Written evidence submitted by London Councils [FSR 117]

As referred to in our previous correspondence, it was unfortunate that London boroughs were not represented on the recent select committee inquiry discussion.

I thought it would be helpful to pull out some of the key points from our submission that we would have liked to have made.

The current financial situation is unsustainable

- Local government has experienced a disproportionate level of austerity compared to other parts of the public sector. In the decade to 2019-20, core funding from central government to London boroughs has fallen, on a like-for-like basis, by 63% in real terms (totalling £4 billion) - while overall public spending increased in real terms. Overall resources in London are around a third lower than in 2010, while the population served by London boroughs has increased by a million
- Over the same period, councils have been asked to deliver more. New policies and legislative changes have transferred more responsibilities and associated costs from central to local government without sufficient funding. London boroughs are facing almost £1 billion per annum additional financial pressures as a result.
- The current finance system is extremely complex and lacks transparency. For example, there is no transparency about how over £10 billion of business rates revenues are returned to local government as specific grants.
- The current finance system is too centralised with government retaining control over council tax through capping and hypothecation (the ASC precept) and over business rates through setting the multiplier and mandatory reliefs. Where the Government has allowed more local discretion to raise funding and pool spending across local areas - such as through the Troubled Families Programme, the Better Care Fund, and the London business rates pilot pool - better outcomes have been delivered.
- London boroughs have protected adult and children’s social care as far as possible but other services have seen major cuts in spending; for example, planning and development, and highways and transport services have seen cuts of around 60%. Boroughs have reduced the number of employees by 50,000 (over 25%) since 2010. The limit of what is possible through efficiencies is drawing closer.
- London boroughs need to close a £1.5 billion funding gap over the next three years, including almost £400 million in 2019-20. They plan to reduce earmarked reserves by a third, it is clear that without a real-terms increase in funding in the next Spending Review, more councils could start to fail.

London Councils’ priorities for the Spending Review:
The Government must use the Spending Review to:
- Increase the overall level of funding for local government.
- Fully assess the cost implications of new burdens and other responsibilities that have been passed to local government in the last decade that have not been funded appropriately.
- Address the main sector wide pressures in adult social and in children’s services with a combined shortfall in children’s social care and High Needs funding in London of over £200 million.
Take a cross-departmental approach to addressing the unique pressures faced by London boroughs with regard to homelessness (where there is an annual £170 million shortfall), the costs of Unaccompanied Asylum Seeking Children and UASC care leavers (with a combined shortfall of over £30 million) and people with No Recourse to Public Funds (on which London boroughs spend over £50 million per annum but receive no government central funding).

**Concerns about local government finance system:**
The way councils are funded must move beyond the highly centralised and prescriptive system we currently have to one that empowers local authorities to invest in and sustainably plan for their local communities over the long term.

We urge the Government use the Spending Review to reform local government finance so that:

- It is less centrally prescriptive with more control devolved to local government.
- More transparent by being clearer about how the business rates system is used to fund different grants to local government – currently over £10bn of business rates is returned to local government funding “other grants” – but there is no visibility over which grants.
- It enables councils to take a longer-term strategic approach to investment in prevention – rather than short term emergency funding interventions like those we have seen in adult social care.

The Spending Review must be the start of a broader strategic review of how local government is funded, which must include:

- fundamental reforms to ensure council tax and business rates are fit for purpose as the primary funding mechanisms for local government;
- broadening the range of freedoms, flexibilities, and revenue raising powers available to local government, starting with smaller specific taxes that will directly support local economic growth, such as a Tourism Levy, Vehicle Exercise Duty, or the Apprenticeship Levy; and
- exploration of income tax and other national tax assignment, as advocated by the IFS and the London Finance Commission 2017, which London Councils supported.

*June 2019*