Representation to Government

Autumn 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.

Summary

1. London Councils welcomes the opportunity to make a representation to government ahead of the first Autumn Budget of the new fiscal event cycle. The new process involving a single event earlier in the year will provide greater stability and additional time for local government to adjust to announcements prior to commencement of the new financial year. This is very welcome.

2. The general election has done little to reduce uncertainty regarding the nation's future as it negotiates the terms of it departure from the European Union, and the UK's future relationship with it. The sheer scale of the legislative challenge of implementing this is illustrated by the degree to which Brexit legislation dominated the Queen's Speech, and the requirement for a two year parliament to enact it.

3. The dominance of EU affairs in the public discourse must not come at the price of a diminished domestic agenda, and it need not. The unique set of circumstances in which we find ourselves has created an important opportunity for the government to address some of the key economic and financial challenges facing the country.

4. As the evidence in this submission demonstrates, the current system for funding local government is unsustainable. With reform of business rates and the Fair Funding Review already under way, and with two years remaining on the current spending review period, the government has the opportunity to fundamentally and comprehensively reconsider how local government funding can be put on a sustainable footing for the long term.

5. The current process of recalibrating the UKs relationship with the rest of the world makes it more important than ever that it maintains its capital as a truly leading global city. London's success benefits all, with London generating just under 30 per cent of the national 'economy taxes' -

around £140 billion per annum in 2014/15[1]. This supports investment and service provision across the UK. The future sustainable growth of London's economy in turn depends on the success of the rest of the country underpinned by that investment.

6. However, the size of the task facing London local government in maintaining and enhancing the capital's position should not be underestimated. London's population is growing twice as fast as that of the rest of the country, and the cost of meeting this demand is rising at a time of ever decreasing resources for doing so.

7. This has created pressure across core services. The very real pressures in adult social care has been much publicised in recent times it is important to be recognise that other growing demands, including services for children and the homeless, present as great or greater financial threats. We estimate that London boroughs face a total funding shortfall of at least £1.6 billion per annum by 2020.

8. 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.

9. 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 had productive discussions on both fiscal and functional devolution with HM Treasury, and we welcome the on-going commitment to working with London government on devolution as expressed at the Spring Budget 2017 and subsequently.

10. 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, the question of further fiscal devolution and financial autonomy for areas in England remains a high priority.

11. This submission is set out in three sections. The first section explores the financial context of local government finances. It sets out the evidence demonstrating that the current local government finance system is increasingly unable to meet increases in demand and cost of delivery. It demonstrates that fundamental reform is necessary.

12. The second section takes a more detailed look at the acute pressures in three core service areas: housing; adult social care, and children's services. In each case, it examines the problems and proposes solutions to stabilise provision, with a view to creating enough time to design and implement a new local government finance system that is fit for the future.

[1] Centre for Cities, "*London generating 30% of UK 'economy taxes' – with serious implications for post-Brexit Britain*" press release 7 July 2016 (Click here) & "*10 years of tax: how cities contribute to the national exchequer*", 7 July 2016, figure nine, page 11.

13. The third section outlines the case for devolution and the opportunities that this presents. It makes the case for extensive fiscal reform, as well as functional devolution. Progress has already been made in this area and London government hopes that this budget will see further announcements that maintain the momentum.

14. In summary, we urge government to take immediate steps in this budget to stabilise the local government finance system by recognising currently unfunded burdens, providing additional resources as appropriate and removing restrictions that prevent local councils from raising or spending their own resources. This will create the space necessary to redesign the local government finance system for the future. Further, the government should take the opportunity to accelerate progress on the existing discussions with local government in general and London government in particular, as well as start new conversations around how to empower local leaders to provide truly sustainable public services.

Financial Context

The disproportionate funding cuts to local government

15. 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 local government finance settlement confirmed cuts to core funding (Settlement Funding Assessment) of 26 per cent in real terms over 3 years. This comes on top of a cumulative cut to core funding of over 50 per cent in real terms since 2010-11[2], meaning **core funding from central government will have fallen by 63 per cent in real terms over the decade to 2019-20.**

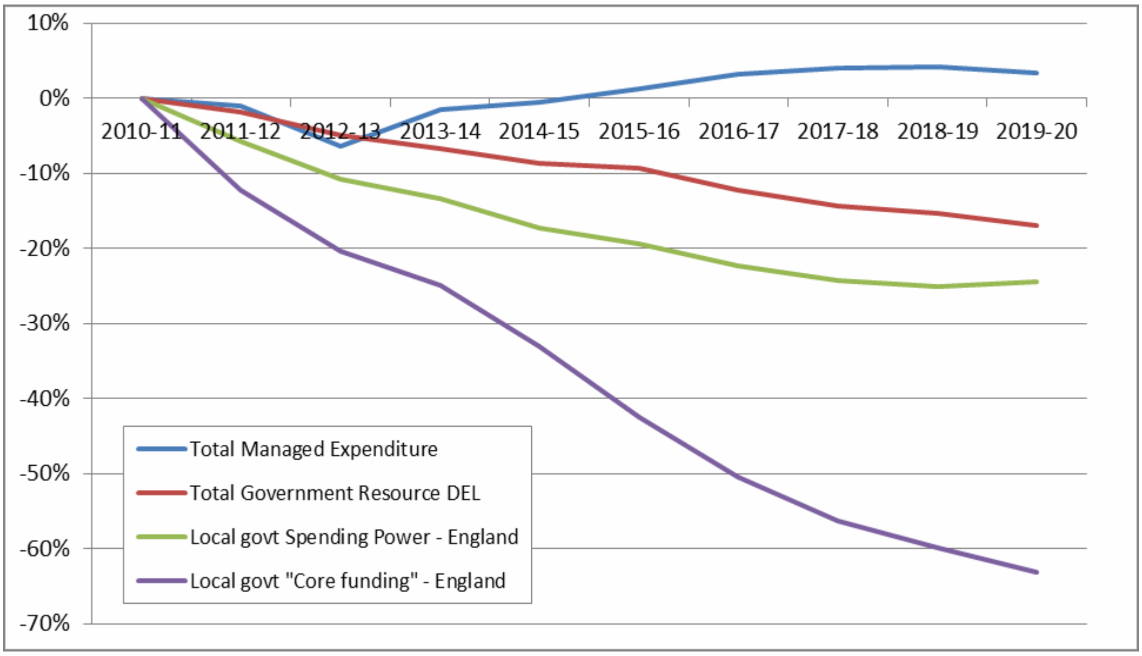
16. Within the current four year funding settlement, London boroughs will see the largest funding reductions to "Core Spending Power" of all regions.[3] The cumulative effect of these funding reductions, inflation and rising demand for services will create a funding gap in London local government that is estimated to be in the region of £1.6 billion in 2019-20. This is approximately three times the estimated general fund unallocated reserves available in 2019-20 to manage the risk of in-year spending pressures.

17. 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 deliver disproportionate cost savings.

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

[3] Excluding Fire Authorities and the GLA

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.

Growing demand for services

18. As a global city, London's demographic profile is notably different to many other parts of the country. While this in part helps drive London's economic success, it is also a driver of significant financial pressure on public services in the capital. These are also manifestly different from elsewhere. If London is to continue to the deliver growth and revenues that the UK economy is so reliant upon, it must be able to meet the demand for services from its own growing and dynamic population. The cumulative effect of austerity is that funding gaps are being identified across an ever increasing range of core service areas and "crunch years" are drawing ever closer. This section demonstrates how growing demand for services and the increasing cost of providing them is placing unsustainable pressure on the capital's finances.

19. With some of the most deprived areas of the country sitting alongside some of the most affluent, London has a range of complex social problems. London is Europe's largest and most diverse city with more than a third of residents born outside the UK[4], and the lowest proportion of people who reported their main language as English[5]. Its population is more transient than that of the rest of England, meaning boroughs are serving populations with increasingly complex needs.

20. 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

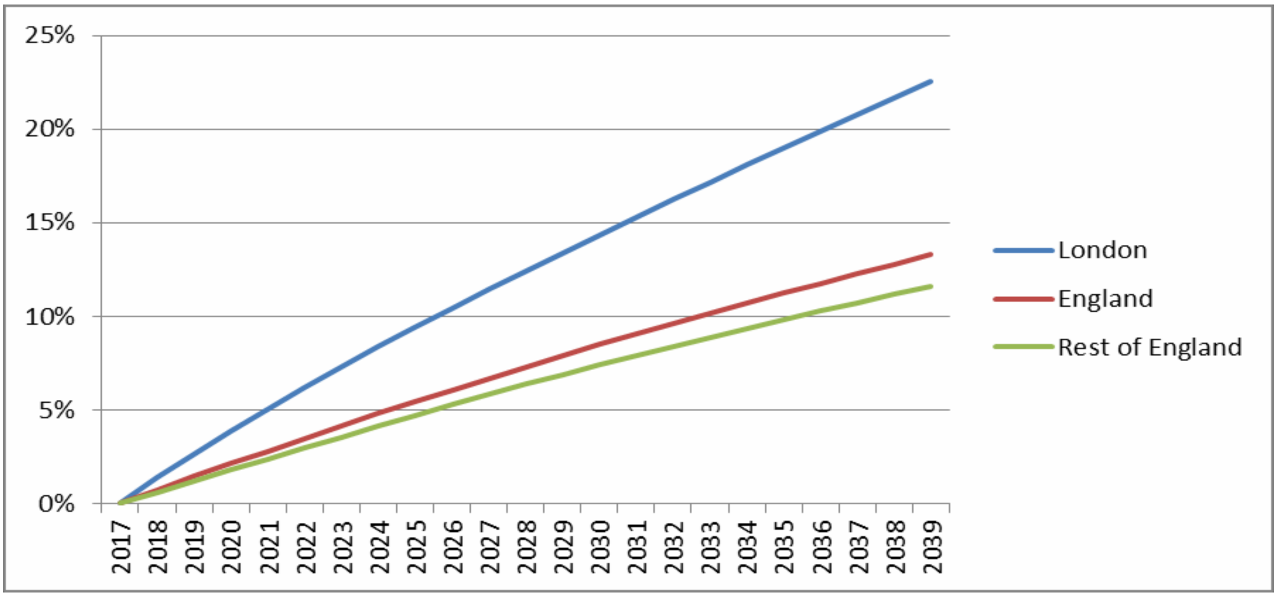
[4] Office for National Statistics, "International Migrants in England and Wales: 2011" 11 December 2012, p2.
[5] Office for National Statistics, "Language in England and Wales: 2011" 4 March 2013, p4

2015 Index of Multiple Deprivation). Just under a quarter of London's LSOAs fall within the most deprived 20 per cent of England.

21. Despite being the smallest region by area in the UK, London has a population roughly equal to that of Scotland and Wales combined. Over the decade to 2024 the capital is expected to grow by a further 1.17 million people – roughly equivalent of the population of Bristol[6] - overtaking the south east to become the country's most populous region in the process. This substantial growth will account for more than a quarter of the overall growth in England and take London's population to an estimated 9.7 million[7]. This population density creates unique challenges for public services in the capital, most notably in housing, transport and healthcare.

22. Looking further ahead this rapid growth is set to continue. Over the period to 2039, London's population is forecast to increase by 23 per cent (to over 11 million), double the rate (12 per cent) of the rest of England (see Figure 2 below).

Figure 2 – Estimated change in population - London v England 2017 to 2039



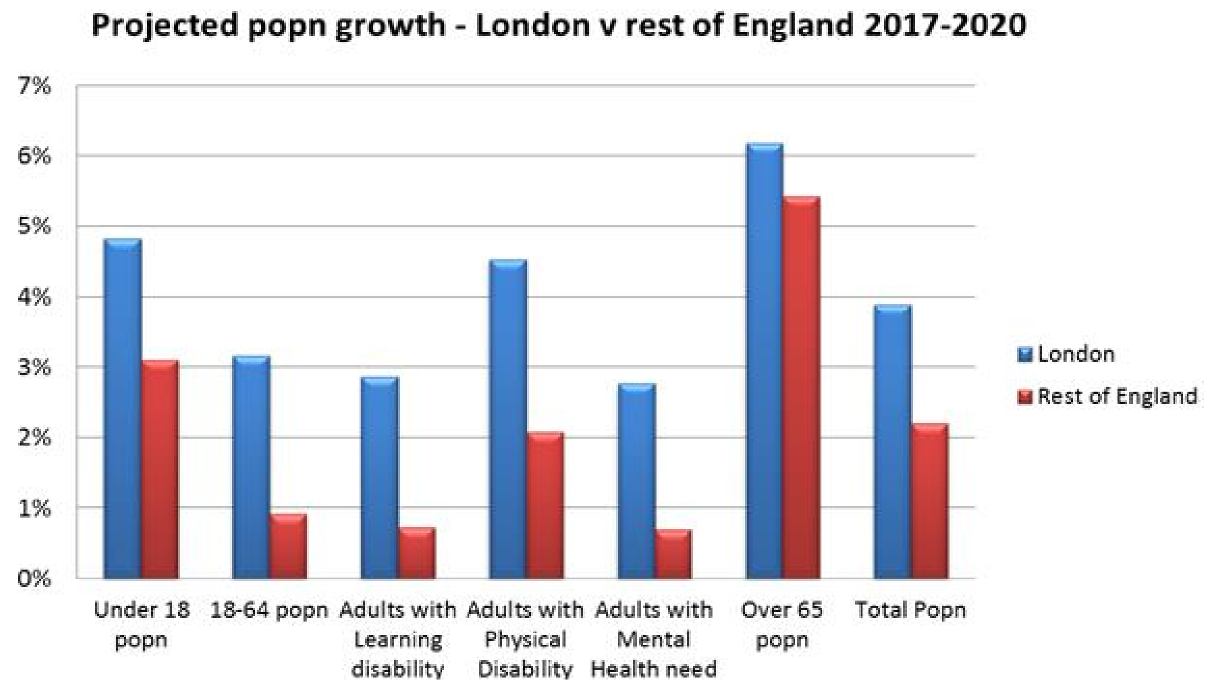
23. In the more immediate future, the latest projections estimate London's population will rise by 2.8 per cent to 9.1 million by 2020 – over ten times greater than the anticipated rate of increase for the rest of England (0.2 per cent). This will not only worsen London's housing crisis, but will place noticeably greater demands on London boroughs to deliver children's services and schools places, as well as health and adult social care for the elderly.

24. Figure 3, below, shows there is a similar trend in the demographic cohorts that drive demand for key local government services. It shows above average growth in every category compared with the rest of England. London's larger working age population means that growth in adults aged 18-64 will have a disproportionate impact in London, accounting for over 60 per cent of the national growth in that demographic compared with other areas.

[6] Office for National Statistics, "Population dynamics of UK city regions since mid-2011, Table 1: Estimated population of city regions, mid-2015, 12 October 2016, p4.

[7] Office for National Statistics, "Subnational population projections for England: 2014-based projections", Table 1: Population change in English regions, mid-2014 to mid-2024, 25 May 2016, p4.

Figure 3 – Percentage change 2017-2020: 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.

25. London's larger working age population means that growth in adults aged 18-64 will put considerable 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.

26. 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 largest 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.

27. This all points to an unrelenting increase in demand for services which the current local government finance system is increasingly unable to meet. With reform of business rates and the Fair Funding Review already under way, and with two years remaining on the current spending review period, the Government has the opportunity to fundamentally and comprehensively reconsider how local government funding can be put on a sustainable footing for the long term.

Growing cost of providing services

28. Demographics are not the only driver behind the increasing cost of meeting the needs of London's population. Local government has such a wide remit that most legislative and policy changes have cost implications.

29. For example, local government is collectively one of the largest employers in England, employing over 1 million full time equivalent staff[8]. As such any changes affecting employment have a massive impact on the cost of providing the services delivered by their employees. It also creates inflationary pressure in service provider markets. By way of illustration, the financial impact the National Living Wage (NLW) for London local government is estimated to be in the region of £100-200 million per annum by 2019-20.

30. A further example can be found in the increase in employers' national insurance contributions for all employers that provide pensions which resulted from the end of arrangements for contracting out the second state pension in April 2016. A modest estimate of the financial impact on London boroughs would be in the region of £150 million. Neither of these policy changes was accompanied by additional resources, and with a debate under way around whether to lift the public sector pay cap, further cost of employment pressures may be immanent. Although the government does not directly set local government pay, a lifting of the wider 1 per cent public sector pay cap will lead to significant indirect pressure on council pay bills.

31. This raises a significant question around how local authorities' duties as employers are treated from a financial perspective. Government has not acknowledged that these national decisions should be recognised within the New Burdens Doctrine. It is clear that the issue cannot be ignored indefinitely. It is essential that the full cost implications for local government employers are accurately assessed and appropriate solutions put in place to meet the additional costs. The New Burdens Doctrine is the most suitable mechanism for addressing this, but if the government does not choose to use it, then another vehicle for reconciling costs must be found. The Fair Funding Review presents an opportunity to fully understand these costs in different places and inform the design of a robust mechanism that can respond effectively to national policy decisions in this area.

32. Policy change at national level can also impact on relatively low volume, high need groups. This can have significant financial implications for local authorities that host a disproportionately large section of such clients. This is well illustrated in the capital by those with No Recourse to Public Funds (NRPF), as well as by Unaccompanied Asylum Seeking Children (UASC).

33. The increasing cost and number of people with no recourse to public funds disproportionately affects London. 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 essential support for this extremely vulnerable high need group but is not funded for this growing pressure, which London Councils estimates to cost around £50 million per annum.

34. In addition to the existing costs, the Immigration Act 2016 is expected to drive up NRPF costs in London. We would welcome dialogue with officials from the Department for Communities and Local Government (DCLG) and the Home Office in undertaking the new burdens assessment for the increased costs that the Immigration Act 2016 will create.

[8] Department for Communities and Local Government, "Local Government Financial Statistics England No.27 2017" July 2017,p 31.

35. London Councils asks that the government urgently addresses the funding shortfall for existing NRPF responsibilities, and we further ask that new burdens assessments are undertaken of all new policies that impact on NRPF cases.

36. Local authorities are also subject to clear statutory duties in respect of their responsibility to accommodate and care for unaccompanied asylum seeking children as looked after children and care leavers. London currently accommodates and cares for approximately 45 per cent of the national UASC population. The government provides no financial support to cover the costs of UASC when they reach the age of 18, yet local authorities retain legal responsibility for these young people 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 absence of funding to support the cost of over 18s places a significant cost pressure on children's services in London at a time when the government is asking councils to make unprecedented savings.

37. 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 Councils is currently working with its members to update costings of both NRPF and UASC case, so as to better inform discussions on appropriate funding measures. We will share the results of this research with government in due course. It is important that these costs are reflected in the assessment of need as part of the Fair Funding Review.

38. In conclusion, when the combination of growing demand, growing costs, and shrinking resources are taken collectively, it is difficult to escape the conclusion that service delivery at current levels is unsustainable. The question is therefore how to reform the local government finance system so as to provide a more stable and sustainable base for the future.

39. We believe that 100% business rate retention is an important step in the right direction, and warmly welcome the government's post-election commitment to give local authorities greater control over the money they raise locally. We further welcome the specific reassurances from government confirming the intention to continue to work constructively with London government across a range of devolution proposals. In the immediate future we will continue work on finalising London's proposals for a Business Rate Retention Pilot pool in 2018-19.

40. More broadly, current circumstances have created the opportunity for a fundamental and comprehensive reconsideration of how local government funding can be put on the long term sustainable footing necessary to deal with the scale of growth in demand set out above. We urge the government to work with the sector to create a sustainable finance system by providing London boroughs with funding mechanisms that have the capacity to keep pace with the cost implications of the rapid population increase that London will experience for the foreseeable future.

41. We strongly believe that this will require both central and local government to address the issue of how to reform the local government finance system as a whole, as opposed to reforming its constituent parts in isolation. In practice, this will necessarily need to involve addressing some fundamental questions about how the system is to be made fit for the purpose of providing the resources required to meet future demand. The discussions on 100% business rate retention and the attendant Fair Funding Review must, therefore, be accompanied by reconsideration of

existing mechanisms such as council tax, as well as what additional components are required to produce an overall system that is fit to meet the challenges ahead. These will be explored further in the final section on devolution.

Acute service pressures

42. Fundamental reform of the local government finance system is long overdue. As a result an increasing number of core service areas delivered by local government are experiencing crisis. In London there are three areas - housing, adult social care, and children's services - where services are under such acute pressure that immediate action is required to stabilise them until more suitable long term funding arrangements can be put in place. This section considers each in turn.

Housing

43. The existence of a housing crisis in England has been widely accepted for some time, and is particularly acute in London with its combination of rapid population growth, pockets of deprivation, and significant constraints on providing additional accommodation.

44. Increasing housing supply across all tenures is one of the stand-out social and economic issues facing London. The publication of the draft London Plan in the autumn is likely to identify a target in excess of 50,000additional homes per year in order to meet the demand of the rapidly growing population and clear the existing backlog of housing need. It is anticipated that both the Mayor's Housing Strategy and the government's proposed approach to assessing need will very soon suggest significantly higher demand. Further to creating this essential additional capacity, significant work must be done to maintain the existing stock.

45. Following the tragic events at Grenfell, all high rise landlords including local authorities have been examining their stock and, where relevant, removing cladding found to not meet the standards of the recent testing regime. Many boroughs have or will conduct other remedial work to ensure the absolute protection of tenants who should expect a high standard of fire safety. Work to understand the full costs of such works is ongoing. However, early estimates based on information from the 16 boroughs that have responded to date suggests that the combined total cost of remedial work has already reached approximately £366m. This figure is certain to rise as further evidence is received.

46. These costs are putting unbearable strain on already tight Housing Revenue Accounts. Even where the money can be made available through reserves or re-allocation, this pressurises other planned works and/or new building. We will work with government and other landlords to make all stock safe but there will be resourcing requirements. DCLG has written to boroughs regarding identification of privately owned tall buildings and attendant responsibilities. This is an important matter and we are keen to assist in the identification of such buildings, but private sector housing enforcement under the 2004 Housing Act currently operates on a reactive basis, and a shift from this does represent a new burden that also needs to be recognised.

47. The lack of financial room for manoeuvre to accommodate shocks owes much to the reduction of social rents by 1 per cent per annum over the Spending Review period. This has resulted 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 ending to the 1 per cent rent cut, and returning to CPI plus 1 per cent for ten years to provide stability for councils' HRA plans, particularly in the context of the additional pressures related to fire safety.**

48. 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 as originally expected. London Councils estimates this will have resulted in a loss of over £400 million in revenue income for borough HRAs between 2013 and 2021. With only a maximum of 30 per cent of the cost of replacement allowed to come from RtB receipts, boroughs are struggling to create viable replacement programmes to ensure sold units are replaced. At the same time, having to pay over a significant proportion of the capital receipts to the Treasury inhibits councils' ability to reinvest in the quality and safety of their remaining stock.

49. London Councils urges the government to allow the full retention and flexible use of council RtB receipts; this includes the removal of constraints around the reinvestment of receipts to deliver more homes. London Councils further believes that any receipts generated by the extension of RtB disposals to housing association properties should be retained within London to fund much-needed investment in the capital's housing supply.

50. For those authorities with the capacity to borrow prudently against their housing stock, the HRA borrowing cap represents an arbitrary and unnecessary barrier to additional investment.

51. Reversing the 1 per cent rent cuts, allowing councils the flexibility to retain and reinvest Right to Buy receipts and lifting the HRA borrowing cap would go a long way towards enabling London boroughs not only to make the investment in safety needed following the Grenfell Tower fire, but to address the long term housing supply crisis in the capital.

52. The social rent reforms are not the only example of where central policy has generated additional pressure on local delivery of housing services.

53. The changes to supported housing funding, and the lack of certainty have led to a reduction in the number of supported housing schemes being brought forward where this supply is badly needed. While the government is deferring the imposition of the Local Housing Allowance (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 per cent rent cut for these schemes if an end to the broader 1 per cent rent cut cannot be accommodated.**

54. This freezing of LHA 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 extensive homelessness challenge, the government must engage with boroughs on measures to prevent homelessness including the design and scope of the Targeted Affordability Fund, as well as Discretionary Housing Payment (DHP) allocations.

55. Data from the Department for Work and Pensions (DPW) shows that London faced severe pressures on its DHP budget in 2016/17. Although full figures for 2017/18 are not yet available, anecdotal evidence suggests DHP budgets are currently facing an even greater strain. For example, one London borough has reported that by the end of July it had already committed 63

per cent of its total budget - the figure for this time last year was just 27 per cent. Intelligent use of DHP funding by local authorities can prevent future increased costs to the public purse, in effect creating savings, but the ability to do so is currently limited by the level of funding. In light of this we hope that future DHP funding better reflects the level of need in London.

56. In addition, we call on government to ensure any new burdens regarding homelessness, such as those in the Homelessness Reduction Act 2017 (HRA 2017), are fully costed, especially for the increasing level of need in London. We are extremely concerned that the proposed level of new burdens funding - £61 million nationally - will not be sufficient to cover the costs of the new duties in London alone. Our initial estimate of the cost to boroughs of implementing the HRA 2017 could be £77 million for London alone. Further cause for concern is provided by one central London borough, albeit with a unique set of homelessness pressures, anticipating an additional cost of around £24 million per year. That figure was not included in the initial estimates and London Councils is undertaking further research work in this area. Without appropriate funding there will be no possibility of delivery the intentions of this Act. ***We would like to continue the discussions with the government on how the funding is distributed, as well as increased funding for high stress areas such as London. There is deep concern among boroughs that the current level of funding makes the legislation unworkable.***

57. The overall impact of central policy on housing services in London is well illustrated by its temporary accommodation (TA) figures. London has more than 50,000 households in TA representing three-quarters of the England total. This is putting increasing financial pressure on London boroughs and we estimate that they are spending an additional £170 million per annum on TA from their general funds to meet demand. This pressure is exacerbated by the gap between available housing and the LHA, the total benefits cap and increasing duties towards a broader cohort of homeless people.

58. We are not alone in emphasising that this problem is growing. The recent National Audit Office report on homelessness highlights a 60 per cent increase in the number of households in TA since March 2011. It further points out that local authorities were already spending over a billion pounds per annum[9] on homelessness services before the HRA 2017 received royal ascent.

59. **To address the acute service pressure on housing in London, it needs greater control over the assets that it has. Specifically, London Councils asks that Government**:

- **commit to ending to the 1 per cent rent cut, and returning to CPI plus 1 per cent for ten years to provide stability for councils' HRA plans**
- **allow the full retention and flexible use of council RtB receipts; this should include the removal of constraints around the reinvestment of receipts to deliver more homes**
- **ensure that any receipts generated by the extension of RtB disposals to housing association properties should be retained within London to fund much-needed investment in the capital's housing supply**

[9] National Audit Office, "Homelessness" 13th September 2017, p2. Note: The exact figure is £1.15bn spent by local authorities on homelessness services during 2015-16.

- ☐ **ensure that boroughs have the flexibility to decide which properties are sold and how receipts are reinvested**
- ☐ **ensure any new burdens regarding homelessness, such as those in the HRA 2017, are fully funded, especially for the increasing level of need in London**
- **ensure that any policy interventions following the Housing White Paper: 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 don't undermine the social mix of households across London.**

Adult Social Care

60. The scale of the funding crisis in adult social care (ASC) is such that it has required three major policy interventions in two years: The Adult Social Care Precept (ASCP) was announced in December 2015; changes to the ASCP and reallocation of £240 million from the New Homes Bonus were announced in December 2016; and £2 billion in additional grant funding in March 2017. That this has only been sufficient to stabilise the system rather than solve the problem attests to the need for a fundamental rethink of how ASC is funded. As such, we welcome the commitment from the government to publish a Green Paper, and offer constructive suggestions for its contents further in this section.

61. Looking more broadly, London is again looking to play a constructive part in delivering the solution and is particularly keen to speed the pace of reform on devolution and health and care integration.

<u>The ASC funding gap</u>

62. The funding challenge in adult social care is one of the biggest facing London local government over the Spending Review period. Recognising the critical impact this can have on people's lives, boroughs have sought to protect adult social care. Despite this, London boroughs are spending nearly £300 million less in real terms than in 2010-11.

63. These pressures are exacerbated in London due to the higher cost of providing care in the capital compared to the other regions[10], as well as the growing demand driven by population growth. London will account 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. This, together with the increased costs associated with delivering the National - and London - Living Wage by 2020, is raising concerns regarding the sustainability of the care market.

64. Many local authorities have either frozen or reduced the fees they pay providers in recent years. This has put pressure on their financial viability as they seek higher payment from the self-funder market. This pressure is unlikely to ease as we estimate that the unit cost for home care in the capital is to increase by an average of 7.5 per cent and the cost of home care provision for over-

[10] 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.

65s of 3.1 per cent over the year to 2017-18. This is will make it more difficult for local authorities to find the right services for vulnerable adults in need of care.

65. The continuing pressure in adult social care remains a key area of concern for councils. There is need for the Autumn Budget to address both the short term and long term concerns of the sector if ASC is to be brought back on to a sustainable footing.

Short Term Funding

66. Both the health and ASC sectors welcomed the announcement of the additional £2 billion for social care made in the Spring Budget 2017. London boroughs' share of the £2 billion funding allocation will be £316 million over the three years to 2020, with each borough expected to receive an additional £3.2 million on average per annum. Without this funding the sector faced unprecedented risk and challenge.

67. However, while the funding will help to ease some of the pressures in social care, it is still substantially less than what is needed in the sector to meet the identified needs. We are aware that over the past two years, rising demand and increasing market pressures have led to overspending in ASC departments in some boroughs that is already higher than the additional income that they can expect to receive from this allocation.

68. This potentially exposes the boroughs to a number of risks including:

- instability of the care market with an increase in provider failure. The Association of Directors of Adult Social Services' (ADASS) Budget Survey 2017 highlights significant concerns regarding the quality of service delivered by some providers
- increased problems with recruitment and retention of the workforce
- fewer people being able to access support, leaving large numbers of vulnerable people without the support that they need
- exposure to an increase in legal challenges from people that councils fail to provide support and services for.

69. Although London boroughs will work closely with their health partners to ensure that the Improved Better Care Fund (iBCF) is spent in the best way possible to help ease the pressure on hospitals, and to maintain and improve local services, we are concerned that it is still not enough to bridge the funding gap in the sector.

70. London Councils estimates that by 2020 there could be a cumulative funding gap in social care in London in the region of £300 million to £400 million. **The government must use the Autumn Budget to address this funding gap.**

Long term funding:

71. While the additional £2 billion funding for social care announced in the spring was a very welcome and necessary intervention, it is only a one off three year grant and progress will have to be made on finding a longer term solution that will provide stability in the sector over the coming years.

72. The Autumn Budget must consider the role of prevention. Prevention in the long term saves money. New money for prevention must be part of the solution for long term sustainability, as the very best preventative models need investment in order to grow. Health and social care budgets are currently too stretched to allow investment in new prevention innovations.

73. The Autumn Budget 2017 must provide greater certainty to the sector by setting out longer term funding commitments and plans going beyond 2020. Any long term funding allocations must take into account the changing face of ASC and the varying regional pressures, for example over 60 per cent of the national growth among people with learning disabilities and people with mental health conditions will be in London. London also has much higher workforce costs and higher costs of land.

A Green Paper for Adult Social Care

74. We welcome the government's commitment in the Queen's Speech to publish a green paper aimed at addressing some of the challenges facing the ASC sector. In addition to the aforementioned funding issues, London Councils believes that the following areas must be addressed through the Green Paper:

75. *Develop the right governance structures for integration*: As part of the transformation of health and care, we believe that there is a need for local health and care governance to be strengthened. Health and Wellbeing Boards have now been in place for four years but it is clear that they have not been appropriately equipped to drive the health and care agenda. They are constituted as a partnership forum rather than an executive decision-making body and have very limited formal powers. Health and Wellbeing Boards know their local health and care sectors' needs and are best placed to have the final decision on how to stabilise the sector in their areas and develop local plans to do this. Health and Wellbeing Boards are therefore uniquely positioned to exert their system leadership to deliver major transformational change. Health and Wellbeing Boards should be given more powers, for example over local commissioning – there should be one local commissioning budget over which a local Health and Wellbeing Board has executive decision-making powers.

76. *Transform how social care and health is funded:* the root cause of the fragmentation that can be seen in the delivery of health and social care is often caused by the difference in how the two sectors are funded. The Green Paper must propose ways to tackle some of the key differences regarding how the two sectors are funded and also aim to put the funding on an equitable footing.

77. *Retain personalisation as central to the provision of health and care*: To do this the Green Paper must seek to bring forward single health and care personal budgets for all.

Public Health funding

78. London has suffered significant cuts to public health budgets in the period to 2020/21. For England as a whole, public health spending in 2016/17 was set at £3.4 billion and £3.3 billion in 2017/18. The 2015/16 baseline of £3.5 billion[11], which includes 0-5 commissioning and the proposed £200 million savings takes into account phased reductions of 2.5 per cent in 2017/18;

[11] Note: these figures are rounded. The more detailed figures are £ 3, 388 million, £ 3,304 million and £3,465 million, respectively.

2.6 per cent in each of the two following years and a flat cash settlement in 2020/21 resulting in an overall cash reduction of 9.7 per cent. London boroughs have already seen a reduction in their public health budgets this financial year, with Revenue Account Budgets for Total Public Health Spending indicating a decline from £691 million to £682 million (£9 million or 1.3 per cent).

79. London Councils remains supportive of the devolution of public health budgets that took place in 2013. Since then boroughs have refocused public health spending to ensure that a bigger impact is made to improve health and wellbeing outcomes.

80. London boroughs spend over £100m per annum on sexual health services. The successful 'Do it London' HIV awareness campaign and the sexual health transformation programme which offers a web based service, signposting and self-testing kits, demonstrates that boroughs are continuing to embrace innovation and make savings.

81. Continuing cuts in funding will pose a real challenge for boroughs and their ability to fund sexual and mental health services and address the obesity crisis. Potential budget reductions, particularly for non-statutory services such as smoking cessation, will make these areas more difficult to fund in the future. There is concern that progress being made to narrow the health inequalities gap in London will fail as cuts to public health will disproportionately affect those who are the most deprived.

Mental Health

82. London government warmly welcomes the announcement in the Queen's Speech that the government intends to prioritise mental health and we look forward to contributing to the review of mental health legislation in the near future.

83. London boroughs do a huge amount of positive work to improve mental health and wellbeing within their communities. This is despite having a reduction in funding by central government of around 26 per cent over the next three years and many competing health priorities. Boroughs need additional funds and new powers in order to maintain and improve mental health services. **London Councils urges government to ensure that there is greater parity of esteem between physical and mental health funding and asks that this be placed at the centre of its reform proposals.**

Transformation of health and care

84. The current health and care system is complex and needs to be transformed if the sector is to be sustainable and efficient while being responsive to the needs of a growing and changing future population.

85. In London, we recognise that the way services are delivered needs to change so as to improve outcomes and achieve greater efficiency in the use of available resources. Boroughs in London are already exploring different innovative ways of working including through increased integration with health partners at both individual and sub-regional levels.

86. Over the past year we have had a devolution programme in place which, through five pilots, has been exploring how devolved powers can enable the health and care sector in London to work more effectively and bring about radical reform in the sector.

87. Through the use of the Better Care Fund (BCF), London health and care partners are also successfully working more collaboratively to address some of their local challenges, for example, to reduce the delays in transfer of care.

88. **However, government must support the transformation of health and care in London through the publication of the Memorandum of Understanding (MoU).** The continued delay of publishing this MoU puts the progress that has been made on the devolution agenda and integration at risk and brings into question the government's commitment to help areas achieve full integration.

89. The current progress of transformation is also being hampered by financial challenges that both the health and social care sector are facing. **If transformation of health and care in London is to gather momentum, the Autumn Budget must uphold London's devolution asks and make funds available for transformation. Whole system transformation is essential for the long term sustainability of the health and care system in London.**

90. We welcomed the announcement at 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 and Transformation Plans (STPs) and the second round of the BCF, all requiring some degree of integration between health and care. In December 2015, the London Health and Care Collaborative Agreement was signed by the government and the London partners. 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.

91. However, the government has not made it clear exactly how full integration will happen by 2020, or how integration plans relate to 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.**

92. 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.

93. In conclusion, and taking ASC in the round, it is clear that the current system cannot provide adequate resources to meet current demand let alone the increases that the future will bring. The recent series of emergency interventions have bought some time to provide a more stable solution, but not much. As such we welcome the commitment to a Green Paper on the future of adult social care, but urge the government to make faster progress more generally, and particularly in relation to the MoU where there is the danger that momentum could be lost.

Children's Services

94. The pressure generated by rising demand, increasing delivery costs, and funding cuts has already led to a long running crisis in housing, and the more recently acknowledged crisis in ASC. The next core service area to join the critical list as a result of acute financial pressure will be children's services unless swift and decisive action is taken at this budget to stabilise it.

<u>Children's services revenue funding</u>

95. London boroughs are experiencing acute and intensifying pressure on children's services budgets, including shortfalls in funding across both children's social care and the high needs block. For many boroughs, dealing with the pressure on children's services budget is a greater and more immediate challenge than ASC.

96. Children's services funding is an urgent priority for London and will only continue to rise up the national agenda as demand pressures grow. A recent survey of boroughs found that 27 out of 30 boroughs reported overspending in children's social care budgets in 2016/17, averaging £3.5 million per borough. 95 per cent of aggregate overspends are accounted for by spend on placements and core staffing, which make up 71 per cent of aggregate budgets.

97. Recruitment and retention is a key challenge in children's social care and, between 2013/14 and 2016/17, aggregate spend on agency staff increased 21 per cent.[12] The high cost of specialist looked after children (LAC) placements is also driving overspends. Across 25 boroughs providing detailed data on LAC placement costs, the number of children requiring more costly external residential placements increased by 13 per cent between 2014/15 and 2016/17, whilst spend on these placements increased by 23 per cent.

98. London Councils remains extremely concerned about the insufficient level of funding provided for pupils with Special Educational Needs (SEN) through the high needs block of the Dedicated Schools Grant (DSG).

99. Research carried out by London Councils on behalf of the Society of London Treasurers (SLT) and the Association of London Directors of Children's Services (ALDCS) found that, in 2016/17, spend on high needs was greater than the amount allocated through the high needs block in 26 out of 30 boroughs, with an aggregate shortfall among overspending boroughs of £100 million (equivalent to 13 per cent). Between 2013/14 and 2016/17, high needs allocations to boroughs increased by 2 per cent, the number of pupils with Education, Health and Care (EHC) plans increased by 10 per cent, budgets increased by 13 per cent and actual spend increased by 16 per cent.[13]

100. Meeting this substantial shortfall had a major impact on wider schools funding including around £46 million being diverted from other blocks within the DSG, boroughs having to draw on £20 million of reserves, carrying forward previous DSG underspending (£11 million), utilising general funds (£5 million) and other (£19 million).

[12] Across 21 boroughs providing data

[13] Based on 24 boroughs providing full time series data

101. The provisional school funding allocations for 2018-19 were published on 14th September as part of the government's final National Funding Formula. It confirmed additional funding within the High Needs Block of just £124 million in 2018-19 nationally (£27 million for London), and restrictions on movement between the schools and high needs blocks from 2018/19, which will be limited to just 0.5% of authorities' total schools block, and can only be made with the agreement of the schools forum.

102. In the context of the existing £100 million shortfall across the capital, the additional £27 million for London boroughs does not go far enough and the removal of flexibility between blocks within the DSG will remove the main mechanism currently used by boroughs to top up the insufficient levels of funding provided through the high needs block, seriously limiting boroughs' options for dealing with any funding shortfalls. While the formula includes proxies for high need (through deprivation and other measures) and reflects changes in pupil numbers and general 2-18 population – it does not recognise increasing *incidence* of SEND meaning the continued disproportionate growth in London is unlikely to be reflected going forward.

103. The short-term measures currently used to meet the funding gap are unsustainable, and there are now nine boroughs in London with a cumulative DSG deficit carried forward into 2017/18 totalling £30 million. This is not a one-off pressure as Special Educational Needs (SEN) pupil numbers are expected to increase further in 2017/18 and are likely to be significantly higher in London than the rest of England

104. Furthermore, cuts to the Education Support Grant (announced at the Spending Review) will have a net reduction of £42 million across London in 2017-18, even taking into account the transition grant and assuming that schools forums will agree to top-slice of DSG funding. This is another example of the knock-on impact is an increasing cost shunt onto the general fund.

105. London Councils asks that government:

- **provides additional funding to meet the immediate pressure on children's social care budgets**
- **fully explores the drivers of cost within this hugely important service area as part of the forthcoming Fair Funding Review, and provides financial support for local authorities in meeting these costs**
- **recognises the existing shortfall in funding in the high needs block and takes steps to compensate local authorities**
- **provides real terms increases in per pupil funding for high needs allocations that take into account future growth in the number of SEND pupils**
- **continues to allow local authorities full flexibility to transfer funding between the schools and high needs block of DSG.**

<u>Funding for schools</u>

106. Schools have experienced significant financial pressures over the past few years and London Councils' modelling estimates that the total cost pressures on schools in England will be around £5.6 billion between 2017/18 and 2021/22.

107. As such, we welcome the announcement by the Secretary of State for Education that the core schools budget will increase by £1.3 billion in 2018/19 and 2019/20. We also welcome the commitment to ensuring that no school will lose out in cash terms as a result of the introduction of the National Funding Formula (NFF). The additional investment in the schools budget will be vital in supporting London's schools to build on their current performance and continue to improve standards.

108. However, London Councils analysis of the provisional allocations for the NFF published by the Department for Education last week show that London's schools will receive a significantly lower proportion of the new money than any other region in the country. 63% of schools in London will receive the minimum (0.5% per pupil) funding increase in 2018-19, compared with just 35% of schools across the rest of England (fig.2). Ten boroughs will see more than 90% of their schools receive the floor of 0.5% per pupil in 2018-19.

109. The National Audit Office (NAO) forecasts costs pressures of 1.6% in 2018-19. Under the published allocations, 52% of schools nationally will receive funding that adequately meets this pressure. However, only 26% of London schools will receive the 1.6% funding uplift, compared to 56% in the rest of England. We estimate this will mean a shortfall on £23 million in London in 2018-19.

110. The impact of the savings and efficiencies that will be made to other programmes in the Department for Education in order to fund this additional investment is uncertain. For example, it is unclear how the proposed savings to the capital funding budget will affect the government's ability to help manage demand for school places in London, and what support and funding will be provided for councils creating new free schools via the local authority route.

111. London Councils asks that the Government:

- **invests £5.6 billion in schools between 2017/18 and 2021/22**
- **ensures that no school will lose funding *in real terms* over the course of this parliament**
- **retains the Schools Forum as the means of distributing school revenue funding to provide local flexibility to respond swiftly to changing circumstances**
- **announces school budgets for 2020/21 and beyond as soon as possible in order to allow schools sufficient time to plan**
- **ensures that local authorities do not incur further costs as a result of planned savings and efficiencies made within the Department for Education, for example, in relation to the free schools programme.**

School Places shortfall

112. London Councils' annual report on the pressures facing the school places planning system in London, *Do the Maths,* predicts a shortfall of 63,710 places across schools in London over the six year period to 2022/23. To meet this shortfall in mainstream school places London requires an estimated £1.6 billion.

113. Basic need allocations have been published for the first three years of this timeframe. These confirm that London boroughs will receive around £600 million through Basic Need between

2017/18 and 2019/20. This suggests that, according to current projections, a further £1 billion of funding will be required – either through the basic need grant itself or through the creation of new free schools in areas of demand – to meet the shortfall.

114. London has experienced a rapid increase in demand for SEND places in recent years, far exceeding growth in other regions and among London's mainstream population. Between 2016 and 2017, the number of pupils with Education, Health and Care Plans (EHCPs) grew by 4.2 per cent, around three times the 1.3 per cent growth rate for the general pupil population.

115. School places for children with SEND are significantly more expensive than mainstream places. The average cost of creating a dedicated SEND school place in London is £69,055, around three times higher than the cost of a mainstream place.

116. The allocations that boroughs have received from the Department for Education's £215 million capital fund for SEND are welcome and will help to meet the shortfall in funding for SEND places.

117. Going forward, it is vital for local authorities to have the certainty of sustained capital funding for SEND so that they can plan for the changing demand and needs of the future, and ensure that the right provision is in place at the right time.

118. Demand for further education provision is expected to rise from 2020 as demand in primary and secondary move through the system. Furthermore, the government's focus on technical education and the multitude of reforms including the apprenticeship levy and the introduction of T-levels will place significant capital requirements on providers. It is vital that sufficient funding is provided in a timely manner to ensure that local authorities can deliver on their duty to ensure sufficient places for all young people until the age of 18.

119. London Councils asks that the Government:

- **provides London with additional funding for school places of £1 billion over the next six years – through a combination of additional basic need funding and the central funding of places through the free school programme**
- **ensures that London receives a proportionate and sufficient share of the basic need pot in line with its share of demand for places**
- **provides four year basic need allocations to enable local authorities to be able to plan for secondary school places in sufficient time**
- **distributes capital funding for SEND on a permanent formulaic basis, taking into account the actual cost of delivering new SEND places and expected demand**
- **works with local authorities to create new special free schools in areas of high demand for SEND places**
- **invests in the further education sector to ensure that the costs of meeting future demand for provision are fully met, including covering the capital costs of delivering provision supporting technical pathways and apprenticeships.**

Early Years Funding

120. The introduction of 30 hours a week free childcare for eligible working parents of three and four year olds will increase existing pressure on delivery and capacity in the childcare market.

121. We welcome the additional funding announced to support the introduction of this policy, and support the proposals to use a general labour market area cost adjustment (ACA) in the new Early Years Funding Formula (EYFF), which go some way towards reflecting the higher costs of delivering services in London. Many local authorities in London will have uplifts in their hourly rate as a result of the additional funding and new ACA.

122. However, a number of authorities in London will see considerable reductions in funding as a result of the EYFF, which will have a detrimental effect on the childcare offer available in those authorities. There are also early indications that, even with the additional funding provided to some local authorities, the 30 hours free childcare policy could threaten the sustainability of providers. 39 per cent of providers who took part in the early rollout of the policy reported decreased profits, despite additional incentives and higher rates offered by some local authorities in this pilot stage.[14] Therefore, we urge the government to conduct a review into the true costs of providing childcare to use as a basis for a fair hourly rate and future allocations.

123. At a time of uncertainty and turbulence in the childcare market, it is vital that local authorities have access to sufficient funds to support the market in offering places as part of the free entitlement, remaining financially sustainable, and improving the quality of the provision on offer. The government plans to further reduce the proportion of the EYFF allocations that local authorities can retain from 7 per cent to 5 per cent next year, meaning that local authorities will be forced to reduce the support and training for childcare settings at a time when this is most needed.

124. We welcome the £55 million capital funding allocated to local authorities to support the introduction of the 30 hours policy, but capital funding is also needed on a consistent basis to ensure that local authorities are able to stimulate the market and ensure that there are sufficient childcare places for all eligible children, especially given the increased demand for childcare places as a result of the extended free entitlement.

125. 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.

126. Maintained nurseries offer extremely high quality early education, with 60 per cent of maintained nurseries rated outstanding[15], and deliver vital support to other settings to improve their quality. Many maintained nurseries are located in areas of deprivation, often with little alternative childcare provision, and disadvantaged children attending these nurseries receive an equal or higher quality of early education as their peers – unlike most disadvantaged children receiving provision at other setting types.[16]

[14] Evaluation of Early Rollout of 30 hours free childcare, Frontier Economics, University of East London, NatCen Social Research, August 2017.

[15] Ofsted annual report Education and Skills 2015/16

[16] Quality and Inequality: Do three- and four-year-olds in deprived areas experience lower quality early years provision? Nuffield Foundation, 2014

127. Many maintained nurseries would become financially unsustainable if their funding was not protected after 2019/20. This would create significant turbulence in an already unstable childcare market; reduce the overall quality of childcare provision; and disproportionately affect the ability of disadvantaged children to access high quality early education.

128. London Councils asks that the Government:

- ☐ **reconsiders the proportion of EYFF allocations that local authorities can retain to support the childcare market**
- ☐ **distributes capital funding for early years on a permanent formulaic basis to support local authorities to deliver sufficient early years places to meet need**
- ☐ **reviews the full costs of providing 30 hours free childcare for local authorities and providers to use as a basis for future allocations**
- ☐ **enables local authorities to vary rates to providers to drive up quality and maintain the viability of school nurseries**
- ☐ **reconsiders the introduction of a quality weighting to the EYFF to encourage providers to deliver high quality education and ensure the sustainability of high quality settings**
- ☐ **protects funding for maintained nurseries after 2019/20, and announces its intention to do so as soon as possible to allow nurseries to plan ahead.**

Devolution to London

129. The preceding sections have demonstrated how the frailty of the local government finance system has been exposed by the increasing pressure generated by rising demand, increasing delivery costs and funding cuts. This has led to acute pressure in the three core service areas of housing, adult social care, and children's services. It has further shown that the broader hierarchical framework within which local government operates does much to hamper its attempts to respond to these challenges.

130. The immediate priority for this budget is to take the steps previously outlined in order to stabilise the system and create the space necessary to redesign the local government finance system to make it fit for the future. Here the approach must be to recognise the diversity of places and to give local leaders the powers, freedoms, and flexibilities to create locally appropriate solutions to the challenges as they manifest themselves locally. They must be empowered to raise the resources required to invest in economic growth and to provide sustainable public services.

131. This must of course be subject to high standards of transparency, accountability and oversight, but where these are present, as they are in London, there is the opportunity to proceed.

132. London government is well placed to pioneer localised approaches to nation-wide problems and has been working with central government on a set of proposals for greater devolution to London. As such we welcome the announcement of the MoU at the Spring Budget and look forward to further announcements across a wide range of functional and fiscal reforms in the autumn.

Functional devolution

133. It is more important than ever for the government to reform the way 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 Mayor 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.

134. The Autumn Budget provides the opportunity to make progress across a number of areas of opportunity for functional devolution including, skills and employment, health devolution, and criminal justice.

Skills and employment

135. Progress has been made following the announcements regarding the Adult Education Budget (AEB) and the Work and Health Programme. However, there are further opportunities in this area. London faces a number of skills and employment challenges including a rapidly growing population, significant skills gaps in key sectors - almost a quarter of vacancies in London are down to a lack of applicants with the right skills for the job - an employment rate that lags behind the rest of the UK and one in five London families suffering in-work poverty. The potential impact of Brexit on the supply of skills in London is also a concern, with some important sectors such as construction, tech, healthcare, hospitality having a high proportion of EU-nationals within their workforce.

136. We therefore propose that the government should go further to enhance the coherence of the skills system and give London the levers to respond to these challenges 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; and the National Careers Service. We further ask for a 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. London welcomes the government's commitment to a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across the UK. It is vital that this fund can be used to address the significant challenges and opportunities around employment and skills within the capital. This funding should be fully devolved to London government so that decisions on how it is spent are taken in greater proximity to where it will be spent.

London Health Devolution

137. 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. **However, government must support the transformation of health and care in London through the publication of the Memorandum of Understanding. The continued delay of publishing the MoU puts the progress that has been made on the devolution agenda and integration at risk and brings into question the government's commitment to help areas achieve full integration.**

Criminal Justice

138. Some early progress has been made towards shaping framework of the MoU on Criminal Justice Service (CJS) devolution that was highlighted in the Spring Budget agreement on further devolution to London. The Criminal Justice MoU was unable to be agreed by the envisaged date of June 2017 due to the General Election and subsequent changes. Since then, London Councils, the Mayor's Office for Policing and Crime and the Ministry of Justice have continued to engage in negotiations regarding the priorities for a more devolved CJS in London, with a view to agreeing a criminal justice devolution MoU that will provide better outcomes for London's victims, witnesses and offenders. London government expects this MoU to be formally agreed as soon as possible, as per the agreement made in the Spring Budget MoU on further devolution to London.

139. Overall, we believe that further functional 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 transport, housing and planning to deliver a package of measures to increase the supply of new homes in the capital.

Fiscal devolution

140. Devolving responsibilities and services 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, the question of further fiscal devolution and financial autonomy for areas in England remains a high priority.

141. This section examines the case for reforming and expanding the range of fiscal levers available to local leaders. Crucially, it argues that these must be part of a coherent strategic approach to redesigning the local government finance system, not a series of isolated and incongruent reforms.

142. There has to be ambition and innovation in funding local government – enabling local government to fund more of its own activity is an important part of that. 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 cent 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. As such, this section examines the opportunities to both reform the existing system, and to enhance it.

Reforming the existing system

143. Fundamental reform of the existing system for financing local services is required to address the scale of pressures identified. This must be done in the round; taking into account all aspects of how the various parts of the system interact with each other, and the consequences of reform of one part on the operation of the system as a whole.

144. As such, London Councils welcomes the government's post-election commitment to continuing to give local authorities greater control over the money they raise locally, and the statement of intent represented by the publication of a prospectus inviting proposals to test further aspects of a 100% business rates retention system.

145. Reform of the business rates system is particularly important. Perhaps more than any other aspect of the local government finance system, this tax illustrates the ineffectiveness of taking a piecemeal approach to a problem.

146. The current system has long been unsatisfactory to both local government and rate payers alike, and both sides have been calling for fundamental reform. The three year review of the system that concluded at Budget 2016 failed to deal with the fundamental issues raised by either side. As a result the 2017 revaluation delivered a range of unpalatable outcomes for many rate payers, particularly in London, and the existing system of transitional relief had to be augmented by the creation of three further schemes for providing relief as a result. These emergency measures required the reissuing of bills, and the provision of new burdens funding.

147. More importantly, the resultant redistribution of resources at the 2017 revaluation confirmed the continuation of the trend at previous revaluations whereby London accounts for an ever increasing proportion of the national tax take. The way in which the tax setting system interacts with sub-national property markets to produce this result was set out in detail in our Spring Budget submission[17] and need not be repeated here. However, 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 per cent of the value of the national business rates tax base by 2040.

148. 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.

149. 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.

150. London's proposals, as set out in the 14 "asks" of our joint response with the Mayor of London to the consultation on devolving business rates in September 2016[18], 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.

[17] London Councils' submission to the spring budget can be found by clicking here.

[18] London Councils and the Greater London Authority joint response to the Department for Communities and Local Government's consultation "Self-sufficient local government: 100% Business Rates Retention". This can be found by clicking here.

151. We welcome the Chancellor's post-election commitment to continuing to work with London to explore our proposals on business rates and we look forward to the announcement of further progress at the Autumn Budget.

152. We also welcome the Government's commitment to reform of the business rate tax itself, but believe it is essential that tax policy and the distribution of the proceeds of the tax to local government are not considered in isolation from each other, as appears to have happened with the Treasury's last review of business rates. We would further urge government to consider its business rate reforms alongside Council Tax. The structural problems of Council Tax are well known, and are exacerbated by a range of restrictions on the ability of locally elected leaders to use it to fund the local services it was created to support.

153. London Councils believes that the current situation both requires and allows a coherent, strategic approach to overhauling the existing local taxation system, giving locally elected politicians greater responsibility and accountability for raising the revenues needed to support sustainable local services. We would greatly welcome the opportunity to work with government in developing such a strategy.

154. We also welcome the Government's post-election confirmation that it intends to proceed with the Fair Funding Review. This piece of work is essential if reforms to the local government finance system are to deliver the sustainable long term solution that is required. Here it will be as important for the review to consider the different needs that exist within regions as it is to consider those between them if it is to lead to a genuinely effective system for funding local services in the future.

Implementing the London Finance Commission's recommendations

155. We fully endorse the findings of the London Finance Commission's second report, *Devolution: a capital idea*. This 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.

156. The London Finance Commission called 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)**
- ☐ **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.**

157. 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.

158. London Councils asks that HM Treasury explore in partnership with London government the scope for greater fiscal devolution along these lines, and we call on the government to commit to make a positive commitment to this end in the Autumn Budget.

159. Taken collectively our functional and fiscal devolution proposals are an offer to government to take greater responsibility for ensuring the continued success of the capital, and for raising the resources required to do so. The benefits of this will secure a better future for all as a successful London generates resources that benefit the whole of the UK. With the devolved nations gaining greater freedom to meet their needs, we hope that the government will use the Autumn Budget to make further progress to allowing London to do likewise.