

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 since the previous meeting of the Board on 21 July. This includes work on COVID-19 issues and the 2020 Comprehensive Spending Review.

The conclusion of the Redmond Review of local audit is covered separately on the agenda.

Recommendations

That Members of the Resources Board note this update.

Action

Officers will proceed with the delivery of the LGA's work on local government finance issues.

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Local Government Finance update

Introduction

1. This report provides a summary of the work by the LGA on funding and finance issues since the previous meeting of the Board on 21 July. This includes work on COVID-19 issues and the 2020 Comprehensive Spending Review. The conclusion of the Redmond Review of local audit is covered separately on the agenda.

COVID-19: announcements to date

2. Since March, we have been successful in achieving a number of positive financial announcements to help councils deal with the impact of Covid-19, including:
 - 2.1. Three additional general funding announcements, worth in total £3.7 billion to local authorities including fire and rescue authorities.
 - 2.2. Over £4 billion of upfront grant payments and £2.6 billion of deferred payments of business rates to central government to aid cash flow.
 - 2.3. A three-month extension of the timescales for production of annual financial accounts and statements.
 - 2.4. A Government review of other reporting and data collection requirements for the next three months, which has resulted in postponed deadlines.
 - 2.5. A scheme to reimburse councils for income from lost sales, fees and charges (see below for further information on this scheme).
 - 2.6. 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.

COVID-19: details of the compensation scheme for sales, fees and charges losses

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

4. 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. 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.
5. Funding a portion of lost income from fees and charges is a step in the right direction but does not cover full losses, and it excludes some losses which the Government considers to be commercial. 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.

COVID-19: latest information on the financial challenge facing councils

6. 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 all sales, fees and charges and lost local taxation. This does not include Government support provided so far.
7. The 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. This excludes local taxation impacts which will hit council finances from 2021/22 onwards.
8. [In their report published on 19 August](#), the IFS concluded that:
 - 8.1. 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.
 - 8.2. 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.
 - 8.3. Councils could have almost £1 billion of losses in sales, fees and charges (around half the total) compensated by the new compensation scheme – this is tentative as the data available so far does not allow for modelling of the scheme accurately.
 - 8.4. The forecast pressures exceed the funding and support provided by central government by £2.0 billion across the sector as a whole.

- 8.5. 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.
9. 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 Resources Board up to date on the progress and findings of this work.

COVID-19: administration of support for businesses

10. 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 and the Retail, Hospitality and Leisure Business Grants Fund. They announced a smaller Local Authority Discretionary Grant in May, up to a total of £617,000.
11. The grant schemes closed, to new applications, 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, according to the latest update published on 2 September, £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.
12. 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 million to 37,560 hereditaments. This represents only 39 per cent of the maximum sum of £617 million. However, we would expect this to have increased during August.
13. 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](#). 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.

COVID-19: Infection Control Fund

14. Separately, the Department of Health and Social Care have provided £600 million 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. Seventy five 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.

Business Rates Review

15. The fundamental review of business rates was announced in the December 2019 Queen's Speech. Its terms of reference were published in March 2020 and a call for evidence on 21 July 2020. The [call for evidence](#) restated the aims of the review:
 - 15.1. reduce the overall burden on businesses from business rates;
 - 15.2. identify practical reforms that can improve growth and the sustainability of public finances;
 - 15.3. explore alternative systems of taxation.
16. Responses to the Call for Evidence are being sought in two tranches, Tranche One on the multiplier and reliefs closes on 18 September, and Tranche Two on wider reforms including valuations on 31 October.
17. Following a decision at the Executive Advisory Board in July the Business Rates Retention and Fair Funding Review Task and Finish Group was reformed and renamed the Business Rates and Local Government Finance Reform Task and Finish Group. This Group will be making recommendations to the Executive Advisory Board on LGA policy on business rates, council tax and wider local government finance reform.
18. The draft response to Tranche One of the Call for Evidence was referred to the LGA Executive Advisory Board for clearance at their meeting on 10 September. Officers will provide a verbal update on this.

Comprehensive Spending Review 2020: timings

19. In July, the Chancellor announced that he will conduct a Comprehensive Spending Review (CSR) this autumn, covering three years of 'revenue' (day-to-day) spending and four years of capital spending. HM Treasury is accepting representations with a deadline of 24 September. The Chancellor has not confirmed when the CSR results will be announced. The LGA is planning to submit an official representation to HM Treasury in line with this deadline and the content of the representation is covered later in this paper.
20. We have already been working with MHCLG to assist the Ministry with building its bid. For example, a number of themed CSR roundtables, bringing together senior officials from MHCLG, HM Treasury, relevant Whitehall departments and local authorities are underway.
21. The Chancellor is also widely expected to deliver a Budget this autumn, although in terms of Whitehall procedure this does not need to happen until March 2021 at the latest. Should an autumn Budget go ahead, it is highly likely it would take place at the same time as the announcement of CSR results. The CSR submission also meets the requirements of a Budget submission.

Comprehensive Spending Review 2020: IFS work on long-term council funding

22. One of the underpinning elements of the LGA's Spending Review campaign has been the LGA's analysis of the funding gap facing local services. The latest LGA publication, aimed at influencing the then-cancelled 2020 spring Spending Review, was published in March and set out a £6.4 billion funding gap facing councils by 2024/25.
23. As part of work commissioned from the Institute for Fiscal Studies to independently examine the impact of COVID-19 on council finances, the IFS will deliver an independent estimate of the medium-term financial challenge facing councils. It is intended that the results of this work will replace the LGA's funding gap estimates for the purposes of our CSR submission. At the time of writing, this work is still in progress.

Comprehensive Spending Review 2020: submission

24. The draft LGA submission, discussed at LGA Executive on 10 September in draft form, is the result of an extensive collective effort to make sure that the LGA reflects the breadth and variety of concerns and issues raised by our members, and provides evidence to support as many of the proposals and asks as possible.
25. This broad and detailed approach necessarily results in a comprehensive and lengthy product. Instead of being seen as a single document, the submission should be seen as a collection of five standalone chapters, all coming together under a unified Executive Summary.
26. The five CSR submission chapters cover:
- 26.1. **Council funding and financial sustainability.** This sets out the 'core' financial asks of the submission and will be strongly anchored to the research commissioned from the Institute of Fiscal Studies to develop an independent estimate of the base funding gap that councils will have to deal with in the absence of Government intervention. It also sets out our proposals for local taxation reform and general comments about capital investment, including the Treasury's review of the Green Book.
- 26.2. **Care and health inequalities.** This sets out LGA proposals and evidence regarding pressures that adult social care, children's services (including education) and public health services face. On the latter, it sets out a series of investment proposals to improve the health of the nation. It briefly covers the LGA's principles for adult social care reform.

- 26.3. **Climate change and the environment.** This sets out the LGA's policies on climate change adaptation, building towards the Government's net zero 2050 target, implications of waste and recycling reform and the Environment Bill and other environmental policy matters.
- 26.4. **Economy and 'levelling up'.** This focusses on our proposals for infrastructure investment in areas such as roads and public transport, devolution of skills powers and other connected issues, such as tackling homelessness.
- 26.5. **Great places to live.** This covers the public realm, for example the cultural sector, investment in housing, planning and community safety policies. It makes the case for investment to help councils improve local environments.
27. The vast majority of content is based on existing LGA policy positions.

National Audit Office (NAO) Consultation on external auditors' work on Value for Money (VFM) Arrangements

28. The National Audit Office has [consulted](#) on draft guidance to external auditors in undertaking Value For Money work under the new Local Audit Code of Practice. In our [response](#), which was cleared by lead members of Resources Board, we were generally supportive of the new guidance, but we raised concerns over the impact on resources from the new arrangements (both in terms of fees and in councils) and called for this to be made clear. We also asked that, as well as identifying weaknesses, auditors should recognise and report on good practice when they find it

Next steps

29. Members are asked to note this update.
30. Officers will proceed with the delivery of the LGA's work on local government finance issues.

Implications for Wales

31. Local government funding is a devolved matter and the Welsh LGA is undertaking its own work programme. 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

32. 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 LGA Group funding position which the LGA Board is monitoring.