Central London Forward

Inquiry: The Spending Review and Local Government Finance - Representation to Housing, Communities and Local Government Committee from Central London Forward

Who we are:

Central London Forward (CLF) is the strategic sub-regional partnership for central London, covering the local authorities of Camden, the City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

Central London is a critical part of the national economy. The 12 boroughs host around one in 10 of the country's jobs. Central London's net contribution to the UK's tax base helps to pay for vital public services across the country. But inequality is pervasive and there are 2.3 million people living in poverty in the capital. Central London remains one of the most economically impacted parts of the country by COVID-19.

Our goal is to improve the lives of residents by working together to drive inclusive growth within central London to ensure they can access the skills, jobs, homes and support required to benefit from our dynamic economy. We do this through our policy research, lobbying activities and employment programmes. Our work is outlined in further detail in our Skills and Inclusive Growth Strategies, as well as our more recent submission to the Comprehensive Spending Review.

This response is a high-level submission from CLF which focuses on areas which central London has a clear collective strategic voice. CLF would be happy to work with the Housing, Communities and Local Government Committee to provide more detailed written or oral evidence from our members.

Introduction:

The unprecedented challenges brought about by COVID-19 present a unique opportunity to deliver meaningful reform to local government finance and create a sustainable and workable system for local authorities in central London. The Spending Review, Fundamental Review of Business Rates and Fair Funding Review will all have implications on local government finance and should be considered holistically and as an opportunity to consider wider fiscal reform and greater devolution.

CLF boroughs have previously called for local authorities to have a greater role in setting and directing a suite of taxes at a local level and we have welcomed the government's stated objective for 100% of business rates to be retained locally. Compared with other developed countries, the UK is an outlier in the level of tax raised and spent locally (Communities and Local Government Committee, 2014).

We recognise that central London's economic success means that in any model of fiscal devolution it is right that wealth generated within the capital is used in part to support service delivery elsewhere in the country. Diversification of revenue streams and greater control over local taxes would not only continue this contribution to a thriving and secure UK economy, but will also provide local authorities with much needed stability and ability to better shape services to suit local needs.

We feel strongly that that a system is needed which prioritises the following:

- Recognising the expertise, experience and democratic accountability of the boroughs within London governance
- The positive role of central London in supporting and building an inclusive recovery in the country as a whole
- Creating an inclusive and fairer economy that builds on the talents and skills of all our residents.

The CLF boroughs are committed to working with national government to create a system of local government finance that:

- Recognises that inequality exists within regions as well as between them
- Gives local councils the power to become fiscally sustainable in a way in which supports and shapes the development of inclusive economies.

The CLF boroughs have identified the following priorities for fiscal reform:

- Respond to the financial pressures due to COVID-19 by ending the financial deficit and provide local authorities with clarity over funding for the next year.
- Immediately open consultations with local government regarding the detail of the Fair Funding Review, providing clear worked examples of what proposals mean in practice.
  - This should include aligning the Fair Funding Review with the government's commitment to devolution and sustainable independent local government.
- Increase the fiscal powers available to local government to shape and fund effective local services.
  - Reform the business rates system, including consideration of a hybrid approach with an Online Sales Tax.
- Review the financial support for homelessness in the capital.
  - Increase overall funding for homelessness services and simplify the way that councils plan for the delivery of homelessness services by reducing the number of ringfenced funds.

Impact of COVID-19 on fiscal resilience

Reductions in local authority budgets over recent years are contributing to difficulties in addressing local needs. From 2010 core funding from central government decreased by 63% (London Councils, 2018). London boroughs per head budgets have decreased by nearly a fifth over the last eight years, with inner London boroughs hit the hardest. Local authorities including Hackney, Tower Hamlets, Wandsworth and Westminster have seen per capita cuts of 25% and above (Centre for London, 2019).

Budgets in every principal service area for London boroughs have declined, with the exception of children's social care. Between 2010/11 and 2018/19, planning and development services budgets saw the biggest per capita decline at 59 per cent, followed by highways and transport at 54 per cent (Centre for London, 2019).

This is coupled with a rise in population by 14% in inner London[1] resulting in 453,400 additional residents accessing borough services. This is more than double the rate of growth across the rest of England (5.5%). This reduction in funding and rising demand has created significant pressure on local government services. Government plans published in March 2020 would have introduced a 10% rise in public service spending between 2019-2020 and 2023-24. This would have reversed two-thirds of the last decade's cuts to per-person public service spending (IFS, 2020).

However the coronavirus pandemic has rendered these plans obsolete and created new and unplanned for financial strain on local government. COVID-19 has exacerbated existing financial concerns for local government and is now presenting additional challenges which test the financial resilience of boroughs in central London and beyond. Boroughs in London are in a deficit of £1.4b in funding due to COVID-19 (London Councils, 2020).

Responding to the additional pressures caused by COVID-19

The virus has increased costs including - expenditure on PPE, uplifts in fees for care homes and providing emergency accommodation. It has also led to a range of expensive new responsibilities such as distributing significant financial support to businesses, and local outbreak management. The growing social and labour market crisis is expected to increase demand for a range of public services including social care, employment and housing services. These pressures will continue under the recently announced Tier 2 restrictions. The economic crisis has hit local authority revenue from taxpayers, service users and commercial and investment activities.

Changes in behaviour due to increased restrictions on social activity has also impacted on revenue. Less frequent mobility throughout boroughs and town centres has reduced income from car parks, leisure centres and difficulties in collecting business rates and rent from investment and property development. Around half of the estimated lost income for London boroughs (£558m) comes from sales, fees & charges, commercial and other income and around half (£572m) comes from council tax, business rates and the HRA (London Councils, July 2020).

These challenges may continue in the long-term if the changes in behaviour become more permanent, for example continued home working and reduced international tourism. As local authorities have become increasingly reliant on local taxes for revenues, this would mean that councils could see more permanent reductions in their revenues in part. Council tax paid by local residents makes up almost half of revenues – up from just over a third in 2009–10 – and retained business rates account for 30%, up from nothing (IFS, 2020).

The additional funding received from central government has been essential to enable councils to be more agile in their response to the health and economic crises. However, this financial support has not been sufficient to cover the lost income and additional spending required throughout the pandemic. Camden Council estimates it has incurred a budget pressure of £55m. Government grants and support to date only reduce this by £22.9m meaning the council is facing a deficit of £32.5m (Camden Council, 2020).

Case study: London Borough of Islington

Islington Council estimates the total combination of income losses and additional costs before lockdown came to £59m and the borough had received approximately £27.5m in government financial support. Although it is anticipated that more financial support would

[1] Inner London is defined as including the CLF geography and the London boroughs of Newham and Hammersmith and Fulham.

be received by central government, this still leaves a significant deficit in the borough's finances.

Additional expenditure has been in the following areas:
- £2m spent on PPE both for local authority and adult social care providers
- £2m spent on IT projects to invest in home working
- Lost £2m not able to be delivered in planned savings due to COVID-19
- £6m extra on managing hospital discharges from adult social care

Income losses have been in the following areas:
- £10m on parking expenditure
- £4.5 from leisure centres
- £500,000 from events e.g. hiring of parks
- £2m from loss of services e.g. commercial waste, highways, pest control, street markets
- £2.8 from lost nursery fees
- £2.5 housing rent arrears
- £1.6m from registrars' income

To facilitate a transition from reactive operation to forward planning local authorities need to secure their immediate financial position through compensation for the financial impact of the pandemic to date, including support for lost council tax and business rates.

Clarity and greater partnership working from central government on its long-term economic and fiscal response to the pandemic is essential to help local authorities understand their position and the effects on funding. Councils are making budget decisions now but with current levels of uncertainty it is challenging to ensure any fiscal decisions made will be sufficient to meet the needs of local communities in the long term.

- **Recommendation:** Provide a financial settlement to reduce the pressure on local government, enable long-term budget planning, and help to balance the financial deficit caused by the pandemic.

Beyond COVID-19: Working with local government to develop a model of independent, sustainable local government finance

The government's Fair Funding Review, Fundamental Review of Business Rates, and Devolution White Paper will have significant impacts on local government finances and funding revenue. Collaboration with local authorities on these policy proposals will be crucial to ensure any decisions made and impact as a result will be beneficial for central London's communities and local economy.

- **Recommendation:** Central government should work with local authorities in central London on any reforms to the current local government finance system.

1. Fair Funding Review

CLF welcomed the decision of the Secretary of State Robert Jenrick to delay the implementation of the Fair Funding Review (FFR) to April 2022. This delay must be accompanied by a commitment from the Government to work with local government to open the consultation and create a FFR designed to support inclusive recovery. This is even more important considering the increased pressures due to COVID-19 and long term and significant changes to the role of local government in supporting our residents and business in these unprecedented times. We would welcome a recommitment from the government regarding their intentions for the Fair Funding Review and the consultation process.

CLF had several concerns over key aspects of the FFR proposals set out prior to the pandemic. The challenge in delivering effective local services and supporting central London's economy have increased as a result of COVID-19 and we strongly encourage Government to look again at all aspects of local government funding.

- **Recommendation:** Immediately open further consultations prior to the formal consultation with local government regarding the detail of the Fair Funding Review, providing clear worked examples of what proposals mean in practice.
- **Recommendation:** As a minimum, guarantee that no Council will lose out financially, in real terms, as a result of the FFR.
- **Recommendation:** Work with London government to reconsider the role of deprivation, population density and housing costs in the funding formula. This should include consulting on detailed worked examples which include and exclude these metrics. This is particularly pressing for central London given the disproportionate impact of COVID-19 on our businesses and communities.
- **Recommendation:** Align the Fair Funding Review with the government's commitment to devolution and sustainable independent local government. This should include aligning the planned reforms of business rates and the Devolution White Paper with the wider reforms to local government finance. This should take into consideration the devolution of a suite of revenue raising powers to local government, with local areas given controls over how they are applied. CLF are keen to work with government and other stakeholders to explore potential next steps.

2. Enabling greater fiscal independence for local government

Opening fresh consultation on the FFR is a key step towards creating an equitable and sustainable model of local government finance which can meet this government's ambition to build a 'powerhouse economy' and create a long term and sustainable recovery.

CLF supports the government's commitment to levelling up the UK. Investment in infrastructure in the Midlands and the North, and work to tackle regional imbalances, helps everyone and will be a cornerstone of any economic plan post-COVID-19. As such, we recognise that central London's economic success means that in any model of fiscal devolution it is right that wealth generated within the capital is used in part to support service delivery elsewhere in the country. A thriving and secure UK economy is key to London's continued financial prosperity.

But the Government's ambition can and must include 'levelling up' London – supporting our economic recovery and tackling the real and persistent inequalities that are holding back too many of our residents and businesses. Giving all local authorities the fiscal powers to shape and fund effective services and tackle the often locally specific drivers of inequality must be a part of this.

We welcome the government's commitment to produce an English Devolution White Paper, as well as undertaking a Fundamental Review of Business Rates. This should be used as an opportunity to take a practical and systematic look at how local government in England is funded. Business rates and council tax – increasingly the primary revenue streams for local government - are flawed and unsustainable as the basis for local government finance.

We look forward to working with central government to develop an active partnership approach to ongoing reforms of the system. Careful consideration must be given to alternative forms of tax and widening the existing tax yield as outlined in our submission to the Fundamental Review of Business Rates.

- **Recommendation:** Use the English Devolution White Paper and the Fundamental Review of Business Rates to increase the revenue raising powers available to local government. This should include consideration of an Online Sales Tax, as described below.
- **Recommendation:** CLF and its member boroughs would welcome discussion with government on a range of fiscal tools and revenue raising powers, including consideration of an Online Sales Tax and an Overnight Stay Levy.

3. Reform of the Business Rates system: Online Sales Tax

Key to creating more sustainable local government finance is moving away from a model based primarily on council tax and business rates. CLF believes that we should be exploring a range of options to do this, including potential consideration of an Online Sales Tax (OST)as proposed in the Treasury's Business Rates Review Call for Evidence. A hybrid approach – of business rates and an OST acting as key factors in local government finance– should be considered. We remain cautious however of introducing new taxes during a pandemic and would oppose any action which increases the tax burden for businesses and could hinder business recovery. We would advise a sensitive and fully consultative approach.

Bringing the tax system in line with changing trends in spending

High street and other brick-and-mortar retail and commercial properties are experiencing structural change with changing consumers trends and rising costs. At a time when businesses need to invest in innovation and adaptation in response to these longer-term threats to the high street, they face fierce competition from online provision. This trend increased during the COVID-19 national and local lockdowns. During the first national lockdown online retail sales accounted for over 30% of total retail sales for the first time (ONS, 2020).

Online retailers often pay significantly reduced business rates due to the high proportion of their estates being made upon light industrial or warehouse space which has a much lower rateable value. In Inner London[1] retail space has an average rateable value of £298 per sqm compared to £94 per sqm for industrial space (including warehouses) (VOA, 2020). An OST could help bring the tax system up to date and in line with trends in consumer and commercial spending.

It could also help shift local government finance to a more sustainable footing. The current fiscal model is under considerable stress and a broader range of taxes is required to ensure that local government can continue to deliver effective services for our residences and build

[1] Inner London is defined here as including the CLF member boroughs as well as Hammersmith and Fulham and Newham.

back better. Revenue raised through an OST could be an important part of this diversification of income.

Research carried out by Arup commissioned by Westminster City Council estimates the total raised by an OST nationally at a 2 percent rate would be about £1.4 bn in 2019/20. To make this a viable revenue stream for local authorities we would like to work with central government to develop a proportionate return for boroughs which is aligned with the business rates system.

- **Recommendation:** Undertake a full consultation process with local government and potential rate payers on a hybrid OST and business rates system. This would seek to broaden and diversify the income base for local government and create a system which reflects the needs of different local communities and enables investment to grow local economies. This should be undertaken as part of a wider review of business rates reform, existing taxation systems and commercial property structure.

4. Financial support for homelessness in the capital

London also faces unique challenges that disproportionately effect the capital compared to other parts of the country. Homelessness is a key and mounting issue in London. London has 57,000 households in temporary accommodation including an estimated 88,000 children. Seventy per cent of England's households in temporary accommodation arranged by the local council are Londoners (Trust for London, 2017). London boroughs spend an additional £200 million each year beyond the specific grant funding available. Although we do not have exact statistics on how much central London boroughs spend compared to outer London ones, it is likely to be higher. 66% of all rough sleepers were in the Central London Forward area in 2018/19, with 27% in Westminster alone (St Mungo’s, 2019). All these issues are anticipated to increase dramatically over the coming months as the Job Retention Scheme and the ban on evictions come to an end.

- **Recommendation:** We ask the Government to address four key issues:
    - To increase overall funding for homelessness services to meet the true costs of the Homelessness Reduction Act 2017 and account for an anticipated rise in need over the coming months.
    - To deliver a significant increase to the Flexible Homelessness Support Grant, explicitly recognising the higher costs of temporary accommodation in London
    - To simplify the way that councils can plan for the delivery of homelessness services by reducing the number of ringfenced funds. Councils are best placed to deliver these services in a strategic way, and do not need dedicated pots.
    - To continue the commitment to address wider social care funding and to finalise and release the green paper on social care as soon as possible.