Reforming Local Government Finance – Central London Forward position paper

Who we are

Central London Forward (CLF) is a partnership of the 12 central London local authorities. We cover Camden, City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

We work together with our member authorities and with other stakeholders to support inclusive and sustainable growth in central London; so that our economy thrives, and our residents benefit from the opportunities this creates. CLF supports coordination and collaboration across the sub-region, we conduct research and help shape policy development, and we manage large-scale employment and skills programmes in central London.

Executive Summary

Local authorities play a vital role in delivering high quality local services, supporting communities, driving inclusive growth and, as COVID-19 has demonstrated, helping build resilience to external shocks.

However local authorities in central London were already facing acute funding pressure before the pandemic. The 12 central London boroughs that make up Central London Forward (CLF) saw a decline in settlement funding of £626m in real terms, or 33% between 2015/16 and 2021/2022. At the same time the local population and demand for services have increased.

As we emerge from the pandemic national government must ensure the local government funding system is sufficient and sustainable. This paper sets out CLF's priorities for reform of local government finance in the following areas:

1. Financial settlements and the Fair Funding Review

- Government should update the FFR to reflect the post-pandemic context, and undertake a full, transparent and inclusive consultation on the updated plans.
- As part of the commitment to levelling up, no local authority should see a real terms reduction in funding as a result of the FFR.
- Local authorities should be given a multi-year settlement from 2023/24 to ensure stability and certainty, allowing them to plan and budget effectively.
- Government should work with London boroughs to reconsider the role of deprivation, population density and housing costs in the Foundation Formula.
- Government should work with ONS and local authorities to ensure the temporary pandemic-related migration patterns that will impact the 2021 census count do not lead to under-funding of local authorities in central London.
- Financial pressures on urban local authorities should be recognised by:
    - Increasing overall funding for homelessness services to meet the true costs of the Homelessness Reduction Act 2017 and account for rises in need.
    - Delivering a significant increase to the Flexible Homelessness Support Grant and explicitly recognising the higher costs of temporary accommodation in London.

- Simplifying the way that councils can plan for the delivery of homelessness services by reducing the number of ringfenced funds.

2. Business rates and Council Tax

- The business rates system is increasingly unsustainable for both businesses and local authorities. The Fundamental Review of Business Rates should reform the system to ensure fairness and stability for businesses and certainty for local authorities. CLF recommends that the government should:
    - Provide clarity over plans set out in the 2018/19 Local Government Finance Settlement for increased business rate retention.
    - Implement 3-yearly revaluations as part of a move towards annual revaluations in order to reduce uncertainty and ensure rates reflect economic conditions.
    - Include business rates legislative updates in Finance Bills.
- Local authorities are increasingly reliant on council tax for revenue, but the current system is regressive, hitting low income working families hardest. We would like to work with central government to discuss how we can make the system fairer and more sustainable, including;
    - Consider reforming council tax to align with current property values.
    - Consult on giving local authorities the flexibility to amend council tax bands and to add additional bands for higher value properties in order to raise revenue in a fairer way.
    - Work with local government to explore a long-term funding solution for local social care services.
    - Ensure that the cost of new duties, including the duty to arrange care for self-funders, is met within the Spending Review.

3. Local taxes and charges

- Local authorities should be given greater flexibility over the use of income from sales, fees and charges through the removal of existing restrictions.
- London should be allowed to retain a portion of Vehicle Excise Duty funding to fund road maintenance and form part of a sustainable transport funding model.
- Proposals to replace the Community Infrastructure Levy (CIL) and Section 106 (S106) planning obligations with a National Infrastructure Levy could be severely detrimental to central London boroughs. Government should reconsider both the introduction of a nationally set rate for the Infrastructure Levy, and its application at the point of occupation. Government should provide clarity on how proposed changes will impact local authority's ability to place obligations on developers in order to derive benefits for local communities.

4. A long-term review – the future of local government finance

- Reforms should be holistic, addressing all areas of local government finance together.
- Income for local government should be diversified to increase stability. This should include consideration of approaches such as a potential hybrid business rates/online sales tax model and overnight stay levy.
- Funding should take into account deprivation, inequality and the high cost of delivering services in central London.
- London should receive as much funding in UKSPF as it received from the EU structural funds that it will replace.

- Future grant schemes such as UKSPF should be devolved to local areas to enable the funding to be used effectively to address local needs.
- A multi-year settlement should be implemented from 2023/24 to ensure certainty for local authorities.

Introduction

Central London Forward (CLF) is a partnership of the 12 central London local authorities. We work together with our member authorities and with other stakeholders to support inclusive and sustainable growth in central London; so that our economy thrives, and our residents benefit from the opportunities this creates.

In central London, local authorities play a crucial role in delivering high quality local services, supporting communities, promoting inclusive growth and – as COVID-19 has demonstrated – helping build resilience to shocks. Since the outbreak of the pandemic, the 12 local authorities that make up CLF have provided support to tens of thousands of shielding residents, and given out over 230,000 grants to businesses to help them through the crisis, totalling £1.5b (as of 2 September 2021) (BEIS, 2021).

Local authorities in central London will be crucial to supporting the economic recovery, helping residents back into decent work, and building resilience against future crisis. Key to this is ensuring local government finances are placed on a sustainable and long-term footing which meets the needs of residents and businesses.

This paper represents the views of central London local authorities on local government finance reform.

Financial pressure was growing on central London local authorities before the pandemic

Government funding for local authorities has been reduced considerably over the last decade. From 2015-16 settlement funding for the 12 central London boroughs[1] decreased by £626m in real terms, a decline of 33% (Commons Library, 2021).

While all regions of England have seen reductions in local authority funding, London boroughs have seen the largest declines. London accounted for 30% of the reduction in council spending in Britain, despite accounting for 16% of the population (Centre for Cities, 2019). Between 2009-10 and 2019-20, local authorities in London saw the biggest declines in revenue and spending both in percentage and cash terms of any region in England. Local authorities in the capital saw a 32% decline in fiscal revenue over this period (IFS, 2019). Central London local authorities have seen larger cuts than the average for the region; Hackney, Tower Hamlets, Wandsworth and Westminster all saw per capita cuts of 25% and above between 2010/11 and 2018/19 (Centre for London, 2019).

Reductions in budgets have contributed to difficulties in addressing local needs. 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%, followed by highways and transport at 54% (Centre for London, 2019).

While funding for local authorities in central London has been reducing, demand for our services has been increasing due to a rapidly rising population and growing need for social care. The population in central London increased by 16% between 2010 and 2020, equivalent to 422,000 additional residents – more than double the rate of growth across the rest of England (7%) (Nomis).

[1] By central London, we refer to the 12 local authorities that make up the Central London Forward sub-region

The latest Local Government Finance Settlement provided London a 4.3% uplift in core spending power (£311m). Despite this, Core Spending Power in London in 2021 is still 26.6% lower in real terms than in 2010-11 (London Councils, 2020).

The COVID-19 pandemic has exacerbated the financial pressure on local authorities in central London

Funding cuts and increased demand for services meant that local authorities were facing financial pressures even before the pandemic. The pandemic has exacerbated these pressures and created additional challenges which tested boroughs' financial resilience.

COVID-19 increased costs, led to expensive new responsibilities and hit local authority revenues from taxpayers, service users and commercial and investment activities. The substantial additional funding from central government has been welcome and essential in enabling councils to respond to the health and economic crises. However, the financial support has not fully covered the lost income and additional spending required, with London Councils estimating that boroughs face a funding gap of £500m in 2020/21 as a result of the pandemic (London Councils 2020). This has increased the financial pressure on local government and required many boroughs to draw down further on their reserves.

These financial challenges mean that local authorities in London face having to make further cuts to services and further increases to council tax. Recent analysis found that London will see the largest cuts per person due to the pandemic of any region in England (BBC, 2021). The Public Accounts Committee (PAC) has warned that the impact of the pandemic on local authorities will lead to both reductions in services for local people and increases in council tax - leaving residents 'paying more for less' (PAC, 2021).

The impact of the pandemic on council finances is likely to continue in the medium term, with local authorities expecting to see an ongoing impact on demand for services and revenue.

Section one: Delivering a Fair Funding Review

We welcome the aim of the Fair Funding Review (FFR) to take a systematic look at local authorities' spending needs and bring the finance system up to date.

Much has changed since the inception of the FFR, including Brexit, the COVID-19 pandemic, and the economic crisis it triggered. This will lead to lasting changes to demand for services and revenue for local authorities which the FFR will need to take account of.

- **Recommendation**: Working with local authorities, the Department for Levelling Up, Housing and Communities (DLUHC) should ensure the FFR takes into account the impact of the pandemic and the economic climate on local government finance.
- **Recommendation**: DLUHC should engage with local authorities on plans for the FFR, using a transparent and consultative process.

Levelling up funding for local authorities

CLF is concerned that the FFR may lead to further reduction in grant funding for local authorities in central London. Research carried out prior to COVID-19 suggested that while other regions could experience a rise in the amount of funding available, inner London[2] could see a further reduction in funding of 25% as a result of the FFR (LGC, 2020).

After significant reductions in grant funding over the last decade and the added impact of the COVID-19 pandemic – both of which have hit London hardest – further cuts in grant funding would put local authorities in central London under financial pressure. This would lead to a further diminution of reserves, increases in council tax and reductions in services.

While there is a strong case for increasing funding for many local authorities outside of London, doing so at the same time as reducing funding further for local authorities in the capital would jar with the government's commitment to levelling up (Prime Minister's Office, 2021).

- **Recommendation**: No Council should lose out financially, in real terms, as a result of the FFR.

Representing need in central London

CLF has raised concerns that the Foundation Formula in the previous version of the FFR does not accurately represent need in central London. Several major drivers of local authority spending are either excluded or downplayed in the proposal:

1. Deprivation - Central London is home to some of the most deprived areas in the country. According to the Index of Multiple Deprivation, seven out of the 12 central London boroughs (58%) are in the most deprived 20% of boroughs nationally (DLUHC, 2019). London had the highest levels of poverty (Trust for London, 2021) and child poverty in the UK, with levels increasing pre-pandemic (End Child Poverty, 2021). Under the new proposal, funding will be transferred away from high need areas that are susceptible to poverty, crime and a lower quality of life.

2. Underfunded pressures disproportionately impacting London – London has significant levels of underfunded service pressures which disproportionally affect the city. Any form

[2] Inner London refers to the boroughs in the CLF area and Hammersmith and Fulham and Newham.

of fiscal system must have enough flexibility to recognise and balance locally specific needs. For example, London hosts more unaccompanied asylum-seeking children than elsewhere in England. In 2016/17 this cost 19 boroughs £11 million. During the same year boroughs supported 2,881 no recourse to public funds households costing £53.7 million (London Councils, 2018).

3. Area Cost Adjustment (ACA) – This is particularly important to central London because of the high land, rent and labour costs. Housing costs are not fully accounted for in the ACA and factors that affect densely populated areas have not been covered in the proposal.

4. Commuters and tourism – In addition to central London's resident population, the sub-region hosts a large number of commuters and tourists. Approximately one million commuters visit London each day, leading to a significant increase in the daytime population. The capital also welcomed over 30m visitors in 2019, including both international and domestic visitors (Statista, 2021). This generates significant pressure on local services which is not accounted for in the Foundation Formula.

5. Homelessness - The Formula downplayed the true cost of homelessness in central London and the demand for temporary accommodation. Homelessness is a substantial social challenge for London, which has a significant impact on local authority budgets. A quarter of all homeless people[3] in 2019 in England were in the CLF area (Shelter, 2020). In 2018 London boroughs spent an additional £200 million on homelessness, including rental payments, beyond the specific grant funding available (London Councils, 2020). Greater investment in local homelessness services is required to meet demand, which may increase further in the wake of the COVID-19 pandemic.

   The Formula needs to recognise the financial pressures on urban local authorities to support rough sleepers and those who are homeless. The FFR should also be coordinated with the current review of the Vagrancy Act 1824 as this will have implications for how councils support rough sleepers and should be considered in the wider context of financial reform.

- **Recommendation**: Reconsider the role of deprivation, population density and housing and land costs in the Foundation Formula. This should include sharing evidence on how deprivation has been considered and consulting on detailed worked examples.
- **Recommendation**: Recognise the financial pressures on urban local authorities by:
  - Increasing overall funding for homelessness services to meet the true costs of the Homelessness Reduction Act 2017 and account for rises in need.
  - Delivering a significant increase to the Flexible Homelessness Support Grant, explicitly recognising the higher costs of temporary accommodation in London.
  - Simplifying the way that councils can plan for the delivery of homelessness services by reducing the number of ringfenced funds.

Ensuring accurate population figures

CLF has concerns about how the 2021 census will be used as part of funding allocations. There have long been challenges in accurately counting London's population, due largely to the city's demographics (House of Commons, 2010).

[3] By homeless people we mean those living in temporary accommodation or rough sleeping

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The 2021 census was carried out during a national lockdown and shortly following Brexit. Initial evidence suggests a significant number of EU nationals returned to their country of origin during the pandemic (ONS, 2020). This is particularly the case for central London, which has a high proportion of employment in the shutdown sectors, and a high proportion of EU nationals. Many of these workers will likely return to the UK as the economy re-opens. This will mean that London's population was temporarily depressed at the time of the census, but that it will increase over the coming months. These residents will not have included in the census, potentially leading to a significant undercount in the capital.

This could have significant implications for funding for central London local authorities. For every undercounted person in London up to £1,430 could be lost per year in funding. A relatively small undercount of 10,000 people (0.1% of the population) could amount to £143 million over the next 10 years – equivalent to funding for an additional 410 social workers (London Councils, 2021).

- **Recommendation**: Ensure that changes to London's population in the years after the 2021 census are adequately measured, with updated figures used to allocate funding to local authorities.

Section two: Business Rates & Council Tax

Reforming Business Rates to support the economic recovery

The business rates system is becoming increasingly unsustainable for both local authorities and businesses.

Divergence in property values between London and the rest of the country has had significant implications for revaluations in the capital. The 2017 revaluation meant London was the only region in England to experience an increase – it added £3.9bn to London's rateable value, with a rates bill increase of £909 million to businesses (London Councils, 2019). Some boroughs, such as Hackney, were particularly hard hit with businesses on average seeing a 46% increase in their rateable value and industrial units seeing a 110% increase (London Councils, 2019). Bond Street businesses saw a doubling of rates to £16,000psm and Westfield London saw a 92% increase (Allsop, 2016).

Business rates need to work for both local government and businesses - continued significant increases in rates for businesses in London is unsustainable. The CLF area collects 24% of the national business rates revenue (£6bn) which compares to 4% that Liverpool, Manchester and Birmingham collect combined (£1bn) (DLUHC, 2020). As an area which collects such a high proportion of the country's rates, central London will be most affected by national policy changes and should therefore play an active role in shaping business rates policy.

Retention and incentivisation for growth

CLF supports in principle increased business rates retention including reintroducing the London pool. Any new model must provide incentives for growth and not place additional financial burden or risk on boroughs. Retention should be linked to local areas to encourage business growth.

- **Recommendation**: Provide clarity over plans for increased retention in the Fundamental Review of Business Rates. This should include plans to consult with local government on any potential future retention models.

Revaluations and resourcing the Valuation Office Agency (VOA)

Infrequent revaluation means that the rates which business pay often do not reflect property values or the local economic situation. The next revaluation in 2023 means businesses will go from paying rates based on property values from 2015 to rates based on values from 2021. This issue is exacerbated by the Antecedent Valuation Date (AVD) gap of two years between revaluation assessments and new rates coming into effect.

Infrequent revaluation leads to uncertainty for businesses, with often significant changes in business rates between revaluations. This contributes to the large numbers of appeals, which in turn leads to increased costs and uncertainty for local authorities. It also necessitates a costly process of transition relief to ease the impact of large changes on businesses.

The government's recent consultation on implementing three-year revaluations will be a meaningful reform. However, we would encourage a move towards annual revaluations. This would lead to more gradual changes in rates over time, ensuring rates reflect economic reality, avoiding uncertainty for businesses and reducing the number of appeals. In the

Netherlands a move to annual valuations led to an 80% drop in appeals (Centre for Cities, 2020).

The volume of appeals, and delays in dealing with them, makes it difficult for local authorities to forecast revenue from rates. We therefore welcome the government's ambition to streamline and reform the Check Challenge Appeal (CCA) system, in particular the proposals to introduce a duty to notify and a 3-month window to submit challenges.

We recognise implementing annual revaluations requires significant investment and resource. However, this reform would create long-term savings. The BPF estimates that an annual system in England would save between £56m and £183m per annum. This could enable abolishing transitional relief, saving a further £230.8m per annum (New West End Company, 2018) (British Property Federation, 2014). Further, when the Netherlands implemented annual revaluations this resulted in a 20% reduction in valuation costs (Centre for Cities, 2020).

- **Recommendation**: Implement 3-yearly revaluations as part of a move towards annual revaluations to reduce uncertainty and ensure rates reflect economic conditions.

In addition, the inability to make legislative business rates updates through Finance Bills must be addressed. This exclusion means that the relevant legislation is not updated annually, and new loopholes can appear which creates reliance on resolution through case law – an often lengthy and complex process. The simple move of shifting business rates legislation into HMT's annually updated legislation (rather than DLUHC's) could help to fix this issue and reduce the current burden of appeals and drawn out legal processes on local authorities.

- **Recommendation:** Include business rates legislative updates in Finance Bills.

Reforming Council Tax to ensure fairness and sustainable funding

As government grants have reduced, council tax has become an increasingly important part of local government finance. By 2019/20 – council tax made up 32% of revenues for London boroughs (IFS, 2019). This is likely to grow in the coming years as most councils increase council tax to address the pressure on their finances.

However, council tax is in urgent need of reform if it is to be a fair and sustainable funding source for local government. Council tax bands in England are still based on property values from thirty years ago. Since this time values have changed drastically. Average house prices in London are more than six times what they were in 1995, compared with three times in the North East (IFS, 2020).

People living in cheaper housing in London pay a greater proportion of the value of their house in tax than people in more expensive housing (GLA Economics, 2017). The most valuable properties in 1991 (Band H) attract just three times as much tax as the least valuable properties (Band A), despite being worth at least eight times as much in 1991 (IFS, 2020). Similarly, people on low and middle incomes pay a larger proportion of their incomes in council tax. The median earning household pays over 4% of their income in council tax, compared to the richest 10% of households who pay under 2% (IFS, 2020).

- **Recommendation**: Consider reforming council tax to align with current property values and to allow local authorities to raise more revenue.

Increased flexibility for local areas

Although council tax is collected and spent locally, councils are not able to set the bands. Given the significant reductions to grant funding, many central London local authorities have had to increase council tax, which has a proportionately larger impact on low income families.

Giving local authorities the ability to set council tax bands locally – including through additional bands beyond band H – would allow councils to adapt the system to the local situation, reduce the need to make above inflation rises, and raise income in a more progressive way.

We recognise concerns that adding higher bands could negatively impact residents who are asset-rich but on low incomes. However, we believe that even in London this group is relatively small. Such individuals could be supported through local council tax support schemes.

- **Recommendation**: Consult on giving local authorities the flexibility to amend council tax bands and to add additional bands for higher value properties.

A sustainable source of funding for adult social care

Whilst CLF boroughs welcome the ability to raise funding for adult social care through the precept, this remains a flawed approach. As government grants are squeezed over time our boroughs are concerned that local revenue raising powers are not sustainable and negatively impact council taxpayers and lower income earners.

The Prime Minister's recent announcement on additional £36bn over the next three years for health and social care through a Health and Social Care Levy is welcome. However, we are concerned that in the short to medium term most of this new funding is directed towards the NHS. The funding does not go far enough to address the significant immediate financial pressures facing local government relating to social care now. The increase in Employer National Insurance Contributions that will pay for the investment will also place additional cost pressures on local authorities, both directly through their employed staff, and indirectly through contractors.

It is welcome that the government has committed to ensuring local authorities 'have access to sustainable funding for core budgets at the Spending Review'. However, this commitment cannot be delivered through reliance on the social care precept on Council Tax, and on long-term efficiencies alone.

London boroughs have already made significant savings in delivery of adult social care. From 2015/16 to 2017/18 boroughs made almost half a billion pounds in efficiency savings in adult social care (London Councils, 2019). However, boroughs cannot continue to rely on making large scale savings whilst dealing with increased demand. Pre-pandemic it was estimated that London would have a funding gap of £540m in adult social care by 2025 (London Councils, 2019). The pandemic has only intensified the urgency of these challenges.

It is disappointing that no additional funding for local authorities was included in the announcement. The Spending Review must meet the government's ambition to provide a long-term solution and commit to putting social care on a stable financial footing for local government. This should include consideration of the cost for local authorities of the new duty to support self-funders who ask local authorities to arrange their care for them..

We would urge national government to work with local government on the implementation of 'Build Back Better: Our Plan for Health and Social Care' proposals for social care reform. Any reform to adult social care must address the projected increase in demand, the fragile provider market and increasing need for local authorities to support the market.

- **Recommendation**: Work with local government to explore a long-term funding solution for local social care services.
- **Recommendation:** Ensure that the cost of new duties, including the duty to arrange care for self-funders, is met within the Spending Review.

Section three: Local taxes and charges

Sales, fees and charges

Sales, fees and charges (SFCs) are an important revenue stream for local authorities in central London. Currently, income raised from SFCs is restricted to the cost of providing the service and cannot be used to cross-subsidise other services.

Giving councils the freedom to decide how best to allocate revenue raised from SFCs would help diversify local government finances and support the delivery of high-quality local services.

The extension of the SFCs income compensation scheme is welcome in covering some of the lost income due to the pandemic. However, reduced footfall in the capital continues to affect councils' ability to raise fees and charges, and the support scheme only goes so far in compensating for this loss. We urge government to recognise this in the upcoming Spending Review and fully compensate boroughs until economy activity recovers.

- **Recommendation:** Provide greater flexibility for local authorities by removing restrictions on how revenue from SFCs can be used.
- **Recommendation:** Fully compensate boroughs for lost income from SFCs until economic activity recovers.

Funding sustainable transport

Currently, revenue raised from Vehicle Excise Duty (VED) is collected nationally and forms part of the Treasury's central pot. This is then used to fund a number of services across the UK. At present other sources of funding, including public transport fares, are used to fund transport maintenance in the capital.

Currently only a small proportion of this funding can be accessed to spend on major roads in London through the Major Roads Network Fund. However, VED raised by London-registered vehicles, worth approximately £500m annually (GLA, 2020), is almost all spent on roads outside the capital despite 90% of Londoners' journeys taking place entirely on London's roads (GLA, 2017).

To form part of a sustainable funding model for road and transport maintenance, a portion of VED raised annually should be devolved to London to reduce reliance on fares as the main source of funding. In 2019/20 it cost approximately £750m more to run London's buses than was raised by bus fares (GLA, 2020).

- **Recommendation:** Allow London to retain a portion of VED funding to fund road maintenance and form part of a sustainable transport funding model.

Section 106 and CIL vs a National Infrastructure Levy

The government's proposals outlined in the Planning for the Future White Paper to replace the Community Infrastructure Levy (CIL) and Section 106 (S106) planning obligations with a National Infrastructure Levy (NIL) would be severely detrimental to central London boroughs.

The rate(s) of the NIL would be set nationally as a proportion of the sale value of a development, above a minimum threshold. Currently, CIL is set locally and S106 contributions are subject to detailed negotiation. The high development costs in central London and the significant variation between boroughs means a nationally set flat rate of levy would be unviable for our boroughs to finance development mitigations such as schools or other local infrastructure. Local authorities must have the ability to set this levy themselves. Nationalisation would not benefit boroughs unless there is a compensatory package to help meet the infrastructure needs that flow from development.

- **Recommendation**: Reconsider introducing a nationally set rate for the NIL.

Plans to apply the NIL at the point of occupation means councils will have to fund upfront infrastructure required for a site. This creates a significant additional burden and a substantial financial risk for councils. Currently both CIL and S106 levies are often levied prior to commencement of construction onsite which provides a much higher level of certainty.

- **Recommendation**: Reconsider application of the NIL at the point of occupation.

The NIL proposal does not take into consideration how S106 is used by local authorities to secure employment and skills opportunities for the local community. It is not clear whether use of these obligations – which would be particularly beneficial in supporting economic recovery – will be possible through the NIL. Loss of CIL and S106 obligations would be detrimental for central London boroughs.

- **Recommendation**: Provide clarity on how changes to CIL and S106 will impact local authority's ability to place obligations on developers.

Section four: A long-term review – the future of local government finance

Local authorities in central London have faced growing pressure and uncertainty from reducing funding, growing demand, and the impact of COVID-19. The sector also faces longstanding structural issues within local government finance, which the government is seeking to address through the Fair Funding Review. Local authorities are in need of sustainable funding, long-term stability, and certainty in order to ensure financial resilience.

A holistic approach to reform

The current local government finance system is complex, insufficient, and in need of fundamental reform.

The PAC requested in its report that DLUHC sets out plans which reconsiders local government finance from first principles, and works with the sector to reform the system in a measured fashion to create a system which is fit for purpose and built to last (PAC, 2021).

Government is currently conducting a Fair Funding Review, alongside a Fundamental Review of Business Rates, the Levelling Up White Paper, and the long-awaited reforms to social care. We would encourage government to ensure that it takes a holistic approach to reform, bringing together these different processes to ensure we develop a system that is fit for purpose, and that local government is fully consulted on the process.

Diversification of local authority revenue streams

The reduction in grant funding from central government has left local authorities in central London increasingly reliant on council tax and business rates for revenue. Both of these taxes face significant challenges. Reducing the reliance on these two revenue streams could help improve the sustainability of local government finance. A range of options should be explored to do this, and CLF boroughs are keen to work with central government to do so.

One such option would be an Online Sales Tax (OST) as proposed in the Fundamental Review of Business Rates. Our member boroughs are supportive of a hybrid approach, with business rates and an OST helping to both level the playing field between bricks and mortar and online retailers and ensure sufficient revenue for local government. The introduction of an OST would need to avoid unfairly increasing the tax burden for businesses which operate both in person and online.

Revenue raised through an OST could be an important part of supporting sustainability of local government finance, and diversifying income streams. Research carried out by Arup in 2020 commissioned by Westminster City Council estimates the total raised by an OST nationally at a 2% 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.

However, if government introduced an OST, retained the revenue and commensurately reduced business rates in order to avoid adding to the overall burden on businesses, this would represent a significant risk to local authorities in central London. In this scenario, government would need to compensate local authorities for lost income from business rates, potentially through section 31 grants. Without this compensation, a reduction in funding from business rates will mean that there will be less support for businesses, high streets and local regeneration which is essential for economic recovery in central London and the government's levelling up agenda.

CLF's preferred model for an OST would include a form of local retention, and we would welcome further discussion with central government.

Another option which could be considered is a Green Delivery Levy (GDL). The growth of online retail has led to a significant increase in the number of delivery vans on the road in London - contributing to pollution and congestion. Similar to the plans being explored by the Department for Transport (Times, 2020), the GDL could be a small charge levied on online deliveries. Zero emissions vehicles could be exempted to encourage the use of sustainable vehicles.

- **Recommendation**: Explore the introduction of a hybrid OST and business rates system in order to level the playing field for businesses and ensure a fairer way of raising revenue.
- **Recommendation**: In the event that business rates are reduced alongside the introduction of an OST, and that OST revenue is retained centrally, local authorities should be fully compensated for any resultant loss of revenue.
- **Recommendation**: Work with CLF and Central London local authorities to explore the potential of a Green Delivery Levy in Central London.

CLF boroughs are also interested in the potential for an overnight stay levy (OSL) to further diversify local government revenue streams. The OSL is a simple and easily collectable tax, which is increasingly common in major cities across the rest of Europe and in the United States.

Implementing an OSL while restrictions on international tourism are still in place would risk undermining the recovery of the hospitality and tourism sectors, which is a key priority for central London. However, we believe that once the tourism sector has fully recovered an OSL has the potential to raise revenue for local authorities and support vital investment in high streets and town centres and enabling sustainable tourism. Any OSL should apply both to hotels and to home-sharing and short let providers.

- **Recommendation**: Work with CLF and central London local authorities, alongside other London stakeholders, to explore the potential of an Overnight Stay Levy in central London. The decision on if and when to implement an OSL should rest with local authorities, with revenue retained locally. Implementation of an OSL should not happen before the tourism sector has sufficiently recovered.

Enabling strategic local investment

Recent government grant schemes – such as the Community Renewal Fund (CRF), which will inform the design of the UKSPF, and the Levelling Up Fund – have deprioritised London despite the high levels of poverty, deprivation and inequality here. Out of the 73 priority local authority areas for CRF, none were in London. CLF is concerned that central London is disadvantaged in the design of these funds.

CLF is also concerned that decisions on the allocation of these grants are made centrally, rather than at the local or regional level (London Councils, 2021). CLF believes decisions on such funds should be made as locally as possible.

- **Recommendation:** DLUHC grant schemes should take into account deprivation and inequality and ensure that local authorities in all regions are able to access support.

EU Structural and Investment funds (ESIF) have been an important source of funding for employment and skills provision in London. Given the scale of impact of the pandemic on employment in London, this support is more important than ever.

We welcome the government's commitment to introduce the UK Shared Prosperity Fund (UKSPF) to replace ESIF following Brexit. We also welcome the commitment that the total value of the fund across the UK will match the value of ESIF it will replace. However, given both the LUF and CRF have overlooked central London, we are concerned that the capital will not receive its fair share of UKSPF allocations, which places provision currently supported through ESIF risk. We urge government to commit to ensuring London receives as much funding from UKSPF as from ESIF pre-Brexit.

- **Recommendation**: As a minimum, London should receive as much funding in UKSPF as it received from the EU structural funds that it will replace
- **Recommendation**: The UKSPF should be delegated to London government, so that decisions on how it is used can be made locally in order to ensure it effectively addresses local needs.

Providing certainty through multi-year settlements

The use of single-year settlements over the last few years has made it more difficult for councils to make long-term financial decisions. Delays in publishing financial settlements adds to the uncertainty over future spending and provides little time for local authorities to make strategic financial decisions.

The FFR and future funding allocations need to provide certainty for local government through multi-year settlements. Multi-year settlements allow for effective planning, which supports better use of public funding, and better value for money.

Whilst we recognise one-year settlements are sometimes necessary given uncertainty, government should ensure wherever possible multi-year financial settlements are offered to give local authorities the ability to plan effectively.

- **Recommendation**: Implement multi-year settlements from 2023/24 to ensure certainty for local authorities.