Leaders' Committee

London Councils' finance lobbying strategy - update

Item 4

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Summary This report updates Leaders' Committee on the latest developments and activity in relation to the finance lobbying strategy agreed in June 2018. It includes updates on lobbying activity and progress since the last update in February 2019 in relation to Spending Review 2019, the Fair Funding Review and 75 per cent Business Rates Retention reforms.

Recommendations Leaders' Committee is asked to:

- note the progress on finance lobbying with respect to the key events outlined in the report; and
- write to local MPs to London Council's key Spending Review and Fair Funding Review lobbying priorities over the summer (paragraph 10).

London Councils' Finance lobbying strategy - update

Introduction

1. This paper updates Leaders' Committee on the progress with regard to London Councils' finance lobbying since the last update in February 2019. The next 9 months continue to hold a huge amount of financial uncertainty for London local government. The Spending Review, due in the autumn, is intended to set departmental expenditure limits for up to three years and determine the overall quantum of central government funding to local government. The Fair Funding Review, due to be completed by April 2020, will determine the new funding baselines within the 75% business rates retention scheme from 2020-21 onwards.

Spending Review 2019

2. The timing and detail of the Spending Review will have a significant impact on MHCLG's ability to deliver the other reforms by April 2020, particularly the Fair Funding Review. In the Spring Statement in March, the Chancellor confirmed the intention to hold a Spending Review in the autumn, with the official representation process due to start before the summer parliamentary recess (24th July). It was intended for the Review to cover the three years from 2020-21 to 2022-23, subject to an orderly withdrawal from the EU.

3. While the Chief Secretary to the Treasury recently confirmed the Treasury is still planning for a three-year review[1], it is increasingly likely that the Review may cover only one year. The Chancellor suggested a shorter review might be necessary when he appeared before the Treasury Select Committee in April[2]. With the Spending Review likely to be in October/November, it is unlikely that any meaningful figures will be known until the provisional settlement in December. This is creating huge financial uncertainty for London boroughs, who will be starting the process of setting their annual medium-term financial plans with very little detail about almost all of the major funding streams in 2020-21.

4. Recent discussions with MHCLG civil servants have, therefore, focussed on what the priorities of local government would be for a one-year Spending Review, as well as what the knock-on impact might be for the Fair Funding Review and 75% business rates retention.

[1] https://www.youtube.com/watch?v=fqaGg8OFCsA
[2] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/spring-statement-2019/oral/100709.html

5. Under the one-year Spending Review scenario, it is proposed that London Councils' priorities would continue to be:
    - the immediate need to contain the looming national funding crises within children's services, and adult social care (while calling for longer term sustainable solutions);
    - the need to address the specific factors that sit behind London's homelessness crisis; and
    - to appropriately fund the very specific cost pressures related to Unaccompanied Asylum-Seeking Children and people with No Recourse to Public Funds, linked to London's greater levels of migration.

6. In addition, to more directly address the lack of certainty, it is proposed to call for as much clarity as possible, as soon as possible, over a number of different funding streams well in advance of the provisional settlement. These include, but are not limited to, the likely continuation and parameters regarding: Adult Social Care "winter pressures" funding; the Social Care Support Grant (announced as a one off grant for 2019-20 in Budget 2018); the Improved Better Care Fund; the New Homes Bonus; Public Health Grant (due to be "rolled in" to baselines under 75% business rates retention); Troubled Families funding; Flexible Homelessness Support Grant; the Adult Social Care council tax precept and indeed council tax principles more broadly.

7. There would perhaps be less scope for government to listen to any detailed arguments for longer term reform of council tax and business rates and further fiscal devolution, although they will still be made. Liz Truss, the Chief Secretary to the Treasury, has recently made positive statements about the need for greater devolution of taxes, suggesting that the next Spending Review period should be one of transition towards greater alignment of local accountability for raising and spending public money.

<u>Lobbying activity</u>

8. The "Investing in the future" campaign was launched in November 2018 at the London Councils summit[3]. A further briefing was published in January at an event hosted by London First with London business groups setting out the economic arguments for investing in London's public services. A half day event was held with London Funders in February at the Guildhall with key voluntary and community sector groups. The intention with both sets of stakeholders is to develop a broader coalition in order to influence the Review. With regard to the third set of key stakeholders that have been identified - Members of Parliament - London Councils recently submitted evidence to the HCLG

[3] Available here: https://www.londoncouncils.gov.uk/our-key-themes/local-government-finance/london%E2%80%99s-local-services-investing-future/london%E2%80%99s-local

Select Committee inquiry into local government finance and the 2019 Spending Review in April[4].

9. Further briefings in the *Investing in the future* campaign are planned to be published before the summer recess on London Councils' top priority areas: children's services (early June); adult social care (June/July); and homelessness (July). Given that the Treasury is undertaking a zero-based review of capital funding as part of the SR, London Councils and the GLA have agreed to develop some clear London-specific arguments in this area over the summer. A final detailed submission will follow ahead of the Government's deadline (likely to be September).

10. London Councils will continue to engage with London's business sector, voluntary and community sector (VCS) and London MPs as part of the campaign. With regard to the VCS, a joint letter with the sector will be sent to the Chancellor in late May. Further engagement is planned with business lobby groups, building on the recent Treasury Select Committee joint submission[5], which will include another joint submission to the Chancellor in June. Spending Review lobbying will also be on the agenda when the London Business Board meets in June/July.

11. With regard to engaging MPs, officers met with the co-chairs of the London APPG in January and several briefings have been sent to all London MPs. The London APPG Summer Reception in June will provide a further opportunity to brief them. However, in order to fully harness their collective lobbying power, **it is proposed that Leaders write to their local MPs over the summer to reinforce the key Spending Review and Fair Funding Review lobbying messages.** London Councils will provide a template letter that can be adapted locally following discussion of the above proposals at Leaders' Committee. Further engagement is planned around the party conference season.

Fair Funding Review update

12. It remains the Government's intention to implement new funding baselines for all local authorities from April 2020 following its review of local needs and resources - commonly referred to as the Fair Funding Review (FFR). As referred to above, there is some

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[4] Available here: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/housing-communities-and-local-government-committee/local-government-finance-and-the-2019-spending-review/written/100039.html

[5] Available here: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/impact-of-business-rates-on-business/written/99192.pdf

uncertainty regarding what a one-year Spending Review might mean for the implementation of the FRR.

13. MHCLG's current proposed timeline for the remainder of the FFR is set out in Table 1 below. The next consultation, which had previously been intended to be published before the summer parliamentary recess, is now simply due "before the 2019 Provisional Settlement". Even under the best-case scenario, therefore, it is unlikely any meaningful funding figures for 2020-21 will be published until the provisional settlement.

Table 1 - Fair Funding Review – timeline to April 2020

Date	Milestone
Spring 2019	Analysis of consultation responses.
Spring/ Summer 2019	Further policy development, including on transition and implementation, in collaboration with technical working groups jointly chaired by MHCLG and the LGA.
Before the 2019 Provisional Settlement	The Government will publish a further consultation on the proposed reform of the system including details of implementation and transition
Winter 2019	Reforms to be implemented in 2020/21 announced.
Winter / Spring 2020	MHCLG will work with local authorities in helping them implement reforms, ready for 2020-21.

14. London Councils' response to the last technical consultation on the review, submitted in February 2019, raised concerns regarding:
    - the size of the overall quantum of funding for local government;
    - the lack of progress of the Review and the uncertainty this causes;
    - the proposal not to include deprivation as a variable in the foundation formula;
    - the proposals that homelessness and concessionary fares are funded by the foundation formula, rather than through separate formulae;
    - the fact that UASC and NRPF will not be reflected through specific formulae;
    - the evidence being used to justify changes to the Area Cost Adjustment;
    - the lack of detail about the level at which notional council tax will be set and its potential distributional impact;
    - the proposal to include parking income within the relative resources assessment; and
    - the lack of specific detail about transitional arrangements; notably, the length of the reset period.

15. London Councils' Chair and Vice Chair met with the Minister for Local Government in March to outline the key areas of concern following the December consultation. This

meeting, and subsequent correspondence with the Minister (included at Appendix A), suggests there is still potential scope to influence the decisions relating to concessionary fares and homelessness (which are currently proposed to be included in the overarching foundation formula, proposed to be driven primarily by population) rather than to have their own specific formulae.

16. London Councils' lobbying priorities for the remainder of the Review are to:
    - continue to press for deprivation to be reflected in the foundation formula and that measures within individual service formulae accurately reflect the impact of London's higher housing costs;
    - seek to place sparsity and remoteness factors in proper, evidenced based context if they are to be further recognised within the Area Cost Adjustment;
    - ensure that arguments around accurate measurement of population is promoted; and
    - make an argument for concessionary fares and home to school transport being included as separate formulae, as well as homelessness (although recognising that the most effective use of effort with regard to the latter may be to lobby for adequate homelessness funding via the Spending Review).

17. Officers will continue to engage with and supply evidence to the MHCLG/LGA technical working group on these topics and to undertake broader campaigning, utilising the same three stakeholder groups as with the SR19 lobbying campaign. London Councils will seek opportunities to work with the GLA as well as with other local authority groups that have similar characteristics on particular issues in respect of the Review, most notably (but not exclusively) with other major urban areas. e.g. Core Cities /SIGOMA.

18. As set out above, the summer APPG reception represents a chance to engage London MPs on Fair Funding issues as well as Spending Review. The proposed exercise of writing to local MPs over the summer (paragraph 11) would be equally useful in raising Fair Funding issues.

75 per cent Business Rates Retention

19. The third major change to local government funding from April 2020 is the implementation of 75% business rates retention across the country. The Government had always intended to reset business rates baselines in 2020 (removing any recurring benefit from growth that individual authorities may have accumulated since 2013-14), but it also intends to increase the retention level from 50% to 75% nationally, as well as introducing

reforms that attempt to simplify the system and reduce the risks born by local authorities of business rates appeals.

20. The Government consulted on these proposed reforms in December and a summary of London Councils' key points was agreed by Leaders' Committee in February. In summary, the final response:
    - reiterated London Government's ambitions for greater devolution of business rates, building on the 100% business rates retention proposals from 2016 and the current London business rates pilot pool;
    - raised concerns about the lack of illustrative figures to indicate the potential impact on individual councils, and the uncertainty this causes;
    - welcomed attempts to reduce the "cliff edge" caused by resets and supported phased resets, which seem to eliminate this completely– but with the need for more illustration of the impact on authorities;
    - called for the levy on growth to be abolished completely;
    - urged the Government to develop more direct financial incentives for pooling under the 75% scheme;
    - welcomed the commitment to reducing volatility through removing the impact of appeals, but continued to raise concerns about the current performance of the VOA;
    - broadly welcomed the proposed "alternative model" – but called for a more comprehensive illustration of how it will work in practice;
    - raised concern about the impact of a "hard reset" in 2020 - which could cause significant volatility for a number of boroughs – and call for further clarity about any transition to new business rates baselines; and
    - raised concerns about the longer-term sustainability of business rates as a tax and as a funding mechanism for local government.

21. The hard reset of baselines will pose a significant financial risk for boroughs that have experienced significant growth since 2013-14. Pushing MHCLG for clarity on how the reset will be calculated is, therefore, an immediate lobbying priority in order to gain greater certainty. As is the need for MHCLG to provide more detail about how the new system will work in practice, with a number of key elements currently unclear.

22. More strategically, there is a broader question that the Government must address in the next few months regarding pooling under the new system. London Councils and the GLA have raised concerns about the lack of direct financial incentives to pool business rates under the current proposals for the new system. There appears to be less appetite for

incentivising pooling across other parts of the country and so this is an area in which London Government will need to take a particularly robust position if it is to influence the reforms successfully.

23. London Councils and the GLA have been working closely with regard to business rates retention for a number of years. An ambitious set of proposals were put forward in 2016 in response to the Government's proposals which, at that time, was to implement 100% retention. A small working group of Leaders and senior officers (treasurers and chief executives) was closely involved in developing those proposals. That process of collaboration provided a platform from which to develop and negotiate the London 100% business rates retention pilot pool that began in 2018-19 and continued in 2019-20 (albeit at the lower retention level of 75%).

24. London's 100% business rates pilot pool has generated more additional funding than was previously forecast for 2018-19. The total net financial benefit to London Government is now expected to have been around £397 million to be spent on vital services and strategic growth projects that will benefit Londoners. The 2019-20 75% pilot pool is forecast to generate a further £171 million in additional net benefit this year, giving an estimated aggregate benefit over both years of £568 million. It is anticipated that further investment in growth projects of around £40 million will be made through the Strategic Investment Pot, building on the £46 million already allocated in 2018-19. Bids for the second round are currently being developed, to be submitted in September; evaluation, consultation and formal decision-making will be completed by December.

    The success of the pilot pool, which has shown London's capability to work collaboratively through developing joint governance arrangements, has strengthened London Government's reputation and negotiating position with government on any further fiscal or service devolution. There is, therefore, strategic value in influencing the reforms to ensure that pooling is at least an option under the new scheme.

25. It is proposed to continue to urge the Government to develop more direct financial incentives for pooling under the 75% scheme. This will include, but not be limited to, calling for:
    - a higher retention share for areas that pool;
    - a preferential rate with regard to the new levy on "extraordinary" growth;

- a number of Central List items within London, such as the London Underground network, to be brought onto a London area list, with a London pool benefitting from growth on these items.

26. The Government has been clear that any reforms must fit within HMT's narrow definition of "fiscal neutrality". Given this definition, the proposals above run from least to most likely.

27. London Councils will continue to work to understand the basis of the proposed reforms to the system, to seek as much clarity as soon as possible about the potential for pooling under the new system, and to seek to influence the reforms such that pooling continues to be a viable option that benefits London boroughs strategically and financially next year. In agreeing to the pilot pool, Leaders specified that continuing the pool beyond two years would require a specific re-commitment. A further report will be taken to Leaders' Committee on this in the autumn when it is hoped more detail about the new system will be known.

Recommendations

28. Leaders' Committee is as asked to:
    - note the progress on finance lobbying with respect to the key events outlined in the report;
    - write to local MPs to London Council's key Spending Review and Fair Funding Review lobbying priorities over the summer (paragraph 11).

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

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Date: 21st March 2019

Dear Rishi

Fair Funding Review – meeting 18th March 2019

Thank you again for your time and the very helpful discussion of your emerging proposals for the future assessment of local authorities' relative needs and resources. Your Ministry will have received London Councils' detailed submissions in response to the consultations on Fair Funding and Business Rates Retention, but we were grateful for the opportunity to highlight some of the key issues for London authorities. We also thought it might help to capture and amplify some of the main points of our discussion via this letter.

While recognising that the Government's financial planning is currently subject to wider political imperatives, we were pleased to hear the Chancellor's recent commitment to a three-year **Spending Review** and your corresponding support for multi-year settlements for local government. This is an important factor in helping councils manage the scale of the financial and service pressures we all face, and an important opportunity for local and central government to ensure that, in future, adequate levels of investment support effective and financially sustainable local services. Nonetheless, we discussed our priorities in the event that a shorter, one-year settlement proves necessary, and confirmed that our highest priority would be to address adequate funding for children's services – both social care and High Needs/SEND funding – in each of which London faces aggregate shortfalls of approximately £100 million. We recognise of course that education funding is not within the direct responsibility of your Ministry, but would be keen to continue the work we have been doing with your officials to support the case to your colleagues in DfE. In addressing pressures on children's services, it is also imperative that adequate funding is made available to meet the cost of supporting some of the most vulnerable in our communities, including Unaccompanied Asylum-Seeking Children and people with No Recourse to Public Funds (on which London boroughs spend over £100 million per annum).

In the absence of longer-term funding solutions, Adult Social Care continues to represent a significant challenge for London, along with councils in the rest of the country. Recent one-off grant allocations and the Social Care Precept have helped to ameliorate the financial pressure, but London still faces an anticipated shortfall of approximately £100 million next year.

In both children's and adults' services you recognised the importance of maintaining the capacity to fund preventative work, including the importance of Public Health, and acknowledged the success that London has achieved with its approach to preventative services more broadly. That, along with strong political and professional leadership, has been an important element in London's ability to manage demand pressures in social care, reducing the actual spend per capita by 9% since 2010 (a 20% reduction in real terms).

In response to the **fair funding proposals** we welcome your determination to "follow the evidence" and highlighted four issues from our broader consultation response:

- The exclusion of ***deprivation*** from the foundation formula. The consultation document asserts that deprivation only explains 4% of the expenditure of services to be covered by this formula beyond population alone. However, the consultation does not specify which measure of deprivation was used in this analysis, and you will be aware that recent analyses have argued that deprivation drives a far higher proportion of spend – up to 40% in the analysis from the University of Liverpool. The Indices of Deprivation are a complex suite of measures, indeed MHCLG's guidance notes state that "Because patterns of deprivation across larger areas can be complex, there is no single summary measure that is the 'best' measure". Clearly some measure or measures are required which, as you said, need to be sufficiently robust, granular and transparent. You asked us to reflect on the sort of approach we believe could be considered and revert to you on that. If a measure of income deprivation is to be used, we would be keen to explore with you measures that adequately reflect the real income citizens have at their disposal after unavoidable costs of housing. The Income Domain within the Indices of Deprivation, for example, uses 60 per cent of the median income before housing costs as a cut-off point for income-deprived households in receipt of benefits: we would like see consideration of a measure after housing costs, which would echo the IFS's analyses of poverty and deprivation after housing costs.
- The inclusion of ***homelessness and concessionary fares*** within a foundation formula that does not recognise deprivation. The incidence of homelessness is clearly related to deprivation. While, as you indicated, a significant proportion of funding currently comes not through the existing core funding formula, but through other grants, the combined effect still does not take adequate account of the demand and cost pressures driven by London's property market. As a result, London currently faces an aggregate annual shortfall in funding for supporting homeless families of approximately £170 million. Concessionary fares and – as you mentioned – home-to-school transport represent significant financial pressures for London boroughs (of around £460 million per annum) and, while we recognise the need to balance accuracy and simplicity in the overall funding formulae, we would be keen to help explore ways in which these pressures can be appropriately recognised in future.
- In relation to the ***area cost adjustment*** we were again pleased to hear that labour and property costs would remain the largest factors, although we would urge you to consider wider property cost measures than commercial business rate valuations. We welcome your reassurance that there would be no single ACA applied across all services, but that the measures used – and the weightings applied to them – would be appropriately tailored to each of the service formulae. This level of analysis was not, of course, included in the recent consultation, and we look forward to seeing exemplifications of these more detailed proposals as soon as possible.

- Finally, we emphasised our opposition – along with the Local Government Association as a whole – to the proposed inclusion of ***parking income*** in the "resources" element of the future formula.

The forthcoming spending review – even if it proceeds as outlined – will not report until the Autumn Budget, which we would assume will be in November. Consequently, the first sight of robust exemplifications of council funding levels in 2020 is likely to be December 2019. We would therefore urge you not to wait for the control total to be finalised before setting out the more detailed options - and exemplifying their distributional impact – emerging in response to this round of consultation.

On the proposals for **business rates retention**, we emphasised our desire to continue the effective work that we had been able to do through the retention pilots agreed with Government. In the current year, the pilot has enabled approximately £150 million of additional investment by London Government in driving economic growth, leveraging a match funding of over £650m. But maintaining a pool across the whole of London is not straightforward, and we are keen that the new system to be introduced in 2020 continues to offer incentives to encourage authorities to work together through pooling. You said that you were open to ideas that were "fiscally neutral". In the context of promoting growth, of course, the concept of fiscal neutrality is not entirely straightforward: the primary purpose of the Government's policy, which we share, is to incentivise the promotion of economic success, and hence growth in the tax revenues that would not otherwise be available.

In response to your request on this, we would mention one proposal which we floated with your officials during discussions on the retention pilot for the coming year – but which we were not able to pursue due to Brexit-related time constraints around the November 2018 Budget. That was for London to be able to retain a greater level of growth than 75% in return for negotiating a bespoke levy arrangement that would effectively cap the overall potential benefit for London. In terms of possible incentives that are not directly related to the level of retention, we would want to return to some of the broader ambitions for devolution of control of business rates to London that we presented to Government in response to the original consultation in 2016. We would be happy to continue exploring these options with you and your officials.

Thank you again for your time and consideration. We are keen to continue to work together to help reform the way local government raises and receives funding, in order to underpin a successful and sustainable future for the local services our communities need.

Yours sincerely

Teresa O'Neill

Councillor Peter John OBE
Chair of London Councils

Councillor Teresa O'Neill OBE
Vice Chair of London Councils

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- 3 APR 2019

Dear Cllr John and Cllr O'Neill,

Thank you for your letter of 21 March, following our meeting of 18 March regarding your proposals on business rates retention reform and the review of relative needs and resources.

I would like to begin by thanking you for your continued engagement with these reforms, including through London Councils' work in our technical working groups and steering groups, and in responding to both consultations.

I also welcome your further reflections following our meeting, including potential approaches to measuring deprivation, which we will carefully consider as part of our work to shape the next phase of these reforms.

Regarding homelessness and concessionary travel, I am committed to engaging further with the views of all local authorities, and so I will undertake a further and more granular consultation prior to making a final decision on our approach.

In relation to the issue of how the area cost adjustment reflects wider property costs, we have used as our source data in the rates cost adjustment the Valuation Office Agency's detailed database of property valuations, which is a sample of all buildings. We have taken this approach partly to maintain incentives for local authorities to exercise pay restraint as using councils' rent bills would compensate authorities which have chosen to pay above the local going rate. I aim to publish a technical paper later this year, which will provide further detail on the area cost adjustment.

I also recognise your arguments for not taking parking income into account and will take your views on board alongside the analysis of responses to the review.

I understand the very real implications for the sector of any decisions relating to the Spending Review and the value of multi-year settlements. The Review provides us with the opportunity to look at local authority funding in the round and my Department has already begun preparations for the Review. As part of our planning, we are working closely with Departments across Whitehall, including the Department for Education and the Home Office, to build the necessary evidence base on service costs and pressures.

I was pleased that London accepted the offer to continue as a 75% business rates retention pilot in 2019-20. We value the joint governance arrangements for decision making that have been established through the London Congress and are pleased to see these continue from the current pilot. We are keen to see further progress in deepening the effectiveness of cross-London governance and joint working.

As you will be aware, the December 2018 consultation on business rates reform sought views on fiscally neutral measures to incentivise pooling in the reformed system. We will consider all the responses to the consultation – as well as the proposals put forward in your letter – very carefully before reaching any final decisions on possible incentives for pooling. We are still open to discuss any fiscally neutral proposals that you may have for incentivising pooling in more detail.

I would like to thank you for meeting me to discuss these important matters and I look forward to continuing our work together.

RISHI SUNAK MP