Representation to Government

Spring Budget 2017
Representation by London Councils

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

1. London Councils welcomes the opportunity to make a representation to Government ahead of the Spring Budget 2017, which represents an important opportunity for the Government to address some of the key economic and financial challenges facing the country with 3 years left of the current Spending Review period.

2. The vote to leave the EU means the UK is facing an inevitable period of uncertainty. This is particularly amplified in London, with its high level of EU and global investment and whose position as the dominant financial services centre in Europe could be under threat. This has a bearing on the entire UK economy with London delivering a net surplus in taxation to the rest of the country of around £45 billion per annum. Different economic and political solutions during this period of uncertainty may therefore be appropriate for the capital.

3. While the wider economic context is uncertain, the financial and service pressures facing London local government are far more certain. The Spending Review (SR15) set the parameters of the public finances and related changes to public service delivery for the period 2016-17 to 2019-20. The past 7 years have seen unprecedented funding cuts to the sector with core funding from government falling by 50 per cent in real terms: a trend that will continue with a further 26 per cent reduction over the next three years.

4. The size of the task facing London local government should not be underestimated. London's population is growing twice as fast as that of the rest of the country. The twin pressures of cuts to funding and the challenge of meeting rising demand for services will become far harder for London local government to address, as the "easier" efficiencies become exhausted. While the very real pressures in Adult Social Care have recently been much publicised, it is important to be recognise that, in many London Boroughs, other growing demands, including services for children and the homeless, present as great or greater financial threats. We estimate that, in total, London Boroughs face a funding shortfall of at least £2 billion per annum by 2020.

5 While urging Government to address these major risks to the viability of local services, London Councils also welcomes the Government's commitment to devolution. London has a unique set of public service challenges - delivering services to a complex and rapidly growing population while enhancing its role as a major driver of economic growth for the rest of the UK. It also has unique governance arrangements and

so devolution must necessarily be a partnership between the boroughs and the Mayor. London needs both the ability to fund and manage services in different ways from other parts of the country, and has the capacity to do so. London Government has begun productive discussions on both fiscal and functional devolution with HM Treasury, and we welcome the commitment made by Government in Autumn Statement 2016 “to continue to work with London to explore further devolution of powers over the coming months”.

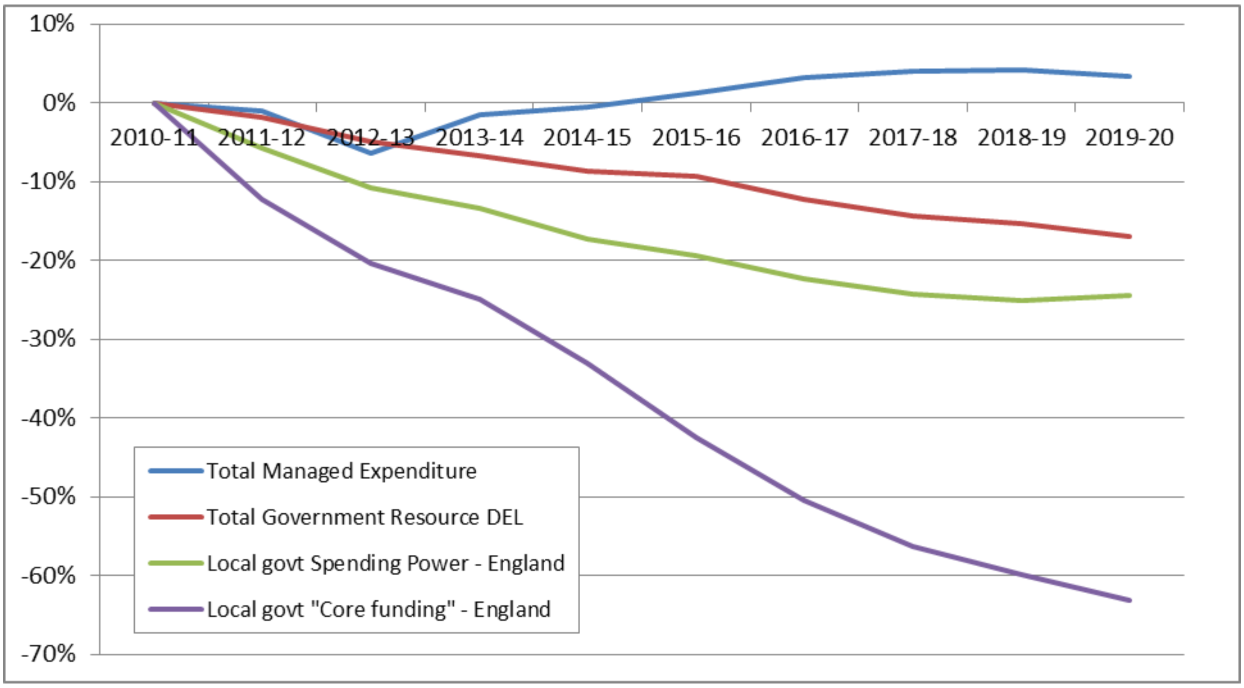
Financial Context

The disproportionate funding cuts to local government

5. London Councils believes that local government is being asked to shoulder a disproportionate burden of funding reductions in this Spending Review period. The 2017-18 provisional local government finance settlement confirmed cuts to core funding (Settlement Funding Assessment) of 26 per cent in real terms over the next 3 years. This comes on top of a cumulative cut to core funding of over 50 per cent in real terms since 2010-11[1], meaning **core funding from central government will have fallen by 63 per cent in real terms over the decade to 2019-20.**

6. Chart 1 (below) compares the like-for-like cumulative cuts to core funding and spending power with total public and departmental spending – it clearly shows local government has been asked to deal with a disproportionate level of austerity than other parts of the public sector.

Chart 1 – Cumulative like-for-like reduction in public spending measures 2010-11 to 2019-20



Source: HMT, Budgets and Autumn Statements since 2011; DCLG, LGF Settlements 2011-12 to 2017-18
Notes: Core funding is formula grant between 2010-11 and 2012-13, and SFA from 2013-14 onwards; Spending Power is the government’s varying definitions of “Revenue Spending Power” up to 2015-16, and its new definition of “Core Spending Power” from 2016-17 onwards.

[1] Defined as Formula grant between 2010-11 and 2012-13, and Settlement Funding Assessment thereafter

Growing demand for services

7. Funding cuts on this scale will be increasingly difficult to deliver on top of those already made in the last parliament, especially in the capital where a population boom and unique demographic pressures are driving huge increases in demand for local government services.

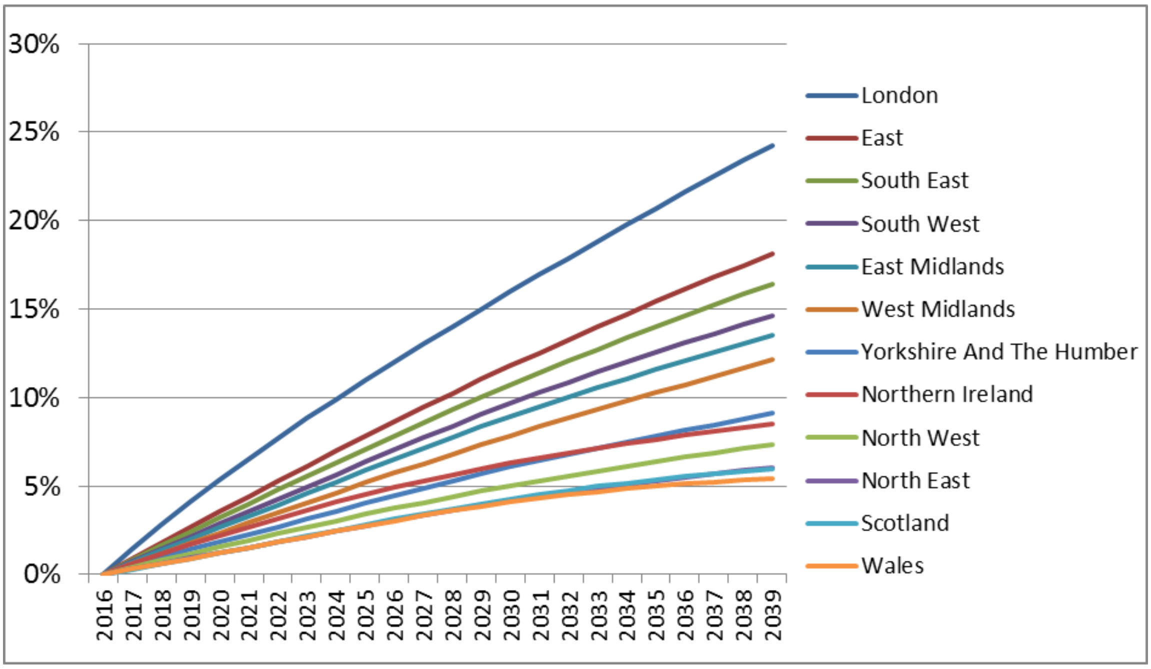
8. London's demographic profile is notably different to the rest of the country, creating pressures on public services in the capital that are manifestly different from elsewhere. With some of the most deprived areas of the country sitting alongside the most affluent, London has some of the most complex social problems that come with being Europe's largest and most diverse city. It is 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.

9. Overall, London continues to show significant relative deprivation: nearly two thirds of London's lower super output areas (LSOAs) have above average levels of deprivation (according to the 2015 Index of Multiple Deprivation). Just under a quarter of London's LSOAs fall within the most deprived 20 per cent of England.

10. Despite being the smallest region by area, London has the second largest population of the UK's 12 regions (estimated to be 8.8 billion in 2016[2]). By 2020 it will have overtaken the South East to become the most populous region of the country, and by 2040 more people will live in London than Scotland, Wales and Northern Ireland combined. This population density creates unique challenges for public services in the capital, most notably in housing, transport and healthcare.

11. However, it is London's disproportionate population *growth* that really set it apart from the rest of the country. Over the period to 2039, London's population is forecast to increase by 24% (to over 11 million), double the rate (12%) of the rest of England (see Figure 2 below).

Figure 2 – Estimated change in population by region – 2016 to 2039



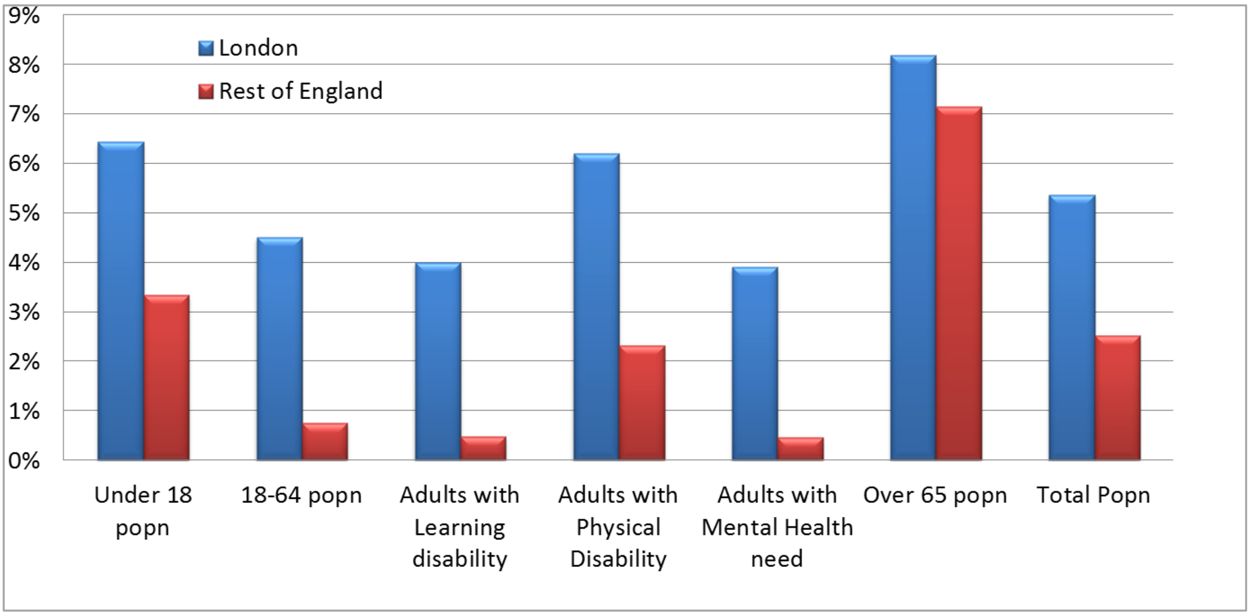
Source: ONS, 2014-based Sub-National Population Projections

[2] 2014-based National and Sub-National population projections (ONS)

12. In the more immediate future, the latest projections estimate London's population will rise by 6.4 per cent to 9.1 million by 2020 - more than twice the anticipated rate of increase for the rest of England (3.1 per cent). This will not only worsen London's housing crisis, but will place noticeably bigger demands on London boroughs to deliver children's services and schools places, as well as health and adult social care for the elderly.

13. Figure 3, below, 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.

Figure 3 – Percentage change 2016-2020: London v England – key demographics



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

14. London's larger relative working age population means that growth in adults aged 18-64 will put particular pressure on services related to the working population, in particular social care for adults with physical and learning disabilities and mental health issues – the most expensive population groups for local authorities. More broadly the disproportionate growth in the adult population will drive further demand for transport, skills and employment support.

15. Larger than average growth in the 0-18 and the over 65 population will place noticeably bigger demands on London boroughs to deliver children's services and schools places, as well as health and adult social care for the elderly. Adults and Children's social care are by far the biggest areas of expenditure for local authorities – with some London boroughs spending over 70 per cent of their budget on social care. The disproportionate growth of adults with learning and physical disabilities, and those with mental health problems, will place huge cost pressures on the capital's social care budgets.

16. With no recognition of this population growth, the four year funding settlement is tougher for London boroughs than may first appear. Even with the Government's assumption that all boroughs raise Council Tax by 2% and all apply the full social care precept each year (neither of which is likely), London boroughs will see the largest funding reductions to "Core Spending Power" of all regions.[3] With this scale of funding

[3] Excluding Fire Authorities and the GLA

reductions added to inflation and rising demand outlined above, **the size of the funding gap in London local government by 2020 is estimated to be in the region of £2 billion in 2019-20.** To put this into context, London boroughs collectively expect to hold around £500 million in general fund unallocated reserves in 2019-20 to manage the risk of in-year spending pressures.

17. While further efficiencies may be possible in some services, the additional growth in demand in London, on top of the scale of cuts outlined, means the current levels of services is unlikely to be sustainable. It is, therefore, imperative that London has stable and sustainable funding mechanisms that have the capacity to grow sufficiently to meet such rising demand. The move to 100% retention of business rates by 2020 presents a real opportunity for government to put local government funding on a sustainable footing, and we urge careful consideration of the likely sustainability of any such system given the specific demographic pressures London will experience in the next 20 years.

New and unfunded burdens

18. In addition to the general cost pressures caused by rising demand, inflation and funding cuts, other legislative and policy changes will drive up funding pressure on London local government.

National Living Wage

19. The National Living Wage (NLW) will have significant cost implications for local government and in particular the social care sector. The LGA estimates that this policy could cost councils in England a minimum of £330 million in 2016-17 rising to £1 billion by 2020-21. The financial impact for London local government is estimated to be in the region of £100-200 million per annum by 2019-20. The new requirement to pay travel time expenses also has significant cost implications for social care.

20. While this is a national scheme affecting public and private sector employers, we believe that local government, which employs or contracts a large proportion of people at the lower end of the income spectrum, will be disproportionately affected. **We believe this should, therefore, qualify for a new burdens assessment.**

Increasing national insurance contributions

21. Arrangements for contracting out the second state pension ended in April 2016, which means an increase in employers' national insurance contributions for all employers that provide pensions, including councils. The LGA estimates the additional annual cost to councils will be around £800 million nationally, with additional one-off administrative costs of £100 million and a further £200 million per annum to cover additional increases resulting from reconciling over/under payments with HMRC. Again, we believe that the new burdens doctrine applies as local authorities will be disproportionately affected to the rest of the public sector due to the nature of the Local Government Pension Scheme (LGPS). A modest estimate of the financial impact on London Boroughs would be in the region of £150 million. **We ask that the Government provides support for this unfunded burden in the Spring Budget.**

Pension changes

22. Similarly, the Pension Schemes Act 2015 means that every employer has new legal duties to help their workers in the UK save for retirement. In social care, the number of people receiving direct payments and personal budgets is increasing. They will now be responsible for contributing towards that person's pension, which will have implications on the overall cost of their care. London Councils estimates that these pension changes could cost a cumulative £44 million for London boroughs by 2019-20.

23. **Again we believe that local government will be disproportionately affected and we ask that this be assessed and funded under the new burdens doctrine**

IR35 - Off-payroll working intermediary's legislation

24. Autumn Statement 2016 confirmed Government plans to transfer the responsibility for enforcing the IR35 rules - aimed at preventing employment tax evasion by individuals who consider themselves as being employed through their own “personal service company” (PSC) - to the body that will pay the PSC, rather than the PSC itself. This policy change will see local authorities take on significant new responsibilities to ensure the PSC’s they enter into contracts with are paying their share of tax. The administrative burden of assessing all current and future contracts will be significant. Employers will be subject to costs arising from administration, NIC payments as well as dealing with appeals by workers regarding their determination of status. **We urge the government to undertake a detailed new burdens assessment to compensate local authorities for this increased cost.**

No Recourse to Public Funds

25. The increasing cost and number of people with No Recourse to Public Funds (NRPF) is almost entirely a London-specific 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. London local government is providing a hidden welfare state and is not currently funded for this growing pressure, which London Councils estimates to cost around £50 million per annum.

26. The Immigration Bill will drive up NRPF costs in London. We would welcome dialogue with DCLG and HO officials in undertaking the new burdens assessment for the increased administrative costs that the Bill will create.

27. **London Councils asks that the Government urgently addresses this funding shortfall for the existing NRPF responsibilities they have and that new burdens assessments are undertaken of every new and existing policy that has impacts on NRPF.**

Unaccompanied Asylum Seeking Children

28. 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 Government provides no financial support to cover the costs of UASC over the age of 18, yet Local authorities retain legal responsibility for these children as care leavers up to the age of 25. 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.

29. **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.**

London-specific service pressures

30. While the overall funding pressures are therefore challenging, it is worth highlighting the particularly acute demand pressures London local government is facing with regard to housing; adult social care; and children’s services. These are set out below.

Housing

Addressing the housing shortfall

31. 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 50,000 additional homes per year to meet the demand of the rapidly growing population, and clear the existing backlog of housing need.

32. **London Councils believes the Government must address this chronic shortfall as a matter of urgency. To help facilitate this we ask Government to:**
    - **allow greater flexibility to trade headroom within the HRA cap; and**
    - **commit to a ten year capital settlement to be managed in partnership between the Greater London Authority and London boroughs.**

33. 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 Housing Act 2016 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 higher value council homes, being retained in London for reinvestment; and
    - not undermine the social mix of households across London.

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

Council Right to Buy

35. 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.

36. **London Councils believes the full retention and flexible use of council RtB receipts should be allowed; this includes the removal of constraints around the reinvestment of receipts to deliver more homes.**

Right to Buy extension and sale of higher value council homes

37. The proposed extension of the RtB scheme to housing association tenants and the selling off of higher value social housing stock have the potential to exacerbate the housing shortage and disproportionately impact on London. 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.

38. 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.

39. **London Councils calls on Government to ensure new housing association Right to Buy and higher value council sale receipts raised within London are retained to reinvest in housing supply to tackle the capital's housing crisis; with sufficient flexibility for boroughs to decide which properties are sold and how receipts are reinvested, without the restrictions that are currently hindering the use of council RtB replacements.**

Social rent reductions

40. The reduction of social rents by 1 per cent per annum over the SR period 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. London Councils asks that Government to commit to returning to CPI plus 1 per cent for ten years to provide the stability for councils' HRA plans.

41. While the Government is deferring the imposition of the LHA cap to supported housing schemes until 2019-20, **London Councils highlights the need for continued appropriate funding for supported housing more broadly, and asks for an exemption to the 1% rent cut for these schemes.**

Temporary Accommodation

42. London has more than 50,000 households in temporary accommodation (representing three-quarters of the England total). This is putting increasing financial pressure on London boroughs who we estimate are spending an additional £170 million per annum on TA from their general funds. We welcome the Government's commitment to creating a new grant to local authorities to cover these costs, which we believe should include appropriate weighting to take account of London's exceptional circumstances.

43. Freezing local housing allowance levels and the impact of the benefit cap, risk 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.

44. London Councils is also anticipating the Government's conclusions following the review of temporary accommodation subsidy levels – to ensure they, and the management fee, are sufficient to allow boroughs to manage their statutory homelessness duties without an increased call on local taxpayers.

45. In addition, we call on Government to ensure any new burdens regarding homelessness, such as those outlined in the draft Homelessness Reduction Bill (HRB), are fully costed, especially for the increasing level of need in London. Following the release of the cost envelope for the HRB in January 2017, we are concerned that the proposed level of new burdens funding (around £50 million nationally) will not meet the new duties in London. One London borough alone anticipates the bill will cost £2.3 million per year. ***We would like to continue the discussions with the Government on how the funding is distributed, and increased funding for high stress areas such as London.***

Adult Social Care

Funding gap

46. The funding challenge in adult social care is one of the biggest facing London local government over the Spending Review period. This remains the largest area of spend at £2.2 billion across London in 2016-17; representing 31 per cent of total spend (as high as 43 per cent in some boroughs). Recognising the critical impact this can have on people's lives, boroughs have sought to protect adult social care as much as possible since 2010-11 but despite this, boroughs are spending around £450 million less in real terms than in 2010-11.

47. These pressures are exacerbated in London due to the higher cost of providing care in the capital compared to the other regions[4], and the growing demand driven by population growth. London will account

[4] For example, in 2013-14 the cost of providing care to over 65s was 17 per cent higher in London compared to the other regions

for over 60 per cent of the national growth in demand for working age adults with learning disabilities and mental health conditions between now and 2020 (see Figure 3). This, together with the increased costs associated with delivering the National Living Wage by 2020, is raising concerns regarding sustainability and viability of the care market. Many local authorities have either frozen or reduced the fees they pay providers in recent years, which is adversely impacting their financial viability as they seek higher payment from the self-funder market. This is likely to make it more difficult for local authorities to find the right services for clients and paying higher fees to compete with the private sector.

48. Given this tough financial context, it is disappointing that the Government has found no new money for adult social care. The decision to present this as finding an additional £900 million to address social care pressures increases the difficulty that authorities will face in explaining their spending decisions to their citizens.

49. Before the provisional settlement, London Councils estimated a cumulative funding gap over the next four years (including 2016-17) of around £800 million in London. This included assumptions that not all boroughs would raise the Social Care Precept (SCP) or would raise overall Council Tax (as was the case in 2016-17). Even if all boroughs did raise the precept and main Council Tax, the cumulative gap would have been around £700 million by 2020 (an annual gap of over £200 million in 2019-20)[5].

50. If all boroughs used the flexibility to raise the SCP to 3% in 2017-18 and 2018-19 followed by a freeze in 2019-20, this would raise an additional £87 million over the next three years (£90 million in the next two years and £3 million less in 2019-20), compared with what could be raised from three annual increases of 2%. While this will reduce the adult social care funding gap in the next two years (and the cumulative gap from around £700 million to £610 million), it would not address the annual gap of over £200 million a year by 2019-20 in London.

51. While the increased flexibility to raise funding through the social care precept, and front load it, is some recognition by Government of the urgent need to tackle the immediate and significant pressures facing social care, it clearly does not go far enough. There is a disparity in what it can raise locally, typically raises less in areas that may have higher levels of need. Even if all boroughs levied the full precept, the additional £87 million this would raise represents an increase in funding for adult social care of around 1% over the next three years – at a time when London's population of older people will rise by more than 6%.

52. In addition, we are concerned about the emerging (but still undefined) restrictions and conditions applied to the use of the precept. The fact that this has come so late in the council budget setting process, makes it even less likely that all councils will feel able to take advantage of the precept "flexibility". We are concerned about the greater scrutiny that Government is introducing in 2017-18 of both the existing precept and the additional requirement relating to the new "flexibility" to show how this funding is being used to *improve* the way they deliver adult social care services.

53. Within any fundamental review of social care funding we believe future approaches to alleviating service pressures (in adult social care or elsewhere) should not come at the cost of increased hypothecation of local resources and increasingly restrictive conditions and reporting requirements.

54. Furthermore, the policy change to fund a new Adult Social Care Support Grant (worth £241 million nationally) by cutting New Homes Bonus will exacerbate the funding pressure in London, with London being a net loser overall by around £11 million. The switch will see London boroughs lose overall by at least £10.7 million compared with the illustrative NHB funding allocations for 2017-18 set out in last year's settlement. It is illogical that a funding grant designed to benefit social care authorities will have the

[5] Not directly comparable with the LGA's £2.6 billion estimate, which includes additional pressure experienced by the ASC provider market. A comparable estimate would be around £400 million per annum by 2020 for London boroughs

perverse impact of reducing the amount of funding available for social care for many of those authorities (over two thirds of London Boroughs).

55. ***Given the high degree of consensus about the importance of solving the issue of funding for adult social care, we support the call for an urgent national review of adult social care funding.***

Health & Social Care Integration

56. We welcomed the announcement in SR15 that all areas of the country will be mandated to produce plans for complete health and social care integration by 2017, to be implemented by 2020. Local areas have begun the delivery of their Sustainability Transformation Plans and the second round of the Better Care Funds, all requiring some degree of integration between health and care. In December 2015, the London health and care collaborative agreement was signed and it set out London's devolution proposals for transforming health and wellbeing outcomes, inequalities and services across the capital through new ways of working together and with the public.

57. However, the Government has not made it clear exactly how full integration will happen by 2020, or how integration plans relate to Sustainability Transformation Plans (STPs). **We would therefore ask that Government clarifies the process for integration as soon as possible and to commit to proper collaboration between the NHS and local government in the development and delivery of STPs.**

58. If the health and care system is to be transformed from a medical model based on clinical treatment to a social model based on health promotion, protection and prevention, then integration of health and care whether through devolution, the Better Care Fund or other models is a key part of enabling this transformation, but will require both adequate financial investment and appropriate, democratically-accountable local governance arrangements.

Children's services

National Schools Funding formula

59. London Councils is very concerned about the impact of the Government's proposals to implement a National Funding Formula (NFF), which will see funding move away from the capital. Given existing pressures on school budgets, we believe that no school should lose funding as a result of the introduction of a new NFF.

60. Our analysis reveals that collectively London will lose £19 million: a 0.3 per cent reduction overall, with 70 per cent of schools in London (97 per cent in inner London and 54 per cent in outer London) experiencing a reduction of funding at a time of growing demand. In London 1,536 schools wills see funding reduce - 17 per cent of the national total 9,047, despite just 11 per cent of schools being located in London. It would cost £335 million of additional funding to protect every school in the country from a cash cut, equivalent to an increase of just 1 per cent in the schools block.

61. With 70 per cent of London schools set to receive less money, by as much as 3 per cent, from 2018/19, there will be considerable concern amongst schools about how this can be managed and the possible impact on school standards. While some may argue this is a relatively small amount and schools should be able to absorb this easily, it is unlikely they will be able to do so in addition to the wider budgetary pressures highlighted recently by the National Audit Office (NAO).

62. The NAO's report into the financial sustainability of schools found that schools in England face a £3 billion funding shortfall by 2020 (8 per cent of the current schools block) as a direct result of per pupil funding being protected in real terms since 2010, but not increasing with the rate of inflation. In addition schools are facing extra costs including salary increases, higher employment contributions to national insurance

and the teachers' pension scheme, non-pay inflation and the cost of the apprenticeship levy. Consequently current DfE funding levels are not sufficient to cover costs in the majority of schools. The NAO estimates that over 60% of secondary academies and 59% of secondary maintained schools spent more than their income in 2014/15. Therefore, even a school that will have an uplift as a result of the introduction of the NFF is likely to have an overall budgetary reduction in this financial climate.

63. Combining the findings of the NAO's report with the illustrative allocations published by DfE, London Councils' analysis suggests that London's schools are set to experience a real-term reduction in funding of £360 million in 2018/19, the first year of the new NFF, in comparison to current 2016/17 baseline. All schools in the capital will experience a real-terms reduction in funding by 2019/20 because the cap on gains over the first two years of the new funding formula (5.5 per cent) does not exceed the funding pressures identified by the NAO (8 per cent).

64. In addition, London local government will be adversely affected by the cuts from other funding sources including reductions to the Education Support Grant (announced at the Spending Review), with a net reduction of £38 million across London in 2017-18 even taking into account the transition grant and assuming that schools forums will agree to top-slicing of DSG funding.

65. Given the current level of financial instability in the system, as identified by the NAO, the introduction of the NFF could create significant financial instability. Therefore, it is even more important that there is a local mechanism in place to support schools who find themselves in quickly changing circumstances. Government is unlikely to have adequate systems in place to deal with the 20,000 schools across England in any level of detail, accurately and with speed.

66. **London Councils asks that the Government:**

- **ensures that no school loses funding as a result of the introduction of the NFF; and**
- **retains the Schools Forum as the means of distributing school revenue funding to provide local flexibility to respond swiftly to changing circumstances**.

School Places shortfall

67. The 0-18 population will grow by almost 8 per cent compared with just over 4 per cent across the rest of England. London schools have greatly increased capacity in recent years, however London continues to experience the fastest rate of pupil growth in the country. According to London Councils' analysis, 110,364 new school places will need to be created in London between 2016-17 and 2021-22 to meet forecast demand[6].

68. Yet London's Basic Need funding will fall significantly from a high of £589 million in 2012-13 to £155 million in 2018-19. Boroughs have already had to divert funding away from other priorities to meet the funding shortfall – including £239 million of borrowing and £147 million of general council funds between 2010-11 and 2016-17.

69. **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;**

[6] London Councils, *Do the Maths* (2016), http://www.londoncouncils.gov.uk/our-key-themes/children-and-young-people/education-and-school-places/do-maths-2016

- **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.**

70. London Councils welcomes the additional funding found for Special Educational Needs (SEN) places in the Spending Review to protect the High Needs Block from any losses arising from the introduction of the National Funding Formula. We would like to see the same protection applied to the Schools Block. However, this funding may not be sufficient to address the SEN places in London where per pupil places cost around £70,000, putting additional strain on schools budgets. Between 2011 and 2016, the number of pupils educated in dedicated SEN places in London rose 23 per cent from 18,880 to 23,127. A new SEN place costs around three times as much as a mainstream place. We support the introduction of a new £200 million dedicated SEN capital pot, but further funding would be needed to fully meet the additional costs of providing SEN places. **London Councils asks that the Government identifies additional resources to more fully meet the cost of delivering SEN places across the country.**

Early Years Funding

71. The Government's proposal 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. We welcome the additional funding introduced to support the introduction this policy, and support the proposals to use a general labour market area cost adjustment (ACA) in the new Early Years national funding formula, reflecting the higher costs of delivering services in London. We believe that this ACA should be applied consistently across all education funding streams, including the schools block, high needs block and pupil premium.

72. Many local authorities in London will have uplifts in their hourly rate as a result of the additional funding and new ACA. However, a number of authorities in London will see considerable reductions in funding, which will have a detrimental effect on the early years offer available in those authorities.

73. Providers across London have significantly varying costs, particularly local authority maintained nurseries which tend to be more costly. London Councils is concerned that the proposal to require local authorities to give the same universal hourly base rate to all providers could have a considerably adverse impact on maintained nursery provision in London. Given that currently over 140,000 children have places in maintained nurseries, and many of these are located in areas of deprivation with little alternative childcare provision, a reduction in funding to these nurseries could create significant turbulence in the system.

74. **London Councils asks that the Government:**

    - **ensures that no local area experiences a drop in their hourly funding rate per child as a result of the introduction of the NFF for early years; and**
    - **enables local authorities to vary rates to providers to maintain the viability of school nurseries.**

Children's social care

75. Many London boroughs are experiencing significant funding pressures in children's social care, which are, for many, a bigger issue than Adult Social Care. London boroughs overspent by over £70 million in children's services in 2015-16, over twice the level of overspending in adult social care despite overall spending on children's social care being about half as much as adults. From 2010-11 to 2015-16 (the latest available year) spending on children's social care fell by 1.5% in real terms across London while over the same period it rose by 10% in the rest of England. This is in the context of a child population in London which will grow at twice the rate of the rest of England between 2015 and 2020 and long-term trends in the looked after, children in need and child protection cohorts are set to remain broadly stable or decline

slightly, albeit with significant variation in those trends across boroughs. London's disproportionately young population and unique levels of population growth, mean this problem will only increase.

76. **We ask that the drivers of cost within this hugely important service area are fully explored by government as part of the forthcoming Fair Funding Review.**

Devolution to London

77. The UK system of Government is one of the most centralised in the developed world, with power and funding concentrated in Westminster and Whitehall. The twin pressures of funding reductions and rising demand mean the Government must find different ways to deliver services with less funding over the SR15 period and beyond. The decision to leave the EU puts this into even sharper focus, as economic uncertainty could put at risk the Government's public spending plans, and will undoubtedly take up significant additional capacity of the Government and civil service in delivering meaningful public service reform.

78. The case for devolution to city and regional government has been further strengthened by the economic and constitutional effects of the EU referendum result, particularly in London, which is likely to suffer a bigger economic impact than elsewhere in the UK. We believe immediate action is required to address this risk to the nation's public finances and economic wellbeing.

Functional devolution

79. It is, therefore, more important than ever 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's unique governance structure means that devolution to the capital will necessarily require partnership between the Mayor and the boroughs. London Councils and the GLA have been working towards this for a number of years, taking a leading role in setting the devolution agenda and building pan-London and cross sector relationships. The 2014 London Growth Deal set out the case for building London's skills base and supporting businesses; helping Londoners into sustainable employment; and improving housing supply. A more detailed set of proposals were developed in 2015 in the *London Proposition,* which sought devolution and public service reform to help combat issues of complex need and dependency in six key areas: Employment & Complex Dependency; Skills; Business Support; Crime & Justice; Health; and Housing.

80. London Government has been working together on a set of proposals for greater service or functional devolution to London local government and the GLA, of which HM Treasury officials will be fully aware.

81. Good progress has been made in the last year, particularly in skills and health. Within Skills and Employment, we welcome the devolution of the Adult Education Budget (AEB) announced and Work and Health Programme at AS16. **We propose that the Government should go further to enhance the coherence of the skills system by devolving all post 16 skills responsibility, powers and associated funding to London, including: 16 to 19 skills; control over unspent London Apprenticeship Levy revenue; the National Careers Service; and commitment from Government to ensure that leaving the EU does not adversely affect the amount of skills and employability funding (currently around £422 million) received in the capital**.

82. Following the London Health Devolution Agreement reached with government in December 2015, London Partners have been developing proposals to address the urgent need to improve both access to and quality of care in London. Working with government, proposals are being developed to address this challenge through reforms to the management of the health care estate, integration of care supported by

changes to financial and regulatory rules; and more effective action to prevent ill health. **London government expects this to have been formally agreed before the Spring Budget.**

83. **We believe further devolution is required if London's funding and service pressures are to be met, and look forward to continuing dialogue with the Government in the areas of Criminal Justice, Transport, and Housing and planning to deliver a package of funding, planning, and land measures to increase the supply of new homes in the capital.**

Fiscal devolution

84. Devolving responsibilities and services alone will not square the circle of fewer resources, growing service demand, and the need to raise productivity and drive economic growth. Our functional devolution 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, and 100 per cent business rates retention to English local government by 2020, the question of further fiscal devolution and financial autonomy for areas in England beyond 2020 is now being raised.

Business rates reform

85. London Government welcomes the move to 100 per cent retention of business rates by the sector from 2020. Our joint response to last summer's consultation on 100 per cent business rates retention set out a detailed set of proposals for the devolved retention and management of business rates by London Government that would balance the need to incentivise growth against the pressures caused by population growth and any newly transferred responsibilities[7]. It set out a clear vision for a devolved London business rates retention system, including 14 specific asks of Government that would be needed to enable such a devolved system.

86. The proposals sought to address two fundamental issues with the current system: the negative impact of business rates appeals, which currently impedes growth and makes funding unstable; and the premise that revaluations should be to a fixed yield nationally.

87. The fundamental issue with business rates as an economic tax is that, unlike other business taxes, such as income tax or corporation tax where increases in economic activity produce an increase in yield, it does not reflect or respond to the economic activity that is being taxed. This is because the overall tax yield is fixed at a predefined total each year. The resultant redistribution of resources at each revaluation raises questions about the long term sustainability of the 100% business rates retention system, as the main vehicle for funding local government. Any area in the country – notably London, but there are others - where rateable values rise consistently above the national average are accounting for an ever increasing proportion of the national tax take.

88. Despite having just 16% of the rateable properties in England, London's share of the total value will increase from 28% to 32% in 2017. The draft 2017 local list shows that values in London will rise by around 24%, compared with just 4% across the rest of England. This represents the continuation of a long term trend over the last 4 revaluations, which has seen London's share of the national RV grow from just 24% in 1999-2000.

89. Under the current system of revaluation, London's disproportionate growth leads to a corresponding reduction in business rates payable elsewhere in the country at each revaluation. The impact of the 2017 revaluation will mean London's tariff will increase considerably from around £350 million to almost £1

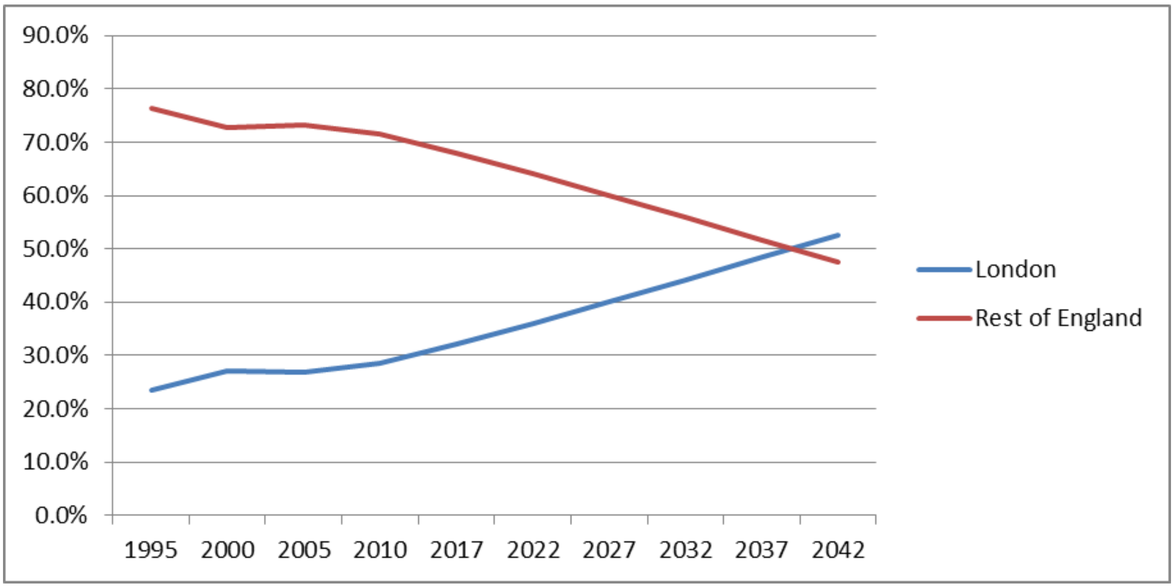
[7] http://www.londoncouncils.gov.uk/node/30451

billion in 2017-18, and there will be an increase in the net top-up received by the rest of the country – meaning a corresponding reduction in potential growth rewards.

90. Recent analysis of the VOA data on the 2010 by parliamentary researchers shows that the top 1% alone of premises (the highest percentile) accounts for 36% of total RV, and the top 3% accounts for 52%. This obviously has a regional dimension with a great deal of higher value properties located in big cities, and increasingly in central London. If the trend from the last 4 revaluations continues, under the current valuation system and assuming the current 5 year revaluations, London would account for over 50% of the value of the national business rates tax base by 2040 (see Figure 4 below).

91. Given these trends, the sustainability of both the tax and the business rates retention system as a whole, must be carefully considered. With an ever increasing proportion of the national business rate yield coming from a, relatively, small number of properties in central London, the entire country's business rates values become increasingly exposed to the volatility of that unique property market. In a sector where rising demand for social care (and other demand driven services) is accounting for a larger proportion of local government expenditure, the Government should consider how comfortable it is with that exposure.

Figure 4 – projected change in London's share of national RV 2000 to 2042



Source: London Councils' modelling

92. This trend would appear to undermine the growth incentives for local government as a whole, as the tax bases of local authorities outside of London would, on average, reduce, and those authorities become more and more reliant on top-up grant.

93. In order to break this trend towards a more and more lopsided system, rather than fitting a pre-defined total, the tax base could be allowed to rise or fall in response to changes in the economy, and areas that are willing and capable of delivering devolved control of business rates could have separate sub-national valuation systems. Where RVs increase, local government could either (a) leave the multiplier untouched and therefore raise greater resources to meet local needs; or (b) reduce the multiplier while maintaining spending. Whether local government then chooses to maximise income against the tax base, or to cut rates as RV rises, would be a matter of (local) political discretion and accountability, taking into account the views of the local business community. In both cases – without increasing the burden on individual taxpayers – accountability and the relationship between local business and politicians will be significantly improved.

94. Breaking the link between revaluation and the fixed quantum of tax would prevent the capital's relatively robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities' own economic investment and growth. This aligns much more closely with the Government's broader industrial strategy of rebalancing the economy and letting individual areas benefit from the proceeds of growth.

95. London's proposals, as set out in the 14 "asks", would help address these problems in ways that would not only help London manage its future sustainable economic growth, and the financial sustainability of its local public services, but would benefit local government in the country as a whole.

96. **London Government firmly believes that a more devolved approach could improve local clarity and accountability, whilst benefiting the entire country. We welcome the Chancellor's commitment in the Autumn Statement to work with London to explore these proposals, and would urge Government seriously to consider the more fundamental challenges and options identified as the current Local Government Finance legislation progresses through Parliament.**

Wider fiscal devolution

97. 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 – and enables local government to fund itself. Business rates devolution is a welcome step in the right direction, however it is highly unlikely that business rates growth (historically no greater than 0.1% per annum above inflation) will consistently outstrip the growing demands on local government services in London – given the population growth pressures described above. London Councils believes that greater local control over a range of business and property taxes, and other fiscal levers, are required rather than exposing local government to the flaws and potential perverse incentives of any one tax.

98. As such, we fully endorse the findings of the reformed London Finance Commission that will shortly publish its final report. It provides a detailed picture of London's long term ambitions in light of the changed circumstances, following the UK's vote to leave the European Union. London is heavily reliant on financial transfers from national government when compared with other international comparator cities. The UK is currently one of the most centralised democracies in the world – but with huge disparity in economic performance between London, the South East and the rest of the country. This is no coincidence. The Organisation for Economic Cooperation and Development (OECD) has found that fiscal decentralisation can *reduce* the gap between lower and higher performing regions within countries[8].

99. The LFC report shows how important it is to consider taxes in the round – both because taxes affect each other and the behaviour of those who pay them, and because we need to manage the risk of falling tax yields when the economy changes or slows down. A capital city more responsible for its own destiny, more accountable for its own success, would design better taxes and provide better services. It makes the case that neither the devolution of power nor economic growth is a zero sum game, and that London's growth can drive overall growth in the UK.

100. It calls on the Government to consider:

- devolving control over the full suite of property taxes, including Business Rates, Council Tax and Stamp Duty;
- assigning a proportion of national taxes, such as income tax and VAT (where all control over tax rates, allowances and thresholds would remain with the Treasury, but a share of the yield would support devolved service responsibilities and infrastructure investment);

[8] Bartolini, D., Stossberg, S.,& Blöchliger, H. (2016) Fiscal Dec 32 Bartolini, D., Stossberg, S.,& Blöchliger, H. (2016) Fiscal Decentralisation and Regional Disparities Paris: OECDentralisation and Regional Disparities Paris: OECD

- granting permissive powers to raise alternative taxes and levies such as Apprenticeship Levy; VED; Air Passenger Duty; and explore a tourism levy, health-related levies and a community levy; and
- expanding TIF to other taxes including stamp duty.

101. The way we raise and spend taxes – and accountability for the decisions we make about both – are central to our democracy, and to the quality of our public services. Stronger, more transparent connections between those who set taxes and those who spend them will produce better services – and better taxes.

102. **London Councils asks that HM Treasury explore in partnership with London Government the scope for greater fiscal devolution within the course of the current parliament, and we call on the Government to commit to make a positive commitment to this end in the Spring Budget.**