Central London Forward – Representation to HM Treasury Spring Budget 2023

About Central London Forward

Central London Forward (CLF) is a partnership of the 12 central London local authorities[1]. We work together with our member authorities and with others to support inclusive and sustainable growth in central London; so our economy thrives, and our residents benefit from the opportunities this creates.

Summary

In the Spring Budget, Central London Forward calls on the Government to:

1. **Take a local-first approach to tackling unemployment and inactivity** so that we can better support unemployed and inactive residents into decent work;
2. **Deliver a sustainable long-term funding deal for TfL**, which supports investment in the network, enables the infrastructure the capital needs, and drives growth;
3. **Reform business rates** and introduce an Online Sales Tax in order to rebalance the burden of taxation between high street businesses and online retailers;
4. **Explore the potential of tax free shopping** in order to boost the visitor economy;
5. **Prevent a rise in homelessness and enable investment in new homes** by increasing the LHA, suspending the housing benefit cap, and helping boroughs with higher costs of management and building;
6. **Work with local government to deliver retrofit,** providing the investment and certainty needed to decarbonise housing, and deliver on net zero;
7. **Ensure financial sustainability for local government** by providing a long-term funding settlement, ensuring funding reflects high levels of need in central London, and giving local authorities greater flexibility over Council Tax.

Context

Central London is vital to the UK's prosperity and future growth.

Central London's economy is strong and dynamic. Central London is home to 3.2m jobs (ONS, 2022), and to world-leading clusters in the sectors of the future, from fintech and life sciences to the culture and creative sector. The Central Activities Zone – which sits within central London – alone accounts for almost a tenth of UK economic output (CLF, 2022). Central London's economy is inextricably linked to regional economies across the country. Every £1 of consumption in the capital generates 24p of production elsewhere in the UK economy (GLA Economics, 2020). This means that **when central London thrives, the rest of the UK benefits too.**

Central London makes a major contribution to UK public finances. The 12 central London boroughs account for 23% of England's business rates revenue (DLUHC, 2022). Despite the impact of the pandemic, London generated tax revenue of £18,431 per person in 2021, compared to a UK average of just £11,837 (ONS, 2022). This means that **when central London thrives, the UK's public finances benefit too.**

However, central London also faces very real challenges. London has the second highest levels of poverty of any region or nation in the UK, and the majority of the 12 central London boroughs are in the most deprived 20% of local authorities nationally (JRF, 2023; CLF,

[1] Camden, City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

2022). Since 2010, local authorities in central London have faced increasing demand for their services and significant cuts in funding.

Central London will play a vital role in driving the recovery of the UK economy. Central London Forward and all of our member authorities, are committed to driving inclusive and sustainable growth in central London, and to working with government to deliver this.

In the Spring Budget, we call on the Government too:

1. **Take a local-first approach to tackling unemployment and inactivity**

The UK is forecast to face a lengthy recession and a significant increase in unemployment. The Bank of England forecasts unemployment will peak at 6.4% in Q4 2025 (BoE, 2022). This would represent an additional **105,000** unemployed Londoners.

Unemployment is due to rise at a time when employment support capacity is due to ramp down post-pandemic. Job Entry Targeted Support stopped taking new starters in late 2022. The Work and Health Programme – which was devolved to the capital – and Restart – which was not – are due to stop taking new starters in summer 2024. Department for Work and Pensions (DWP) has begun to develop plans for provision to replace these programmes.

Economic inactivity has been increasing in recent months. Over one in five (21.6%) Londoners of working age are economically inactive, an increase of 2.1 percentage points – or **135,000 people** – over the last two years (Nomis, 2023). In the 2022 Autumn Statement, the Chancellor announced the Department for Work and Pensions will undertake a review of workforce participation and the issues holding this back which will conclude in early 2023 (HM Treasury, 2022).

Local authorities are well-placed to support unemployed and inactive residents into work:
- Devolution allows for services to be **tailored to local needs**. The needs of local jobseekers and the nature of local economies varies significantly across the UK. Local services are best placed to respond to these different needs;
- Devolution allows for the **integration of services at a local level**. Effective employment support often requires help to overcome multiple barriers to work. Local government is better able to bring together employment support with skills provision, with health and mental health support, and with other services, to provide the holistic support that is most effective;
- Local services offer the best opportunity to **engage employers** and to link supply-side interventions with demand-side interventions. Local authorities have strong relationships with local employers and with anchor institutions;
- Devolution has been proven to be **effective**, and local government can be trusted to deliver. The JETS programme in London has performed in line with or better than the national programme, despite the capital suffering a greater impact from the Coronavirus jobs crisis. Since the devolution of the Adult Education Budget, participation in AEB-funded learning in London has increased significantly.

London government has a long track record of supporting unemployed and inactive residents into decent work:
- Every one of the 12 central London boroughs has a **local employment service**. In 2021, these services supported over 22,000 residents – including both residents who are unemployed, residents who are economically inactive, and residents who are in work but on low pay. The 12 local authorities in central London together invested over £21m despite the squeeze on council resources (London Councils, 2022);
- Central London Forward manages **large scale cross-borough employment and skills programmes**, including Central London Works (the devolved Work and Health

Programme), JETS, and Connecting Communities, an ESF-funded employment and training programme. In 2022 alone, these programmes supported nearly **7,500** central London residents into work.
- London government has a **strong strategic partnership** focused on supporting residents into decent work. GLA, London Councils, the sub-regional partnerships and the London boroughs have developed a shared Economic Recovery Framework for London. Together, we are working together on the 'No Wrong Door' agenda, which aims to integrate employment and skills services, so residents can access the support that best meets their needs.

With the UK due to enter recession, just as employment support provision ramping down, DWP will need to consider whether it needs to increase support for those who are likely to lose their jobs.

The end of both the Work and Health Programme and Restart – which stop taking new referrals next year – offers the opportunity to review the approach to employment support, and to build on progress with devolution. Central London's local authorities have a strong track record of supporting residents to access decent work, there is a collective commitment to working in partnership with Government on this agenda, and an appetite for further devolution. We call on Government to take a **local-first approach** to future employment support.

Recommendation: Support for long-term unemployed people and those who are further from the labour market – including any successor programmes to Work and Health Programme and Restart – should be devolved to central London, and to other areas with the capacity to deliver. This support should be devolved in a way which gives meaningful flexibility to tailor support to local needs.

Recommendation: Department for Work and Pensions should involve local government in developing new provision for economically inactive people. This should include pilots in areas such as Central London, where local authorities have significant existing employment support capacity, and experience of supporting economically inactive residents into work.

Recommendation: Department for Work and Pensions should work in partnership with local government in central London, and elsewhere, in responding to any increase in unemployment due to the recession. This should include taking a local first approach, devolving provision where possible to areas with the capacity to deliver, including central London.

2. Deliver a sustainable long-term funding deal for Transport for London

London's transport network is crucial for keeping the capital moving, connected and productive.

After reductions in grant funding, Transport for London had become heavily reliant on fare revenue pre-pandemic. As revenue plunged during the pandemic, government stepped in to provide vital emergency funding, as it did with transport networks across the UK.

After a series of short-term deals, the most recent funding settlement gave TfL greater certainty, and some breathing space. TfL has been working to drive the recovery in passenger numbers and revenue, and it is on track to break even by April 2024.

However – as the most recent funding deal recognised – TfL will need ongoing capital funding in order to carry out major renewals, and to deliver major enhancements to the network (DfT, 2022). CLF has set out central London's infrastructure priorities, and London Councils will soon be launching a London-wide infrastructure framework (CLF, 2021).

Recommendation: Department for Transport should agree a long-term funding settlement with Transport for London beyond April 2024. This settlement should enable TfL to both maintain the existing network, and to invest in the major transport projects we will need in the future, including the Bakerloo Line Extension.

3. Reform business rates to level the playing field

Business rates represent a major cost for many businesses in central London. While the most recent revaluation brought some respite for central London businesses, the 12 central London boroughs still account for almost a quarter (23%) of England's business rates revenue (DLUHC, 2022). The burden of business rates falls disproportionately on city centre businesses, while large online retailers are comparatively lightly taxed.

We welcome the Government's recent reforms as part of the Fundamental Review of Business Rates, including the move to three-yearly revaluations. However, more can be done to ensure a fairer distribution of the tax burden, and to support local growth.

Central London local authorities are supportive of implementing an Online Sales Tax (OST) (CLF, 2022). Introducing an OST, and using the revenue raised to reduce the business rates multiplier, would help rebalance the burden of taxation between bricks and mortar businesses and online giants. It would help ensure fair competition, and promote the vitality and sustainability of high streets and town centres in central London and across the UK.

A reduction in business rates could put further pressure on local government finances, given some of the revenue is retained locally. A proportion of the revenue raised through an OST must be used to compensate local authorities, and to ensure financial sustainability of local government. Our preferred model would be having a local retention element to the OST.

Beyond introducing an OST, there are further reforms that could improve the business rates system. Government should explore annual revaluations, reform to the rateable value of warehouses, streamlining the appeals process, and action to address avoidance schemes.

Recommendation: HM Treasury should progress with reform to the business rates system, including through introducing an Online Sales Tax. The revenue raised by an OST should be used to reduce the business rates multiplier and increase resourcing for local government.

4. Explore the potential of tax free shopping

The visitor economy is crucial for central London. Overseas visitors to London spent approximately £15.7bn in 2019, generating huge benefits for the capital's economy and the UK as a whole (Statista, 2022).

The UK is currently the only country in Europe without tax-free shopping. This puts London at a competitive disadvantage in attracting tourists and spending compared to other major European cities.

The Government announced plans to reintroduce the VAT Retail Export Scheme (VAT RES) in October 2022. The decision was subsequently reversed, citing an estimated £2bn cost of the scheme (HM Treasury, 2022). However, this assessment did not balance the cost of VAT free shopping with the revenue that would be generated.

Recent analysis by Oxford Economics found that re-introducing tax-free shopping could increase GDP by £4.1bn, with a net increase in tax revenues of £350m. The research also found tax-free shopping could support an additional 78,000 jobs (Oxford Economics, 2022).

Reintroducing the VAT Retail Export Scheme would help drive the recovery of international tourism in London and across the UK. It would put the capital on a level-playing field with other European cities, helping us to both attract visitors, and to boost growth and tax revenue. The Mayor of London has joined a wide range of business groups in calling for the re-introduction of tax-free shopping (Mail, 2023).

Recommendation: The Chancellor should ask the Office for Budget Responsibility to carry out an assessment of economic and fiscal impact of re-introducing the VAT Retail Export Scheme. Subject to that review, Government should explore the potential of re-introducing VAT-free shopping in order to drive the recovery of the visitor economy.

5. Prevent a rise in homelessness and enable investment in new homes

The capital faces an acute housing crisis with chronic levels of homelessness. There are an estimated 162,000 homeless people in London, including 78,000 children (London Councils, 2022). Levels of homelessness and rough-sleeping are particularly high in central London. London has seen growing pressure in the private rented sector. Average rents have risen by 17% in London in the year to October 2022 (Hometrack, 2022). This increase, along with the wider cost of living pressures, risk driving a further increase in homelessness.

Following rapid increases in private rents, fewer than one in ten private rented properties listed in London are now affordable for households on benefits (London Councils, 2022). With Local Housing Allowance rates frozen, this means an increasing number of households will struggle to find a home within the LHA. It will also mean that the number of households impacted by the benefit cap will increase. Central London boroughs are less able to support residents at risk of homelessness, due to significant reductions in Discretionary Housing Payment budgets. This could lead to a rapid increase in homelessness, with significant negative impacts both for households, and for local authority finances.

Homelessness has a huge impact on the lives of tens of thousands of families across the capital. It also has a significant financial impact on local government; in 2020/21, the cost of temporary accommodation in London exceeded £1 billion (Capital Letters, 2022).

In the medium term, delivering more affordable and social homes is essential to addressing the housing crisis. Central London boroughs are determined to build more homes, and last year saw almost 19,000 affordable homes started across the capital (DLUHC, 2022).

However, Central London boroughs are facing significant cost pressures relating both managing existing homes, and to delivering the new homes we need. Boroughs and other social landlords are having to undertake urgent and important work to address fire safety and damp in the properties they manage. The cost of this work – as well as the cost of building new homes – has increased very significantly over the last year. Recent research carried out by Savills for GLA found that construction material costs had increased by 17% in the last year (Savills, 2022). This same research found that London would require an additional £4.4bn annually to deliver the number of affordable homes the capital needs.

In responding to London's housing crisis, we need both urgent short-term action to prevent a surge in homelessness, and action to deliver the affordable homes we need to tackle the crisis in the medium- to long-term.

Recommendation: Department for Levelling Up, Housing and Communities should increase the LHA in line with private rents and suspend the benefit cap in order to prevent a rise in homelessness.

Recommendation: Department for Work and Pensions should increase Discretionary Housing Payment, so that local authorities are able to prevent residents falling into homelessness.

Recommendation: Department for Levelling Up, Housing and Communities should provide additional grant funding for affordable housing in London, in order to reflect the growing financial pressures on London Boroughs and other social housing providers, and to enable the delivery of the homes London needs.

Recommendation: Department for Levelling Up, Housing and Communities should give local authorities full flexibility on Right to Buy receipts and work with local authorities to lower the cost of borrowing for new homes, in order to enable local authorities in central London and elsewhere to deliver the homes we need.

6. Work with local government to deliver retrofit

There is a shared commitment across London government and central government to reach net zero, and all 12 central London local authorities have ambitious net zero targets. With homes and workplaces accounting for 78% of the capital's CO_2 emissions, delivering on our net zero commitments will require rapid decarbonisation of buildings in the capital.

The Independent Review of Net Zero demonstrated the central role that local authorities will need to play in reaching net zero (Skidmore, 2023). However, it also highlighted that the complex funding landscape, with short term programmes based on competitive bidding, was hindering local authorities in delivering on their climate commitments.

The Skidmore Report also called for longer term funding certainty for a small number of major net zero priorities, where we know that long term policy commitment is essential to success, and will provide long term savings. Domestic retrofit is a primary example here; where the funding situation is complex, where major investment and a long term commitment are needed, but where significant long term savings are possible.

Recommendation: Department for Levelling Up, Housing and Communities should review and simplify the funding system for domestic retrofit and provide a significant and long term commitment to investing in decarbonisation of homes. Government should work with local authorities to deliver on this agenda, particularly in relation to council-owned housing.

7. Ensure financial sustainability for local government

Local authorities play a vital role in delivering local services, in promoting local growth, and in ensuring local resilience. However, local government has seen amongst the largest reductions in funding of any part of the public sector over the last decade. Local authorities in London have been particularly hard hit, seeing a larger decline in both funding and spending per capita than in any other region (IFS, 2019).

Central London local authorities very much welcome the local government finance settlement published in December 2022, which provided a real terms increase in core spending power for London Boroughs of 5.8%. However, even after the increase, core spending power for London boroughs in 2023/24 will remain 18% lower in real terms than 2010/11 (London Councils, 2022).

This is the fifth consecutive one-year settlement for local authorities. Short settlements limit the ability of local authorities to undertake long-term financial planning, and to deliver maximum value for public spending. They also limit the ability of local government to deliver on long-term priorities, such as net zero.

The settlement assumes significant further increases in council tax. Local authorities have become increasingly reliant on council tax as a source of revenue in recent years, as central government grant funding has been cut. Council tax is deeply regressive, with a greater proportional impact on low income working households (IPPR, 2019). Further increases in council tax will add to pressure on households in London at a time of significant cost of living pressures. Giving local authorities the ability not just to set the rate of council tax locally, but also to set council tax bands, would enable councils to adapt the system, and raise income in a more progressive way.

Local authority funding allocations from central government depend in large part on local population. There are significant concerns that the 2021 census – which took place during the COVID-19 pandemic, at a time when London's population was temporarily depressed – does not reflect an accurate picture of London's current population, and cannot be relied upon for funding allocations.

Recommendation: Department for Levelling Up, Housing and Communities should provide a long-term funding settlement for local government, providing the certainty and stability needed to plan.

Recommendation: Department for Levelling Up, Housing and Communities should explore the potential to give local authorities the flexibility to set not just council tax rates but to amend council tax bands, so that funding can be raised in a more progressive way.

Recommendation: Department for Levelling Up, Housing and Communities should work with ONS and with local authorities in central London to ensure that population statistics used to inform local authority funding and other public spending are robust.

Recommendation: Department for Levelling Up, Housing and Communities should work with local government on the Review of Relative Needs and Resources to ensure funding formulae accurately reflects needs – including the high levels of need in central London – and to ensure no local authority sees real terms reduction in funding.