Protecting London's Economy: investing in the future

LONDON COUNCILS

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Introduction

London's success is vital to the success of the UK economy. It contributes a net fiscal surplus of £32.5 billion to the rest of the UK, delivers 23 per cent of the country's Gross Value Added and exports over £130 billion in goods and services.

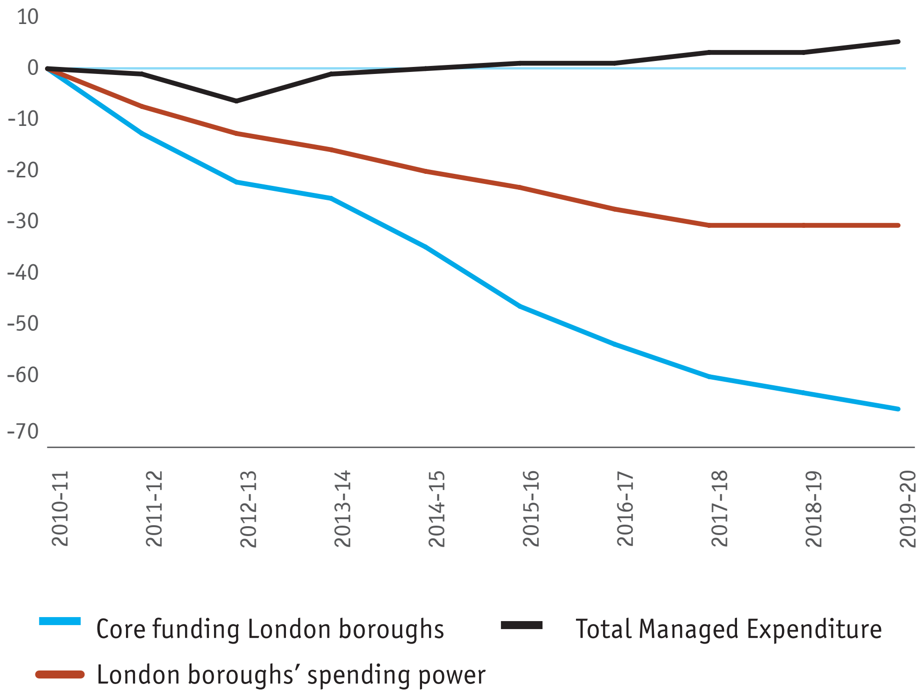
However, London's economy is under threat. Both from the wider economic uncertainty facing the UK and from the continuation of austerity. Following a decade of underinvestment, London's public services - vital in ensuring the day-to-day running of the city - are being stretched to breaking point.

Nowhere is this more true than in local government. By 2020, core funding from government to London boroughs will have fallen by 63 per cent in real terms since 2010, with overall resources by the end of the decade around a third lower than they were at the start.

Over the same period, demand for local government services has increased hugely. London's population will have grown by around 1 million people to over 9 million, and new policies and legislative changes mean councils are dealing with a greater range of duties and responsibilities, transferred from central government, than a decade ago.

Local government funding has been disproportionately cut compared with the rest of public sector

Cumulative like-for-like real terms % change in public spending - 2010-2020



KEY FACTS & FIGURES

2010 - 2020

63% real terms cut to core funding from central govt to London local government between 2010-2020

overall public spending has increased by

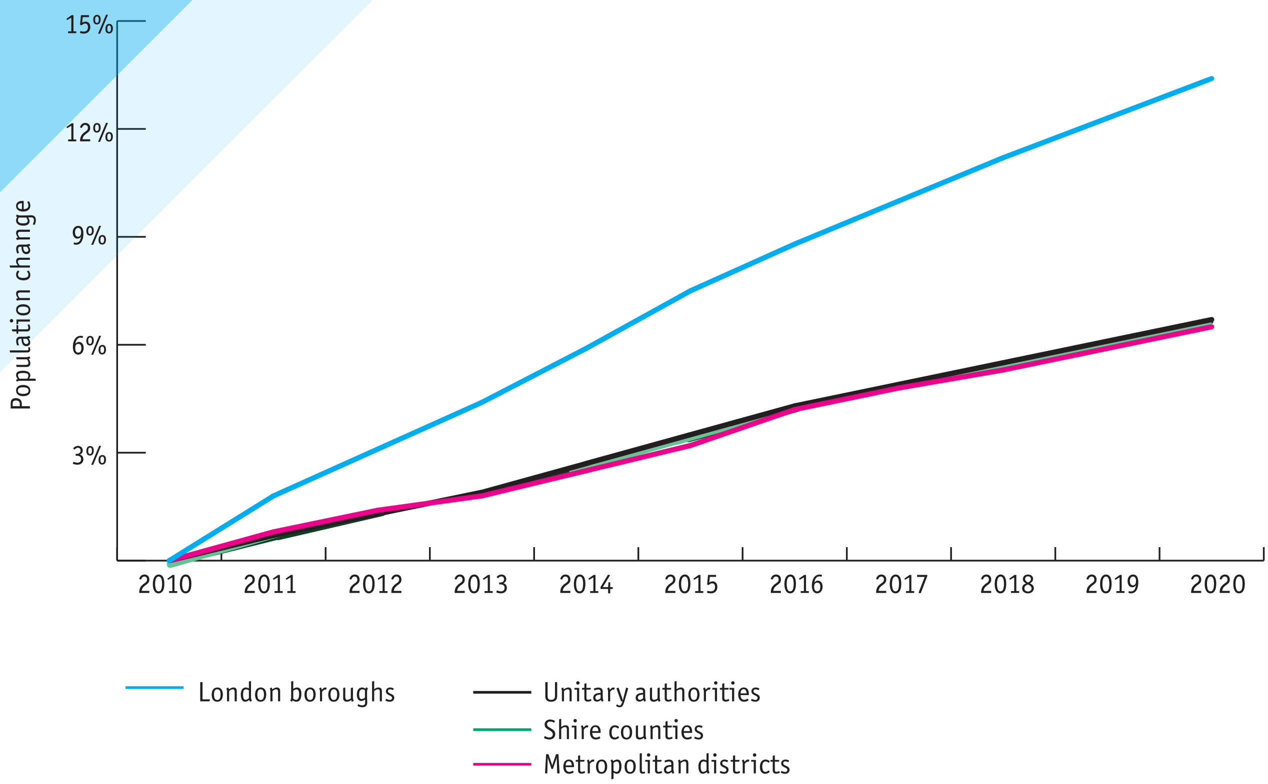
5%

The Spending Review, due later in 2019, provides the opportunity for the government to put local government on a sustainable financial footing, by investing in local services. In particular, London's housing crisis, creaking infrastructure and significant skills gaps must be addressed to safeguard not only London's economy but the UK's.

This briefing is part of London Councils' wider lobbying campaign *Investing in the Future*[1] - ahead of the Spending Review. It is aimed specifically at London's business community.

We believe London's public services, voluntary and community sector and business community must speak with one common voice ahead of the Spending Review – to make the case for London in order to protect not only the most vulnerable people in society, but all of London's residents and businesses who contribute to and rely on the success of its economy.

Total population change 2010-2020 by authority type



1. It follows a more detailed briefing launched in November 2018 at our Summit which can be found at https://www.londoncouncils.gov.uk/download/file/fid/23689

The uncertainty facing London’s economy

London has always been the engine of the UK economy, but it faces a number of challenges to maintain its success

KEY FACTS & FIGURES

LONDON'S SHARE OF THE UK TOTAL

GROSS VALUE ADDED

23%

TAX RECEIPTS

20%

JOBS

18%

TOTAL PUBLIC SPENDING

14%

London has always been at the heart of the UK's economy. Its position as an internationally competitive centre for global business services brings trade not just to London but to the UK as a whole. This has become even more apparent in the last 30 years, in which London has established itself as the global centre of financial and professional services.

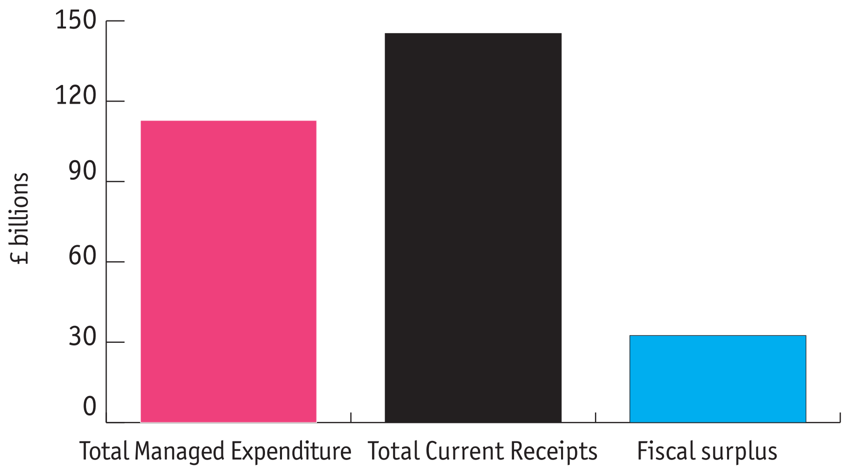
Despite having just 13 per cent of the UK's population[2], almost 6 million people work in London (19 per cent of the UK total)[3], and London contributes around 20 per cent of the national tax receipts and around 23 per cent of the UK's Gross Value Added[4]. While its share of national expenditure (14 percent) is marginally higher than its share of population, it is far lower than its tax contribution, meaning it delivers an annual fiscal surplus to the rest of the country (totalling around £32.5 billion[5]).

However, in the decade since austerity began, productivity performance in London has been slower than in the rest of the country[6]. This compares to the period 2000-10, where productivity growth in London was 25 per cent faster than elsewhere. Since 2010, London's employment growth has been largely in low-paid jobs. London's growing housing crisis means, increasingly, these people cannot afford to live in the capital.

Were austerity to continue into the next decade, London's economy is at real risk of shrinking. The lack of investment in the capital cannot continue.

London's public services play a vital role in its economic success. Local authorities, in particular, are responsible for a number of services that enable the city to function on a day-to-day basis. These include: the maintenance of roads and other infrastructure; housing and planning services;

London total public expenditure and receipts 2016/17



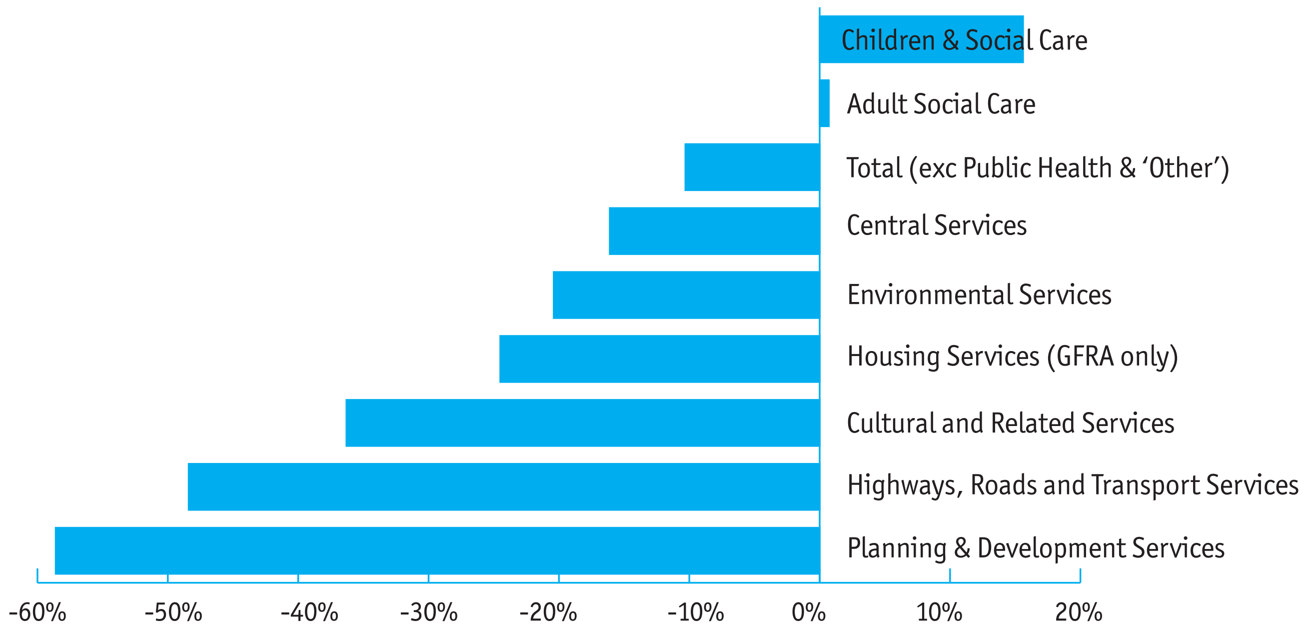
2. ONS: 2016-based Sub-National Population Projections
3. GLA Economics, London's Economics Dashboard, June 2017
4. ONS, Regional gross value added (income approach): https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach
5. ONS, Country and regional public sector finances: financial year ending 2017
6. Resolution Foundation (London Stalling, 2018)

support for schools and adult education; environmental services, such as waste collection and disposal; and for other universal services like leisure and public health, which means they are ultimately responsible for the general health of the population. Without these vital services - ensuring residents, employees and customers have a place to live, are healthy and can move freely around the city – London's economy would struggle to function. However, the continuation of austerity means that these vital services are suffering from underinvestment and close to breaking point.

Councils have responded to the decade of austerity by protecting spending on the most vulnerable – those in need of children's and adult social care – meaning other services have borne a greater share of the funding cuts since 2010. For example, the chart below shows cuts of almost 60 per cent in planning and development, and almost 50 per cent in highways and transport services.

London boroughs have coped partly by becoming more efficient. They have implemented radical restructuring and transformation plans; invested in demand reduction; renegotiated contracts; shared services and back office functions; implemented IT programmes and engaged in a wide range of commercial activities. As a result, they are now much leaner organisations – having reduced their workforce by around a quarter since 2010.

Real terms change (%) in expenditure on services by London boroughs 2010/11 to 2018/19

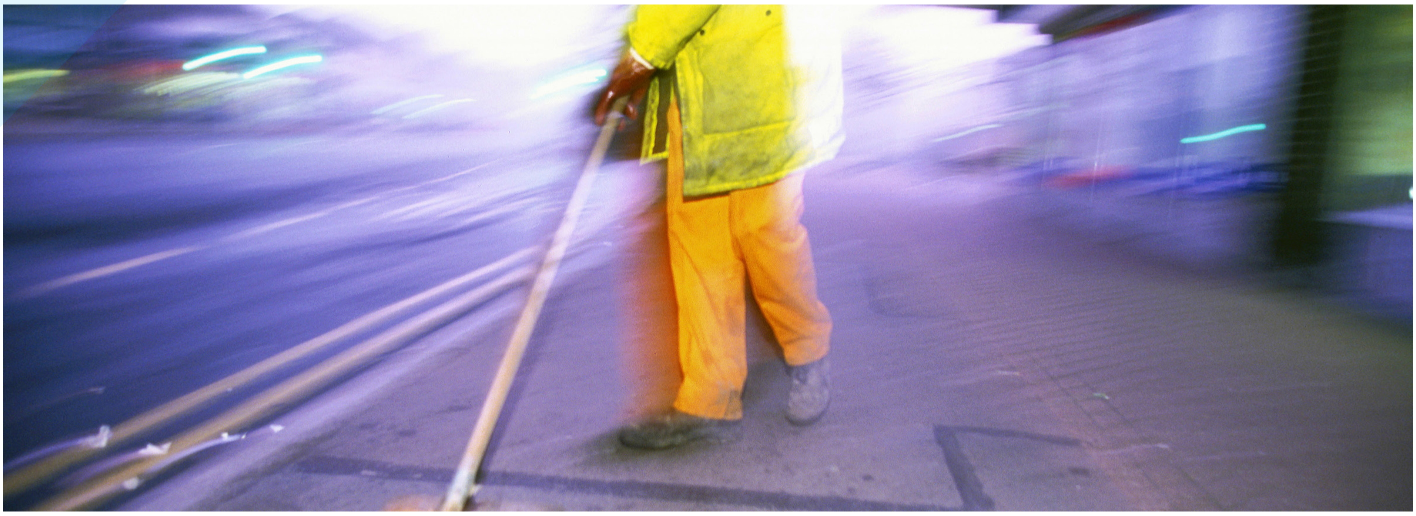


With so much done already, the limit of what is possible in terms of efficiencies is running out. Further funding reductions in the next Spending Review period would undoubtedly hit frontline services, and mean further cuts in planning, highways, housing and environmental services – which so many businesses rely on.

Further public spending reductions would be even more detrimental at a time when London is facing a period of wider economic uncertainty as the UK leaves the EU: the number one concern for London's businesses[7]. The potential impact of rising inflation on the price of goods and materials could have a particular impact on the construction industry, on which London's transport, infrastructure and housing rely. With over 40 per cent of London's workforce being born outside of the UK , there could a particular impact on recruitment and retention. This has the potential to impact on the public, private and voluntary sectors.

This is why, after a decade of funding cuts, London Councils is calling for an increase in funding for local government as a whole in next year's Spending Review. This must be informed by a full assessment of spending pressures facing the sector based on information from across all government departments that fund local government.

In addition, we are asking for greater access to a broader range of revenue raising powers, in order to cope with the expected growth in demand for services in the next few years.



7. http://www.cbi.org.uk/cbi-prod/assets/File/CBI_CBRE_LBS_2018.pdf
8. https://www.london.gov.uk/sites/default/files/eea-workers-in-london-cin-56.pdf

Investment in transport infrastructure

Investment in the capital's infrastructure is critical to its continued success

Infrastructure creates places and connects them to each other. It boosts productivity, quality of life and makes places attractive for people to work, live and travel in. Investment in transport infrastructure in particular is key to ensuring the capital continues to grow and succeed – with the population set to reach 10 million in the next 20 years.

Major strategic transport projects
Major strategic infrastructure projects require a collaborative partnership approach from design all the way through to implementation. London Councils supports the strategic case for projects such as Crossrail 2, High Speed 1 and 2 and the Brighton Mainline. We work closely with organisations in the Wider South East, Sub National Transport Bodies, the National Infrastructure Commission, the business community and of course TfL, the Mayor of London and the government.

London Councils asks that the government commits to supporting these major projects, which are vital to the continuing economic success of the capital, in the Spending Review. We would also welcome further dialogue with the government and other stakeholders on suitable mechanisms to capture the land value uplift of these major projects for further reinvest into strategic infrastructure.

Roads investment
London boroughs are responsible for 95 per cent of the capital's roads, as well as pavements, street lighting, drainage and other associated structures. The funding available for maintaining these structures continues to fall short of what is needed. The accumulated highways maintenance backlog in London is currently estimated to be approximately £907 million. This total has grown despite authorities having increased spending in cash terms in 2017/18.

TfL has calculated that London currently pays around £500 million in Vehicle Excise Duty (VED) and almost all of it will be spent on roads outside the capital even though 90 per cent of Londoners' journeys take place entirely on London's roads.

We believe the government should use the Spending Review to devolve VED to London authorities to help fund the investment that is so desperately need to maintain their highways.

Local transport infrastructure
There are a number of smaller-scale, but no less important, strategic transport projects in London that are crucial to continued growth of its economy. Examples include: the Bakerloo Line Extension; the West London Orbital Railway; and further river crossings in east London. In addition to increased devolved funding and tax raising abilities, London Councils believes the government should look at **Tax Incremental Finance** as a potential funding mechanism. This is currently under-utilised (this has only been used in London once so far), and we would support the establishment of a working group with appropriate membership to develop a process that local authorities can make better use of.

Investment in education and skills

Access to talent is one of the main reasons many businesses choose to locate in London

Business in the capital need to invest in homegrown talent, as well as be able to attract skilled people from outside the city, in order to achieve inclusive economic growth.

Growing talent starts in school. Despite high levels of deprivation, pupil mobility and English as an additional language, investment has meant that London's schools are the best performing in the country[9].

But the benefits of this investment are now at risk. The NAO forecasts cost pressures of 1.6 per cent for schools in 2018/19. However, the new national funding formula has resulted in real terms funding reductions in almost three quarters of London schools this year[10]. This is resulting in headteachers having to cut costs, such as reducing the breadth of the curriculum and the number of teaching assistants and cutting spending on learning resources[11]. This is likely to have a significant impact on outcomes for pupils and their employment prospects.

Despite outperforming other regions at GCSE level, London fails to sustain this progress post-16. Inner London ranks second lowest among the English regions for average attainment at Level 3 among 16 to 18 year-olds in state funded provision[12.] Investment in Further Education and sixth forms has declined significantly compared to other parts of the education system. Spending per student fell by around 7 per cent in real terms between 2010/11 and 2015/16 in FE and by 18 per cent for school sixth forms[13]. Consequently, participation in Further Education in London has reduced significantly[14].

London has more skills shortages than any other region in the UK: an estimated 30,000 unfilled vacancies as a direct result of people not having the right skills[15]. Too many Londoners lack the basic skills to take advantage of London's job opportunities. Some 210,000 working-age adults in London cannot speak English well and around 25,000 cannot speak English at all[16].

9. 94 per cent of London schools are rated good or outstanding by Ofsted and London schools have the best GCSE results in the country.
10. Based on analysis of school allocations for 2018-19 from the Department for Education (source)
11. London Councils (2018) Talking Heads
12. Department for Education (2017) A level and other 16 to 18 results: 2016 to 2017 (revised)
13. Institute for Fiscal Studies (2017) Long-run comparisons of spending per pupil across different stages of education
14. Participants in classroom based FE have decreased by 35% between 2012/13 and 2016/17
15. London First (2018) An Employment and Skills Action Plan for London
16. 2011 census

Inequalities persist. Young people, disabled adults, BAME groups and women are under-represented in the labour market. Too many Londoners are stuck in low paid, low skilled jobs. Automation and disruptive technologies will change skills needs, replacing and creating jobs.

To rise to these challenges, we believe London needs an effective, sufficiently resourced skills system, one that is responsive to employer needs and promotes social mobility. The current centralised system doesn't deliver this. The devolution of the Adult Education Budget (AEB) is a step in the right direction, but we believe a whole systems approach to skills is required, with London Government working closely with London's businesses and training providers.

The government can take action to address this in the Spending Review by:

Devolving 16-18 skills provision, including post-16 technical education capital funding

Devolving the levers and funding to create a coherent all-age careers offer in London.

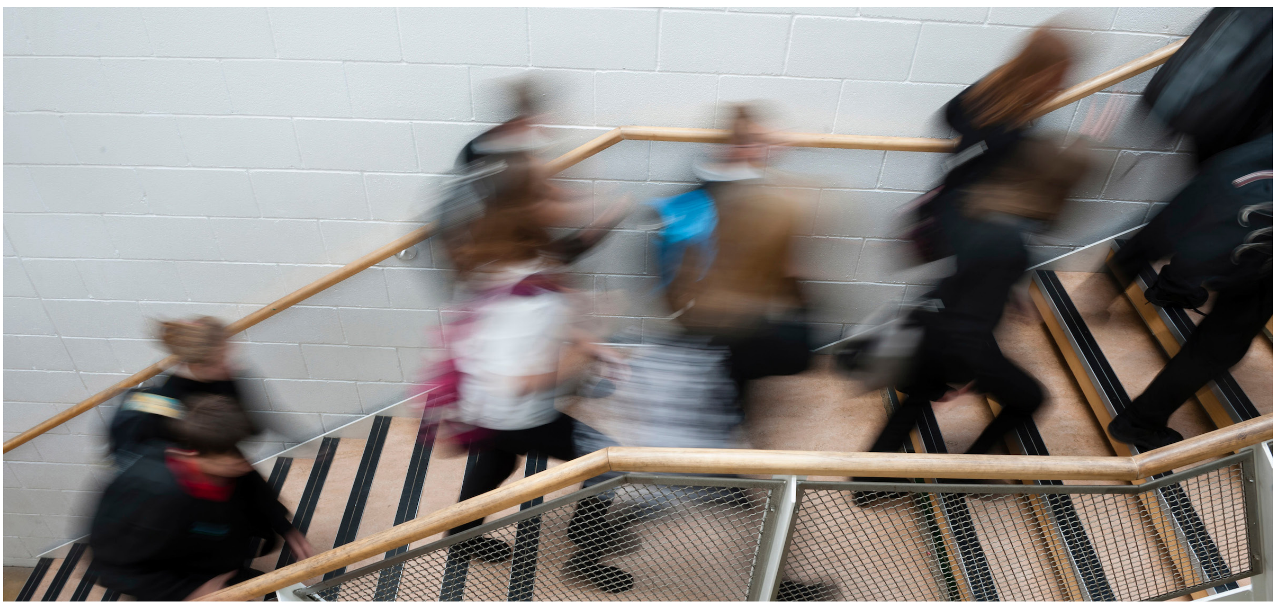
Providing more flexibility within the current apprenticeship levy, enabling employers to pool the levy and allowing some of it to be spent on administration costs and pre-apprenticeship training.

Maintaining London's current funding levels for the UK Shared Prosperity Fund, that will replace just over £400 million of EU funding for employment and skills in London, and fully devolve the fund to London government.

Investing an additional £566 million nationally in schools to ensure that no school loses funding in real terms.

The future of London's, and the country's success, is in the hands of the next generation.

Without proper investment in these vital services, the future economic success of the capital will be in jeopardy.



Investment in housing

London's housing crisis that can no longer remain unaddressed if the capital is to function and thrive

While investment in transport and skills are vital for London's economy, without appropriate investment in housing, the workforce on which it depends, would have nowhere to live. Addressing London's housing crisis should be a key priority in the Spending Review.

The government claims London requires an additional 72,000 homes per year to meet the demand of the rapidly growing population. The capital's combination of population growth, high levels of deprivation, higher costs of living and high property prices, provide significant constraints on providing additional accommodation.

Addressing the housing crisis is not just one of the biggest priorities of the Mayor of London and the London Boroughs, but is a top priority for businesses in the capital too. For example, the CBI's London Business Survey (April 2018)[17] found that, of the business responding:

- 66 per cent cited housing costs and availability as having a negative impact on the recruitment of entry level staff, compared with 57 per cent three years ago.
- 59 per cent reported housing as being an issue for recruiting mid-level managerial staff compared with 45 per cent three years ago.
- 28 per cent said that employees were moving away from the local area and therefore having to leave their job because housing costs are too high.
- 36 per cent faced difficulty attracting or offering flexible part-time employment due to the time/cost of the commute into London for employees who could not afford to live locally.
- 62 per cent thought it was unlikely that the London housing market would become more affordable for the working population in the next three years.

London Councils is pleased that the government has listened to our long-standing call to remove the HRA borrowing cap. This will help deliver more vital homes needed in London, but on its own won't solve the housing crisis. For this reform to have a bigger impact we believe longer term income certainty is required.

17. http://www.cbi.org.uk/cbi-prod/assets/File/CBI_CBRE_LBS_2018.pdf

We are therefore calling on the government to confirm at or before the Spending Review:

The indexation of social rents at CPI plus 1 per cent for at least 10 years from 2020; and

For London boroughs to retain any receipts from Right to Buy sales.

While London's housing shortage has significant costs for businesses, it is having an increasing financial burden on councils too. In 2017, London had 55,000 households in Temporary Accommodation: 68 per cent of England total. This has risen by 19,000 (52 per cent) since 2010. The growth in homelessness is putting increasing financial pressure on London boroughs and we estimate that they are spending at least an additional £170 million per annum to meet demand.

The homelessness crisis is very much a London-specific issue that requires London-specific solutions.

The government must take a cross departmental approach at the Spending Review that takes account of welfare reform and other longstanding polices that impact on homelessness numbers.

We are calling on the government to work with London Government to deliver London-specific solutions to its homelessness crisis and meet the funding shortfall of at least £170 million in London in the Spending Review.

Planning departments also need more freedoms to charge appropriate, locally-set fees to provide a more effective service.

Fiscal devolution

Simply transferring more funding from central to local government, on its own, is not the solution

London Councils has long called for greater financial self-sufficiency for local government. We believe that towns, cities and local councils that are more responsible for their own destiny and more accountable for their own success, would design better taxes and provide better services.

The London Finance Commission 2017, delivered in partnership between London's government and business sectors, showed that London is heavily reliant on financial transfers from national government compared with other international comparator cities.

It recommended that London Government should have access to:

- a greater range of taxes including control over the full suite of property taxes, including Business Rates, Council Tax and Stamp Duty;

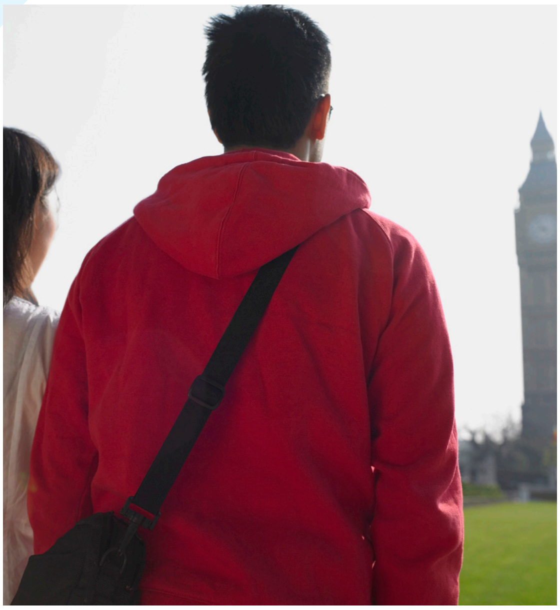
- a proportion of national taxes, such as income tax and VAT (where all control over tax rates, allowances and thresholds would remain with the Treasury, but a share of the yield would support devolved service responsibilities and infrastructure investment); and that

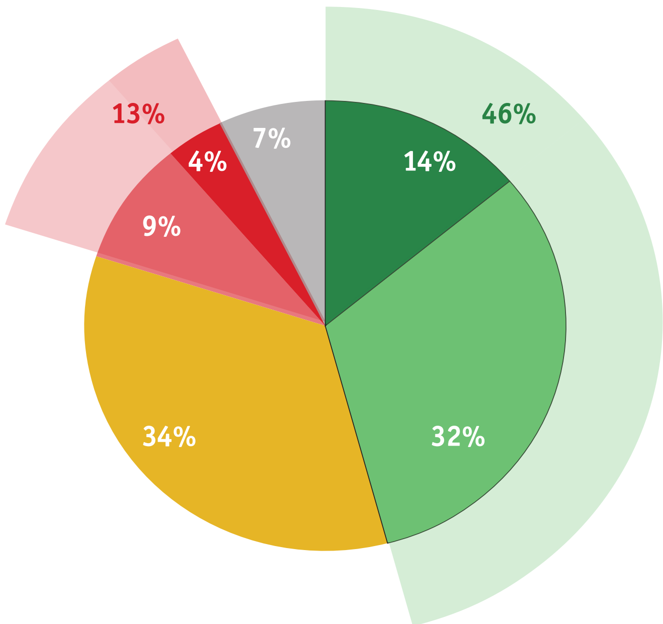
- granting permissive powers to raise alternative taxes and levies such as Apprenticeship Levy; VED; Air Passenger Duty; and explore a tourism levy, health-related levies and a community levy.

We believe that councils know their local residents and local businesses better than central government and are best placed to take decisions about the services that impact them. Councils play a vital role in driving growth but – working with local communities - could do much more, if they were empowered to do so.

Of course, any tax devolution must come with the appropriate checks and balances, and councils would be held account for their success locally.

Q: To what extent, if at all, do you support or oppose transferring more powers to London?





Londoners agree[18]. Recent research by Ipsos MORI showed that almost half (46 per cent) of respondents agreed that more powers should be transferred to London Government, with only 13 per cent disagreeing.

By 2020, council tax and business rates will account for almost all local government funding. Arguably, neither tax is fit purpose. Council tax is regressive and relies on valuations that are over 25 years old. Business rates, in an increasingly online retail world, is becoming more and more outdated and illogical as a business tax.

We believe greater local control over a range of business and property taxes, and other fiscal levers, are required rather than exposing local government to the flaws and potential perverse incentives of any one, centrally prescribed, tax.

The government should use the Spending Review to review the sustainability and appropriateness of council tax and business rates as the primary funding mechanisms for local government.

This year's London business rates retention pilot pool has shown that London Government is willing and capable of working together to take collective decisions about the distribution and investment of business rates income, delivering over £700 million of additional strategic investment in growth projects, that would not have happened otherwise. Further investment will be made in 2019/20 as the pilot continues.

The government should ensure there are incentives for pooling under the full 75 per cent scheme from 2020 to enable such strategic investment to continue.

In the longer term, London Councils urges the government to work with London Government to design sustainable funding solutions that provide a broader range of freedoms, flexibilities, and revenue raising powers.

This is the only way London will be able to cope with the expected growth in demand for public services as the population grows to over 10 million by 2040.

Towns and cities drive the UK economy. Their councils should be given the incentives to work with their local communities to help their economies grow. They should be given the power to design, collect and spend local taxes that make sense in their local areas, and be held accountable for their success.

18. https://www.ipsos.com/sites/default/files/ct/news/documents/2018-11/londoners-in-2018-for-london-councils.pdf

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