%
0-18 population	7.7%	4.4%	4.5%	28.3%
18-64 population	5.3%	0.7%	1.5%	60.5%
18-64 popn with learning disability	5.3%	1.4%	1.5%	60.9%
18-64 popn with physical disability	8.0%	3.7%	3.7%	32.9%
18-64 popn with mental health condition	5.2%	1.4%	1.5%	61.1%
65+ population	9.6%	9.5%	9.6%	10.2%

Sources: Office for National Statistics - Sub-national Population Projections; Institute of Public Care/Oxford Brookes University – Projecting Adult Needs and Service Information (PANSI) figures

Within London, in relative terms, the larger than average growth in the 0-18 and the over 65 population will place noticeably bigger demands on local government to deliver children's services and schools places, as well as health and adult social care for the elderly. Of course, the overall population growth will worsen the housing crisis London is facing.

As local services face an overall increase in demand, they are also being accessed by local populations with increasingly complex needs. London continues to be the most ethnically diverse region in the country with more than a third of residents born outside the UK, and the highest proportion of households where English is not the first language (26 per cent). Its population is also more transient and mobile than the rest of England, meaning boroughs are serving populations with increasingly complex needs.

The complexity is exacerbated by the considerable demands put on London local public services by short-term migrants and day-time populations. The latter includes overseas, domestic and day trip visitors as well as the substantial number of people who spend their working week in London, often renting or owning second homes. For example, the population of some boroughs can triple or even quadruple each day compared to the resident population figures[10].

London Councils remains concerned that these metrics are not adequately reflected in the current funding distribution methodologies and urges government to take into account these additional costs of delivering services in London.

Summary

London's economy, financial outlook and scale of growth in service demand differ from the rest of the country. Specific and different types of public service reform are therefore needed to meet London's unique public service challenges. Funding formulae for services must also reflect these unique circumstances, and different types of self-funding mechanisms are relevant for London that might not be appropriate elsewhere.

10 See GLA projections of daytime population: http://data.london.gov.uk/datastore/package/daytime-population-borough

Chapter 2
The impact of funding reductions and growing demand on services

London's unique circumstances mean that pressure on services manifests itself differently compared with other areas. This chapter outlines the biggest pressures affecting London local government that must be addressed by government at SR15.

Adult Social Care

Fair funding for Adult Social Care

The funding challenge in adult social care is one of the biggest facing London local government over the Spending Review period. Over a quarter of London boroughs' non-schools revenue expenditure (around £2.2 billion) will be spent on this service in 2015-16. Recognising the critical impact this can have on people's lives, boroughs have sought to protect adult social care as much as possible since 2011-12 despite overall core funding falling by 44 per cent in real terms. However, there is growing evidence that the limit of what is possible, in terms of both productivity and efficiencies, has now been reached.

At the same time, demand for adult social care continues to increase. An additional 10,000 contacts were made with adult social care in London in 2013-14; a 4 per cent increase on the previous year. As shown in Table 1, demographic changes will drive significant increases in demand in the capital by 2019-20. These are further compounded by the higher costs of care in London than other regions.

Demographic pressure and inflation, combined with the anticipated funding cuts, will create a potential funding gap in adult social care of over £700 million in London by 2020. We ask that these pressures are fully funded by government at the Spending Review.

This is exacerbated by a range of new responsibilities and duties resulting from government policy or legal decisions, which are not yet fully funded. These include:

- **The Care Act 2014** - The first part of the Care Act (which came into effect in April 2015) generated new burdens on local authorities. As these are direct adult social care costs, London Councils believes funding for this new burden should be provided directly to local authorities rather than being conflated in wider Better Care Fund budgets.

- **Deprivation of Liberty Safeguarding (DoLS)** - The Cheshire West Supreme Court judgement of March 2014 increased the number DoLS applications London boroughs dealt with in 2014-15 to 12,294 from just 1,009 in 2013-14. This new burden creates an additional cost of over £10 million per annum across London and should be funded by government at SR15.

- **Increased workforce costs** - London Councils welcomes the introduction of a National Living Wage announced at the Summer Budget 2015, but this will have significant financial implications for adult social care given a high proportion of costs are driven by workforce costs. In London, we estimate costs will increase by at least £170 million per annum by 2020 putting further strain on boroughs' adult social care costs. Councils have taken active steps in recent years to bear down on provider costs, but the 2015 ADASS Budget Survey has shown that we have reached the limits of this and that the care and support market and workforce are increasingly fragile. This new policy will disproportionately impact on local government, which employs, or contracts for, a large proportion of people at the lower end of the income spectrum. In addition, proposals to ensure that the travelling time for the social care workforce is reduced are welcome; however, this will have additional cost implications for the sector. London Councils believes these policies should be fully funded in line with the new burdens doctrine.

- **Pension changes** – Councils have made significant progress in increasing the personalisation of adult social care, but recent changes to pensions rules mean that people who hire personal assistants with their personal budget direct payments now have to contribute to their pensions. London Councils estimates this will add over £13 million per annumto the costs of adult social care in London by 2019-20.

The above changes will place at least £180 million of additional financial pressure on an already creaking system, bringing the overall social care funding gap to over £900 million by 2020. London Councils urges the government to fully assess and fully fund social care in the Spending Review.

The future viability of adult social care must be addressed through the local government settlement in this Spending Review. The distorted accounting in financial settlements we have seen in recent years, including double-counting of funding transfers from the NHS and mislabelling of Better Care Fund funding, cannot continue.

London Councils believes that funding that had been earmarked to contribute to addressing new burdens arising from those parts of the Care Act that have been delayed, must now be reallocated to contribute to addressing the funding gap in the current system.

We are also concerned that this delay should not mean that the challenges faced by those who are ineligible for local authority support can be ignored until 2020. **The government should, therefore, secure progress in the development of a national market in insurance and financial products to enable people to plan and prepare for their future care needs, and raise public awareness of the need for this.**

Integrating Health and Social Care

London boroughs and their NHS partners have been seeking to integrate health and social care services for many years to secure joined-up services, tailored around people's needs and choices and to make better use of funding across services. The Better Care Fund has accelerated the pace and scale of integration through pooling budgets (at least £590 million in 2015-16) and aligning or jointly commissioning services. However, the NHS in London is also facing £6.4 billion cost pressures by 2020. So, while integration will have to drive more efficient use of funding overall, it will not be a simple panacea. Wider reform of health and care will also be needed.

London Councils welcomed the commitment in the government manifesto to continue to integrate health and care through the Better Care Fund. **We believe the goal should be for full integration of health and care in the lifetime of this Parliament and that extensive, if not wholescale, pooling of budgets and joint commissioning will be key to achieving this.**

This must be driven by local partners in ways that reflect their local circumstances if we are to secure greater personalisation and overall improvements in health and wellbeing. **We want government to set out a framework to incentivise full integration as part of SR15, which should require all local areas to produce a road map of how they will move towards full integration within the life of this parliament, as part of their BCF plan submission**[11].

Within this framework we believe that:

- **prevention and early intervention should be mandatory components of every plan;**
- **alignment between commissioner and provider plans should be strengthened;**
- **a proportion of the additional £8 billion funding for the NHS should be committed directly into pooled budgets to support the transformation of out of hospital services;**

11 Further details of what this framework should include are set out London Councils' BCF 2016/17 core design principles publication: http://www.londoncouncils.gov.uk/download/file/fid/15777

- **bureaucracy should be substantially reduced; and**
- **nationally mandated payment for performance targets should be ended, in favour of locally agreed risk sharing deals.**

Integration is a key component of the wider reform that will be required both to improve health and wellbeing outcomes and address the sustainability of both systems. The London Proposition inlcudes more detail about a model for securing reform of health and care in London throughout the next parliament.

Similar principles could apply to the integration of children's social care and health services, which the government should also consider over the course of the parliament.

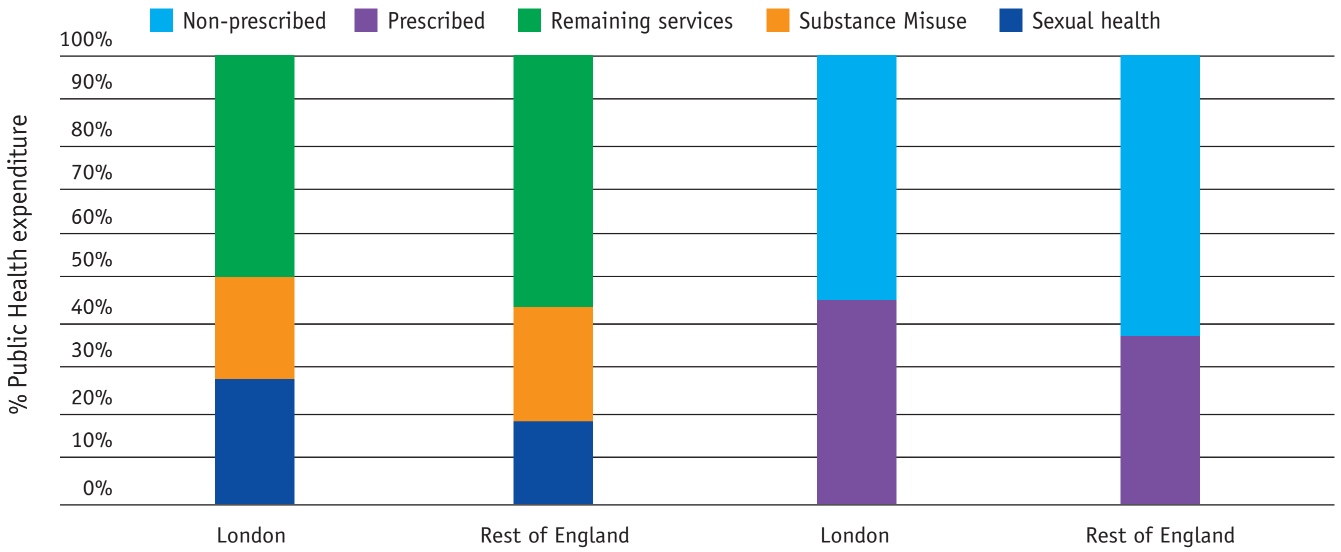
Public Health

Fair funding for local government public health

London has a unique set of public health pressures because of its complex demography and relatively high levels of deprivation and need. However, the allocations that supported the original transfer of Public Health in 2013, and those for the 0-5 years transfer, have largely been based on historical prioritisation decisions by Primary Care Trusts, resulting in a wide range of per head allocations (ranging from £39 to £145 per head[12]). London Councils has repeatedly made the case that the allocations do not properly reflect the capital's population characteristics and health needs.

Failing to fund public health appropriately will have significant repercussions on progress in increasing prevention and early intervention as part of wider health and care reform. In London, this risk is even more acute than in other parts of the country because a greater proportion of funding is required for prescribed services than in the rest of the country (45 per cent compared with just 37 per cent in 2015-16). In particular, London also has a comparatively high level of expenditure in sexual health and substance misuse, which together account for 51 per cent of total expenditure in 2015-16, compared with 44 per cent across the rest of England (see Chart 3). If funding levels are reduced, therefore, spending on the services other than those described above will be cut disproportionately in London.

Chart 3 – **Budgeted Public Health expenditure (%) by type of service – London & England 2015-16**



Source: DCLG, RA budget returns 2015-16

12 Excluding the City of London which, due to its small resident population, is an outlier (£212/capita)

There is a clear inconsistency in the government's treatment of the wider NHS budget and the local government public health budget, despite the latter being used to commission NHS providers and services. Unlike NHS funding, which benefited from a small increase in 2015-16, local authorities' public health funding was frozen at 2014-15 levels and will be further eroded by £200 million of in-year cuts. If these proceed, treating public health funding differently to wider NHS funding, simply because it has moved across to local government, is both unfair and short-sighted.

A significant proportion of public health funding is spent on NHS services, so in practice this risks driving NHS cuts by the back door. For example, the majority of the annual £150 million spent on health visiting in London is through contracts with large specialised NHS Trusts. This includes spending on 1,800 Health Visitors.

London Councils calls on the government to:

- **cancel the £200 million public health funding cut in 2015-16 and, failing that, reinstate the £200 million funding into the 2016-17 baseline if cuts do proceed in 2015-16; and**
- **tie future public health funding increases to those of the NHS**, i.e. matching annual percentage increases. Only in these circumstances would it be reasonable to continue the public health ring-fence for the duration of such a deal. But if that does not happen, **we call on government to remove the ring-fence immediately**, in line with wider local government funding principles in which ring-fences are only accepted as transitional measures.

Strengthening prevention and early intervention lie at the heart of London's reform ambitions[13]. Mechanisms for collaborating and for mainstreaming prevention into integrated health and care commissioning are part of London's wider reform proposals in the *London Proposition*. However, with regard to the prevention agenda more broadly, **London Councils calls on the government to:**

- **maximise the funding included in the overall public health settlement for local authorities, giving more local control over national programmes;**
- **abolish the Health Premium Incentive, which is too small scale to provide a meaningful incentive for authorities to prioritise the needs of different communities; and**
- **devolve to London any national prevention programmes that may be established in the Spending Review, subject to creation of suitable collaborative mechanisms to secure delivery of key outcomes.**

We await the government's consultation on the public health funding formula for 2016-17. **London Councils urges government to ensure that future formulae better reflect unavoidable cost pressures, population characteristics and needs, and the impacts of government mandates and prescription.**

Fair funding for 0-5 year-olds

London boroughs welcome the transfer of commissioning health visiting to local government from October 2015. This offers boroughs the opportunity to unlock long term cost avoidance to the public purse by giving every child the best start in life. However, this is accompanied by significant underlying funding issues that need to be addressed through the Spending Review.

London Councils is particularly concerned that, despite the application of a funding floor during the transfer of commissioning, London boroughs still included the 10 worst funded local authorities in the country. We estimate that, as a measure of spend on new health visitors alone, at least £50 million more should have been spent in London above the Call to Action investment. The estimated funding gap will increase by around £6 million this year.

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13 As set out in the *Better Health for London: Action Plan*, which includes 10 shared aspirations on which we are working to seek to make London into the healthiest World City

In the context of London's deprivation, London's children will be hit disproportionately hard unless this SR recognises the inequality in public health spend on London's children and introduces a real needs based funding formula. **The government must ensure that the funding formula takes proper account of need by:**

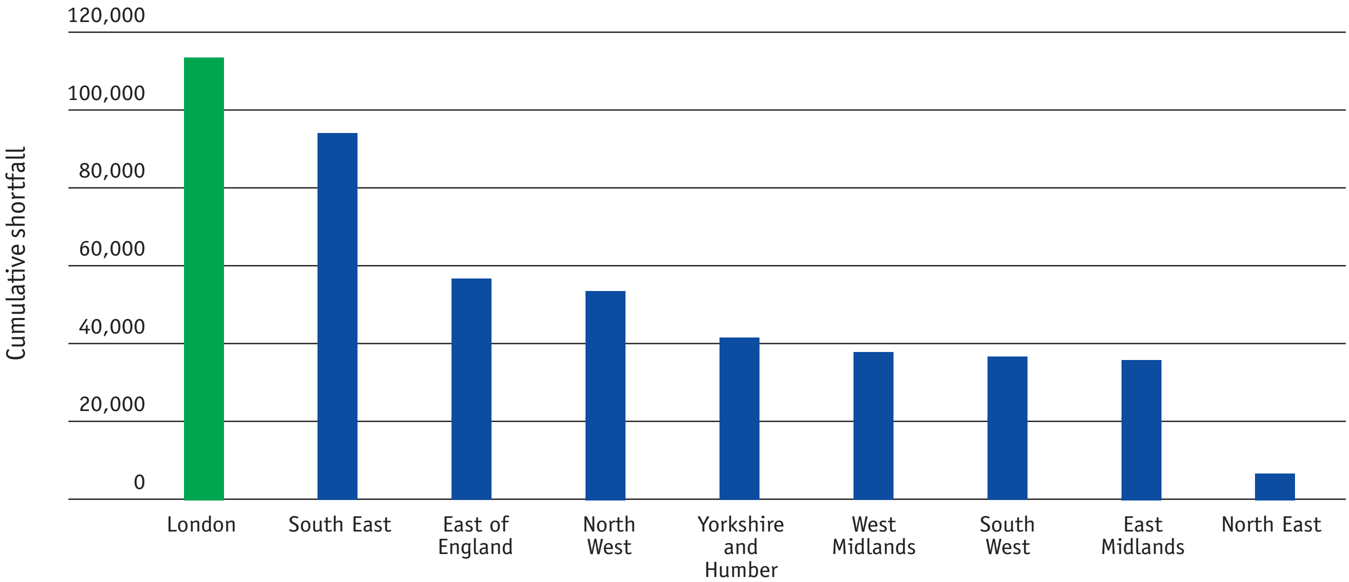
- **reflecting 0-5 years populations and deprivation;**
- **including a realistic assumption about service overheads in costs; and**
- **funding a Family Nurse Practitioner service in all local authorities.**

Children's services

Providing enough school places for London

London's demographic changes will drive huge growth in demand for school places over the SR period. The 0-18 population will grow by almost 8 per cent compared with just over 4 per cent across the rest of England. Despite increasing capacity in recent years, the continued growth in pupil numbers means London will have an estimated shortfall in school places of 113,000 by 2019-20; the largest of all regions (see Chart 4).

Chart 4 - **Cumulative school places shortfall - 2015 to 2020 (by region)**



Source: London Councils' analysis of SCAP returns (DfE)

London has experienced higher than average pupil growth at primary level for a number of years. This is now feeding through into secondary schools where the population will increase by 15 per cent compared with just 9 per cent for the rest of England by 2020. It will mean a shortfall of 35,000 secondary school places (27 per cent of the national total).

The cost implications of this are profound. The cost of school places has been hugely underestimated in recent years, with Basic Need funding for primary places based on a rate of just £6,000 in 2015 compared with actual costs of £20,600 per permanent place in London, and secondary allocations of £8,000, compared with actual costs of £26,700 per place.

London Councils has repeatedly outlined the case for increases in funding for school places in London. Between 2010-11 and 2014-15 London received £1.6 billion (38 per cent) of the £4.6 billion Basic Need funding across England for school places. This funding only accounted for 59 per cent of the cost of school places in London. Boroughs had to make up a shortfall of over £1 billion by borrowing, using asset disposals, maintenance funding and general council funds to create sufficient school places

Unless there are changes to the Basic Need funding, the school places shortfall projections show that London boroughs will again be forced to use general funding to cover a gap estimated to be around £1.5 billion between now and 2020. This is a conservative figure, which doesn't take into account projected inflation in construction costs, or the fact that delivering new places is harder every year, as fewer sites are available and the cost of land continues to rise. In reality, the cost gap could be much higher.

London Councils asks that the government:

- **commits to increasing the Basic Need funding pot for this parliament, currently £7 billion, to ensure sufficient funding for school places;**
- **provides unit costs for new primary and secondary school places that reflect the actual costs of providing places in London;**
- **ensures that any new free school developments are prioritised in areas of growing need for school places; and**
- **recognises the challenges of providing secondary school places in London and the achievements of boroughs over the last five years.**

Beyond the basic provision of school places, the complexity of London's population again has a big impact on schools funding. The larger demand for Special Educational Needs (SEN) places in London puts additional strain on schools budgets with per pupil places costing £70,000, but this is not recognised through Basic Need funding

London Councils calls on the government to:

- **develop locally rather than nationally determined schools funding formulae to reflect London's greater pupil mobility, deprivation and complexity of need;**
- **include additional funding within Basic Need for SEN places; and**
- **amend the area cost adjustment to reflect the additional costs of building schools in London.**

Children's social care

Pressure on core funding and departmental spending has and will continue to put significant pressure on social care spend. In the context of the unavoidable pressure of supporting individuals and families with No Recourse to Public Funds (see NRPF section below), the costs for which fall largely on children's services, boroughs are increasingly having to focus spend towards statutory interventions only.

The consequence has been that despite strands of investment such as Troubled Families which are designed to offer some preventative support, overall spend on early intervention and prevention programmes has fallen dramatically. Figures provided by boroughs in London suggest that 25 per cent of savings in children's services have been taken through service reduction. In the context of having to continue to meet the costs of statutory provision, the 25 per cent reduction will have fallen on discretionary provision including on preventative services. In the longer term, this will drive up cost pressure on public spending.

A recent survey of ALDCS shows a general upwards trend in demand on statutory interventions such as Child Protection and LAC. These are high cost statutory interventions which are hard to avoid without good preventative and early intervention strategies. The trends and pressures in this area are increasing and, with the growing 0-18 population combined with fewer resources, means pressure will continue to increase during the Spending Review period.

Local authorities are subject to clear statutory duties in respect of their responsibility to accommodate and care for Unaccompanied Asylum Seeking Children (UASC) as looked after children and care leavers. London currently accommodates and cares for around 45 per cent of the national UASC population.

The Home Office provides support to councils through a standard daily rate per child of £95 for under 16s and £71 for over 16s. These daily rates are inadequate. A market rate for placement with a fostering agency of an under 16 year-old is optimistically estimated to cost in the region of £700 per week. Placement of an under 16 year-old in residential care in London will cost in the region of £2,500 per week. The government provides no financial support to cover the costs of UASC over the age 18, yet London boroughs retain legal responsibilities for these children as care leavers up to the age of 25 years.

A significant proportion of London's UASC population is aged between 18 and 25 years-old. Not only are the rates for those under 18 insufficient, but the total lack of funding support the cost of over 18s places a significant cost pressure on London's children's services at a time when government is asking councils make unprecedented savings.

London Councils asks that government provides full financial support to London boroughs to cover the actual costs of support to UASC, including an extension of financial support for UASC care leavers up to the age of 25 years-old.

The government's new proposals in the Childcare Bill, to provide for an increased entitlement to 30 hours a week of free childcare (for 38 weeks of the year) to be made available to eligible working parents of 3- and 4-year-olds, will increase existing pressure on delivery and capacity. Evidence suggests that childcare costs are 28 per cent higher in London than the rest of the country[14].

The bill also requires local authorities to publish information about the provision of childcare in the local authority area, and other services or facilities which might be of benefit to parents or prospective parents, or children or young persons in their area.

London Councils estimates this policy will cost an additional £700 million across London over the SR period, with a shortfall of at least £260 million. We ask that this is fully funded by government at the SR15. More specifically we ask for:

- **the application of an area cost adjustment when funding this policy;**
- **the administrative costs of the duty to publish information about the provision of childcare to be funded under the new burdens doctrine; and**
- **increase in funding for more early years school places in London more broadly.**

No Recourse to Public Funds

The increasing cost and number of people with No Recourse to Public Funds (NRPF) is an example of pressure that is almost entirely a London issue. This refers to people who are subject to immigration control and have no entitlement to public funds such as welfare benefits, Housing Benefit and Home Office support for asylum seekers.

14 http://fct.bigmallet.co.uk/sites/default/files/files/Childcare%20cost%20survey%202015%20Final.pdf#overlay-context=childcare-cost-survey-2015

Individuals with NRPF have very few alternative avenues for support and local authorities have a duty to undertake an assessment of their needs under a combination of the Human Rights Act, the Children Act 1989 and the National Assistance Act 1948. The number of clients with NRPF has been growing rapidly in London, placing increasing service and financial pressure on local authorities.

London local government is providing a hidden welfare state and is not currently funded for this growing pressure. The 17 London boroughs that use the NRPF Connect database reported around 1,500 households were receiving some form of accommodation and subsistence in 2014-15, at a combined annual cost of £25.1 million in London .

London Councils' own research estimates the annual unfunded cost pressure to London boroughs was £50 million through support of around 2,500 households in 2014-15. The number of households being supported has increased by around 40 per cent in the last two years. In addition, London boroughs lost an estimated £5 million of Pupil Premium funding to support these families due to their status meaning they were ineligible for this funding.

London Councils is concerned that this pressure will be exacerbated by the government's immigration policies, such as the proposed changes to failed asylum seeker support (estimated to cost up to £8 million annually) and the private landlord checks being introduced through the Immigration Bill.

London Councils asks that the government urgently addresses this funding shortfall at SR15, and specifically that:

- **London boroughs are fully funded for the existing NRPF responsibilities they have;**
- **new burdens assessments are undertaken of every new and existing policy that has impacts on NRPF;**
- **the Home Office stops the granting of leave to remain with no recourse to public funds as a priority; and**
- **it works to minimise the delays experienced between the granting of leave to remain with public funds and the transition to mainstream support.**

Housing & planning

Increasing housing supply across all tenures is one of the stand-out social and economic issues facing London over this parliament. The capital now needs a minimum of around 50,000 additional homes per year to meet the demand of the rapidly growing population, and clear the existing backlog of housing need. Housing completions have not reached this level since the 1930s. In recent years, annual completions have ranged between 15,000 and 21,000.

There are a number of key reasons why housing supply has not been able to meet the growth of demand in London, these include:

- **access to land in the capital** – with around 32 per cent of permitted sites held by non-builders and fierce competition pushing up initial costs to developers;
- **undeveloped land** – as brownfield sites often require costly and time-consuming work to become suitable for development and developers controlling the speed at which they deliver new homes, in order to maximise achievable values;
- **under-resourced planning departments** – with nationally set fees that fall considerably short of funding the cost of processing applications in London; and
- **a lack of historic investment** – government capital budget cuts have limited the public grant to invest in new affordable homes.

15 The £25m spent by roughly half (17) boroughs identified through the NRPF Connect database is itself likely to underestimate the cost of staff time and overheads

Addressing the housing shortfall

London Councils believes the government must address this chronic shortfall as a matter of urgency and, in partnership with the GLA, has developed a set of detailed asks in the *London Proposition* to facilitate a major increase in home building across London. This approach requires government to offer flexibility in how housing delivery is managed in London.

To help facilitate this we ask government at the Spending Review to:

- **allow greater flexibility to trade headroom within the HRA cap; and**
- **commit to a 10 year capital settlement to be managed in partnership between the Greater London Authority and London boroughs.**

A number of government policies and new proposals are now putting huge additional pressure on a system that was already not delivering enough houses for Londoners. Unless addressed at SR15, these policies will increase pressure on housing supply and threaten to escalate the housing crisis over the course of this parliament.

Given the acute supply and affordability challenges in the capital, London Councils is in agreement with the Mayor of London that government policy interventions in the forthcoming Housing Bill must:

- **support an increase in housing supply, including affordable housing;**
- **result in any money raised in London, whether from the sale of housing association or high value council homes, being retained in London for reinvestment; and**
- **not undermine the social mix of households across London.**

Council Right to Buy

Council Right to Buy (RtB) sales have been far greater than anticipated when the policy was introduced, with at least three times as many sales in London than originally expected. London Councils estimates this is a significant loss of revenue income for boroughs' HRAs (of over £400 million between 2013 and 2021). With a percentage returned to the Treasury and only a maximum of 30 per cent of the cost of replacement allowed to come from the RtB sale receipt, boroughs are struggling to create viable replacement programmes to ensure sold units are replaced.

London Councils asks the government to allow the full retention and flexible use of council RtB receipts as a priority at the Spending Review; this includes the removal of constraints around the reinvestment of receipts to deliver more homes.

Right to Buy extension and sale of high value council homes

The proposed extension of the RtB scheme to housing association tenants, and the selling off of high value social housing stock, have the potential to exacerbate the housing shortage and disproportionately impact on London, which has 24 per cent of the national council housing stock and particularly high property values. New proposals must be adapted for the capital with the particular traits of the London housing market in mind, in order to avoid undermining regeneration plans, damaging London's social mix and pushing up the housing benefit bill.

As the housing supply and affordability crisis is far more acute in London than outside, it is imperative that all receipts raised in the capital are retained in London for more home building. Boroughs must have the freedom to use their receipts flexibly, without restrictions on geography or tenure in order to be able to work together to manage a successful replacements programme across the capital.

If the government goes ahead with using receipts from high value council homes then, as a minimum, London Councils calls on the government to:

- **ensure that new housing association Right to Buy and high value council sale receipts raised within London are retained to reinvest in housing supply to tackle the capital's housing crisis;**
- **decouple the Right to Buy extension from the council asset sales policy to give London a greater chance of delivering both ambitions; and**
- **ensure sufficient flexibility for boroughs on deciding which properties are sold and how receipts are reinvested, without the restrictions that are currently hindering the use of council RtB replacements.**

We also agree with the LGA that these policies should be time-limited and subject to review of the impact on asset management and housing investment plans.

Social rent reductions

The reduction of social rents by 1 per cent per annum over the SR period (rather than CPI plus 1 per cent), will result in lost income across London boroughs of at least £800 million by 2020, equivalent to the cost of around 4,000 new homes. Funding that had been earmarked for homebuilding and stock investment will not now be available as a result.

If continued, London Councils calls on the government to reduce the duration of the policy from four to three years to fit with the government's timetable of achieving a surplus in 2019-20; and commit to returning to CPI plus 1 per cent for 10 years to provide the stability for councils' HRA plans.

We also wish to see appropriate exemptions to the policy, for example for rents that have not yet reached Target Rent, for intermediate rented homes, sheltered and supported housing, shared ownership and temporary accommodation.

Pay to Stay

From 2017-18 social landlords will be required to charge high income social tenants in England a market, or closer to market, rent. London Councils estimates this could impact on around 28,000 households in council dwellings and has the potential to raise substantial funding for HM Treasury (initial estimates suggest between £600-£800 million from 2017- to 2021). Local authorities have to deal with the administrative burden of implementing this policy with no benefit to them.

London Councils would like to see councils retaining the rental uplift on their own properties, in line with the treatment of housing associations, to invest in meeting local housing needs and to help counter the detrimental effect of the 1 per cent rents cut and forced asset sales on HRAs.

Temporary Accommodation

In the context of an overall shortage of housing in London, boroughs are facing significant cost pressures from Temporary Accommodation (TA) as a result of three main drivers:

- **Increasing levels of homelessness** – the number of London households in TA has risen by over a third, from 35,620 in Q2 2011 to more than 48,240 as of March 2015;
- **London's heated rental market** - meaning that rents far outstrip LHA levels, and TA subsidy is not always sufficient to cover the full cost of TA within London; and
- **Providers preferring to offer their TA properties on short-term arrangements** - such as nightly paid annexe accommodation (typically with higher yields), rather than relatively stable and more cost-effective longer-term leasing arrangements.

Expenditure on TA is largely a London phenomenon – those 48,240 households represent three-quarters of the England total. London boroughs are working hard to limit expenditure of this nature – largely through seeking to prevent homelessness and to retain accommodation provided via longer-term leasing arrangements where possible. This created shortfall of £63 million by 2013-14 across London boroughs collectively, putting additional pressure on core funding[16].

In light of escalating market pressures, the growing toll on boroughs' own homelessness budgets and the likely impacts on temporary accommodation caused by the extension of the Right to Buy and forced council asset sales, **London Councils asks government at SR15 to:**

- **commit to a review of temporary accommodation subsidy levels** – to ensure that subsidy levels and the management fee are sufficient to allow boroughs to manage their statutory homelessness duties without an increased call on local taxpayers; and
- **ensure the continuation of homelessness prevention grant with sufficient allocation to London** - to reduce homelessness and limit the use of more expensive temporary accommodation.

Freezing local housing allowance levels risks leaving the private rented sector unaffordable for low-income households across large swathes of London. To avoid adding to London's already expensive homelessness challenge, **government must engage with boroughs on measures to prevent homelessness including the design and scope of the Targeted Affordability Fund and Discretionary Housing Payments allocations.**

Planning

Planning fees are set nationally and fall considerably short of funding the cost of processing applications. Under-resourcing on the ability of planning authorities to deliver a service that meets the requirements of London developers. In 2010 delays in processing planning applications were estimated by London Councils to cost developers in London £80 million. Improving planning services by covering shortfalls in fees on major developments would improve decision-making times and save money. Based on our estimates reducing the average length of a planning application to 13 weeks could save developers £64 million.

London Councils asks the government to:

- **fully localise planning fees; and**
- **agree to immediately uprate fees to cover staffing and overheads increases.**

Transport & Infrastructure

Funding for infrastructure

Housing is one of London's most pressing infrastructure needs as London's population grows. To release sites for additional housing, they typically need a range of supporting infrastructure to make them accessible and desirable places to live. These include transport, utilities, telecommunications and sewerage. Good transport links are important already for the construction phase.

London's creaking physical infrastructure and transport systems will be put under increasing strain as the population grows to over 9 million over the SR period. This growth as it is a sign of a successful economy. Significant investment is needed to support this growth and ensure that London continues to be a place that people want to live, work and invest in.

16 While such short-term arrangements are supposed to exist to provide emergency accommodation, in practice the lack of affordable accommodation in the private rented sector means the average length of stay in nightly-paid accommodation can be many months.

London Councils therefore welcomes the government's commitment to invest £56 billion in transport infrastructure by the end of the Parliament in the Summer Budget, and £100 billion in wider infrastructure announced in Fixing the Foundations[17]. However, the £10 billion committed to London is not proportionate with the growing demand in the capital.

The GLA estimates that infrastructure costs in London will double in real terms over the next 10 years in comparison to the period 2011-2015, creating an average funding gap of £4.5 billion per year[18]. Over the longer term, it identifies £1.3 trillion of capital investment in infrastructure is needed between 2016 and 2050.

Investing in vital, supporting infrastructure can help to unlock many brownfield and other sites for necessary regeneration and a significantly increased density of homes. The issue we are facing is that we do not have the necessary resources, nor the means of access to the necessary resources to invest in this 'unlocking infrastructure'. London Councils welcomed the creation of the Local Growth Fund in the last parliament which brought together a number of funding pots into one; however, at £2 billion this was nothing like the investment needed to drive growth envisaged by the Heseltine review.

London Councils therefore calls on the government at SR15 to:

- **pool local infrastructure funding into one single investment pot;**
- **provide a longer term capital funding settlement for London to give greater certainty; and**
- **explore far greater use of local taxation and tax retention to provide funding for infrastructure projects that will benefit the local population – such as the successful Business Rate Supplement for Crossrail, and Tax Increment Financing of the Nine Elms and Brent Cross regeneration projects.**

London Councils welcomes the significant funding commitment government has made to the Thames Regional Flood and Coastal Committee over the next six years. This is giving the area increased confidence on funding levels over a longer period of time and is the first time government has recognised the significant risk flooding poses in London and the wider catchment area. Flooding contributes to the deterioration of infrastructure, specifically the road network, which has huge financial implications. **We therefore ask that the government maintain DEFRA funding for flood defences at SR15.**

Funding for Transport

The road maintenance budget for councils is inadequate. Only 5 per cent of the road network in London is managed and overseen by TfL, whereas the overwhelming majority of the road network, 95 per cent, is managed by the London boroughs. Funding for London's highway authorities does not fully recognise its population and the fact that on average roads are 40 per cent more densely trafficked than in other UK conurbations. Resultant congestion not only causes disproportionate damage to the capital's road network, but has a negative impact on the economy and environment.

London Councils asks that the government takes account of these factors when allocating road maintenance funds to London at SR15.

Government's grant to TfL has two parts to it – a general grant (revenue), which is decided year-on-year and has been reducing recently, and an investment grant (capital), which has been fixed until 2020/21 and remains stable. TfL passes on around 20 percent of the general grant to boroughs through the Local Implementation Plan (LIP) framework. This funding is becoming increasingly vulnerable to increasing cuts. It is our understanding that Treasury rules do not allow TfL to pass on capital funds, which tend to be more protected from cuts, as capital can only be spent on an organisation's own assets.

17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pd
18 http://www.london.gov.uk/sites/default/files/London%20Infrastructure%20Plan%202050%20Consultation.pdf

London Councils asks government to allow greater flexibility around the classification of TfL grants; specifically, to relax the rules on capital funding to facilitate the transfer of TfL capital funding to boroughs.

London's rail network is in need of constant improvement, expansion and upgrading to cope with the 4.2 million tube users and 981,000 rail passengers every day. Crossrail, due to be fully operational in 2019, will increase the rail capacity by 10 per cent, alleviating pressure on some of the most pressing hotspots in London and improving access to job opportunities. However, some modelling already suggests that London requires additional major rail infrastructure to meet the currently expected population growth in London.

London Councils asks government to support Crossrail 2 (CR2) not only to meet future travel demand but as part of the supporting infrastructure that is required to unlock significant pockets of brownfield land, currently estimated to be able to accommodate 200,000 homes along its route.

We accept the challenge of part funding infrastructure projects, such as CR2, from within London. However, there are examples, and CR2 is one of them, where local authorities outside of London also significantly benefit and should therefore contribute to the funding as well.

London Councils therefore seeks further government commitment to funding CR2 at the Spending Review, and to commit to identifying ways to secure funding from the communities north and south of the line outside London who are intended to benefit but at present will not contribute. This includes accounting for tax retention from the uplift resulting from CR2.

Summary

These London-specific issues show how the need for local services in the capital is different, and because London is different, some areas of funding are especially perverse and do not deliver what is intended by government. What is needed is a set of reforms that fit London's circumstances.

Chapter 3
Reforms for London

The UK system of government is one of the most centralised in the developed world, with power and funding concentrated in the hands of a few in Westminster and Whitehall. Continued austerity in public spending means government must find different ways to deliver services with less funding over the SR15 period.

As such, we welcome the government's commitment to: "devolution of power to England" and "transforming the approach to local government financing and further decentralising power, in order to maximise, efficiency, local economic growth and integration of public services".

London's specific service pressures, outlined in the previous chapter, allied to significant national funding restraints, means that it is likely that spending and investment is targeted in a way that allows local places to focus on cost effective prevention of problems rather than paying for the failure to deal with them.

The Spending Review represents a watershed moment for the government to change how public services are delivered locally by devolving power, lifting central constraints and taking a place-based holistic approach to funding public services. London Councils has been asking for this for a number of years, taking a leading role in setting the devolution agenda and building pan-London and cross sector relationships through contributions to the London Finance Commission (LFC), the London Growth Deal and the "City Centred" campaign.

Authorities in London have been actively exploring the potential for further ways of getting the maximum impact from integrating a range of public services - including work with health, troubled families and community safety and justice - in their localities. The success of the Troubled Families programme should be seen as a sign that devolving responsibility and funding for a number of other key public services to the local level – where the benefits of integration and personalisation can be realised – offers a unique opportunity to bring services together to improve outcomes and reduce costs. These initiatives begin to show the potential for more effective ways of delivering outcomes for residents, and highlight the role local authorities can play in bringing other public agencies together to tackle deep-seated challenges.

A successful and sustainable approach will require the development of a range of proposals that not only seek to integrate services across different organisations, sectors and spatial levels, but also to align with the government's growth agenda and the deficit recovery programme.

London Councils is proposing three broad solutions to meet the challenge to re-design the £93 billion of investment in public services in London so that they better match the needs of London and the UK:

- devolution and public service reform;
- reform of the local government finance system; and
- greater financial autonomy through fiscal devolution.

Devolution and Public Service Reform

London Councils and the GLA have developed a set of proposals to government to facilitate devolution and public service reform across London's public services. These proposals, which are set out in detail in the accompanying *London Proposition*, seek to deliver reform to help combat issues of complex need and dependency in six areas:

- Employment & Complex Dependency
- Skills
- Business Support
- Crime & Justice
- Health
- Housing.

The *London Proposition* offers a more intelligent way to manage public services and to change the balance of spend away from interventions that seek to mitigate failure and, instead, focus on prevention as well as the development of sustainable interventions and funding models that support growth and reduce demand. London government acting together on reform can deliver:

- **Investment in skills, business support and innovation**, supporting the development of a high tech, highly skilled economy that will boost productivity not only within London but also across the UK.
- **Home building across all types of tenure on a London wide scale**, creating economically productive and socially mixed communities.
- **A step change in tackling structural long term unemployment in the capital**, ensuring that all our communities share in the benefits of growth, and so reducing pressure on public finances.
- **A safe capital city where international business will have the confidence to invest and grow.**
- **Faster reform of health and social care services** leading to swifter improvements in the health of Londoners and faster reductions in the cost pressures on London public services.

Each of these proposals is described in more detail in the *London Proposition* – our joint submission with the Mayor of London.

Our proposals build on local government's established record of understanding what local people want and being responsive to their needs. This is primarily a challenge of public service reform both to deliver more for Londoners and also to reduce cost pressures on national public finances more swiftly.

While most of this work depends on action by London government to change its approach to delivery, specific and essential components of reform and improvement are controlled by central government. As a result, major public service reform depends on:

- devolving powers and responsibilities from central government to unblock action by London government; and
- unlocking specific funding streams from Whitehall to deliver genuine place-based public services.

Local government finance reform

Government's commitment to "look at transforming the approach to local government financing" is welcome and long overdue. London Councils believes the current system of local government finance is not fit for purpose; specifically:

- **ring-fencing funding streams prevents the most efficient use of funding;**
- **a lack of transparency in how funding is determined, and the short term nature of allocations, creates uncertainty for local authorities;**
- **the business rates retention system is not driving growth and is increasing volatility in funding allocations;**
- **councils are constrained by the current council tax system; and**
- **are restricted from raising income by the current system of fees and charges.**

The Spending Review represents an opportune moment for government to make a number of immediate technical reforms to address these issues and improve the local government finance system.

Ring-fencing

Ring-fencing certain government departments, while others bear greater proportionate cuts, has an impact in funding available to local authorities. As highlighted by the Treasury Select Committee, there is a risk that this policy focuses the burden of financial stringency on non-ring-fenced departments which, as the cumulative effect of funding cuts take hold, have to bear an increasingly disproportionate share of the burden; does not subject the ring-fenced departments to the same level of financial scrutiny and accountability as other departments, and risks distorting the allocation of resources between government priorities.

Ring-fencing Whitehall budgets not only impacts on the overall level of core funding, but affects the way in which local government is able to use its financial resources. Despite government attempts to rationalise grant funding streams following the 2010 Spending Review, there has been a gradual increase in the number of ring-fenced and targeted grants. The ring-fencing of grants facilitates central control over local spending and prevents truly joined up and place-based approaches to service delivery.

London Councils asks that ring-fences to specific grants are time-limited, with a view to them being fully devolved to local government in the longer term.

Greater funding certainty

London Councils believes any funding system for local government should be underpinned by the principles of stability, certainty and transparency. These principles underpin more specific goals such as creating incentives to encourage economic growth.

The current approach to local government funding focuses excessively on the short term, with funding levels subject to constant change and revision. One or two year indicative finance settlements make strategic financial planning very difficult for local authorities. Longer term funding allocations would provide certainty in medium term planning and give boroughs the security to fund local public services in a more holistic way, with greater certainty over income streams potentially allowing greater vision and ambition to engage in innovative schemes across the public sector.

London Councils asks that the government delivers a four year local government finance settlement with fixed levels of Revenue Support Grant over the spending review period.

The timing of the LGF settlement gives councils very little time to plan and agree budgets each year. **London Councils proposes that the settlement is brought forward to give authorities greater certainty when agreeing budgets.**

It is not clear how the business rate revaluation will impact on the local government funding system in 2017. This will change the size of tariffs and top-ups and could significantly change the risk profile of each local authority. **London Councils asks that the government clarifies how the revaluation will work in the Spending Review, or as soon as possible afterwards.**

Greater transparency

The current local government finance system remains not only heavily centralised but incredibly complicated. This causes confusion and uncertainty for elected members, officers and residents. The complexity of the system has led to a lack of transparency which makes it difficult to confirm, with any certainty, the level of funding for new responsibilities that are now transferred to local government.

The fact that DCLG does not publish a full breakdown of the local government Resource Departmental Expenditure Limit (RDEL) at the local government finance settlement makes it difficult to robustly assess the financial impact of new government funding policies. If the government decides to create or increase a specific funding stream, such as council tax freeze grant, then without transfers to the local government RDEL from other departments, this is effectively funded by a cut to RSG.

London Councils calls for transparency in the calculation of RSG. Future settlements should include a detailed breakdown of the local government RDEL and any other departmental RDEL that provides funding to local government.

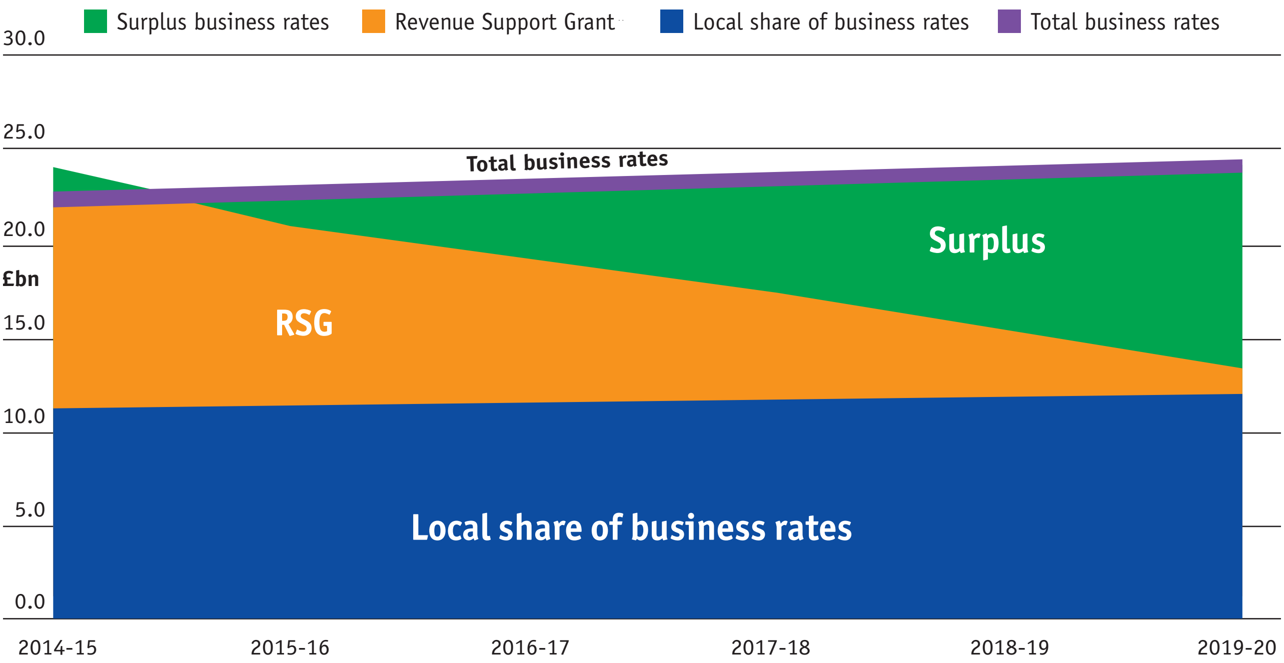
This is part of a broader problem with the system which enables funding streams to be "rolled-in" to core funding without clear visibility or a full assessment of the size of the burden being placed on local authorities. The rolling-in of council tax support funding to the tier funding components of RSG is an example. This practice undermines trust between local and central government, and undermines the New Burdens doctrine.

The continued use of Revenue Spending Power is also misleading. The composition of this measure has been revised each year to reflect changes to the system, preventing a common and shared understanding of the full impact of central government spending decisions on local government. As currently constructed, the calculation includes funding that is largely, or entirely, beyond the direct control of a local authority (such as NHS funding in the Better Care Fund) and is based upon a number of assumptions made by government for which there has been little or no supporting evidence.

London Councils asks that a fixed definition of Revenue Spending Power is agreed between local and central government to provide consistency and avoid inaccurate reporting of the scale of funding reductions in advance of the 2016-17 local government finance settlement.

The government retains significant influence over local government spending through the ring-fenced and targeted grants. In 2015-16 there is a surplus in business rates for the first time; i.e. total business rates (central plus local shares) exceeded the control total (Settlement Funding Assessment (SFA)). This surplus is set to grow to almost £11 billion by 2020 as total business rates yield increases by RPI inflation and SFA falls as part of deficit reduction. This means that there will soon be significant headroom in the system, potentially to fund other specific grants (see Chart 5, over page).

Chart 5 – **Likely trajectory of local government funding and business rates to 2020**



Source: London Councils modelling of RSG, and using latest OBR projections of RPI inflation

London Councils asks that the government clarifies what it intends to do with the business rates surplus between now and 2020, including clarifying which specific grants it is funding, and what other existing grants it intends to fund through this mechanism.

Business rates reform

Since the start of business rates retention (April 2013), London Councils has argued that the scheme parameters fail to sufficiently incentivise growth. Analysis of publicly available data on business rates confirms this – with negative growth in the first two years of the system despite strong economic growth across London. The 2017 revaluation and the government's Business Rates Review (due to report by Budget 2016) provide the government with the chance to evaluate why the current system is failing and to implement changes to improve the growth incentive.

A major flaw in the system is the fact that local authorities must make a provision for possible successful rating appeals. This disproportionately impacts on London boroughs, where there are more appeals, which are generally of higher value, than elsewhere. London boroughs had to set aside over £400 million in provisions for backdated appeals in both 2013-14 and 2014-15. The volatility created by appeals, increases the level of uncertainty for boroughs when setting budgets over the medium term. The fact that three quarters of appeals are unsuccessful suggests there is room for the process to be made more efficient.

London Councils asks the government to take steps to mitigate the negative impact of appeals, either through further adjustments to the system or through changes to the appeals process itself. We are aware that the LGA has proposed a system of self-assessment for ratepayers that could, in theory, reduce the risk borne by local government. We urge government to explore how such a system could work in practice.

Other than appeals, the direct financial incentive for local authorities to grow their local business rates remains weak for several reasons. Firstly, the definition of growth only applies to physical rather than revaluation growth. This narrow definition makes it incredibly difficult for local authorities in built-up areas like London, to benefit financially from the current system as there is a general scarcity of land, and any additional physical growth often requires the demolition of existing buildings first. **London Councils believes the government should broaden the definition of "growth" to include revaluation growth, rather than just physical growth.**

Secondly, because growth is lost when the system is reset, this will create uncertainty and act as a disincentive for developments as the reset draws closer (scheduled for 2020). Arguably, a system of rolling retention could seek to manage this in a more effective way. **London Councils asks government to change the scheme parameters to allow the retention of growth for a fixed period of time to avoid the "cliff edge" effect in the years before a system reset.**

Finally, the 50 per cent retention rate remains too low. In parallel with removing the anomalies described above, we believe that all local authorities should retain 100 per cent of business rates growth, building on the three pilot areas that were announced at Budget 2015. In the longer term, London Councils advocates a fully devolved system where London government retains 100 per cent of all business rates (see next section).

We support recent attempts to ease the financial burden on businesses through the use of the business rates system. However, the growing number and complexity of the reliefs system causes confusion and impacts on local authorities' ability to implement local growth plans. This also makes local authorities more reliant on central grants, over which there is no certainty in the long term.

London Councils believes the government should devolve power to determine mandatory reliefs to local government (see below). At the very least, government should simplify the system of reliefs and reform charitable and empty property reliefs, the exploitation of which accounts for the vast majority of business rates avoidance and significantly affects some local authorities' retained funding.

Council Tax reform

As overall funding levels reduce over the next four years, council tax will become an increasingly important funding source for all local authorities. It remains a significant and stable source of funding for local government, representing 37 per cent of principal income. The tax hasn't been changed since the original valuations in 1991, meaning it is no longer representative of local property markets. We are aware that the LGA, representing the whole sector, has proposed that local areas that wish to do so should be given the ability to revalue properties and consider alterations to council tax bands.

Successive reviews of the local government finance system have concluded that the tax is in need of reform to make it more responsive to local circumstance[19]. This is something the government should consider over the course of the Spending Review period.

Of more immediate concern, London Councils believes the imposition of council tax referenda on local government is contradictory to the idea of localism and further facilitates central control over local government funding. The restrictive policy of awarding council tax freeze grants also reinforces reliance on government grants, and removes long term certainty from local budget setters.

We call on the government to remove Council Tax referenda and Council Tax freeze grants at the next local government finance settlement.

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19 Lyons Commission (2008); London Finance Commission (2013); Independent Commission on Local Government Finance (2015); Institute for Fiscal Studies (2015).

Increasing flexibility over setting fees and charges

There are many services that local government has a statutory duty to deliver, but is required to charge for at a level determined by central government rather than local councillors. The result is that there are a number of services which leave councils with an overall net loss each year. This has always been perverse, impeding councils' ability to work effectively with businesses, to help drive growth, and often having other significant financial consequences for local taxpayers.

Local government should have autonomy over the setting of fees and charges. We ask that government at the Spending Review takes steps to:

- **reduce the number of nationally set charges;**
- **make locally determined charges the norm;**
- **allow local authorities to recover full costs, even for charges set at the national level; and**
- **remove central controls on planning application fees, building control charges, land searches and licencing fees.**

Fiscal devolution and financial autonomy

Immediate reforms to the finance system will not square the circle of fewer resources, growing service demand, and the need to raise productivity and drive economic growth over the next four years. Only devolution of responsibilities and resources to local areas can solve these issues.

Our public service reform proposals are a step towards this within specific services, however, more fundamental questions remain about how local public services are funded in the long term. With the devolved nations gaining greater control and freedom over their own taxation, the question of fiscal devolution and financial autonomy for functional areas in England will become a live issue over the course of this parliament.

As RSG is projected to almost disappear at the national level over the next four years, some authorities may become "RSG free" before others (depending on the relative composition of their funding). Some are already considering negotiating their own individual deals with government to become free of central grant before then. While welcoming local initiatives, London Councils believes a systematic approach should be jointly developed. The starting point for this would be full localisation of business rates.

Full localisation of Business Rates

Having already been partially localised, business rates could be easily devolved by government to aid financial autonomy for local government. This would give local authorities a far greater incentive to grow their tax base and work with local businesses, as the majority of their funding would come from this source.

London Councils asks government to devolve business rates fully before the end of this parliament, with London government retaining 100 per cent of business rates collected and redistributed within the capital. A prerequisite to this would be the resolution of the issue of the impact of appeals on the system, which we hope the government will address when it reports on its review of business rates in March 2016. We also recognise the need for this to be fiscally neutral to the rest of England.

Locally defined areas should be able to vary the national business rates multiplier according to the needs of their local areas. This could also include a localised valuation system which would be more suitable for the London property market. In addition, we believe a devolved system should include the freedom for local authorities to tailor all discounts and reliefs to meet the needs of their specific local economies.

Mandatory reliefs awarded in London amounted to £650 million in 2013-14, and are currently set by central government. London Councils believes these could be used more constructively to improve local economies if its use were devolved to London boroughs.

This would encourage greater dialogue and engagement between local government and businesses and empower local authorities to respond to the specific needs of their local economies, for example leading the regeneration of high streets and town centres by incentivising cafes, arts and culture spaces, workspace or civic uses. Control over reliefs would also facilitate more strategic planning to meet other statutory duties for example, by tailoring reliefs to incentivise the provision of healthy food retailers (rather than fast food outlets) they could help promote better public health outcomes.

These reforms could create a far stronger platform on which to increase incentives to support economic growth and link councils more closely to their communities.

Other tax devolution and self-funding mechanisms

If the government's aim is to deliver public services to more people with less money, it must be more ambitious and innovative in how it funds local government. The financial landscape changed over the last parliament, with the funding relationship between central and local government moving from one based purely on centrally allocated grants to one that recognises the concept of financial incentives, underpinned by risk and reward. This has the potential to create greater incentives to support economic growth and is a principle that London Councils supports.

London Councils asks the government to explore new mechanisms for funding public services as part of the Spending Review process, and over the course of the parliament.

As local devolution deals progress and evolve, government may wish to consider devolving specific funding streams and taxes linked to certain services and activities. For example, environmental taxes, such as the landfill tax (which has been devolved in Scotland), could fund the growing cost of waste management. In return, there could be performance targets that would aim to incentivise improved recycling rates and other activities that impact on climate emissions.

While not all services are suitable for target-driven mechanisms, for example social care, some are more naturally linked to such models of financial risk and reward. With a resource base that is more responsive to economic cycles, property taxes are especially appropriate for funding investment in infrastructure and housing.

London has already seen successful use of mechanisms that deliver additional growth in business rates, such as the Business Rate Supplement, which funded Crossrail, and the Tax Increment Financing schemes which are helping to fund redevelopments at Brent cross and Nine Elms.

London Councils asks that government makes more of these types of scheme available to London local government in SR15.

Retention-sharing mechanisms like this could be adapted for other infrastructure projects with other types of taxation. For example, as part of the evidence to support the funding of Crossrail 2, London Councils has looked at a scheme which could involve a share of the uplift in stamp duty land tax rather than business rates, if this can be attributed locally. Early estimates suggest this could generate significant contribution towards the costs of CR2 if permitted.

As the government will get a 'return on its investment' for funding major infrastructure projects such as CR2 in London, we believe it is in the best interests of local and central government to allow areas to be able to use a share of this uplift in order to unlock funding to help pay for such developments up front.

Full property tax devolution

London Councils maintains its support for the findings of the London Finance Commission, which recommended that the full suite of property taxes be devolved to London government, including: council tax; 100 per cent of business rates; stamp duty land tax; capital gains tax on of high-value UK residential property; and the annual tax on enveloped dwellings. It estimated that if these taxes were devolved in 2013-14 they would increase the retained tax figures from 7 to 12 per cent. Still a modest proportion when compared with other major world cities.

The Commission recommended specifically that London government (comprising the 32 boroughs, the City of London Corporation and the GLA) should have responsibility for setting the tax rates and authority over all matters including the timing of revaluations, the ability to change bandings and full control over discounts and reliefs. In other words: a fully devolved and autonomous fiscal settlement.

The latest estimates show these taxes generated around £14.6 billion across London in 2014-15, around 26 per cent of the England total (see Table 2). In 2014-15 revenue expenditure across London boroughs and the GLA amounted to around £14.2 billion. In theory, therefore, an autonomous London local government funding system is already possible.

Table 2 – **Estimated property tax yield in London and England – 2014-15**

	London	England	London as % of England
Council Tax	3.418	23.965	14%
Business Rates	6.533	22.200	29%
Stamp Duty land tax	4.540	10.086	45%
Annual tax on enveloped dwellings	0.093	0.110	85%
Capital gains tax	0.020	0.023	87%
Total	**14.603**	**56.384**	**26%**

London Councils will continue to work with the GLA to look at the scope of property tax devolution over the course of this parliament, and we call on the Government at the Spending Review to commit to keeping open dialogue on a fully devolved London settlement.

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