Representation to Government

Budget 2018
Representation by London Councils

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.

Executive Summary

1. The Budget comes at a time of considerable uncertainty for local government, with the as yet unknown implications of the 2019 Spending Review, the Fair Funding Review, further Business Rates Retention, and Brexit making financial planning extremely difficult.

2. This uncertainty places further strain on a sector that has already delivered more than its fair share of the deficit reduction agenda. The decade to 2020 will have seen core funding to London local government cut by 63%, and a real terms reduction of over £4 billion of core funding for local services.

3. The local government sector has repeatedly warned that the current situation is unsustainable. We are now seeing the inevitable consequences of this unrelenting pressure with many local authorities depleting reserves and warnings that the sector is now under severe financial strain. This has been underlined this year by both the National Audit Office (NAO) and the Public Accounts Committee.

4. As predicted, the crisis in funding for children's services continues to grow along the lines of that previously experienced in adult social care. Sharp rises in demand, complexity and cost of provision are driving a collective overspend across the capital estimated to be in excess of £100 million. Children's services therefore need an emergency funding intervention at this Budget, and we still await the Adult Social Care Green Paper that must set out a long term funding solution for adults.

5. London delivers a net fiscal surplus of nearly £32.5 billion. This provides vital resources for the whole of the UK and requires investment if it is to be maintained. In this submission we propose a range of investments covering skills, infrastructure, transport, the digital economy and the environment that are closely aligned with the Government's industrial strategy.

6. London local government also has both the will and the capability to do more if it is given the combination of powers, flexibilities and resources required to deliver the robust and sustainable economic growth required to support world class public services. In this submission we also propose how to progress devolution across skills and justice, as well as in the field of local government finance.

Introduction

7. London Councils welcomes the opportunity to make a representation to government ahead of Budget 2018.

8. The Budget comes at a pivotal moment for national policy making. It will be the final budget announcement made before the United Kingdom leaves the European Union. It is also the last Budget before the 2019 Spending Review that will determine the overall amount of funding that will be available to local government and set the overall envelope for public spending for the next few years.

9. It comes during a period of growing uncertainty for local government funding. Not only is the overall level of funding local government will receive beyond next year unknown, so is the distribution. This will change as a result of the Fair Funding Review and the reset of the business rates retention system as it moves to 75% retention from April 2020.

10. By the end of the current decade, core central government funding to London local government will have been cut by 63% in real terms on a like-for-like basis. Over £4 billion of funding for local services in London will have been removed in real terms in that period.

11. Such sustained resource reduction, at the same time as a significant rise in demand for services, has created acute pressure on essential local services: notably children's services, adult social care and homelessness. This has required emergency interventions from government and forced many authorities into using reserves in order to meet their statutory obligations to a growing population with increasingly complex needs: this is not sustainable.

12. London local government will be looking to Budget 2018 to acknowledge the essential role played by local authorities as the primary deliverers and convenors of local public services that provide vital support to local communities and vulnerable people. Investing in local government saves money across the public sector. Local government can do more if central government devolves more powers and resources to do so.

13. This submission is set out in four sections.

    A. The first section sets out the financial challenge facing local government in general, and London in particular, suggesting the current local government finance system is increasingly unable to meet the rising demand and cost of delivery.

    B. The second section takes a more detailed look at the areas of acute service pressure: children's services; adult social care; and housing.

    C. The third section outlines the need to invest in London local government, and some of the opportunities that should be taken at this budget to do so.

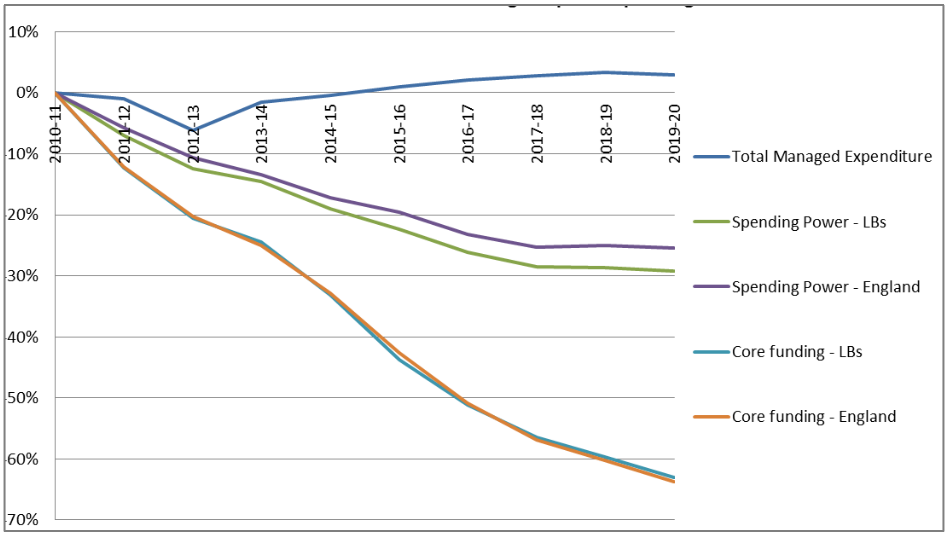
    D. The final section sets out the need for more fundamental reforms making the case for extensive further functional devolution, building the momentum of the last few years, as well as the need for longer term reform of the finance system.

14. In summary, we urge government to take immediate steps in this Budget to stabilise local government funding in 2019-20 by providing additional resources to the service areas experiencing the greatest pressure and by removing restrictions that prevent local councils from raising or spending their own resources. These measures will provide a breathing space ahead of the more fundamental reform and funding settlement that London local government requires from next year's Spending Review.

A. The financial challenge

15. Local government as a whole is facing an extremely challenging financial outlook following a prolonged period of austerity and disproportionate growth in demand for services which is becoming unsustainable. Figure 1 (below) compares the like-for-like change in public spending with that for local government funding over the decade to 2019-20. It shows that core funding from central government to London local government will have fallen by 63% in real terms, a similar figure to England overall, while revenue "spending power", as defined by government, will have fallen by 29% in real terms compared with 25% for England overall. Meanwhile, overall public spending (Total Manged Expenditure) will have actually *increased* marginally in real terms over the decade.

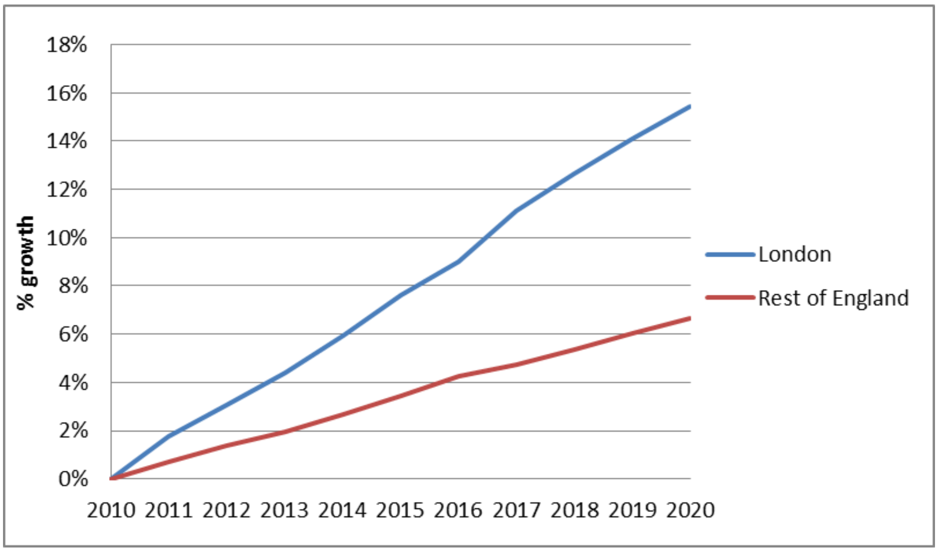
Figure 1 – Cumulative like-for-like change in public spending - 2010-11 to 2019-20



Source: HMT (Budgets/Autumn Statements since 2011); DCLG (LGF Settlements 2011-12 to 2018-19)
Note: Core funding is defined as formula grant until 2012-13 and SFA from 2013-14 onwards.

16. Over the same period, demographic change has had a significant impact on demand for services within London. Its population will have risen by over 15%: more than double the rate of growth across the rest of England (7%) (see Figure 2). As population is fixed within the current funding distribution, this growth has compounded the effect of sustained funding cuts in the capital such that spending power *per capita* will have been cut by 37% in real terms compared with 29% for the rest of England.

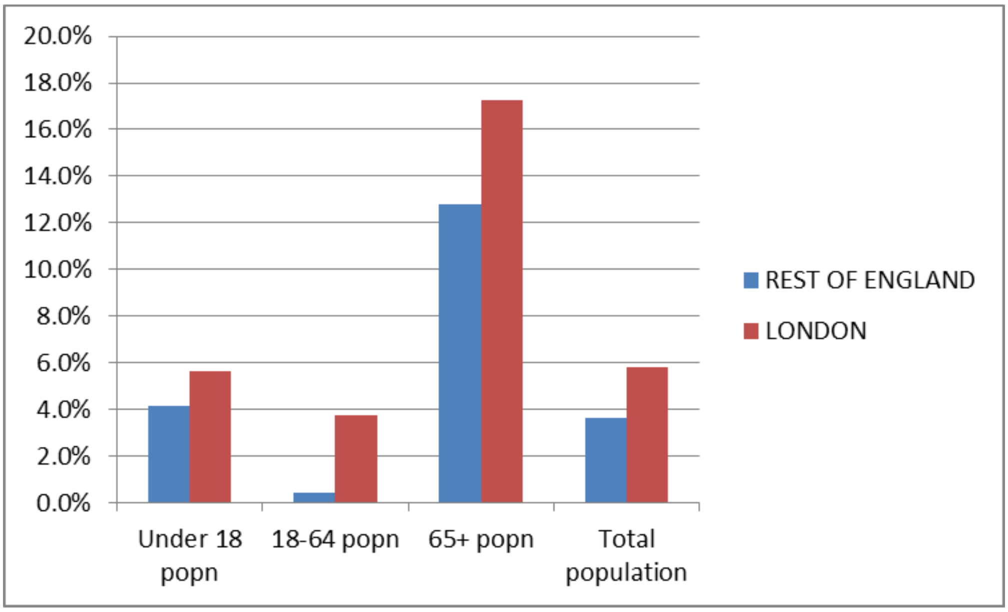
Figure 2 - Population growth - 2010 to 2020 London v England



Source: ONS, Mid-Year Estimates (to 2016) and Sub-National Population Projections (from 2016 onwards)

17. Figure 3 below shows that this disproportionate population growth is forecast to continue into the next decade with growth of almost 6% between now and 2025 compared with under 4% across the rest of England. London's growth will outstrip that of the rest of England across all of the major age cohorts: the child population, working age adults and those over 65. How to meet the consequent rise in demand for public services that this will drive is one of the biggest challenges facing London.

Figure 3 – Projected population growth (%) – 2018 to 2025 - London v Rest of England



Source: ONS, 2016-based Sub-National Population Projections

18. The combined impact of funding reductions and rising demand will leave London boroughs needing to make savings of at least £2.1 billion to balance their budgets over the four years 2018-19 to 2021-22. In doing so, boroughs plan to use over 40% of their earmarked reserves. Clearly this trend is not sustainable.

19. London's share of the LGA's estimated £7.8 billion funding gap the sector is facing by 2025 is around £1.6 billion. Owing to London's tougher demographic pressures, the share of the funding gap will increase from around 15% this year, to around 19% in 2025.

20. At the same time, the impact of various direct and indirect cost shunts from central government – existing unfunded and new burdens - are further compounding the financial challenge for London local government. These include but are not limited to the:

   – transfer of Council Tax Support (CTS)**,** which has created a shortfall of almost £220 million in London compared with the estimated funding for CTS within Settlement Funding Assessment;
   – transfer of responsibility for Local Welfare Provision in 2013-14, funding for which effectively ended in 2016-17 (a cut of over £30 million in London);
   – transfer of Public Health Grant in 2013-14, the allocations for which were largely been based on historical prioritisation decisions by Primary Care Trusts and do not properly reflect the capital's population characteristics and health needs. Like-for-like funding for public health has been cut by over 5% since 2013-14: over the same period, NHS funding has risen by almost 20%. Had PHG increased in line with the NHS budget, London boroughs would receive c.£190m more in 2019-20.
   – underfunding of homelessness and Temporary Accommodation (creating a cost shunt to the general fund of over £170 million per annum);
   – Homelessness Reduction Act 2017 – the cost of which is estimated at around £80 million per annum in London while only £72 million of new burdens funding was awarded nationally.
   – unfunded costs of supporting people with No Recourse to Public Funds (NRPF), estimated to be in excess of £50 million per annum across London.

- costs of supporting Unaccompanied Asylum Seeking Children (UASC) up to the age of 25 – creating a further gap of around £50 million per annum.
- The additional costs resulting from the National Living Wage - the financial impact for London local government could be in the region of £170 million per annum by 2019-20.
- Increasing national insurance contributions from 2016-17 onwards – estimated to have increased NICS costs for London Boroughs by between £50 and £100 million per annum.

21. **Funding reductions on the scale seen since 2010, savings on the scale anticipated in the coming years, and prolonged use of reserves to balance budgets are not sustainable in the long term. These pressures must be properly taken into account by the Government when setting the local government funding control total at the 2019 Spending Review**.

22. The profile of the debate over the financial resilience of the sector has grown in 2018 as a result of the Section 114 notice at Northamptonshire County Council in February and the NAO's report on financial sustainability in March (and subsequent Public Accounts Committee Inquiry on the same topic). The NAO report found that the financial health of the sector has worsened considerably since it last reported on the subject in 2014, concluding that the Government had lacked a clear vision for local government funding over the Spending Review 2015 period, with a series of short term funding changes required in recent years, most notably within adult social care[1].

23. Local authorities have shown considerable ingenuity and adaptability in response to the requirement to deliver a disproportionate share of deficit reduction. They have already implemented radical restructuring and transformation plans, invested in demand reduction, renegotiated contracts, combined services, amalgamated back office functions, implemented IT programmes, and engaged in a wide range of commercial activities. They have also had to reduce some services, cut others altogether, and allow emerging needs go unmet. With so much already done, and with so many of these providing only one-off savings, the sector is fast running out of options.

24. This is reflected in PWC's latest survey of local authorities, which reported that over a quarter (28%) of respondents lack confidence that they will be able to make the necessary savings while delivering quality services and outcomes over the next year . The same survey found that three quarters (74%) of respondents expect some councils to get into serious financial crisis in the next year, up from 54% last year[2].

25. There is a significant and growing gap between the duties placed on local authorities, and the total quantum of resources available with which to fulfil them. While the Fair Funding Review provides the opportunity to improve the effectiveness with which these resources are distributed, the maintenance of local services at current levels will require a significant and sustained increase in overall resource.

26. London Councils is calling for an overall increase in funding for local government in next year's Spending Review. More broadly, the Government must set out a clear vision for local government in England. Without this, local public services, and particularly the wellbeing of the most vulnerable residents that depend on them, will be put at risk.

[1] The Institute for Government and CIPFA's "Performance Tracker" demonstrates a similar pattern across a number of public services of a failure to fully consider the impact of funding cuts, only leading to a more chaotic series of crisis responses. https://www.instituteforgovernment.org.uk/publications/performance-tracker-autumn-2017

[2] PwC, "The local state we're in: PwC's annual local government survey 2018," June 2018, p5.

B. Acute pressures in core service areas

27. In the immediate future, the combined impact of funding cuts and rising demand for services outlined above means a number of core service areas delivered by local government are experiencing or nearing crisis. In London, there are three areas - children's services, adult social care, and housing - where services are under such acute pressure that immediate action is required to stabilise them in 2019-20 until more suitable long term funding arrangements can be put in place through the 2019 Spending Review.

Children's Services

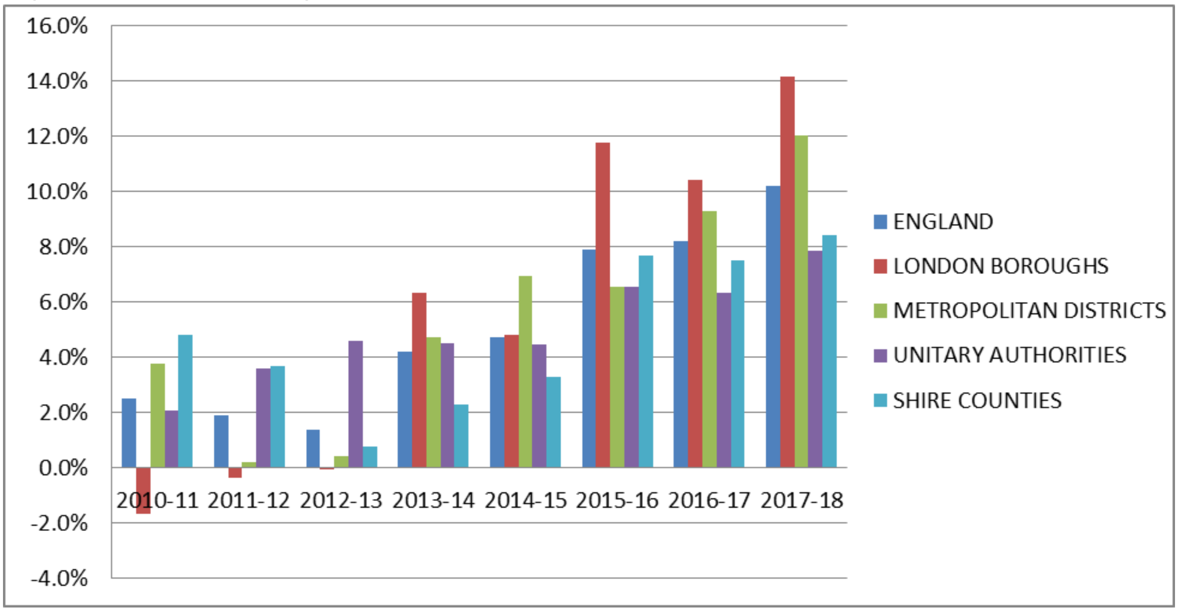
28. London boroughs are experiencing acute and intensifying pressure on children's services budgets, evidenced by growing levels of overspending in children's social care and a significant and growing shortfall in funding through the High Needs block of the Dedicated Schools Grant (DSG) for those with special educational needs and disabilities (SEND). For many boroughs, dealing with the pressure on children's services budget has become a greater and more immediate challenge than that of adult social care. Swift and decisive action must be taken at this Budget to stabilise it.

<u>Children's social care</u>

29. In 2018-19, London boroughs are forecasting to spend £1.6 billion on children's social care (CSC): the second largest area of expenditure after adult social care (ASC), which accounts for £2.4 billion. Since 2010-11, CSC is the only service where expenditure across London has increased in real terms (by 2% compared with 17% across the rest of England), while all spending on all other service areas has fallen.

30. Since 2013-14 there has been a worrying growth in the overall level and proportion of authorities overspending. Figure 4 below, comparing outturn versus budgeted spend on CSC across authority types, shows that this is a sector-wide issue. Around 90 per cent of all social care authorities in England overspent in 2017-18 (up from 80% the previous year).

Figure 4 – Overspending by authority type – 2010-10 to 2017-18 (provisional)



Source: MHCLG, Revenue Account budget v outturn data

31. The cost of overspending in London was estimated at around £100 million in 2016-17. This is equates to approximately £3.5 million per borough. Around 95 per cent of aggregate overspending is accounted for by placements and core staffing. Staff costs have experienced upward pressure resulting from difficulties with

recruitment and retention that increases reliance on agency staff. Between 2013-14 and 2016-17, aggregate spend on agency staff increased 21 per cent.[3]

32. The growing complexity of looked after children (LAC) placements is another contributing factor. London Councils' 2017 survey found that the number of children requiring more costly external residential placements increased by 13 per cent between 2014-15 and 2016-17, whilst spend on these placements increased by 23 per cent.

33. While this is a growing problem across the whole sector, London boroughs have some particularly acute pressures. In addition to the larger relative rise in population aged 0-17 in London compared with elsewhere, London has seen larger increases in cases of Children in Need (CIN) and those subject of child protection plans compared with the rest of England (see Figure 5).

Figure 5 - Change in measures of Children in Need and safeguarding 2010-2016

	London	Rest of England
Population aged 0-17	14%	5%
CIN - episodes during year	7%	6%
CIN – referrals	13%	4%
CIN – assessments	42%	37%
Children who became subject of a child protection plan	40%	35%

Source: ONS mid-year estimates; DfE: Characteristics of children in need: 2016 to 2017

34. The impact of growing numbers of Unaccompanied Asylum Seeking Children (UASC) also has a disproportionate impact in London with 34 per cent of all UASCs in England found in London. These are not evenly distributed, thereby increasing the pressure on certain boroughs. There is currently a substantial shortfall between the funding local government receives and the actual cost of caring for UASCs. London Councils' research estimates the funding gap between allocated funding and actual spending on UASC is around £50 million per annum.

35. The introduction of the National Transfer Scheme (NTS) was a positive step forward, helping to relieve some of the pressure on London. Nevertheless, the participation of local authorities is voluntary. As we await the result of the Home Office's UASC Funding Review, representatives from elsewhere in England have expressed fears that a large number of local authorities may pull out of the NTS if there is not an increase in funding to cover costs. While London welcomed the introduction of the NTS, even with this in place two thirds of boroughs are currently over the 0.07% threshold, with some boroughs significantly so.

Special Educational Needs and Disability

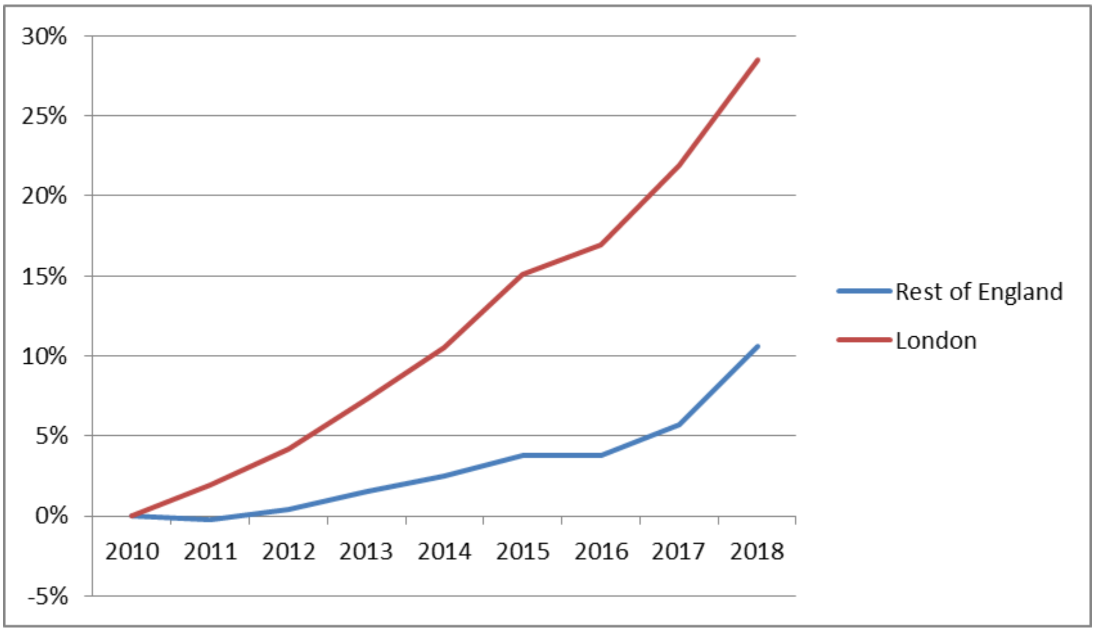
36. London has experienced a rapid increase in demand for SEND places in recent years, exceeding growth in other regions and among London's mainstream population. Since 2010, the number of pupils with SEND in London has grown by 28.5%: more than double the rate of increase across the rest of England (see Figure 6 below). This is creating a significant pressure on funding for pupils with SEND.

37. Across London, 28 out of 33 boroughs spent more than the amount allocated through the High Needs block of the DSG in 2016-17, creating an aggregate funding gap across these 28 boroughs of £107 million. Meeting this substantial shortfall had a major impact on wider schools funding including around £49 million being diverted from other blocks within the DSG. Boroughs also had to draw on £23 million of reserves, carry forward £11 million of previous DSG underspending, and utilise £5 million of general funds. These

[3] Across 21 boroughs providing data

short-term measures to meet the funding gap are unsustainable and there were nine boroughs in London with a cumulative DSG deficit carried forward into 2017-18 totalling £30 million.

Figure 6 – Change in no. of pupils with a statement or EHC plan – 2010-2018



Source: DfE statistics, Special educational needs in England: January 2018

38. Provisional school funding figures for 2019-20 published in July added only £120 million in 2019-20 nationally - £20 million for London - compared with 2018-19 allocations. In the context of the existing £107 million shortfall across the capital, this does not go far enough.

39. The removal of flexibility to move funding between blocks (now limited to just 0.5% of authorities' total schools block) within the DSG seriously limits boroughs' options for dealing with funding shortfalls.

40. While the DSG formula does include proxies for high need through deprivation and other measures, and does reflect changes in pupil numbers and general 2-18 population, it does not recognise increasing incidence of SEND. This means that the continued disproportionate growth in London is unlikely to be reflected going forward.

41. **London Councils asks that the Government, in 2019-20:**

- **provides additional funding to meet the immediate pressure on children's social care.**
- **provides funding to meet the full cost of accommodating and caring for UASC.**
- **provides real terms increases in per pupil funding for high needs allocations that take into account future growth in the number of SEND pupils.**
- **allows local authorities full flexibility to transfer funding between the blocks of the Dedicated Schools Grant.**

42. Looking further ahead and at the needs of children more widely, we urge the Government to ensure that school capital funding is prioritised at the forthcoming Spending Review. Demand for school places in London has risen significantly over the past decade, and at a faster rate than in any other region of the country. Initial estimates suggest that there will be a cumulative shortfall in excess of 40,000 places across primary and secondary schools in London by 2022/23. The Basic Need funding that London boroughs receive for the delivery of new school places has increased, but is still not sufficient to meet the costs that boroughs incur in creating new places. A further £800 million will be required before 2022/23, either through basic need funding or via funding new free schools, in order to meet demand for new places.

Adult Social Care

43. The scale of the funding crisis in ASC has required four major policy interventions in three years: the Improved better care Fund (iBCF) and Adult Social Care Precept (ASCP) were announced in Spending Review 2015; changes to the ASCP and reallocation of £240 million from the New Homes Bonus were announced in December 2016; £2 billion of additional grant funding over two years was announced in March 2017; and a further emergency adult social care grant of £150 million was distributed in the 2018-19 settlement.

44. Despite these emergency funding interventions, London boroughs are facing an estimated funding gap of over £200 million in adult social care by 2020.

45. The NAO's recent report on the financial sustainability of local authorities [4] found the Government has not had a long term plan for local government funding over the SR15 period, citing these short term funding interventions within ASC as symptomatic of this wider approach.

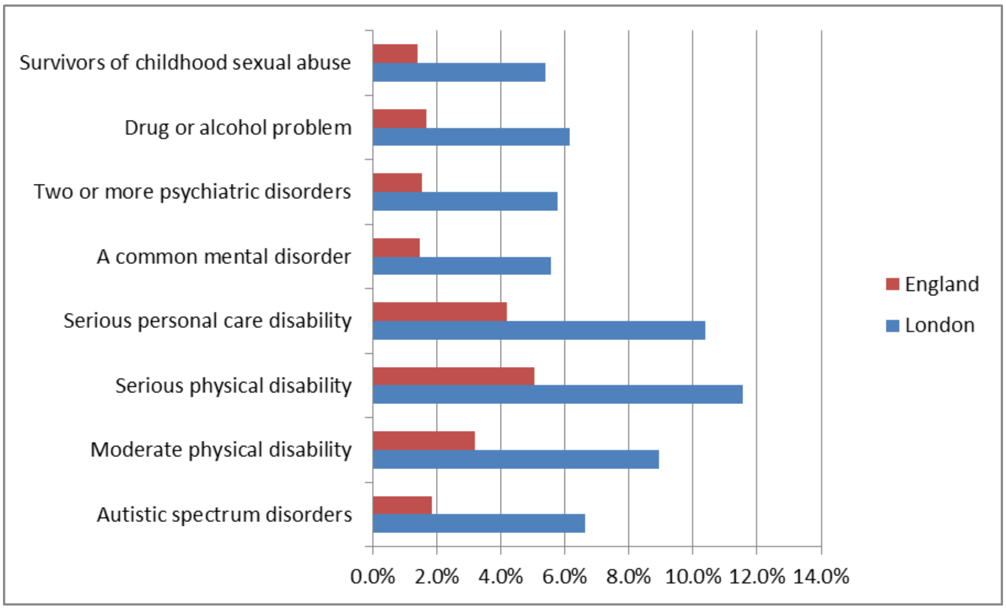
46. Short term thinking inevitably creates inefficient methods for ensuring funding meets need. It is questionable whether these funding mechanisms have been successful in this respect. For example, the iBCF was created to give local government a greater say in how this funding for joint work with health partners is spent. However, it has created some perverse incentives whereby the success of getting people out of hospital - at local authorities' cost - has led to the acute hospitals filling beds as soon as they are being emptied, thereby creating a cost shunt to CCGs.

47. With regard to the ASCP, there is disparity in what it can raise locally, and typically it raises less in areas that may have higher levels of need. Even if all London boroughs levied the full precept in the last three years the amount raised would represent an increase in funding for adult social care of around 1%, at a time when London's population of older people will have risen by more than 6%. In addition, the restrictions and conditions applied to the use of the precept mean that it is hypothecating the one tax local government has any meaningful control over and is therefore a move back towards greater centralism rather than local decision making.

48. The additional funding may only have stabilised the system for a limited period as adult social care continues to face significant cost pressures arising from a combination of sustained demographic growth and increased complexity of cases. For London boroughs, the rise in working age adults with social care needs is the biggest challenge over the next few years. Figure 7 below shows the projected change in adult social care needs for working age adults for London compared with England between now and 2025.

[4] National Audit Office, "Financial Sustainability of Local Authorities 2018", 8 March 2018, p10.

Figure 7 - Measures 18-64 yr old ASC projected demand – London v England 2018 to 2025



Source: Projecting Adult Needs and Service Information (PANSI) data – Oxford Brookes University

49. Longer term funding solutions are required to put the care sector on a stable footing and meet the expected growth in demand over the next 10-20 years. Otherwise we risk further crises such as that experienced in 2016 becoming a more regular occurrence. We therefore look forward to the imminent Adult Social Care Green Paper.

50. We would particularly welcome greater certainty over the funding for local government with regard to health and social care integration. The Better Care Fund has demonstrated that local government can improve delivery for the health service in a number of areas. London Councils asks that future funding adequately reflect the responsibilities and accountabilities of the partners involved.

51. A clear understanding of the relationship with wider NHS and health integration is required. London is again looking to play a constructive part in delivering the solution and is particularly keen to speed the pace of reform on devolution, and health and care integration, as evidenced by its signing of the London Health and Social Care Devolution Memorandum of Understanding.

52. **As such, London Councils believes the upcoming ASC Green Paper should seek to ensure that:**

    i. **Health and care systems become place based, with personalisation and prevention at the heart of it allowing people greater decision making over how investments into local health and care services are made.**

    ii. **The flow of funding in the systems is simplified so that money more easily follows the person from one part of the system to another, thereby helping to improve the experience of people.**

    iii. **The tension between health and social care is resolved, in particular the flow of funding between a means tested system and one that is free at point of need.**

    iv. **The complexity in the system is resolved, as having multiple commissioners of health and social care at the local level makes the system overly complex. We believe that the Green Paper is an opportunity to restructure commissioning of local services and put local government at the centre. Local health and social care should be commissioned by local authorities because they already know the needs of their local communities. Stronger governance structures for integration that are locally led and driven by local authorities need to be put in place to drive forward integration.**

v. **There is a more equitable and fair approach taken to charging people regardless of whether they remain in their own homes or move into residential care.**

vi. **There is greater certainty in the sector by setting out longer term funding arrangements beyond 2020. These proposals should address the root cause of the fragmentation that can be seen in the delivery of health and social care often caused by the difference in how the two sectors are funded by putting health and social care funding on an equitable footing.**

vii. **Consideration is given to how a new system could reflect regional diversity as each region has a number of different pressures that impact it. For example, London has higher living costs and lower home ownership.**

viii. **It addresses the issues of market and workforce sustainability, and sets out the necessary steps to creating the workforce required to meet future health and care needs. These are important matters to consider in order to ensure that national policy makers understand and plan for the short to medium term market pressures facing local government commissioners, and is planning for the delivery of the future workforce in terms of supply and skills.**

53. In June, the Government announced the NHS will receive increased funding of £20.5 billion in real terms per year by 2022-23, confirming an average 3.4 per cent real-terms increase per annum in funding over the next 5 years, and committing to a new 10-year long-term plan that will tackle waste and improve services.

54. The priorities for the 10-year plan indicate an intention to better integrate health and care and to focus on the prevention of ill health – two areas where local government has a clear role and interest in policy shaping. The Government has recognised the interdependency between health and care in its commitment to bring forward proposals to reform social care, and to ensure that adult social care does not impose additional pressures on the NHS.

55. **London Councils asks that the Government:**

- **takes steps to ensure that the Long Term Plan and Green Paper are aligned and mutually reinforcing as policy statements and that local government is engaged in decisions about investment priorities which are intended to deliver better integrated and more preventative health and care systems.**
- **Set out, in next year's Spending Review, a long term approach to funding adult social care that is not only sufficient to meet current needs but will be sustainable enough to meet the expected growth in demand.**

Housing

56. The existence of a housing crisis in England has been widely accepted for some time: nowhere is this more acute than in London, with its combination of rapid population growth and churn, high levels of deprivation, and significant constraints on providing additional accommodation.

Housing shortage

57. Increasing housing supply across all tenures is subsequently one of the stand-out social and economic issues facing London. The consultation draft London Plan has identified a target of 66,000 additional homes per year in order to meet the needs of its rapidly growing population. The Government's proposed approach to assessing need indicates that London will require an additional 72,000 homes per year.

58. Despite the welcome extension of the Affordable Housing Programme, London is approaching the limits of what is possible by cross-subsidising genuinely affordable homes and City Hall modelling suggests a

requirement for government to increase funding for affordable housing alone in London to around £2.7 billion a year. This will require a significant further increase in funding.

59. Further to creating this additional capacity, significant work must be done to maintain the existing stock. Here, emergency fire safety works are putting unbearable strain on already tight Housing Revenue Accounts (HRA) with the latest estimated cost of remedial work in London now £562 million across 25 responding boroughs. The £400 million national fund, while welcome, covers only a fraction of this work.

60. London Councils welcomes the return of social rent indexation to Consumer Price Index (CPI) plus 1% for five years from 2020, and the opportunity to bid for £500 million of the £1 billion increase in the HRA borrowing cap. We expect this to be considerably overbid. These will provide greater stability for councils' HRA plans, and additional room for manoeuvre but cannot replace the c.£800 million of income lost across London as a result of the rent reductions and compounded by fire safety pressures described above. This is equivalent to the cost of around 4,000 new homes.

61. **In responding to the opportunity to bid for increased HRA headroom, London has shown it can produce robust and coherent plans. We now call for the complete removal of the HRA borrowing cap to offset some of the damage, and request an extension of the CPI plus 1% to ten years from 2020 to support sound long term financial planning. It should be recognised that business plans are based on a 30 year time horizon.**

62. Council Right to Buy (RtB) sales have been far greater than anticipated when the policy was introduced, with at least three times as many sales in London as originally expected. London Councils estimates this will have resulted in a loss of over £400 million in revenue income for borough HRAs between 2013 and 2021. With only a maximum of 30 per cent of the cost of replacement allowed to come from RtB receipts, boroughs are struggling to create viable replacement programmes to ensure sold units are replaced. At the same time, having to pay over a significant proportion of the capital receipts to the Treasury inhibits councils' ability to reinvest in the quality and safety of their remaining stock.

63. While we welcome the consultation recently released on some of the flexibilities around RtB, and will be responding in detail, the changes suggested are incremental and we would support a wholesale review of the regulations. This should provide for a much higher level of retention and more flexibilities in order to facilitate progress towards one for one replacement.

64. The Social Housing Green Paper was released in August 2018, and again we will be responding in detail but would like to acknowledge in particular the potential financial impact of any review of the Decent Homes Standard. We strongly welcome the abandoning of the Higher Value Assets Policy which would have placed an unbearable burden on authorities.

Homelessness

65. London has almost 55,000 households in Temporary Accommodation (TA), representing almost 70 per cent of the England total as of March 2017. The number of households classed as homeless has risen by over 50 per cent since 2010.

66. London boroughs spend over £200 million on homelessness and TA each year. This is 50 per cent of the national total. The growth in homelessness is putting increasing financial pressure on London boroughs and we estimate that they are spending at least an additional £170 million per annum on TA from their general funds to meet demand.

67. Further pressure arises from the freezing of Local Housing Allowance (LHA) levels and the impact of the benefit cap risk leaving the private rented sector unaffordable for low-income households across large areas of London. To avoid adding to London's already extensive homelessness challenge, the Government must engage with boroughs on measures to prevent homelessness including the design and

scope of the Targeted Affordability Fund, as well as Discretionary Housing Payment (DHP) allocations. Intelligent use of DHP funding by local authorities can prevent future increased costs to the public purse, in effect creating savings, but the ability to do so is currently limited by the level of funding. In light of this we hope that future DHP funding better reflects the level of need in London.

68. We are not alone in emphasising that the homelessness problem is growing. The recent National Audit Office report on homelessness highlights a 60 per cent increase in the number of households in TA since March 2011. It further points out that local authorities were already spending over a billion pounds per annum on homelessness services before the Homelessness Reduction Act (HR Act) 2017 received royal assent.

69. In addition, London Councils is extremely concerned that while the new burdens funding for the HR Act was increased to £72 million nationally over three years, this is still not sufficient to meet the expected costs of implementation. London boroughs will receive just £14 million in the first year, whereas our initial estimate of these costs is approximately £80 million for London alone. Although a review will be conducted, we are concerned this may not happen until well into the final year of the settlement, where the policy currently tails off to a net neutral position in terms of new burdens. Given the growing levels of need on homelessness, the possibility of moving to zero funding on this work is deeply concerning.

70. **London Councils calls on the Government to move forward its review of the Homelessness Reduction Act 2017 new burdens funding and roll forward of the Flexible Homelessness Support Grant (FHSG) beyond 2020 as this is proving useful in unlocking some degree of prevention work.**

71. We are also working with MHCLG on a proposal for a pan-London procurement service to create efficiencies and reduce costs for councils. It is proposed, that this will be funded through an FHSG top-slice. Given the time pressures on this spending, and the unprecedented cross-party joint working between boroughs, we urge government to expedite the release of these monies.

C. Investing in growth

72. The UK's decision to leave the EU is likely to increase economic uncertainty in 2019. London, as one of the key drivers of the UK's economy will potentially be exposed to even greater risk. With ever increasing pressure on public finances it is essential that the resources available are invested wisely. The Budget provides the opportunity to make such investments, and this section outlines a range of opportunities to invest in skills, infrastructure and transport to ensure London can continue to grow sustainably.

Investment in skills

73. The Government's industrial strategy prioritises people as one of the five foundations of productivity, and London Councils agrees with the intention to ensure that everyone can improve their skills throughout their lives. The immediate priority for government here is to ensure that the transition from EU funding to funding through the UK Shared Prosperity Fund does not undermine existing work towards this goal in the capital.

74. London currently benefits from funding through the European Social Fund (ESF) and the European Regional Development Fund (ERDF). London receives £422 million from the ESF and £159 million from the ERDF as part of the 2014-20 programmes. ESF funding in London focuses on improving employment opportunities, promoting social inclusion and investment in skills provision. A higher level of ESF in London reflects the capital's below average employment rate and its share of some of the most deprived wards in the country.

75. ERDF funding supports enterprise, innovation and financial support to businesses in London. The UKSPF will be vital to improving productivity in the capital. Whilst London remains the most productive region of

the UK, its productivity is below many other global cities. In terms of output per hour, London's productivity since the 2008 crash has increased at a slower pace than the rest of the UK[5]. Therefore, supporting London's businesses to thrive must be an important element of the UK's Industrial Strategy and the UKSPF must provide funding for this at least at the level of what is to be lost.

76. In addition to replacing ESIF with the UKSPF, continued access to transnational European funding programmes such as Horizon 2020, INTERREG, and Erasmus is essential. Key sectors rely on this funding – for example, an Arts Council for England (ACE) report estimated that the cultural sector received £345 million in EU funding in the period from 2007-2016. London-based organisations an estimated £72 million, so the capital's cultural sector would see a significant shortfall if this funding is not replaced. This is a concern given the role of culture in London's economic growth, as well as its importance to improving Londoners' quality of life, increasing London's attractiveness as a tourism destination and contributing to community cohesion.

77. The UKSPF should be divided between areas based on a more appropriate level of need than GVA, as this focuses on the economic activity whilst ignoring the residents of any given locality. Allocating funding via GVA would penalise residents of the most unequal and deprived local authorities in the UK, such as Tower Hamlets (LBTH). LBTH residents live in close proximity to Canary Wharf and the City of London, but most people working there live in wealthier parts of London and the Home Counties, meaning the economic output generated is shared across the wider South East region.

78. The Index of Multiple Deprivation presents a better basis on which to allocate funding; it incorporates the primary elements which determine peoples' quality of life, including income, employment, education, health, crime, housing and the living environment.

79. **London Government – London Councils and the Mayor of London – is requesting that replacement ESIF through the UK Shared Prosperity Fund (UKSPF) should:**
    - **Be devolved locally across the UK so that decisions sit much closer to the communities they support.**
    - **Allow devolved areas to determine how best to target this funding.**
    - **Be allocated throughout the UK based on a fair measure of need, not just using Gross Value Added (GVA).**
    - **Allocate as much money to London and other local areas as is currently received via ESIF.**
    - **Operate on a much more simplified administrative model compared to ESIF.**

Investment in Infrastructure and Transport

80. The Government's industrial strategy also prioritises infrastructure as one of the five foundations of productivity. We agree that having modern and accessible infrastructure throughout the country is essential to the future growth and prosperity of the nation. Nowhere is this more so than in the capital where infrastructure expansion is vital to ensuring the delivery of a £32.5 billion net fiscal surplus[6], and is essential to keep pace with the needs of a resident population that will grow by another 15% by 2040.

81. Of immediate concern is the need to maintain and improve London's vital highways infrastructure. London's local councils are responsible for 95 per cent of the capital's roads, as well as other associated structures, footways, street lighting and drainage. The functionality of these assets is essential if people are to be able to move safely around the city to engage in a range of social and economic activities. However, the available resource continues to fall short of need and the accumulated highways maintenance backlog in London is currently estimated to be approximately £907m despite authorities

[5] Resolution Foundation, *London Stalling: Half a century of living standards in London*, June 2018
[6] GLA Economics, "London's Economy Today" Issue 192, August 2018, p4.

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having increased spending in cash terms in 2017/18. This is because the £350m spent in that year was still £63m short of the £415m required to maintain assets in a steady state. Therefore we are calling on the Government to provide additional funds to support highways maintenance in London at the Budget.

82. The capital also has significant strategic infrastructure needs. London is heavily reliant on financial transfers from national government compared other international comparator cities and there is no long-term stable funding arrangement for London's major transport needs. Whilst the Government has committed to fund projects such as Crossrail (the Elizabeth line), the Northern line extension to Battersea Nine Elms and High Speed 2, it has not committed to Crossrail 2.

83. London has already seen successful use of mechanisms that deliver additional growth in business rates, such as the Business Rate Supplement, which funded Crossrail, and the Tax Increment Financing schemes which are helping to fund redevelopments at Brent Cross and Nine Elms. Retention-sharing mechanisms like this could be adapted for other infrastructure projects with other types of taxation.

84. For example, as part of the evidence to support the funding of Crossrail 2, London Government has looked at a scheme which could involve a share of the uplift in stamp duty land tax rather than business rates, if this can be attributed locally. Early estimates suggest this could generate significant contribution towards the costs of CR2 if permitted. As the Government will get a 'return on its investment' for funding major infrastructure projects such as CR2 in London, we believe it is in the best interests of local and central government to allow areas to be able to use a share of this uplift in order to unlock funding to help pay for such developments up front. We also support further exploration of land value capture as a potential solution.

85. Initial assessments suggest that the returns on capital investment in London will be very large, even taking Brexit into account. London's economy could fund its infrastructure investment requirements from the tax on the growth that that same investment will generate. The growth should also pay for the additional public services that a rapidly increasing population will demand, and it will enable London to grow its contribution to the national exchequer. Thus London's investment could be self-funded and provide a national dividend.

86. London Councils further supports the devolution of business rates, as well as specific funding sources such as Vehicle Excise Duty to help fund future transport infrastructure.

Investment in electric vehicles

87. With the cost of electric vehicles (EVs) dropping, and battery performance constantly improving, the main barrier the UK faces if it is to see a mass-roll out of EVs is its infrastructure. The UK requires the installation of different speed EV charging infrastructure in the appropriate locations, such as rapid chargers (50kWh+) along the strategic road network, and slower, smart chargers in public residential areas. Local authorities currently pick up most of the revenue costs which, given the worsening financial situation across the sector, is not sustainable. There will also be an increased demand on the electricity system due to an increase in electrification. Investment in upgrading, enhancing and decarbonising the electricity grid is therefore necessary so that it is fit for purpose.

88. **London Councils asks that the Government uses the Budget to:**
    - **commit more capital and revenue funding to install electric vehicle (EV) charging infrastructure across the UK.**
    - **improve the national electricity grid.**
    - **take action to reduce demand through improved energy efficiency of buildings, and deployment of storage and smart grid solutions.**

Investment in digital infrastructure

89. We are not convinced that the current approach based on making digital connectivity the ‘fourth utility’ will resolve all the problems associated with rollout.

90. We believe the Government must focus on bringing those left behind by existing improvements up to speed and quickly. We want government to identify how it can incentivise or regulate providers to address the need of the ‘final mile’ hard to reach and often unprofitable areas. We note the Government’s recent work in this area to bring a digital connection in line with other utility connections, but believe there is still more to do in this area. Areas of London continue to suffer from poor broadband speeds, and so access to good, reliable broadband is not an issue reserved only for rural areas.

91. Whilst we welcome efforts to ensure the UK is well-placed to adopt 5G quickly, this should not be at the expense of providing everyone with a reliable, fast connection. We note the City of London’s recent work in developing a standardised way leave that can be used across the UK to speed up the process of agreeing new internet connections between providers, tenants and building owners; and that the GLA is currently producing a standardised way leave for mobile connections

92. **London Councils asks that the Government introduces a planning requirement for fibre-ready connections to be installed within new buildings, and for the way leave toolkit to be adopted as best practice.**

Investment in waste and recycling infrastructure

93. Investment is by its nature a process that takes place over long time horizons, and requires policy stability. This is just as true for waste and recycling infrastructure as it is for transport. More than £1 billion of capital investment has either already been made by local government in energy from waste (EfW) facilities, or is proposed for such facilities in the coming years. Much of this investment is dependent on long term contractual agreements between multiple parties.

94. We understand that HM Treasury is considering establishing an ‘incineration tax’ on EfW with the intention of incentivising authorities to secure more recyclate from the waste they collect, and particularly to increase recycling of single use plastics. A tax set at £10/ tonne would impose a cost burden of around £16 million on London, whilst having little if any impact on how material is treated. This figure will rise when the Beddington Energy Recovery Facility comes online later in 2018.

95. We believe that the premise of the tax is flawed as minimisation and recycling are already as much as six times cheaper than EfW in London, and because taxing EfW will not create viable alternatives for the residual waste categories being targeted. Local authorities are constrained by their lack of control over the products consumed by residents, many of which are unrecyclable single use plastics.

96. **London Councils urges the Government not introduce this tax in the Budget. Instead, it should work with Defra to strengthen the requirements in the Resources and Waste Strategy for Extended Producer Responsibility, and introduce fiscal measures that deliver the forthcoming Single Use Plastics Directive, such as the proposed tax on virgin polymers.**

D. More fundamental reforms

Devolution and public service reform

97. The preceding sections have demonstrated how the frailty of the local government finance system has been exposed by the increasing pressure generated by rising demand, increasing delivery costs and funding cuts. The immediate priority for this Budget is to take the steps previously outlined in order to

stabilise the system and alleviate the pressure on the three core service areas of housing, adult social care, and children's services

98. However, with the Spending Review on the horizon that will set the tone of public spending into the next decade, we believe the Government must set out a clear vision for local government. This must recognise the diversity of places and give local leaders the powers, freedoms, and flexibilities to create locally appropriate solutions to challenges as they manifest themselves locally. They must be empowered to raise the resources required to invest in economic growth and to provide sustainable public services.

99. The UK system of Government is one of the most centralised in the developed world, with power and funding concentrated in Westminster and Whitehall. The twin pressures of funding reductions and rising demand mean the Government must find different ways to deliver services.

100. The decision to leave the EU puts this into even sharper focus as significant central government capacity will be diverted from delivering meaningful public service reform. The case for devolution to city and regional government has therefore never been stronger, or more important. Professor Tony Travers, writing in the British Academy's publication "Governing England" (2018), makes this case strongly:

> "Devolution of decision and tax-making powers could take the strain off the embattled government machine. During a period when ministers will need all their resources to cope with exiting the EU while simultaneously negotiating dozens of trade deals, why bother with the detail of city-wide services in Manchester, London or Sheffield? National government should target its limited capacity at what only it can do. Mayors, combined authorities and counties could then get on with governing England[7]."

101. It is, therefore, more important than ever for the Government to change how public services are delivered locally by devolving power, lifting central constraints and taking a place-based holistic approach to funding public services. London's unique governance structure means that devolution to the capital will necessarily require partnership between the Mayor and the boroughs. London Councils and the GLA have been working towards this for a number of years, taking a leading role in setting the devolution agenda and building pan-London and cross sector relationships.

102. The 2014 London Growth Deal set out the case for building London's skills base and supporting businesses; helping Londoners into sustainable employment; and improving housing supply. A more detailed set of proposals were developed in 2015 in the *London Proposition,* which sought devolution and public service reform to help combat issues of complex need and dependency in six key areas: Employment & Complex Dependency; Skills; Business Support; Crime & Justice; Health; and Housing. Further progress was made in 2017 when the London Devolution MOU was agreed with government in the March 2017 Budget. The London Health and Social Care Devolution MOU followed, and in the last year further progress has been made through the devolution of the Adult Education Budget (AEB) and the Work and Health Programme and the London Business Rates Retention pilot for 2018-19.

103. All of these achievements demonstrate London Government's willingness to work together to deliver devolved services more effectively. The Business Rates Retention pilot, for example, shows not only that London is willing and capable of working together to take collective decisions about the distribution and investment of business rates income, delivering over £700 million of additional strategic investment in growth projects that will benefit Londoners for years to come that would not have happened otherwise.

[7] The British Academy, "Governing England: Devolution and funding" July 2018, p70.

104. Budget 2018 provides the opportunity to make further progress for functional devolution in two specific areas: skills and employment and criminal justice.

Skills and employment

105. London faces a number of skills and employment challenges including a rapidly growing population, significant skills shortages in key sectors, an employment rate that lags behind the rest of the UK, and one in five London families suffering in-work poverty. The potential impact of Brexit on the supply of skills in London is also a concern, with some important sectors such as construction, tech, healthcare, hospitality having a high proportion of EU nationals within their workforce.

106. Agreements on the devolution of the Adult Education Budget (AEB) and the Work and Health Programme have shown real progress on providing a skills and employment system better able to meet London's needs. However, we need a more responsive system to deal with London's skills and employment challenges.

107. We therefore propose that the Government works with London to develop a more ambitious skills devolution deal. London Government should have tangible strategic influence over planning for 16-19 provision in the capital to ensure that, alongside the devolved Adult Education Budget, London is working towards a more strategic, whole-system approach to post-16 skills. Funding and responsibility for adult careers services should also be devolved to London Government, so that we can develop an all-age careers offer within the capital. The Government should also introduce some short term flexibilities to the apprenticeship levy, such as devolving the capital's unspent apprenticeship levy funds to London Government. This could be used to increase access by disadvantaged groups, build capacity within SMEs and address gaps in apprenticeship standards. In the longer term, London Government should have full responsibility for apprenticeships policy in the same way that Scotland and Wales do now.

108. The employment system in London needs to respond to a changing labour market. While overall employment rates are high, too many people in London are still struggling to find jobs that enable them to get on in life. In London today there are over half a million people who want to work but are not currently in employment. This is a devastating waste of potential.

109. **The Government should adopt a 'local first' approach to employment, support services and funding, specifically:**

- **Devolving and expanding the replacement for Specialist Employability Support to allow local authorities to adopt a targeted approach and align the scheme with wider authority provision such as social care.**
- **Creating a new Healthy Working Innovation Fund focused on preventing unemployment as a result of ill-health.**
- **Re-focusing employment support on the hardest to help and bringing services together through co-location at a local level.**
- **Aligning Jobcentre delivery areas with sub-regional partnership employment and skills delivery areas to support greater integration between services.**
- **Creating a shared data infrastructure to underpin coordinated service provisions.**
- **Support in-work progression through an enhanced skills support offer to people in low-paid roles.**
- **Delegating enforcement of the national minimum and living wages to local authorities to tackle in-work poverty.**

Criminal Justice

110. London Government is committed to partnership work that will tackle the unacceptable levels of serious youth violence in London. At the pan London level, the London Crime Reduction Board (LCRB) has played a co-ordinating role and the shared commitment to action across the Capital was demonstrated at the working Summit on 27 June 2018.

111. Furthermore, an extensive programme of work continues under both the Mayor's Knife Crime Strategy and broader measures to tackle violence: 43 community projects have been awarded Knife Crime Seed funding this year; a new £45 million Young Londoners Fund to help tackle the causes of violence has been launched; and MOPAC is about to launch a toolkit to support community groups and schools to use the London Needs You Alive, campaign.

112. A Memorandum of Understanding (MoU) on Working towards Justice Devolution to London was signed by the Mayor, Secretary of State for Justice and the Chair of London Councils in March 2018. Work is now in train to conclude a second stage of the MoU in spring 2019, with the aim of locking in more tangible devolution. The priority areas are:

- Victims and witnesses – specifically the devolution of elements of the court based witness service.
- Co-design of the future probation arrangements in London.
- Female offenders and opportunities around devolving custody budgets.
- Harnessing opportunities to tackle serious youth violence.

113. Devolution and reform offers some new opportunities, however, the resources available to London local government are simply inadequate to the task at hand. To secure a sustained impact on the worrying levels of serious violence, resources must be found to invest, over the long-term, in upstream preventative services. We urge the Government to take the opportunity afforded by the Budget to commit further funds to underpin the Government's Serious Violence Strategy.

Local government finance reform

114. Finally, this submission has highlighted the precarious financial situation in which local government finds itself and calls on the government to use the Budget to deliver additional funding in 2019-20 for local government's most immediate priority services: children's services, adult social care and housing.

115. As the NAO[8] and other commentators have pointed out, the trends we have identified are not financially sustainable. It is increasingly clear that service delivery at current levels will become unsustainable if the way the sector is funded is not reformed.

116. We urge the Government to work with the sector to create a sustainable finance system by providing London boroughs with funding mechanisms that have the capacity to keep pace with the cost implications of the rapid population increase that London will experience for the foreseeable future. As we have seen with adult social care, failure to provide adequate resource in a timely manner only leads to a more chaotic series of crisis responses later on[9]. This benefits no one.

117. While we do not expect the Government to set out longer term plans for local government funding at the Budget, we would urge it not to waste the opportunity to put the sector on a long term sustainable financial

[8] National Audit Office, "Financial Sustainability of Local Authorities 2018", March 2018 p43-52.

[9] The Institute for Government and CIPFA's "Performance Tracker" demonstrates a similar pattern across a number of public services; https://www.instituteforgovernment.org.uk/publications/performance-tracker-autumn-2017

footing presented by taking a holistic approach to the key events that will occur in the next 18 months: Spending Review 2019; the Fair Funding Review; and the implementation of 75% business rates retention.

118. London Councils will make separate detailed representations to government in relation to each of these key events. However, in summary:

- **The Spending Review -** will set the overall quantum of central funding for local government directly, in terms of core funding via MHCLG, and indirectly, via the other departments that provide funding to local government. It is vital that the overall quantum of funding to the sector is set at an appropriate and sustainable level by government to prevent crises such as that seen in adult social care.

- **The Fair Funding Review** - will determine a new distribution of the core funding that government provides to local government. London Councils has set out its key priorities with regard to how need should be measured. We believe that:
    - future population projections should be used (rather than static population figures). This is vital to accurately reflect growth anticipated over the reset period.
    - deprivation must be a key driver in any new formula, and any measures used must include the higher costs of housing in London.
    - the higher costs of doing business in the capital, including its unique labour and property markets, must be reflected in an area cost adjustment.
    - the overall assessment must include a specific funding formula for housing - as London has uniquely high levels of spending on homelessness and TA.

- **75% business rates retention -** London Government has delivered a successful 100% pilot in 2018-19 and is committed to further retention of business rates. We have long called for not only 100% retention for the sector, but also full control over the setting and proceeds of business rates within the capital. As mentioned above, the current 100% business rates retention pilot in London has shown London Government is capable of doing this. We believe that the system must become more predictable and stable; must deliver a genuine incentive to grow business rates by removing the huge risk exposure local authorities have to appeals; and must provide incentives to work together across economic areas to pool, such as a higher level of growth retention. Ahead of the Budget we would urge the Government not to make further short term changes to the tax itself such as creating new reliefs. More importantly, we would urge the Government to consider the impact on local government funding of any more fundamental changes it may be considering to the tax.

119. If central government is not prepared to increase the quantum of centrally allocated resources available, then it needs to give local government greater control over its own resources and enhance its range and mixture of revenue raising capabilities. The London business rates retention pilot shows that London Government is willing and able to do this. London Councils continues to advocate both the 100% retention of business rates by London Government and the wider recommendations on fiscal devolution contained in the London Finance Commission 2017. The discussions on further business rate retention and the Fair Funding Review must also be accompanied by reconsideration of council tax. Specifically how it can be reformed to become a more logical tax that is fit for purpose, as well as what additional components are required to produce an overall system that is fit to meet the challenges ahead.

120. More widely, local authorities must have certainty over their long term funding and we believe this means having a wider not a narrower set of income streams. It is disappointing that, in the current environment of funding reductions that the Government has moved to restrict the levels of investment local authorities can make outside of their local areas. For years the Government encouraged local authorities to be innovative and more commercial in nature: local government has effectively now been penalised for doing so. We would urge the Government to reconsider such restrictions – which hinder local authorities ability to have a

balanced and sustainable set of income streams to deal with the uncertainties and rising demand anticipated in the twenty years.

121. **London Councils urges the Government to:**

- **Set out in the Budget the timeframe for the 2019 Spending Review.**
- **Undertake a realistic assessment of spending pressures facing the sector ahead of the Spending Review, informed by cross departmental analysis not solely by MHCLG.**
- **Use the Spending Review to set out its long term vision for the local government finance system to put the sector on a sustainable footing.**
- **Confirm as soon as possible its intentions for the remaining 25% of business rates when 75% retention starts, and set out when it expects 100% retention to begin.**
- **Publish illustrative funding allocations for 2020 – derived through the Fair Funding Review - as soon as possible to provide certainty to the sector.**
- **Deliver greater not fewer freedoms and flexibilities for the sector to raise revenue to cope with the anticipated demand that will be driven by future demographic changes.**