Representation to Government

Autumn Statement 2016
Representation by London Councils

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

Introduction

1. London Councils welcomes the opportunity to make a representation to Government ahead of the 2016 Autumn Statement, which represents an important opportunity for the Government to address some of the key economic and financial challenges facing the country with 3 years left of the Spending Review period.

2. The macro political and economic situation has changed since Budget 2016 in the wake of the EU referendum result in June. London has a new Mayor and there is a new Prime Minister. The economic uncertainty caused by Brexit is particularly amplified in London, with its high level of EU and global investment and whose position as the dominant financial services centre in Europe could be under threat. This has a bearing on the entire UK economy with London delivering a net surplus in taxation to the rest of the country of around £45 billion per annum. Different economic and political solutions during this period of uncertainty may therefore be appropriate for the capital.

3. While the wider political and economic context has changed, the financial and service pressures facing London local government remain. The Spending Review (SR15) set the parameters of the public finances and related changes to public service delivery for the period 2016-17 to 2019-20. The past 5 years have seen unprecedented funding cuts to the sector: a trend that will continue with a further reduction to core funding of 37 per cent in real terms over the next four years.

4. The certainty of a four year funding settlement is welcome; however, the size of the task facing London local government should not be underestimated. On top of five years of council tax freezes and cuts to funding, the challenge of meeting rising service demands will become far harder – as the “easier” efficiencies become exhausted. We welcome the Chancellor’s commitment to reset the public finances in the Autumn Statement but this should not obscure the fact that local authorities face significant on-going cuts which are unhelpful in promoting the growth he wants to see.

5. London Councils welcomes the Government's commitment to devolution. London has a unique set of public service challenges - delivering services to a complex and rapidly growing population while enhancing its role as a major driver of economic growth for the rest of the UK. It also has unique governance arrangements. London both needs 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 been in ongoing

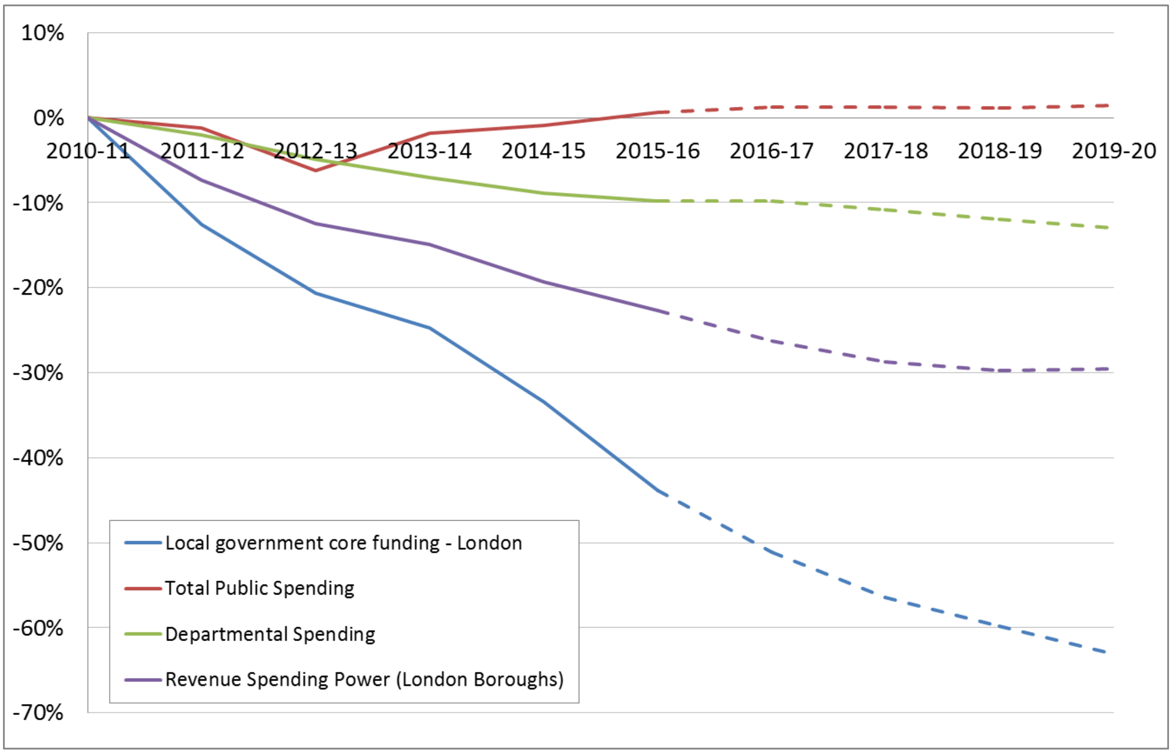
talks on both fiscal and functional devolution with HM Treasury, and we seek a positive commitment in the Autumn Statement to developing a significant new settlement for London

Financial Context

The disproportionate funding cuts to local government

6. Spending Review 2015 outlined further disproportionate cuts to local government, which was again asked to shoulder a greater than average share of the funding reductions to deliver the Government's deficit reduction plans: a real terms cut to core funding (Settlement Funding Assessment) of 37 per cent over the next four years. On top of the funding reductions over the last two Spending Reviews, core funding to London boroughs from Government will have fallen by 63 per cent in real terms over the decade from 2010-11 to 2019-20[1].

Figure 1 - Real terms % changes to public spending – 2010-11 to 2019-20



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

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

8. London's demographic profile is notably different to the rest of the country, creating pressures on public services in the capital that are manifestly different from elsewhere. With some of the most deprived areas of the country sitting alongside the most affluent, London has some of the most complex social problems that come with being Europe's largest and most diverse city. It is the most ethnically diverse region in the country with more than a third of residents born outside the UK, and the highest proportion of households

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

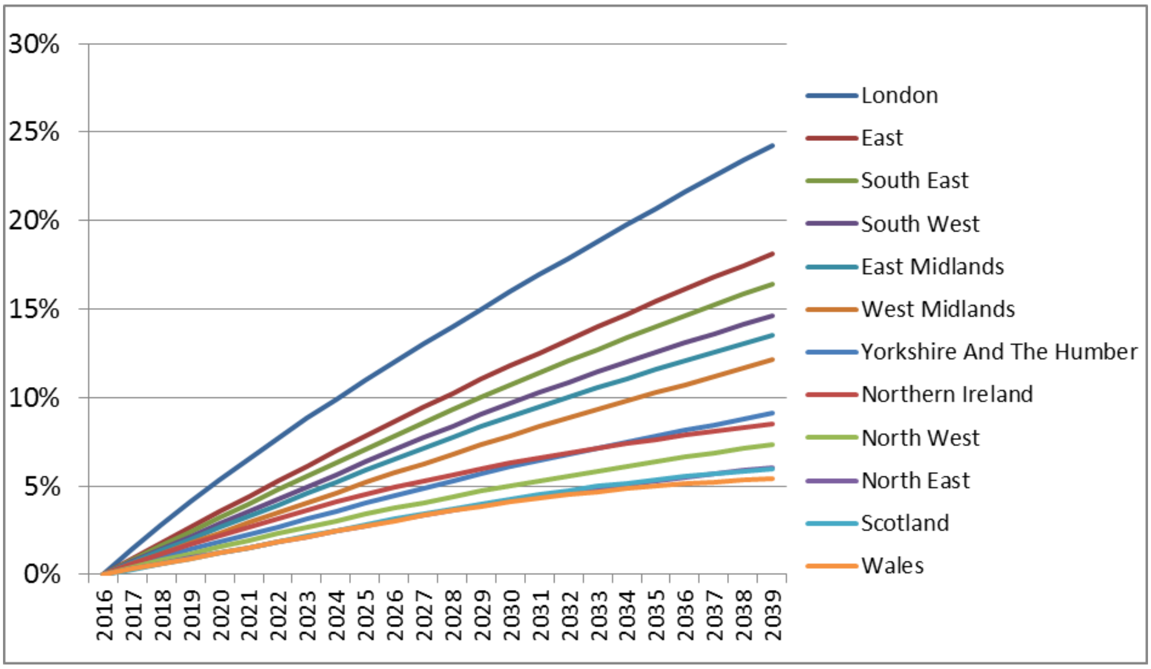
where English is not the first language (26 per cent). Its population is also more transient and mobile than the rest of England, meaning boroughs are serving populations with increasingly complex needs.

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

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

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

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



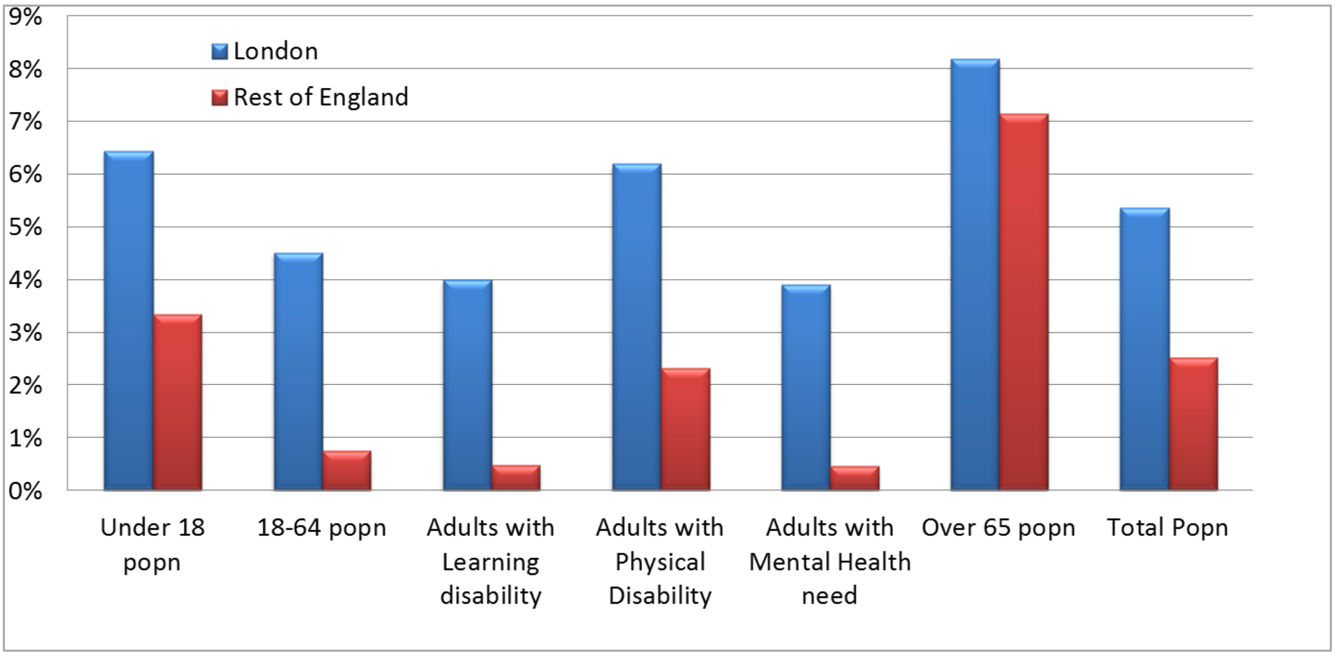
Source: ONS, 2014-based Sub-National Population Projections

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

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

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

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



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

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

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

16. With no recognition of this population growth, the four year funding settlement is tougher for London boroughs than may first appear. Even with the Government's assumption that all boroughs raise Council Tax by 1.75% and all apply the social care precept each year (neither of which is likely), London boroughs will see the largest funding reductions to "Core Spending Power" of all regions.[3] With this scale of funding reductions added to inflation and rising demand outlined above, **the size of the funding gap in London local government by 2020 is estimated to be in the region of £2 billion in 2020.**

17. We accept that some further efficiencies are possible, but the additional growth in demand for services in London, on top of the scale of cuts outlined, means the current levels of non-statutory services is not sustainable. It is imperative that London has stable and sustainable funding mechanisms that have the capacity to grow sufficiently to meet such rising demand.

[3] Excluding Fire Authorities and the GLA

New and unfunded burdens

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

National Living Wage

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

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

Increasing national insurance contributions

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

Pension changes

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

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

No recourse to public funds

24. The increasing cost and number of people with No Recourse to Public Funds (NRPF) is almost entirely a London-specific issue. This refers to people who are subject to immigration control and have no entitlement to public funds such as welfare benefits, Housing Benefit and Home Office support for asylum seekers. London local government is providing a hidden welfare state and is not currently funded for this growing pressure, which London Councils estimates to cost around £50 million per annum.

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

Unaccompanied Asylum Seeking Children

26. Local authorities are subject to clear statutory duties in respect of their responsibility to accommodate and care for Unaccompanied Asylum Seeking Children (UASC) as looked after children and care leavers. London currently accommodates and cares for around 45 per cent of the national UASC population. The Government provides no financial support to cover the costs of UASC over the age of 18, yet Local authorities retain legal responsibility for these children as care leavers up to the age of 25. A significant proportion of London's UASC population is aged between 18 and 25 years old. Not only are the rates for those under 18 insufficient, but the total lack of funding support the cost of over 18s places a significant cost pressure on London's children's services at a time when Government is asking councils make unprecedented savings.

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

London-specific service pressures

28. While the overall funding pressures are therefore challenging, London local government has particularly acute demand pressures with regard to Housing; Adult Social Care; and capacity for school places. These are set out below.

Housing

Addressing the housing shortfall

29. Increasing housing supply across all tenures is one of the stand-out social and economic issues facing London over this parliament. The capital now needs a minimum of 50,000 additional homes per year to meet the demand of the rapidly growing population, and clear the existing backlog of housing need.

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

31. Given the acute supply and affordability challenges in the capital, London Councils is in agreement with the Mayor of London that Government policy interventions in the Housing Act 2016 must:
    - support an increase in housing supply, including affordable housing;
    - result in any money raised in London, whether from the sale of housing association or higher value council homes, being retained in London for reinvestment; and
    - not undermine the social mix of households across London.

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

Council Right to Buy

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

allowed to come from the RtB sale receipt, boroughs are struggling to create viable replacement programmes to ensure sold units are replaced.

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

Right to Buy extension and sale of higher value council homes

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

36. It is imperative that all receipts raised in the capital are retained in London for more home building. Boroughs must have the freedom to use their receipts flexibly, without restrictions on geography or tenure in order to be able to work together to manage a successful replacements programme across the capital.

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

Social rent reductions

38. The reduction of social rents by 1 per cent per annum over the SR period will result in lost income across London Boroughs of at least £800 million by 2020 - equivalent to the cost of around 4,000 new homes. London Councils asks that Government to commit to returning to CPI plus 1 per cent for ten years to provide the stability for councils' HRA plans.

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

Temporary Accommodation

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

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

42. London Councils asks the Government to commit to a review of temporary accommodation subsidy levels – to ensure they, and the management fee, are sufficient to allow boroughs to manage their statutory homelessness duties without an increased call on local taxpayers.

43. In addition, we call on Government to ensure any new burdens regarding homelessness (such as those outlined in the draft Homelessness Reduction Bill) are fully costed, especially for the increasing level of need in London.

Adult Social Care

Funding gap

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

45. These pressures are exacerbated in London due to the higher cost of providing care in the capital compared to the other regions[4], and the growing demand driven by population growth. London will account for over 60 per cent of the national growth in demand for working age adults with learning disabilities and mental health conditions between now and 2020 (see Figure 2). This, together with the increased costs associated with delivering the National Living Wage by 2020, is raising concerns regarding sustainability and viability of the care market. Many local authorities have either frozen or reduced the fees they pay providers in recent years, which is adversely impacting their financial viability as they seek higher payment from the self-funder market. This is likely to make it more difficult for local authorities to find the right services for clients and paying higher fees to compete with the private sector.

46. SR15 found an additional £3.5 billion nationally for adult social care by 2020 across England. Of the £1.5 billion to be made available through the Improved Better Care Fund (in 2020), £247 million is available for London. In addition to the Better Care Fund, the Social Care precept is expected to raise £2 billion, of which London has the capacity to raise up to £244 million. While this additional funding is welcome, it will fall considerably short of that needed.

47. We estimate that despite the additional funding found at SR15, there will be a significant funding gap in 2019-20 of around £200-300 million. Funding is unlikely to be sufficient for local authorities to fulfil their statutory obligations to assess and meet the needs of people requiring care and support.

Health & Social Care Integration

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

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

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

50. 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.

Children's services

School Places shortfall

51. The 0-18 population will grow by almost 8 per cent compared with just over 4 per cent across the rest of England. London schools have greatly increased greatly in recent years, however London continues to experience the fastest rate of pupil growth in the country. According to London Councils' analysis, 110,364 new school places will need to be created in London between 2016-17 and 2021-22 to meet forecast demand[5].

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

53. London Councils asks that the Government:

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

Special Educational Needs funding

54. The complexity of London's population again has a big impact on schools funding London Councils welcomes the additional funding found for Special Educational Needs (SEN) places in the Spending Review, though in practice this may not be sufficient to address the SEN places in London where per pupil places cost around £70,000, putting additional strain on schools budgets. Between 2011 and 2016, the number of pupils educated in dedicated SEN places in London rose 23 per cent from 18,880 to 23,127. A new SEN place costs around three times as much as a mainstream place. We support the introduction of a new £200 million dedicated SEN capital pot, but further funding would be needed to fully meet the additional costs of providing SEN places.

National Schools Funding formula

55. London Councils is very concerned about the impact of the Government's proposals to implement a national funding formula, which would likely see funding move away from the capital. Given existing pressures on school budgets, we believe that no local authority area should lose funding as a result of the introduction of a new national funding formula. Additional funding would be required to achieve this and we therefore welcome the announcement of an additional £500m to ease the transition to a new national funding formula

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

56. The Government has made a commitment to protect school funding on a per pupil basis: this protection should apply to London pupils as well as to those outside of London.

Early Years Funding

57. The Government's proposals to provide for an increased entitlement to 30 hours a week of free childcare (for 38 weeks of the year) to be made available to eligible working parents of 3- and 4-year-olds, will increase existing pressure on delivery and capacity. We welcome the additional funding introduced to support the introduction this policy, and support the proposals to use a general labour market area cost adjustment (ACA) in the new Early Years national funding formula, reflecting the higher costs of delivering services in London. We believe that this ACA should be applied consistently across all education funding streams, including the schools block, high needs block and pupil premium.

Devolution to London

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

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

Functional devolution

60. It is therefore more important than ever for the Government to change how public services are delivered locally by devolving power, lifting central constraints and taking a place-based holistic approach to funding public services. London Councils and the GLA have been asking for this for a number of years, taking a leading role in setting the devolution agenda and building pan-London and cross sector relationships. The 2014 London Growth Deal set out the case for building London's skills base and supporting businesses; helping Londoners into sustainable employment; and improving housing supply. A more detailed set of proposals were developed in 2015 in the *London Proposition,* which sought devolution and public service reform to help combat issues of complex need and dependency in six key areas: Employment & Complex Dependency; Skills; Business Support; Crime & Justice; Health; and Housing.

61. Despite good progress in the last year, particularly in skills and health, we believe further devolution is required if London's funding and service pressures are to be met. London Government has therefore been working together on a set of proposals for greater service or functional devolution to London local government and the GLA, of which HM Treasury officials will be fully aware. These include:

    - **Skills and Employment -** Devolution of all post 16 skills responsibility, powers and associated funding to London, including: the Adult Education Budget (AEB); 16 to 19 skills; control over unspent London Apprenticeship Levy revenue; the National Careers Service; fully devolved control and funding of £55 million to jointly commission and design the Work and Health Programme (as set out in the 2015 Spending Review); and commitment from Government to ensure that leaving the EU does not adversely affect the amount of skills and employability funding (currently around £422m) received in the capital.

- **Transport -** discussions about the devolution of London's inner-suburban rail services to TfL over a number of years, to enable the improvements in service and usage seen through the introduction of London Overground.

- **Housing and planning -** A package of funding, planning, and land measures to increase the supply of new homes in the capital.

- **Health and Social Care** – Following the London Health Devolution Agreement with reached with government in December 2015; London Partners have been developing proposals to address the urgent need to improve both access to and quality of care in London. Working with government, proposals are being developed to address this challenge through reforms to the management of the health care estate, integration of care supported by changes to financial and regulatory rules; and more effective action to prevent ill health. London looks to the Autumn Statement to signal government's readiness to conclude a comprehensive agreement later in the year on the timetable agreed in the 2015 protocols.

- **Criminal Justice –** Includes proposals to improve rehabilitation across a range of groups and to embed reform in the wider criminal justice system.

Fiscal devolution

62. Devolving responsibilities and services alone will not square the circle of fewer resources, growing service demand, and the need to raise productivity and drive economic growth. Our functional devolution proposals are a step towards this within specific services, however, more fundamental questions remain about how local public services are funded in the long term. With the devolved nations gaining greater control and freedom over their own taxation, and 100 per cent business rates retention to English local government by 2020, the question of further fiscal devolution and financial autonomy for areas in England beyond 2020 is now being raised.

Business rates reform

63. London Councils and GLA's joint response to the Government's consultation on 100 per cent business rates retention sets out a detailed set of proposals for the devolved retention and management of business rates by London Government, that will balance the need to incentivise growth against the pressures caused by population growth and any newly transferred responsibilities[6]. It sets out a clear vision for a devolved London business rates retention system, including 14 specific asks of Government that would be needed to enable such a devolved system.

64. The proposals seek to address two fundamental issues with the current system: the negative impact of business rates appeals, which currently impedes growth and makes funding unstable; and the premise that revaluations should be to a fixed yield nationally – seeking for London's business rates to be de-coupled from the rest of the country, to prevent economic growth in the capital artificially constraining business rates growth across the rest of the country. The 2017 revaluation provides further evidence of the unsustainability of the current system with values again increasing disproportionately in London compared with the rest of the country, thereby restricting any future business rates growth outside of the capital and making local authorities outside of London more reliant on top-up grants.

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

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

66. **London Government firmly believes that a more devolved approach could improve local clarity and accountability, whilst benefiting the entire country, and we urge the Government to consider in detail the proposals.**

Wider fiscal devolution

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

68. As local devolution deals evolve, Government may wish to consider devolving specific funding streams and taxes linked to certain services and activities. For example, environmental taxes, could fund the growing cost of waste management. In return, there could be performance targets that would aim to incentivise improved recycling rates and other activities that impact on climate emissions. While not all services are suitable for target-driven mechanisms, for example social care, some are more naturally linked to such models of financial risk and reward. With a resource base that is more responsive to economic cycles, property taxes are especially appropriate for funding investment in infrastructure and housing.

69. London has already seen successful use of mechanisms that deliver additional growth in business rates, such as the Business Rate Supplement, which funded Crossrail, and the Tax Increment Financing schemes which are helping to fund redevelopments at Brent Cross and Nine Elms. Retention-sharing mechanisms like this could be adapted for other infrastructure projects with other types of taxation. For example, as part of the evidence to support the funding of Crossrail 2, London Councils has looked at a scheme which could involve a share of the uplift in stamp duty land tax rather than business rates, if this can be attributed locally. Early estimates suggest this could generate significant contribution towards the costs of CR2 if permitted. As the Government will get a 'return on its investment' for funding major infrastructure projects such as CR2 in London, we believe it is in the best interests of local and central government to allow areas to be able to use a share of this uplift in order to unlock funding to help pay for such developments up front.

70. Property tax devolution was a central recommendation of the 2013 London Finance Commission. However, national property taxes do not work well in the city. Council tax is regressive and hasn't checked property price inflation. SDLT hits London disproportionately and is a drag on labour market movement. The capital contributes an increasingly unsustainable proportion of the national business rates yield. Vacant land is untaxed, discouraging inefficient land use. Overall, being set and run nationally, they are virtually un-reformable and inhibit London's economy from growing.

71. The London Finance Commission has therefore been re-formed to review, refresh and revise its original recommendations and provide a detailed picture of London's long term ambitions in light of the changed circumstances, following the UK's vote to leave the European Union. This work will be presented to Government once it is completed, but HM Treasury will receive an interim report prior to the Autumn Statement.

72. Initial assessments suggest that the returns on capital investment in London will be very large, even taking Brexit into account. London is a highly attractive global city for in-migration and its exceptionally large and dense employment agglomeration encourages high productivity levels. London's economy could fund its infrastructure investment requirements from the tax on the growth that that same investment will generate. The growth should also pay for the additional public services that a larger population will demand, and it will enable London to grow its contribution to the national exchequer. Thus London's investment could be self-funded and provide a national dividend.

73. London is heavily reliant on financial transfers from national government compared other international comparator cities. Fiscal devolution would enable accountability, transparency and align spending to Londoners' priorities.

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