

Executive

Local Government Finance - update

Item 5

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Date: 19 June 2020
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Summary

This report updates the Executive on the funding measures taken by government to date to support local government in response to the COVID-19 pandemic and provides a summary of the latest estimate of the financial impact of the crisis across London local government.

It sets out the timeline for upcoming fiscal and other notable events that will provide opportunities to lobby and influence government funding decisions.

Recommendations

The Executive is asked to note the details of the report and the opportunities to influence the Government's approach to funding over the coming months.

Local Government Finance update

Introduction

1. London boroughs have been at the forefront of the response to both the public health and economic crises caused by COVID-19, having mobilised rapidly and played a central part in coordinating the emergency response across public services in the capital. Both crises have resulted in additional expenditure and significant lost income, which will test the financial resilience of London local government in the next couple of years.
2. The Government's initial response has been to provide direct funding and other supportive financial measures to lessen the impact on local government since March. MHCLG has also begun the process of beginning to estimate the scale of the financial impact of the virus on local government by collecting monthly survey returns from all local authorities.
3. This paper summarises the funding measures announced by the Government so far in response to the COVID-19 pandemic and provides an overview of the latest estimate of the financial impact of the crisis on London local government, before setting out the upcoming events over the next 6 months that will provide opportunity to lobby and influence government funding decisions.

Funding measures announced since March

4. The financial support so far from Government falls within four broad categories:
 - general emergency funding;
 - targeted funding for specific services/purposes;
 - support for businesses and residents that councils administer and have varying degrees of control over; and
 - measures aimed at easing the upfront cash flow pressures caused by the crisis.
5. There have been two tranches of £1.6 billion (totalling £3.2 billion) of emergency funding to support local authorities in meeting the costs of the activities that they

have been asked to deliver. London boroughs received £254 million of the first tranche and £245m of the second tranche (totalling £499 million). This funding is not ringfenced, but the Government has set out services it particularly expects the funding to support, including: adult social care; children's services; public health services; fire and rescue services; waste collection services; shielding the clinically extremely vulnerable people; homelessness and rough sleeping; domestic abuse; supporting the NHS; and managing excess deaths. Annex A sets out a comprehensive list of service areas which Ministers have signalled, in their communications, that councils should prioritise.

6. With regard to specifically targeted funding, the Government has announced: £600 million for infection control in care homes (of which London boroughs received £52 million); £300 million to support the new test and trace service (of which London boroughs' share is not yet known); and £50 million for the Reopening High Streets Safely Fund (of which London boroughs received £8 million); and plans to accelerate £433 million of funding previously announced for long-term, sustainable rough sleeping accommodation, in addition to the £3.2 million of initial emergency funding (of which London boroughs received around £850k), which reimbursed councils for providing accommodation and services for rough sleepers to help them self-isolate.
7. Over £12 billion has been provided in business rates reliefs and grant schemes (London with London boroughs receiving £1.7 billion), as well as a £500 million hardship relief scheme for councils to support local residents largely through their Local CTS schemes (London boroughs' share was £90 million).
8. Finally, over £5 billion of cashflow support has been provided to councils including: up-front payment of £1.8 billion of business rates reliefs (London boroughs received £205 million); the deferral of local authority payments of the Central Share of business rates and up-front payment of the first quarter of social care grant in April, which together totalled £3.4 billion (London boroughs' share is estimated to be £871 million).

9. Table 1 below lists each of the funding measures announced so far. It suggests around a fifth of the total financial measures announced so far have been directed towards London boroughs. To some extent, this is skewed by London's comparatively high share of business rates yield. Considering direct funding measures alone, London boroughs have received around 15% of the national total.

Table 1 - COVID-19 Financial measures announced by Government since March

	Date	London Boroughs (£m)	England (£m)	% share of England total
Business rates reliefs	11-Mar	3,040.0	10,221.1	30%
Rough sleeping fund	16-Mar	0.9	3.2	27%
Hardship Fund	24-Mar	89.5	500.0	18%
Emergency funding (tranche 1)	27-Mar	254.2	1,600.0	16%
Estimated S.31 grants paid in advance	27-Mar	205.3	1,800.0	11%
Small Business Grants Fund and the Retail, Hospitality & Leisure Grants Fund*	01-Apr	1,662.4	12,333.5	13%
Cashflow measures	16-Apr	871.4	3,400.0	26%
Emergency funding (tranche 2)	28-Apr	245.0	1,594.0	15%
Infection control fund for adult social care	15-May	50.7	600.0	8%
Reopening High Streets Safely	24-May	8.0	50.1	16%
Test and trace	27-May	TBC	300.0	TBC

*NB – A Local Authority Discretionary Fund was subsequently announced to be funded from the overall funding included here.

Financial impact on London local government

10. To date, MHCLG has undertaken two surveys to gauge the scale of the financial impact of COVID-19 relating to lost income and additional expenditure across local government. The April survey provided some very initial estimates. The survey was repeated in May and expanded to include a more detailed breakdown of expenditure and income losses, including figures for the Housing Revenue Account. All 33 London authorities responded and shared their returns with London Councils. It should be noted that figures are still based on initial estimates with varying assumptions, in what is a constantly changing environment, and should therefore be treated with caution.

11. Notwithstanding this caveat, the broad headlines are as follows:

- The total estimated financial impact of COVID-19 across London boroughs is **£1.8 billion** in 2020-21; comprising **£1.1 billion** in estimated lost income and an estimated **£709 million** in increased expenditure.
- Taking account of the £499 million in emergency funding for London boroughs confirmed so far, the estimated remaining funding gap is **£1.3 billion** for 2020-21.
- Around half of the estimated lost income (**£549 million**) comes from sales, fees & charges, commercial and other income; and around half (**£554 million**) comes from council tax (£261 million), business rates (£185 million¹) and the HRA (£104 million).
- Approximately half of the estimated increased expenditure will be on adult social care (**£200 million**) and in covering planned savings that will not now be achieved (**£178 million**), with more than **£50 million** extra expected to be spent on homelessness and rough sleeping, and a similar amount on children's social care.
- **Five boroughs** are anticipating cashflow issues by the end of July.
- Combining the estimates from the two surveys for March, April and May indicates the total financial pressure across London so far is estimated to be around **£600 million** (which exceeds the emergency funding by around **£100 million**).

12. The LGA has reported that the overall impact of COVID-19 from March to May is estimated to be £3.2 billion across England - exactly matching the emergency funding provided by Government so far - with a further funding gap of around £6 billion for the remainder of the year (suggesting a total impact of over £9 billion). This suggests the financial impact on London boroughs is at least in line with – and probably higher than – the equivalent for the country overall. It also suggests a universal need for further funding from government.

¹ This figure is the initial estimate of the impact on London boroughs having updated the London business rates pool model with the borough estimates from the May MHCLG survey. .

13. There are significant uncertainties around the collection of business rates and, to a lesser extent, council tax. Of the £9 billion in business rates due to be collected in London in 2020-21 over £3 billion (a third) will now be funded by the Government through reliefs, notably the expanded retail discount. That still leaves around £6 billion to be collected from businesses, many of which will not be operating normally due to the pandemic. It is not yet clear how much of this will be collected as usual, how much at a later stage and how much will have to be written off. The broad estimate from the May survey suggests the overall loss in business rates for the London pool (including the GLA) is around £30 million, with the impact on London boroughs estimated to be around £185 million. The first comprehensive in-year monitoring of the London pool is due to be undertaken by the Lead Authority in June, which will provide more robust estimates of the potential impact on individual authorities.
14. It is worth noting that council tax and business rates losses will not impact borough budgets until 2021-22 because of how they are accounted for. In addition, there may be ongoing spending pressures related to increases in demand for services and new burdens councils have taken on as a result of COVID-19, as well as the uncertainty over income streams like sales, fees and charges, mean that the pressure on finances will not be limited to 2020-21 but will impact on next year's budget too. With boroughs due to start considering medium term financial plans and budgets for 2021-22 soon, there is an urgent need for certainty regarding the 2021-22 settlement.
15. The Secretary of State for Housing, Communities and Local Government confirmed, in a letter to council leaders on 30 April, that the Review of Relative Needs and Resources ('Fair Funding Review') and 75 per cent business rates retention will no longer be implemented in 2021-22, although reiterated the Government's commitment to the wider reforms in the longer term. He indicated the Government will keep an open dialogue with local authorities about the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021-22 local government finance settlement. It is officers' understanding that this means that some form of a reset of retained business rates next year has not been ruled out.

C19 finance lobbying lines

16. Following the analysis of the May MHCLG survey, Group Leaders agreed the following lobbying lines for use by London Councils and borough senior officers in any discussions with government:

- **While very welcome, the funding received to date in London (£500m) has not been enough** to cover the lost income and additional spending so far (March to May), let alone for the rest of 2020-21 where there is a further funding gap of £1.3bn across London.
- **There is an urgent need for another round of funding** – with 5 boroughs likely to face cashflow difficulties by the end of July.
- **A clear strategy is needed to get councils through 2020-21:** short-term monthly bailouts are not the best use of public money and risk councils not spending money in the most efficient and effective way.
- **This strategy must address the issue of lost income as well as additional costs, including the new burdens councils have been asked to take on,** and must recognise the need to support those councils on the brink of financial failure.
- **The crisis will not be over this year** – the impact on council tax and business rates alone could cause major budget issues next year without significant government support.
- **The current settlement should be rolled forward plus a significant uplift** to not only ease the impact of these tax base losses but address the inevitable ongoing spending pressures that will arise from C-19.
- **Councils need certainty over next year's settlement as soon as possible** – ideally before the summer when councils will start to plan next year's budgets and will have to consider cutting services.

17. These lines broadly align with those emerging from the LGA and others across the sector. The immediate focus is to secure further financial support as soon as possible, and it will be important to continue to work with these partners to help make that case as part of a broader strategic approach.

Upcoming fiscal events and lobbying opportunities

18. The next six months will include a number of fiscal and other events that will determine future funding allocations for London local government, which provide a framework for potential lobbying activity.
19. Most immediately, MHCLG has indicated it intends to undertake a further survey in June (although the exact timing is yet to be confirmed), which will provide updated figures and analysis of the financial impact of COVID-19 across London, with subsequent surveys to monitor the ongoing impact also likely.
20. The Chancellor recently confirmed the Government's intention to hold an emergency Budget on July 6th. It is likely to focus on restarting the economy, rather than contain funding announcements, but will nonetheless provide an opportunity for London Councils to make further representations.
21. The Spending Review is due later in the autumn, although it is now doubtful whether this will be the multiyear fiscal event previously anticipated and may be a one-year Spending Round (similar to 2019). This will provide further opportunity to influence. Given the degree of financial uncertainty caused by the crisis, it is proposed to push for certainty over the 2021-22 finance settlement as soon as possible, making the parallel with last year's Spending Round, which effectively confirmed much of the local government finance settlement early in September.

Recommendations

22. The Executive is asked to note the details of the report and the opportunities to influence the Government's approach to funding over the coming months.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix A – Service areas Government has asked local government to prioritise

This annex provides a comprehensive list of the areas Government has asked local government to prioritise during the COVID-19 crisis in relation to the £3.2billion of additional financial support. The following text is from a letter from the MHCLG Director of Local Government Finance to all local authority Chief Finance Officers dated 28 May 2020.

Adult social care - Councils should use the funding provided to meet the increased costs for adult social care as a result of COVID-19 and to provide additional support to social care providers who need help with COVID-19 related costs. This could include those with whom councils do not have contracts if they are under financial strain. Councils have a role in ensuring that, in particular, small providers are aware of the support and advice available to them and are acting upon it.

As part of this local authorities have a central role in the critical national task of controlling the outbreak in care homes. The Government has announced an additional £600 million for infection control in care homes, this funding will support care homes to reduce the rate of transmission in, and between, care homes and support wider workforce resilience.

Children's services - The funding provided by Government should meet extra costs in children's services including: pressures on the workforce as a result of COVID-19 related absences and any increased case management activity or cost for children in need, home to school transport, special education needs and disability, care-leavers, foster care, residential provision and the need for increased accommodation to address the need for isolation, including unaccompanied asylum-seeking children.

Public Health - The response to COVID-19 has seen an increased pressure on public health services, in particular, drug and alcohol treatment services, sexual and reproductive health services and support for children and families. In line with NHS Community Health Services guidance, local authorities are operating a minimum level of service but social distancing measures and staff absence/redeployment has necessitated a change in service delivery model and increased pressure on the workforce.

Fire and rescue services - Ensuring our emergency services have the resources to continue to operate during the pandemic is essential. Therefore, Fire and Rescue authorities have been provided with a funding allocation to support them with the increased pressures on staffing due to self-isolation and caring responsibilities and to ensure they can support the work of Local Resilience Forums.

Waste management services - The Government recognises the pressures which have been placed on waste management services as a result of the pandemic. Part of this funding allocation is therefore to address the increase in volume of household waste being generated, as households are switching consumption away from restaurants and workplaces to the home.

Shielding the clinically extremely vulnerable people - Government has asked councils to provide support for the 2.2 million clinically vulnerable people who are shielding themselves from the virus by staying at home. This includes meeting the basic care needs of those shielding (for example through check in and chats), making contact with people where the national call centre has tried to be in contact with them but been unable to/the contact has been inconclusive, and coordinating food packages for those with special dietary requirements.

Homelessness and rough sleeping – Government has asked local leaders to help rough sleepers into alternative accommodation. This was to protect their health and stop wider transmission, particularly in hot spot areas, and included those in assessment centres and shelters that are unable to comply with social distancing advice.

Domestic abuse - The Government has also asked that councils ensure domestic abuse services are well supported and equipped to deal with what are already challenging situations, and even more so during these uncertain times. Councils should prioritise supporting survivors of domestic abuse into safe accommodation, providing support where councils deem it necessary in order to protect victims. Councils should work closely with domestic abuse safe accommodation providers to ensure that victims of domestic abuse and their families, including those out of area, can be provided with safe emergency accommodation with appropriate support to avoid further pressures on frontline homelessness services.

Managing excess deaths - Councils should use the funding for any costs relating to managing excess deaths, in response to an increased pressure to ordinary death management provision.