

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 2 March. This includes work on the Queen's speech, Chancellor's Spring Budget and Spending Review, Public Health Grant and work in response to the COVID-19 pandemic.

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.

Contact officer:	Nicola Morton
Position:	Head of Local Government Finance
Phone no:	020 7664 3197
Email:	nicola.morton@local.gov.uk

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 2 March 2021 including the Queen's speech, Spending Review, Public Health Grant, and work in response to the COVID-19 pandemic.

Queens Speech

2. On 11 May, the Queen [set out](#) the Government's agenda for the next Parliamentary session.
3. Key legislation includes new Bills for planning, the environment, skills and post-16 education, health and care, and building safety, as well as plans for a levelling up White Paper and Adult Social Care reform. The LGA produced an [On the Day Briefing](#) providing details of the key proposals affecting local government and the LGA's initial response to them.

Chancellor's Spring Budget and the 2021 Spending Review

4. On 3 March, the Chancellor delivered [the Budget](#) which provided a formal update on the state of the economy, responded to the new economic and fiscal forecast from the Office for Budget Responsibility. The LGA produced an [On the Day Briefing](#) summarising the key announcements for councils and initial LGA views.
5. The Chancellor also confirmed that there will be a Spending Review later this year. Details on the 2021 Spending Review, including how many years it will cover and the date it will be published, have not yet been announced.
6. The LGA has begun preparatory work on a Spending Review representation, including engaging with key stakeholders and work to refresh the financial pressures facing the sector.

Public Health Grant

7. [Public health grant allocations for 2021/22](#) were published on 16 March. The grant is £3.24 billion (up £45 million or 1.4% since 2020/21) and each local authority will receive at least a 0.67% increase on their 2020/21 allocation. Some authorities will receive a greater increase in funding due to the bespoke distribution of PrEP (HIV pre-exposure prophylaxis) funding.
8. The LGA [responded](#) to the public health grant announcement and provided a [briefing](#).

Business Rates

9. An [interim report](#) for the Business Rates Review was published on 23 March. This provided a summary of responses to the [call for evidence](#) but did not contain any policy announcements or recommendations that have not already been announced by the Government. The final report is expected in Autumn 2021.
10. Separately, following a [previous consultation](#), the Government announced that it will legislate to change the criteria for determining whether a holiday let is valued for business rates. Further details will be included in the response to the previous consultation which is expected to be published shortly.
11. The Government announced at the 2021 Budget on 3 March that the reliefs for retail, leisure and hospitality and nurseries, which were 100 per cent for 2020/21, would be extended for the first three months of 2021/22 at the same level. From 1 July 2021 they will be granted up to 66 per cent with caps, the higher level being given to businesses required to close on 5 January 2021. Councils will be fully compensated for these reliefs. The Government has [published guidance](#) on this.
12. Finally, the Government announced that it will legislate to rule out COVID-19 and associated measures as a material change of circumstances as far as business rates are concerned. Legislation was introduced into Parliament on 12 May 2021. Once the legislation is through Parliament, the Government will provide a further discretionary relief of £1.5 billion for billing authorities to distribute to business affected by COVID-19 but outside the scope of the existing reliefs. Guidance on this is expected to be published shortly.

Capital Finance

13. Following the discussion at the last meeting of Resources Board, lead members cleared responses to the CIPFA consultations on the [Prudential Code for Capital Finance in Local Authorities](#) and the [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#).

COVID-19 finances

14. The MHCLG monthly financial monitoring returns continue to be an important tool for making the case for compensating local government for the financial impact of COVID-19. According to the April returns, the total in-year impact projected by councils in 2020/21 was estimated to be £9.5 billion (consisting of £6.8 billion of cost pressures and £2.7 billion of non-tax income losses). This compares to £7 billion of grants provided by Central Government as well as the sales, fees, and charges compensation scheme. Tax losses are estimated to be £2.2 billion but will impact council budgets in 2021/22. Under the Tax Income Guarantee Scheme councils will be compensated for 75% of these losses.

15. In the survey, councils have also been asked to estimate the financial impact of COVID-19 for the first quarter of 2021/22 (April 2021 to June 2021). According to latest data, councils are projecting an additional £2.2 billion of in-year financial pressures (consisting of £1.6 billion of cost pressures and £0.6 billion of non-tax income losses). This compares to grants of £1.6 billion and an extension of the sales, fees, and charges compensation scheme to June 2021.
16. On 11 March, the LGA [responded](#) to the Public Accounts Committee's [call for evidence](#) on the evolving financial pressures on local government and support provided by central government in the context of the COVID-19 pandemic.

Business Grants

17. Councils have continued to distribute grants to businesses affected by COVID-19 measures, both the Local Restrictions Support Grants and Additional Restriction Grants for the latter part of 2020/21 and the Restart Grants announced at Budget 2021. In total back to the start of the pandemic, councils have now paid out around £20 billion to businesses for all grants. Officers have continued to engage with officials, particularly on the conditions for accessing the £425 million top-up for the Additional Restrictions Grant.

Audit issues

18. In March the National Audit Office published a [report on the timeliness of local auditor reporting on local government](#). Resources Board Lead members cleared a written evidence submission to the subsequent [inquiry on the this by the Public Accounts Committee](#).
19. We continue discussions with MHCLG on the implementation of the recommendations of the [Redmond review](#). MHCLG have now laid [regulations moving the audit deadline](#) to 30 September for two years. In addition MHCLG consulted on proposals for [allocating £15 million of additional funding](#) to cover expected additional audit fees which was announced in December as part of the [Government's response to the Redmond review](#). In May MHCLG published an [update to their response to the Redmond review](#). This confirmed Public Sector Audit Appointment's role as the appointing body for audit procurement and contract management. It also confirmed that recommendation in the review for the new Office of Local Audit Regulation (OLAR) will not be taken up. Instead the system leadership role will be taken on by the successor body to the Financial Reporting Council (FRC), the new Audit, Reporting and Governance Authority (ARGA).
20. Lead members cleared a [response](#) to a consultation from MHCLG on [proposed changes to the timetable for setting audit fees](#) to enable more up to date information to be taken into account when the annual fees are set.

21. The Department of Business Energy and Industrial Strategy are undertaking a [consultation on proposals for a major overhaul of the UK Audit regime](#). While the proposals primarily affect the audit of companies, the proposed new regulator, the Audit, Reporting and Governance Authority (ARGA) will replace the Financial Reporting Council (FRC) which is the current regulator for local audit. There are very few references to local audit in the consultation and it is proposed to respond to the consultation to highlight that local audit should not be forgotten. This is now particularly important as MHCLG are proposing that ARGA will undertake the system leadership role for local audit. The proposed response will also draw attention to factual inaccuracies in the consultation document where it references the LGA's role regarding pensions.

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 2021 Spending Review. 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

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.

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 LGA Group funding position which the LGA Board is monitoring.