Central London Forward: Submission to the Comprehensive Spending Review 2021

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

Central London and levelling up

CLF supports the aim of improving livelihoods and opportunities across the UK. As we emerge from the pandemic, central London can play a vital role in supporting levelling up across the country.

Central London is a vital part of the UK economy. The sub-region accounted for 3.5m jobs on the eve of the pandemic, with the Central Activity Zone generating 11% of national output. Central London is inextricably linked to regional economies through domestic supply chains, with every £1 of consumption in the capital generating 24p of production elsewhere in the UK.

As the Prime Minister stated on 15 July 2021, "Levelling up can only be achieved with a strong and dynamic wealth creating economy"[1]. London's economy generates a large surplus to the Treasury, helping to power investment in infrastructure and public services across the UK. When the capital thrives, the rest of the UK benefits too.

Central London is vital to Global Britain, and to ensuring the UK remains open, outward-looking and confident on the world stage. London is the best-known UK city internationally, and it is hugely connected to the rest of the world. Central London is home to world-leading clusters from digital tech and green finance to the creative industries and higher education, which compete internationally but benefit the whole of the UK. Central London is the UK's shop-window to the world, drawing in overseas visitors and inward investment which is spent in other parts of the UK.

Central London has been hard hit by the pandemic, but we have a plan for growth targeted on place, people and resources. The capital has seen the most jobs lost, the most jobs furloughed, and the largest increase and highest rate of unemployment of any region . While central London is recovering, it faces ongoing headwinds through the 'zoomshock' of increased homeworking, as well as the lower levels of international tourism. However, London's future growth prospects remain strong and CLF is working in partnership with

[1] https://www.gov.uk/government/speeches/the-prime-ministers-levelling-up-speech-15-july-2021

London government, and with businesses, to support a robust recovery. We share the Prime Minister's view that "there has got to be a catalytic role for government", and we are committed to working with national government to deliver this plan for growth driven from central London, for the benefit of our residents and the whole of the UK.

We also welcome the Prime Minister's view that levelling up must be a "win-win for the whole UK" and his recognition that "there is much more to do in London, and there are still huge inequalities". While the capital is a wealthy place with a strong economy, central London needs levelling up too. Too many of our residents are not able to access the opportunities available in our city. Ahead of the pandemic London had the highest levels of poverty and child poverty of any region of the UK. Most local authorities in CLF are in the most deprived 20% nationally and these entrenched problems have been exacerbated over the past 18 months. If levelling up is about tackling stark inequalities and improving livelihoods and opportunities, then this must happen in central London too.

We are committed to working in partnership with national government, with businesses and with other stakeholders to deliver a strong, sustainable and inclusive recovery which benefits both central London residents and the wider UK. To help the UK build back better we set out a series of recommendations across three key areas:

1. **Place – Supporting Central London's Economic Recovery**

The capital's economic recovery is underway, but it is proceeding more slowly than other regions of the UK and should not be overlooked. Supporting businesses in central London to recover and to thrive will be crucial to supporting the economic recovery across the UK. Working with CLF, national government can:

- **Help keep London moving:**
    - Co-ordinate messaging across national government, London government, and other stakeholders to build confidence in the use of public transport.
    - London government, TfL and national government should work together to develop and agree a fair, sustainable and long-term transport funding package for TfL that maintains sufficient levels of public transport and safe operation.
- **Balance the business rates burden to support the revival of high streets:**
    - Work with local government and businesses to explore the introduction of a hybrid Online Sales Tax (OST) while reducing the burden of business rates on physical commercial premises in order to level the playing field. Proceeds from an OST should help ensure sustainable funding for local government.
- **Support central London's culture, leisure and visitor economy to thrive:**
    - Provide targeted business support for businesses in the cultural and creative sector and the wider visitor economy, until international tourism recovers.
    - Reintroduce the VAT Retail Export Scheme and develop a digital claims system to incentivise tourist spending across the whole UK.
- **Empower local authorities to use the planning system to support growth:**
    - Recognise and retain the role of local authorities as place-makers for high street renewal, and work with London to ensure any proposed changes to the planning system bring forward the homes and places people want to live, work and visit.

  - Monitor the impact of the Class MA on high streets and town centres and consider reversing the right if it leads to a significant erosion of commercial premises.
- **Support investment in central London's infrastructure to drive sustainable growth:**
  - Work with CLF and other stakeholders to deliver the projects set out in Central London's Infrastructure. Where government is unable to invest, it should devolve powers to London government to enable the delivery of these schemes.
- **Support the transition to net zero:**
  - Work with London government to develop large-scale insulation and retrofitting programmes for local authority-owned properties.

2. People – Helping Londoners into good work

In addition to helping to drive economic recovery, CLF is committed to supporting residents and communities so that they benefit from the opportunities that are available in their city.

It is crucial that central London residents are provided with the support they need to access the opportunities that will be created as the capital's economy bounces back.

- **Deliver high quality employment and skills support locally**
  - Government should embrace the principle of subsidiarity, with employment and skills support being devolved to London government wherever possible. London government is keen to work with national government to create clear skills and employment pathways for sectors with current or anticipated skills gaps, especially in hospitality and the green economy.
  - Government should ensure Restart providers work closely with local authority partners. Any successor to the scheme should be devolved to local areas, with the flexibility to design and deliver support that meets local needs.
  - The Adult Education Budget and funding for wider skills provision should be protected in real terms in the 'Skills for Jobs: A New Further Education Funding and Accountability System' review.
- **Ensure a fair distribution of the UK Shared Prosperity Fund (UKSPF)**
  - As a minimum, London should receive as much funding in UKSPF as it received from the EU structural funds that it will replace.
  - 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.
- **Reform the apprenticeship levy**
  - Reform the apprenticeship levy to allow employers greater flexibility in the use of their levy funds.
  - Extend the availability of current employer incentives and increase the incentive in London to reflect the higher cost of living, working, and training in London.

3. Resources – Ensure fair and sustainable funding

Central London's local authorities have played a vital role – working alongside government - in supporting communities and businesses through the pandemic. They will play a crucial part in supporting the recovery and ensuring resilience to future shocks, but they faced significant financial challenges before the pandemic due to reductions in grant funding and increases in demand. This pressure has escalated as a result of the impact of COVID-19.

- **Ensure a fair and sustainable local government finance settlement**
  - Ensure local authorities are consulted and engaged in developing the new approach to local government finance as part of the Fair Funding Review.
  - Implement multi-year settlements from 2023/24 onwards to ensure local authorities have certainty in their future resourcing, allowing them to plan and make best use of public money.
  - At a minimum, government must commit to protecting funding for local authorities, so that no council loses out in real terms as a result of the FFR.
  - Reconsider the role of deprivation, population density and housing and land costs in the Foundation Formula. This should include sharing evidence on how these have been considered and consulting on worked examples.
  - Recognise the financial pressures on urban local authorities by increasing overall funding for homeless services, delivering an increase to the Flexible Homelessness Support Grant, and simplifying the delivery of homelessness services by reducing ringfencing of funds.
- **Reform the business rates system**
  - 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.
  - 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.
  - Move towards annual revaluations at the nearest opportunity as part of the fundamental review of business rates.
  - Include business rates legislative updates in Finance Bills.
- **Support boroughs to diversify income**
  - Work with CLF and central London local authorities to explore the potential of an Overnight Stay Levy in central London. The decision on implementing an f should rest with local authorities, with revenue retained locally. Implementation should not happen before the tourism sector has recovered.
  - Work with CLF and central London local authorities, alongside other London stakeholders, to explore the potential of a Green Delivery Levy in central London.
- **Deliver a sustainable funding settlement for adult social care**
  - Ensure that the cost of delivering social care in the short term is met within the Spending Review, including the addition cost of the new duty to arrange care for self-funders.
  - Work with local government to explore a long-term funding solution for local social care services.

Context – Central London and levelling up

The government is seeking to 'level up' across the UK, by 'improv[ing] livelihoods and opportunities throughout the UK' (Prime Minister's Office, 2021). CLF supports this ambition, and we believe central London can play a vital role in delivering on the levelling up agenda.

Central London is a vital part of the UK economy

The central London economy is a vital and integral part of the wider UK economy. The wider CLF sub-region accounted for 3.5m jobs on the eve of the pandemic – one in every 10 jobs in Britain (GLA, 2019). The Central Activities Zone (CAZ) alone accounts for 11% of national economic output, despite covering just 0.01% of the country (ARUP, 2020).

The London economy is not apart from or in competition with the rest of the UK economy – it is an inextricable part of it, and highly connected to the regional economies of the UK. The trade and supply chains linkages between London and the rest of the UK economy mean that for every pound of consumption or investment in London, 24p of production is generated elsewhere in the UK (GLA Economics, 2020). When the capital thrives the rest of the UK benefits too, and when the UK's towns and regions prosper, so does London.

The central London economy makes a substantial contribution to the nation's public finances. In 2019/2020, the 12 CLF local authorities alone collected over £6 billion in business rates which equates to 24% of England's business rates. This is six times the amount collected in Liverpool, Birmingham and Greater Manchester put together (DLUHC, 2021). London generated a net surplus to the Treasury of £36.1bn, equal to £4,030 per Londoner (ONS, 2021). This contribution will be vital to supporting the investment in infrastructure and public services that we need to see across the whole of the UK as we recover from the pandemic.

Supporting a strong and sustainable recovery in central London will be crucial to driving growth across the whole of the UK and repairing the nation's public finances after the pandemic.

Central London is vital to Global Britain

London is a global city, and it will play a crucial role in the government's vision of Global Britain, and in ensuring that the UK is open, outward-looking and confident on the world stage. London is the best-known city in the UK. It is highly connected internationally, contributing enormously to the UK's soft power.

Central London is home to world-leading industries. From digital tech to green finance, from law to the creative industries, from life sciences to higher education, central London has clusters in many of the industries that will be crucial for our economic future. These industries compete internationally for investment, but they are connected to clusters across the UK, so that London's comparative advantage in these areas delivers benefits for the whole country.

London acts as the 'shop window' for the rest of the UK, highlighting what we have to offer, and drawing in visitors and investment which benefits the whole of the country. Before the pandemic there were 1.6m 'London+' visitors – people who visited both the capital and somewhere else across the UK – spending over £641m annually in the UK's regional economies (London and Partners, 2015).

But London's strength and role as a global city is place-based, and it cannot be taken for granted. It relies on the capital remaining a place in which people want to live and work and visit. Central London boroughs have a vital place-making role, and they need the powers, funding and freedoms to ensure London remains a global city.

Central London has been hit hard by the pandemic – but we have a plan for growth

While London's economy was strong on the eve of the pandemic, the capital has been hit harder than any other region by the Coronavirus jobs crisis. London has seen the biggest decline in payrolled employment and the largest increase in the claimant count. The capital has seen the greatest use of the furlough scheme, without which many more jobs would have been lost.

The capital's economy is bouncing back, but the recovery is slower than in any other region, and central London's economy faces significant ongoing headwinds. The decline of both commuting and international tourism mean that footfall and consumer spend in the CLF sub-region remain well below pre-pandemic levels.

However, London's future economic prospects remain strong, and London has a plan for growth. CLF has been working with our local authority members, with partners across London government, with businesses and other stakeholders to develop a shared London Recovery Framework. We are committed to working with government to deliver this, and we believe that an active partnership between central government, London government, and the private sector will be vital in unlocking London's recovery.

London needs levelling up too

As the Prime Minister highlighted in his recent speech on levelling up, alongside the inequalities between regions, there are stark inequalities within regions (Prime Minister's Office, 2021). Nowhere is this more so than in the capital.

While London is a wealthy city, it is also a highly unequal one. Too many central London residents are not able to access the opportunities available in our city. On the eve of the pandemic, London had the highest level of poverty of any region or nation of the UK (JRF 2021). Hundreds of thousands of children are growing up in poverty in central London, with the sub-region accounting for five of the top ten local authorities in terms of child poverty (End Child Poverty, 2021).[2]

The most deprived fifths of neighbourhoods in central London saw a mortality rate from COVID-19 that was 78.2% higher than the least deprived neighbourhoods (WPI Economics, upcoming).

The capital has been hit hardest by the pandemic, leaving London with the highest rate of unemployment in the country, and the highest claimant count in the UK. There are 110,000 unemployed people in the Central London Forward area. This is more than Birmingham, Manchester, Liverpool, Leeds and Newcastle put together (NOMIS, 2021).

If levelling up is about improving livelihoods and opportunities throughout the UK, then it must be about improving livelihoods and opportunities in the capital too. If levelling up is about tackling the stark inequalities and imbalances that we see within regions as well as those between regions, then it must be about tackling inequalities and imbalances in London too.

[2] Tower Hamlets (55.8%), Hackney (47.9%), Southwark (43.1%), Islington (42.7%) and Lambeth (42.6%)

1. Place – Supporting central London's economic recovery

The capital's economic recovery is underway, but it is proceeding more slowly than in any region of the UK. The recovery faces significant ongoing headwinds due both to changed commuter patterns – or 'zoomshock' – and to the significant decline in international tourism.

Supporting businesses in central London to recover from the pandemic and to thrive will be crucial to supporting the wider UK economic recovery.

Support the recovery of the CAZ and central London's high streets and town centres
London's Central Activities Zone (CAZ) is a geographically small area, but one which is of national importance. Covering just 0.01% of the UK, the CAZ generates 11% of our economic output (ARUP, 2020). Beyond the CAZ, central London is a network of inter-connected towns, with numerous high streets and urban centres. Many of these high streets and urban centres face similar challenges to those in towns and cities across the rest of the UK.

Both London's CAZ and the high streets and urban centres that surround it have been hit hard by the pandemic. The large-scale shift to working from home has hit London particularly hard. The reduction in international tourism has also impacted central London more than any other sub-region, given the importance of the sector pre-pandemic (Resolution Foundation, 2021). Both of these factors have led to a significant decline in footfall across the sub-region. Across the 12 central London boroughs, mobility relating to retail and recreation in September was 33% below pre-pandemic levels on average, with mobility relating to public transport and workplaces being 35% and 42% lower respectively (Google, 2021).

Supporting the recovery of central London's CAZ, high streets and urban centres will require an active partnership between central Government, London government and private sector, and action on tax, planning and public transport.

Help to keep London moving
London's transport network is vital to the capital's role as a world city. It underpins the capital's economic success, thereby contributing to the UK's economic success.

Central London is more reliant on public transport than any other urban area in the UK. Prior to COVID-19 half (49%) of workers in London took trains, trams or buses to work, with a further 15% using active transport, and just 29% travelling by car. Outside of London around 70% of people travelled to work by car, and just 9% used public transport (IFS, 2020).

The pandemic – and the lockdown measures put in place to address it – led to a huge reduction in passenger numbers, as workers followed public health advice and minimised travel. Whilst usage of public transport is increasing, it remains well below pre-pandemic levels, and the recovery in public transport use in the capital has been slower than in other regions (Google, 2021). Despite evidence of the safety of public transport in London (TfL 2021) there are indications that residents are hesitant about using public transport and that we may see a car-lead recovery with more congestion and more pollution (TfL, 2020).

The decline in passenger numbers has had a very significant impact on Transport for London's (TfL) finances. TfL was increasingly reliant on fare income in the run up to the pandemic.

London's public transport system is absolutely crucial for the recovery of the central London economy. All levels of government must work together both to restore confidence in using public transport, and to ensure a sustainable funding for the network.

- **Recommendation:** Co-ordinate messaging across national government, London government and other stakeholders to build confidence, encourage the use of public transport, and encourage the use of sensible precautions.

- **Recommendation:** London government, TfL and national government should work together to agree a fair, sustainable and long-term transport funding package for TfL that maintains sufficient levels of public transport and safe operation.

Balance the business rates burden to support a revival of high streets

The business rates system is not fit for purpose and is in need of fundamental reform to support the recovery of high street businesses and redress the balance with other businesses.

Business rates represent a significant, growing and disproportionate burden on high street and city centre businesses, particularly in central London. The 2017 revaluation meant London was the only region in England to experience an increase in business rates; London's rateable value increased by £3.9bn, with business rates bills increasing by £909m as a result (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). The 12 CLF local authorities alone now account for a quarter of England's business rates (DLUHC, 2021).

The increasing burden of business rates on businesses operating from city centres and high streets across the UK contrasts with the relatively light tax burden on the online retailers they compete with. Online retailers often pay significantly reduced business rates due to the high proportion of their estates being light industrial or warehouse space which has a much lower rateable value. In Inner London[3] retail space has an average rateable value of £298 per sqm compared to £94 per sqm for industrial space (including warehouses) (VOA, 2020).

We welcome the government's Fundamental Review of Business Rates and the consideration of an Online Sale Tax (OST). CLF supports introducing an Online Sales Tax as a means to ensure a fairer distribution of taxation across businesses. A hybrid approach, with business rates and an OST, could help to level the playing field between bricks and mortar and online retailers, support the recovery of high streets and town centres, 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.

- **Recommendation:** Work with local government and businesses to 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.

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

Support central London's culture, leisure and visitor economy to survive and thrive
Central London has a vibrant cultural and creative offer which is crucial to its role as a global city. This sector makes the capital an exciting place to live and work. It underpins the capital's visitor economy, helping to draw in millions of international visitors every year.

Businesses within central London's cultural and visitor economy have been hit hard by the impact of COVID-19. The government's support for these businesses – both through the furlough scheme and sector specific support – has been vital at keeping many going through the pandemic. Central London's local authorities have also been working hard to support the sector, by supporting businesses to operate outside, distributing grant funding, and promoting the safe return of customers.

However, while the sector is starting to recover many are still struggling given international tourism remains well below pre-pandemic levels.

Key to supporting the visitor economy is supporting the return of London's internationally competitive offer. In 2019 London had approximately 21.71m visitors from overseas, just over half of all overseas visitors to the UK that year (Statista, 2021).

Overseas visitors to London spent approximately £15.73bn in 2019. An important part of London's retail offer was the VAT Retail Export Scheme, which ended on 1st January 2021. The UK is now the only country in Europe not to offer tax free shopping to international visitors. This risks driving tourism away from London to competitor cities such as Paris and Frankfurt. This has implications for the UK as a whole, given before the pandemic 1.6m people visited both London and somewhere else in the UK, spending more than £641m in UK nations' economies each year (London & Partners, 2015).

- **Recommendation:** Provide targeted business support for businesses in the cultural and creative sector and the wider visitor economy, until international tourism recovers.
- **Recommendation:** Reintroduce the VAT Retail Export Scheme and develop a digital version of the currently paper-based claims system to incentivise tourist spending across the whole UK.

Empower local authorities to use the planning system to support growth

Decisions on planning need to be made as close to local communities as possible. Local authorities play a crucial role in creating high quality places – including through the planning system – and they can help support their local areas to adapt to post-pandemic changes.

Our member boroughs are leading the way with high street renewal, particularly in light of COVID-19, and utilising their role as place-makers and champions of inclusive growth. Proposals in the Planning for the Future white paper such as land-use designations, and the new permitted development right (Class MA) risk undermining town centre plans with democratic accountability and community consultation at their core.

Other proposed reforms, such as front-loading and limiting community consultation to the plan-making stage, the introduction of design codes and reforms to planning obligations would be hugely disruptive for local authorities and require more resources and re-skilling of staff. The changes would also lead to significant uncertainty in the short and medium term for developers, potentially leading to a pause in much-needed investment.

The latest extension to permitted development rights risks removing vital commercial space from our high streets, which would hamper the recovery in central London. Recent research shows that 80.3% of shops or commercial buildings – rising to 89% in the London borough that was studied – could be lost to residential conversion through this new right (TCPA, 2021). Previous research commissioned by the novernment showed that many housing units created through permitted development conversions are poor quality (UCL, 2020).

- **Recommendation:** Recognise and retain the role of local authorities as place-makers for high street renewal, and work with London government to ensure any proposed changes to the planning system bring forward the homes and places people want to live, work and visit.
- **Recommendation:** Monitor the impact of the Class MA permitted development right on high streets and town centres and consider reversing the right if it leads to a significant erosion of commercial premises.

Support investment in central London's infrastructure to drive sustainable growth

Beyond the immediate recovery, supporting and facilitating investment in infrastructure in central London and across the rest of the UK will be vital to ensuring sustainable growth in the medium- to long-term. Improving London's infrastructure – whether that be public transport, electric vehicle charging or gigabit broadband – will also be vital to supporting the capital's transition to a net zero economy; a key goal for every local authority in central London.

The 12 CLF local authorities have come together with business groups and other stakeholders to develop Central London's Infrastructure Priorities. This document includes a collectively agreed list of the physical infrastructure projects that could deliver the most benefit both locally and nationally through boosting growth, unlocking the delivery of more homes, and supporting our transition to net zero. Those priority projects are:

- **Digital connectivity** – providing universal full-fibre and wireless connectivity to drive growth and make London a smart city.
- **Supporting active transport** – improving public realm and infrastructure to support walking and cycling
- **Climate change mitigation and resilience** – infrastructure that both reduces the emissions that drive climate change, and helps the city to adapt to its impact
- **Upgrades to TfL's bus fleet** – improving reliability and reducing emissions and pollution
- **Upgrades to the London Underground** – improving reliability and increasing capacity
- **Mainline station upgrades** – delivering new platforms and public realm to support the UK's largest train stations
- **Bakerloo Line upgrade and extension** – expanding the underground network to south-east London
- **Crossrail 2** – a major new regional railway for south-east England

CLF and our member authorities are keen to work with the Treasury and with government more broadly to discuss how we can deliver the investment in infrastructure London needs.

- **Recommendation:** Work with CLF member authorities and with other stakeholders in London to help deliver the priority projects in Central London's Infrastructure Priorities (document available upon request). Where national government is unable to invest in vital projects, it should devolve powers and flexibilities to London government to enable the delivery of these schemes.

Support the transition to net zero

Every one of the 12 local authorities in the CLF sub-region has committed to reaching net zero. Our member authorities have developed action plans to tackle emissions, but we need active partnership from central government in order to deliver on these.

Homes and workplaces account for four fifths of CO_2 emissions in the capital. Much of London's housing stock is old and poorly insulated, and 80% of it will still be in place in 2050. Given this, the biggest thing that London can do to tackle our emissions and move toward net zero is to reduce emissions from our existing building stock.

Many CLF boroughs are already engaged in insulating and retrofitting existing housing stock, but this requires significant investment.

CLF and our member local authorities in central London are well placed to support large-scale insulation and retrofitting programmes. Local authorities in central London own a large number of properties – both housing, workspaces, and community buildings. In addition to the demand side, local government can help link up with the supply and the development of specialist skills pathways; CLF and our member boroughs have extensive experience of delivering employment and skills programmes.

- **Recommendation:** Work with London government to develop large-scale insulation and retrofitting programmes for local authority-owned properties.

2. People – Helping Londoners into good work

In addition to helping to drive the economic recovery in central London, CLF is committed to helping residents and communities to benefit from the opportunities that are available in their city.

Even before the pandemic, London suffered from higher than average levels of unemployment. Many Londoners who were in-work faced low pay and insecurity, and the highest levels of poverty, child poverty and in-work poverty of any region in the UK. The economic impact of the pandemic has hit London hardest, exacerbating pre-pandemic inequalities, and triggering a surge in unemployment.

It is crucial that central London residents are provided with the support that they need to access the opportunities that will be created as the capital's economy bounces back.

Deliver high quality employment and skills support locally
CLF welcomes the progress toward devolution in recent years. In London, the Adult Education Budget is now commissioned by the GLA, and the Work and Health Programme and the Job Entry: Targeted Support (JETS) programmes are commissioned and managed at a sub-regional level. We also welcome the Prime Minister's recent commitment to further devolution as part of levelling up (Prime Minister's Office, 2021).

However, both Kickstart and Restart represent a step backward from the devolution agenda, and a missed opportunity. While it is welcome that contract package areas for Restart were aligned with sub-regional partnership geographies, the programme was designed and commissioned centrally and there is no formal role for local authorities in the programme.

Local areas are best able to understand the needs of their communities and to deliver high quality services that meet those needs. Devolution also enables integration of services, and the delivery of more holistic support that better meets peoples' needs. CLF is working with our member authorities, London Councils and the GLA on the 'No-Wrong-Door' initiative to help integrate and coordinate the employment and skills landscape, so that all Londoners are able to navigate the system and access the support they need.

This form of locally integrated employment and skills support will be key to addressing local labour market challenges, whether that be the current skills gaps facing the hospitality sector, or the long-term challenges posed by the transition to a net zero economy. CLF along with the three other London sub-regional partnerships is undertaking research to understand demand for green jobs and skills in the capital in the future, and we are determined to work with our member authorities, employers, and skills providers to ensure that residents are supported to adapt to the change in the economy, and to get the skills they need to access the green jobs of the future.

- **Recommendation:** Government should embrace the principle of subsidiarity, with employment and skills support being devolved to London government wherever possible. London government is keen to work with national government to create clear skills and employment pathways for sectors with current or anticipated skills gaps, especially in the green economy.
- **Recommendation:** Government should ensure Restart providers work closely with local authority partners, including data sharing. Any successor to the scheme should be devolved to local areas, with the flexibility to design and deliver support that meets local needs.

Our JETS programme is achieving 54% above the target number of job starts and supported 500 people back in to work in August alone. Our Work and Health Programme – Central London Works – supported over 1,000 participants into employment in the last quarter, nearly double the target, and has been the highest performing of all contracts nationally in recent months. The future of this programme, worth £51m, is at risk however due to a continued lack of clarity over funding administrative costs after the European Social Fund (ESF) comes to an end in April 2022. CLF seeks an immediate and open discussion with the Treasury and the Department for Work and Pensions on how the cost of administering the programme will be funded.

- **Recommendation:** Government should provide a guarantee of funding for administrative costs for ESF-funded programmes, when ESF funding comes to an end.

The devolution of the Adult Education Budget (AEB) has been a positive move, enabling the skills system to better meet the needs of employers and Londoners. However CLF is concerned that the proposals set out in the 'Skills for Jobs: A New Further Education Funding and Accountability System' consultation (DfE, 2021) could lead to a reduction in skills funding available in London.

London has seen the largest number of jobs lost during the pandemic, and it has the highest levels of unemployment. The economy is recovering, but it now faces significant vacancies, as employers struggle to secure the skills they need. This means that opportunities for adults to retrain and upskill – including those provided through the AEB – are more important now than ever.

- **Recommendation:** The Adult Education Budget and funding for wider skills provision should be protected in real terms in the 'Skills for Jobs: A New Further Education Funding and Accountability System' review.

Ensure a fair distribution of the UK Shared Prosperity Fund

EU Structural and Investment Funds (ESIF) have been an important source of funding for employment and skills provision in London in recent years. London received almost £100m a year through these funds.[4] Given the scale of impact of the pandemic on employment in London, this support is more important than ever.

CLF welcomes the Government's commitment to replacing ESIF with the UK Shared Prosperity Fund (UKSPF). We also welcome the commitment that the level of UKSPF will at least match the level of funding provided by ESIF across the UK. However, we note that no commitment has been made that local areas will receive at least as much funding as they received through ESIF.

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. If this approach is replicated for UKSPF, London will see a reduction in resourcing for employment and skills services just when this support is needed most.

[4] London received an average of €109m a year (£93m) from the European Social Fund and the European Regional Development Fund between 2014 and 2020.

- **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.

Reform the apprenticeship levy

Apprenticeships are a vital tool for employers to develop the skilled workers that they need. Apprenticeships can also provide fantastic opportunities for individuals to earn while they learn, helping to build a career and progress.

However, the apprenticeship system is not working effectively for many employers in central London. The capital has long suffered from lower levels of apprenticeships per capita of any region of England. Apprenticeship starts have fallen since the introduction of the apprenticeship levy. In 2019/20 the number of apprenticeships starts in London was 24% lower than in the year before the levy was introduced (DfE, 2020). The decline has been particularly large for level 2 apprenticeships and apprenticeships for young people, presenting a serious threat to the opportunities for young people looking to make a start in the labour market. Starts declined further still following the pandemic.

At present apprenticeship levy funds can only be used for the training and assessment costs of apprentices. These funds cannot be used for wage costs or to cover the cost of on-the-job training or administration. Many employers in the capital are spending little or none of their apprenticeship levy funds.

CLF has worked with London Councils, other sub-regional partnerships and business bodies to set out proposals for the reform of the apprenticeship levy (London Councils, 2021).

- **Recommendation:** Reform the apprenticeship levy to allow employers greater flexibility in the use of their levy funds. Employers should be able to use their funds to cover the cost of pre-apprenticeship training and to cover some of the wage costs for new apprenticeships for priority groups including young people.
- **Recommendation:** Extend the availability of current employer incentives and increase the incentive in London to reflect the higher cost of living, working, and training in London.

3. Resources – Ensure fair and sustainable funding

While greater regional prosperity will lead to more customers and more business for our national metropolis, a successful London will also enable investment and growth in other regions. London is an integral part of the national economy and its public services need equivalent funding to the rest of the country.

Central London's local authorities have played a vital role – working alongside national government – in supporting communities and businesses through the pandemic. Since its outbreak, CLF local authorities 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 £1.5bn (as of 2 September 2021) (BEIS, 2021). As we move into the recovery, local authorities in central London have a crucial role to play in supporting businesses to thrive, helping residents back into decent work, and ensuring resilience against future shocks.

Local authorities were facing financial challenges before the pandemic as a result of both reductions in grant funding from central government and increases in demand for services. This challenge was particularly acute for London boroughs, which saw the biggest decline in funding in the years preceding the crisis (IFS, 2019). With reductions in revenue and increases in demand, many London boroughs have been forced to both cut services and raise council tax.

The pandemic has exacerbated the pressure on local government finances. It led to both a significant reduction in revenue, and to further increases in demand across many areas. The additional funding to local authorities provided by central government has been essential, but it will not fully cover the lost income and additional spending required.

With local authorities likely to face ongoing impact on both revenue and demand from the fallout of the pandemic and the economic crisis, local government finances will continue to be squeezed.

Ensure a fair and sustainable local government funding settlement

The current local government finance system is complex, insufficient, and in need of fundamental reform. The Fair Funding Review (FFR) is a vital opportunity to address these challenges. We need to see a local government funding settlement which provides security, sustainability and sufficient funding, so that London boroughs – and local authorities across the UK – can continue to support residents, communities and businesses.

Engaging with and consulting local authorities

Much has changed since the inception of the FFR and the initial consultation process, including Brexit and the COVID-19 pandemic.

As set out above, the financial pressure on local authorities in general and London boroughs in particular has escalated in the last two years. This needs to be taken into account by DLUHC, and local authorities need to be extensively involved in the development of a new local government finance settlement.

- **Recommendation**: Ensure local authorities are consulted and engaged in developing the new approach to local government finance as part of the Fair Funding Review.

Multi-year funding settlements

Local authorities have faced a series of one-year financial settlements.

While recent circumstances have necessitated a short-term settlement due to the level of uncertainty around the pandemic, the use of single-year settlements has made it more difficult for councils to make long-term financial decisions, to plan, and to make best use of resources.

Delays in publishing financial settlements adds to the uncertainty over spending for the next year and provides little time for local authorities to make strategic financial decisions.

- **Recommendation**: Implement multi-year settlements from 2023/24 onwards to ensure local authorities have certainty in their future resourcing, allowing them to plan and make best use of public money.

Level-up local government funding with no council losing out in real terms

London boroughs had already seen the largest reductions in funding before the pandemic, and the largest impact on resourcing as a result of the pandemic.

Modelling of the impact of the original proposals under the FFR suggested that whereas some regions would see an increase in the amount of local government funding, the capital would see the largest declines, with Inner London[5] seeing a further reduction in funding of 25% (LGC, 2020).

Analysis by London Councils suggests that the CLF member boroughs will require an additional £160m per annum in order to continue to deliver the same level of services in the face of rising inflation and increasing demand. This is before factoring in the impact from COVID-19.

London Councils estimates that London boroughs will face a substantially higher level of per capita income loses than other areas of the UK due to COVID-19 in 2021-2022.

- **Recommendation:** Ensure no local authority loses out in real terms over the Spending Review period.
- **Recommendation:** The government should commit to an extension of the tax income guarantee scheme and Sales, Fees and Charges (SF&C) compensation scheme in 2021 – 2022.
- **Recommendation:** Provide a minimum funding guarantee of 5% per annum over the Spending Review period.

Further reductions in central government grant funding for London boroughs would lead to further increases in council tax and reductions in services. It is essential that the FFR recognises the true cost of providing core services and enables proportionate funding for boroughs to continue service delivery across all areas.

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 councils in the capital would contradict the Government's commitment to ensure that levelling up does not come at the expense of London (Prime Minister's Office, 2021).

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

- **Recommendation**: At a minimum, government must commit to protecting funding for local authorities, so that no council loses out in real terms as a result of the FFR.

Ensure funding reflects need

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.

In terms of deprivation, seven out of the 12 central London boroughs (58%) are in the most deprived 20% of boroughs nationally (DLUHC, 2019). Under the original proposal, funding would not be prioritised for high need areas that are susceptible to poverty, crime and a lower quality of life.

The Area Cost Adjustment (ACA) is 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.

Neither the ACA nor the Foundation Formula account for the significant increase in population London sees on a daily basis. Approximately one million commuters normally come to London, leading to a sizable increase in the capital's population on a daily basis.

The Foundation Formula also understates the true cost of homelessness in central London and the demand for temporary accommodation. 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 COVID-19. The Formula needs to recognise the financial pressures on urban councils to support rough sleepers and homeless people. The FFR should also be coordinated with the review of the Vagrancy Act 1824 as this will have implications for how councils support rough sleepers.

- **Recommendation**: Reconsider the role of deprivation, population density, housing and land costs and variations in daytime population due to travel to work patterns in the Foundation Formula. This should include sharing evidence on how these have been considered and consulting on 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.
  - Provide funding for councils to cover the costs of people with No Recourse to Public Funds on whom London boroughs spend £50 million a year

Reform the business rates system

As stated above, the business rates system is increasingly unsustainable for businesses. However, the system is also challenging for local authorities. Reform of the business rates system could both support a fairer distribution of tax burden and support the sustainability of local government funding.

Online Sales Tax

CLF supports the introduction of an Online Sales Tax (OST). Introduced alongside business rates, an OST could help redress the imbalance in taxation between bricks and mortar retailers and online retailers, helping to support the sustainability of high street businesses.

Revenue raised through an OST could be an important part of supporting sustainability of local government finance. 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 £1.4bn in 2019/20. This could make a significant contribution to local government funding.

However, if central government introduced an OST, retained the revenue, and commensurately reduced business rates in order to avoid adding significantly to the overall burden on businesses, this would represent a significant risk to local authorities in central London. In this scenario government would need either to ensure local retention of funds, or to compensate local authorities for lost income from business rates, potentially through section 31 grants.

- **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.

Business rate retention

CLF supports in principle increased business rates retention including continuation of the London pool. Any new model must provide incentives for growth and not place excessive additional financial burden or risk on boroughs.

- **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.

Business rate revaluations

We welcome the government's recent consultation on implementing three-year revaluations. This could help address some of the issues caused by infrequent revaluations, including the disconnect between property values and business rates and uncertainty for both businesses and local authorities.

However, while an improvement on the current system, three-year revaluations would be a missed opportunity to go further. CLF supports moving towards annual revaluations. Such an approach would ensure a close link between property values and business rates, and greater certainty both for businesses and local authorities. Whilst there would be cost involved in implementing this, it could generate significant savings from reducing the number of appeals (Centre for Cities, 2020) and reducing the need for transition relief (New West End Company, 2018) (British Property Federation, 2014).

- **Recommendation**: Move towards annual revaluations at the nearest opportunity as part of the fundamental review of business rates.

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.

Support boroughs to diversify income

The reduction in central government grant funding has left local authorities in central London increasingly reliant on council tax and business rates. Reducing this reliance could help improve the sustainability of local government finance.

One such option is an Overnight Stay Levy (OSL). The OSL is a simple and easily collectable tax, which is increasingly common in major cities across Europe and the United States. Implementing an OSL in the current circumstances 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 sufficiently recovered, an OSL, has the potential to raise revenue for local authorities and support investment in the visitor economy. Any OSL should apply both to hotels and to home-sharing and short let providers such as Airbnb in order to maximise revenue and level the playing field.

Another option 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**: 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.
- **Recommendation**: Work with CLF and central London local authorities, alongside other London stakeholders, to explore the potential of a Green Delivery Levy in central London.

Deliver a sustainable funding settlement 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 to funding adult social care. As government grants are squeezed over time our boroughs are concerned that local revenue raising powers are not sustainable and impact council taxpayers and lower income earners. A longer-term option for reform to social care funding should be sought by government.

The Prime Minister's recent announcement on an 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 the majority of this new funding is directed towards the NHS. The remaining funding for social care is not sufficient to address the significant demand for social care now, or to alleviate the pressure on local authorities. The increase in Employer National Insurance Contributions that will pay for the investment will also place additional cost pressures on local authorities who use contracted staff.

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 aim cannot be achieved through increases in the social care precept on Council Tax and 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 to ensure they can find better value. Mitigation of this new duty should be included in the Spending Review.

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, which ensures sufficient funding for high-quality social care.
- **Recommendation:** Ensure that the cost of new duties, including the duty to arrange care for self-funders, and the cost of the increase in Employer National Insurance Contributions for contracted workers is met within the Spending Review.