

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 previous meeting of the Board on 10 May 2023. This includes updates on cost pressures, business rates, capital and investments, and local authority accounts and audit.

LGA Plan Theme: A sustainable financial future

Recommendation(s)

That the Board note this update. Officers will proceed with the delivery of the LGA's work on local government finance matters, keep members of the 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

Background

1. This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 10 May 2023, including cost pressures, business rates, capital and investments, and local authority accounts and audit.

LGA work on cost pressures / funding gap

2. For a number of years the LGA has produced an estimate of the cost pressures facing local government. This has, in most but not all years, been accompanied by an assessment of the income available to local government to produce a funding gap figure. The analysis is a cornerstone of LGA lobbying work and is used in key documents such as submissions to Spending Reviews and Chancellors' Budgets. It is also used regularly in LGA press work and other publications and in briefings to LGA members and parliamentarians.
3. The LGA tends to update this analysis once a year and publish usually in time for the LGA's annual conference. The analysis is based on uprating council spend data by a set of indicators / drivers which are considered to increase the demand for, and / or the cost of, providing services. This includes new data in relation to inflation, pay, energy costs and a range of demographic data and other proxies for demand. It was officially [published](#) by the LGA at the annual conference, alongside a detailed [technical annex](#).
4. The key findings from the update are:
 - Councils face £4.1 billion in additional cost and demand pressures, such as inflation and demographic growth, in 2023/24, and a further £2.4 billion in 2024/25.
 - The cost to councils of delivering their services at current levels will exceed their core funding by £2 billion in 2023/24 and £900 million in 2024/25.
 - If inflation fails to fall in line with the forecast at the March 2023 Budget, and instead is in line with more recent inflation projections from the Bank of England this would add £740 million in cost pressures in 2023/24 and £1.5 billion in 2024/25.
5. Our analysis of funding pressures relates solely to the funding needed to maintain services at their current levels. It does not include addressing existing underfunding in areas such as the adult social care provider market, children's social care and homelessness, nor does it include funding to improve or expand council services.

6. The LGA will explore opportunities for using the new funding gap analysis ahead of a 2023 Autumn Budget and the 2024/25 Local Government Finance Settlement.

Business Rates

7. [The Non-Domestic Rating Bill](#) had its second reading in the House of Lords on 19 June. As previously reported to your Committee this Bill legislates for three-yearly revaluations, measures for ratepayers to give information to the Valuation Office Agency (VOA), a new one-year improvement relief, changes to revaluation transitional relief, and a removal of the six months' time bar on discretionary relief after the end of the financial year to which it relates. The LGA issued a [briefing for the debate](#). The Lords Committee Stage was scheduled for 3 July and the LGA will be briefing on any amendments. Further information will be reported verbally to your meeting.
8. The Government is consulting on the [regulations governing the one-year improvement relief](#). This consultation closes on 28 August. It is recommended that the LGA response be signed off by lead members of your Board. It is likely to concentrate on ensuring that the respective roles of billing authorities and the VOA are defined in the regulations and that there is sufficient data for councils to be compensated for awarding the relief as the government has promised.
9. Lead members of your board signed off the [LGA response](#) to the consultation by the Valuation Office Agency on [providing ratepayers with more information on business rates valuation](#) which closed on 7 June 2023. The consultation examined how greater transparency on business rates valuations might work in practice, bearing in mind ratepayers' concerns about confidentiality of data. Our response makes the point that as information for use classes valued under national schemes, such as sports centres and libraries, won't be available through rating checks after 2026, it should be available from the VOA through the process discussed in the consultation.
10. The consultation promised in the Spring Budget on measures to combat business rates avoidance and evasion has not yet been issued. Officers are in touch with DLUHC officials and will update Resources Board members on any developments.

Reserves

11. In May DLUHC published a [time series analysis showing local authority reserves data](#) over the past five years, to 2021/22. This brought together previously published data on earmarked and unallocated reserves.
12. In addition, the Association of Local Authority Treasurer Societies (ALATS) has carried out a survey of its members, asking for details of levels of reserves held, why they are held and what plans there are for using them. It is anticipated that ALATS will publish the results of this survey shortly.

Local authority accounts and audit

13. Following [our submission of written evidence](#) to the Levelling up, Housing and Communities Select committee [inquiry into Financial Reporting and Audit in Local Authorities](#), Cllr Richard Wenham, Vice Chair of Resources Board, gave oral evidence to the inquiry alongside two other LGA members. This followed two earlier oral evidence sessions where witnesses from the National Audit Office (NAO), Financial Reporting Council (FRC), Chartered institute of Public Finance and Accountancy (CIPFA), Financial Reporting Advisory Board (FRAB) and others all stated that dealing with the audit backlog is the priority, and that work is underway on proposals to do that. A confidential briefing from Neil Harris, Director of Local Audit at the FRC has been arranged in part 2 of today's Board meeting.
14. The [Public Accounts Committee \(PAC\) published a report](#) following its [inquiry into the timeliness of local auditor reporting](#). The report finds that the unacceptably high backlog of audit opinions for local government bodies may get worse before it gets better. The LGA submitted [written evidence to the inquiry](#), approved by Resources Board Lead Members, back in March. We echoed the National Audit Office's call for the Government to set out a detailed timetable outlining the steps to be taken and when, and the time by which it expects to restore timely audited accounts, and this has now also been stressed by the PAC in its report.
15. The issue of accounting for infrastructure assets (such as roads) added significantly to audit delays and the current crisis in local audit. Members will be aware that a temporary solution to these problems was put in place in December when CIPFA published an [update to the accounting code](#) (supplemented by [CIPFA Bulletin 12](#)) and DLUHC made a [statutory override](#) to the Capital Finance and Accounting Regulations. This temporary solution will last until 2024/25. As mentioned at the last Board, CIPFA undertook a [survey](#) on the impact of using Depreciated Replacement Cost (DRC) as the long term solution to the problem of valuing and auditing infrastructure assets (such as roads) in local authority accounts. At its last meeting the Board was very strongly opposed to the adoption of DRC (a valuation that broadly requires an annual estimate

of the cost of replacing the asset less a deduction for wear and tear incurred) for valuing infrastructure assets and this was reflected in the [response](#) to the [HM Treasury's Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes](#). The Board's lead members have approved [a submission to CIPFA](#) highlighting our concerns and calling for a rethink, including consideration of a different and more practical valuation methodology.

16. Members will recall that following [consultation](#) earlier this year DLUHC moved the deadline for local authorities to publish their draft (unaudited) final accounts to 31 May. In our [response to the consultation](#), we had argued that the crisis in local audit is continuing and so the deadline should instead be extended to 30 June. We also warned that councils would find it difficult to meet the earlier deadline. Initial work [published](#) by the consultancy firm LG Improve found that only 37% of councils were able to meet the 31 May deadline, with most councils citing the ongoing problems with audit of previous years as being the reason. This is the first year that the majority of councils have not met the deadline for publishing draft unaudited accounts.
17. It was reported to the last meeting of the Board that the delay in finalising many councils 2021/22 accounts had triggered a new issue with pension valuations, potentially leading to further delays. The delay in finalising accounts meant that information from the March 2022 triennial valuations of pension funds became available before the audit of many accounts had been signed-off. This led some auditors to request that the accounts are re-done using this more up to date information. In response, in May the NAO and CIPFA both issued complementary guidance to auditors and accounts preparers (NAO [guidance note SGN 3](#) and [CIPFA Bulletin 14 Supplement](#)) that should have prevented the issue causing more delays. However, some member councils are reporting that some auditors are still insisting on accounts being restated. This is being followed up to seek a resolution.

Economic Activity of Public Bodies (Overseas Matters) Bill

18. The [Economic Activity of Public Bodies \(Overseas Matters\) Bill](#) was laid in Parliament on June 19th and is the Bill that was included in the Queen's Speech as the Boycotts, Divestment and Sanctions Bill.
19. As expected, the Bill seeks to impose a ban on public bodies across the United Kingdom (including local authorities and local government pension funds) taking decisions on investments, procurements and purchasing or issuing statements that are deemed to be in conflict with UK foreign and defence policy.
20. The ban, once implemented, would be enforced by the relevant Secretary of State for the public body, and by the Pensions Regulator for the LGPS. There are specific

provisions in the Bill that will ensure the Government's existing policy around Russia and Belarus continues to apply.

21. The second reading is scheduled for July 3rd and an LGA briefing will be issued in due course.

Implications for Wales

22. 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

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

Equalities implications

24. 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

25. Members are asked to note this update.
26. 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.