Central London Forward

Spring Budget 2024 – Central London Forward representation to HM Treasury

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 call on the government to:

1. Ensure sustainable funding for local government;
2. Take a long term and growth-focused approach to transport infrastructure in London;
3. Re-introduce tax-free shopping to attract visitors and drive growth;
4. Devolve employment support to build a system that works;
5. Take further action to prevent a rise in homelessness;
6. Work with local government to deliver retrofit at scale;

Context

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

The 12 local authorities that make up Central London Forward are 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 £22,093 per person in 2021, compared to a UK average of just £13,708 (ONS, 2023). 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, 2022). This shows that **London needs levelling up too**.

Central London has a vital role to play in delivering on the Prime Minister's priorities of growing the economy, and reducing national debt. Central London Forward and our member

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

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 to:

1. **Ensure sustainable funding for local government.**

Local government has seen among the largest declines in funding of any part of the public sector since 2010.

Local authorities in London have been hit particularly hard, with a larger decline in per person funding and spending than those in any other region over the last decade (IFS, 2019). Recent analysis by IFS found that local government funding in London is **17%** lower than estimated relative need. Even if you account for differences council tax levels, London receives **7%** less than relative need (IFS, 2023).

Spring Budget 2023 delivered a much-needed increase in local authority funding. However, even after this increase, funding for London boroughs remained almost a fifth below 2010 levels. The Autumn Statement 2023 and the Local Government Finance Settlement provided some relief but did not go far enough in supporting boroughs meet the surge in demand for services and the cost of high inflation.

Local authorities in central London are facing significant and growing financial pressure. Among CLF member boroughs the total projected gross overspend as of Q2 2023-24 is £185M. Approximately £58m of this is adult social care, £46m is children's social care, £60m is for temporary accommodation and £21m is for other services[2]. In particular, the surge in the net cost of temporary accommodation presents a significant and growing risk for local authority finances. The cost has risen dramatically over recent years and is forecast to rise further. This is an issue nationally but is particularly felt in London where high housing costs, poverty and high number of refugees placed in hotel accommodation adds an additional burden on borough finances.

The forecasted cuts to unprotected departments, implied in the Autumn Statement, remain a real concern for local government. Unprotected departments are set to see per capita day-to-day budgets fall by 14% between 2022/23 and 2027/28 (Resolution Foundation, 2023). After a long funding squeeze, and with growing pressures on the sector, further cuts of this scale will inevitably lead to a significant deterioration in the services which residents rely on, and more local authorities facing financial failure.

- **Recommendation:** *Government should increase local government funding in real terms to protect local services from further cuts.*
- **Recommendation**: *Government should return to long-term funding settlements of at least 3 years to give local authorities the ability to plan and deliver best value for public funding.*
- ***Recommendation:*** *Bring the Temporary Accommodation Subsidy Collection Rate in line with 2024 levels of need and cost. This would support local authorities to invest in new property for Temporary Accommodation, providing a better return on investment and a reduction in overall cost over the long term.*

[2] These figures are based on information from a survey conducted by London Councils.

- ***Recommendation:*** *Work with local areas to find long-term, financially sustainable and socially inclusive solutions to temporary accommodation for refugees, rather than the current reliance on hotels.*
- ***Recommendation:*** *Ensure central London is included within the Broad Market Rental Area used to calculate Local Housing Allowance for the capital, so that LHA rates reflect the actual cost of renting in central London boroughs.*

2. Take a long term and growth-focused approach to transport infrastructure in London.

An effective transport network is vital for the success of central London's economy. Over half (54%) of people working in London take public transport to get to work, almost four times the figure across the UK (15%) (Department for Transport, 2023).

Passenger numbers have continued to recover robustly following the pandemic, and TfL is on course to achieve an operating surplus by the end of the financial year, with transport revenues covering the day-to-day costs of managing the existing network (TfL, 2023). However, as with all major transport networks, TfL will need ongoing support with capital funding in order to maintain the existing network, and invest in future growth.

The recent funding deal between Department for Transport and TfL, announced on the 18th of December 2023 and lasting until the end of the financial year 24/25, is welcome. However, this is yet another short-term deal, and it provides only half of the capital funding TfL needed.

The Elizabeth Line has shown the transformative impact of investments in London's transport network. The line increased rail capacity to central London by **10%**, bringing **1.5m** additional people within a 45-minute journey. It carried **150m** passenger journeys in the first year, and it is already the busiest railway in the UK. Further capital investment – such as the Bakerloo Line Upgrade and Extension could have a similarly transformative impact, driving growth, unlocking housing delivery, and supporting the transition to net zero (Central London Forward, 2021).

The cuts to HS2 have significantly reduced the potential impact of this transformative project. Completing the line to Euston, and re-developing the station, will be essential to improving connectivity, delivering new homes and creating jobs.

Recommendation: *Central government should ensure TfL has a sustainable long-term funding settlement beyond April 2025. Lasting a minimum of three years, the settlement must enable both maintenance of the existing network and investment in future growth. This capital funding deal should enable the delivery of transformative infrastructure projects such as the Bakerloo Line Upgrade and Extension, which could drive growth and unlock housing delivery in London.*

Recommendation: *In order to maximise the impact of HS2, Government should:*

- *commit to delivering the existing tunnelling contract for the Old Oak Common to Euston section, and beginning the work in 2024. Government must work with business, London Government and other stakeholders to develop a clear plan on how the project will be financed and delivered through the proposed Development Corporation*;
- *ensure any delivery structure focused on the regeneration of the 'Euston Quarter' is locally led, with local government having a clear leadership role;*
- *protect future network connections beyond phase one of the project, so there is capacity to extend HS2 in the future, including through maintaining safeguarding in the West Midlands and Greater Manchester.*

3. Re-introduce tax-free shopping to attract visitors and drive growth.

Central London is the UK's leading tourist destination, and the visitor economy is a vital driver of prosperity both locally and nationally.

The VAT Retail Export Scheme allowed non-EU visitors to the EU to recover the VAT on purchases they make on the high street. The scheme was withdrawn in 2021, leaving the UK as the only country in Europe not to offer tax free shopping.

The lack of a tax-free shopping scheme puts London at a competitive disadvantage compared to other major tourist destinations, with a negative impact on both the number of tourists coming to London and the UK, and the amount of visitor spending. Recent analysis shows that per capita spending by non-EU visitors in the UK has fallen significantly in the UK following the withdrawal of tax-free shopping, while it has continued to increase in France, Spain and Italy (Financial Times, 2024).

A tax-free shopping scheme could deliver a significant boost to the UK's visitor economy, attracting more international visitors, driving GDP and employment growth, and delivering net benefits to the Treasury.

Analysis by CEBR found that in 2023, a tax-free shopping scheme could have increased GDP by **£10.7bn**, supporting **201,000 jobs**, and generating additional net income of **£2.3bn** for the Treasury, a gain of £1.56 for every £1 refunded to tourists (CEBR, 2023)

Analysis by Oxford Economics in 2022 found that a tax-free shopping scheme could increase GDP by **£4.1bn**, supporting **78,000 jobs** and increasing tax revenue by **£350m** (Oxford Economics, 2022).

- ***Recommendation:*** *Central government should introduce a digital tax-free shopping scheme for international visitors to drive the growth of the visitor economy.*

4. Devolve employment support to build a system that works.

Despite the strength of the local economy, London has among the highest unemployment rate of any region or nation of the UK (ONS, 2023). Nationally commissioned employment support programmes have traditionally been less effective in the capital.

Local authorities in central London already play a vital role in helping residents into decent work. Every one of the 12 central London local authorities has a local employment service. Despite the pressure on local government finances, last year central London boroughs services invested **£22.7m** into these services, supporting **20,250** residents.

Central London Forward manages employment and skills programmes on behalf of the 12 central London boroughs, including the devolved Work and Health Programme. Last year, Central London Forward's employment programmes supported **7,958** residents into work.

There is a strong case for devolution of employment support:[3]

- Local services are better able to **adapt to local needs**. The nature of local economies and the needs of local jobseekers vary significantly from place to place. Local government is well-placed to understand and respond to these needs.
- Local services offer the best opportunity to **integrate services**. Supporting people into work – particularly for those furthest from the labour market – often requires

[3] See for example IES, 2023; Work and Pensions Committee, 2023

helping people overcome multiple complex barriers to work. Locally delivered services are better able to break down policy silos and deliver holistic support.

- Local services offer the best opportunity to **engage employers** and to link supply-side interventions with demand-side interventions. Local authorities have a good understanding of their local economy, and strong relationships with local employers.

In the 2023 Spring Budget, the government announced Universal Support, a new employment programme which is due to succeed the Work and Health Programme and provide support to economically inactive people with a disability.

The Department for Work and Pensions has recently indicated that Universal Support will be devolved directly to the GLA, rather than to the sub-regional partnerships as is the case with the Work and Health Programme. This goes against the shared collective view of London local government, including the GLA itself, and it adds an unnecessary layer of administration.

With only nine months to go until the Work and Health Programme stops taking new referrals at the end of September 2024, DWP has yet to provide clarity in the design of the new programme. This raises the risk that – if local areas aren't able to proceed with preparations soon – there will be a gap in service provision between the Work and Health Programme and Universal Support. Such a gap would leave disabled claimants and those with long term health conditions without appropriate back to work support, and it would lead to a loss of capacity within the employment support sector.

The Spring Budget also unveiled Trailblazer Devolution Deals with the Greater Manchester Combined Authority and the West Midlands Combined Authority at the 2023 Spring Budget. These included further devolution of employment and skills support (DLUHC, 2023).

- ***Recommendation:*** *Government should devolve Universal Support to sub-regional partnerships in the capital. This should be done in a way which offers local areas genuine flexibility to adapt support to local needs, and the ability either to deliver direct, or commission the service locally.*
- ***Recommendation:*** *Government should provide urgent clarity on the design of Universal Support, so that local areas can progress with service design and roll-out. This is vital to ensuring Universal Support is in place for October 2024, with no gap in provision for disabled jobseekers.*
- ***Recommendation****: Central Government should open discussions with London government about a trailblazer devolution deal for the capital, including further devolution of employment and skills powers.*

5. Take urgent action to prevent a rise in homelessness.

London faces a homelessness crisis. A recent survey of boroughs found there are nearly **170,000** homeless residents, including over **83,000** homeless children. This means that **one in 50** Londoners are now homeless. With a lack of alternative housing available, boroughs are estimated to be spending **£300m** annually on temporary accommodation, and homelessness services in London face a deficit of over **£240m** this year (London Councils, 2023).

The major drivers of homelessness in the capital are the lack of availability of social housing, and a lack of availability and affordability in the private rented sector.

London has seen a significant decline in the availability of private rented properties. The average number of quarterly listings in 2022 was **41%** lower than 2017 in London, compared to a decline of 31% nationally. London has also seen a steeper rise in rents. After a decline at the start of the pandemic, private rents in London increased by almost a third between

February 2021 and February 2023, reaching a level **20%** higher than pre-pandemic (Savills and LSE Consulting, 2023).

The decision to increase Local Housing Allowance at the Autumn Statement 2023 was very welcome, and it will help limit the rise in homelessness. It is however concerning that the LHA will be frozen again from April 2024. Over time this will likely mean the LHA will again fall behind market rents, causing a preventable increase in homelessness.

The Household Support Fund (HSF) has played a vital role in helping local authorities support residents with the cost of living crisis, and preventing a further rise in homelessness. Central London boroughs have used the HSF to support residents with energy bills, to fund emergency food support services, to provide free school meals, and to support those at risk of homelessness. Across London, boroughs spent approximately £137.5 million on HSF related activity during 2023/24. The HSF is due to end in April 2024.

- ***Recommendation****: Government should permanently link the LHA to local private rents, in order to prevent the rate falling behind the market, and a consequent increase in homelessness.*
- ***Recommendation:*** *Government should extend the Household Support Fund in to the 2024/25 fiscal year. The fund should be continued for at least another year, or government should work with local authorities to agree transitional funding to allow to the effects of uprating LHA and Universal Credit to play out.*
- ***Recommendation****: Government should increase the Discretionary Housing Payment and the Homelessness Prevention Grant to enable local authorities to support households at risk of homelessness. Further, the Homelessness Prevention Grant should be set for a minimum of three to five years, giving local areas certainty.*
- ***Recommendation****: Government should provide capital funding to local authorities to buy properties being sold by private landlords, in order to increase the stock of social housing and prevent a further increase in homelessness.*

6. Work with local government to deliver retrofit at scale.

Every one of the 12 central London local authorities has set an ambitious net zero target. Decarbonising housing will be vital if we are to deliver on these targets. London's housing stock is responsible for **a third** of all carbon emissions.

London boroughs face two main challenges in delivering retrofit - a lack of funding, and a lack of capacity in the market.

Delivering retrofit will require significant investment. Retrofit London has estimated the cost of bringing all properties to an average of EPC B would be **£98bn**, or £26,000 per property affected. Much of this cost will be borne by private owners and private landlords, though this will require sufficient incentives and support in place. However, much of the cost will need to be borne by the state, including costs relating to social housing. The funding available for retrofit is complex and insufficient; the main grant scheme for social housing – the Social Housing Decarbonisation Fund – is worth just £3.8bn nationally over 10 years, a fraction of the anticipated cost. Moreover, the Fund is based on competitive bidding, not need, leading local areas to waste time and resources fighting over limited resources rather than focusing on implementing the step change we need to deliver our retrofit ambitions.

Delivering retrofit will also require a significant expansion of the workforce. Analysis commissioned by Central London Forward found that retrofit of homes and commercial properties in central London would require **148,000** person years of labour. There will be a particular demand for a number of occupations, including scaffolders, roofers, glaziers and building envelop specialists. For each of these occupations, the additional demand generated by retrofit exceeds 20% of the current workforce, requiring a significant expansion in these trades (Wholelife Consulting, 2023).

At present, the pace of retrofit activity, and the scale of investment – both public and private – remains limited compared to the volume of work required. With investment in retrofit limited, the number of people taking part in training to develop the skills needed to undertake retrofit is also modest. The skills system is designed to respond to demand – both from potential learners and from employers. In the absence of significant investment in retrofit, demand from learners and employers for this training remains limited.

- ***Recommendation****: Government should increase funding to deliver domestic retrofit, including through expanding and accelerating the Social Housing Decarbonisation Fund, and removing the competitive element of the fund. Government should work with local areas to develop regional settlements matching local need.*
- ***Recommendation****: Government should work with local authorities in a number of areas – including central London – to develop social housing retrofit pilots. Working with local authorities, housing associations, and skills providers, these pilots could stimulate the demand side, setting out a pipeline of work, and bring together demand and supply by upskilling local residents to deliver at scale.*

Central London Forward, January 2024