

21 January 2021

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 3 December, including the impact of COVID-19, the Local Government Finance Settlement, and the Budget 2021 submission.

Recommendation

That the Executive Advisory Board note this update.

Action

Officers will proceed with the delivery of the LGA's work on local government finance, including the Spending Review and the response to, and recovery from, COVID-19.

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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 3 December, including the impact of COVID-19, the Local Government Finance Settlement, and the 2021 Budget submission.

Provisional Local Government Finance Settlement

2. On 17 December the Secretary of State delivered the Provisional Local Government Finance Settlement for 2021/22. The [published figures](#) set out details for all local authorities across England. LGA officers produced an [on the day briefing](#) highlighting key information from the settlement which was sent to member authorities.
3. The following were key announcements in the settlement:
 - A potential increase of £2.2 billion (4.5%) in core spending power, where over 85% of the potential core funding increase is dependent on increasing council tax by the maximum allowable amount (for social care authorities, this is up to 5%).
 - Revenue Support Grant will rise by inflation. While the business rates baseline will not change from 2020/21, councils will be compensated for the business rates freeze.
 - New Homes Bonus (included in Core Spending Power) is worth £622 million, and consists of legacy payments from 2018/19 and 2019/20, and the new money for 2021/22, as well as the Affordable Homes Premium across those years. As previously announced, there is no legacy payment in respect of 2020/21.
 - The Government published allocations of the £300 million social care grant announced in the Spending Review, with £60 million allocated based on the adult social care relative needs formula and £240 million allocated to equalise i for the amount a council can raise via their adult social care precept.
 - The improved Better Care Fund and the 2020/21 social care support grant continue at the same level in 2021/22.
 - The rural services delivery grant will increase from £81 million in 2020/21 to £85 million in 2021/22.
 - A new Lower Tier Services Grant was introduced worth £111 million and will be allocated to district councils and unitary authorities.
4. The Secretary of State confirmed that the Government will work with the sector and Members across the House to seek a new consensus for broader reforms to local government finance, including the Fair Funding Review and the business rates reset.
5. The settlement included no information on public health funding for 2021/22.

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6. Alongside the settlement, the Government confirmed school and early years revenue funding allocations for 2021/22. In the 2020 Spending Review it was announced that the schools' budget will increase by £2.2 billion. The Government has also confirmed that high needs funding will increase by £730 million (10%) for 2021/22. The Government also confirmed an additional £44 million for early years education in 2021/22 to increase the hourly rate paid to childcare providers for the Government's free hours offer.
7. The settlement remains provisional until the Government has concluded the consultation on the proposals in the settlement. Our response to the provisional settlement can be found [here](#).

Budget 2021 submission

8. On 17 December 2020, the Chancellor announced the Budget for 2021 will take place on 3 March. The deadline for Budget representation submissions was 14 January.
9. The LGA's Budget submission focuses on key topics, including COVID-19, Brexit, economic recovery, jobs, devolution, Spending Review 2021, local government finance reform, adult social care reform, children's social care and education.
10. Given its wide-ranging content that cuts across multiple LGA Boards and very significant time constraints introduced by the Treasury with its deadline, the Budget submission was signed off by the Chairman and Group Leaders and is available [here](#).

COVID-19 funding

Latest survey data

11. The MHCLG monthly financial monitoring returns continue to be an important tool in making the case for the financial impact of COVID-19 on local government, particularly as circumstances change. According to the December returns, the total in-year financial pressure projected by councils in 2020/21 due to COVID-19 was estimated to be £9.7 billion (consisting of £6.9 billion of cost pressures and £2.8 billion of non-tax income losses), with a further £2.8 billion of business rates and council tax income losses – these tax losses will impact council budgets in 2021/22.
12. This survey was completed before the announcement of new Tier 4 measures and the increased prevalence of the new COVID-19 strain. It is therefore likely that the financial impact on councils for the rest of the 2020/21 financial year will be more significant than is represented by survey responses above.

Local and national restrictions since December

13. Following the national lockdown in November 2020, the Government returned to a local tiered system.

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14. The Contain Outbreak Management Fund was extended to provide monthly payments to local authorities in tiers 2, 3, and 4 until the end of the financial year. For those authorities in tiers 3 and 4, this funding will amount to £4 per head of population per month, and for those in tier 2, it will amount to £2 per head of population per month.
15. All businesses in Tiers 2 and 3 which had to close as a result of the new restrictions will be entitled to the mandatory [Local Restrictions Support Grant \(Closed\)](#). This included pubs and bars which must close unless serving substantial meals in Tier 2 areas.
16. This was in addition to the [Local Restrictions Support Grant \(Open\)](#) (which was paused during the latest national lockdown period) which was a discretionary grant distributed to both Tier 2 and Tier 3 areas and based on the number of hospitality, hotel, bed and breakfast and leisure businesses. Councils had discretion as to how to award grant funding to individual businesses.
17. On 1 December 2020 the Prime Minister [announced](#) an additional one-off £1,000 grant for 'wet-led' pubs (those which predominantly serve alcohol rather than provide food) in tiers 2, 3 and 4.
18. On 24 December 2020 the Government published [guidance](#) for areas moving to Tier 4 from 19 December. In addition to Tier 3 business closures covering hospitality, leisure, accommodation and tourism businesses, non-essential retail and beauty services were required to close and Local Restrictions Support Grant (Closed), Local Restrictions Support Grant (Open) and Local Restrictions Support Grant (Sector) was suspended and replaced by Local Restrictions Support Grant (Closed) Addendum (LRSG CA)
19. On 4 January, the Prime Minister announced a further national lockdown. The financial support for local authorities outlined below is up to date at time of writing; a verbal update will be provided to the Executive Advisory Board on any further measures announced as a result of the national lockdown.
20. On 5 January, the Chancellor [announced](#) that businesses in the retail, hospitality and leisure sectors are to be given one-off grants worth up to £9,000; this is alongside the LRSG (Closed) Addendum Grant and is to be distributed to the same businesses. A further £500 million is also being made available for Local Authorities in England and £94 million for the Devolved Administrations to support other businesses not eligible for the grants, that might be affected by the restrictions. The new money was due to reach councils towards the end of the week starting 11 January. In a livestream with authorities on 6 January Alok Sharma emphasised the importance of the grants reaching businesses quickly.

2021/22 COVID-19 funding

21. Outside of Core Spending Power for next year, the settlement confirmed further details of the £3 billion of support for COVID-19 pressures in 2021/22 announced in the Spending Review:

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- [Allocations](#) of the £1.55 billion of unringfenced funding to meet expenditure pressures announced in the Spending Review, distributed via the COVID-19 Relative Needs Formula.
 - Further detail on how losses in scope of the guarantee to compensate for 75 per cent compensation of irrecoverable 2020/21 business rates and council tax losses will be measured
 - Proposed methodology to distribute the £670 million to support households least able to afford council tax payments in 2021/22 – illustrative allocations have been published [here](#)
 - A continuation of the Sales, Fees, and Charges compensation scheme for the first three months of 2021/22.
22. The Government is consulting on the proposed methodology to distribute the £670 million of support for council tax payments, and the continuation of Sales, Fees, and Charges compensation scheme. Our response to the consultation can be found [here](#).

Audit Issues

23. In December, we submitted a [response](#) to the Public Sector Audit and Appointments (PSAA) [consultation](#) on proposed new arrangements for determining fee variations for local audits of opted-in bodies from audits of 2020/21 accounts onwards, as agreed by Lead Members of Resources Board.
24. Alongside the settlement the Government published its [response to the Independent review of Local authority financial reporting and external audit](#) (the [Redmond Review](#)). The current audit arrangements are not working as well as they should and the Government has accepted many recommendations for practical changes that can be made quickly. Many of these were also suggested [in our own response](#). These include, amongst others, putting back the audit deadline to 30 September and providing £15 million in 2021/22 to pay for additional audit costs. The Government states that it remains committed to a locally-led audit regime which enables genuine local accountability and it will now give more time to consider whether structural changes are required to the procurement and regulatory arrangements in that context. The detail of the response says that the Government is “not persuaded” that a new arms-length regulatory is the answer.
25. Resources Board are considering the full published response in detail and we will continue discussions with central government and with councils.

Next steps

26. Members are asked to note this update.
27. Officers will proceed with the delivery of the LGA’s work following the Local Government Finance Settlement, and in advance of the Budget. Officers will continue to work on the response to, and recovery from, COVID-19 as well as wider local government finance matters.

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Implications for Wales

28. Information on funding to Welsh local authorities was [published](#) in the provisional Welsh local government finance settlement. 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

29. 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.