Autumn Statement 2014

London Councils' submission to HM Treasury

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

London Councils remains committed to the principles of devolution, integration and localism. We believe local government, with its firm democratic mandate, is best placed to respond to the needs of its local residents – albeit within the Government's overall aims of deficit reduction and economic growth.

With the general election and next Spending Review on the horizon, we believe the forthcoming Autumn Statement 2014 represents a timely opportunity for central government to demonstrate its commitment to further devolution of power and funding to cities and local areas in England.

It is clear that local government in London faces a period of prolonged financial austerity. By 2018-19, London local government is facing a reduction in core funding of 60 per cent in real terms compared with 2010-11. Combined with a rapidly increasing demand for local services, London's local authorities face a funding pressure of up to £3.4 billion by the end of the decade.

The size of the future financial challenge cannot be understated, and it brings sharply into focus the debate about how local public services in London will be both delivered and funded. Within this context, London Councils believes the current system of local government finance is not sustainable. We urge the Government to consider a more sustainable model for the long-term funding and delivery of local public services.

Despite the reduction in public finances, local government is widely acknowledged as the most efficient part of the public sector. Authorities in London are exploring ways of integrating a range of public services - including work with health, troubled families and community safety and justice - in their localities.

These initiatives begin to show the potential for more effective ways of delivering outcomes for residents, and highlight the role local authorities can play in bringing other public agencies together to tackle deep-seated challenges. The Government must now go further to deliver greater financial devolution and autonomy which can be a springboard for growth, jobs and necessary infrastructure in the Capital.

This submission sets out a range of recommendations to shape better local public services in partnership with Government, the Mayor of London and other partners. It builds on the recent work by London Councils on the London Enterprise Panel (LEP) Growth Deal for London; the recommendations of the London Finance Commission; and London Councils' submission to the Independent Commission on Local Government Finance.

In the next parliament, London Councils believes that the government should recognise the strategic importance of London and other cities to the economy of the UK by;

- Facilitating fiscal devolution to local areas, including the full suite of property taxes to London government;
- Adopting a more holistic approach to funding local public services with local government at the heart of these new arrangements; and
- Improving the stability, transparency and long-term nature of the local government finance system.

More immediately in the forthcoming Autumn Statement, London Councils would urge the Government to:

- Protect local government from further cuts to those already outlined in Spending Round 2013;
- Address the issue of business rates appeals and decrease the number and complexity of business rates reliefs; and
- Implement measures to address business rates avoidance.

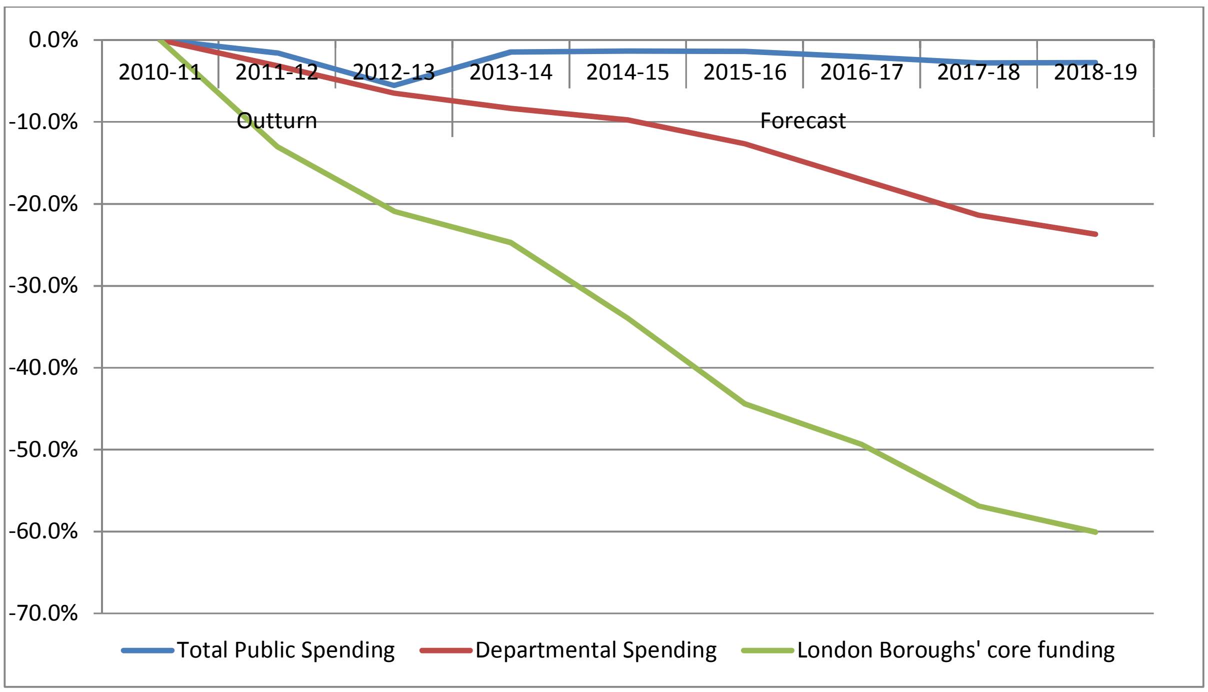
London local government faces significant funding reductions

Between 2010-11 and 2015-16, London local government will have seen a real terms reduction in core funding of 44 per cent. Over that period, London has seen a reduction of £2.6 billion on a like-for-like basis. This trend is set to continue. Over the following three years to 2018-19, it is estimated core funding will fall by a further £1 billion (29 per cent) in real terms.

This means a 60 per cent real terms reduction in core funding between 2010-11 and 2018-19 compared with a real terms cut of just 3 per cent for the whole public sector over the same period (see Chart 1).

This level of contribution by London local government to the Government's deficit reduction programme far outstrips the contribution required of the vast majority of other Whitehall departments.

Chart 1 - Cumulative real terms percentage change in core local government funding compared with whole public spending - 2010-11 to 2018-19



Sources: DCLG, LGF Settlements 2010-11 to 2015-16 (illustrative); OBR, Economic & Fiscal Outlooks 2011 to 2014.

Notes: London Boroughs' core funding is defined as Formula Grant until 2012-13 and Settlement Funding Assessment from 2013-14; Total public spending is headline Total Managed Expenditure (OBR definition); Departmental spending is total public sector current expenditure in Resource Departmental Expenditure Limits (OBR definition).

Local Government has made a significant contribution to deficit reduction. In the interests of financial stability and robust financial planning, Government must ensure that no further reductions are made to the 2015-16 funding levels for local government.

London local government faces growing demand for services

The impact of declining levels of funding will be compounded by significant growth in demand for services. London Councils' modelling shows that, despite efficiencies within each service area, the combined effect is likely to create a financial pressure of over £3.4 billion on revenue expenditure within London by 2020.

The rapidly increasing demand for local services stems from a growing and ageing population with increasingly complex demography. Current projections suggest the population will increase to 10 million by the early 2030s. There are three areas in particular where London local government is experiencing unprecedented demand: housing; school places; and health and social care.

Housing

London Councils' research suggests that by 2021, 809,000 homes are needed to meet expected housing demand in London as well as to address the backlog of housing need. Based on current housing supply levels, analysis suggests that there will be a deficit of 559,000 homes by 2021.

Housing supply has not met the growth of demand in London because of:

- **a lack of investment** – with the majority of capital funding being directed towards the Affordable Homes Programme which, because of London's unique market, fails to reach most Londoners;
- **borrowing constraints** – resulting from the arbitrary HRA cap, which limits the ability of local authorities to invest in new homes;
- **a lack of available land** – with around 45 per cent of developable land held by non-builders, therefore unlikely to be built on in the near future, and competition for available land within the boundaries of London pushing up initial costs to developers;
- **undeveloped land** - where planning permission is held by developers, build rates can still be slow because brownfield sites often require costly and time-consuming work such as cleaning up contaminated land; and
- **higher planning costs in London** – which means that nationally set planning fees fall considerably short of funding the cost of processing applications.

To address the housing shortfall the Government should:

- ***remove the Housing Revenue Account (HRA) borrowing caps (subject to prudential borrowing rules);***
- ***transfer central government surplus strategic land holdings within London to London government;***
- ***enhance freedoms for London government to set planning fees for large developments;***
- ***consider the devolution of housing benefit (or a related share of Universal Credit) to local areas; and***
- ***explore measures to shift public funding from personal subsidy to investment in built assets.***

School places

London Councils' research shows that London needs to create 133,000 more primary and secondary school places by 2018. This represents 27 per cent of the national shortfall of 497,000 places.

The school-age populations (5-19) within the capital grew by 107,000 from 2001 to 2011: a growth rate of 8.2 per cent compared to an overall reduction nationally of 0.2 per cent. This pressure continues to grow, with forecasts showing that the pupil growth rate in London over the six years from 2012-13 is twice that of any other region. By 2017-18 pupil numbers in London are expected to increase by 18 per cent, or 194,000.

To address the school places shortfall, London Councils asks the government to allocate sufficient funding on a long-term basis to local authorities to fully meet identified need in future basic need allocations.

In addition, in 2013 the Department for Education (DfE) introduced a new assumption in the funding methodology, without consultation, that has disadvantaged many London boroughs. The new “75 % rule” has penalised many London authorities who had significant pupil growth before other regions and the Government has provided no justification for this adjustment.

The combination of high need in London compared with other areas and the 75 % rule has meant London has received a much lower proportion of the funding for 2015-17, despite pupil growth in the capital continuing

Adjustments to funding formulae must be based on evidence rather than assumptions. London Councils asks that new changes to the formula be consulted on and tested to ensure they don’t disadvantage some areas more than others.

Health and Social Care

London boroughs are facing increased pressure from a population with more complex care needs, adding to the considerable pressure already on social care budgets. By way of illustration, it is estimated that by 2020:

- London’s over-65 population will increase by around 113,000 at a growth rate of 11 per cent[1].
- Those with a mental health disorder will grow by around 90,000 or 6 per cent.
- Those with a learning disability will grow by around 9,000 or 6 per cent.
- Those with a physical disability will grow by around 50,000 or 10 per cent[2].

While local services face an overall increase in demand, they are also being accessed by local populations with increasingly complex demography. London’s population has a set of unique characteristics, including:

- **Mobility:** London has an inherently mobile and changing population. In 2011, London had approximately 70,000 short-term residents (STRs) – over a third of all short-term residents in England and Wales.
- **Ethnicity**: London continues to be the most ethnically diverse region in the country – more than one in three usual residents in London are non-UK born with London boroughs accounting for 18 of the top 20 local authorities for ethnic diversity.
- **Language:** London has the highest percentage of households containing a usual adult resident whose main language is not English (26 per cent) with 9 of the top 10 linguistically diverse local authorities in London.

In addition to rising demand for social care, London Councils’ analysis suggests that government funding commitments are unlikely to meet our estimate of £738 million in London between 2016-17 and 2019-20 for the cost of implementing the reforms in the Care Act 2014. Demographic pressures and inflation will add a further £399 million to this estimate, meaning the total cost pressures on adult social care in London between 2016-17 and 2019-20 will be approximately £1.14 billion.

[1] Projecting Older People Population Information (POPPI) projections 2014: http://www.poppi.org.uk/

[2] Figures for adults with mental health disorders, physical and learning disabilities come from the Projecting Adult Needs and Service Information (PANSI) projections 2014: http://www.pansi.org.uk/

We have further concerns regarding funding being made available for the implementation of the Care Act. This is a significant and ambitious programme of reform and will transform the way in which social care is commissioned, delivered and funded. London Councils estimates suggest that there could be a funding shortfall of up to £36 million across London in 2015-16.

To address the rising pressures on health and social care, London Councils would urge the Government to fully fund the costs of implementing the Care Act and the new duties expected of local government as part of the Better Care Fund.

Broader infrastructure

Finally, such rapid population growth will also undoubtedly increase pressure on London's physical infrastructure. The GLA's current consultation on investment in infrastructure to 2050 estimates that "total infrastructure costs will rise steeply over the next ten years to double what they were in the baseline period (2011-2015) in real terms, from an annual average of £16 billion in 2011-15 to £38 billion in 2016-50". Assuming existing funding arrangements continue; the consultation projects an average funding gap of £4.5 billion per year.

London Councils would urge Government to create an appropriate capital settlement for London from central government in future Spending Reviews and Budgets and appropriate revenue funding for the transition phase which would form part of any broader long-term devolution deal for London.

The current local government finance system is unsustainable

To manage the scale of financial pressure outlined above, London Councils believes that consideration must be given to how local public services are funded. The system of local government funding is becoming unsustainable in its current format. In particular, London Councils has five overarching concerns:

1. Ring-fencing of Whitehall budgets

In the past two spending reviews, local government has been asked to deliver a significant proportion of public sector spending reductions (28% in SR10 and 10% in SR13 compared to just 6% and 3% for all government departments) and in part, this is due to the ring-fenced nature of the budgets of several Government departments. As highlighted by the Treasury Select Committee, there is a risk that this policy:

- focuses the burden of financial stringency on non ring-fenced departments which, as the cumulative effect of the budget reductions take hold, have to bear an increasingly disproportionate share of the burden;
- does not subject the ring-fenced departments to the same level of financial scrutiny and accountability as other departments, and
- risks distorting the allocation of resources between Government priorities.

The ring-fencing of Whitehall budgets not only impacts on the overall level of core funding, but affects the way in which local government is able to use its financial resources. Despite Government attempts to rationalise grant funding streams following the 2010 Spending Review, there has been a gradual increase in the number of ring-fenced and targeted grants since then. According to figures published by DCLG, the total number of special and specific grants fell from 90 in 2010-11 to just 34 in 2011-12 following SR10. In 2014-15 local authorities anticipate receiving 51 separate grants.

It is felt that increasing the level of ring-fenced and targeted grants, whilst reducing the overall amount of funding for local government, limits the ability of local government to use its resources flexibly and perpetuates central government's control over local government.

The scale of the financial challenge ahead is likely to require the development of a range of proposals that seek to integrate services across different organisations (and sectors).

The Government should be mindful to avoid taking decisions on funding in silos and consider the funding of local public services more holistically with local government at the heart of any future arrangements.

2. The finance system is too complex and opaque

The current local government finance system remains not only heavily centralised but extremely complicated. This causes confusion and uncertainty for elected members, officers and local residents.

The previous Formula Grant system was incredibly complex, with very few people understanding the formula. This situation has been exacerbated by the introduction of the business rates retention system, which has not only incorporated an updated version of the formula, but added a further layer of complexity through business rates baselines, tariffs, top-ups, the levy and safety net.

The complexity of the system has led to a lack of transparency, with two distinct outcomes.

Firstly, it is now difficult to confirm, with any certainty, the level of funding for new roles and responsibilities that are now transferred to local government. Whilst we believe that local government should strive for, and be given, greater devolved power and flexibility, policies such as the localisation of council tax support are demand-led, volatile areas of spend where the Government has repeatedly failed to have an impact. In the absence of any risk-sharing arrangements with Government, these areas run the risk of having a significant knock-on impact on resources available for other vital services such as social care.

Secondly, the complexity of the system prevents a common and shared understanding of the full impact of central government spending decisions on local government.

For example, the Government has used the term “Revenue Spending Power” since the 2010 Local Government Finance (LGF) Settlement as a way of measuring local government spending. However, the composition of this measure has been revised each year to reflect changes to the system, leading to uncertainty over the true impact of funding decisions on local government. London Councils’ analysis shows that a true reflection of a like for like change in funding over 2014-15 and 2015-16 is over 20 per cent in real terms rather than the 10 per cent suggested by the Government Spending Power figures.

The Government should make the system of local government finance much simpler to understand and more accessible. To this end, London Councils would urge the Government to:

- ***agree with the sector a fixed definition of revenue spending power;***
- ***provide a detailed breakdown of how cuts to Revenue Support Grant (RSG) are calculated within the local government finance settlement, including a detailed breakdown of the local government Resource DEL, and any other departmental resource DEL that provides funding to local government;***
- ***include within the local government finance settlement a description or commentary of how the central share of business rates is coming back to local government; and***
- ***publish the local government finance settlement earlier in the Autumn rather than late December.***

3. A lack of stability undermines long-term financial planning

London Councils is concerned that the lack of stability within the system undermines the ability of local authorities to plan their finances over the long term. Current short-term grant funding via central silos is inefficient and insufficient to meet the needs of London’s diverse communities.

The current Government approach to local government funding focuses excessively on the short term, with funding levels subject to constant change and revision. For example, since Spending Review 2010, funding for local government was reduced by a further £900 million in 2014-15 and 2015-16.

Many funding streams are not guaranteed over the long term, causing greater instability. For example, it is not known whether the New Homes Bonus scheme will continue beyond its initial 6 year period, or whether protections within the RSG (for the rolled-in grant elements) will remain. Council tax freeze grants and the repeated annual extensions to business rates reliefs add further uncertainty because compensatory grants to cover these are not guaranteed in the long term.

The Government should provide more stable and long term local government finance settlements. This would reduce uncertainty and provide local authorities with a secure platform to fund local public services in a more holistic and joined up way.

London Councils believes that consideration should be given to how a more transparent, predictable and straightforward approach to reductions in RSG could be adopted. We are aware that a percentage cut to RSG has been suggested by some within the sector.

4. The lack of direct financial incentive undermines local economic growth

The complex business rates retention system creates further instability. Since April 2013, the effect of business rates appeals has hampered any potential growth in London. London's local authorities remain particularly exposed to the risk of successful rating appeals, accounting for around a third of all business rates appeals in England with over £500 million set aside in provisions for current and backdated appeals in 2013-14.

London Councils believes the system is undermining the conditions for long-term economic growth because it lacks a direct financial incentive. The fact that the Government is only retaining half of business rates; that local government is bearing the cost of the RPI inflationary increase on the funding baselines; that any growth could potentially be removed out after 7 years at the next reset; and that the definition of growth only applies to physical growth (not revaluation growth), all mean that the direct financial incentive for local authorities to grow their local business rates remains weak.

London Councils is supportive of recent attempts to ease the financial burden on businesses through the use of the business rates system. That said; the Government should be mindful of the growing number and complexity of the reliefs system and the impact that this could have on local government and the business rates retention system.

To create a stronger growth incentive, London Councils would urge the Government to:

- ***gradually increase the retained share of business rates from the current 50 per cent closer to 100 per cent (ultimately we believe this should be fully devolved to local government);***
- ***take on a greater share of risk from business rates retention - including further action to mitigate the risk of business rates appeals; and***
- ***fully fund the safety net, by allowing it to go into surplus or deficit each year, rather than continually top-slicing RSG.***

Further consideration should be given to the system of reliefs and wider issues such as business rates avoidance, particularly, the abuse of charitable and empty property reliefs, which have a significant impact on growth for some local authorities.

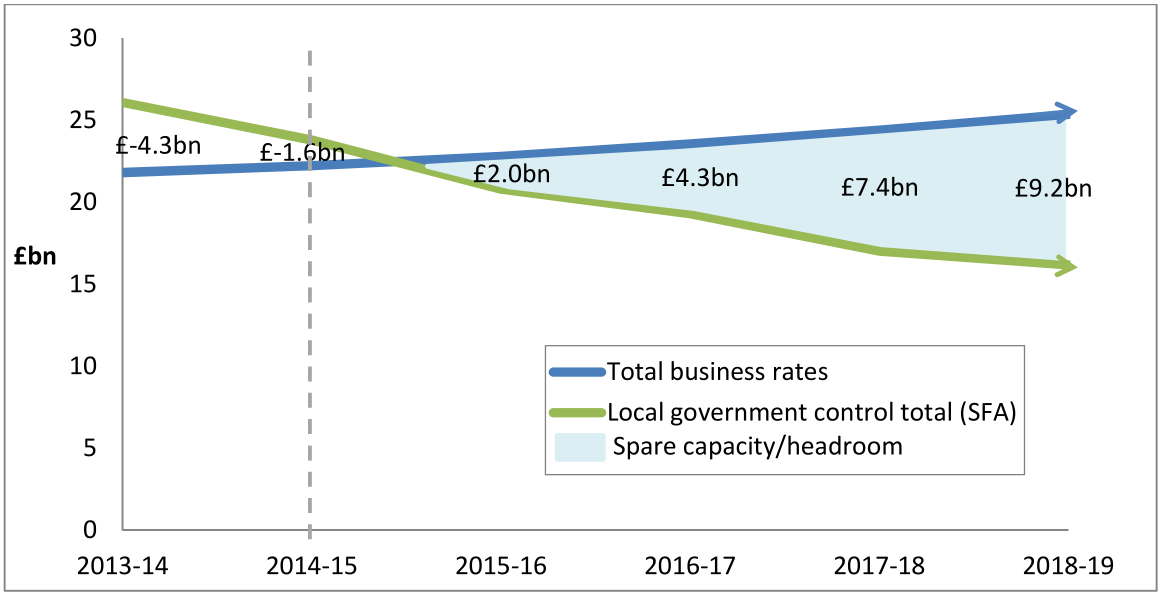
Over time, we believe that all property taxes, including the freedom to set reliefs, discounts and exemptions, should be devolved to London government.

5. The absence of a clear strategy for local government finance

London Councils would urge the Government to set out a clearer strategy for the future of local government finance.

As mentioned above, central government retains significant influence over local government spending through the use of ring-fencing and targeted grants. In part, this is made technically possible by a difference between the local government Resource DEL (primarily funded by business rates) and the local government control total (core funding). Based on published figures, analysis suggests that this gap is set to grow over time: total business rates income will rise by RPI each year and the local government control total will reduce as part of deficit reduction. This means that there will soon be significant headroom in the system, potentially to fund other specific grants (see Chart 2).

Chart 2 – Likely trajectory of local government funding and business rates



Notes: Central and local shares increase by RPI inflation; control total reduction based on London Councils' modelling
Source: London Councils; RPI inflation from OBR's Economic & Fiscal Outlook (March 2014)

London Councils would urge Government to outline what it intends to do with this headroom. This could include consideration of time-limiting the ring-fenced nature of some grants. At the outset, this would provide the necessary assurance to Government that funding for specific initiatives was being spent as intended, and enable greater certainty over local budgeting in the long term.

Fundamental change – Preparing for CSR 2015

The scale of the challenge ahead for the public sector finances is significant. The Government has already set out plans to cut departmental spending by £8.7 billion in 2015-16, and to achieve the longer term objectives of the deficit reduction programme, further savings of close to £38 billion will be required by 2018–19.[3]

It is highly questionable whether the current incremental approach to public sector reform can successfully deliver on this scale. Only a more ambitious approach will be able to address the scale of the financial challenge ahead – one that seeks to create a more balanced relationship between central and local government and one that devolves power and responsibilities to England's cities and beyond in a bid to drive a more integrated and cost-effective approach to local public services.

Authorities in London have actively explored the potential for further ways of getting maximum impact from integrating a range of public services in their localities, including work with employment and skills, troubled families, health and housing. These initiatives highlight the potential for better ways of delivering outcomes while supporting the Government's wider objectives on the economy.

The following section sets out what London boroughs and the City of London are calling for in order to continue to deliver enhanced outcomes for their residents and local businesses.

Collaboration between London authorities is moving forwards rapidly and partnerships such as the West London Alliance, Central London Forward and the Growth Boroughs are collaborating effectively to tackle big challenges linked to economic growth and the wider reform of public services.

Across London, significant time and effort has already gone into developing more approaches to reform as part of the Growth Deal[4]. The next step is to work with Government to extend this devolutionary approach across London to improve outcomes and value for money. London government is in a strong position to implement further devolution, at the right spatial levels, in the future.

Employment, Skills and Welfare to work

There are almost half a million people in the capital who are long-term unemployed or who are economically inactive but would like a job. London Councils believes that a more tailored and local approach is necessary in getting this cohort back into work.

We believe that employment support programmes and a range of welfare management programmes should be devolved to London government. This would include:

- All funding for employment support , specifically for those furthest from work, typified but not confined to ESA claimants,

[3] http://www.ifs.org.uk/publications/7373#adjusted_current_budget_deficit

[4] In particular see item 5 and Appendix A from the July 2014 London Councils Leaders' Committee: http://www.londoncouncils.gov.uk/London%20Councils/Item5FiscalDUpdated.pdf

http://www.londoncouncils.gov.uk/London%20Councils/Item5AppendixALettertoCLGSelectChair.pdf

- Youth programmes for employment,
- Estate based area employment programmes, and
- Local welfare support programmes.

London boroughs are at the forefront of designing employment programmes that overcome the complex barriers many of these residents face. They often take responsibility for those residents who are unable to access, or who are not effectively served by, mainstream employment programmes.

Given more freedom, local partnerships can do more to help Londoners into work, but they are reaching the limit of what they can do within the current structures.

Groups of boroughs are able to integrate support services such as housing, childcare, debt advice etc., with the broader local offer of employment and skills support, to create personalised wrap-around services, taking claimants on a path from welfare to work.

The model envisages groups of boroughs adopting a common operating model, the delivery of which would be locally tailored based on local labour markets and community needs. We are already engaged in developing four pilots in this area, as confirmed in the London Growth Deal, including:

- **ESA Pilot -** From April 2015, eight central London boroughs will begin working with Employment Support Allowance claimants who have been unsuccessful at finding work through the Work Programme. The pilot will test whether better outcomes and value for money can be achieved compared to national programmes, by commissioning locally at scale and integrating a range of services to deliver interventions tailored to the often complex needs of those claimants.
- **Mental Health Trailblazer** – This trailblazer, based in West London boroughs, will inform future national and local employment support for people with mental health conditions.
- **Flexible Support Funding Pilot** – Work is currently underway to agree a common set of principles for both the DWP and London boroughs that will lead to improvements in the strategic use of this fund for unemployed Londoners across borough boundaries.
- **Local Support Services Framework** – This is an opportunity to integrate Universal Credit support services into other local services, including employment programmes. The government has awarded pilots in three areas of London. The pilot in Lambeth, Lewisham and Southwark will test out on how best to integrate employment and skills support with Universal Credit support services.

The commitment in the London Growth Deal to unlock progressive steps to give London local government greater influence over employment support programmes more broadly is welcome. But more reform is needed. London Councils believes this should include:

- **A single funding pot for employment services in London**, made up of co-commissioned mainstream funding between DWP and groups of boroughs and targeted funds that should be fully devolved to the local level. This would replace mainstream employment programmes.
- **Involving local government in the commissioning process** for any new national programmes.
- **Freedom to better link the skills system with employer need, including:**
  - *Responsibility and budget* holding to be devolved to the London Enterprise Panel, working closely with groups of London boroughs, including the ability to vary funding rates for qualifications. Groups of boroughs would act as strategic brokers, bringing together employers and skills providers to identify the needs of local businesses.

- *Changes to incentives:* linking a much greater proportion of providers' funding to individuals' progression in work or learning.
- *Improvements to information:* publishing better data on providers' success in giving people the skills to find and progress in work.

Complex Needs: Troubled Families and offender rehabilitation

The Troubled Families programme demonstrates how central government can work with local government and other agencies to bring budgets and services together in a pro-active way at a local level. The programme has benefited from the trust shown in local government to help turn around the lives of some of the families that place the greatest demand on public services.

The expansion of the Troubled Families in 2015 to deliver family intervention to even more families is a significant vote of confidence for local authorities. London Councils believes that the scope of the programme can be broadened so that more families can be supported while also ensuring that London's unique factors are taken into account in performance and eligibility measures.

Other parts of Government could benefit from this approach when working with local government. The success of the Troubled Families programme should be seen as a sign that devolving responsibility and funding for a number of other key public services to the local level – where the benefits of integration and personalisation can be realised – offers a unique opportunity to bring services together to improve outcomes and reduce costs.

Offender Rehabilitation is another example of how devolution of funding to a local level can improve cross agency working to deliver better outcomes for service users. London Councils and the Mayor's Office for Policing and Crime (MOPAC) are working together to influence the implementation of the Transforming Rehabilitation reforms in London.

London Councils has consistently argued that the Transforming Rehabilitation reforms are too narrow in scope to achieve sustained change in reoffending rates.

London Councils would like to see a single funding pot for services and support for offenders in London, achieved through the devolution of some element of the criminal justice budget, as well as other departmental budgets, to deliver community-based crime prevention and rehabilitation for prolific offenders.

Our analysis suggests this model would benefit a number of Whitehall departments including: the Ministry of Justice; Home Office; Department for Work and Pensions; and Department of Health. Following the Troubled Families model, each of these departments should pool their resources and invest in locally delivered services.

This approach will only be effective if there are appropriate financial incentives for local authorities, both in terms of reward and risk. Giving local partners more financial accountability for the demand placed on criminal justice services, such as courts, prison places and probation services, would, for example, provide them with an incentive to work more effectively to reduce crime and reoffending locally.

This approach would also help manage service demand, by re-investing savings to the public purse into services that intervene earlier. This virtuous circle would lead to long-term improved outcomes for individuals, safer communities and less cost to taxpayer.

Health

In 2012-13, public spending on health in London was £17 billion (21 per cent of total expenditure) with a further £4 billion spent on social care. This level of expenditure, combined with on-going fiscal restraint, means that more cost-effective ways of delivering services will be crucial, particularly in the context of rising demand for services.

London Councils welcomes the joint pooling of health and social care budgets in the Better Care Fund. This points towards a more integrated and joined up way of working. At the same time, the transfer of public health to local government has been a significant development, showing not only local government's effectiveness as a health commissioner, but also the importance of a bottom up approach to commissioning, even where services are offered across many boroughs.

With this solid foundation, London Councils believes further consideration should be given to the commissioning of integrated health and care services and strengthening the role of Health & Well-Being Boards as the foundation for developing the health service locally.

Fiscal devolution and greater financial autonomy

The fundamental changes to the delivery of public services outlined above are proposed to drive better outcomes at reduced cost. However, these reforms must be accompanied by a wider debate on the ways in which local public services are funded.

As highlighted above, the current local government finance system is not sustainable and fails to support local authorities in their efforts to provide sustainable services and to promote economic prosperity. As such, London Councils believes that more fundamental reform to the finance system is required.

The Barnett Formula

A discussion on the funding of local public services in England should start with a more thorough assessment of spending levels within the United Kingdom and in particular, the long-term sustainability of the Barnett Formula. It is commonly accepted that this formula was only ever intended to act as a short-term solution to the wider issue of distribution across the devolved administrations. Introduced in the 1970s, the formula looks an increasingly anachronistic and crude basis upon which to distribute significant sums of public money.

London Councils analysis suggests that in 2012, spending per head[5] in Scotland was approximately £7,000 compared to just £5,600 in England. This considerable level of variation is purely down to historic spending decisions and inaccurate population estimates rather than a robust assessment of need. Early analysis suggests

[5] Adjusted for welfare spending

that London loses in the region of £800 million and England, £4 billion a year from this outdated approach compared to a model that recognises need and deprivation across England and the United Kingdom.

Of course, the issue of the Barnett Formula is closely tied to the broader question of how to meet the spending need in Scotland and indeed the rest of the United Kingdom within the framework of fiscal devolution. In considering this, the Government will need to assess both the current levels of direct grant funding and the long-term potential for revenue generation through devolved taxes, striking a balance that is sustainable and replicable in other parts of the United Kingdom, including London.

London Councils believes that the use of the Barnett Formula is unsustainable and requests that the Government revisits this issue to ensure greater levels of fairness across the United Kingdom.

Fiscal devolution

In London, locally elected leaders – the Mayor and boroughs – have control of 7 per cent of the taxes required to fund public spending in London. Greater fiscal autonomy for London government is vital to enable long-term planning, management and investment of resources that will be required to promote growth and tackle some of the entrenched, complex issues that our communities face.

London Councils believes that the Government should devolve the full suite of property taxes to London government. This includes:

- **council tax,**
- **business rates,**
- **stamp duty land tax,**
- **annual tax on enveloped dwellings, and**
- **capital gains property development tax.**

Local authorities should also have the freedom to tailor reliefs, discounts and exemptions to meet the broader business and welfare needs of their localities.

London Councils understands the importance of London to the wider UK economy. We reiterate the recommendations of the London Finance Commission that the yields of any newly devolved taxes should be offset through corresponding reductions in grant to ensure a fiscally neutral position for the Exchequer (and the rest of the UK) at the outset of any reform.

Increasing flexibility over setting fees and charges

There are many services that local government has a statutory duty to deliver, but is required to charge for at a level determined by central government rather than locally. The result is that there are a number of services which leave councils with an overall net loss each year. This has always been perverse, impeding councils' ability to work effectively with businesses, to help drive growth, and often having other significant financial consequences for local taxpayers.

London Councils believes local government should have greater autonomy over the setting of fees and charges. The General Power of Competence is a step in the right direction, but a number of other changes could be implemented. These include:

- ***keeping the number of nationally set charges to a minimum;***
- ***making locally determined charges the norm;***
- ***letting local authorities recover full costs, even for charges set at the national level; and***
- ***removing central controls on planning application fees, building control charges, land searches and licencing fees.***