Leaders' Committee

Local Government Finance update: Spring Budget 2017 and 100% Business Rates Retention

Item 4

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Summary

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

The report also updates Leaders' Committee on the progress towards 100% business rates retention and London Government's response to the reforms.

Recommendations

Leaders' Committee is asked to note and discuss:

- the key announcements in the Budget that relate to London local government; and
- the progress being made on a London pilot pool for 2018-19 that will require a decision by the autumn.

Local Government Finance update

Introduction

1. On 8 March 2017, the Chancellor Philip Hammond delivered his first Budget, taking tax and expenditure decisions for the financial year ahead. As announced in Autumn Statement 2016, this is the final Budget to be held in the spring. The Budget will be held in the autumn from this year, with a "spring statement" updating on the latest economic forecasts following in March 2018.

2. London Councils has published a member briefing (appended to this report) setting out in detail the key announcements in the Budget that impact on London local government. At this stage, it is too early to confirm what the exact impact on local government will be and more detail is likely to emerge over time.

Spring Budget 2017

3. The Spring Budget included some announcements relating to devolution to London government, adult social care funding and business rates, while there were relatively few new policy announcements in other areas.

<u>Devolution to London</u>

4. The Budget includes detail of the Memorandum of Understanding on further devolution to London[1]. This covers development and funding infrastructure; business rates; transport; criminal justice, health; skills; and employment support.

<u>Social care funding</u>

5. An additional £2 billion of funding will be made available to local government in England over the next 3 years (£1 billion in 2017-18; £674 million in 2018-19; and £337 million in 2019-20). Final allocations are expected to have been published by the time Leaders' Committee meets but, at the time of writing, London local government will receive £316 million of the £2 billion. This appears to be "new money" although this is difficult to verify from the departmental expenditure limits that have been published in the Budget.

6. London Councils understands that 90% of the new funding will be distributed using the same methodology as the Improved Better Care Fund (which takes into account councils' relative ability to raise funding from the social care precept – assuming all eligible

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[1] https://www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london

authorities will raise by 2% per annum), with the remaining 10% using the Adult Social Care Relative Needs Formula. Funding is likely to be a ring-fenced specific grant.

7. The Chancellor's speech suggested the funding crisis is not simply a financial issue but a performance one – specifically referring to the fact that 24 council areas were responsible for over half of delayed discharges from hospitals due to a lack of social care support. The funding will, therefore, be supplemented with "targeted measures" to help ensure that those areas facing the greatest challenges make rapid improvement, particularly in reducing delayed transfers of care between NHS and social care services. Further detail is expected to be published in due course.

8. In addition, the government has listened to the vocal lobbying by the sector, which has called for a fundamental review of the social care system, and will publish a Green Paper by the end of 2017 focusing on long-term sustainability of the sector.

9. To help improve capacity within Accident and Emergency departments, an additional £425 million will be made available for local NHS services and A&E improvement and an as well as additional £100 million of capital investment. In relation to Sustainability and Transformation Plans, the government will invest £325 million over the next three years to support the local proposals for capital investment where there is the strongest case to deliver real improvements for patients and to ensure a sustainable financial position for the health service. A further round of proposals will be considered in the autumn and tested for value for money. NHS areas will be encouraged to raise proceeds from unused land the reinvest in the health service.

Business rates

10. In response to vocal lobbying from the business sector, the Budget found additional transitional funding to help small companies facing the largest increases worth £115 million nationally and an estimated £52 million for London businesses over 5 years.

11. In addition, a new discretionary relief was created to provide support to individual hardship cases in local areas worth £180 million in 2017-18 and £305 million over 5 years nationally. This will be allocated by formula with details to be set out in due course. Councils will have discretion over how this is allocated, however the announcement may raise unrealistic expectations amongst local businesses.

12. A third, more specific, relief was announced for public houses with a rateable value of up to £100,000 that will each receive a discount of £1,000 for one year from 1 April 2017.

This will cost £25 million nationally in 2017-18 (London Councils estimates that around 8% of this will relate to London). Local government will be fully compensated for the loss of income as a result of these measures (total cost of £445 million nationally over 5 years).

13. The government also committed to setting out its preferred approach for delivering its aim to deliver more frequent revaluations of properties at least every 3 years in "due course" and to consulting ahead of the next revaluation in 2022. This will be too late for the start of the 100% retention system, but may give further opportunity for London government to lobby regarding the adequacy of the valuation system that continues to focus more and more of the national rates take on central London.

14. More significantly, in relation to the reforms towards 100% business rates retention, the London devolution MoU states: "The government will explore options for granting London government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed" (further details are set out in paragraphs 17 to 31 below).

<u>Schools funding</u>

15. As part of the government's plan to raise productivity, the Budget announced policies to transform technical education for 16-19 year olds, creating sector-specific routes to employment, supported by an increase in the number of hours of learning of over 50%, and including a high quality work placement for each student government and maintenance loans for students pursuing technical education at higher levels. The government will extend the free schools programme with investment of £320 million in this Parliament to help fund up to 140 schools including independent-led, faith, selective, university-led and specialist maths schools. A further £216 million of investment in school maintenance to improve the condition of the school estate was also announced.

<u>Efficiency review</u>

16. No additional detail was set out in relation to the government's efficiency review that aims to find £3.5 billion of efficiency savings from departmental budgets in 2019-20. The Chancellor has asked departments to look at between 3% and 6% cuts to their departmental budget in 2019-20. It is, therefore, not known how this will impact on local government and the four year funding offer; however, the Chancellor has intimated that any efficiency savings made within local government will be directed to fund adult social care, which suggests local government will not contribute to the £3.5 billion total.

100% Business Rates Retention reforms

17. Government is piloting arrangements for 100% business rates retention ahead of full implementation in 2019-20. The Local Government Finance Settlement confirmed pilot arrangements in 6 areas for 2017-18, including Greater Manchester, Liverpool city region, the West Midlands, the West of England and Cornwall. In London, this is limited to the transfer of funding for TfL capital and Revenue Support Grant to the GLA's retained rates with its share of retained rates increasing from 20% to 37%, while funding for boroughs will be unaffected.

18. The government is responding positively to the joint London Government proposals for devolution of business rates. The Memorandum of Understanding on further devolution to London commits government to exploring options for granting London government greater powers and flexibilities over the administration of business rates including supporting the voluntary pooling of business rates in London, subject to appropriate governance structures being agreed. There appears to be a window for the boroughs to be included in, and help shape, a London pilot from 2018.

<u>The London 2018-19 pilot</u>

19. HMT and CLG see pooling as a precondition for a London pilot. A pool is where a group of authorities come together under the business rate retention scheme to aggregate their resources and be treated as a single entity under the scheme for the purposes of calculating tariffs, top-ups, levies and safety net. Under the 50% scheme, there are currently 29 pools containing 207 authorities. The main reason areas would wish to pool currently is to make a collective saving on levy that would otherwise be paid by tariff authorities, where they expect to grow. Pools overall tend to either be top-ups (in which case no levy would be paid) or small tariffs meaning only a small levy is paid on any growth. Each pool has its own governance arrangements and each has negotiated its own mechanism for redistributing levy savings and compensating authorities who would otherwise be in the safety net.

20. As with the pilots for 2017-18 (most of which are pools), a London pilot pool in 2018-19 would trial some elements of the new 100% system. These include, but may not be limited to:

    - <u>Removing the levy on growth in tariff authorities</u>. This is currently expected to be £29m in 2016-17 (£14m paid by the boroughs and £15m by the GLA) and around £78m in 2017-18 (£34m paid by the boroughs and £45m by the GLA). As with existing pools, an agreed method for distributing any levy “saving” would be necessary.

- Providing early access to retaining 100% of growth in rates. The territory to be explored is how much of the additional growth that the pilot would unlock (the pool would retain 100%) would be retained locally and how much might be used collectively to invest strategically in pan-London projects that would, in turn, unlock further growth. A balance would have to be struck between individual and collective reward/opportunity.
- Rolling in existing grants, such as RSG, Improved Better Care Fund and Public Health Grant. These are the grants that the 2017-18 pilots will be rolling in that are relevant to London. CLG has indicated that only these and transport grants (that are already included in London) will be considered to be included in the 2018-19 pilots, however there may be opportunity to negotiate more.
- Having a preferential safety net threshold. In order to recognise the greater exposure to risk, the current pilots have an increased safety net threshold from 92.5% to 97% (i.e. overall business rates income would have to reduce by less before the support kicked in). In addition, CLG is willing to underwrite the risk in a downturn of income for pilot areas which have a collective “no-detriment” clause that would ensure that London (i.e. the pool) would not be worse off than an equivalent pool under the existing arrangements. Where the pool grows it would be for the pool to determine how boroughs that would otherwise have been worse off are compensated.
- Creating the opportunity to transfer properties on the Central List to a regional list via a lead authority. This meets one of our specific “asks”, providing an incentive for better use of, say, TfL assets, and access to retained growth on a bigger tax base. The thinking here is that as it would be London Business Rates used to invest in these assets these should be under London control. Early analysis of the 2017 Central list shows that London Underground and the DLR alone account for around £90 million of Rateable Value. A conservative estimate of other possible assessment suggests around £250 million of additional Rateable Value may be suitable for a “London list”.
- Enabling London to agree “local growth zones”. This is one of the provisions in the LGF Bill that the government is keen to promote in order to incentivise pools. Involvement in a pilot would provide the opportunity to help define the parameters for SoS approval, and may enable some LGZs to be established in 2018-19 in London.

21. A further area that may be included within any pilot discussion, but is currently not recognised in the LGF Bill, is greater flexibility to determine thresholds for and parameters around mandatory reliefs. These will amount to around £780 million in 2017-18 in London, the thresholds and parameters for which are currently set by central government, and the vast majority of which are SBRR, Charitable relief and Empty Property relief. The London Government proposal argues these three reliefs should not be viewed in isolation but should be considered in a more holistic way as part of a wider package of levers that local authorities and the GLA would have to incentivise and develop micro-economic areas such as town centres, high streets, retail or industrial parks. This might, for example, include a total relief allocation with flexibility granted to London Government on how it would be used.

<u>Potential benefits</u>

22. Benefits from a voluntary pilot pooling arrangement could be threefold:
    a. There are likely to be <u>clear cashable benefits</u> from:
        i. Increased growth retention, some of which may be used to unlock further growth if invested strategically
        ii. Savings from removing the Levy
        iii. Access to a share of growth from Central List properties
        iv. Future retention of more growth from local growth zones (albeit the benefits of these would take longer to accumulate)

    b. There are <u>strategic benefits</u> from having a dialogue with the decision makers. In negotiating the pilot, it is likely that London Government will have greater influence over the elements that are being piloted and what the final 100% system might look like (e.g. the parameters of Local Growth Zones).

    c. Pooling may unlock access to <u>further devolution of responsibilities</u> – as indicated in the latest consultation – which London clearly has the capacity to take on by the size of its tariff.

23. Longer term benefits that would accrue include gaining greater trust from government regarding London’s ability to self-govern and in collectively undertaking growth initiatives (such as some pooling of collective growth or LGZs) that increase the size of the overall business rates take in London. These are secondary, however, to the initial pooling decision for 2018-19.

Issues to be considered

24. The current estimates of growth suggest the pool overall would not receive a safety net payment and so consideration must be given to how boroughs, who would be worse off than they otherwise would have been under a 50% retention system, would be compensated under a 100% pool.

25. The trend in growth projections suggests there will be a levy saving to be redistributed (for example, boroughs and the GLA expect to pay a levy of £78m on growth in 2017-18). An appropriate principle for distributing this would be necessary. It could, for example, simply be distributed in proportion to baseline funding; or it could be pooled to create capacity for strategic investment to grow the overall pot. Similar to the decision on how the additional retained (100%) growth is distributed, the balance between individual incentives and collective opportunity would need to be agreed.

26. Boroughs and the GLA must define with CLG what the overall retention split would be between the two tiers in 2018-19. The principle agreed by the Mayor and Leaders to date is that under the 100% system the retention the split would be determined by the responsibilities being funded. Under the 50% scheme so far, the shares have been split (Central:LBs:GLA) 50:30:20. From 2017-18, the shares change to 33:30:37 as a result of the TfL capital and RSG transfers to the GLA. The split within a 2018-19 pilot pool would be determined by which grants or responsibilities would be rolled in.

27. It is important to stress that setting up a pool for 2018-19 does not “lock in” boroughs to such a scheme under the new system from 2019-20. One of the key principles would have to be that London Government would reserve the right to dissolve the pool in 2019-20 if final government proposals are not acceptable to individual boroughs.

Governance

28. Any pooling arrangement will require appropriate governance mechanisms – as current pools and pilots do. The government would seek to test the London governance arrangements of the pool through the pilot. So far, London Government’s proposals have indicated that the Congress of Leaders would be the appropriate decision making body to oversee the set up and operation of the pool (and ultimately any future London deal). In order to establish the pool a **unanimous agreement** of both Leaders and the Mayor would be required. The subsequent decisions, such as principles for growth share or local growth zones, would need to be taken collectively by the Mayor and Leaders, building on the existing Congress arrangements and developing the principles set out in the London

Finance Commission in 2013 (and developed further in the latest LFC report), and voting arrangements that would ensure the appropriate protection of minority interests within London.

29. It is worth noting that while the MoU refers to "voluntary" pooling of business rates, the LGF Bill includes new powers for the Secretary of State to designate pools regardless of the wishes of their constituent members, under the 100 per cent retention system.

Next steps

30. London Councils and the GLA have begun early discussions with DCLG in relation to a London pilot pool for 2018-19. These discussions will continue and be informed by intensive work with relevant officer groups – SLT, CELC and the devolution and public service reform sub-group – but will ultimately be a matter for Leaders' Committee in the coming months.

31. The Business Rates Retention Steering Group has set out a clear timeline which has earmarked the "summer" (July-November) to finalise the 2018-19 pilots, with any London pilot pool to be agreed formally in time for the Autumn Budget (likely to be November). The democratic timetable of the boroughs and the Mayor will therefore need to be considered. Gaining agreement to such a pilot pool in time for the Autumn Budget would likely require due consideration by individual councils, Leaders' Committee and the Congress in turn.

Recommendations

32. Leaders' Committee is asked to note and discuss:
    - the key announcements in the Budget that relate to London local government; and
    - the progress being made on a London pilot pool for 2018-19 that will require a decision by the autumn.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None.

Appendix A – Spring Budget 2017 – Member briefing

Spring Budget 2017

Yesterday (8 March), Chancellor Philip Hammond delivered his first Budget providing the usual update on the public finances and the state of the overall economy. The Spring Budget included some very significant announcements relating to devolution to London government, adult social care funding and business rates, while there were relatively few new policy announcements in other areas. This briefing sets out the key details relevant for London local government.

Introduction

This will be the last spring budget as future budgets will be moved to the autumn from 2017. The government will, however, continue to respond to the OBR's economic forecasts in the spring in a "Spring Statement" from 2018.

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

Key headlines

- **Social care funding:** Additional £2 billion of funding will be made available to local government in England over the next three years (£1 billion in 2017/18; £674 million in 2018/19; and £337 million in 2019/20). London's share of the £2 billion will be £316 million

- **A Green Paper will be published** by the end of 2017 focusing on long-term sustainability of the social care sector.

- **London Devolution deal**: Government has published a Memorandum of Understanding (MoU) covering funding infrastructure; business rates; transport; criminal justice, health; skills; and employment support.

- **Business rates devolution**: The MoU commits government to "exploring options for granting London government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed".

- **Business rates revaluation**:
  - Additional cap on increases for those coming out of SBRR up to £600/annum – worth £115 million nationally over five years.

- Discretionary hardship will be given to local authorities to distribute at their discretion – worth £300 million nationally over five years.

- £1,000 discount in 2017/18 for all pubs with an RV lower than £100,000 – worth £25 million nationally.

- **Departmental cuts**: No further detail on the £3.5 billion efficiency review savings required in 2019/20.

- **Free Schools**: £320 million will be made available to expand the free schools programme nationally including selective free schools.

- **School maintenance:** A further £216 million will be provided for school maintenance nationally.

Main Announcements

Efficiency Review

- The Chancellor announced in the lead up to the Budget that he had asked departments to look at between 3-6 per cent cuts as part of the efficiency programme needed to find £3.5 billion of cuts in 2019/20. There was no further detailed on where these planned savings will come from in the Budget.

Health & Social Care

- **Additional Funding** – An additional £2 billion will be made available to councils in England between 2017/18 and 2019/20 (£1 billion in 2017/18; £674 million in 2018/19; and £337 million in 2019/20).

- This appears to be 'new money' and it is assumed this will be a ring-fenced specific grant.

- The Chancellor's speech suggested the funding crisis is not simply financial, but relates to performance issues – specifically referring to the fact that 24 council areas were responsible for over half of delayed discharges from hospitals due to a lack of social care support. The funding will therefore be supplemented with "**targeted measures**" to help ensure that those areas facing the greatest challenges make rapid improvement, particularly in reducing delayed transfers of care between NHS and social care services.

- The government will publish a **Green Paper on social care** by the end of 2017 focusing on long-term sustainability of the sector.

- **Accident and Emergency** – An additional £425 million will be made available for local NHS services and A&E improvement. An additional £100 million of capital investment will be made available.

- **Sustainability and Transformation Plans** – The government will invest £325 million over the next three years to ensure a sustainable financial position for the health service. A further round of proposals will be considered in the autumn and tested for value for money. NHS areas will be encouraged to raise proceeds from unused land the reinvest in the health service.

> **"The additional £2 billion appears to be 'new money' and it is assumed this will be a ring-fenced specific grant"**

London Devolution

- A **Memorandum of Understanding**[1] has been agreed on further devolution to London.

- The agreement with the Greater London Authority (GLA) and London Councils includes joint working to explore the benefits of, and scope for locally-delivered criminal justice services; action to tackle congestion; and a taskforce to explore piloting a new approach to funding infrastructure.

[1] www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london

- The agreement also commits to explore options for devolving greater powers and flexibilities over the administration of business rates greater local influence over careers services and employment support services, as well as working with the GLA and London Councils to ensure that employers can take advantage of the opportunities offered by the apprenticeship levy.

- The government and London partners will agree a **second Memorandum of Understanding on Health and Social Care**.

Business Rates Revaluation

- Further support announced in addition to existing transitional relief for the business rates revaluation in England from April 2017:

  - Support for small businesses losing Small Business Rate Relief to limit increases in their bills at either £600 per annum or the real terms transitional relief cap for small businesses (whichever is greater). This amounts to £25 million nationally in 2017/18 and £115 million over the 5 year revaluation period (London Councils estimates London's share would be around £52 million).

  - Discretionary relief to provide support to individual hard cases in local areas – worth £180 million in 2017-18 and £305 million over five years nationally - to be allocated by formula and details to be set out in due course. Councils will have discretion over how this is allocated, however the announcement may raise unrealistic expectations amongst local businesses.

  - £1,000 business rate discount for public houses with a value of up to £100,000 - subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017. This will cost £25 million nationally in 2017/18 (London Councils estimates that around 8 per cent of this will relate to London).

- Local government will be fully compensated for the loss of income as a result of these measures (total cost of £445 million nationally).

- Government will also set out its preferred approach for delivering its aim to deliver more frequent revaluations of properties at least every three years in "due course" and consult ahead of the next revaluation in 2022.

100% Business Rates Retention

- The London devolution MoU states: "The government will explore options for granting London government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed".

Schools

- **The free schools programme will be extended** with investment of £320 million in this Parliament to help fund up to 140 schools, including independent-led, faith, selective, university-led and specialist maths schools. Of these 140 schools, 30 will open by September 2020 and count towards the government's existing commitment.

- A further **£216 million will be provided for school maintenance nationally**.

- School transport – Entitlement to free school transport will be expanded to include children aged 11-16 who receive free school meals or whose parents claim full working tax credit to their nearest selective school, in line with provision already afforded to faith schools. This will cost around £5 million per year.

"The agreement also commits to explore options for devolving greater powers and flexibilities over the administration of business rates greater local influence over careers services and employment support services"

Skills

- Technical education for 16-19 year-olds will see an increase in the number of hours of learning by over 50 per cent, and will include a work placement for each student.
- Maintenance loans will be provided for students pursuing technical education at higher levels.

Housing and Planning

- The Chancellor made no additional commitments or announcements on housing or planning beyond those already announced at Autumn Statement 2016, and in the Housing White Paper.

Transport & infrastructure

- The Budget confirms how a small part of the £23 billion National Productivity Investment Fund (NPIF) (announced at the Autumn Statement 2016) will be spent – on improvements to transport infrastructure, including:
  - £690 million for new local transport projects, to improve congestion on roads and public transport
  - £220 million to improve congestion points on national roads, with £90 million going to the North and £23 million to the Midlands

Welfare

- **Childcare** - The government has announced tax-free childcare for working families with children under 12, which will provide up to £2,000 per year per child to assist childcare costs. Additionally, free childcare entitlement for working families with 3-4 year olds will double from 15 to 30 hours per week from September 2017. This is worth around £5,000 per child per year.
- **Universal Credit** - As announced in the Autumn Statement, the taper rate for Universal Credit will reduce from 65 to 63 per cent. Additionally, the government announced certain exceptions to limiting support to two children for the child element of universal credit and child tax credits. These exceptions will account for situations such as a parent having multiple births.

- **Domestic Violence** - The government will provide a further £20 million over the course of this parliament to support victims of domestic violence and organisations combatting abuse. This will lead to a Domestic Violence and Abuse Act, and increase total funding for the "Ending Violence against Women and Girls" strategy to £100 million.

> "Public sector net borrowing is likely to be significantly lower this year than anticipated in Autumn Statement 2016"

Economic outlook

- Alongside the Budget, the independent Office for Budget Responsibility (OBR) published new forecasts for the economy and the public finances. Public sector net borrowing is likely to be significantly lower this year than anticipated in Autumn Statement 2016. Borrowing is now forecast to rise in 2017/18 before returning to the downward trajectory predicted in the Autumn Statement. This leaves the Chancellor on course to meet his target for structural borrowing in 2020-21, but not yet to achieve his goal of balancing the public finances "at the earliest possible date in the next Parliament" – as the deficit will be £16.8 billion in 2021/22.

Key Economic & Fiscal Indicators

- Projected public sector net borrowing is set to be lower in every year since the Autumn Statement over the relevant forecast period (2016/17 to 2020/21). Table 1 below outlines the key economic and fiscal indicators underpinning the Budget. Public sector net borrowing is forecast to increase next year largely reflecting one-off factors and timing effects which flatter current year's figures at the expense of next year's figures. As such, the budget deficit as a per cent of GDP has been revised down in 2016/17 since the Autumn Statement; however, the forecast deficit in 2020/21 remains unchanged since the Autumn Statement at 0.7 per cent, with borrowing peaking in 2017/18.

- GDP is forecast to increase from 2016/17 to 2020/21 following a lower GDP for 2016/17 than previously outlined in the Autumn Statement. GDP in 2017/18 is forecast to be higher than outlined in the Autumn Statement, and a lower forecast for GDP for the following three years.

Table 1 - Key Economic & Fiscal Indicators

	2016	2017	2018	2019	2020	2021
Gross domestic product (GDP)(%)	1.8	2.0	1.6	1.7	1.9	2.0
Public sector net borrowing (£bn)	51.7	58.3	40.8	21.4	20.6	16.8
Public sector net borrowing (deficit % of GDP)	2.6	2.9	1.9	1.0	0.9	0.7
Public sector net debt (% of GDP)	86.6	88.8	88.5	86.9	83.0	79.8
LFS unemployment (% rate)	4.9	4.9	5.1	5.2	5.2	5.1
Employment (millions)	31.7	31.9	32.1	32.2	32.3	32.5
CPI Inflation (%)	0.7	2.4	2.3	2.0	2.0	2.0

Source: Office for Budget Responsibility - Economic & Fiscal Outlook, March 2017

- Driven by household energy bills rising faster than anticipated and a change in the personal injury discount rate (expected to raise motor insurance premiums), CPI for 2017/18 is forecast to be higher by 0.3 per cent than predicted in November. For 2018/19 CPI has been revised downwards since November following the impact of the modest appreciation of sterling on import prices and soft drinks industry levy to raise prices less than expected. Employment has been revised up following revisions to GDP.

Growth

- GDP growth figures have been revised up by 0.6 per cent in 2017-18 since the Autumn Statement. The pick-up in GDP growth has largely been driven by consumer spending, which may have been supported by the past boost to real incomes from temporarily low inflation. Growth figures for proceeding years to 2020/21 have been revised down.

Commentary

The Chancellor's first Budget was a broadly positive one for London local government. Unlike his first Autumn Statement in November, when the silence regarding health and social care pressures was deafening, this Budget had local government funding at the forefront.

The new money – and it appears at this stage that it is genuine "new" money – for adult social care is very welcome given the current funding crisis and the persistent lobbying that London Councils, and the sector as a whole, has been undertaking for many months. The funding will go some way to addressing the immediate pressures in the system; however, it is by no means a permanent solution to the underlying long term pressures – and will do little alleviate the stability of the provider market. To close the funding gap, additional funding needs to be permanently put into local government baselines.

"The new money – and it appears at this stage that it is genuine "new" money – for adult social care is very welcome given the current funding crisis"

Furthermore, the devil in the detail around the specific reporting requirements linked to the extra funding will be important, as will the level of prescription regarding its use and exactly how much weight the government will give to the "targeted measures" to help ensure that those areas facing the greatest challenges make rapid improvement, particularly in reducing delayed transfers of care between NHS and social care services.

It is positive that the government has listened to our calls for a fundamental review of the social care system, and will publish a Green Paper by the end of 2017 focusing on long-term sustainability of the sector.

On business rates, there was good news, but again more of a sticking plaster than a long term solution to a fundamental issue.

Support for small businesses facing the biggest increases is welcome, but the scale (we estimate just £52 million over five years in London) is small beer considering the huge rates rises that London businesses face compared to the rest of the country. Furthermore, the last minute nature of the change is having a significant impact on local authority finance departments in getting their bills out on time and could surely have been dealt with earlier given that the extent of rates rises has been known since September. The £1,000 discount for pubs will have little impact in the capital where the rateable value of many is likely to be over the £100,000 threshold. While the discretionary relief for the hardest cases is welcome, again the scale of funding (£300 million over five years nationally) will have little impact on businesses in London and may raise their expectations, putting councils under pressure with their local business communities.

The impact of the 2017 Revaluation highlights a more fundamental issue with valuation system which must be addressed concerning the fixed yield system that redistributes the tax burden at each revaluation around the country - typically focussing a greater proportion of the national rates take on central London (if current trends continue, by 2040 we estimate that over 50 per cent of the national rates will be collected in London). The government's commitment in the Budget to review the valuation system and consult before the next revaluation (due in 2022) is welcome, but London Councils would urge them to do so before the start of 100 per cent retention in 2019/20.

Finally, the London Devolution announcement represents a significant and important step in the long running negotiations that have been underway between London Councils, the GLA and the government over a number of years. Further work will continue in the coming months to ensure the devolution strands that have been announced are delivered and built upon. The possible London business rates pilot that is being explored for 2018/19 may provide an opportunity to test some of the reforms to 100 per cent retention delivering financial and strategic benefits for London government. Successful piloting of such an arrangement could help strengthen the government's confidence in London government's collective ability to take on further service responsibilities and funding in the future.

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Links:

Read more on London Councils' reaction to the 2017 Spring Budget

This member briefing has been circulated to:

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