

13 July 2022

## **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 May 2021. This includes updates on business rates, the energy rebate, funding for arrivals from Ukraine and capital finance. Work on cost pressures and local audit are covered by separate papers elsewhere on the agenda.

### **Recommendations**

That Members of Resources Board note this update

### **Action**

Officers will proceed with the delivery of the LGA's work on local government finance matters, keep members of Resources Board updated on developments and seek the views of the Board where possible or Resources Board Lead Members.

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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 11 May 2022. Work on cost pressures and local audit are covered by separate papers elsewhere on the agenda.

### **Business Rates**

2. The March [Spring Statement](#) included the bringing forward of the implementation of business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100 per cent relief for eligible low-carbon heat networks with their own rates bill to April 2022. Local authorities will be compensated for the loss of income due to these measures and will receive new burdens funding for any administrative and IT costs. The heat networks relief, which is expected to be a mandatory relief in 2023/24, will be implemented as a funded discretionary relief in 2022/23; guidance on this is expected to be published shortly.
3. A Non-Domestic Rating Bill was announced in the [Queen's Speech](#) and is expected to be introduced before the summer recess. As well as introducing the mandatory heat networks relief referred to above, it will also include a new 12-month mandatory relief on increases to rateable value arising from improvements made to a property. The Bill is also expected to contain measures including those concerned with the implementation of revaluations every three years including new duties for ratepayers to give information to the Valuation Office Agency.
4. As reported at a previous meeting, the Treasury published a consultation on an [online sales tax](#) earlier this year. This focussed on the scope, design and impacts of such a tax. The Government stated that any revenues from the tax would be used to fund a reduction in business rates for retail properties but does not go into detail about the design of any such relief nor how much discretion councils would have. In the [LGA's response](#), which was signed off by Lead Members of Resources Board, we said that we supported the introduction of an online sales tax but it should not be at the expense of business rates income.
5. A consultation on [arrangements for transitional relief](#) for businesses to help them move to new bills following the 2023 revaluation was published by DLUHC on 30 May. This closes on 25 July. The LGA's response will be signed off by Lead Members of Resources Board.

### **Energy Rebate through Councils**

6. Councils have been distributing the [Council Tax Energy rebate](#) from 1 April. Although DLUHC has not yet published data, officers understand that it was paid to most direct debit payers by the end of May. Councils are contacting those not on direct debit and other eligible groups such as some students who are eligible for the scheme although they are exempt from paying council tax. There have been extensive discussions about

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the details and administration of the scheme and new burdens arising from the scheme with DLUHC officials; an initial [payment of £28 million](#) has been made to councils. DLUHC plans to conduct a wider, more detailed new burdens assessment in due course.

### **Ukrainian arrivals**

7. We have been in continuing dialogue with DLUHC officials over the financial implications of the Homes for Ukraine scheme and other arrivals from Ukraine. DLUHC has published [guidance on the role of councils in the Homes for Ukraine](#). Councils had to submit a claim to DLUHC by 13 June for a grant payment for the Homes for Ukraine scheme to cover tariff payments of £10,500 per new arrival and reimbursement of any monthly thank you payments made. We continue to make the case for funding for people arriving via other routes such as the family visa scheme.

### **Capital finance – Clause 71 Levelling Up and Regeneration Bill**

8. The [Levelling Up and Regeneration Bill](#) is currently going through Parliament, having been published on 11 May. The bill is wide ranging and includes a clause (clause 71) relating to capital finances for councils. DLUHC also published a [policy paper](#) to explain the background to the clause.
9. The clause will allow the Secretary of State to make significant interventions in individual councils, including directions to cap borrowing or to dispose of certain assets. Such interventions would only happen following dialogue with the council and after a review which would be likely to last at least a year. Such a review would be triggered by either measurement against certain metrics or if the council had issued a section 114 (3) notice (or government financial support had enabled a section 114 (3) to be avoided).
10. Exact details of these metrics are not yet clear; they will be specified in regulations after the Bill becomes an Act. The Government has said it will engage with the sector on the details. In our Parliamentary briefing on the Bill, we have suggested an amendment that would ensure that the Government consults fully with the sector before setting the metrics in the regulations. This will be crucial to allow the sector to highlight any unintended consequences of the exact metrics to be used.
11. At the same time that the Bill and the policy paper were published, DLUHC commenced a dialogue with a small number of councils. We understand that DLUHC does not have plans to contact further councils at this time.
12. On 12 May, HM Treasury published new lending guidance for the Public Works Loans Board (PWLb). Under this new guidance, the PWLB will not lend to any council if it believes there is a significant risk that the loan will not be repaid without significant financial support from the Government.

### **Capital finance – Minimum Revenue provision**

13. As previously reported, in November DLUHC undertook a [consultation](#) on proposed changes to the regulations underpinning the Government's [Statutory Guidance on Minimum Revenue Provision](#) (one of the four codes that form the Prudential Framework

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for Capital Finance). The proposal is to put the requirement to make Minimum Revenue Provision (an amount to set aside each year from the revenue account to repay the principal of debt) onto a statutory footing. In our [response](#) we raised serious concerns that the proposals could have unintended consequences, for example affecting councils' ability to invest in infrastructure and housing via wholly owned companies and have serious impacts on some council's revenue budgets (the consultation document itself estimated this cost could be as much as £700 million).

14. DLUHC has listened to these concerns and in June sent a revised set of [proposed regulations](#) to all those who responded to the initial consultation, together with a [survey](#) seeking views on whether the revised proposals addressed the concerns. This survey was open for two weeks. In our response ([LINK](#)) we agreed that the revised proposals addressed the main concerns that had been raised.

### **Next steps**

15. Members are asked to note this update.
16. Officers will proceed with the delivery of the LGA's work on local government finance matters, keep members of Resources Board updated on developments and seek the views of the Board where possible or Resources Board Lead Members.

### **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 on local government finance.

### **Implications for Equalities**

18. This paper outlines how the LGA is working on a range of initiatives on finance and funding issues. These issues affect councils and their residents as a whole and it is difficult to assess what individual impacts are on people with protected characteristics. Improving the funding position of councils should aid them to be able to fund work that improves equalities. Working with the government on improving guidance on finances (e.g. on the Homes for Ukraine scheme) should also help with enabling better outcomes.

### **Financial Implications**

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