

22 October 2020

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 10 September.

Recommendations

That Members of the Executive Advisory Board note this update.

Action

Officers will proceed with the delivery of the LGA's work in advance of the Comprehensive Spending Review and on the response to, and recovery from, COVID-19 as well as wider local government finance matters.

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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 last Board meeting on 10 September including work in response to the COVID-19 pandemic and on the Comprehensive Spending Review (CSR).
2. The LGA's response to the Government's Business Rates Review call for evidence (tranche 2) and the Independent Review of Local Authority Financial Reporting and External Audit in England (the "Redmond Review", which was published in September) are covered by separate items in the agenda.

COVID-19: Government announcements to date

3. 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:
 - 3.1. Three additional general funding announcements, worth in total £3.7 billion to local authorities including fire and rescue authorities.
 - 3.2. 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.
 - 3.3. A three-month extension of the timescales for production of annual financial accounts and statements.
 - 3.4. A Government review of other reporting and data collection requirements, which has resulted in postponed deadlines.
 - 3.5. 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
 - 3.6. 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.

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Latest information on the COVID-19 financial challenge facing councils

4. The LGA continues to receive access to data from the monthly returns submitted to MHCLG on the financial challenges arising from COVID-19, which based on the August data amounts to over £11 billion. This includes cost pressures and lost income from all sources, including sales, fees and charges, commercial income and local taxation. This is prior to considering mitigating factors and Government support provided so far.
5. The LGA commissioned the IFS to examine the current financial year impact of COVID-19 on local government. In their [August report](#), the IFS reported councils forecast spending pressures, based on the July returns to MHCLG, of £5.0 billion and non-tax income of pressures of £2.9 billion this year. Considering the support from Government, this implies an in-year 2020/21 funding shortfall of approximately £2 billion in council budgets.
6. The IFS report is based on the July survey data submitted to MHCLG (as this was the most recent data at the time). There have not been significant changes in the most recent (August) survey data we have received with conclusions as set out above.

Administration of support for businesses

7. On 9 September, the Department for Business, Energy and Industrial Strategy announced a new grant scheme for areas where businesses were required to close due to local lockdown regulations imposed by the Government. The scheme been extended to include businesses which have been required to close on a national, rather than a local basis.
8. On 9 October the limits and period of payment were [changed](#). Grants of up to £3,000, are available, linked to rateable value. In addition, councils will receive an additional 5 per cent of funding to run a local discretionary grant fund which could be used to support businesses that do not pay business rates and other severely impacted businesses that are prioritised locally.
9. LGA officers and others from local government have been in discussion with government officials about the operation of the scheme.

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Test and Trace payments

10. On 19th September the Government announced a payment of £500 to people on in-work benefits who are told to self-isolate by NHS Track and Trace, to be administered by Unitary and District councils. The Department for Health and Social Care (DHSC) has been working closely with councils, the LGA and other Government departments to ensure that payments can be made from Monday 12th October. This scheme applies from 28th September and will last until 31st January 2021. Councils can also make a discretionary payment in exceptional circumstances to someone who meets the main qualifying criteria and could suffer financial hardship as a result of not being able to work. Councils are being issued with regularly updated guidance and information via a range of communication channels including their 'single inbox'. Funding allocations for the discretionary payment were made to councils on 2nd October.

Other recent funding announcements

11. Separately, the Department of Health and Social Care has provided £546 million through the Infection Control Fund (round 2) to support measures to reduce COVID-19 transmission and support workforce resilience in the adult social care sector. This funding builds on the £600 million of round 1 funding allocated in May. Eighty per cent of funding will be allocated straight to care homes based on the number of beds (up from 75 per cent in round 1). The remaining 20 per cent of funding will be allocated on other COVID-19 infection control measures for the care sector, including supporting other care settings and wider workforce measures.
12. The Government has confirmed councils and the police will equally share the extra £60 million in funding to help support compliance and enforcement of COVID-19 rules. The £30 million councils will receive is ringfenced to spend on COVID-19 related compliance and enforcement activities and will be allocated to all district, unitary, metropolitan borough, and London borough councils. Allocations are based on the COVID-19 Relative Needs Formula used to distribute the third tranche (£500 million) of COVID-19 funding. Local authorities have been encouraged to consider using this funding for the deployment of COVID-19 secure marshals, or their equivalents.
13. During the Prime Minister's statement in the House of Commons on 13 October, the announced that local authorities across England will be provided with around £1 billion of new financial support. The Government has also announced up to £0.5 billion will be provided to local authorities entering the tier three ("very high") alert level for enforcement, compliance and contact tracing. At the time of writing, further details have not been released. Officers will update members of the Executive Advisory Board when further information is available.

LGA Comprehensive Spending Review Submission

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14. On 24 September, we submitted our Spending Review submission to Treasury. [The submission was published](#) on 1 October. The Executive Advisory Board considered and commented on an earlier version of the submission, with feedback incorporated in the final submission which was cleared by the Chairman and Group Leaders.
15. There are five chapters in the submission:
 - 15.1. **Overall council funding** makes the case for sustainable core funding for local government and enabling councils to bring together budgets of public services across a place to eliminate duplication of effort and drive savings to the public purse
 - 15.2. **Care and health inequalities** builds the argument that services for children and adults, combined with a reinvigorated local public health offer, provide the opportunities to tackle health inequalities, manage the on-going impact of COVID-19 and ensure older and disabled people can access the care and support they need.
 - 15.3. **Environment and climate change** deals with one of the most important issues facing the world today, highlighting the vital role councils play in tackling it.
 - 15.4. **Economy and ‘levelling up’** focusses on the role councils can play in the economic recovery from COVID-19 and the subsequent recession, in particular through greater devolution and powers to steer resources to local economic priorities.
 - 15.5. **Great places to live** showcases the role councils play in building thriving local areas which can boost the sense of community, connection and pride in a place, which can yield further positive economic benefits.
16. The LGA’s Spending Review submission calls on the Government to provide an additional £10.1 billion in core funding by 2023/24, based on:
 - 16.1. A £5.3 billion funding gap to sustain 2019/20 service levels (based on [IFS work](#) which assumes annual inflationary increases to grants and 2 per cent annual council tax increases. Please see appendix 1 for a breakdown of the funding gap);
 - 16.2. £1.9 billion to deal with other underlying pressures and quantifiable new burdens in the sector including children’s social care, homelessness and concessionary fares; and
 - 16.3. £2.9 billion of other core funding requirements to help councils improve their core service offer.
17. Appendix 1 details the figures used to derive the total core funding requirement for each Comprehensive Spending Review year.

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18. It should be noted that the revenue and spending figures are highly uncertain and will depend on the course of COVID-19 and how this affects future revenues, service demands and costs.
19. A joint letter from all four of the local government associations in the UK was sent to the Chancellor on 24 September. The letter highlights the significant funding pressures councils across the UK are facing ahead of the Spending Review.
20. The LGA will continue to make the case for local government in the run up to the 2020 Comprehensive Spending Review. There will be continued efforts focussed on highlighting the messaging from the LGA's submission through media communication and public affairs work. For example, a Parliamentary briefing on the Comprehensive Spending Review submission led by the Chairman, the Chair of the Resources Board and the Deputy Chief Executive took place on 5 October and we have issued further press work linked to our submission, such as highlighting the [fragmented nature of council funding](#).
21. On 23 September, the Treasury confirmed an Autumn Budget will not take place this year, but that a spending review would still take place. At the time of writing, there has been no announcement on whether this has an impact on the length of time covered by the CSR. As a result, officers continue to work on the assumption of a multi-year CSR, with some contingency planning taking place in case the approach need to change to a one-year scenario.

Next steps

22. Members are asked to note this update.
23. Officers will proceed with the delivery of the LGA's work in advance of the Comprehensive Spending Review and on the response to, and recovery from, COVID-19 as well as wider local government finance matters.

Implications for Wales

24. 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. The LGA sent a joint letter, with the LGA's in Wales, Scotland and Northern Ireland to the Chancellor making the case for local authorities across the United Kingdom in advance of the 2020 Comprehensive Spending Review.

Financial Implications

25. 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.

Appendix 1 – Core funding requirement for each year of the CSR period

The table below sets out the figures used to derive the total core funding requirement for each Comprehensive Spending Review year, outlined in more detail in the LGA submission and summarised in paragraph 16 above.

Element	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
IFS - central additional 'business as usual' cost pressures estimate	5,210	6,552	8,698
IFS – central adult social care provider market pressure estimate	1,540	1,605	1,690
IFS – central estimate of potential additional costs due to 2023 pension revaluation	-	-	678
IFS – income growth estimates (includes 2% annual increases in council tax and increases in grants in line with CPI inflation)	(2,768)	(4,447)	(5,805)
Funding gap to retain 2019/20 service levels (in addition to inflation increases to core grant and 2 per cent council tax increases)	3,982	3,710	5,261
Other underlying pressures and quantifiable new burdens that require appropriate funding			
Pre-existing persistent children's social care overspend (2018/19 overspend, uprated for demand and inflation using IFS assumptions)	903	957	1,013
Pre-existing persistent homelessness overspend (2018/19 overspend, uprated for demand and inflation using IFS assumptions)	150	156	160
Meeting the shortfall in concessionary fares funding	700	700	700
Building Safety Bill new burdens	22	22	22
Mental Health Act – new burdens	10	10	10
Total other underlying pressures and quantifiable new burdens	1,785	1,845	1,905
Other quantifiable core funding requirements to help councils improve and recover services:			
Reinstating early intervention funding to 2010/11 levels	1,700	1,700	1,700
Reforming adult social care pay to match NHS	1,000	1,000	1,000
Restoring the Social Fund to 2013/14 funding levels	176	176	176
Local digital infrastructure champions	30	30	30
Total quantifiable core funding requirements to help councils improve and recover services	2,906	2,906	2,906
Total	8,673	8,461	10,072