

## 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 23 September. This includes the 2021 Spending Review and Autumn Budget, and work on business rates and audit issues.

### Recommendation

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 Error! Reference source not found.

### Introduction

1. This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 23 September 2021 including the 2021 Spending Review and Autumn Budget, and work on business rates and audit issues.

### 2021 Autumn Budget and Spending Review

2. The LGA published its [Spending Review submission](#), cleared by the Chair of the Resources Board and the LGA's Chairman and Group Leaders, on 30 September.
3. This was supported by a sustained campaign including press releases and social media activity (all campaign work can be found on the LGA [Spending Review hub](#)):
  - 3.1. We highlighted [council tax is not the answer to solving councils' financial pressures](#)
  - 3.2. We highlighted [cost pressures of almost £8bn by 2024/25](#) facing councils just to keep services running at pre-pandemic levels
  - 3.3. We joined a number of organisations to [call for new funding for adult social care](#) and raised in our [podcast](#)
  - 3.4. We warned that [children's social care costs will rise by £600m a year](#)
  - 3.5. We highlighted the [need for a community investment fund](#) so councils can target funding according to local priorities.
  - 3.6. We called for [long term investment so early support hubs can be rolled out](#) to tackle the rise in mental health issues in young people.
  - 3.7. We called for the [Government to invest in councils to green retrofit over 1000 homes a day](#)
  - 3.8. We called for [100,000 social homes for rent each year to be built](#) to boost the economy
  - 3.9. We released an [open letter calling for investment in local public health](#)
4. The Chancellor [delivered](#) the Autumn Budget and 2021 Spending Review on 27 October. The LGA prepared an [on-the-day briefing](#) which covers all the announcements relevant to local government. In terms of announcements most closely related to the remit of Resources Board:

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- 4.1. Local government core spending power<sup>1</sup> is projected by the Government to rise by 3% per annum in real terms by 2024/25, or £8.5bn. This includes funding for adult social care reform funded by the Health and Social Care Levy as announced on 7 September. The value of this funding in 2024/25 is £2 billion, and a total of £3.6 billion over the Spending Review period.
  - 4.2. The remaining £6.5 billion growth in core spending power assumes that councils use the entire flexibility provided around council tax. The Government expects the general referendum limit to be 2% with an additional 1% Adult Social Care Precept for relevant authorities.
  - 4.3. The Local Government Departmental Expenditure Limit (LG DEL<sup>2</sup>) is estimated by the Government to increase by 9.4% per annum over the three-year period in real terms, equating to a cash increase of £3.6bn by 2024/25. This includes the £2 billion mentioned above which is related to the income from the health and social care levy, leaving another £1.6 billion in grant funding increases.
  - 4.4. Taken together, initial LGA analysis suggests that the increases to core spending power projected by the Government, including all councils increasing council tax to the maximum, will meet estimated forward pressures in 2022/23 to keep services at the at their 2019/20 level of quality and access, but will fall short by more than £1 billion in the last year of the Spending Review period. There was no specific funding to address existing pressures in local government such as the adult social care provider market or overspends in children's social care or homelessness, including those exacerbated by the pandemic.
  - 4.5. The Chancellor did not make any announcements about the future of the fair funding review (also known as the Review of Relative Needs and Resources), the move to further business rates retention, the business rates reset, or new homes bonus reform. There was no comment on whether local government can expect a three-year local government finance settlement.
5. Announcements on business rates and audit are included in the relevant sections in this paper. Announcements on matters relevant to other policy areas covered by the board will be included in other items on the Board's agenda.

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<sup>1</sup> The definition of Core Spending Power can change from year to year and will be defined for 2022/23 in the Local Government Finance Settlement due to be published later this year but in 2021/22 it included council tax, the business rates baseline, the Improved Better Care Fund, the Social Care Grant, the New Homes Bonus, the Rural Services Delivery Grant, and the Lower Tier Services Grant.

<sup>2</sup> LG DEL is a term used by the Treasury to define core grants to local government routed through the Department for Levelling Up, Housing and Communities. It is not fully defined but unlike Core Spending Power it does not include council tax or the business rates baseline.

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6. On the day of the Budget and Spending Review, the LGA issued press releases reacting to a number of announcements in addition to the [general response](#):
  - 6.1. A [response](#) to the measures to reduce and prevent crime
  - 6.2. A [response](#) to the £2.6bn funding for new school places for children with SEND
  - 6.3. A [response](#) to the £500m of funding for supporting families
  - 6.4. A [response](#) to the changes to Alcohol Duty
  - 6.5. A [response](#) to the Universal Credit taper rate change
  - 6.6. A [response](#) to funding for the UK's culture, tourism and sport sectors
  - 6.7. A [response](#) to the Multiply Fund announcement
  - 6.8. A [response](#) to £9 million of funding for 100 new urban 'pocket parks' across the UK
  - 6.9. A [response](#) to the adult social care funding announcement
  - 6.10. A [response](#) to the public health funding announcement
7. Information on core spending power at the local authority level will be published as part of the 2022/23 provisional local government finance settlement due later in 2021. Officers will provide an on-the-day briefing to cover the announcements made as part of the provisional settlement.

## **Business Rates**

8. In the Spending Review and Autumn Budget, the Chancellor published the final report of the [Business Rates review](#). The Government announced that it wants to preserve what it sees as the benefits of business rates but make their operation fairer and more effective. They are not proposing to change the nature of the tax or the basis of valuation, thus ruling out, for example, capital values or land value taxation. Measures announced include:
  - 8.1. A new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022/23. Eligible properties will receive 50% relief, up to a £110,000 per business cap.
  - 8.2. A 100% improvement relief for business rates. This will provide 12 months relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value.

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- 8.3. Targeted business rate exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible heat networks, to support the decarbonisation of non-domestic buildings, from 1 April 2023 until 31 March 2035.
  - 8.4. Extend transitional relief for small and medium-sized businesses, and the supporting small business scheme, for one year. This will restrict bill increases to 15% for small properties (up to a rateable value of £20,000 or £28,000 in Greater London) and 25% for medium properties (up to a rateable value of £100,000), subject to subsidy control limits
  - 8.5. English local authorities will be fully compensated for the loss of income as a result of the new business rates reliefs and will receive new burdens funding for administrative and IT costs.
  - 8.6. A freeze to the business rates multiplier for a second year, from 1 April 2022 until 31 March 2023, keeping the multipliers at 49.9p and 51.2p.
  - 8.7. Increase the frequency of business rates revaluations so that they take place every 3 years instead of every 5 years, starting in 2023. This announcement follows an earlier consultation on more frequent business rates revaluations. The Resources Board discussed the LGA's approach to this response at its last meeting and the response was cleared by Resources Board Lead Members.
  - 8.8. Provide additional funding to the Valuation Office Agency to support the delivery of the new revaluation cycle.
  - 8.9. There will be a technical consultation on the new reliefs and other matters before the 2023 revaluation; this is expected before the end of 2021. In addition, a further consultation on digitalising business rates (DBR), evasion and avoidance and transitional relief is expected during the course of 2022/23. The LGA has consistently called on the Government to take action on business rates avoidance.
  - 8.10. The Government also promised to consider further an online sales tax. If introduced, the revenue raised would be used to reduce business rates for retailers with properties in England, with devolved administrations receiving block grant increases in the usual way. A consultation will be published shortly.
9. 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. At the time of writing this report the House of Lords Committee Stage is due on 10 November 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 when the Bill receives its Royal Assent in late 2021 or early 2022. The LGA and others within the sector have been pressing for it, and the

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allocations, to be published in draft, so councils can start to progress their relief schemes.

### **Capital finance**

10. In September CIPFA launched 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. The proposed response to these is a separate item on today's agenda.
11. In July DLUHC announced a number of [planned improvements to the local authority capital finance framework](#). As part of this, a consultation on proposed changes to the Minimum Revenue Provision (MRP) guidance (which was [published in 2018](#)) is expected very soon. We will keep Resources Board up to date on developments and engage with members on the LGA's response.

### **Audit issues**

12. In the Spending Review and Autumn Budget, the Chancellor announced £34.5 million of additional funding over the SR21 period to further strengthen local delivery of audit and transparency. This funding will help strengthen the sector's procurement and commercial capacity, establish the Audit Reporting and Governance Authority as the new local audit systems leader, and help local councils meet new transparency requirements. We are seeking clarity over what this additional funding is expected to cover.
13. DLUHC has been consulting on plans for the Audit Reporting and Governance Authority (ARGA) to take on the role of system leader for local audit. Resources Board Lead Members approved a response to the consultation, which stressed the need for a dedicated and specialist team within ARGA with sufficient knowledge of local audit and local government for the proposal to work. The consultation also covered the role of audit committees and the appointment of independent members. 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.
14. There have been significant problems with meeting the audit deadline for 2020/21 with only 9% of accounts audits being concluded by this year's deadline of 30th September. This is despite more than 80% of councils submitting their draft accounts by the 31st July. Although COVID continues to have an impact, the effect of additional regulatory requirements on auditors and acknowledged under capacity of qualified auditors in the market must also be having an effect. We are working with the Government and all the other bodies involved in local audit on measures to address what is a serious problem for local authorities. In early October the DLUHC Permanent Secretary wrote to the Public Accounts Committee updating on action being taken in response to the Committee's July report on the timeliness of auditor reporting, and also updating on the implementation of the recommendations of the Redmond Review. In this letter the Permanent Secretary stated that "the picture for 2020/21 audits is expected to be significantly worse than for 2019/20".

### **LGA Local Government Finance Events**

15. Our annual local government finance conference will be held online on Thursday 13 January from 10:00 to 12:25. The Chair of the Resources Board will chair the webinar, and the Chairman will deliver a keynote address. The Minister of State for Levelling Up Communities and the Shadow Secretary of State for Communities and Local Government have been invited. We will also have presentations from the Institute for Fiscal Studies and WPI Economics. The webinar is free to LGA members and sign up is available along with a draft programme on the [event web page](#).
16. On 12 November the LGA, along with the Welsh LGA, NILGA, and COSLA, are hosting a joint webinar on sustainable council finances in a post-COVID-19 world. As well as leaders from all the local government associations, the webinar will also hear from the Institute for Fiscal Studies, a former Finance Commissioner, and Tony Travers from the London School of Economics. The webinar is free to LGA members. Please refer to the event web page for booking and the full programme.

### **Next steps**

17. Members are asked to note this update.
18. Officers will proceed with the delivery of the LGA's work following 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**

19. The Spending Review has 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. The CIPFA consultations will affect the whole UK. All other issues covered in the report only affect England.

### **Financial Implications**

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