Representation to Government

Autumn Budget / Spending Round 2024
Representation by **London Councils**

London Councils is the collective of local government in London. The 32 boroughs and the City of London come together, through us, to deliver for London.

Introduction

1. London Councils welcomes the opportunity to make this representation to the government ahead of the first Budget and Spending Round of the new parliament.

2. London boroughs will play a critical role in the successful delivery of government's missions. Local authorities have the on-the-ground knowledge about what to do, where to invest, who to involve and how government can make the best use of its limited resources. London boroughs will support mission delivery in many ways, including the following:
   - **generating economic growth** through improved planning and home-building,
   - **accelerating net zero** through electric vehicle and energy infrastructure, decarbonising buildings and upskilling the green workforce,
   - **supporting NHS improvement** through preventative health and social care programmes,
   - **maintaining safe streets** through place-based activation and crime prevention initiatives, and
   - **creating opportunities for young people** through expanding apprenticeships.

3. The support and investment local authorities provide towards these missions will only be possible, however, with the resources and reforms necessary to stabilise local government finances and unleash their potential.

4. **Objectively well-run councils are now in extremely challenging financial positions. At least seven London boroughs indicate they may need Exceptional Financial Support next year to balance their budgets.** Without the funding or powers to self-remedy, it is only a matter of time before more well-run councils can no longer meet their obligations and call on the government's time, energy and resources to stay afloat. It is in the interest of national, regional and local government to have sufficiently resourced London boroughs.

5. **We urge the government to recognise the importance of stable, sufficiently resourced local authorities, without which it cannot deliver its core missions.**

6. We understand the fiscal outlook is challenging. The government's multi-billion pound funding gap requires difficult decisions to close, and we can appreciate this challenge as our analysis shows London boroughs face their own £700 million funding gap in 2025-26, in addition to a forecast overspend of over £600 million in 2024-25.

7. With nine Section 114 notices issued since 2021 and 20 councils (three in London) reliant on Exceptional Financial Support, the growing financial crisis facing local government is clear. Until more fiscal powers are given to local authorities to be able to self-remedy their situations, as they can in other comparable countries, we must rely on government to recognise and respect our reality and work with us to sufficiently fund local services.

8. Recognising this is a one-year spending round and the economic and public spending outlook is tight, **the remainder of this document provides near-term recommendations and solutions, most of which are at minimal or no cost to government**.

9. Ahead of the three-year Spending Review in the Spring, we will set out further priorities for reform that go beyond stabilisation towards a more sustainable future for London local government to enable it to drive economic growth and spend the public pound more wisely.

Priorities

10. London Councils has five core priorities for the new parliament, which provide the framework for this budget submission:

1. Stability	2. Housing	3. Growth	4. Prevention	5. Assurance
Financial stability is critical and underlies all other priorities.	A safe and stable home is central to the success and life chances of all residents.	London boroughs are vital to deliver sustainable, inclusive economic growth.	Positive long-term outcomes rely on upfront investments in prevention.	Cost-effective regulation to support sector-led improvement.

11. Each of the five sections below provides context for the pertinent issues and provides recommendations that can be implemented in the short term in line with a one-year spending round. Our recommendations fall into three categories:
    - **Quick fixes:** minimal-to-no cost changes government can make immediately
    - **Short-term funding needs:** to ensure the stability and viability of local services
    - **Committing to reforms:** opportunities to partner on critical reforms

1. Providing Stability

12. The stabilisation of local government funding is London boroughs' top priority. Without stability, it will be near-impossible for boroughs to drive economic growth, invest in prevention or address the housing crisis facing London.

13. London Councils welcomes the government's commitment to multi-year spending reviews, multi-year financial settlements and ending competitive bidding. These changes will improve local authorities' financial *certainty*, but there is more immediate work to be done to *stabilise* local authorities' finances and address the issues creating their untenable situation.

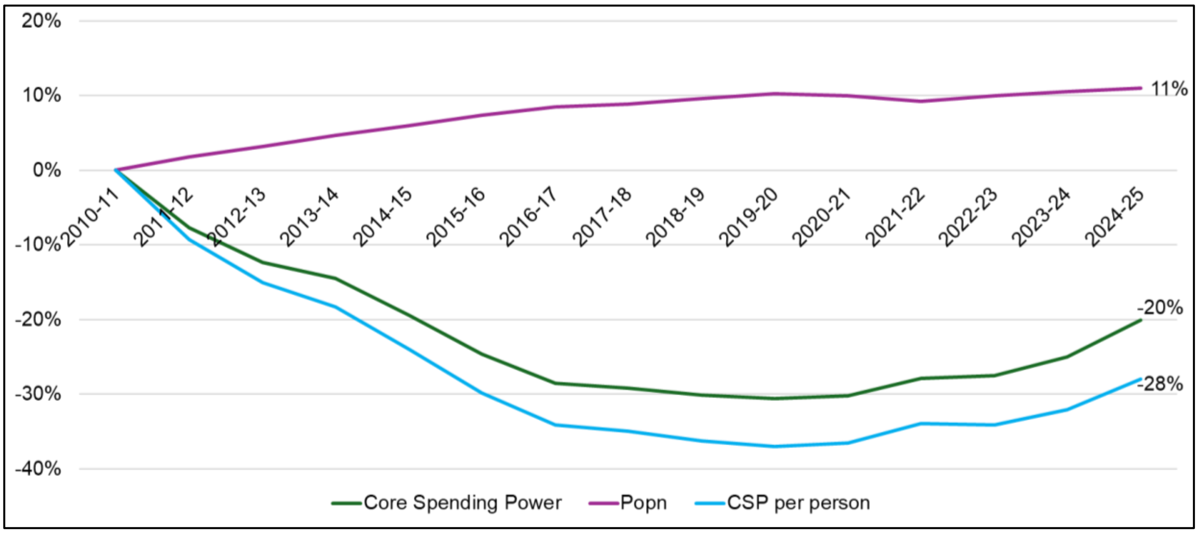
14. A failing local government sector will only exacerbate broader economic and fiscal challenges. The services local authorities provide are powerful tools in the quest for growth; however, if not sufficiently funded, they cannot support this growth and instead, could lead to increased demand on other government services and departments, such as the NHS and DWP.

A perfect storm driving the funding crisis

15. London boroughs, like the rest of local government, faced a perfect storm of factors in recent years leading to the financial crisis now facing them. These include:
    - Sustained funding reductions,
    - Rising demand for services,
    - Rising costs due to inflation and failing markets,
    - New unfunded and underfunded responsibilities, and
    - Increased regulation.

16. In 2024-25, London boroughs' Core Spending Power (CSP) remains a fifth (£2.2 billion) lower in real terms than it was in 2010-11. With boroughs now serving 884,000 (11%) more residents, this means real terms per person CSP is 28% lower than it was in 2010-11 (see Chart 1).

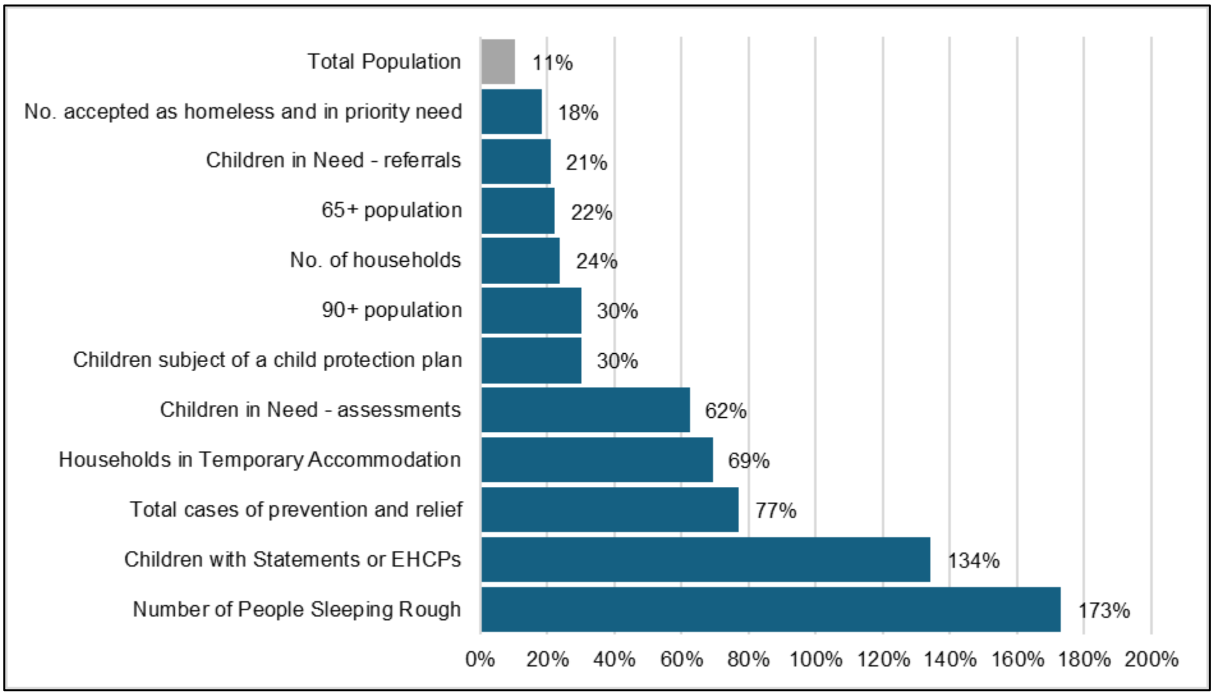
Chart 1 – Real terms change in CSP and population since 2010-11 – London boroughs



Source: London Councils' analysis of LGF Settlements and ONS population data

17. However, demand for many critical services has far out-paced the 11% population growth. Chart 2 shows the change in key demand measures compared to population growth which creates huge pressures on demand-led services.

Chart 2 - Change in selected measures of demand for services in London - 2010 to 2023



Source: London Councils' analysis of HMG datasets and ONS population data

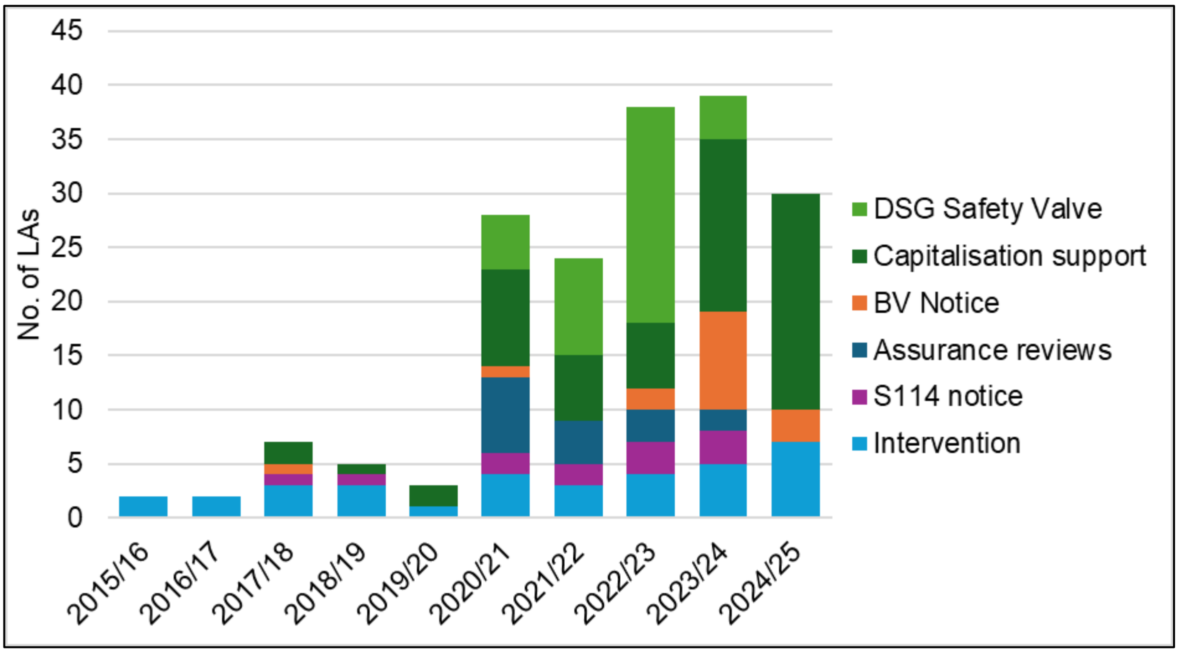
18. Much of the increase in cost pressures since the pandemic has been due to rising prices. This is a result of general inflation, which peaked at a 30-year high of 11% in 2023, and increasingly dysfunctional markets within adult and children's social care and housing.

19. London Councils' analysis suggests new responsibilities without sufficient or sustained funding have also added more than £1 billion of additional annual funding pressures to London boroughs—for example, the localisation of council tax support, the implications of the Homelessness Reduction Act 2017, and the Children and Families Act 2014.

20. Finally, the growth in regulation over the last decade, particularly in children's services, adult social care and housing, comes with a growing financial cost that is not openly recognised by government (see Section 5 for more detail).

21. The result of this perfect storm can be seen in the growing level of intervention needed from national government since 2020 (see Chart 3). **This indicates a sector in crisis.**

Chart 3 – Change in government interventions related to performance and finance since 2015-16 - England



Source: London Councils' analysis of various HMG datasets (DfE and MHCLG)

Scale of the challenge facing London boroughs

22. In 2023-24, despite a 4% real terms increase in funding, London boroughs overspent by almost £700 million to maintain vital services.

    - Adult social care accounted for £200 million as reforms have been repeatedly delayed;
    - Children's social care accounted for £170 million as growing complexity of needs and a dysfunctional provider market mean costs are spiralling rapidly;
    - Homelessness services accounted for £200 million as London is seeing the most acute pressures in the country and overspending averaged more than 60% per borough.

23. London boroughs had to rely on £200 million of reserves in 2023-24 to alleviate overspending, and three boroughs are currently reliant on Exceptional Financial Support.

24. For 2024-25, boroughs need to make more than £400 million of savings despite a 6.5% real terms increase in Core Spending Power—the bulk of that increase, nearly 40%, was from council tax. This is a similar level of savings forecast in 2016 during the height of austerity, underlining the scale of the financial challenge facing boroughs. The difference now is that many boroughs have already made significant efficiencies, transformed service delivery models and paired back non-statutory services—the low-hanging fruit is gone and boroughs' ability to realise the necessary level of savings is highly constrained.

25. Our latest analysis of boroughs' financial positions in the first quarter of 2024-25 indicates **boroughs forecast to overspend by £600 million this year** with an average borough overspend of nearly £20 million. This is a worse position compared to the same point last year, particularly in temporary accommodation where pressures have more than doubled. The overall total includes overspending of nearly:

- £250 million on temporary accommodation,
- £150 million on adult social care, and
- £145 million on children's social care.

26. Looking ahead to next year, London Councils' latest assessment of boroughs' medium-term financial plans indicate a **funding gap of over £700 million for 2025-26**, and this is *prior* to the knock-on impact of any in-year overspending this year. Over the next four years, the gap is £2.1 billion.

27. Additionally, two-thirds of London boroughs are carrying deficits on their Dedicated School Grant, and a third of London boroughs do not have sufficient general reserves to cover them. Deficits are projected to reach £400 million by 2027-28, driven in large part by SEN transport costs which are up 43% since 2020-21.

28. Finally, Housing Revenue Accounts (HRAs) are under significant stress resulting from reduced resources (due to capping social rents) and growing costs (due to high inflation, London's ageing housing stock, additional costs of meeting fire safety standards and damp and mould mitigation). For some boroughs, the HRA is the largest immediate threat to financial resilience with three London boroughs forecasting they will fully deplete their HRA reserves in the next three years.

29. **At least seven boroughs indicate they may need Exceptional Financial Support next year to balance their budgets**, which would rise to more than a third of boroughs if the DSG statutory override did not exist. It is now clear that a growing number of boroughs are approaching the point of running out of resources as a result of structural underfunding. Demand and costs are simply outstripping available resources.

Local authorities have exhausted available remedies

30. Our reality is difficult to face, but it must be addressed. London boroughs have made every effort to continue to provide public services at a sufficient level by exhausting every lever available to them. They have:

    - **Reduced spending** – to fit within a shrinking funding envelope 28% below where it was in 2010-11 (Core Spending Power in real terms per capita).
    - **Reduced staff –** with London boroughs employing 54,000 fewer full-time equivalent staff than in 2010, a 29% reduction.
    - **Increased council tax –** with increases averaging 4% over the last nine years and 5% over the last two years.
    - **Taken on unfunded responsibilities** – at the direction of government, London boroughs added more than £1 billion of unfunded and underfunded new responsibilities.
    - **Drawn down reserves** – London boroughs relied on more than £200 million of reserves in 2023-24 to balance their budgets.
    - **Carried deficits** – Two-thirds of London boroughs are carrying DSG deficits, projected to reach £400 million by 2027-28.
    - **Sold one-time assets to cover ongoing costs** – Councils in financial difficulty have been allowed to sell *one-time* assets to prop-up *ongoing* services—an imprudent financial practice.

- **Collaborated** – with each other and other partners to make efficiencies of scale through multi-borough projects which share services and staff and attempt to shape markets.
- **Scaled back and cut services** – for example, by reducing Local Council Tax Support, reducing frequencies of waste and recycling collections and cutting capital projects.

31. **London boroughs have held up their end of the bargain doing everything they can to maintain services and support their most vulnerable residents. We have reached the point, however, where the simple reality is more funding is necessary to pay for required services.**

Recommendations

32. In the near-term, London Councils is calling on government to work with us to implement the following recommendations to deliver financial stability for local authorities:

Quick Fixes

- Publish the local government finance settlement as early as possible to provide more certainty and time for councils to agree budgets.
- Continue the social care grants but combine them into fewer grants with reduced prescriptions around how they must be spent to improve flexibility.
- Combine the remaining non-ringfenced grants in the settlement (New Homes Bonus, Rural Services Grant, Services Grant and the Funding Guarantee) and redistribute based on a measure of relative need (e.g. population and deprivation).
- Distribute the Social Care Grant using measures of relative need for adult *and* children's social care, as the grant can be spent on both services but is currently only distributed using the adult social care formula—this is illogical and inequitable.
- Extend the statutory override on the Dedicated Schools Grant to provide certainty that deficits will be kept off council balance sheets beyond 2026.

Short-term Funding Needs

- **Increase Core Spending Power by 7% in real terms – broadly in line with this year's increase – to cover the £700 million funding gap boroughs forecast.**
- Cover the costs of the anticipated local government pay increase. The recent public sector pay awards of 5-6% could have an additional estimated cost of up to £100 million above what was budgeted in London local authorities.

Committing to Reforms

- Implement three-year minimum Local Government Finance Settlements.
- Reduce ringfencing of grants which inhibits local choice and often requires unnecessary reporting requirements.
- Set out a clear plan for adult social care funding and implementing a National Care Service.

- Reform the children's social care market and provide more financial support to build new care homes.
- Set out a sustainable plan to eliminate high needs DSG deficits.
- Launch a fair funding review of relative needs and resources as soon as possible. Our priorities for the review would be that:
    - **No London borough should be worse off** as a result of the review.
    - **Accurate population figures are used** by correcting for population undercount with the census being held during the Covid-19 pandemic; ensuring short-term residents are captured; capturing the day-time population as users of council services; and ensuring population projections are factored in.
    - **Accurate measures of deprivation are used** that take account of higher housing and living costs in urban areas and adjust for areas with extreme levels of deprivation.
    - **An accurate Area Cost Adjustment is used** that reflects the different cost of delivering services in urban areas, including the high cost of residential and commercial property, and is set at an appropriate economic geography.
    - **Any updated measure of relative resources does not penalise areas for setting different council tax levels and does not include fees and charges income** like parking income, which is statutorily ringfenced, as this would add significant complexity and inconsistency.

2. Fixing the housing crisis

33. A safe and stable home is central to the success, health and life chances of everyone in the country. However, the ability to access adequate and affordable housing has become more challenging and the related issues more severe: increased homelessness, poorer housing conditions and not enough new homes being built.

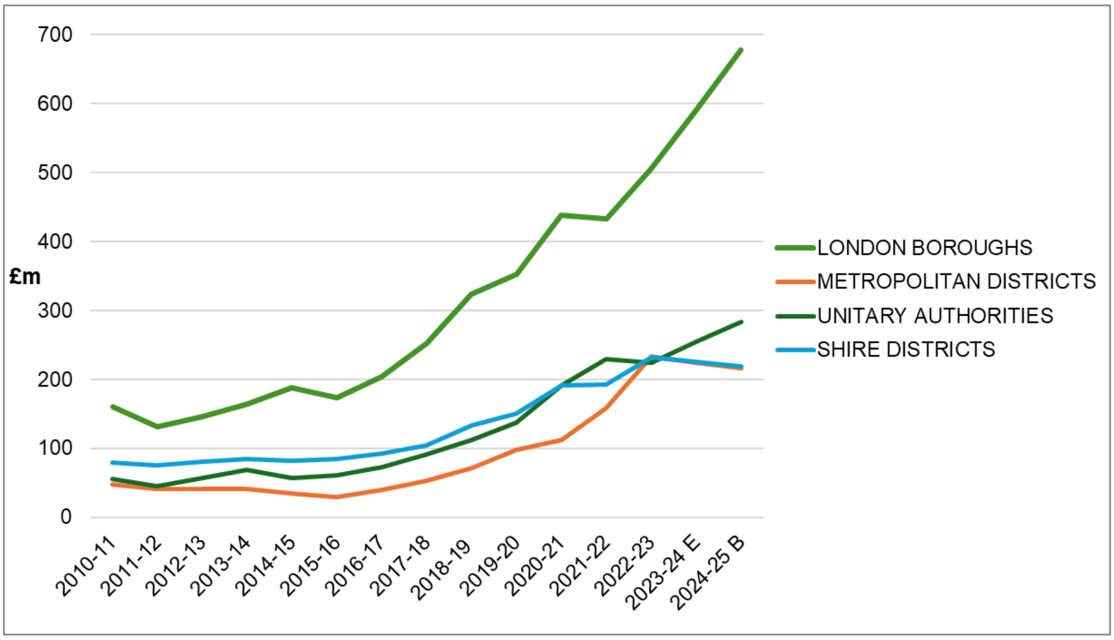
34. A long-term programme of national renewal can only be achieved by addressing these deep-seated challenges. Nowhere are these challenges more stark than in London, where the acuteness of the housing crisis is creating significant hardship for residents. As the nation's largest city and economic engine, London's housing crisis is becoming a national crisis and must be addressed as such.

A growing homelessness crisis

35. London suffers the most severe homelessness pressures in the country—1 in 50 Londoners now live in temporary accommodation (TA), including 1 in 23 children, and the capital accounts for more than half (57%) of all homeless households living in TA in England.

36. Nearly half of the total expenditure on homelessness in England occurs in London, and this has risen fourfold since 2010 (see Chart 4).

Chart 4 - Net expenditure on homelessness by authority type – 2010-11 to 2024-25



Source: MHCLG, Revenue Outturns (2023-24 outturn estimated and 2024-25 budgeted figures)

37. The situation has worsened over the past two years driven by a combination of structural changes to London's private rented sector, with new lettings down 41% and rents up more than 20% since the Covid-19 pandemic, and insufficient Local Housing Allowance (LHA) rates. These pressures have driven increases in presentations to homelessness services and in families living in unsuitable bed and breakfast accommodation for longer than six-weeks, increasing from just over 50 families in September 2021 to more than 1,700 in April 2024.

38. The mismatch between rents and the level of financial support available from government creates a significant deficit for councils. Councils can still only claim 90% of the 2011 LHA rate for spending on TA through the Housing Benefit Subsidy system, despite rates increasing significantly over recent years.

39. The financial losses experienced by London councils due to this gap increased by 30% in the year ending 2023/24. Data from 24 London local authorities shows a gap for those councils of more than £96 million in 2023/24, accounting for nearly a quarter of their net deficit on homelessness service spending. The scarcity of suitable TA has also led to an increased use of more costly commercial hotel provisions.

40. London boroughs now spend more than £90 million per month on TA, up nearly 40% from a year earlier. Having overspent by more than £200 million in 2023/24, most boroughs are already forecasting further significant overspends this year. Consequently, the cost of TA has quickly become one of the biggest factors undermining London boroughs' financial stability.

41. Government should take a multifaceted approach to addressing these pressures by deploying a range of interventions to ensure greater financial resilience for councils. Different aspects of the homelessness crisis impact the financial stability of councils differently, along with the overall increase in need for homelessness support.

- For many councils, the Housing Benefit Subsidy gap is a significantly greater driver of financial pressure. Impacted councils are likely to be those with less council-owned TA to place into and consequently, rely on expensive market accommodation.
- Data from 22 London councils shows the gap between spending on TA and funding reclaimed via the Housing Benefit Subsidy system represented more than 23% of their councils' net deficits for homelessness services. For seven of these 22 councils, the gap created by subsidy restrictions was more than 30% of their net deficit—for one council, the TA rules accounted for 83% of their services net deficit.
- Removing the difference between LHA for TA and wider private rented sector accommodation would not increase the total cost to the public finances, as it would merely transfer the cost from local authorities to the DWP, but would greatly help the financial resilience of those authorities who are most exposed to this cost pressure.
- For others, an increase in HPG and LHA rates will be particularly effective in addressing financial insecurity.

42. Rates of rough sleeping have also reached the highest level in a decade despite improved and more collaborative efforts to manage the system in London and following the success of the Everyone In programme. In the longer-term, homelessness system reform is needed to reduce the fragmentation identified by the National Audit Office, focus on upstream preventative interventions and take a holistic view of homelessness.

Chronic shortage of housing

43. London's homelessness crisis is exacerbated by the chronic shortage of affordable housing. There are currently 320,000 households on waiting lists for social housing in London, while the government recently announced that Greater London would need to deliver 80,000 new homes each year.

44. The need for new housing, particularly affordable housing, is therefore overwhelming. In recent years, new construction in London averaged around 40,000 homes per year and is expected to fall significantly this year. Recently, the slowdown in construction and council-led development plans has been due to high inflation making developments no longer viable. London has a pipeline of 287,000 potential new homes with planning permission, including 70,000 affordable homes, that have yet to be built.

Lack of resources to improve existing housing and build new homes

45. London's existing social housing stock is under immense pressure due to its age, type and density. London accounts for 19% of England's social housing stock but had 57% of all damp and mould maladministration cases between 2019 and 2021. Satisfaction amongst London council tenants is also 19% lower than the national average.

46. A financially stable HRA is vital to facilitating council housing delivery as well as councils' ability to maintain and upgrade their own housing stock. However, boroughs' HRAs are under growing financial strain because of the rising costs of maintenance and repairs, new building safety regulations, commitments to deliver zero-carbon, and ambitions to build new homes. At the same time, resources are being squeezed by lower-than-expected rents.

47. In five of the last nine years, rents have been capped far below inflation, reducing 1% per year between 2016/17 and 2019/20 and being capped at 7% in 2023/24. This has gone against the principles that underpinned self-financing and recent rent settlements. Previous analysis by Savills suggested social rent levels set by the government would leave London boroughs with a funding gap of up to £700 million over the period 2023/24 to 2027/28.

48. Recent analysis of London boroughs' HRA spending plans suggests boroughs are making the difficult decisions necessary to balance budgets and remain financially stable in the short term. This includes cuts to spending on supervision, management, maintenance and repairs by £170 million in real terms over the next four years, focusing only on the most urgent repairs and delaying much-needed improvements. These decisions will have an impact on the level of service tenants receive, the overall quality of HRA housing stock and the ability to build new affordable homes. Despite these cuts, three London boroughs forecast they will run out of HRA reserves over the next four years without significant funding intervention.

49. More broadly, changes imposed by national government – additional responsibilities and duties which increase costs and the capping of social rents – mean the original assumptions which underpinned HRA self-financing in 2012 have been completely re-written by government with local authorities left with unrealistic debt and borrowing levels. The HRA debt settlement should be reviewed as a matter of urgency.

50. A fair revisiting of the debt settlement should recalculate and revise down the total level of debt the sector should now be carrying and reallocate this based on the reality of policy interventions over the past 12 years. Evidence produced by Savills for London Councils estimates a fair revisiting of the settlement would unlock £4 billion of new investment in London HRAs, which could support an improvement in standards and unlock capacity for new housing delivery.

51. Additionally, most other countries do not include social housing debt within national debt figures, and we urge the government to consider whether this should be the case in England as well.

Recent announcements welcome but more to be done

52. If confirmed, we support the government's social rent policy of CPI+1% per year over the next 10 years. Rental income certainty is vital to the sector managing its housing stock. However, without further interventions, councils in London will need to make significant reductions in spending on HRA services and programmes.

    - Analysis by Savills forecasts that under a permanent CPI+1% rent scenario, London HRAs would run annual deficits for 19 years without cuts to services, requiring cumulative savings of nearly £900 million over the next two decades.
    - Further interventions, such as adopting the recent recommendation for a Green and Decent Homes fund, could help to address some of this resourcing gap.

53. London Councils supports the flexibilities around the use of Right to Buy receipts announced by the Deputy Prime Minister in July. However, reform must go further. Currently, around 20-25% of the funds generated from a council home sold under Right to Buy goes to the Treasury rather than the local authority. Greater flexibility to retain and spend receipts could help expand much-needed new affordable housing supply.

Jointly solving the problem

54. London local government has a track record of successful delivery on housing outcomes and is anxious to address the challenges facing our housing system by working in partnership with government. We are strongly pro-housing growth and determined to dramatically reduce homelessness whilst delivering on new regulatory responsibilities as local authority landlords.

55. London local authorities have a track record of taking forward initiatives that have improved housing outcomes for residents:

    - By establishing the Inter-Borough Accommodation Agreement, we improved value for money on homelessness spending for more than a decade by sharing information and setting maximum rates on the cost of procurement. By creating Setting the Standard, we worked collaboratively to share property inspection reports and alerted councils to poor quality nightly paid TA.
    - We shared best practice on TA cost effectiveness and procurement, and by working jointly with the G15, supported the Project123 initiative to expand the supply of temporary accommodation.
    - Through the Housing Development Academy, we are upskilling council-led housing delivery teams.
    - Through the Life Off the Streets programme, we worked in partnership with the GLA, national government and other partners to drive systems change that improved London's response to rough sleeping.
    - Supported the radical decarbonisation of London's housing by working collaboratively to establish the Retrofit London programme.

56. We aspire to work jointly with MHCLG and the GLA to:

    - Develop new approaches to systems leadership that tackles our critical housing challenges, including unblocking stalled development sites, ensuring more housing with the right tenures are built in the right places, and taking a first-principles look at how homelessness can be prevented at the source.
    - Continue to upskill council-led development teams and bring councils together to explore strategies to increase council housing supply (particularly utilising changes to Right to Buy policy).
    - Expand delivery through the provision of Affordable Homes Programme funding.
    - Develop and test models to leverage more private investment in housing and infrastructure, including through Opportunity London, a collaboration of the London boroughs and GLA.

Recommendations

57. In the near-term, London Councils is calling on government to work with us to implement the following recommendations to support housing:

Quick Fixes

- Remove the January 2011 cap on LHA payable for TA in Housing Benefit Subsidy, and ensure LHA continues to be uprated in line with market rents.
- End *all* restrictions preventing boroughs from reinvesting 100% of Right to Buy sales receipts in building replacement homes.
- Rollover Rough Sleeping Initiative (RSI) funding for an additional year to avoid a cliff-edge in service provision at the end of 2024-25. This additional year of RSI could also be used to transition to more preventative services and a less fragmented system.

Short-term Funding Needs

- Double the Homelessness Prevention Grant for 2025-26 to stabilise the growing financial crisis in TA.
- Immediately bring forward a new funding settlement for the social housing sector that ensures its long-term sustainability, including:
  - a form of rent catch-up on top of the expected CPI+1% ten-year rent policy, and
  - investment in a new Green and Decent Homes Programme to reduce the capital investment requirements on HRAs.
- Immediately inject additional Affordable Homes Programme (AHP) grant into London to both (i) grow the overall number of affordable homes that can be delivered and (ii) enable more grant to be available per site to improve viability.

Committing to Reforms

- Provide additional funding for council HRAs to support improvements in housing standards and address the critical challenges of fire safety and damp and mould ahead of the post-2026 rent settlement.
- Enable councils to acquire more accommodation sold by private landlords to increase the stock of council housing and TA. The government should build on initiatives such as the Local Authority Housing Fund by providing increased capital investment.
- Issue a revised HRA debt settlement to unlock essential new financial capacity.
- Longer-term certainty to better enable new housing delivery—particularly on complex sites—by enabling the ability to establish longer-term grant funding agreements through the AHP and confirming a ten-year rent settlement for the social housing sector.

3. Driving Economic Growth

58. Investing in housing growth and improvements will also have the added benefit of driving economic growth. Not only does it create jobs, increase local spending and create household wealth, it also removes a barrier to growth given 63% of London businesses in our latest survey cite high housing costs as a barrier to staff recruitment and retention.[1]

59. London boroughs are vital to delivering the sustainable, inclusive economic growth necessary to achieve the government's missions to kickstart economic growth, break down barriers to opportunities and deliver clean energy. Because they know their communities best, local leaders can ensure interventions to support economic growth are well-placed and appropriate.

60. London Councils is working closely with the GLA to develop the London Growth Plan by the end of the year. We expect to share further priorities and recommendations for how London local government can work with national government moving forward to ensure London's economy continues to deliver growth.

London's growth benefits all

61. As a global city, London attracts international capital, talent and corporate headquarters. London's economy accounts for 25% of the total UK output and contributes 21% to the UK's total tax revenue. But growth is not a zero-sum game: every £1 of consumption or investment in the capital generates an additional 24p of production elsewhere in the country.[2]

62. The transition to net zero and use of AI could transform London's economy and drive growth. London's green sector is already worth £48 billion in sales, more than construction and manufacturing combined. London's green economy is expected to nearly double to 505,000 jobs by 2030 and almost quadruple to over a million jobs by 2050.[3] However, this opportunity will only be realised with public and private sector investment in infrastructure and skills alongside a clear regulatory framework.

Barriers to growth must be addressed

63. London faces growth challenges. Productivity growth has stalled and is unevenly distributed across the capital: only four London boroughs have higher labour productivity levels than the London average.[4]

64. Attracting and developing talent is key to London's success but too many employers are experiencing skills shortages: 70% of employers reported at least one skills shortage in our latest survey, and one-third of small businesses cited 'appropriately skilled staff' as their greatest barrier to growth.[5] Apprenticeship starts in London are also low compared to other regions.[6]

[1] https://www.londoncouncils.gov.uk/test-newsroom/2024/2023-london-business-1000-year-7

[2] https://www.london.gov.uk/sites/default/files/lis-evidence-base-final.pdf

[3] https://centrallondonforward.gov.uk/wp-content/uploads/2021/11/Green-Jobs-and-Skills-in-London-Final-Report.pdf

[4] https://www.londonchamber.co.uk/LCCI_Media/LCCI/Media/Reports/London-s-Economy-Summary.pdf

[5] https://www.londoncouncils.gov.uk/test-newsroom/2024/2023-london-business-1000-year-7

[6] https://data.london.gov.uk/blog/why-are-apprenticeships-less-common-in-london-evidence-from-the-employer-skills-survey/

65. Past growth in the capital has not been inclusive and the cost-of-living crisis hit many Londoners hard. As mentioned above, this also negatively affects London businesses with 60% of employers in our latest survey identifying high housing costs as a barrier to recruiting and retaining staff. Low-paid and insecure work are also rising, with those in employment accounting for more than half of all working-age Londoners in poverty.[7]

London boroughs have—and will—deliver growth

66. Despite constrained resources and a fragmented funding landscape, London boroughs continue to deliver opportunities for growth, working locally with London Councils; regionally with Sub-Regional Partnerships and the GLA; and nationally with government. Through these partnerships, boroughs have:

- Delivered more council homes than in any year since the 1970s.
- Delivered complex infrastructure like the Elizabeth Line and Northern Line extension at Battersea Power Station, whilst also delivering on additional local transport improvements to increase active travel and road safety.
- Developed a London Infrastructure Framework identifying a pipeline of strategic infrastructure projects for London with cross-party support.
- Founded Opportunity London to promote London coherently across the public and private sectors to attract investment to the capital.
- Identified a £34 billion pipeline of Net Zero projects across London boroughs and developed a public-private financing model for Net Zero Neighbourhoods.
- Supported more than 35,000 disadvantaged Londoners through delegated employment programmes. Boroughs also supported just under 57,000 Londoners last year through their own non-statutory employment services.
- Invested in a pan-London climate programme, which includes building a net zero neighbourhood cohort, delivering clean energy for London and retrofitting its housing stock.
- Delivered more than 15,000 electric vehicle charge points and will more than double this with the Local EV Infrastructure Fund in London.

67. These accomplishments have been realised in spite of short-term, inflexible and fragmented funding to support economic growth. London boroughs spend too many resources bidding for and knitting together disparate funding pots. We are hopeful government will deliver on its stated intentions to simplify the funding landscape and consolidate funding streams.

Devolution unlocks growth

68. The Centre for Cities makes a strong case the UK’s economy could be nearly £50 billion larger if cities had more powers and funding to perform at their full potential. According to its research,

[7] https://trustforlondon.org.uk/data/topics/work-worklessness-and-benefits/?tab=employment-rate-over-time-in-poverty

the UK's major cities outside of London are not matching the productivity levels seen in similarly situated cities in other countries such as Munich, Milan and Brussels.[8]

69. Unlike large cities in other countries like Germany, France and the United States, UK cities do not become more productive as they grow in population.[9] Furthermore, the South East benefits from spillover prosperity from London, but the UK's other major cities' underproductivity means other regions and towns are not benefitting from similar positive spillover effects.

70. Unleashing our cities and local authorities would be a simple and effective way to grow all regions in the UK. For the UK's economy to grow, its largest cities need to become more productive. City size and productivity is linked through learning, sharing of infrastructure and access to transportation, all of which can be improved with functional—and fiscal—devolution.

71. There are fewer opportunities for policy and programme innovations when local authorities do not have the ability to fund new ideas. Agile and available funding, along with functional powers, allow more ideas to be tried on a smaller scale with successful ideas then being replicated and scaled up.

72. The 2022 Commission on the UK's Future report, led by former Prime Minister Gordon Brown, indicated a strong preference for devolution recommending that "local government should be given more capacity to generate its own revenue with new fiscal powers".[10] A follow-up speech by then Leader of the Opposition, Keir Starmer, indicated intentions to "devolve new powers over employment support, transport, energy, climate change, housing, culture, childcare provision and how councils run their finances".

73. As a starting point, London government should be offered the same opportunities as the 'trailblazer' areas in Greater Manchester and the West Midlands: a single departmental-style settlement and 100% retention of business rates growth, both of which would provide more certainty over funding for activities that drive growth. As demonstrated in the 2018/19 and 2019/20 pan-London business rates pilots, greater retention of business rates growth sharpens the incentive to grow the business rate taxbase in the capital.

Recommendations

74. In the near-term, London Councils is calling on government to work with us to implement the following recommendations to support economic growth:

Quick Fixes

- Maintain the Autumn 2024 start date for the proposed Universal Support programme which will increase the number of economically inactive and unemployed Londoners moving into employment. This programme should remain fully devolved to sub-regional partnerships.

[8] https://www.centreforcities.org/wp-content/uploads/2020/02/Why-big-cities-are-crucial-to-levelling-up.pdf
[9] Ibid.
[10] https://labour.org.uk/wp-content/uploads/2022/12/Commission-on-the-UKs-Future.pdf

- Extend UKSPF for another financial year into 2025/26 at current funding levels and allow authorities to bring forward any UKSPF underspend into that extended year.

- As a starting point for devolution, commit to providing London with the same devolution offers as the trailblazer areas: a single departmental-style settlement for London and 100% retention of business rates growth.
- Commit to a more ambitious devolution deal for skills and employment for London.

Short-term Funding Needs

- Fund the Social Housing Decarbonisation Fund - Wave 3 and launch it in 2024 to provide confidence to the supply chain.

Committing to Reforms

- Devolve vehicle excise duty to London to fund desperately needed maintenance to London's highways, roads, footways, bridges, cycleways, drainage, street trees and lighting. It is critical to address these needs early and proactively rather than suffer the negative economic impacts of failing infrastructure.
- Devolve the Apprenticeship Levy to London boroughs and the GLA. The current centrally determined restrictions mean it is not being used effectively and could be better used to fund wider skills and employment activity.
- Create a new tourism levy, devolved to London boroughs and the GLA. Levies would be hypothecated to be spent on the costs rising from being a tourist destination (e.g. street cleaning or transport infrastructure) and used to promote and support tourism activities.
- Commit a portion of funding from Great British Energy to London to boost the community and grid resilience needed to underpin London's growth. The Zone Coordination function created by the Energy Act 2023 must be effectively resourced to unlock the growth opportunity of heat networks and deliver low-cost heat for residents.
- Support the next generation of major infrastructure projects to drive the transition to net zero and enable London to compete as a global city. This requires short- and long-term commitments from government:
    - For example, the DLR extension to Thamesmead, West London Orbital and Bakerloo line upgrade and extension could unlock 110,000 homes while supporting key employment centres and generating over 100,000 jobs.
    - Commit to developing a 10-year infrastructure plan, with a goal of securing funding for the first 3-5 years.
    - Provide public sector financing support to heat network development in London to unlock low carbon growth whilst protecting long-term public value.

4. Investing in Prevention

75. Better value from public spending can be created by focusing on prevention and providing strong place leadership to join-up local public services. London needs investment in preventative-style services to ensure positive long-term outcomes that improve mental and physical health, deliver access to better education and employment opportunities and, more broadly, support sustainable and inclusive growth.

76. Empowering and encouraging residents to access early help can reduce demand for more costly services in the future. A significant portion of the growing costs in social care and health spending is due to a small amount of high-cost individuals who require specialised care. Investing early to prevent people from reaching this stage is a worthwhile commitment and will pay dividends in the future.

77. Our health and care services are facing pressures on many fronts. Although the financial climate in which health and care services operate is stressed, London has a good foundation on which to build, and early support will help leverage private and philanthropic investment in the capital.

78. The issues for which government can support London authorities in the short-term are best categorised into four areas: support for children, support for adults, support for asylum-seekers and investing in public health.

Support for children

79. As recognised in the government's missions, children deserve the best start in life. Improvements in early years education, supporting children with additional needs, and investing in key social, economic and environmental areas will positively shape families' health and lives and ensure place-based preventative approaches deliver long-term results, including saving the public purse in the long run.

80. **Early years and childcare:** High-quality early years education supports children's long-term development, improves school readiness and provides childcare for working families. Some of London's challenges in this area include: low take-up of the entitlement for disadvantaged two-year olds; fluctuating demand issues due to a falling birth rate; and simply having the most expensive childcare in the country, a significant barrier to employment for some parents who would prefer to be able to work instead of provide their own childcare.

81. **Schools and special educational needs and disabilities (SEND):** A decrease in standards that prevent children from achieving their full potential and creates poorer outcomes later in life becomes more likely with the issues London faces: falling school rolls, schools in deficit, schools with little financial resilience and local authorities who cannot fund their Dedicated Schools Grant deficits any longer. Additionally, there is a need to grow specialist provision to support the rising number of children whose needs cannot currently be met within mainstream schools. Many children in London travel lengthy distances to access good specialist provision, which is often more costly than local provision.

82. **Placements for looked-after children:** Placement costs are continuing to increase for all looked-after children, particularly those with complex needs. Recent analysis of London's

placements in local authorities revealed 28% of the placement budget is spent on only 3% of the cohort. Furthermore, these children's needs correlate with the Nuffield categories of 'complex' and 'exploitation' and analysis suggests the costs to meet these children's needs are disproportionately falling on social care. Within this cohort are some of London's most vulnerable children who require specialist residential care in a secure children's home. However, due to a severe lack of secure provision nationally and with no provision at all in London, many of these children have not been able to access the specialist care they need. Not only does this impact negatively on the outcomes for these children, it means local authorities are left with no option but to use excessively high-cost alternatives which are often not designed to meet the needs of these vulnerable children.

Support for adults

83. Adult social care is the largest area of spend for London boroughs. Successive failures of national government to reform social care funding has led to short-term funding without strategic intent. The pressures of an ageing population; growing complexity of need, especially for working age adults; the 'fair cost of care' exercise and its impact on expectations of the market; and 30-year high inflation resulted in London boroughs collectively overspending their adult social care budgets by £200 million in 2023-24.

84. Recent attempts to address workforce gaps by enabling international recruitment through an employer licensing scheme has resulted in a huge number of people coming into the region on specialist visas, who are now waiting for support to find new employment because their employer's licence has been revoked. The level of funding from the DHSC is not adequate for supporting more than 6,000 individuals.

85. Additionally, this funding does not help local government address productivity and retention challenges similar to that seen in NHS support roles. These issues are well documented in the 2013 Cavendish review and the recent report '10 years on' finds many of the lessons from the review have still not been learned.

86. Adult social care plays a crucial role in preventing, reducing and delaying the need for more formal care and support, and boroughs could do more with the right resources. This includes supporting prevention at a population health level but also targeted prevention which helps people to live a good life independently for longer.

Support for asylum-seekers

87. London boroughs have welcomed the arrival of asylum-seekers and refugees from around the world and have provided wraparound and integration support to refugee arrivals under various schemes. However, boroughs are experiencing disproportionate and cumulative pressures from this activity which feed into rising demand for other service areas like homelessness, adult social care and children's services.

88. Asylum-seekers are increasingly awaiting and receiving decisions on their status in hotels, as opposed to dispersed accommodation, meaning there is limited funding for boroughs to support those receiving refugee status in the 28-day move-on period.

89. Additionally, the 2023 Illegal Migration Act and the 2022 Nationality and Borders Act create legal uncertainty for local authorities in respect of their duties of care to unaccompanied children.

Investing in public health

90. The value of local public health services was demonstrated during the Covid-19 pandemic. Since public health was transferred to local government in 2014, funding has been severely constrained despite rises in demand for services, rising inflation and pay increases for staff. Had funding risen in line with the NHS budget, London boroughs would receive around £420 million more in 2024-25 than they received. As a crucial part of the wider health and care system, this makes no sense. Without reinvestment, London government cannot deliver on its ambitions for the preventative services our diverse population needs.

91. The health and care system changes set out in the 2022 Health and Social Care Act, as well as the pre-existing legal framework, offer the building blocks for a place-based prevention mission. Within this mission, we can: make the best use of public resources by showing place leadership to join up local public services; strengthen wrap-around services for people and families most at risk; drive the use of data, technology and innovation to enhance wellbeing in communities; and enable and empower residents to access early help to reduce demand for costly acute services.

Recommendations

92. In the near-term, London Councils is calling on government to work with us to implement the following recommendations and invest in preventative solutions:

Quick Fixes

<u>Children's services:</u>

- Ensure the existing pan-London secure children's home project, funded by the Department for Education, continues to move forward so this much-needed provision can be delivered as soon as possible.
- Maintain the local government minimum 5% top slice from the Early Years Block of the DSG to allow it to continue to play its crucial systems leadership role.
- Work in partnership with London boroughs and early years providers to simplify arrangements for entitlements, create greater flexibility of approaches and support an increase of take up of entitlements.
- Empower local authorities to open their own special schools, which they used to be able to do, without going through the lengthy free school route. By owning the provision, this would help local authorities oversee outcomes and ensure costs are kept down.

<u>Asylum-seekers:</u>

- Extend the move-on period to 56 days. Invest in immigration advice, wraparound services and move-on support.
- Support local authorities' duties to unaccompanied asylum-seeking children.
- Improve data sharing with local authorities. Data sharing is a key concern for London boroughs, and we welcome continued dialogue with government to find ways forward.

Short-term Funding Needs

- Follow through on the previous government's announcement to issue capital for children's homes. Funding these capital needs enable local authorities to develop new local provision and bring down the cost of specialised care.
- Implement the recommendation of the independent Hewitt Review of Integrated Care Systems: "the share of total NHS budgets at ICS level going towards prevention should be increased by at least 1% over the next five years".

Committing to Reforms

- Commit to cross-party agreement on a roadmap for wholesale social care reform. The Fabian Society's report identifies ten building blocks, many of which align to the ADASS Time to Act roadmap, that can provide a good starting place.
- Commit to working with Skills for Care to develop a comprehensive implementation plan for their newly published 'A Workforce Strategy for Adult Social Care in England'.
- Commit to supporting local authorities, through appropriate resources and powers, to better manage school placements and capacities at the local level, and to preserve school estates for educational purposes following closures.

5. Improving Assurance and Regulation

93. The level of regulation facing local authorities has grown steadily in the last decade and is now overly complex, lacks coordination and comes with a significant unrecognised financial cost.

94. The wider assurance regime within local government is in need of broad reform. Along with greater clarity over the role of Oflog and plans for more fundamental reform of local audit, we urge the government to use the Budget/Spending Round to commit to addressing the growing financial costs of regulation, simplify the growing local inspection regimes and deliver a clearer, more targeted approach to intervention. Together, these interventions support existing sector-led improvement activities and will reduce the overall cost to the public purse.

Simplify local government regulation

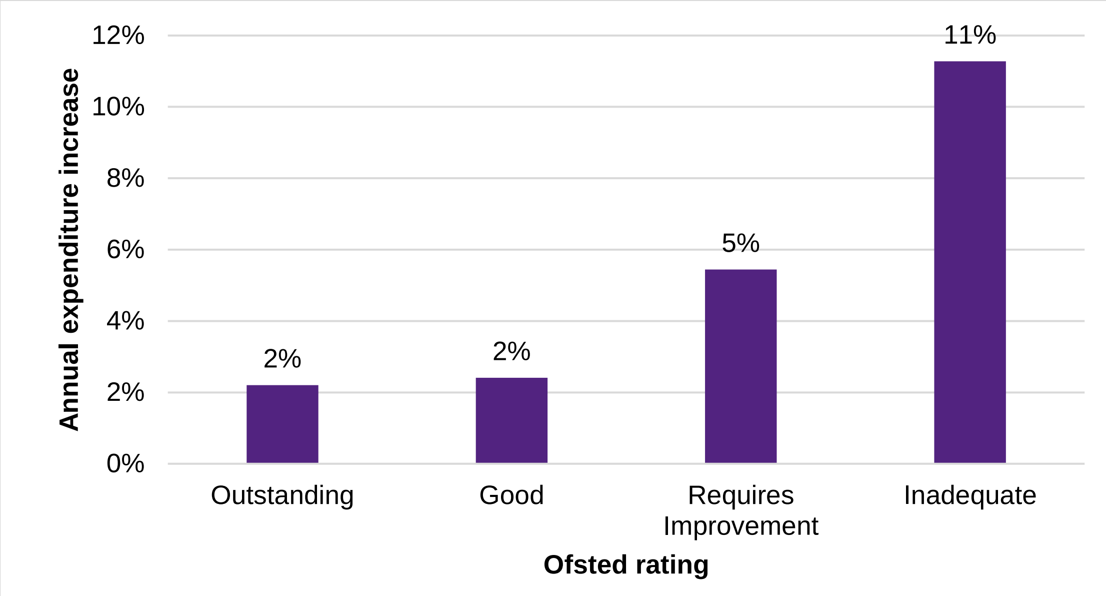
95. The launch of Oflog in July 2023 and a strengthening of other regulatory bodies means local authorities are now subject to a level of inspection and scrutiny not seen since the abolition of the Audit Commission. It is unclear if and how the different regulators interact with each other. In London, one borough had three different regulatory reviews within the span of a few weeks, and there are implications for local authorities' capacity if they become subject to multiple inspections or improvement plans from different bodies.

96. The heightened financial and service pressures facing the sector have also led to greater government intervention. Chart 3 above demonstrated the complex variety of different interventions by government departments. While we support steps to improve standards and accountability across key services, it must be recognised that meeting the growing requirements of regulation comes at a financial cost.

Government investment must follow regulation

97. Not only is there an administrative cost of accommodating the requirements of different inspection regimes, there is a cost that comes with addressing poor inspection results. London Councils' analysis of Ofsted judgements from 2014-15 to 2022-23 indicates spending on children's social care increased by four times more in authorities judged as inadequate than those judged as outstanding in the year of an Ofsted inspection, and by more than five times more in the year following an inspection (see Chart 5).

Chart 5 - Average annual change in children's social care expenditure the year following an Ofsted judgement, grouped by rating for English upper tier authorities – 2014-15 to 2022-23



Source: London Councils' analysis of Ofsted data and MHLCG revenue outturns.

98. This inflationary effect is likely to continue as the more stringent inspection regimes in adult social care and housing are rolled out. If the intention is to invest to improve failing services, this must be openly recognised by the government and sufficient additional funding provided in the budget. At the very least, there needs to be greater transparency about how much funding within Core Spending Power has been provided to support improvement as distinct from that which is provided to meet service demand and inflation.

How Oflog can support local government

99. We support Oflog's goal of trying to spot and address early warning signs of a local authority getting into difficulty. However, we are concerned about the approach taken to date which has led to the ranking of councils and labelling some as poor performers without context or acknowledgment of local differences in pressures, priorities and democratic choices.

100. Responsibility for local area performance is often laid solely at the feet of local councils, when in reality, the authority to remedy problems or fund services adequately is held tightly by national government. **It is simply unfair – local authorities cannot bear sole responsibility for council performance when they do not hold the requisite authority or power to address the issues.**

101. Overall, assurance within local government largely works well, and most authorities are effectively run organisations. However, the growing financial and service pressures and rising complexity in regulation mean there is a valid role for Oflog (or a successor body) to add real value to local government assurance.

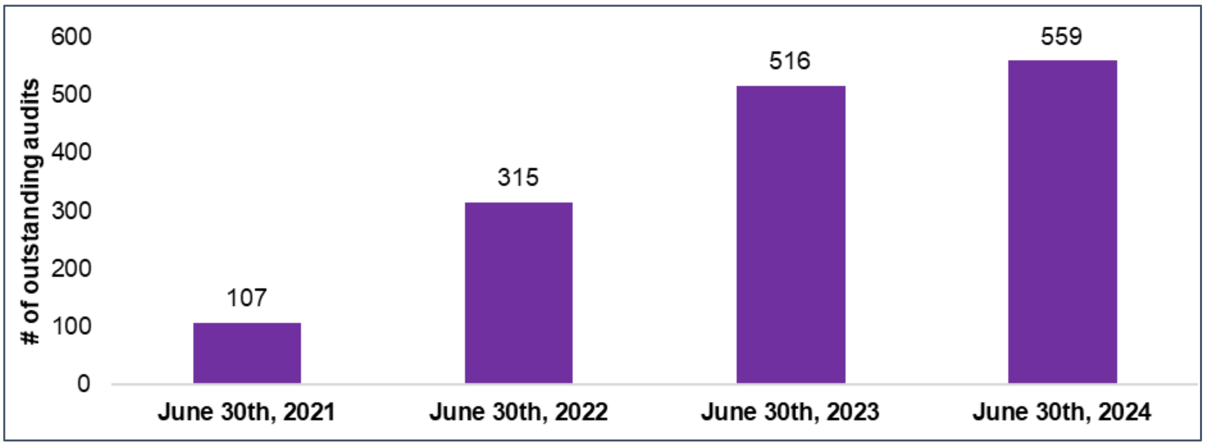
102. We urge the government to use the Spending Review to commit to reforming Oflog so it can:

- **Be truly independent from central government**, ensuring it has the trust of the sector. Local authorities must have confidence that information being monitored and collected will not be used for purposes other than to support improvement and prevent failure.
- **Act as a neutral arbiter that can speak to the reality of the pressures and challenges facing the sector that result from national government decisions**, which can call out bad management early but also highlight genuine funding and policy pressures that result in poor delivery and outcomes.
- **Take an overview across all the local government regulatory agencies** to understand the context within which councils are operating.
- **Play a coordination role** to ensure a more manageable burden on authorities being inspected by multiple agencies.
- **Use timely data, information and intelligence** to identify potential risks of organisational failure before they occur, including contextual data from central government and other public bodies.
- **Strengthen sector-led improvement** by learning from and supporting the sector's existing assurance and improvement frameworks.

Fixing local audit

103. The bedrock of any well-functioning assurance regime is reliable data and information. A pre-requisite for this is up-to-date audited accounts. There have been significant delays in the conclusion of audits in local government for several years. Despite the government implementing several measures, the local audit backlog continues to increase with up to 1,000 outstanding audits expected by the end of this financial year.

Chart 6 - Growing number of outstanding local government audits



Source: PSAA

104. We welcome the government's proposed approach to addressing the backlog through a series of backstop dates over the next four years. However, while this may help to clear the existing backlog, the solution is far from ideal, with a significant number of qualified audit opinions likely in the next two years. London Councils is concerned the backstop proposals do not address the numerous underlying structural problems with the wider audit system. These include:

- Low value contracts and auditors not seeing the value in local government audit, particularly compared to other public sector entities (e.g. NHS) or the private sector.
- Lack of audit capacity and the exit of audit companies from the local government audit system.
- Reduced capacity in local authorities to finalise financial statements because of workforce development challenges and decades of cuts to back-office services.
- Overly complex accounts with a disproportionate focus on areas that do not reflect local authority performance (e.g. asset valuations).
- A lack of effective recourse within audit contracts if audit firms do not deliver.

105. We would therefore like to work with the government to deliver more fundamental structural reform of local audit, including improving the contracting process (potentially, increasing the value of the audit contracts); improving oversight and local accountability of audit firms; ensuring councils have the workforce capacity and skills to deliver timely accounts; and simplifying local authority accounts to ensure they can be understood by the public and are more proportionate in their focus on items most relevant to local authority performance.

Recommendations

106. In the near-term, London Councils is calling on government to work with us to implement the following recommendations to provide assurance to local government stakeholders:

Quick Fixes

- Make Oflog independent of government, so it can fill the space between sector-led improvement and government intervention.

Short-term Funding Needs

- Recognise the growing costs of regulation with specific identified funding in the Spending Round.

Committing to Reforms

- Commit to reviewing and simplifying the regulatory framework for local public services.
- Commit to further reforming Oflog including giving it an oversight and coordinating role across all local government regulatory agencies.
- Set out plans for more fundamental structural reform of local audit.