RUNNING ON FUMES? LONDON COUNCIL SERVICES IN AUSTERITY

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SUMMARY

Public services in London face tough times. The capital's population and their needs continue to grow, and we are roughly half way through a period of significant reductions in public spending.

Over the past five years, London boroughs have absorbed real terms funding cuts of 44 per cent. They have made savings in discretionary services (while protecting services that they have a duty to provide), enhanced efficiency (including through joint working), and generated more income (where they are allowed to do so). Budgets that have been particularly heavily hit include cultural services, housing support, and planning and development, while social care has been less affected to date. In other cases, like highways and transport, revenue generation has helped cushion cutbacks.

London local government has shown resilience and ingenuity in absorbing funding reductions, while protecting front line services, but the next round of cuts, to be announced in the Autumn Statement, may be tougher. Discretionary services are already pared back, scope for raising more revenue is limited and pursuing efficiency gains is increasingly challenging. London needs a fair deal from the 2015 Spending Review, so that the capital's public services can sustain a successful and inclusive city.

CENTRE FOR LONDON

From 2010/11 to 2015/16, core funding to London local authorities was reduced by 44 per cent in real terms. This paper reviews the impact on London boroughs' spending.

INTRODUCTION

London's population grew by around 500,000 (six per cent) between 2010 and 2015, and is forecast to grow at a similar rate over the next five years.[1]

From 2010/11 to 2015/16, core funding to London local authorities was reduced by 44 per cent in real terms.[2] New sources of revenue (including shares in business rates and payment of new homes bonus) have partially mitigated the impact of these funding reductions, but local authorities have nonetheless faced tough decisions on funding.

This paper takes an overview of how London boroughs' spending has changed over the past five years, and looks ahead to the potential impact of the next phase of cuts. We have reviewed total public spending by borough, as well as specific spending changes on social services, planning, and highways and transport services.

Our analysis is largely based on the revenue account budget data that is collated centrally by the Department for Communities and Local Government, on the basis of returns sent in by local authorities.[3] Three caveats should be borne in mind. Firstly, local government expenditure reporting is complex (and not helped by changes in definitions), so some apparent variations in local expenditure may simply result from limitations in the data (eg, through forms being completed inconsistently). Data have not been validated with boroughs, so caution should be observed in drawing direct comparisons. Secondly, our analysis is limited to the total amount of spending, rather than the quality of services or outcomes achieved. Finally, the figures used are budget estimates; in recent years outturns have been slightly lower.

This report has benefitted from the comments of Sir Derek Myers (Centre for London trustee), Mike O'Donnell (London Borough of Camden), Professor Tony Travers (London School of Economics and Political Science), Guy Ware (London Councils) and other borough colleagues, but the views expressed and any errors are solely the responsibility of the authors.

1 GLA 2014 round trend-based population projections, GLA, 2015.
2 London Councils analysis from Spending Review 2015 paper to Leaders Committee, July 2015.
3 More information and data at www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing

TOTAL SERVICE EXPENDITURE

Total London borough expenditure on services fell from £7.1 billion in 2010/11 to £6.4 billion in 2015/16. These figures (referred to as 'comparison service expenditure' from here on) exclude education budgets, for which spending is distorted by the changing balance between local authority schools and direct-funded academies, and public health, which only became a local authority area of responsibility from 2013.

This is a nine per cent reduction in cash terms over five years, but its impact has been compounded by population growth and inflation. The reduction in spending per head of population is 14 per cent. Depending on the inflation index used, this could rise to 28 per cent in real terms (though it should be noted that all expenditure figures in this report are presented in cash terms, ie, without accounting for inflation).[4] Table 1 below shows principal components of the change:

Table 1: Change in total borough expenditure 2010/11–15/16

SERVICE	TOTAL EXPENDITURE 2010/11 (£M)	TOTAL EXPENDITURE 2015/16 (£M)	CHANGE (%)
HIGHWAYS AND TRANSPORT	342	322	-6
SOCIAL CARE	3,773	3,661	-3
HOUSING	664	502	-24
CULTURAL AND RELATED SERVICES	517	389	-25
ENVIRONMENTAL AND REGULATORY	839	736	-12
PLANNING AND DEVELOPMENT	259	148	-43
CENTRAL SERVICES	550	526	-4
OTHER[5]	126	160	27

Each of these headline figures is the sum of myriad changes in individual authorities and services, and headline falls in expenditure may mask rises in some sub-areas. For example, the 'housing' line above (which does not include rent and maintenance of council housing) includes growth in expenditure on housing

4 Cumulative RPI inflation over the period accounts for a 20 per cent increase, though actual inflation in local authority budgets may have been lower, as a result of a one per cent cap on pay rises.

5 Includes City of London Police. Metropolitan Police funding comes through the GLA precept, so is excluded from these figures.

homeless people (often in expensive temporary accommodation), which has been outweighed by much bigger reductions in housing-related support services for vulnerable people. Similarly, 'central services' (which include costs of collecting taxes and administering benefits) shows a £40 million reduction in corporate running costs, but also a £60 million increase in funds set aside for pension liabilities.

Table 2 below shows the change in comparison service expenditure in absolute terms and per head of population between 2010/11 and 2015/16. The sharpest falls in expenditure have been in inner west London, with inner east close behind. Population growth has amplified the impact of spending reductions in all boroughs, but has had a particularly powerful impact in boroughs like Tower Hamlets, Westminster, and Camden. Inflation means that even those councils showing a growth in spending in cash terms have reduced spending in real terms.

Table 2: Change in total service expenditure by borough 2010/11–2015/16

	CHANGE IN SERVICE EXPENDITURE 2010/11–2015/16	CHANGE IN SERVICE EXPENDITURE PER HEAD 2010/11–2015/16
CITY OF LONDON	2%	-7%
CAMDEN	-20%	-26%
HAMMERSMITH & FULHAM	-19%	-20%
KENSINGTON & CHELSEA	-20%	-20%
WANDSWORTH	-11%	-16%
WESTMINSTER	-20%	-25%
INNER WEST	**-16%**	**-20%**
HACKNEY	-13%	-20%
HARINGEY	-7%	-13%
ISLINGTON	-11%	-17%
LAMBETH	-4%	-10%
LEWISHAM	-10%	-16%
NEWHAM	-13%	-19%
SOUTHWARK	-14%	-19%
TOWER HAMLETS	-15%	-24%
INNER EAST	**-11%**	**-17%**
BARKING & DAGENHAM	-12%	-19%

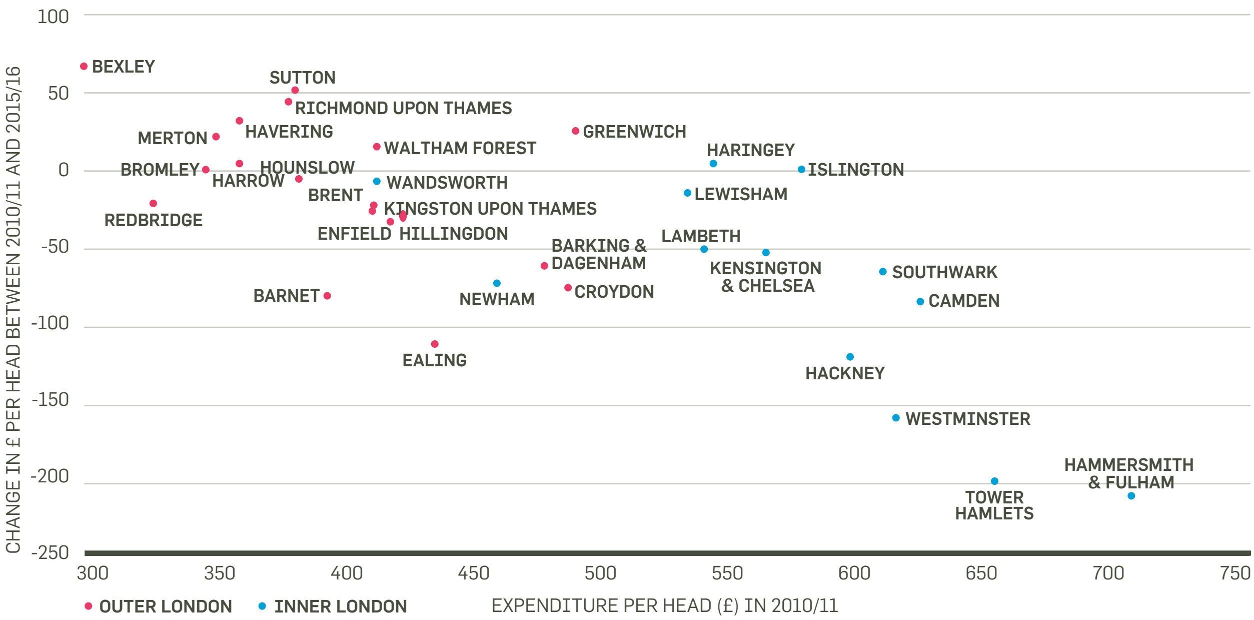
	CHANGE IN SERVICE EXPENDITURE 2010/11–2015/16	CHANGE IN SERVICE EXPENDITURE PER HEAD 2010/11–2015/16
BEXLEY	3%	-1%
ENFIELD	-8%	-12%
GREENWICH	-8%	-14%
HAVERING	4%	0%
REDBRIDGE	-7%	-13%
WALTHAM FOREST	-7%	-13%
OUTER EAST AND NORTH EAST	**-5%**	**-11%**
BARNET	-6%	-12%
BRENT	-11%	-16%
EALING	-10%	-14%
HARROW	-7%	-12%
HILLINGDON	-5%	-11%
HOUNSLOW	0%	-7%
RICHMOND UPON THAMES	1%	-5%
OUTER WEST AND NORTH WEST	**-6%**	**-12%**
BROMLEY	2%	-3%
CROYDON	-13%	-17%
KINGSTON UPON THAMES	-2%	-8%
MERTON	2%	-3%
SUTTON	7%	2%
OUTER SOUTH	**-3**	**-8%**

SOCIAL SERVICES

Social services are the largest area of local authority expenditure (apart from education), accounting for £3.8bn in London in 2010/11 (53 per cent of comparison service expenditure), and are an area where councils have specified statutory duties.

While the total spend only fell by just over £100m by 2015/16, a per capita fall of around nine per cent across London, the impact of this reduction has been compounded by inflation, by population growth and by the disproportionate growth of some groups with intense needs. Spending cuts appear to have been much sharper for people over 65 than they have for other adults, than they have for other adults, though pooling of 'Better Care' budgets with the NHS makes direct comparisons difficult. For young people, overall expenditure has remained flat. We might speculate that councils have focused their resources on children's social services, perhaps seeking to prevent longer-term problems through early intervention, but also responding to an intensified inspection regime, and persistent media interest, following high profile failures.

Figure 1: Social services expenditure per head in 2010/11, compared to change from 2010/11–2015/16



There has also been some convergence in per capita spending.[6] In 2010/11, most boroughs were spending between £350 and £450 per head of population. A few – predominantly inner London –

6 The standard deviation of spend per head, which measures the dispersion of different results around the mean, reduced from £107 in 2010/11 to £73 in 2015/16.

boroughs were spending significantly more than that. Of these, Hammersmith and Fulham, Tower Hamlets, Westminster and Hackney have recorded the biggest decreases in expenditure, while some outer London boroughs, like Sutton, Bexley, Richmond-upon-Thames and Havering, which were spending at the lower end of the range, have actually increased their spending (See Fig. 1).

It is also worth noting that, since 2011, Hammersmith and Fulham, Kensington and Chelsea, and Westminster have been jointly commissioning children's services and adult social care. The boroughs have identified significant savings in management and overhead costs, and have reduced spending on social services by nearly £150 per head, compared to a London-wide reduction of £40 per head.

The gradual convergence of spending per head between different London boroughs suggests that pressure on budgets has pushed local authorities to concentrate on a relatively limited range of core services, focused on statutory requirements and/or those residents in most acute need of support.

London's population is forecast to grow over the next five years, but needs are forecast to grow even more rapidly. London's adult populations with learning disabilities, mental health conditions and physical disabilities are all predicted to rise faster than the population as a whole: the number of adults under 65 with early onset dementia is predicted to rise by 12 per cent, and the number with moderate/severe personal care disabilities is projected to grow by 9 per cent. Among older people, the number with dementia is expected to rise by 12 per cent, and the number with severe depression is predicted to rise by 109 per cent. This is compared to a growth in the 65+ population of two per cent.[7]

The pressure exerted by these trends is likely to be intensified by a continuing squeeze on health services, with the risk of tight acute care budgets pushing costs onto social services, and vice versa, leading to preventable hospital admissions and delayed discharges for older people.

There is also pressure on wages. While the introduction of the National Living Wage from April 2016 may have more of an impact outside London, cuts to tax credits will push up the London Living Wage, which many London boroughs are committed to paying. There is increasing concern in the private care homes sector that cuts in the fees paid by local authorities, combined with these increased costs, may precipitate widespread closures.[8]

7 This data is accessed from the Projecting Adult Needs and Service Information, extracted on 23/09/15. Population figures are also from this source, and are not the same population projections used elsewhere.

8 For example, *Cash crisis 'could close 50% of UK care homes'*, Graham Ruddick and Toby Helm in the Observer, 31 October 2015.

PLANNING AND DEVELOPMENT

Planning and development comprises not only preparing planning policy and making planning decisions, but also environmental initiatives, economic and community development services, economic research and business support.

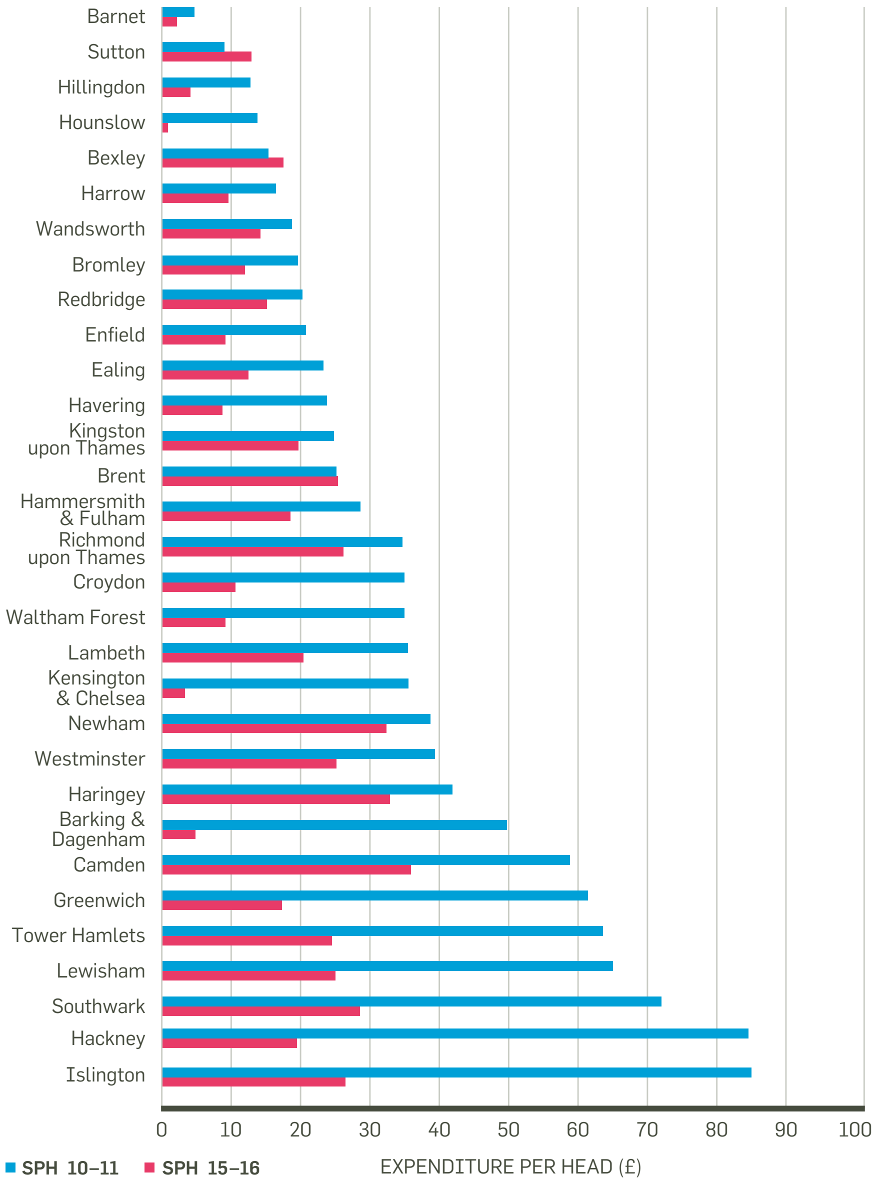
Boroughs can recoup some of their planning costs through charging nationally-set fees to planning applicants, and since 2013 a growing number have been entering into planning performance agreements with developers. Through such agreements, boroughs agree to process applications by a certain date, and developers agree to share the costs of doing so. Government figures show that around 45 per cent of major applications in London now have a planning performance agreement in place.[9]

Total net expenditure on planning and development by London boroughs was £259m in 2010/11, accounting for four per cent of comparison service expenditure. By 2015/16 it had fallen to £148m, a reduction of nearly 43 per cent (this net reduction is made up of reductions in expenditure and rises in income). Planning and development now only accounts for two per cent of net service expenditure.

Some of the most dramatic reductions have been in the inner east boroughs, where average expenditure was highest in 2010/11 at £60 per head, but fell to £27 per head by 2015/16. Fig. 2 below shows overall spending (excluding the City of London, where the figures are skewed by intense development activity and a small resident population, and Merton, which show negative values in this area), and also illustrates the convergence of expenditure that has taken place, suggesting a focus on core services and a reduction in discretionary spending (standard deviation has reduced from £22 ph to £10 ph).

9 *Planning Table 131*, DCLG, April to June 2015.

Figure 2: Development and planning, expenditure per head 2010/11 and 2015/16



To assess the potential impact of these changes in coming years, we have also analysed expenditure on development control and building control against the number of houses built in 2010/11–12/13, and the number projected to be built in coming years.[10] This is an extremely rough and ready analysis, for a number of reasons. Development management is not solely about the quantum of housing delivered, but also about quality, and about many more

10 Data from *Housing in London: The Evidence Base for the Mayor's Housing Strategy (accompanying spreadsheets of underlying data, sheet 3.7)* and *Strategic Housing Land Availability Assessment*, both GLA, 2014.

types of application than housing. Furthermore, the projections for annualised average completions over the next ten years represent a significant acceleration in delivery from current trends, and many would debate whether they can be achieved in the early years of the period. Finally, as set out above, some local authorities may have reduced expenditure by increasing income from planning performance agreements.

So, the figures should be treated with caution. Nonetheless, they do give an indication of the challenge ahead in terms of broad scale of workload, as shown in Table 3 below. The average expenditure per unit of housing to be built has fallen from more than £4,500 to less than £1,500. The inner east London boroughs, which have been delivering most housing, are most pressured: they are expected to deliver twice as many homes every year, with half the budget.[11]

Table 3: Planning expenditure and house building[12]

	TOTAL EXPENDITURE ON PLANNING AND BUILDING CONTROL (£M)		TOTAL ANNUALISED UNITS DELIVERED/PROJECTED		£ PER UNIT	
	2010/11	2015/16	2010/11–12/13	2015–25	2010/11	2015/16
INNER EAST	29.4	15.3	7,773	15,971	3,787	960
INNER WEST	18.6	8.7	2,498	4,800	7,425	1,803
OUTER EAST	16	11.2	3,186	8,320	5,023	1,346
OUTER WEST	19.0	10.4	4,645	7,460	4,090	1,399
OUTER SOUTH	14	13.0	2,605	3,493	5,378	3,725

Planning performance agreements have allowed local authorities to pass some of the costs of the planning system on to developers, but it these are unlikely to plug the gap that is now opening between the provision of housing, probably London's top political priority, and the resources available to planners. Unless charging can be extended or other sources of support accessed, it seems likely that there will simply be less planning in some of London's fastest growing communities.

11 The City of London and Kensington and Chelsea have been removed from this analysis owing to anomalous results.

12 *Housing in London*, GLA, 2014, and *Strategic Housing Land Availability Assessment*, GLA, 2013.

HIGHWAYS AND TRANSPORT

Highways and transport services generate some revenue, primarily through charging for car parking, and councils also receive fines from parking enforcement. London local authorities spent an average of £17m gross in 2010/11 and raised £6m in revenue. By 2015/16 average expenditure had risen to £19m, offset by £9m in revenue.

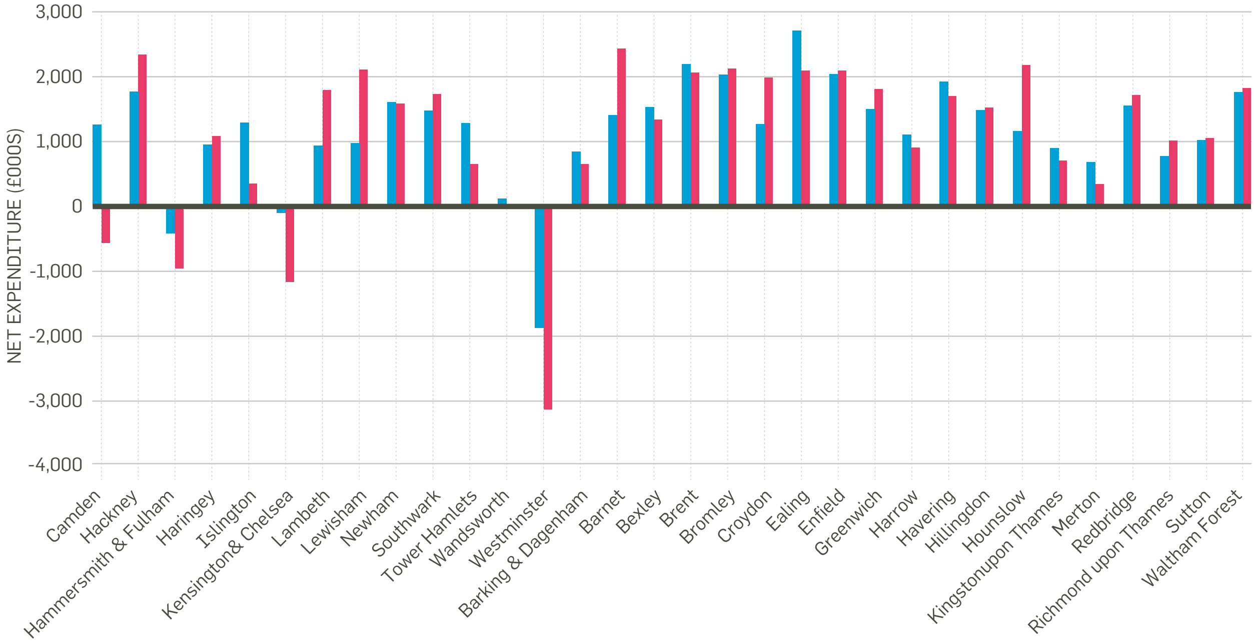
The proportion of expenditure that is locally funded has therefore risen from 35 to 47 per cent overall, but revenue increases have been concentrated in inner London. Table 4 below shows the gross expenditure, income and net expenditure, for inner and outer London boroughs, for both years. Inner boroughs now raise more than 80 per cent of their expenditure on highways and transport from parking and other revenues (compared to just around 60 per cent in 2010/11), while outer boroughs raise 25 per cent (compared with 20 per cent).

Table 4: Gross and net highways and transport expenditure, 2010/11 and 2015/16

		2010/11			2015/16	
£000S	GROSS	REVENUE	NET	GROSS	REVENUE	NET
INNER LONDON	224,016	-133,495	90,521	252,632	-212,138	40,494
OUTER LONDON	337,171	-70,975	226,196	380,706	-99,522	281,184

Fig. 3 below shows the impact of increased revenue generation in individual boroughs. Camden, Hammersmith and Fulham, Kensington and Chelsea, and Westminster now generate a net surplus from highways and transport, while Wandsworth has continued to break even.

Figure 3: Net highways and transport expenditure (£000s), 2010/11 and 2015/16



The ring-fenced income generated within highways and transport has supported investment in streetscape and public realm in some central boroughs. In boroughs where revenue generation is more difficult, however, these budgets are likely to come under increasing pressure in coming years.

CLOSING OBSERVATIONS – THE NEXT ROUND

London boroughs have responded to austerity with a range of strategies and innovations. Our analysis suggests that four approaches have been adopted:

- Discretionary services, like economic development, cultural services and housing support, have been cut back, sustaining total cuts of around £500m, just over 20 per cent of the 2010/11 expenditure levels.
- Social services have seen lower reductions in spending overall, but have seen convergence between different boroughs, with higher spending boroughs spending less, suggesting retrenchment to a core set of services.
- Efficiency savings have been sought across the board, with reductions in central operating costs, and experimentation with joint commissioning and management structures. These include the 'Tri-borough' arrangements in place between Westminster, Kensington and Chelsea, and Hammersmith and Fulham, the staffing merger planned between Wandsworth and Richmond-on-Thames, and a merger of back office services between Havering and Newham.
- Where there is scope to support services through raising revenue, this has been pursued. The use of planning performance agreements helped support planning departments, and parking and parking enforcement revenues are rising across London, particularly in the central boroughs, helping to offset the costs of highways and transport services.

For the current spending review, HM Treasury has asked departments to model cuts of 25 per cent and 40 per cent (in real terms) by 2019/20. In Spending Review 2010, the Department for Communities and Local Government took one of the heaviest cuts, and local government budgets bore the brunt of these. London boroughs' funding was cut by circa 44 per cent in real terms between 2010/11 and 2015/16.

The next round of cuts in funding could be just as tough as the last, if not tougher. London Councils estimates that local government could see cuts of a further 44 per cent in real terms by 2019/20. We should not assume that London boroughs will be able to sustain a second round of cuts at this level, without significant impact on front-line services.

The quest for efficiency savings will continue, though many argue that the 'low hanging fruit' within individual boroughs have already been harvested. More boroughs may look to partnership arrangements to realise savings, though the establishment of joint-commissioning arrangements and staffing mergers has been complex, and progress uneven. More attention should also be paid to integration with NHS services, following the introduction of pooled 'Better Care' budgets, to ensure that social care and health care are better integrated, particularly for older people.

To date, cuts to 'universal' services like libraries, parks and environmental services have minimised the impact of cuts on personal services for those in most need. But continuing to adopt this approach poses longer-term challenges. We pay council tax and business rates to local authorities who provide the services that we see every day – street cleaning and lighting, parks and open spaces, refuse collection, planning enforcement. If these services are to be run down to support the equally important but much less visible provision of social services to a relatively small number of vulnerable people (for which demand is likely to grow in coming years), there is a risk that citizens will lose faith in their locally elected council.

Running down the public realm could also imperil London's growth. Despite public austerity, the city continues to attract investment from across the world, and has a powerful global reputation. These are at least partly founded on the urban environment that councils create and maintain.

Boroughs may also seek to raise more income, from charges or taxation, to support services. Local government spending remains heavily centralised, and in practice councils' discretion to vary service levels is constrained. As so much local government spending is funded through central government grants (which are generally reducing), a small increase in service expenditure will have a much bigger impact on local council tax levels. However, London council tax levels rose slightly in 2015/16, after three years of reductions,[13] and boroughs may seek to raise levels further in coming years (within the limits set by Government). The planned move to full retention of business rates will create further opportunities and challenges, but this is not scheduled to take place until 2020.

As the examples in this paper have shown, local authorities can be entrepreneurial in seeking to maximise revenues, even

13 *Council tax levels set by local authorities in England 2015/16*, DCLG Statistical Release, July 2015.

where this is controversial (as it often is in relation to car parking). Giving more discretion for revenue raising (or, even better, further devolving tax-raising powers) would help local authorities strike the balance between cuts and charges in line with local priorities. One starting point would be the deregulation of planning fees, which are currently set nationally by central government. If these were left to local discretion, taxpayers could share more of the costs of London's growth with developers and other planning applicants, saving more than £25 million (based on full cost recovery).

London should not expect special treatment, and London's councils will need to continue to innovate in coming years to find efficiency and other savings, including through more joint working. But the fuel gauge is in the red. The capital needs a fair deal – in terms of powers and resources – to maintain its social cohesion, and the foundations for economic dynamism.

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