Representation to Government

Budget 2020
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

- The March Budget comes at the start of a crucial period for the UK's economy, as it begins to negotiate trade deals with the EU and the rest of the world. In this context, London Councils is calling for the UK's major cities to be supported to deliver sustainable economic growth.
- In particular, we are calling for the Budget to include investment in London's vital transport, environmental and housing infrastructure; and its people, through the devolution of powers and resources to improve Londoners skills and productivity levels: both are vital to help the UK continue to thrive on the global stage.
- While we do not expect the Government to set out long term funding plans in the Budget, we are also calling for the Government to seize the opportunity of aligning the planned reforms of business rates with the wider reforms to local government finance due in the next 12 months, and looking at further fiscal devolution to help put the sector on a sustainable financial footing.
- This representation calls for the Government to make use of the experience of areas that have a track record of collaborating across boundaries and have robust governance arrangements in place to trial and deliver further devolution of powers and resources in the Devolution White Paper. Merely levelling up powers across the country to match what is already devolved to some cities would be an insufficient ambition.
- London and other large cities have significant social and economic problems and huge levels of inequality and grow faster than other areas, so require different levels of and types of investment to meet growing demand for public services.
- Looking forward to Spending Review 2020, London Councils will be asking for local government to be put on sustainable footing and for recognition of the growing demands on adult and children's social care, SEND, London's urgent homelessness crisis, and the unique scale of the pressures the capital faces with regard to Unaccompanied Asylum-Seeking Children and people with No Recourse to Public Funds resulting from its higher levels of migration.

Introduction

1. London Councils welcomes the opportunity to make a representation to the Government ahead of Budget 2020. This is a crucial period for the UK's economy, following its exit from the EU, as it begins to negotiate trade deals with the EU and the rest of the world. The Government must use the Budget to set the foundations for a period of stable economic growth so the country can enter those negotiations on the front foot. Investment in infrastructure and people is needed to ensure this can happen. This is especially important for the UK's major cities if the wider economy is to grow sustainably.

2. London's position as an internationally competitive centre for global business services brings trade not just to London but to the whole UK. However, London is heavily interdependent with other major UK cities and trades more with the rest of the country than the rest of the world. For every pound of consumption or investment in London, 24p of production is generated elsewhere in the UK. Without significant investment in infrastructure, housing, transport and skills – the key areas necessary to drive economic growth – London's future growth, and by extension that of the UK, is far from guaranteed.

3. However, London – like other large cities - has significant social and economic problems and huge levels of inequality. In the last decade, London's population has grown twice as fast as in the rest of the country. Wages have not kept pace with rising property prices, leading to a 50% increase in homelessness, with two thirds of the country's homeless households now in London. When accounting for housing costs, London has higher rates of relative poverty and of child poverty than any other part of the UK – 37% of all London's children live in poverty. There is also huge variation in levels of unemployment and inactivity across London's 32 boroughs, and 1.5m adults and 400,000 children in London suffer from low or very low food security. At the same time, productivity levels have fallen and London has significant skills shortages with 55% of jobs requiring a university degree. Health inequalities, air and noise pollution, congestion and crime levels are higher in London and urban centres than their surrounding areas.

4. All of these pressures drive high levels of need for local public services in London. Spending Review 2020 (SR20), due later this year, will be crucial to ensuring local government funding is put on a sustainable footing, building on the funding increase delivered in Spending Round 2019, following a decade of cuts and rising service demand. London boroughs' priorities will be the growing pressures on adult and children's social care, special educational needs and disabilities and the capital's unique homelessness and migration-related pressures.

5. The focus of this submission, however, is on the key investment and taxation decisions the Government can deliver in the forthcoming Budget. These include investment in London's vital transport, environmental and housing infrastructure; and its people, through the devolution of powers and resources to improve London's productivity levels: both are vital to help the UK continue to thrive on the global stage. With regard to taxation, the planned reforms of business rates must align with and not undermine the broader reforms to local government finance due in the next 12 months. While the Budget and devolution White Paper should signal a gear change in devolution of funding, as well as powers, to local areas to help reduce regional inequalities.

6. The detailed trade and wider negotiations that are necessary following the UK's exit from the EU will significantly absorb central government's capacity, diverting resources away from delivering meaningful public service reform. The case for devolution of power and resources to local government has therefore never been stronger, or more important. Local government has a proven track record of delivering efficiencies and innovation ensuring value for money for local taxpayers.

7. 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, setting the devolution agenda and building successful pan-London relationships. Merely levelling up powers across the country to match what is already devolved to some cities would be an insufficient ambition for the Devolution White Paper. London and the UK's other major cities are ready and

able to take on more powers and resources and so make a greater contribution to the next stage in Britain's development.

8. This submission is set out in four sections.
    A. The first sets out the case for investing in London's vital transport, environmental, housing and health infrastructure.
    B. The second calls for investment in skills and devolution of powers to improve London's productivity levels.
    C. The third calls for an holistic approach to business rates reform and the broader reforms to local government finance due in the next 12 months, as well as fiscal devolution to support economic growth and reduce regional inequalities.
    D. The final section sets out London Councils' broad priorities ahead of the SR20 due later in the year.

A - Infrastructure investment

9. In the last 30 years, London has become one of the world's very few top tier global cities attracting business, trade and talent. London is pivotal to the UK economy in terms of output and employment growth and makes a net contribution of £38 billion per year to the UK Exchequer.

10. To increase London's productivity, whilst reducing carbon emissions, requires significant new investment in infrastructure. Infrastructure creates places and connects them to each other. It boosts productivity, quality of life and makes places attractive for people to work, live and travel in. Investment in active and public transport infrastructure in particular is key to ensuring the capital continues to grow without increasing its carbon emissions, with the population set to reach 10 million in the next 20 years.

Investment in transport

11. The UK economy faces significant challenges to growth in terms of connectivity including in transport around major cities and centres of employment. London's transport system has acute needs which are often on a different scale to other areas, with 9 of the 10 busiest stations in the country and 800,000 people travelling into the city every day from the rest of the UK and the South East creating severe congestion. Boroughs want to promote more active travel and public transport use, but the current provision is already overcrowded and over capacity, especially at peak hours. London, therefore, needs significant investment in existing and new transport infrastructure before any serious mode shift can happen. This shift is important to public health, for the climate, for air quality and Londoners' general quality of life.

<u>Strategic projects</u>

12. London's transport infrastructure needs can be largely met if the Government provides the funding set out in the National Infrastructure Assessment (NIA). This would keep London and the UK globally competitive, raise productivity and improve quality of life for all Londoners. NIA funding levels would allow vital schemes such as Crossrail 2 and High Speed 1&2**. We strongly urge the Government to confirm the funding for the NIA in its forthcoming National Infrastructure Strategy and publish it alongside the Budget.**

13. There are a number of smaller-scale, but no less important, strategic transport projects that are vital to the continuing economic success of the capital, for which we urge the Government to provide strategic and financial support. These include: extending Crossrail 1 (the Elizabeth Line) from Abbey Wood to Ebbsfleet (C2E); the Brighton Mainline improvements; the Bakerloo Line extension; the West London Orbital Railway; further river crossings in east London; renewing the aging signalling on the Piccadilly line; replacing aging trains; and delivering urgent repairs to Hammersmith Bridge.

14. **We would welcome further dialogue with the Government and other stakeholders on suitable mechanisms to capture the land value uplift of these major projects** for further reinvestment into strategic infrastructure. In addition, we believe **Tax Incremental Financing should be further explored as a potential funding mechanism for infrastructure projects**. This is currently under-utilised and we would support the establishment of a working group with appropriate membership to develop a process that local authorities can make better use of.

Roads investment

15. London's roads are in desperate need of investment. London boroughs are responsible for 95% of the capital's roads, as well as pavements, street lighting, drainage and other associated structures. The funding available for maintaining these structures continues to fall short of what is needed. The accumulated highways maintenance backlog in London is currently estimated to be approximately £1.1 billion.

16. The shortfall in funding annual maintenance (keeping the asset in a 'state of good repair') is £114 million, with boroughs needing to invest £454 million but only able to spend £340 million on this. TfL, which provides funding to the boroughs via the Local Implementation Plan (LIP) process, was only able to provide £3 million in 2018-19 for principal road maintenance (down from £20 million in 2017-18) and £5.5 million for bridge strengthening.

17. London currently pays around £500 million in Vehicle Excise Duty (VED) and almost all of it will be spent on roads outside the capital even though 90% of Londoners' journeys take place entirely on London's roads.

18. **London Councils is calling for the devolution of VED to London Government to help fund the investment that is so desperately needed to maintain London's highways.**

Meeting the costs of climate change

19. Addressing climate change is one of the most urgent policy priorities facing the UK. The climate emergency challenges us to integrate climate into everything we do. Boroughs have recognised that the climate emergency requires real changes in how they act as local authorities, how residents live their lives and how London operates. Addressing climate change also brings opportunities and wider benefits, including improvements to public health, reducing inequality and supporting economic development and innovation.

20. In London, 26 boroughs and the Mayor of London have declared climate emergencies. Those that have not passed declarations are giving greater focus to climate change and are developing action plans. Councils have adopted a variety of targets to reduce council-generated emissions, though the majority have adopted a target of net zero emissions by 2030. Some boroughs have also adopted emissions reduction targets for their borough as a whole; the Mayor of London has a net zero by 2050 target for London.

21. London local government has also committed to prioritise and support the delivery of six major programmes, by pooling experience, expertise and resources and working together collaboratively over the next decade, including:
    i. Retrofitting all domestic and non-domestic buildings to an average level of EPC B.
    ii. Securing low carbon buildings and infrastructure via borough planning.
    iii. Halving petrol and diesel road journeys via combined measures that can restrict polluting journeys and incentivise sustainable and active travel options.
    iv. Securing 100% renewable energy for London's public sector now and in the future.
    v. Reducing consumption emissions by two thirds, focusing on food, clothing, electronics and aviation.
    vi. Building the green economy by developing London's low carbon sector and green our broader economy.

22. We welcome the introduction of the Environment Bill. However, we are concerned that the costs of delivering these commitments could be underestimated. We therefore support the LGA's call that **the implications of the Bill for Local government must be fully funded, including:**

- **food waste and garden waste collections**
- **additional pressures on council environment teams to redesign waste services in the interim period, before EPR is introduced in 2023**
- **additional work for planning teams to deliver biodiversity net gain in planning applications and training to acquire these skills**
- **potential new litter enforcement powers and funding to cover prosecution costs**
- **financial contributions by producers to improve recycling rates**
- **funding and powers for councils to meet legally binding targets for PM2.5 in their areas.**

23. Local authorities have been addressing this issue for some time and already bring partners together to deliver meaningful local change. In order to fulfil these ambitious commitments, councils must have powers to bring together public services and resources under local leadership. This will require significant support from the government including support for renewable energy infrastructure and electric vehicles, financing and support for retrofitting energy efficiency measures in homes and offices, and support for decarbonisation of the transport system.

24. **London Councils is calling on the Government to take the opportunity in the Budget to:**
    - **Invest 2.5% of GDP into air quality and climate friendly initiatives**
    - **Establish jointly with local government, new financing mechanisms to retrofit all buildings – homes, commercial and industrial**
    - **Strengthen planning policy to future proof our built environment (the London Plan goes some way in this and is welcomed)**
    - **Establish fiscal carrots and sticks to encourage the green economy, including green skills**
    - **Invest in alternative fuels, including EV and hydrogen**
    - **Invest in walking and cycling infrastructure as well as communication campaigns for more active travel**
    - **Support a nation-wide communications campaign to encourage citizens to reduce their consumption emissions**
    - **Invest in renewable energies and divest from carbon intensive industries.**

<u>Investment in electric vehicle infrastructure</u>

25. 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 in its infrastructure. Different speed EV charging infrastructure is required 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 some of the capital and most of the revenue costs which is not sustainable.

26. London boroughs have made very good progress with installing fast and slow chargers in residential areas through London-wide Go Ultra Low City Scheme (GULCS) – a £13.2 million programme funded by the Office for Low Emission Vehicles within the Department for Transport, to support London boroughs and TfL to encourage uptake of ultra-low emission vehicles between 2015-16 and 2019-20. This funding has been used to deliver 1,700 on-street fast and slow chargers in residential areas, with 1,500 more by 2021; and 250 rapid charge points delivered by TfL, with 50 more due by 2021. Nine innovative, area-based programmes are also underway and have delivered electric vehicle loaning schemes to businesses and residents, EV training for mechanics, and ultra-low emission streets.

27. London is looking to become the EV capital of Europe. To sustain this momentum and convince more people to go electric, further, sustained investment in infrastructure is required beyond the current funding round. **London Councils is calling for the Government to commit more funding to install electric vehicle (EV) charging infrastructure in London next year, building on the successful GULCS project.**

28. In order to reduce the carbon emissions from EVs further, **London Councils is calling for further investment in upgrading, enhancing and decarbonising the electricity grid**.

Investment in housing supply

29. London boroughs have two thirds of the national total of homeless households (57,000 by June 2019). This is partly a result of the lack of housing supply and significant geographical and financial constraints on building additional accommodation. The Government claims London requires an additional 72,000 homes per year to meet the demand of the rapidly growing population, but delivery is falling well short of that target.

30. To some extent, this is down to a lack of funding. At the very time when demand has been growing, councils have had their hands tied. The cut in social rents since 2015 has reduced revenue investment across London by around £800 million (equivalent to 4,000 new homes). The return to indexation of CPI plus 1% from 2020 to 2025 is welcome, but councils need longer-term certainty than five years to meet these ambitious targets. **We ask that the Government makes a 30-year commitment to allow councils local flexibility to increase rents by up to CPI + 1%, and grant flexibility to raise rents beyond this to councils that can demonstrate a positive correlation between additional house-building and housing benefit reductions.**

31. In addition, council Right to Buy (RtB) sales have been far greater than anticipated when first introduced, with over three times as many sales in London than expected. We estimate this will have resulted in over £400 million of lost income between 2013 and 2021. With only 30% of the cost of replacement allowed to come from RtB receipts, boroughs are struggling to create viable replacement programmes. At the same time, having to pay over a significant proportion of the capital receipts to HM Treasury inhibits councils' ability to reinvest in the quality and safety of their remaining stock. **We are therefore asking the Government to provide complete flexibility over how long RtB receipts can be retained, and how they can be used to deliver homes.**

32. While the removal of the HRA borrowing cap in 2018 will help deliver more vital homes needed in London, on its own it won't solve the housing crisis. For this reform to be more impactful, longer term income certainty is required. Despite the welcome extension of the Affordable Housing Programme, London is approaching the limit of what is possible. The GLA estimates further investment of £2.7 billion is needed. The increase in PWLB borrowing rate by 1 percentage point in October 2019 added considerable costs to capital projects. Across just 13 boroughs the increase in revenue costs is estimated to be over £40 million over the next 4 years. This could be up to £100 million across London as a whole. The rate increase has had a particular impact on the delivery of housing projects, borrowing for which is expected to reduce by 17% across these 13 boroughs, and on future ambitions to develop new social and affordable housing and wider regeneration schemes. **We ask that HM Treasury introduces a separate borrowing rate for housing projects similar to the separate rate that is in place for infrastructure projects.**

<u>Fire safety and carbon reduction costs</u>

33. Since the Grenfell Fire tragedy in 2017, councils across the country have been undertaking significant additional investment to ensure buildings meet fire safety standards, which has put further strain on already tight HRA budgets. Remedial work is estimated to cost at least £562 million across just 25 boroughs. The £400 million national fund, while welcome, covers only a fraction of this work.

34. We believe the Government must conduct a thorough needs assessment for the resources required to adhere to the pending implementation of the Building Safety Bill. This should be at least partially funded in advance of the implementation to support the long lead-in times to upskill and expand council teams and infrastructure. In addition, the current consultation to lower the height threshold from 18m to 11m for the ban on cladding comprised of combustible materials is welcome but will incur additional costs. As will the need to ensure that supported housing of whatever height is free of such materials.

35. To support councils with remedial fire safety costs, **London Councils asks that the Government provides grant funding for whole-building, holistic fire safety costs resulting from the systemic failings in building and fire safety regulation and to clarify responsibility for addressing safety in the private rented sector.**

36. At the same time, government at all levels is setting ambitious targets on carbon reduction. This will require additional large-scale remediation of existing housing, including social housing. It is important to recognise that much of the fire safety remediation has reduced thermal efficiency (and therefore increased emissions), which creates more of a challenge. There are significant gains to be made from ensuring that investment in the shared goals of fire safety and decarbonisation are considered in the round and **London Councils asks that the Government includes these decarbonisation costs when determining any grant funding for fire safety remediation.**

Health Estates devolution

37. Well-funded and effective primary care is central to managing the demands on both health and social care, ensuring Londoners can lead longer, healthier and more productive lives. To ensure that primary care is able to meet local needs, buildings and infrastructure from which services are delivered must be good quality and located in the right places to ensure services are accessible.

38. The primary care estate in London is faced with a number of challenges in the delivery of services and is limiting the potential for improving the way primary care is delivered. Failings in the estate can create barriers, making it harder to meet increasing demand for services, or to provide the best quality of care. This includes the fact that while 36% of GP premises are rated in excellent/good condition, 51% are rated average, requiring some refurbishment and 13% cent are rated poor, very poor or terrible.

39. Furthermore, the current locations of GP surgeries are based on outdated decisions that do not correspond to present needs. Only 2 in 10 think their premises are fit for the future. Many are located in converted residential housing or older purpose-built health centres offering little service flexibility.

40. Local authorities currently have a minimal role in the provision of GP and other health community services, despite often knowing more about community needs and being democratically accountable. The NHS Long Term plan sets out ambitions for improving the delivery of health services. This offers an opportunity to explore different ways of working to improve outcomes. London boroughs are uniquely placed to help deliver new and fit-for-purpose primary care infrastructure, supporting the NHS by:

    - Enabling access to different sources of capital investment, including, but not limited to, Section 106 and Community Infrastructure Levy monies.
    - Utilising boroughs' knowledge of local areas and local spaces for modernisation or refurbishment as assets in future primary care estates.
    - Bringing planning and regeneration knowledge which could speed up planning processes.
    - Prioritising investment in housing for health and care workers as part of housing development.
    - Working with local communities to match needs to future primary care models of care.

41. **London Councils is therefore calling for action to improve primary care services and GP premises across the capital, including:**
    - **Reform which enhances local, borough-level health and care leadership of primary care as the merger of CCGs rolls out.**
    - **A clear focus on the development of strong partnerships between local authorities and Primary Care Networks.**
    - **Simplifying the process for allocating capital funding for refurbishing/extending GP premises to enable faster improvements, including greater devolution of decision-making regarding estates to the borough and STP level.**

- **Ensuring the focus of investment in hospitals doesn’t detract from the urgent need for the improvement of primary care premises.**

B - Investment in skills and employment

42. We recognise the focus of the Budget will be on capital and infrastructure investment. However, investment in physical assets alone cannot drive economic growth: investing in human capital must also be prioritised if London and the UK’s other cities are to raise productivity and grow sustainably over the next decade. 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.

Skills devolution

43. While London remains the most productive region of the UK, its productivity is below many other global cities and has increased at a slower pace than the rest of the UK since the financial crash in 2008[1]. This compares to the period 2000-10, where productivity growth in London was 25% faster than elsewhere. Since 2010, London’s employment growth has been largely in people with low-paid jobs.

44. London faces a number of skills and employment challenges. It has more skills shortages than any other region in the UK: an estimated 30,000 unfilled vacancies as a direct result of people not having the right skills[2]. Too many Londoners lack the basic skills to take advantage of London’s job opportunities. Some 210,000 working-age adults in London cannot speak English well and around 25,000 cannot speak English at all3. Inequalities persist. Young people, disabled adults, BAME groups and women are under-represented in the labour market. Too many Londoners are stuck in low paid, low skilled jobs. Automation and disruptive technologies will change skills needs, replacing and creating jobs.

45. Despite a rapidly growing population, London’s employment rate lags behind the rest of the UK’s, and one in five London families suffer 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 and hospitality having a high proportion of EU nationals within their workforce.

46. To rise to these challenges, we believe London needs an effective, sufficiently resourced skills and employment system that is responsive to employer needs and promotes social mobility. The current centralised system is under-funded and fragmented and doesn’t deliver this. The devolution of the Adult Education Budget and the Work and Health Programme have shown real progress towards a system better able to meet London’s needs, but we believe a whole systems approach to skills is required, with London Government working closely with businesses and training providers to deliver a responsive system to deal with skills and employment challenges.

47. In September 2019, London Government’s Call for Action on skills set out a vision for a new era of devolution and funding from government to establish an holistic skills and employment system to tackle poverty, exclusion and inequality, build a genuine lifelong learning culture, and deliver inclusive growth in the capital, but benefitting the UK as a whole[4]. This new wave of devolution should include powers to raise money as well as spend it.

[1] Resolution Foundation, *London Stalling: Half a century of living standards in London*, June 2018
[2] London First (2018) An Employment and Skills Action Plan for London
[3] 2011 census
[4] https://www.london.gov.uk/sites/default/files/call_for_action_final_13.09.19_.pdf

48. **Through the Call for Action we are urging the Government to work with London Government ahead of SR20 to devolve an holistic skills and employment system including**:
   - **Full devolution of the Adult Education Budget restored to at least pre-austerity levels.**
   - **Devolution of careers advice services to establish a London Careers Service**
   - **Devolution of the capital's Apprenticeship Levy, so that unspent levy funds can be used flexibly to meet skills needs, and responsibility/funding for promoting apprenticeships via a London Apprenticeship Service.**
   - **Devolution of the powers and resources to support emergent skills employers are looking for, including Advanced Learner Loan write offs and new metrics for measuring widening HE participation.**
   - **Continued devolution of FE capital funding to invest in new facilities and technologies and support providers to repair London's FE estate.**
   - **Devolution of responsibility/funding for 16 to 18 year-old skills provision**
   - **Devolution of traineeships to drive up traineeship starts and create progression opportunities.**
   - **A commitment for government to establish a 'local first' approach to employment support services, where services are provided at the most feasibly local level.**
   - **Devolution of London's share of the funding raised by the Immigration Skills Charge, if it continues, to specifically address skills shortages.**

49. London Government will deliver these elements of the system in a way that is nimbler, has greater impact, is more responsive to local circumstances and business needs, and is unrestricted by central government funding silos.

<u>UK Shared Prosperity Fund</u>

50. London Councils is concerned that the transition from EU funding to the UK Shared Prosperity Fund (UKSPF) may disadvantage Londoners. London currently receives £422 million from the European Social Fund (ESF) and £159 million from the European Regional Development Fund (ERDF) as part of the 2014-20 programmes. These funds have had a major impact in London: with 90% of funds committed in London, the current ESF programmes are expected to support 444,000 individuals facing complex and multiple barriers to the labour market, of whom 74,000 will gain qualifications and 92,000 will progress towards or into employment; while the ERDF programme will support nearly 8,000 small businesses.

51. London Government believes the UKSPF should be divided between areas based on a more appropriate level of need than GVA, which focuses on economic activity whilst ignoring the residents of any given locality. Allocating funding via GVA would penalise residents of the most deprived authorities in the UK, such as Tower Hamlets, where 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 elsewhere across the wider South East region. The GVA formula penalises "left behind" Britain.

52. Household incomes in London are significantly lower than the UK average once housing costs are taken into account, with 28% of London's population living in relative poverty. UKSPF should be used to address inequalities within regions, not just between them.

53. **London Government is calling on the Government to urgently clarify the future funding arrangements for the UKSPF in the Budget, and for it to:**
   - **Exceed the amounts currently awarded through ESIF and ERDF nationally.**
   - **Be devolved locally across the UK so that decisions sit much closer to the communities they support and allowing greater alignment with other funds and objectives**
   - **Allow devolved areas collectively 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 at least as much money to London and as is currently received via ESIF**
- **Operate on a much more simplified administrative model compared to ESIF but retain the advantages of a long-term funding commitment.**

Local government finance reform

54. With SR20, the Fair Funding Review and the move to 75% business rates retention all due to be delivered by the end of 2020-21, the next year is an important one for local government funding. While we do not expect the Government to set out long term funding plans in the Budget, we would urge it to seize the opportunity to put the sector on a sustainable financial footing presented by the confluence of these key events over the next year.

55. The local government finance system is in need of reform. From 2021-22, over 90% of councils' funding (excluding schools funding) will come from council tax and retained business rates. It is increasingly unclear that either tax is fit for purpose.

Business rates reform

Fundamental review

56. Business rates is becoming less sustainable as a business tax with an increasing shift within the retail sector from businesses that occupy property to those that operate online. The tax base has also been consistently eroded by policy interventions at successive fiscal events in recent years. We estimate the switch from RPI to CPI indexation in 2018, for example, removed a cumulative £80bn in potential funding to local government over the next 20 years. The latest increase of retail relief discount for 2020-21 from 33% to 50% and extension to cinemas and music venues is further evidence of small-scale reforms that erode the tax base while making the retention system more complex. Its suitability as a property tax is also being undermined by an ever-increasing share of the tax being collected in London (on current trends this would be more than half of the national total by 2040): this constrains any growth incentive across the rest of the country. We have long pointed out that fixing the yield of a national property tax in a nation of widely disparate regional property markets is inherently unsustainable.

57. As such, the basis for business rates funding almost half of local government spending is questionable and we welcome the Government's commitment to undertake a "fundamental review of the business rates system". However, we are concerned that, as the entirety of business rates collected in England must fund local government services[5], any genuinely fundamental reform of the tax could result in a reduced quantum of funding for local councils (indeed the context for the review seems to be to reduce the tax burden on businesses), as well affecting how the tax is administered and collected. This could change the behaviours the Government intends to incentivise within the new 75% retention scheme.

58. The timing of the fundamental review must be considered alongside the timetable for the wider reforms of local government funding due to be completed by April 2021. **We strongly urge HMT and MHCLG to work closely with local government to plan and deliver these reforms coherently rather than in isolation.**

59. **As a first step, we ask that the Government confirms the terms of reference and timetable for the fundamental review of business rates in the Budget.** Local government must be a key partner in the review, alongside both central government and business interests.

[5] As set out in the Local Government Finance Act 1988.

Further business rates retention

60. The 100% and 75% business rates retention pilots in London over the last 2 years have shown London Government is capable of working collaboratively to deliver a system of collection and distribution of funding. The pooled proceeds from the pilots are due to deliver over £1 billion in financial and economic benefits that would not have happened otherwise – in housing, regeneration, skills, transport and digital infrastructure across the capital. London Government will continue to pool business rates in 2020-21, which shows a commitment to collaboration across the 34 authorities.

61. We are however increasingly concerned that the 75% system will offer little financial incentive for areas to pool business rates. We believe the Government must ensure financial incentives to pool rates across economic areas, such as a higher level (for example 100%) of growth retention. Above all, the new 75% scheme must be more predictable and stable; less complex than the current scheme; and must deliver a genuine incentive to grow business rates by removing the huge risk exposure local authorities have to appeals.

62. More broadly, London Government has long called for not only 100% retention but for local government to have genuine responsibility for the setting and distribution of business rates. The 75% retention scheme and indeed a 100% retention scheme set up with central government controlling how the tax is set and reliefs determined, falls far short of this ambition. **We therefore urge the Government to commit to transitioning from 75% to 100% - and to working with local government to explore real local control of the tax - as soon as possible, and at least within the current parliament.**

63. More broadly, the introduction of the New Homes Bonus (NHB) in 2011, the 50% BRR system and localisation of council tax support in 2013 marked a shift towards incentivisation in local government finance. With reforms to business rates retention now less ambitious than previously proposed, and the future of the NHB to be consulted on shortly, there appears to be a lack of coherence in the overall approach to needs versus incentives. **We urge the Government to use the opportunity to set a clear direction with the major reforms due in the next 12 months.**

Council tax reform

64. As well as business rates, council tax is in desperate need of reform[6]. The tax is regressive; is not responsive to changes in property values, as it relies on outdated valuations; lacks transparency, with few people understanding where it goes; is centrally controlled through the referendum principle and, in recent years, through hypothecation for adult social care; and the fact it taxes occupancy not ownership of property leads to anomalies such as with students, who have mandatory exemptions, while their commercial landlords pay no business rates.

65. If fundamental reform is not considered in the near future, then Government should now remove the referendum limit and allow councils to address spending pressures as locally appropriate.

66. **Ahead of SR20, we would urge the Government to consider some technical reforms that could potentially benefit the sector including revaluation of CT bands or the ability to determine additional bands locally; and greater flexibility over CT Support which, despite being "localised" in 2013, continues to include central government prescriptions over eligibility.**

[6] Including from LGA/CIPFA, the London Finance Commission, SOLACE, the Resolution Foundation and IPPR amongst others.

Fiscal devolution

67. The growing demand for local government services, constraints upon council tax, and potential reduction in tax yield that business rates reform may result in, all point to the broader need for the Government to consider what other taxes should fund local government.

68. The way we raise and spend taxes – and accountability for the decisions we make about both – are central to our democracy, and to the quality of our public services. London councils believes councils should have greater local control over a range of business and property taxes, and other fiscal levers, that make sense in their local areas, and be held accountable for their success. We continue to support the recommendations of the London Finance Commission in 2013, commissioned by the current Prime Minister, and further developed by the current Mayor of London in 2017. It called for London Government to have access to the full suite of property taxes and assignment of a proportion of national taxes, such as VAT and income tax. The latter was also recently advocated as a good candidate for local assignment by the Institute for Fiscal Studies, and we would welcome further exploration of this idea with government.

69. Cities, and urban areas more broadly – those areas with stronger economic growth but with many of the negative externalities and higher costs that come with population density - are ideally placed to test a new and ambitious approach to fiscal devolution. This could begin with smaller specific taxes that directly support local economic growth, such as a Tourism Levy, Vehicle Exercise Duty, or the Apprenticeship Levy.

70. London Government has demonstrated, through the business rates pilot pool that we are willing to take on more responsibilities and resources to deliver stronger outcomes for Londoners. We welcome the planned Devolution White Paper but urge the Government to look beyond simply levelling up powers and include a full exploration of fiscal devolution too. **We strongly urge the Government make use of the experience of areas that have a track record of collaborating across boundaries and have robust governance arrangements in place to trial and deliver further devolution of powers and resources.**

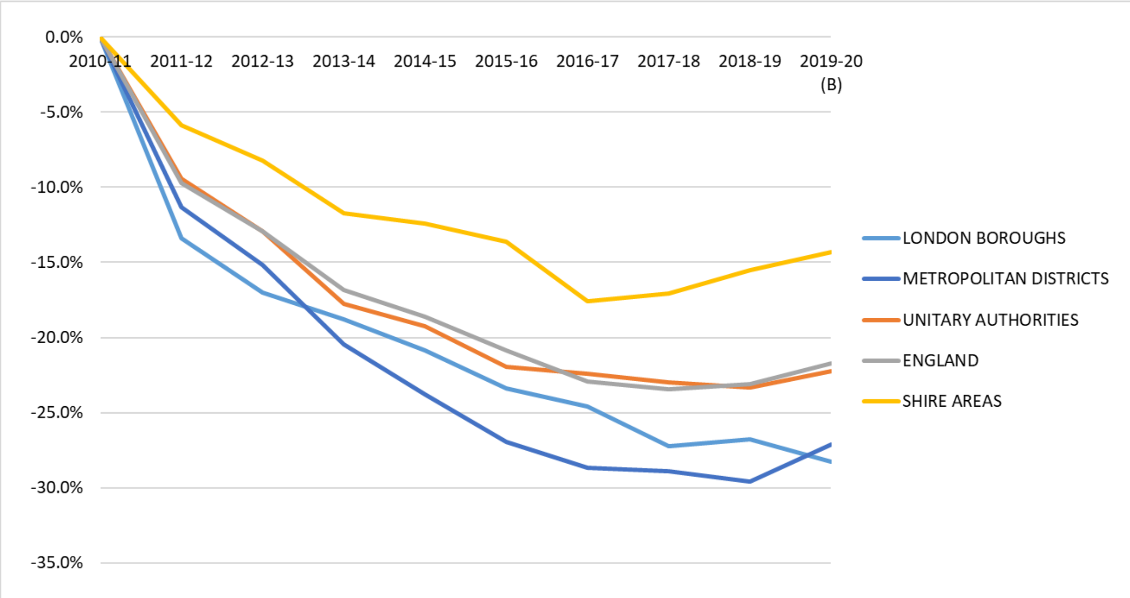
71. In summary, we believe the way local government is funded is in urgent need of reform. **We ask that the Government commits to fundamental reform of councils' overall tax-raising capacity, including council tax, business rates and other new or devolved taxes during this parliament.**

London Councils' priorities for Spending Review 2020

72. Looking forward to the Spending Review, **London Councils asks that the timetable for the Spending Review be set out in the Budget**.

73. Despite the recent funding boost provided by SR19, there is no escaping the need for sustained investment in local government services following decade of funding reductions. Figure 1 below shows that London boroughs have seen overall funding reduce by 28% since 2010. Over the same period, the population has risen by almost a million people; policy and legislative changes have added unfunded burdens of around £1 billion. Despite the increase in core spending power of over 6% in 2020-21, boroughs' budget plans for the coming year still require cuts of around £200 million.

Figure 1 - Real terms % change in funding – 2010-11 to 2019-20 (Budgeted) – by authority type



Source: MHCLG, Revenue Account Budget and Outturn returns
NB: England figure excludes fire, police and GLA; shire areas combines county and district councils

74. London Councils will be asking for the Government to **put the sector on a sustainable medium-term footing through significant investment in SR20**. In addition, there are a number of specific areas of priority for London Councils, which include:

- **<u>Urgent reform of adult social care</u>** - The adult care system is being kept from collapse by a combination of rolling specific grants and cumulative increases in hypothecated Social Care Precept. While the broader debate has tended to focus on the issues of an aging population that increasingly needs extended care in later life, the majority of identifiable spending on ASC is on those of working age with physical or learning disabilities. Over the next twenty years, London's working age population is expected to rise by 8% (compared to less than 1% in the rest of England) and its over-65 population by 63% (compared to 40%). The IFS has estimated that, without broader reform of council funding, adult social care will increase from just below 40% of council spending to between 50% and 60% - with the inevitable squeeze on all other services – within fifteen years. The need for reform and investment is urgent. **We welcome the commitment by the Government to addressing adult social care funding but are calling for a sustainable solution to be set out by SR20 and implemented as soon as possible.**

- **<u>Investment in children's social care</u>** – nine in ten London boroughs are overspending in children's social care – despite this being the only service to have been protected in real terms from funding cuts since 2010. By 2024-25, the funding gap will be over £400 million in London. This presents a growing threat to councils' financial sustainability. In London, this is in spite of looked after children numbers *falling* over the last few years. The rising costs of external placements, children with complex needs and hard to place adolescents are particular cost drivers for big cities like London, that require specific funding solutions from Government. **As well as a broader uplift in general funding, we will be calling for targeted investment in children's social care to prevent a growing funding crisis**. This must include **increases in funding rates for Unaccompanied Asylum-Seeking Children (UASC), and former UASC Care leavers,** as London is home to a third of the national total and has a funding gap of £32 million and rising.

- **<u>A long-term solution to High Needs funding</u>** – The number of children with an Education Health and Care plan has risen by 50% since the Children and Families Act 2014 was introduced. London boroughs have accumulated deficits of over £110 million, and by the end of the current year we estimate will account for around 30% of the national total. **We await with interest the Government's review of Special Educational Needs and Disabilities (SEND), due this year, which we hope will deliver long-term solutions to the rising costs of children with SEND.**

- **Investment to solve the homelessness crisis –** London has 57,000 households in temporary accommodation including an estimated 88,000 children. Boroughs spend an additional £200 million each year beyond the specific grant funding available. The only way to solve the causes of the homelessness crisis is to deliver more affordable housing and lift local LHA rates to at least 30% of the median private rents. To alleviate the spiralling costs of homelessness and rough sleeping **we will be calling on the Government to meet the true costs of the Homelessness Reduction Act 2017; deliver a significant increase to the Flexible Homelessness Support Grant recognising the higher costs of temporary accommodation in London; and, while significantly increasing the overall level of grant funding for homelessness, reduce the number of different pots of funding so that councils can plan the delivery of homelessness services more strategically for their areas.**

- **Support for people with No Recourse to Public Funds** – Because of its high levels of migration London is home to a disproportionate share of the country's most vulnerable people who have no recourse to public funds. Boroughs receive no direct funding for this yet have various statutory duties to support these families. **We will be asking for specific funding to help boroughs carry out these duties, which cost boroughs £50 million per annum.**

75. London Councils looks forward to engaging with Government to provide evidence to inform those important spending decisions that will set the tone for local government funding over the next few years and will make representations and meet civil service colleagues in spending departments in the run up to the Review.

Appendix A – Summary of all London Councils asks contained in this submission

To support London's strategic transport and infrastructure we are asking for the Government:

- To confirm the funding for the NIA, including CR2, HS1&2 in its forthcoming National Infrastructure Strategy and publish it alongside the Budget.
- To provide strategic and financial support for sub-regional projects including extending Crossrail 1 from Abbey Wood to Ebbsfleet (C2E); Brighton Mainline improvements; Bakerloo Line extension; the West London Orbital Railway; further river crossings in east London; renewing the aging signalling on the Piccadilly line; replacing aging trains; and delivering urgent repairs to Hammersmith Bridge.
- For further dialogue with the Government and other stakeholders on suitable mechanisms to capture the land value uplift of these major project
- To explore Tax Incremental Financing further as a potential funding mechanism for infrastructure projects.
- To devolve VED to London Government to help fund the investment needed to maintain London's highways (£114m shortfall).

To address the costs of climate change we are asking for:

- The local government responsibilities resulting from the Environment Bill to be fully funded.
- The Government to take the opportunity in the Budget to:
  - Invest 2.5% of GDP into air quality and climate friendly initiatives
  - Establish jointly with local government, new financing mechanisms to retrofit all buildings – homes, commercial and industrial
  - Strengthen planning policy to future proof our built environment (the London Plan goes some way in this and is welcomed)
  - Establish fiscal carrots and sticks to encourage the green economy, including green skills
  - Invest in alternative fuels, including EV and hydrogen
  - Invest in walking and cycling infrastructure as well as communication campaigns for more active travel
  - Support a nation-wide communications campaign to encourage citizens to reduce their consumption emissions
  - Invest in renewable energies and divest from carbon intensive industries.
- Further funding to install electric vehicle (EV) charging infrastructure in London next year, building on the successful GULCS project.
- Investment to upgrade, enhance and decarbonising the electricity grid.

To boost Housing delivery and alleviate homelessness we are asking for:

- A 30-year commitment to allow councils local flexibility to increase rents by up to CPI + 1%
- Flexibility to raise rents beyond this to councils that can demonstrate a positive correlation between additional house-building and housing benefit reductions
- Complete flexibility over how long RtB receipts can be retained and used to deliver homes.
- A separate PWLB borrowing rate for housing projects similar to that in place for infrastructure projects.
- Grant funding for whole-building, holistic fire safety costs resulting from the systemic failings in building and fire safety regulation.
- Clarification of responsibility for addressing safety in the private rented sector.
- The inclusion of additional decarbonisation costs in any grant funding for fire safety remediation.

To improve the primary care services and GP premises across the capital we are asking for:

- Reform that enhances borough-level health and care leadership of primary care as CCG mergers roll out.
- Development of strong partnerships between local authorities and Primary Care Networks.
- A simpler capital funding allocation process for refurbishing and extending GP premises, including greater devolution of decision-making regarding estates to the borough and STP level.

- Ensuring the focus of investment in hospitals doesn't detract from the urgent need for the improvement of primary care premises.

To address London's significant employment and skills challenges, we are calling for devolution of an holistic skills and employment system to London Government by SR20, including:

- The Adult Education Budget - restored to at least pre-austerity levels.
- Careers advice services to establish a London Careers Service.
- Any unspent Apprenticeship levy funds to support a London Apprenticeship Service.
- Powers and resources to support emergent skills including Advanced Learner Loan write offs and new metrics for measuring widening HE participation.
- Further Education capital funding to invest in new facilities and technologies to repair London's FE estate.
- Responsibility and funding for 16 to 18 year-old skills provision.
- Responsibility and funding for traineeships.
- London's share of the funding raised by the Immigration Skills Charge, if it continues, to specifically address skills shortages.

London Government is calling on the Government to urgently clarify the future funding arrangements for the UKSPF in the Budget, and for it to:

- Exceed the amounts currently awarded through ESIF and ERDF nationally.
- Be devolved locally across the UK so that decisions sit much closer to the communities they support and allowing greater alignment with other funds and objectives.
- Allow devolved areas to collectively 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 at least as much money to London and as is currently received via ESIF.
- Operate on a much more simplified administrative model compared to ESIF but retain the advantages of a long-term funding commitment.

To ensure a more sustainable local government finance system, we are calling for the Government to:

- Commit to fundamental reform of councils' overall tax-raising capacity, including council tax, business rates and other new or devolved taxes during this parliament.
- Ensure HMT and MHCLG work closely with local government to deliver its fundamental review of business rates coherently alongside the Fair.
- Confirm the terms of reference and timetable for the fundamental review of business rates in the Budget.
- Commit to transitioning from 75% to 100% as soon as possible, and at least within the current parliament.
- Consider smaller technical reforms to council tax as part of SR20, including revaluation of CT bands or the ability to determine additional bands locally and greater flexibility over CT Support.
- Make use of the experience of areas that have a track record of collaborating across boundaries and have robust governance arrangements in place to trial and deliver further devolution of powers and resources.

Looking ahead to Spending Review 2020, we are calling for:

- The timetable for the Spending Review be set out in the Budget
- Significant investment so the sector can be put on sustainable medium-term footing
- Sustainable adult social care funding reforms to be set out in SR20 and implemented as soon as possible.
- Investment to address London in children's social funding gap which will exceed £400m by 2025
- Increases in funding rates for UASC and former UASC Care leavers
- The Government's review SEND to deliver long-term solutions to the rising costs of children with SEND where London boroughs have 30% of the national accumulated deficits
- Significant increase in homelessness funding and reduction in complexity and number of different funding streams, to meet the costs of the HR Act 2017 and London's broader homelessness crisis.
- Specific funding to help boroughs carry out their duties to support vulnerable people with No Recourse to Public Funds, which cost boroughs £50 million per annum.