

London Councils

The voice of London local government

The cost of living crisis, skyrocketing inflation and other local government finance pressures

Overview

- London boroughs are budgeting in a hugely uncertain economic environment. A two-year settlement is needed to provide medium term funding certainty.
- Just as the cost-of-living crisis is hitting residents hard, rising inflation is squeezing borough budgets. Our analysis suggests inflation could drive additional budget pressures of up to £400 million this year without further funding support.
- The legacy of Covid-19 continues to add pressure to budgets and the government should not take the latest reserves figures as a sign of good financial health.
- Adult social care funding reform is a new financial risk for London boroughs and funding must appropriately reflect the impact on both working-age and older adults.
- High needs funding pressures are creating a risk to financial resilience. The Department for Education (DfE) and the Department for Levelling Up, Housing and Communities (DLUHC) must work together to ensure council taxpayers are insulated from these pressures.
- The 2021 Census may have significantly undercounted London's population and particularly its hard-to-reach communities because it was held during the third national lockdown. The government must ensure population estimates account for any temporary dip in the population.
- Despite having the highest homelessness rates in the country, London looks set to lose out from reform of the Homelessness Prevention Grant.

The need for greater funding certainty

Spending Review 2021 set a three-year envelope for local government funding. However, boroughs continue to have very little certainty over funding for the next two years.

There have now been four one-year settlements in a row, which hinders strategic long-term planning, the ability to deliver value for money, and helps explain why some authorities may have felt it necessary to add to reserves in recent years, to manage growing risks relating to this uncertainty.

London Councils welcomes the announcement of a two-year settlement for 2023-24 and 2024-25 from the previous Secretary of State for Levelling Up, Housing and Communities – although we are still seeking an earlier indication of the precise funding figures for London boroughs so that there is more time for budget setting.

Boroughs also need certainty over the scale and scope of the government’s proposed local government funding reforms. These will have major implications for boroughs’ future finance strategies and plans for service provision, so we are keen to see details as soon as possible.

Rising inflation driving additional budget pressures

The changes to GDP inflation (from under 3% at the time of the Spending Review in October 2021 to over 4% in March 2022) means that the finance settlement for 2022-23 is now worth £100 million less in real terms than when it was agreed.

London Councils’ modelling also suggests that inflation may lead to additional budget pressures of at least £400 million in 2022-23, as borough contracts and other running costs (such as energy bills) may be closer to CPI inflation (set to peak at 11% this year) and with pay inflation almost certain to exceed the 2% boroughs have budgeted for on average.

Capital programmes are being scaled back with many marginal projects now unviable – affecting school buildings, affordable housing, and local transport and regeneration schemes.

London Councils is seeking in-year funding support from the government to help deal with these pressures. Next year’s settlement, which was due to be flat in real terms even at the time of the Spending Review in 2021, must be updated to reflect the new economic environment.

The legacy of Covid-19 continues to add pressure to council budgets

The pandemic cost £3 billion in additional spending and lost income for London boroughs. The government’s funding support covered the impact in 2020-21 and 2021-22. However, over £300 million of tax losses that occurred in the last two years won’t hit boroughs’ budgets until this year and next year (due to delays in how tax collected flows through the finance system).

Any surplus in funding received so far, which may have been temporarily set aside in specific reserves, is being used by boroughs to mitigate budget pressures caused by those tax losses and heightened demand pressures, notably within adult and children’s social care. The rising cost of inflation is a new and separate issue.

Adult social care funding reform is a new financial risk for boroughs

The government provided around £162 million of funding in 2022-23 for local authorities to prepare adult social care markets for reform and moving to a “fair cost of care”. DLUHC and the Department for Health and Social Care are working with councils to collect data, to inform the distribution of a further £600 million in 2023-24 and 2024-25, as well as the distribution of £800 million next year for the wider reforms.

Concerns are emerging across local government that the funding set aside to cover the reforms may not be enough. A recent report by Newton and the County Councils Network found that costs could exceed funding by £10 billion over 10 years nationally. The impact will vary but it will be greater for London boroughs with a higher proportion of self-funders.

Any funding for reforms should also reflect the relatively higher spending on social care for working age adults in London.

London Councils is concerned whether, over the longer term, the level of funding support for social care through the Health & Social Care Levy will be able to meet the growing demand pressures resulting from the pandemic, an ageing population, and rising complexity of need within younger adults. Boroughs need assurance these issues will be addressed ahead of the next Spending Review, due in 2024.

Schools funding deficits undermine financial resilience

Dedicated Schools Grant (DSG) deficits resulting from SEND pressures are now a concern for the vast majority of boroughs. The DfE has set out a series of measures to address this, including a 13% increase in high needs block funding this year, an increased number of “Safety Valve” deals with councils with the highest deficits, and its Delivering Better Value programme to share good practice, and other policy changes set out in the SEND Green Paper.

However, all but a few boroughs have now accumulated DSG deficits which are forecast to reach over £400 million across London by the end of 2022-23. Almost half of London borough finance directors feel this is a risk to their financial resilience, according to our recent survey.

Boroughs are also concerned that the Safety Valve Programme has seen some authorities being asked to fund a proportion of these deficits from their general funds. This contradicts the government’s intention that local taxpayers should not be paying for spending that should be covered by the DSG.

The short-term accounting override introduced in 2020-21 to ensure general fund reserves do not need to be set aside to cover DSG deficits is due to end this year, and auditors may therefore start to consider this in their wider judgements on borough accounts. London Councils believes this should be extended beyond 2022-23. The government should confirm this as soon as possible to protect those with the highest deficits.

The 2021 Census may have significantly undercounted London’s population

The first results from the 2021 Census were published on 28 June 2022. London’s population was estimated to be 8.8 million on 21 March 2021 when the census was taken. London Councils is concerned that the census is likely to have undercounted some parts of London’s population, as it was taken during the third national lockdown in response to the coronavirus pandemic. The overall figure is almost 300,000 people lower than the previous 2021 ONS population projection for London of 9.1 million, and around 200,000 people lower than the mid-year estimate for 2020.

There is evidence to suggest that younger residents temporarily moved back to live with parents, some immigrants may have temporarily returned to their countries of birth, and people with second homes in less densely populated areas may have preferred to stay there during the pandemic, rather than risk living in more densely populated areas. It is therefore likely that the population in March 2021 was lower than prior to the pandemic and lower than it is now.

There is a risk that all funding formulae using Office for National Statistics (ONS) population estimates and population characteristics from the census will misrepresent London’s population. London Councils estimates around £4 billion of government funding to London local authorities relies directly or indirectly on census population figures. There will also be implications for billions of pounds of funding for the Greater London Authority, the NHS, police, fire and other much-needed frontline services.

London Councils is calling on the ONS to ensure there is a thorough and robust statistical process for updating population estimates that appropriately adjusts for the exceptional circumstances in which the census was held. Figures must be sense-checked against other administrative data sources (for example GP registrations data, which shows little impact from the pandemic).

London boroughs could lose out from reform of the Homelessness Prevention Grant

London is at the epicentre of the homelessness crisis. There are currently 155,000 homeless Londoners – including 86,000 children – living in temporary accommodation arranged by their local borough. London accounts for two-thirds of England’s homelessness total.

Homelessness costs are already a major pressure on boroughs’ finances. London Councils is concerned that the proposals outlined in a consultation on the future of the Homelessness Prevention Grant from 2023-24 onwards would result in London boroughs losing funding.

The Homelessness Prevention Grant is one of the larger grants that boroughs receive outside of the core finance settlement. It is worth £310 million nationally in 2022-23, and London boroughs currently receive £149 million (48%). The government is proposing two options to reform the distribution of the grant, based on a simplified formula and putting greater reliance on past expenditure and on general population data.

The options result in London boroughs losing £6 million and £15 million respectively. This is despite London having two-thirds of the homeless households in the country and higher costs to alleviate homelessness due to higher property costs. London Councils will respond robustly to the consultation and seek London MPs’ support in doing so.

Contact:

Amy Leppänen, Parliamentary Officer, Email: amy.leppanen@londoncouncils.gov.uk

Tel: 020 7934 9759

London Councils represents all 32 London boroughs and the City of London.

