

COVID-19: Local Government Finance update

Purpose of report

For information.

Summary

This report provides a summary of the work by the LGA on funding and finance issues related to the impact of COVID-19. Most of the work has concentrated on dealing with the immediate challenges. In the coming weeks, there will be an increasing focus on how we move from 'crisis' to 'recovery', including the future financial sustainability of councils.

Recommendations

That members consider the planned actions, provide thoughts on other work which could be included in an LGA finance work programme on recovery and note this update.

Action

Officers will proceed with the delivery of the LGA's work on the response to, and recovery from, the COVID-19 programme. This will include:

- gathering financial data using the MHCLG survey returns and the other approaches highlighted in this report to use in lobbying for further resources and freedoms and flexibilities;
- undertake case studies of individual councils to supplement information from the survey and other sources to provide further detail on the impacts of COVID-19 and to help refine the high-level messaging;
- in-house analysis of longer-term financial implications, potentially combined with commissioned work where appropriate and subject to the availability of resources;
- consideration of the implications of COVID-19 on local government finance reforms, such as the Fair Funding Review and 75 per cent business rates retention;
- other work on the basis of a steer from members and subject to capacity.

Contact officer: Nicola Morton
Position: Head of Local Government Finance
Phone no: 020 7664 3197
Email: Nicola.morton@local.gov.uk

COVID-19: Local Government Finance update

Introduction

1. This report provides a summary of the work by the LGA on funding and finance issues related to the impact of COVID-19.
2. It is essential that local government is able to stay focused on leading the local response to the greatest challenge we have faced as a nation for decades. There are considerable financial pressures facing councils as a result of Covid-19, both in terms of the direct costs associated with responding to the crisis, as well as continuing to deliver 'business as usual' services with significantly reduced income flows. As a result, most of the LGA Finance Team's work has concentrated on dealing with the immediate challenges arising and on influencing announcements to date by Central Government.
3. In the coming weeks, there will be an increasing focus on how we move from 'crisis' to 'recovery', including the future financial sustainability of councils. We would welcome a steer from the Resources Board on what the focus should be for this work.

Government announcements to date

4. We have been successful in achieving a number of positive financial announcements to help councils deal with the impact of Covid-19, including:
 - 4.1. Two additional funding announcements, worth £1.6 billion each, to help meet the immediate impacts of the crisis on council financial positions.
 - 4.2. Over £4 billion of upfront grant payments (including the £1.6 billion COVID grant, £850 million of adult social care grant and pre-COVID-19 section 31 business rates relief compensation) and £2.6 billion of deferred payments of business rates to central government to aid cash flow.
 - 4.3. A three-month extension of the timescales for production of annual financial accounts and statements.
 - 4.4. A Government review of other reporting and data collection requirements for the next three months, which has resulted in postponed deadlines.
5. On 28 April, the Government announced that:
 - 5.1. the Review of Relative Needs and Resource and 75 per cent business rates retention will no longer be implemented in 2021-22; and that
 - 5.2. the Government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021-22 local government finance settlement.

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6. The announcement did not provide any clarity over the length of the delay to these reforms so at the time of writing it could not be assumed that these are one-year delays. Officers will provide a further update, if available, at the time of the meeting.

Administration of support for businesses

7. As part of the Government's coronavirus business support package, the UK government has distributed £12.3 billion to local authorities in England to distribute through two separate grant schemes, both linked to business rates:
 - 7.1. The Small Business Grants Fund is a £10,000 grant per eligible business, originally announced during the Chancellor's Budget. Businesses included in this scheme are those which on 11 March were eligible for relief under the Small Business Rate Relief Scheme (including those with a rateable value between £12,000 and £15,000 which receive tapered relief) or the Rural Rate Relief Scheme.
 - 7.2. The Retail, Hospitality and Leisure Business Grants Fund was announced by the Chancellor on 17 March. Businesses in scope are those that were eligible on 11 March for a discount under the Expanded Retail Discount scheme and with a rateable value of less than £51,000.
8. The Department for Business, Energy and Industrial Strategy publishes [weekly data updates](#) on progress of delivery of the grant. At the time of writing, the latest update – published on 5 May – reported that £8.6 billion (70 per cent of the grant) has been paid out to more than 697,000 business properties (73 per cent of identified properties).
9. In addition, the Ministry of Housing, Communities and Local Government has expanded its Retail Discount Scheme so that all occupied retail, leisure and hospitality properties for the financial year 2020/21 receive 100 per cent business rates relief. This is being delivered through councils and is fully funded by MHCLG. Additionally, all Ofsted registered non-local authority nurseries will qualify for 100 per cent business reliefs in 2020/21.
10. In response to the representations by councils and the LGA for businesses out of the scope of current measures to receive further support, on 2 May BEIS announced an additional discretionary fund for those businesses which cannot receive support through the Small Business and Retail Leisure and Hospitality Grants. They will have to demonstrate that they have high overheads and that they have had a significant loss of income. The total value of the uplift could be 5 per cent on the original £12.3 billion, worth approximately £617 million. The Government will ask councils to use any underutilised funds from the original grants first before seeking to access additional resources. At the time of writing, detailed allocations and guidance on this new fund had not yet been published.
11. LGA and council officers have engaged extensively on all these schemes with Government officials, promoting the efforts of councils and raising issues relating to the schemes and interpretation of the Government guidance. In particular, we have raised

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with officials the fact that non-ratepayers (who may pay their rates as part of rents) and local authority premises (such as markets or nurseries) do not qualify for the support. In response to representations by councils and the LGA, BEIS announced on 2 May an additional discretionary fund for those businesses not eligible for support through the existing grants.

Key current LGA financial messages

12. In its engagement with Government the following are the main messages currently utilised by the LGA. They are kept under constant review to ensure that they reflect the fast-changing situation councils find themselves in.
13. The lines as at 1 May are:
 - 13.1. Cost pressures, the loss of income, and liquidity issues that all councils are experiencing are significant issues which need monitoring and addressing as they arise.
 - 13.2. The additional £1.6 billion funding announced on 18 April (taking the total package to £3.2 billion) and cash flow measures have been welcome and provide additional certainty over the short term. It is also welcome that the funding will not be ringfenced and that councils will be able to spend this on local priorities and pressures. However, the financial challenge facing councils is multiple times the £3.2 billion grant announced so far.
 - 13.3. Income losses constitute a significant part of the financial challenge. This is due to predicted drops in collection of council tax and business rates income, as well as losses of fees, charges and commercial income.
 - 13.4. The Government must continue to demonstrate a rock-solid commitment that it will meet the extra costs local authorities are facing due to the additional demands created by COVID-19, any additional costs of delivering 'business as usual' and the loss of income resulting from the lockdown. Only this will ensure council chief finance officers have the certainty they need to not consider issuing section 114 reports in the coming weeks and months.

Assessing the financial challenges faced by councils

14. We are working closely with Chief Finance Officers and MHCLG to assess councils' financial need including:
 - 14.1. The impact on costs;
 - 14.2. The loss of income from fees and charges;
 - 14.3. The potential loss of collected taxation, both in the short term and in the long term;

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- 14.4. Cash flow issues and whether current measures in place provide sufficient relief;
and
- 14.5. Future cost base implications and impact on savings plans.
15. As signalled by the Secretary of State for Housing, Communities and Local Government in late March, the Government embarked on a regular survey exercise, asking councils to submit high level returns setting out projected cost pressures, income losses and cash flow issues. Overall, they received 329 responses – a 97 per cent response rate – to the April round.
16. Councils were asked to share their April survey returns with the LGA. At the time of writing the LGA had received over 170 of the MHCLG survey returns from councils (just over half of all returns received by MHCLG). Analysis of those returns suggests the following emerging picture:
- 16.1. Just under half of the initial £1.6 billion allocation will have been spent on adult social care.
- 16.2. The total projected financial pressure in the year 2020/21 arising from the impact of COVID-19, including cost pressures, lost income and savings opportunities, nationally amounts to 3 to 4 times the £3.2 billion that has been allocated by Government so far.
- 16.3. Of this, around two-thirds is due to projected losses in income, such as council tax, business rates, fees and charges. Councils fund anywhere between 5 and 70 per cent of their gross spending through sales, fees and charges, and council tax alone is worth around half of all council spending powers. Therefore, drastic losses of this income have a significant impact.
- 16.4. Even if councils used all their unallocated reserves, this would only cover up to half of the remaining shortfall on average.
- 16.5. Different types of councils will face a different nature of pressures.
17. These are early results from a limited number of councils. Many councils will have been in the early stages of assessing the impact of COVID-19 on costs, income and cash flow. At the time of writing, MHCLG is expecting to reissue its survey in May.
18. In order to minimise burden on authorities, the LGA's research and finance teams are not planning to conduct any formal financial surveys. This has been particularly important since, at the same time, the LGA is lobbying for central government to stop data collections (which are not essential or do not support the COVID-19 response) and therefore we need to be seen not to burden the sector ourselves. We have an agreement with MHCLG that they will share the data from their survey with us (with some limitations on how it can be used), and we have also asked councils to send copies of their returns to us. We have analysed over 170 returns on that basis. For the May return, MHCLG have agreed to make it clear that responses will be shared with the LGA. In addition,

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other quantitative and qualitative approaches have been, and are being, used to gather additional information, such as:

- 18.1. Informal requests for information and examples from councils;
 - 18.2. A series of in-depth case studies of 10-12 councils, to provide more detailed supporting information on the financial impact of COVID-19;
 - 18.3. Desk-based research; and
 - 18.4. Bespoke modelling exercises using national data and, where they exist, from surveys which have been run by other organisations.
19. The financial impact of the crisis on council's ability to balance their income and expenditure in the current year needs to be assessed and shortfalls addressed to prevent councils having to take drastic measure to cut in year spending. The impact also needs to be considered beyond the current financial year and into 2021/22 and there is a need to assess the longer-term financial impact of the COVID-19 pandemic. Councils have to balance their budgets each year, and set a balanced budget for the year ahead, and need to take action on this as soon as they think they are unable to achieve this.
20. As a starting point, LGA officers will explore the potential of in-house analysis of the MHCLG survey returns, information gathered from the quantitative and qualitative approaches set out above, as well as other organisations work on financial sustainability to consider the longer-term implications of the COVID-19 pandemic. This potentially includes what any subsequent economic downturn might mean to councils' main sources of funding and cost pressures and the potential longevity of these impacts and the wider changes as a result of the pandemic. This might be supplemented by commissioned work where appropriate and subject to the availability of resources.
21. The detailed work programme is a work in progress and a member steer is welcome in terms of points of focus and approach.

Reviews by HM Treasury affecting longer term economic recovery

22. In the March Budget, the Chancellor announced reviews of:
- 22.1. Business rates as a tax (covered separately on the agenda);
 - 22.2. The Public Works Loans Board (PWLB) future lending arrangements (covered elsewhere on the agenda); and
 - 22.3. The [Green Book](#), the Government guidance on how to appraise and evaluate policies, projects and programmes.
23. All of these reviews are going ahead. The PWLB and Green Book reviews are expected to report alongside the Comprehensive Spending Review, which was originally expected

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in the summer, but has been delayed. The outcome of these reviews will have an impact on councils' ability to access capital and funding.

24. As part of the, so far informal, review of the Green Book, HM Treasury is seeking views from stakeholders across the whole of the public sector. The review is being described by HM Treasury as seeking to ensure the Green Book helps Government to take informed decisions to support levelling up. In the Budget, the aim of the review was described as follows "The review will enhance the strategic development and assessment of projects, consider how to assess and present local impacts and look to develop new analytical methods for transformative or place-based interventions. It will also consider how project approval decisions are being made and provide clearer guidance and support to practitioners".
25. We have engaged with the review as it commences and have been talking to experts within the sector. We will report back to members as it progresses and seek comments where relevant.

Next steps

26. Members are asked to consider the planned actions, provide thoughts on other work which could be included in an LGA finance work programme on recovery and note this update.
27. Officers will proceed with the delivery of the LGA's work on the response to, and recovery from, the COVID-19 programme. This will include:
- 27.1. gathering financial data using the MHCLG survey returns and the other approaches highlighted in this report to use in lobbying for further resources and freedoms and flexibilities;
 - 27.2. undertake case studies of individual councils to supplement information from the survey and other sources to provide further detail on the impacts of COVID-19 and to help refine the high-level messaging;
 - 27.3. in-house analysis of longer-term financial implications, potentially combined with commissioned work where appropriate and subject to the availability of resources;
 - 27.4. consideration of the implications of COVID-19 on local government finance reforms, such as the Fair Funding Review and 75 per cent business rates retention;
 - 27.5. other work on the basis of a steer from members and subject to capacity.

Implications for Wales

28. Local government funding is a devolved matter and the Welsh LGA is undertaking its own work programme on COVID-19. We are in regular contact with the Welsh LGA and

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the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work.

Financial Implications

29. The work related to COVID-19 has been added to the LGA's core programme of work and is therefore, budgeted for in core work programme budgets. To accommodate this significant and additional work, other areas of LGA work have been deprioritised based on where the Government has delayed or paused work.
30. The LGA will keep under review whether future work related to COVID-19 can be accommodated within the existing budget or whether further resources will be needed for this or other work.