

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 June. This includes work on the Spending Review, business rates, capital finance, and audit.

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 3 June 2021 including the Spending Review, business rates, capital finance, and audit.

2021 Spending Review

2. On 7 September, the Chancellor announced a three-year Spending Review, covering resources and capital spending between 2022/23 and 2024/25, will be delivered on 27 October 2021. An autumn Budget will be delivered at the same time. The deadline for representations is 30 September. Overall total departmental spending will match the plans set out in the 2021 Spring Budget, which implies a 1% real terms cut to unprotected departments, although how that will be distributed between departments is a matter for the Spending Review.
3. As well as focusing on individual policy areas, the LGA's submission includes LGA estimates of the cost pressures facing councils over the coming period. These are an average annual increase of £2.6 billion in cost pressures to maintain services at their current level of quality and delivery. Of this, £1.1 billion per year is related to adult social care, £0.6 billion to children's social care and £0.9 billion to all other council services (excluding education and police/fire services). The assumptions used in calculating cost pressures have been signed off by the LGA Chairman and Group Leaders and the figures above include the costs due to increased national insurance rates (see adult social care below).
4. In addition, there are other underlying pressures, such as the pre-existing adult social care provider market pressures, pre-existing children's social care/ homelessness overspends and SEND deficits not met by funding.
5. Although the cost pressures analysis does not include the impact of COVID-19, a section is included in the submission outlining the continued challenges local government face due to the pandemic. We also call on Government to continue to monitor the situation both in the short and long term, providing funding if and when needed.
6. Lead members of Resources Board commented on the core finance section of the submission.
7. The draft Spending Review submission was discussed at Executive Advisory Board on 9 September. Members agreed to aim to streamline some of the community infrastructure-related proposals (such as investing in prevention, public health and early intervention) into a single Community Infrastructure Fund to make the pitch more straightforward and avoid fragmentation of funding through disparate pots.

23 September 2021

8. Executive Advisory Board have delegated sign off of our submission to the Chair of Resources Board, the Chairman and Group Leaders.

Adult social care

9. On 7 September, the Government announced that it will introduce a health and social care levy in the form of an additional 1.25% tax rate increase for both employer and employee elements of national insurance.
10. This is expected to generate £36 billion over the three-year Spending Review period, of which approximately £6 billion will go to the devolved administrations, and £5.4 billion will be used to fund adult social care reform, in particular the implementation of a care cost cap, a more generous means test and paying a fair rate of care – allowing those self-funding their care to access the same care fees as local authorities for an equivalent level of service. The rest of the funding – around £25 billion over the three years – will go to the NHS.

Business Rates

11. Following the publication of the Business Rates Review [interim report](#) in March 2021, the Government [consulted on more frequent business rates revaluations](#) which closed on 24 August 2021. The LGA [response](#), which was cleared by Resources Board Lead Members, welcomes the fact that the Government is consulting on introducing a package of measures, alongside revaluations once every three years, which include new duties on ratepayers to provide information to the Valuation Office Agency (VOA). We also suggest that there should be measures for information to be provided to billing authorities where this would enable councils to discharge their functions effectively, relating for example, to determining liability for business rates and eligibility for reliefs. The outcome of the consultation, along with the final report of the Business Rates Review is expected in Autumn 2021.
12. On 16 August 2021 the Government published a consultation on the [central rating list](#). This is the subject of a separate item on your agenda.
13. The [legislation](#) to rule out COVID-19 and associated measures as a material change of circumstances as far as business rates are concerned has been progressing through Parliament and at the time of drafting this report it was due to have its Commons Report Stage on 9 September. 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 when the Bill receives its Royal Assent in Autumn 2021. The LGA and others within the sector have been pressing for it, and the allocations, to be published in draft, so councils can start to progress their relief schemes, alongside the retail relief for 2021, which from 1 July 2021 is now given at up to 66 per cent, as opposed to the higher level of 100 percent which applied previously.
14. Councils have continued to distribute grants to businesses affected by COVID-19 measures, both the Restart Grants and Additional Restriction Grants. In total back to the

23 September 2021

start of the pandemic, councils have now paid out £21.5 billion to businesses for all grants. Officers understand that around two thirds of councils met the conditions for the conditions for accessing the £425 million top-up for the Additional Restrictions Grant, which were that the previous allocations for the grant had to be spent by 30 July 2021.

Capital finance

15. In July, the Ministry of Housing, Communities and Local Government (MHCLG) published [planned improvements to the local authority capital finance framework](#), outlining plans to make changes to the way that the department oversees the prudential regime for capital finance. These include:
 - 15.1. Changes to the data MHCLG collects from councils on capital.
 - 15.2. Changes to how MHCLG monitors council capital activity and detects and deals with non-compliance with the principles of the prudential framework.
 - 15.3. consultation on changes to the statutory investment guidance, largely to align it with the new CIPFA codes and with Public Works Loan Board (PWLB) lending terms and guidance.
 - 15.4. consultation on changes to the Minimum Revenue Provision (MRP) guidance.
 - 15.5. Review the statutory powers for capping borrowing and consider how and when such powers might be applied.
16. Until detailed proposals are published it will not be clear whether changes will be significant or how they will impact on councils. It is proposed that we continue to make the case that any changes need to be proportionate and that the overall framework for capital finance should continue to allow local authorities wide freedoms to borrow and invest, without the need to seek prior approval from government.
17. Following the first stage consultations earlier this year, CIPFA is expected to launch the second stage of its 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 shortly. These will cover the details of the proposed revisions to the wording of the codes.
18. In August HM Treasury published [guidance on the lending terms for the Public Works Loans Board](#) (PWLB). This clarifies how the [lending terms introduced for all new loans after 26 November 2020](#) work and follows queries from councils. The new guidance explicitly confirms that PWLB borrowing for general refinancing purposes will be available to all councils, even to those whose other access to PWLB has been withdrawn due to them planning to buy investment assets primarily for yield. This was already our understanding, but it is good that it has been confirmed. It also confirms that such general refinancing must exclude investment assets acquired after 26 November 2020 held primarily for yield.

19. The guidance also provides some broad definitions of purposes of capital expenditure (such as regeneration) that can be funded by borrowing from PWLB, and a stricter definition of what counts as an investment asset primarily for yield, which PWLB borrowing will not fund. Within this, guidance on the treatment of rental income in new regeneration schemes is a cause for concern as such income now has to be ringfenced for regeneration schemes and cannot be used to support general services. While in reality this may not cause problems for most schemes, it is possible that it could lead to unintended consequences of preventing some regeneration schemes from going ahead.

Local Government Finance Reform

20. In March 2021 the Executive Advisory Board agreed to commission work on Local Government Finance Reform; this is currently underway and is being carried out by WPI Economics. As part of their engagement with the sector, members of the Business Rates and Local Government Finance Reform Task and Finish Group had the opportunity to feed into this in their July meeting. The work is looking at both current and potential revenue sources setting out the pros and cons of each option, singly and in combination with each other. Officers anticipate that a draft will go to the Business Rates and Local Government Finance Reform Task and Finish Group and then to the Executive Advisory Board for sign-off.

Audit issues

21. In July Lead Members cleared [a response](#) to the Department of Business Energy and Industrial Strategy [consultation on proposals for a major overhaul of the UK audit regime](#). Our response reflected that there was little reference to local government audit in the consultation. While the proposals primarily affect the audit of companies, the proposed new regulator, the Audit, Reporting and Governance Authority (ARGA), which is the successor body for the Financial Reporting Council (FRC), will regulate local government audit, and after the consultation commenced it was announced that it will also act as system leader for local audit. We called for a further detailed consultation on this and in late July MHCLG issued a [consultation on how ARGA will undertake the system leadership role for local audit](#).
22. This [further consultation](#) closes on 22 September, the day before this meeting, and a response will have been submitted following approval from Resources Board Lead Members. A key point is that for the proposals to work, there is a need for a dedicated and specialist team within ARGA with sufficient knowledge of local audit and local government. The consultation also covered the role of audit committees and the appointment of independent members on them. While guidance on good practice is to be welcomed, it is important that councils retain the flexibility to make decisions about appointments to reflect local circumstances and needs.
23. In July, MHCLG also published details of further progress on implementing the [Redmond review](#), following an [update on plans in May](#). This included a [response](#) to the consultation on changes to the Local Audit (Appointing Person) Regulations 2015. This confirmed that the deadline by which scale fees need to be set will be extended. There

23 September 2021

was also a [response](#) to the consultation on the [allocation of the additional £15 million funding](#) to support local bodies to meet the anticipated rise in audit fees in 2021/22.

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 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

26. The Spending Review will have an impact on Welsh councils through Government announcements, and through the Barnett consequential system and subsequent decisions by the Welsh government. The Welsh LGA is leading on work related to this although we are engaging regularly with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work. This includes a [joint event on local government finance](#) for local authorities in England, Wales, Scotland and Northern Ireland on 12 November 2021. The CIPFA consultations will affect the whole UK. All other issues covered in the report only affect England.

Financial Implications

27. The work covered in this paper is included in the LGA's core budget.