

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 11 March, including COVID-19 finance issues and Spending Review 2021 preparations.

Recommendations

The Executive Advisory Board is asked to note the 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 11 March, including work in response to the COVID-19 pandemic, preparations ahead of the 2021 Spending Review, and Business rates and audit updates.

Spending Review 2021

2. Details of the 2021 Spending Review, including how many years it will cover and the date it will be published, have not yet been announced. Indications from ministers suggest the Spending Review will be delivered in the Autumn.
3. The LGA has begun preparatory work on a Spending Review submission, including engaging with key stakeholders and work to refresh the financial pressures facing the sector. Early analysis estimates that councils face cost pressures of approximately £2.5 billion per year to 2024/25, around three quarters of which are social care cost pressures.

COVID-19 funding

4. The LGA continues to receive access to data from the monthly returns submitted to MHCLG, which track the ongoing financial challenges arising from COVID-19. Based on data collected in April, 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 £10 billion of funding from Central Government. Tax losses were estimated to be £2.2 billion and will impact council budgets in 2021/22, 75% of these losses which are irrecoverable will be funded by Government.
5. Councils project £2.8 billion of in-year pressures for the first half of 2021/22 (cost pressures and non-tax income losses). There is a further £0.7 billion of local tax income losses projected for the first half of 2021/22, impacting budgets in 2022/23. This compares to £2.6 billion of funding from Central Government, along with an extension to the sales, fees, and charges compensation scheme for the first quarter of 2021/22.
6. 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 Rates

7. On 29 June the Government [published](#) a consultation document on more frequent revaluations proposing moving to three-year revaluations and certain reforms to the system for informing the Valuation Office Agency and councils about ratepayer circumstances as well as streamlining the appeals system. Many of the proposals are changes we have lobbied for. The closing date for the consultation is 24 August. The LGA will respond to the consultation.
8. Following a [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 are expected to be published shortly.
9. [Legislation](#) to rule out claims for material change of circumstance due to COVID-19 and associated measures is currently in Parliament and a [£1.5 billion relief](#) will be distributed once the legislation has Royal Assent – expected in Autumn 2021. We have issued a [briefing for MPs](#) supporting the Bill and [Sarah Pickup gave evidence](#) to the Bill Committee on 6 July.
10. 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 £21 billion to businesses for all grants; this compares to £25 billion provided by Central Government. Officers have continued to engage with officials, particularly on the conditions for accessing the £425 million top-up for the Additional Restrictions Grant.

Capital finance

11. Lead members of Resources Board 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](#).

Audit

12. 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](#).
13. 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). Following this, Lead Members of Resources Board cleared a response to the Department of Business Energy and Industrial Strategy's [consultation on proposals for a major overhaul of the UK company audit regime](#), including proposals on setting up the ARGA. In [our response](#) we highlighted the need for the proposals to include a higher profile of the problems faced by local audit and the need to resolve them.

14. 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.

Next steps

15. Members are asked to note this update.
16. Officers will proceed with the delivery of the LGA's work ahead of the 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

17. 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

18. 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.