

3 March 2020

Local government finance update

Purpose of report

For information.

Summary

This report provides an update on local government finance work which is not covered under other items on the agenda.

Recommendations

That members note this update paper.

Action

Officers will proceed with the delivery of the LGA work programme.

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Local government finance update

Background

1. This report provides an update on local government finance work which is not covered under other items on the agenda.

2020/21 Local government finance settlement

2. [In the 2019 Spending Round](#), the Chancellor announced a one-year settlement for the year 2020/21. The LGA issued [an on-the-day briefing](#) and [a press reaction](#).
3. Further details were provided in a [technical consultation in advance of the local government finance settlement](#) which ran from 3 October to 31 October 2019, to which [the LGA responded](#).
4. The [provisional 2020/21 local government finance settlement](#) was announced on 20 December. The LGA [submitted its response](#) to the provisional settlement on 16 January, and the [final settlement](#) was announced on 6 February.
5. The settlement followed the proposals in the technical consultation very closely. In total, assuming that councils use their council tax flexibility in full, core spending power will rise by 6.4 per cent (£2.9 billion).
6. Key features of the settlement included the following:
 - 6.1. Uprating the business rates baseline and Revenue Support Grant in line with inflation.
 - 6.2. Continuing the elimination of 'negative Revenue Support Grant' funded through central resources.
 - 6.3. 2020/21 council tax referendum principles:
 - 6.3.1. a core council tax referendum principle of up to 2 per cent for shire counties, unitary authorities, London boroughs, the Greater London Authority (GLA) general precept, and fire authorities;
 - 6.3.2. a bespoke council tax referendum principle of 2 per cent or £5, whichever is higher, for shire districts;
 - 6.3.3. continuing the adult social care (ASC) precept at an additional 2 per cent;
 - 6.3.4. setting no council tax referendum principles for mayoral combined authorities (MCAs) or parish councils;
 - 6.4. A new social care grant of £1.41 billion in 2020/21 of which £1 billion is new money, most of which is to be distributed using the Adult Social Care Relative Needs Formula but including a sum of £150 million to equalise the impact of the council tax adult social care precept;

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- 6.5. Maintaining existing improved Better Care Fund funding at 2019-20 levels (£1.837 billion), as well as incorporating the £240 million which was allocated as Winter Pressures Grant in 2019-20 into the improved Better Care Fund, with the same distribution as 2019/20;
 - 6.6. Retaining the £900 million top-slice of Revenue Support Grant to fund a new round of New Homes Bonus (NHB) allocations in 2020-21, in addition to an estimated £7 million from departmental budgets. The 2020/21 element of NHB will be paid for one year only. The legacy payments of the bonus in respect of growth in 2019/20 and previous years will continue to be paid in 2020/21. The Government stated that it will consult on the future of the housing incentive in the Spring, including moving to a new, more targeted approach which is “aligned with other measures around planning performance”.
7. The local government finance settlement was confirmed in Parliament following a debate on 24 February. LGA provided a briefing for MPs ahead of the debate.

2020 March Budget

8. On 14 October, the Chancellor announced that the 2019 Budget would take place on 6 November. However, this was cancelled on the announcement of the General Election. Following the Election, the Chancellor announced that the Budget will take place on 11 March 2020.
9. The LGA [submitted its representation](#) in line with the 7 February deadline. This submission is an updated version of the LGA's 2019 Autumn Budget submission which was cleared by LGA Executive in October 2019. It focusses on the following themes:
 - 9.1. Infrastructure investment – on the expectation that this is the final chance to influence the National Infrastructure Strategy before it is launched;
 - 9.2. Climate change and the environment;
 - 9.3. UK's exit from the European Union and devolution;
 - 9.4. Local government finance – with a primary focus on business rates reform;
 - 9.5. Sustainable funding for local services – to set the stage for our 2020 Spending Review work.
10. Officers will prepare an on-the-day briefing summarising the key announcements of the Budget as usual.

Fair Funding Review

11. On 24 January, the LGA [published its illustrations](#) of the potential percentage change to the relative needs shares of individual councils under the proposed adult social care relative needs formulas. The LGA's stated aims were:

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- 11.1. to provide a high-level indication of the impact of these two new formulas on individual councils on the basis of best available information, with clear caveats around the limitations of the analysis and making clear that no conclusions should be drawn;
 - 11.2. to reinforce the point that the results of the Review need to be introduced alongside additional funding to avoid any individual council losing out; and
 - 11.3. to encourage Government to publish official exemplifications as soon as possible to allow councils to meaningfully plan their future budgets.
12. This was followed by information releases from other stakeholders:
- 12.1. On 25 January, the LGA Labour Group released its exemplifications of what the percentage changes illustrated by the LGA could mean in cash terms (this was [published by the Guardian](#)). This required an assumption to be made about how much funding would be distributed by each formula.
 - 12.2. On 31 January, the [Local Government Chronicle featured information](#) from a confidential briefing by the County Councils' Network to its members on its modelling of the overall impact of the Review.
13. These releases stimulated the political debate on the direction of the Review. In particular, the LGA analysis featured heavily in the 5 February Parliament debate on local government finance. Closing the debate, the Minister for Local Government and Homelessness confirmed that the Government hoped to share the emerging results of their work with the sector by the end of the month, with a full consultation in the spring.
14. A meeting of the needs and redistribution technical working group is scheduled for 25 March.

Business rates

15. In the [Queens Speech](#), the Government announced business rates reliefs for 2020/21. The Financial Secretary to the Treasury confirmed in a [Written Ministerial Statement](#) that the discretionary reliefs for 2020/21 relating to the retail discount, pubs and local newspaper will be fully funded including new burdens funding for administrative and IT costs. This is something the LGA called for. The Government expects local authorities to ensure changes are applied for the start of the 2020/21 billing period. The Government published a [Business Rates Information Letter](#) giving further details with links to amended [guidance for the retail discount](#) and [pubs relief guidance](#) for local authorities.
16. As regards continuing work on business rates retention, the System Design and Implementation Working Groups met on 28 January. They continued discussing the alternative model of business rates retention which, if implemented, will adjust for the impact of appeals. The papers are on our [website](#). Discussions also covered:
- 16.1. how to deal with provisions, safety net and levy arrangements;
 - 16.2. proposed changes to the Central Rating List; and

16.3. the distribution of any levy surpluses to authorities.

17. In January 2020 the LGA [published](#) the results of a 2019 survey on Business Rates avoidance. This estimated that around one per cent of total business rates income, or £250 million, is lost to business rates avoidance each year and [called](#) on the Government to bring forward changes to legislation to tackle this avoidance, along the lines of those being proposed in Wales and Scotland, to be implemented in 2021. In a [written answer](#) the MHCLG minister welcomed the survey and said the Department would work with the Local Government Association to evaluate its findings and better understand the causes of business rates avoidance.

18. Wider LGA work on business rates is covered elsewhere on the agenda for this meeting.

LGA funding gap analysis

19. One of the underpinning elements of the LGA's Spending Review campaign has been our analysis of the funding gap facing local services. This effectively highlighted the extent of the financial challenge on the following basis:

19.1. Resources needed to maintain current level of access to, and quality of services, and meet future demand and inflation pressures; which is compared to

19.2. an estimate of funding that might be available to local government in the future under the current Government policy direction.

20. Following the 2019 Spending Round, officers have been revisiting the analysis. This also includes a reassessment of the underlying assumptions on demand pressures.

21. The technical work needed to re-set the LGA's funding gap and cost pressure analysis is nearly complete. Officers are waiting for new forecasts from the Office for Budget responsibility which will accompany the 2020 Budget. This is so that the underlying figures can be updated on the basis of these revised forecasts and relevant decisions made by the Government as part of the Budget.

22. At the time of writing, the LGA Chairman and Group Leaders were due to sign off the refreshed set of underlying assumptions in their meeting on 26 February, in line with authority delegated by the LGA Executive Advisory Board.

Public Works Loans Board Interest rates

23. As reported to the last meeting of the Board, on 9 October [HM Treasury announced](#) an immediate 1per cent increase in the rate charged by the Public Works Loans Board (PWLb) on new loans to local authorities.

24. Since then it has been clear that local authorities have been reviewing their approach to borrowing. The amount of borrowing from the PWLB fell dramatically in the months following the rate rise. For example, before the rise, in September 2019 local authorities borrowed £1.6 billion from the PWLB, but in November 2019, after the rise, the amount borrowed was only £80 million.

25. We have continued discussions on the impact of the increase in rates with officials at both MHCLG and HM Treasury and have supplied some examples of capital schemes that are now being reviewed by councils in the light of the increased cost of borrowing. The issue was raised by members with the Local Government Minister early in the new year.
26. In the Budget Submission made in February (referred to above) we called for two actions relating to this to be included in the forthcoming March Budget
- 26.1. All the additional profit made by the PWLB from the increase in interest rates to be ring-fenced and used to provide additional funding for local government.
- 26.2. The implementation of a similar scheme to the local infrastructure rate scheme, which made lending available at gilts plus 60 basis points. This scheme to be for crucial projects, including housing, would enable councils to deliver projects vital to the National Infrastructure Strategy which would otherwise be under threat.
27. Councils may also wish to seek alternative sources of loan finance such as the Municipal Bonds Agency. The Agency has launched its first bond, for Lancashire County Council, and the first pooled bond is expected to follow close behind.

Audit Issues

28. At the last meeting of the Board members approved the LGA's [response](#) to the [consultation](#) by the National Audit Office (NAO) on the Local Audit Code of Practice. This code will come into effect from April 2020. The NAO published the [outcome of the consultation](#) in January and has published the [new draft code](#) to be laid before Parliament. The new draft code is in line with the consultation last year. The NAO will now work on detailed statutory Auditor Guidance Notes that will support the new code and will consult on them publicly later in 2020.
29. Public Sector Audit and Appointments (PSAA) are undertaking their [annual consultation](#) on the scale of audit fees, for 2020/21. It proposes to leave the fee scale unchanged from 2019/20. The consultation has been held back to wait for the publication of the Local Audit Code of Practice referred to above. Consequently, the deadline for responses is very short. We will be drafting a response which will be submitted to Resources Board lead members for approval. Any comments from Resources Board members on the content of the response are welcomed either at the meeting or by email to bevis.ingram@local.gov.uk.
30. The Resources Board also approved, subject to minor changes, the LGA's [submission](#) to the [call for views](#) for the Independent Review of Local Authority Financial Reporting and External Audit in England (the "Redmond Review") That review is still ongoing and the review team have re-commenced discussions with stakeholders in the sector, following a pause during the General Election period (members will recall that Sir Tony Redmond was unable to attend the last Board meeting as originally planned).
31. The issue of delays to the completion of the 2018/19 audits is also still being pursued. Following the September meeting of the Board the Chair wrote to Local Government Minister to raise concerns. A response to this letter was received in February and is

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included as **Appendix A**. In his response the Minister acknowledges that this is an important issue and that MHCLG are monitoring the situation and liaising with other Government departments affected, notably Department of Work and Pensions (DWP). We called for the audit deadline to be put back to September. In his response the Minister said he would review this in the light of recommendations made by the Redmond Review.

32. In February 2020 the Chief Executives of the Institute of Chartered Accountants of England and Wales (ICAEW) and the Chartered Institute of Public Finance and Accountancy (Cipfa) wrote a joint letter to the Minister on the issue of audit delays. In this letter they called for the audit deadline for local authorities to be put back to September.

Fighting Fraud and Corruption Locally Strategy

33. The Fighting Fraud and Corruption Locally (FFCL) Board is an officer level partnership between local authorities and expert partners. The Board is supported by both the LGA and by MHCLG and under their guidance it produces a [Fighting Fraud and Corruption Locally Strategy](#). All time spent by Board members is provided on a pro bono basis by the organisations supporting the Board. The strategy is a good example of how councils can come together for the overall benefit of the sector and a testament to local government's ability to organise itself to respond to challenges.
34. Over the past year the Board has been working on revising the strategy which was last published in 2016. It has carried out research into best practice in the sector and has run a series of workshops that have involved representatives from over 250 councils, widening the scope of the strategy beyond councils as corporate bodies, to include the impact on individuals and communities and the role councils can play in prevention and detection. The refreshed strategy will be launched at a conference on 26 March in central London. The strategy will include a forward in the name of the Chair of Resources Board, to be cleared in discussion with the Board's lead members.

National Audit Office (NAO) report on local authority commercial property investments

35. The NAO have published [a report](#) on investment in commercial properties by local authorities. The report recognises that councils are using these investments to help address funding shortfalls, and to contribute to their local economy and environment. The report includes a lot of useful data about the scale of investment and estimates of related borrowing undertaken by councils. We issued [a press release](#) in response, in which we reiterated that councils follow strict rules to ensure they invest wisely.

Next steps

36. Members are asked to note this update paper.
37. Officers will proceed with the delivery of the LGA work programme.

Implications for Wales

38. Local government funding is a devolved matter and business rates retention and the Fair Funding Review policies are limited to English local authorities. We will engage with the Welsh LGA on matters that relate to both England and Wales.

Financial Implications

39. This is part of the LGA's core programme of work and as such has been budgeted for in core work programme budgets.