

10 September 2020

## **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 since the previous meeting of the Board on 16 July.

### **Recommendations**

That Members of the Executive Advisory Board note this update.

### **Action**

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

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## **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.
3. LGA work on the Spending Review is covered in a separate paper on the agenda.

### **Government announcements to date**

4. Since March, we have already been successful in achieving a number of positive financial announcements to help councils deal with the impact of Covid-19, including:
  - 4.1. Three additional general funding announcements, worth in total £3.7 billion to local authorities including fire and rescue authorities.
  - 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.
  - 4.5. A new scheme to reimburse councils for lost sales, fees and charges income - where losses are more than 5 per cent of a council's planned income from sales, fees and charges, the Government will cover them for 75p in every pound lost; and
  - 4.6. Measures to allow council and business rates tax deficits to be repaid over three years instead of one and a commitment to decide on how losses of local taxation will be shared by central and local government at the 2020 Comprehensive Spending Review.

### **Details of the compensation scheme for sales, fees and charges losses**

5. On 24 August, the Government published [guidance on the income compensation scheme for lost sales, fees and charges](#) as a result of COVID-19, as announced on 2 July and referenced above.

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6. The scheme involves a 5 per cent deductible rate, which means that authorities will have to absorb losses of up to 5 per cent of the relevant planned 2020/21 sales, fees and charges income, with the Government providing compensation for 75p in every pound of relevant loss thereafter.
7. The guidance defines what constitutes an “eligible loss” and provides worked examples on applying this definition. Commercial income losses, such as rental and investment income, are excluded.
8. To receive compensation, councils will have to complete data returns. There will be three data collections in total during the rest of the year. The first collection is live during September and covers the months from April to July. Councils’ chief finance officers will have to certify returns.
9. Funding a portion of lost income from fees and charges is a step in the right direction but does not cover full losses, nor does it extend to commercial income losses. We continue to call on the Government to meet all extra cost pressures and income losses from fees and charges and other sources, including commercial activity. This is essential if councils are to avoid having to make tough decisions on in-year cuts to services to meet their legal duty to set a balanced budget this year.

#### **Latest information on the financial challenge facing councils**

10. The LGA continues to receive access to data from all returns submitted to MHCLG, with the latest data in July pointing to an overall financial challenge amounting to nearly £11 billion, when considering cost pressures and lost income from all sources, including sales, fees and charges, commercial income and lost local taxation. This is prior to considering mitigating factors and Government support provided so far.
11. LGA commissioned the IFS to have an independent look at information submitted by councils and Government’s measures to date, concentrating on this financial year and so excluding local taxation impacts which will hit council finances from 2021/22 onwards.
12. [In their report published on 19 August](#), they concluded that:
  - 12.1. Councils forecast spending pressures of £4.4 billion during 2020/21 and a £2.8 billion shortfall in non-tax income. Taken together, this means in-year pressures are forecast to be £7.2 billion, with billions of pounds more in losses in local tax collections also hitting councils’ main budgets from next year.
  - 12.2. The forecast pressures exceed the funding and support provided by central government. Councils have been provided with £3.6 billion of additional general-purpose grant funding and following stakeholder discussion IFS assume that they have access to around £0.3 billion of specific grant funding and £0.3 billion in other non-grant support to address their stated spending pressures.

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- 12.3. Councils could have almost £1 billion of losses in SFCs (around half the total) compensated by the new SFC safety-net scheme – although this is tentative given that the data available so far does not allow for modelling of the scheme particularly accurately.
- 12.4. However, taken together, this £5.2 billion in additional financial support still leaves a shortfall of £2.0 billion across the sector as a whole relative to current forecasts of pressures.
- 12.5. Uncertainty about pressures and funding availability means there is scope for the gap to be much bigger or smaller. For example, if pressures in the remainder of the year are two-thirds (as opposed to less than half) of those between April and June, the shortfall would be around £3.5 billion.
13. The next phase of the IFS work, currently intended to be published in late September, will explore the longer term financial position of local government. We will keep the Executive Advisory Board up to date on the progress and findings of this work.

### **Administration of support for businesses**

14. As part of the Government's coronavirus business support package, the UK government at the beginning of April distributed £12.3 billion to local authorities in England to distribute through two separate grant schemes, both linked to business rates. These were the Small Business Grants Fund (£10,000 per eligible business) and the Retail, Hospitality and Leisure Business Grants Fund (£25,000 for eligible businesses with a rateable value of over £15,000 and less than £51,000; £10,000 for those with a rateable value up to and including £15,000). They announced a smaller Local Authority Discretionary Grant in May, up to a total of £617,000.
15. Although the grant schemes closed on 28 August, the Department for Business, Energy and Industrial Strategy has continued to publish [weekly data updates](#) on progress of delivery of the grant. At the time of writing, the latest update – published on 2 September, reports that £11.01 billion has been paid out to businesses in relation to over 897,000 properties. This represents 89.3 per cent of the total allocation and 93.3 per cent of the total number of properties identified by councils as eligible to receive the grants.
16. In terms of the discretionary scheme, even though they have asked for data to be reported weekly, BEIS have only issued the figures for 5 July. These indicated that the total paid out was £239,286,789 to 37,560 hereditaments. This represents only 39 percent of the maximum sum of £617 million. However, we would expect this to have increased during August.
17. LGA and council officers have continued to engage 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. When the closure of the schemes was announced [we estimated that £1.37 billion could be left unspent from all three schemes](#).

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18. We called for more time and flexibility to ensure as many businesses can benefit from this funding and for the Government to commit to redistributing any unspent resources from the original schemes, including any clawed back, to councils to be spent on local efforts to help further support businesses and reboot local economies.

#### **Infection Control Fund**

19. Separately, the Department of Health and Social Care have provided £600m through the Infection Control Fund up to the end of September. This funding has been allocated by local authorities to providers in accordance with guidance issued by the Department. 75 per cent of the funding has been allocated to care homes (based on the number of beds) with the remaining 25 per cent allocated at the discretion of the local authority often to help home care providers.

#### **Next steps**

20. Members are asked to note this update.
21. Officers will proceed with the delivery of the LGA's work on the response to, and recovery from, COVID-19.

#### **Implications for Wales**

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

#### **Financial Implications**

23. The work related to COVID-19 has been added to the LGA's core programme of work. This unbudgeted spending will be managed within the overall COVID-19-affected LGA Group funding position which the LGA Board is monitoring.