

Local Government Finance Update

Purpose of Report

For information.

Is this report confidential? No

Summary

This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 28 February 2023 including the Chancellor's Spring Budget, updates on business rates, council tax, local authority accounts and audit and capital and investments.

LGA Plan Theme: A sustainable financial future

Recommendation

That the 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 of Resources Lead Members.

Contact details

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Local Government Finance Update

Background

1. This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 28 February 2023 including the Spring Budget, updates on business rates, council tax, local authority accounts and audit and capital and investments

2023 Spring Budget

2. On 15 March, the Chancellor delivered the [2023 Spring Budget](#). There were no announcements of new funding for councils to support services such as adult social care and children's services. Overall core funding for councils is unchanged.
3. However, there were a number of other announcements that were relevant to local government finance including:
 - A number of announcements on business rates reform (covered in detail below)
 - Expanding the local retention of business rates to more areas in the next Parliament working closely with interested councils to achieve this
 - Providing Greater Manchester and West Midlands Combined Authorities with single multi-year funding settlements at the next Spending Review.
 - A new discounted PWLB policy margin has been brought forward by the Government to support local authorities with Housing Revenue Accounts with the delivery of social housing. Please see later in the report for further information.
 - Other specific funding included £60 million for public swimming, £200 million in 2023/24 to maintain improve local roads and a third round of levelling up funding.
4. The LGA issued a [press reaction](#), as well as an [on-the-day briefing](#), summarising the announcements, for council leaders, chief executives and chief finance officers.
5. The absence of any additional core funding for the sector in the Budget was not unexpected given then the increase in core spending power provided to the sector in the 2022 Autumn Budget and 2023/24 Local Government Finance Settlement. Nonetheless the sector's finances continue to be under pressure and uncertain. Following continued high levels of inflation, and the publication of new National Living Wage estimates, LGA officers have started work to reassess future cost pressures and funding gaps facing councils.

6. In addition, the LGA continues to push the Government to provide clarity on local government finance reforms such as the financial implications of Extended Producer Responsibility, the Fair Funding Review, business rates reset and the New Homes Bonus and ensure no authority loses out from the Fair Funding Review.

Business Rates

7. At the Spring Budget the Government published a summary of responses to the [Business Rates Review technical consultation](#). It confirmed it would go ahead with previously announced proposals including three-yearly revaluations and a package of reforms to business rates, including measures for ratepayers to give information to the Valuation Office Agency (VOA), a new one-year improvement relief, changes to the revaluation transitional relief so that it no longer has to be done to a constant yield and a removal of the six months' time bar on discretionary relief after the end of the financial year to which it relates.
8. These, and other measures, are included in the [Non-Domestic Rating Bill](#), which was introduced into Parliament on 29 March. The explanatory notes to the Bill confirm that the Government will provide compensation to local authorities in line with existing processes. The LGA issued a [briefing](#) ahead of the Bill's Second Reading on 24 April.
9. A new consultation by the Valuation Office Agency on [providing ratepayers with more information on business rates valuation](#) was also published alongside the Spring Budget. This closes on 7 June 2023 and concerns how much information supporting valuations rate payers would like to be provided with and how much should be in the public domain. It is recommended that the LGA response be signed off by Lead Members of your Board.
10. Alongside the Spring Budget, the Government [replied to the consultation on Digitalising Business Rates](#) confirming it would go ahead with a reduced scope Measures to facilitate this are included in the Non-Domestic Rating Bill.
11. The Spring Budget also contained a commitment to consult on measures to combat business rates avoidance and evasion. The LGA will be engaging with this consultation and encouraging the Government to introduce measures along the lines of those enacted in Scotland and Wales. Resources Board members will be kept updated on this.

Council Tax

12. Following the discussion at the last Board, the [LGA responded](#) to the DLUHC [consultation on the Council Tax Valuation of Houses in Multiple Occupation \(HMOs\)](#). The Government proposed that HMOs should be banded as one property and have one

council tax band, other than in exceptional circumstances. The LGA response was signed off by Lead Members of your Board and makes the point that the Government ought to consider how to ensure that HMOs make a fair contribution to the cost of local services before going ahead with changes.

Grants distributed through councils

13. Following the publication of a National Audit Office (NAO) [report on COVID-19 business grants](#), the Public Accounts Committee (PAC) issued a call for written evidence. The LGA has made a submission to PAC in the form of a letter to the Chair from Councillor Marland; this was cleared with lead members of your committee. This emphasised the achievements of local government in distributing £23 billion of grants to businesses. However we highlighted the complexity of the schemes and the time taken for the publication of the guidance as well as the pressure from ministers to distribute grants to businesses before guidance was published and the administrative burden on councils.
14. The Government has tasked councils with [distributing funding from two schemes](#) to help with energy costs for those without a direct relationship with an energy supplier: the Energy Bills Support Scheme Alternative Funding (EBSS AF- a £400 payment) and the Alternative Fuels Payment (AFP – a £200 payment). The two schemes are open until 31 May 2023. We are in touch with the Department for Energy Security and Net Zero (DESNZ) on both schemes and have continued to relay concerns that this is the busiest time of the year for councils. We are also seeking assurances that the New Burdens exercises for both schemes will follow a robust methodology that takes accounts of all costs councils will incur in delivering the schemes including reconciliation and assurance.

Local authority accounts and audit

15. The PAC has been undertaking an [inquiry into the timeliness of local auditor reporting](#). We submitted [written evidence](#), which was cleared by Resources Board Lead Members and has now been published by the PAC. The inquiry followed a [report by the NAO](#), which was a progress report following up from an earlier [report published in March 2021](#). We issued a [press statement](#) in response to the latest report. While some progress has been made in addressing some of the underlying issues, we called on the Government to set out a detailed timetable by which it expects to restore timely audited accounts.
16. The Levelling up, Housing and Communities Select committee has been undertaking an [inquiry into Financial Reporting and Audit in Local Authorities](#). Resources Board Lead members approved a submission which emphasised the need for immediate action to enable the backlog of delayed audits to be cleared and suggested some measures that

could be taken. The submission also included comments on issues of usability and clarity in the published accounts and on the impact of applying International Financial Reporting Standards.

17. One issue highlighted in the submission that has the potential to further delay the finalisation of the audit of 2021/22 accounts relates to pension valuations. The delay in finalising accounts means that information from the March 2022 triennial valuations of pension funds has become available before the audit of many accounts has been signed-off. This has led some auditors to request that the accounts are re-done using this more up to date information. This issue has only arisen because of the delay in auditing the accounts and now threatens to delay them further. DLUHC and the Director of Local Audit at Financial Reporting Council (FRC), as shadow system leader for local audit, are aware of the issue and are seeking a resolution with the audit firms.
18. As reported to the Board in January, in conjunction with the IDeA Board and the Chairman of the LGA, we put forward a proposal for a roundtable with the Local Government Minister, the new Director of Local Audit at the FRC and other relevant stakeholders to discuss long-term solutions to the problems with local audit. This roundtable was arranged by DLUHC and took place on 17 April and was attended by the Chair of this Board and the Chairman of the LGA. There was broad agreement amongst attendees on the urgent need to address the audit backlog. We suggested some measures and emphasised that willingness to explore areas of compromise by all stakeholders will be critical if the backlog is to be reduced. . We are following this up with DLUHC and other stakeholders.
19. The problem of accounting for infrastructure assets added significantly to delays in finalising accounts. As previously reported to the Board, a temporary solution to these problems was put in place in December 2022. This temporary solution will last until 2024/25. CIPFA has now launched a [survey](#) (which closes on 14 June) to hear local authorities' views on its proposals for a long term solution. If implemented, these proposals will mean local authorities will have to make changes to how they report infrastructure asset values.
20. DLUHC undertook a two-week [consultation](#) proposing to bring the deadline for local authorities to publish their draft (unaudited) final accounts to 31 May. The deadline was extended to 31 July for 2020/21 and 2021/22 in response to the crisis in local audit. In our [response to the consultation](#), we argued that the crisis is continuing and so the deadline should instead be extended to 30 June. We also pointed out that the deadline for the audited accounts has been extended by two months to 30 September for the next six years and this will impact on when audit work will be undertaken. However, DLUHC announced at the end of March that the deadline for draft unaudited accounts will revert to 31 May for 2022/23.

Capital and investments

21. DLUHC has recently published the [outcome](#) to the [consultation](#) on the future of the statutory override to IFRS 9 (International Financial Reporting Standard 9). The override means that councils do not have to reflect nominal (or “paper”) fluctuations in the values of pooled investment funds in their revenue accounts and so do not have to cover these with real money in the short-term. The override has been extended for two years through a [statutory instrument](#). The consultation outcome does not state what is going to happen at the end of the two-year extension period, but it is possible that the override will not be extended further at that point. In [our response](#) to the consultation we had argued that the override should be extended or preferably made permanent. The consultation outcome shows the vast majority of respondents (nearly 90%) agreed with us. We will continue to discuss the future of the override with DLUHC.
22. In March the [UK Infrastructure Bank Act](#) received Royal Assent. This means that the UK Infrastructure Bank is now formally established and will be able to issue its own loans. Until now any loans it has made to local government have been via the Public Works Loans Board (PWLB). The bank was launched in June 2021 and it will have £4 billion to lend to local authorities over five years for high value and strategic projects of at least £5 million that support regional and local economic growth or tackle climate change. Members will recall that representatives of the Bank attended the May 2022 meeting of the Board to present on how it plans to work with councils.
23. The Spring Budget included an announcement that discounted PWLB lending will be made available to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing. Subsequent information from HM Treasury indicates that the discounted rate will be at “gilts plus 0.4%” and will be available for one year from June 2023. Previous discounted PWLB rates (for example, the Local Infrastructure Rate) have usually been at the higher rate of “gilts plus 0.6%”.

2020 Teachers’ Pension Scheme Valuation – impact on employer contribution rate

24. On 30 March 2023 HM Treasury announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate has been reduced to CPI plus 1.7 per cent from 2.4 per cent. The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes – including the Teachers Pensions Scheme (TPS) – and to determine actuarial factors across all public sector schemes, including the Local Government Pension Scheme. The SCAPE rate reflects economic growth forecasts, hence the downward revision in line with expectations published alongside the March 2023 Budget from the OBR.

25. Provisional results of the 2020 valuation should be known in the coming months. The new employer contribution rate in the TPS will be confirmed in late 2023 or early 2024 and will be effective from 1 April 2024. The reduction in the SCAPE rate will lead to an upward pressure on the TPS employer contribution rate. It is difficult to quantify how large the increase might be as there are several moving parts in the calculation. There are a number of downward pressures, which will mitigate the full impact of the SCAPE rate change. Some commentators have said there could be a 5-10% increase in the TPS employer contribution rate, but it is very much unclear at present.
26. HM Treasury has stated that for employers whose employment costs are centrally funded by departments, HM Treasury will exceptionally provide funding for any increases in employer contribution rates resulting from the 2020 valuations due to changes to the SCAPE discount rate. Through enquiries firstly via the Department for Education but latterly through HM Treasury, it has been confirmed that the expectation is that this funding will extend to local authority schools. This mirrors the arrangements put in place the last time the TPS employer contribution increased in 2019. The commitment currently is only for 2024/25 as anything after that will be considered as part of the next SR process.

Implications for Wales

27. 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.

Financial Implications

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

Equalities implications

29. 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 there are on people with protected characteristics. Improving the funding position of councils should help them to fund work that improves equalities. Working with the Government on improving guidance on finance should also help with enabling better outcomes.

Next steps

30. Members are asked to note this update.

31. 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 of Resources Board Lead Members.