

# Leaders' Committee

## Spending Review 2015: update

Item 5

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### Summary

Spending Review 2015 is expected to be in late autumn, and is likely to outline departmental spending limits for the next four years. London local government is again likely to face a disproportionate level of funding reductions. This comes during a period of growing demand driven, primarily, by a rapidly growing population.

The Spending Review provides an opportunity for London Councils to put a clear and persuasive case to Government about the challenge facing London that must be addressed if local services are to be maintained, and further economic growth achieved, in this Parliament.

The development of the Spending Review submission sits alongside, and is closely linked to, the work to secure further devolution and resources in public services in London.

This paper summarises the broad outline that London Councils' submission will take.

### Recommendations

Leaders are asked to note the report and to offer guidance and comment on both the proposed shape of the overall submission and the specific issues that it covers.

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# Spending Review 2015: update

## **Introduction**

1. By the time Leaders' Committee convenes, the Chancellor of the Exchequer will have delivered the Summer Budget to Parliament (8 July). Officers will circulate a briefing note on the announcement prior to the meeting. The Budget provides the first indication of public spending under the new Government, and includes £4.5 billion of in-year cuts recently announced by the Chancellor.
2. The Spending Review (SR15), expected in late autumn, will set the parameters of the public finances and related changes to public service delivery for much of this Parliament.
3. With a likely September deadline for submissions to HM Treasury, this paper sets out the broad themes that London Councils' submission will cover, including:
  - London's unique circumstances with regard to:
    - its contribution to the wider UK economy
    - the scale of the financial challenge facing London local government
    - the disproportionate growth in demand for services in London
  - the particular pressures London is experiencing in specific services; and
  - how the Government can meet its goals and mitigate these pressures at SR15 through:
    - public service reform
    - reforms to the local government financial system
    - fiscal devolution for London Government.

## **Why London is different**

### *London's contribution to the UK economy*

4. London has led the economic recovery. Despite having 13 per cent of the population, London now accounts for 22 per cent of the UK's total GVA<sup>1</sup>. A fifth of all UK businesses are located in the capital<sup>2</sup>. Over the past decade over three quarters of a million private sector jobs have been created in London, which continues to outperform the rest of the UK with jobs increasing by 2.9 per cent over the last year, compared with a 1.9 per cent increase for the UK overall<sup>3</sup>.

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<sup>1</sup> <https://www.london.gov.uk/priorities/business-economy/publications/gla-economics/regional-sub-regional-and-local-gross-value-added-estimates-for>

<sup>2</sup> Centre for Cities, *Cities Outlook 2015* (2015)

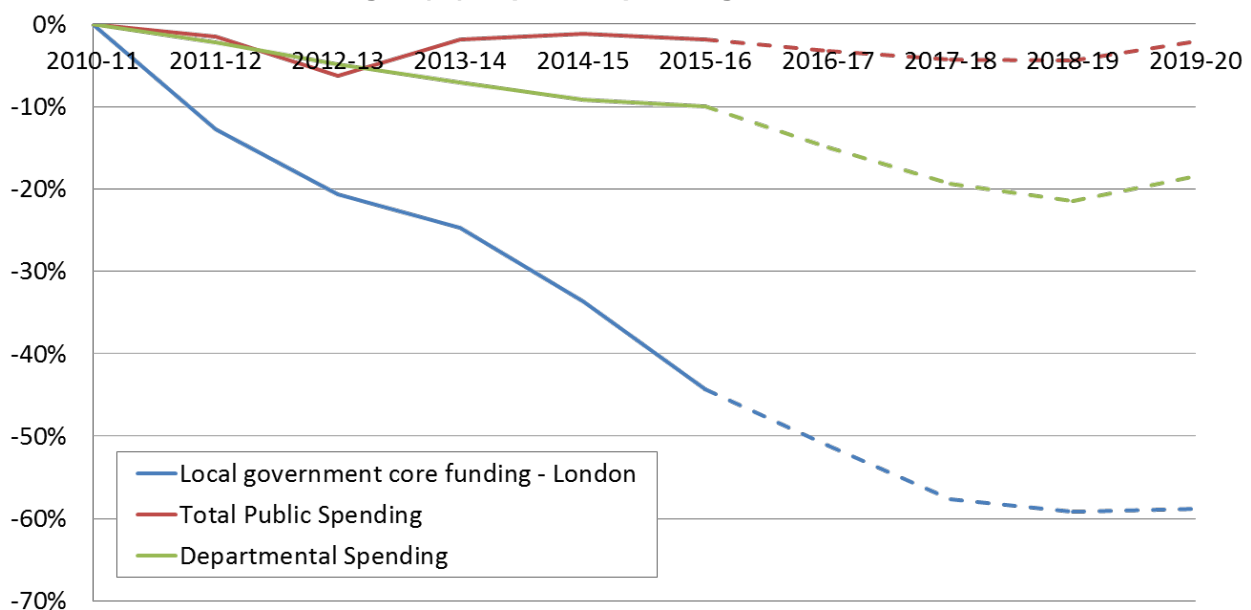
<sup>3</sup> GLA, London Datastore and dashboard June 2015 update: [http://data.london.gov.uk/?utm\\_campaign=Data-Dash-june+2015&utm\\_source=emailCampaign&utm\\_medium=email&utm\\_content=](http://data.london.gov.uk/?utm_campaign=Data-Dash-june+2015&utm_source=emailCampaign&utm_medium=email&utm_content=)

5. London drives growth across the whole country. London made a net fiscal contribution to the rest of the country of £34 billion in 2013-14<sup>4</sup>; up from £11 billion during the economic recession in 2009-10. Businesses headquartered in London account for between 5 and 22 per cent of employment in each of the other 62 cities in the UK. If London maintains its historic growth rate, the GVA of the 14 other largest metro regions would be almost £1 trillion higher by 2030 than in 2013<sup>5</sup>.
6. The SR15 submission will therefore make the case that economic growth is not a zero-sum game; supporting London is vital for the UK.

#### *The financial outlook for London local government*

7. London local government has received a disproportionate cut to funding over the last two spending review periods (2011-12 to 2015-16), with core funding to London Boroughs reducing by 44 per cent in real terms, compared with a 10 per cent reduction in overall departmental spending, and just 2 per cent in total public spending (see Chart 1 below).

**Chart 1 – Real terms changes (%) to public spending – 2010-11 to 2019-20**



8. Government funding for the sector is likely continue to reduce beyond 2015-16 at a similar rate to that experienced since 2010-11. The continued ring-fencing of the NHS, Schools and International Development budgets, and the Government's aim to run a budget surplus by 2018-19, mean reductions to local government funding are likely to be steeper than previously expected in 2016-17 and 2017-18. Latest estimates suggest a further reduction in

<sup>4</sup> City of London Corporation, "London's Finance And Revenues" 2014  
<https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/London's-Finances-and-Revenues.aspx>

<sup>5</sup> Centre for Cities (2014), Cities Outlook 2014, pp.20-21

core funding from central government of 24 per cent real terms reduction by 2019-20, meaning it would have fallen by almost 60 per cent over the decade to 2019-20.

9. The latest analysis indicates a potential funding gap in London of up to £2.4 billion (23 per cent) by the end of the period 2015-16 to 2019-20, based on relatively optimistic assumptions about income that relates to council tax increases, business rates growth and local government sharing in the Government's estimated uplift in public spending in 2019-20. Over this period, if the principal statutory responsibilities of local government – namely, social care, public health and waste – were fully funded, they could account for 75 per cent of all local government revenue expenditure (£5.3bn) in London. If this were to happen, spending on non-protected services could be squeezed by as much as 44 per cent by 2019-20.

#### Rapid growth in demand for services

10. Around three quarters of the estimated funding gap is due to rising demand for services caused largely by the impact of demographic change and London's rapidly growing population.
11. The latest projections estimate London's population will rise from 8.6 million in 2015 to 9.1 million by 2020 (an increase of 6.4 per cent). This is more than twice the anticipated rate of increase for the rest of England (3.1 per cent) over the same period. London's growth will account for 28 per cent of all population growth in England over that period.
12. Table 1 below shows there is a similar trend in most of the demographic cohorts that will drive demand for key local government services. It shows above average growth in every category compared with the rest of England. London's larger proportionate working age population means that growth in adults aged 18-64 will have a particularly disproportionate impact in London.

**Table 1 – Percentage change 2015-2020: London v England – key demographics**

	Estimated % growth 2015 to 2020			London's % share of England growth between 2015 and 2020
	LONDON	REST OF England	ENGLAND	
Total population	6.4%	3.1%	3.6%	28.0%
0-18 population	7.7%	4.4%	4.5%	28.3%
18-64 population	5.3%	0.7%	1.5%	60.5%
18-64 popn with learning disability	5.3%	1.4%	1.5%	60.9%
18-64 popn with physical disability	8.0%	3.7%	3.7%	32.9%
18-64 popn with mental health condition	5.2%	1.4%	1.5%	61.1%
65+ population	9.6%	9.5%	9.6%	10.2%

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

13. As local services face an overall increase in demand, they are also being accessed by local populations with increasingly complex needs. London continues to be 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 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.

14. London's economy, funding and levels of service demand are therefore different from the rest of the country. As a consequence, the SR15 submission will necessarily emphasise:

- the need for specific and different funding formulae for London;
- the need for different types of public service reform rules to handle London's unparalleled population growth; and
- the need for different types of self-funding mechanisms for London.

## **The impact of funding reductions and growing demand on services**

15. London's unique circumstances mean that pressure on services manifests itself differently compared with other areas. The biggest pressures are summarised below, with some of the key proposals London Councils will put to Government in SR15. More detailed proposals will be developed over the summer for the final submission.

### **Adult Social Care & Public Health**

16. London is expecting to see a cost pressure of over £1 billion in adult social care between 2016-17 and 2019-20. The disproportionate impact of the Care Act 2014 in London will account for 70 per cent of this pressure, driven by new responsibilities, demographic change,

and higher costs of care. While boroughs have found ways of protecting social care to some degree up to now, the room to do this is diminishing rapidly given the scale of overall cuts and there is growing evidence that the limits of what is possible, in terms of productivity and efficiencies, have largely been reached.

17. Integration of health and social care will be an important goal during the next Parliament.

However, the NHS in London is facing £6.4 billion cost pressures by 2020. So, while integration will have to drive more efficient use of funding overall, it will not be a simple panacea. Wider reform of health and care will also be needed. The foundations for this are in place with local experience of refocussing public health functions that transferred to boroughs in 2013, the Better Care Fund, and a broad roadmap for the future of services set out in the London Health Commission report published last October.

18. The submission will ask Government to:

- transparently address the funding needs of adult social care in its own right so that while integration with health is driven forward, the funding pressures across both systems are properly addressed. This will need to include:
  - reflecting demographic and inflationary pressures, and the overall capacity of the care market;
  - fully funding the costs of implementing the Care Act;
  - reflecting the social care costs of NHS operational resilience issues – funding has been provided to boroughs in previous years but was cut last year until the challenges in the system required a £37 million injection in January;
  - fully funding the additional costs of Deprivation of Liberty Safeguards in the light of recent court judgements (estimated to have cost £10 million in London);
- double the scope of the Better Care Fund (BCF) from £3.8 billion in 2015-16 to £7.6 billion in 2016-17; and
- agree devolution of powers and funding where that supports the integration and reform of health and social care in London.

19. A key part of health and care reform will be to improve outcomes and reduce future service pressures by shifting the balance from treatment to prevention of ill health. Local authorities' role in public health will be critical to this, together with a rebalancing of NHS activity.

20. London has a unique set of public health pressures because of its complex demography. Public health allocations are still significantly affected by the past NHS prioritisation decisions resulting in a wide range of per head allocations. They also do not reflect need for mandated

services, such as sexual health, expenditure which is proportionately higher in London (35 per cent compared with just 27 per cent across England in 2014-15).

21. There is a clear inconsistency in the Government's treatment of the wider NHS budget and the local government public health budget, despite the latter being used to commission NHS providers and services. The submission will ask Government to:
  - reverse its in-year 2015-16 cut of £200 million when setting baselines for 2016-17; and
  - ensure funding of the 0-5 year olds public health functions transferring to local government in October 2015 reflects need.
22. Further work will be undertaken over the summer to explore the case for devolution of power or resources to help prevention, and improve health outcomes and inequalities. Officers will also explore the wider case for levels of public health funding overall and allocation changes to reflect London's particular circumstances.

#### Children's services

23. Despite increasing capacity in recent years, the continued growth in pupil numbers means London will need 133,000 school places to be created by 2018. The shortfall in secondary school places in particular will become an increasing pressure over this Parliament. The submission will call for changes to the Basic Need Grant allocations for London, where analysis shows a considerable shortfall in funding per pupil.
24. Beyond the basic provision of school places, the complexity of London's population again has a big impact on schools funding. The larger demand for SEN places in London puts additional strain on schools budgets with per pupil places costing £70,000 but no additional funding in the Basic Need Formula to recognise this. The submission will call for:
  - locally rather than nationally determined schools funding formulae to reflect London's greater pupil mobility, deprivation and complexity of need;
  - the higher cost of creating SEN places in London to be reflected in Basic Need allocations; and
  - the area cost adjustment to be amended to reflect the additional costs in London.
25. The Government's new proposals to extend free childcare for 3 to 4 year olds will increase existing pressure on delivery and capacity. Evidence suggests that child care costs are 28 per cent higher in London than the rest of the country. The submission will call for:
  - an increase in funding needed for more early years school places; and
  - the application of an area cost adjustment.



### Housing & planning

26. The capital now needs a minimum of 49,000 additional homes per year to clear the existing backlog of housing and meet future population growth. London Councils' research suggests that 526,000 new homes will need to be built in London just to keep up with new housing demand between 2011 and 2021. The submission will ask government to address this chronic shortfall as a matter of urgency with a number of detailed asks. New asks will include:
- greater flexibility to trade headroom within the HRA cap;
  - commitment to funding for land assembly and another round of Housing Zone funding; and
  - sufficient financial support for temporary accommodation in London, to cover rental and management costs in a pressured market.
27. In relation to the existing Right to Buy scheme, the submission will ask for:
- full retention and flexible use of RtB receipts; and
  - the removal of constraints around the reinvestment of receipts.
28. The proposed expansion of the Right to Buy scheme to housing association tenants, and the selling off of high value social housing stock, will exacerbate the housing shortage and disproportionately impact on London (which has 24 per cent of the national council housing stock). Further work will be undertaken over the summer to assess the impact of these policy changes and minimise the adverse effect on London
29. Further work will be done to develop detailed asks building on the four principles agreed by London Councils' Executive that:
- the policy should result in an increase in overall housing supply;
  - it should result in an increase in overall affordable housing supply;
  - it should not result in a diminution of the social mix of London; and
  - there should be no outflow of housing funds from London.

### Infrastructure & transport

30. Population growth is placing greater demand on London's physical infrastructure and transport systems. The GLA estimates that infrastructure costs in London will double in real terms over the next ten years in comparison to the period 2011-2015, creating an average funding gap of £4.5 billion per year<sup>6</sup>.

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<sup>6</sup> London Infrastructure Plan 2050:

[https://www.london.gov.uk/sites/default/files/LIP%202050%20update%20report%20March%202015\\_0.pdf](https://www.london.gov.uk/sites/default/files/LIP%202050%20update%20report%20March%202015_0.pdf)

31. The road maintenance budget for councils is inadequate. Funding for London's highway authorities does not fully recognise its population and the fact that on average roads are 40 per cent more densely trafficked than in other UK conurbations. Resultant congestion not only causes disproportionate damage to the capital's road network, but has a negative impact on the economy and environment. The submission will ask Government to:
- take account of these factors when allocating road maintenance funds to London; and
  - reclassify some TfL grants as capital rather than revenue, to enable TfL to pass capital funding onto boroughs.
32. On rail infrastructure, the submission will seek Government support for Crossrail 2 and to commit to identifying ways to secure funding from the communities north and south of the line outside of London who are intended to benefit but at present will not contribute.

### Employment & skills

33. London has persistently high rates of long term unemployment, particularly caused by poor physical and mental health. Entrenched unemployment and low skills is creating an economic drag. The 430,000 working age people already unemployed cost the tax payer £4bn and the economy approximately £6bn in lost economic output a year. The anticipated growth in its working age population will increase demand for employment and skills services. The submission will ask for devolution of responsibility and resources for:
- commissioning the delivery of employment support for the long-term unemployed;
  - specialist employment support for those with complex dependencies;
  - vocational skills budgets;
  - re-commissioning of the FE sector; and
  - the Small Business Service.

### No Recourse to Public Funds

34. The increasing cost and number of people with No Recourse to Public Funds is an example of pressure that is almost entirely a London issue. Item 8 on the agenda explains this in more detail but the cost to London boroughs is likely to be far in excess of £50 million a year<sup>7</sup>. London local government is providing a hidden welfare state and is not currently funded for this growing pressure. The submission will ask for this burden to be recognised by Government when taking funding decisions at SR15.

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<sup>7</sup> The £25m spent by roughly half (17) boroughs identified through the NRPF Connect database is itself likely to underestimate the cost of staff time and overheads

35. These London-specific issues show how the need for local services in the capital is different, and because London is different, some areas of funding are especially perverse and do not deliver what is intended by government. What is needed are a set of reforms that fit the London situation.

### **The long term solutions: London-specific reforms**

36. The Spending Review represents a watershed moment for this Government to change how public services are delivered locally, and thereby redefine the relationship between the citizen and the state. London Councils' submission will propose three broad themes that offer solutions to the problems outlined above:

- public service reform;
- changes to the finance system; and
- fiscal devolution.

#### **A. Public service reform**

37. London Councils and the GLA have been working on propositions around devolution and public service reform. These propositions seek to deliver public service reform to help combat issues of complex need and dependency across London's public services. Leaders will be familiar with these issues from a series of linked reports over the last year.
38. The SR submission will outline each of these asks in more detail, but there are 6 key themes which Leaders will already be familiar with:
- Employment & Complex Dependency
  - Skills
  - Business Support
  - Crime & Justice
  - Health
  - Housing
39. By finding a more intelligent way to manage public services and to change the balance of spend away from interventions that seek to mitigate failure and, instead, focus on prevention as well as the development of sustainable interventions and funding models that support growth and reduce demand.

## **B. Local government finance reform**

40. The current system of local government finance is not fit for purpose. London Councils has repeatedly made this case to Government in recent submissions. The Spending Review represents an opportune moment for Government to make a number of immediate technical reforms to improve the local government finance system. These include:

- *More stable and long-term local government finance settlements* – such as, rolling local government finance settlements that provide allocations over a three or four year period. Longer term funding allocations would provide certainty in medium term planning and give boroughs the security to fund local public services in a more holistic way – with greater certainty over income streams potentially allowing greater vision and ambition to engage in innovative schemes across the public sector.
- *Greater transparency in funding allocations* – this would include agreeing a fixed definition of spending power with the sector; publishing a clear and transparent breakdown of where funding comes from (i.e. any departmental Resource DEL from which local government is funded); clarifying how the central share of business rates comes back to local government and what the Government intends to do with surplus business rates in future years; and earlier publication of the local government finance settlement.
- *Business rates reform* – this would include extending the 100 per cent growth retention pilots to all local authorities; delivering a more equitable share of financial risk between central and local government, with particular regard to the appeals system; fully funding the safety net and allow it to go into surplus or deficit each year rather than continually top-slicing RSG; clarifying how the 2017 revaluation will work as soon as possible; simplifying the system of reliefs and reforming charitable and empty property reliefs.
- *Council tax reform* – this would include exploration of how revaluation of council tax would work in practice and ending the restrictive policies of council tax referenda and capping through freeze grants.
- *Review the current method for applying the funding reductions* – specifically, a more transparent and predictable approach should be adopted in applying funding reductions to Revenue Support Grant. Current protections for rolled-in grants mean that cuts are being disproportionately applied to areas of highest need.

## **C. Fiscal devolution**

41. Short-term reforms to the finance system will not square the circle of fewer resources, growing demand and the need for economic growth. Only devolution of responsibilities and resources to functional economic and geographic regions can solve these issues over the longer term.
42. With devolved nations gaining greater control and freedom over their own taxes, the question of English fiscal devolution will grow during this Parliament. The submission will ask government to explore further devolution of suitable taxes to local areas in England that can demonstrate they can use them more efficiently.
43. The submission will build on the London Finance Commission's call for the full suite of property taxes to be devolved to London Government with updated estimates of what this means in practice for London government. The most obvious starting point is business rates: specifically, a fully localised system of business rates where London government retained 100 per cent of business rates collected (not just growth). This would include the freedom for local authorities to adjust the tax rate, create new reliefs and discounts, and alter the suite of existing mandatory reliefs (worth almost £700 million in 2013-14) to meet the needs of their specific local economies and incentivise certain types of business to their area.
44. In addition, the submission will call for a long term devolved capital settlement for London and to explore new mechanisms for funding investment in infrastructure and housing.

## **Recommendations**

45. Leaders are asked to note the report and to offer guidance and comment on both the proposed shape of the overall submission and the specific issues that it covers.

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### **Financial Implications for London Councils**

None

### **Legal Implications for London Councils**

None

### **Equalities Implications for London Councils**

None