

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 14 January. This includes work on the 2021/22 final Local Government Finance Settlement, the 2021 Chancellor's Budget, and COVID-19 finance issues.

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 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 14 January 2020 including work in response to the COVID-19 pandemic, the final Local Government Finance Settlement, and the Chancellor's Budget.

Final 2021/22 Local Government Finance Settlement

2. On 4 February the Final Local Government Finance Settlement for 2021/22 was [published](#). There were no major changes compared to the provisional settlement published in December 2020, with the overall increase in Core Spending Power increasing from 4.5 to 4.6 per cent for 2021/22, due to updated data for the New Homes Bonus and a revised council tax referendum limit for the Greater London Authority. More than 85 per cent of the potential core spending power increase next year is dependent on councils increasing council tax by the maximum permitted without a referendum.
3. Allocations of the Public Health Grant for 2021/22 have not yet been announced.
4. The final settlement was debated in Parliament on 10 February. The LGA's evidence to the Housing, Communities and Local Government Select Committee and funding gap analysis were referred to by several MPs, as well as historic cuts to funding over the last decade, and the need for a long-term solution to social care funding. We provided a [briefing](#) for parliamentarians to assist them in this debate.
5. Alongside the final settlement debate on 10 February, the Government launched a consultation on the [future of the New Homes Bonus](#). We will respond to the consultation by the 7 April deadline and are seeking views from the Resources Board, to be discussed in Agenda Item 5.

Business Rates Review

6. On 19 February the Treasury [announced](#) that an interim report of their Review of Business Rates, along with a summary of consultation responses, would be published on 23 March with the final report being published in Autumn 2021.

Capitalisation

7. On the day of the settlement debate, the Government announced an extension of the flexibility to use capital receipts to fund transformation projects. This flexibility was first introduced in 2015 and then extended to 2022. The latest announcement is to extend it for a further three years from 2022; further details will be provided by the Government in due course.
8. The Government also published [details](#) of capitalisation directions granted to four local authorities that have requested exceptional financial support during the COVID-19

pandemic; these were for Bexley, Eastbourne, Peterborough and Luton. We understand other councils are in continuing discussion with MHCLG about similar arrangements.

COVID-19 funding

Financial impact

9. The MHCLG monthly financial monitoring returns continue to be a key instrument in representing the financial impact of COVID-19 on local government. According to the January returns, the total in-year financial pressure projected by councils in 2020/21 due to COVID-19 was estimated to be £10.2 billion (consisting of £7.3 billion of cost pressures and £2.9 billion of non-tax income losses), with a further £2.6 billion of business rates and council tax income losses – these tax losses will impact council budgets in 2021/22.
10. The Public Accounts Committee is [calling for evidence](#) on the evolving financial pressures on local government and support provided by central government in the context of the COVID-19 pandemic. The LGA will respond to this inquiry by the 11 March deadline. Linked to the call for evidence, the National Audit Office (NAO) is due to [publish a report](#) on local government finance and the pandemic.

2021/22 COVID-19 funding

11. Alongside the settlement, the Government published a [policy paper](#) on COVID-19 funding in 2021/22 following the [consultation](#) in December. The Government confirmed [allocations](#) of the £670 million of local council tax support will be the indicative amounts set out in the consultation in December, and the extension of the sales, fees, and charges compensation scheme will use 2020/21 budgeted income as a baseline.
12. The policy paper also confirmed how losses in council tax will be measured in the local tax income guarantee scheme for 2020/21, with further details on business rates losses to be made available at a later date. The COVID-19 financial management survey will also continue to be collected.
13. COVID-19 funding in 2021/22 also includes the £1.55 billion for cost pressures; [allocations](#) were published in December.

Business Grants

14. BEIS will publish details of grants distributed by billing authorities and parliamentary constituency. At the time of writing this report, the date of publication had not been confirmed. On 22 February BEIS wrote to billing authorities to confirm that the Local Restrictions Support Grant to support businesses that were required to close due to the national lockdown announced at the start of 2021 was being extended to 31 March. The top-up Closed Business Lockdown Payment, also announced at the start of January, will not be extended

Institute for Fiscal Studies Phase 3 report

15. In February the independent economic research body, the Institute for Fiscal Studies (IFS) published a new [report](#) “Employment, income and council tax during the COVID-19 crisis: A geographical analysis and implications for councils”.
16. This report has been part funded by the LGA and represents the third phase of the work we commissioned last year on the impact of COVID-19 on council finances. The IFS found that the pandemic has hit employment and incomes across the UK, potentially reflecting changes in commuting, shopping and tourism. That in turn has affected some households’ ability to pay major bills such as council tax and also affected the number of benefit claims made. It found that as a result, councils expect to collect £1.3 billion less council tax in 2020/21. The report has been produced independently by the IFS.

Chancellor’s Budget 2021

17. The Budget will be delivered by the Chancellor on 3 March. LGA officers will provide an on the day briefing which will be sent to members.
18. The LGA’s Budget [submission](#) focussed 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.

Financial sustainability

19. The Housing, Communities and Local Government Select Committee is carrying out an inquiry into [Local Authority Financial Sustainability and the Section 114 Regime](#). Resources Board Lead Members approved a [submission](#) to the inquiry and the Chair of the Resources Board gave oral [evidence](#) to the committee on 8 February alongside the Chief Executive of CIPFA.

Green Book

20. As part of its [review of the 2020 Spending Review](#), the Treasury Select Committee has issued a call for evidence on changes to HM Treasury’s Green Book. Resources Board Lead members approved a submission of evidence to this inquiry.
21. While noting that the Green Book process remains centrally driven overall, we welcomed the intention to take a more rounded approach to reflecting on local policies, strategies, and plans. We highlighted that the Green Book should better account for the Government’s decarbonisation and net zero ambitions, and the environmental impacts of climate change. The assessment of environment benefits under the Green Book is still work in progress and will be the subject of a further review by HM Treasury this year.

Audit issues

22. The Public Sector Audit Appointment (PSAA) closed their consultation on [audit scale fees for 2021/22](#) on 19 February. The [LGA response to the scale fee consultation](#) was approved by Resources Lead members. We are supportive of PSAA's proposals but highlight that a great deal of information will still be unknown leaving councils (and auditors) with a lot of uncertainty. While this may be unavoidable, good communication with councils and auditors by PSAA will be essential. PSAA has also published the outcome of their consultation from last year on the [process for fee variations](#).
23. We continue discussions with MHCLG on the implementation of the recommendations of the Redmond review. MHCLG have sent a letter to council Chief Executives with a formal proposal to postpone the audit deadline to 30 September for 2 years.

Next steps

24. Members are asked to note this update.
25. Officers will proceed with the delivery of the LGA's work in advance of the Chancellor's Budget. Officers will continue to work on the response to, and recovery from, COVID-19 as well as wider local government finance matters.

Implications for Wales

26. 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

27. 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.