

# Leaders' Committee

## Local Government Finance update

Item 5

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### Summary

This report updates Leaders' Committee on the financial impact of the COVID-19 pandemic on London local government in both 2020-21 and 2021-22.

It also outlines the proposed priorities and lobbying activity ahead of the Spending Review, due in the autumn, and provides an update on the other reforms that could affect local government finance in the next year including the Treasury's fundamental review of business rates, and the wider reforms to local government finance system that the Government has committed to undertake.

### Recommendations

Leaders' Committee is asked to:

- note the latest Covid-19 financial impact and immediate priorities with regard to funding for the remainder of 2021-22;
  - discuss the proposed priorities and lobbying activity ahead of Spending Review 2021; and
  - note the latest progress with regard to the wider reforms of the finance system.
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## Local Government Finance update

### Introduction

1. This report provides an update on local government finance issues, including the financial impact of the pandemic on London boroughs in 2020-21 and the first half of the current financial year, and the key financial events due later in the year.
2. It follows a number of update reports since the start of the pandemic that have mapped the financial impact. Local government has played a key part in the emergency response, which has led to significant additional costs and lost income. Much of this has been alleviated by central government funding and the position has improved considerably since last summer. However, there are ongoing uncertainties around funding for the rest of 2021-22, particularly beyond June, which the report highlights.
3. The second half of the report outlines a number of proposed priorities and lobbying activity ahead of Spending Review 2021 (SR21) due in the autumn, and provides an update on the reforms to business rates and to the local government finance system more widely, which the Government remains committed to implementing.

## Covid-19 - financial impact in 2020-21

### Funding

4. The Government provided a range of funding support directly to councils throughout 2020-21 in response to the pandemic, which fell into four categories:
  - **general emergency funding** – which came in four tranches and totalled £4.6 billion nationally and £805 million across London boroughs;
  - **“surge” funding** - including the Contain Outbreak Management Fund (COMF) and Test and Trace Service Support Grant, totalling £1.7 billion nationally and £277 million across London boroughs;
  - **targeted grants for specific purposes** – in total there were over 20 grants for different purposes, such as the Infection Control and Rapid Testing Funds for adult social care, which totalled around £2.2 billion overall and £298 million across London boroughs;

- **compensation schemes for lost income** – including lost sales fees and charges (SFC) income (covering 75% of remaining losses after an initial 5% deduction to budgeted income) totalling £931 million nationally (£216 million in London) for the first 8 months of the year confirmed so far; and the Tax Income Guarantee scheme, which will compensate councils for 75% of irrecoverable council tax and business rates losses (the final amounts for which are still to be confirmed).
5. This direct funding provided to councils in England relating to 2020-21 totals approximately £9.5 billion, with London boroughs receiving £1.6 billion so far (further SFC compensation is due relating to 2020-21 shortly, and tax loss income will be confirmed later in the year).
  6. Appendix A includes a summary of all direct funding provided to local government during the pandemic relating to 2020-21 so far. London boroughs' share of the overall England total for all targeted and general grants was around 16% (in line with the share of the overall population).

### Financial Impact

7. MHCLG continues to survey local authorities on a monthly basis to estimate the ongoing financial impact of the pandemic. Table 1 below shows the overall financial impact across London boroughs in 2020-21 (from the April survey) was estimated to have been **£2.1 billion**, with an estimated £1.1 billion in additional expenditure and £1.0 billion in lost income (including tax losses which don't hit authorities' budgets until later years).

**Table 1 – C19 financial impact on London boroughs 2020-21 – April 2021 survey summary**

	£m
Additional expenditure – ASC	409
Additional expenditure - Unachieved savings	126
Additional expenditure - All other	602
<b>TOTAL ESTIMATED ADDITIONAL SPENDING</b>	<b>1,137</b>
Reduced income - Sales, fees and charges	474
Reduced income - Council Tax (local share)	177
Reduced income - NNDR losses other (local share)	153
Reduced income – HRA	53

Reduced income - Commercial Income	51
Reduced income – Other	44
<b>TOTAL ESTIMATED INCOME LOSS</b>	<b>951</b>
<b>TOTAL ESTIMATED FINANCIAL IMPACT</b>	<b>2,089</b>
General emergency funding	-805
Targeted grants and surge funding	-534
Estimated SFC Compensation Scheme*	-284
Estimated CT/NNDR compensation scheme*	-125
Estimated ASC spending to be covered by CCGs	-164
<b>TOTAL ESTIMATED FUNDING</b>	<b>-1,913</b>
<b>FUNDING GAP</b>	<b>176</b>

\*These are broad estimates based on the latest available information, outturn figures for the SFC and tax compensation schemes will be published over the summer.

8. Taking into account an estimated £1.9 billion of funding and compensation that London boroughs will eventually have received relating to 2020-21, including estimated compensation for income losses and funding from CCGs, it is estimated the London-wide funding gap will be around **£180 million**. If estimated tax losses and associated compensation, which are still to confirmed, were excluded from the calculation, then funding from government may have exceeded the financial impact marginally. The final outturn position will be confirmed later in the year. The London position broadly reflects that of wider local government, although the net impact varies across London and not all boroughs will have seen their pressures compensated in full.

## Covid-19 – ongoing impact in 2021-22

### Funding

9. Around £3.6 billion of funding support has so far been set out for local government as a whole in 2021-22, with London boroughs due to receive around £532 million. Almost half (£1.6 billion) comes from the fifth tranche of general grant, with a further £612 million in Local Council Tax Support schemes, and £400 million in COMF (“surge” funding). A series of other targeted grants worth £970 million have also been confirmed, including two further rounds of Infection Control funding and Rapid Testing funding to support ASC. Appendix B sets out all funding streams confirmed so far for 2021-22.
10. The May MHCLG monthly monitoring survey sought councils’ estimates of additional spending and income losses for the first two quarters of 2021-22.

Overall, London boroughs forecast the total financial impact to be around **£619 million** for the first half of the year comprising £337 million of additional expenditure and £282 million of lost income (including tax losses which won't impact budgets until the following year). The total funding so far for 2021-22 (£598 million) falls short of the estimated impact by the end of September by **£21 million**. However, excluding tax losses and associated LCTS funding (which will not impact budgets until next year), funding broadly covers the estimated impact for the first half of the year. Again, the net position varies by individual borough.

**Table 2 – Estimated C19 financial impact on London boroughs for the first half of 2021-22 – May 2021 monitoring survey summary**

	£m
Additional expenditure - ASC	92
Additional expenditure - Public Health	63
Additional expenditure - All other	182
<b>TOTAL ESTIMATED ADDITIONAL SPENDING</b>	<b>337</b>
Reduced income - Sales, fees and charges*	93
Reduced income - Council Tax (local share)	45
Reduced income - NNDR losses other (local share)	97
Reduced income - HRA	19
Reduced income - Commercial Income	12
Reduced income - Other	16
<b>TOTAL ESTIMATED INCOME LOSS</b>	<b>282</b>
<b>TOTAL ESTIMATED FINANCIAL IMPACT</b>	<b>619</b>
Emergency funding received so far	-274
Relevant ringfenced specific grants received so far	-257
Estimated SFC Compensation Scheme**	-32
Estimated ASC spending to be covered by CCGs	-35
<b>TOTAL ESTIMATED FUNDING</b>	<b>-598</b>
<b>FUNDING GAP</b>	<b>21</b>

NB- the June survey figures will be available by the time of Leaders Committee and a verbal update will be provided.

11. In broad terms, the Government has provided enough funding at the aggregate level to meet the expected pressures for the first half of the year. However, there remains considerable uncertainty around these forecasts, and around the funding for the second half of the year.
12. The public health impact of lifting restrictions is uncertain and could see spending forecasts increase (especially if a third wave occurs). The costs of supporting the vaccination programme, responding to new variants of concern, delivering local

contract tracing and supporting people to self-isolate will continue. The ending of furlough and planned reductions to Universal Credit standard allowance could see rising demand for local welfare support and homelessness services. At the time of drafting, the Test and Trace support payments were due to end in June, and no further surge funding was planned.

13. Income losses will be dependent on the pace at which the economy recovers.

Again, the planned end to the furlough scheme in September, the tapering of business rates reliefs from June onwards and ending of business support grants are likely to have a continuing impact on business rates income, commercial income and sales, fees and charges. Unlike 2020-21 there is no compensation scheme for council tax or business rates losses this year, and the SFC compensation had been due to end in June. There is also no specific compensation for losses and spending within the Housing Revenue Account.

14. The recent focus of finance lobbying has, therefore, been on seeking greater certainty over funding to support the ongoing impact of Covid-19 for the remainder of 2021-22.

15. A press release was due to be published in early July asking the Government to confirm, as soon as possible, the funding envelope for London boroughs to continue to address the pandemic for the remainder of the year, including:

- extending the Sales Fees & Charges scheme for the remainder of the year;
- implementing a compensation scheme for tax losses in 2021-22;
- ensuring funding for ongoing spending pressures relating to outbreak management including new variants of concern; and
- extending the Test and Trace Support Scheme to help incentivise self-isolation beyond June.

## **Spending Review 2021**

16. The Chancellor indicated at the March Budget the Government intends to hold a Spending Review in the autumn. Subject to the ongoing developments with the pandemic, it is expected to be a three-year review. Neither the date of the Review

nor the timetable for representations have yet been confirmed; however, last year, the SR process was launched in late July, with submissions due by the end of September, and the outcome was published at the end of November. A similar process is anticipated this year.

17. The prioritisation of the NHS, Schools and overseas aid budgets suggests the outlook will be challenging for other “non-protected” departmental budgets, including for local government. The continued emphasis on “levelling up” presents a particular challenge for London local government.

#### Proposed priorities

18. Given this context, it is proposed that London Councils’ submission should go beyond arguments about the funding for local government. It is also important to address the government priority for “levelling up”. It is important to show how London can contribute to the agenda for geographic levelling up and also how London can benefit from reforms – especially those involving devolution – that are important to levelling up the UK. It will also be necessary to explain the need for levelling up the inequality of outcomes that exists within regions and cities.
19. Inequalities have been significantly worsened by Covid-19. The overall economic impact of the pandemic demands a successful recovery strategy that addresses both economic and social issues. It will be important to make the case for investment in London’s recovery; to show how London is already working to deliver recovery and to explain the benefits that this can deliver to the UK.
20. It is planned for London Councils’ submission and campaign materials to cover three broad themes:
  - the **overall financial challenge** facing London local government;
  - specific arguments that make the London case for **investment in services**; and
  - Making the **investment case for London** and connecting this to the need to drive London’s economic recovery both for the well-being of the capital and for its benefits to the nation.

21. **Overall financial challenge** - With London boroughs planning to make £1.6 billion of savings over the next four years, and ongoing pressures driven by the pandemic, the key priorities will be on:

- ensuring London local government is provided with a sustainable funding envelope that takes account of the ongoing impact of the pandemic, and the significant underlying structural pressures (i.e. above inflation increases to core funding);
- medium-term funding certainty, following three consecutive single year settlements, including a clear timetable for the reforms to local government finance (see paragraphs 29 and 30);
- the reforms required to ensure the longer-term sustainability of local government, including reforming the existing system (council tax and business rates) and developing more specific propositions for London and other urban areas to have access to a broader range of revenue streams through further fiscal devolution.

22. **Investment in services** – The biggest service pressures facing London boroughs will be set out including evidence about how the pandemic has led to covid “scarring” and more fundamental changes to services that will become the “new normal” where possible. Specifically, this will focus on:

- *Adult social care* – illustrating the changing nature of costs arising from Covid including the impact of long covid and demand for mental health support; outlining underlying demographic and market pressures; and calling for a sustainable long-term funding solution that this is not at the expense of all other services, with funding increases aligned with those for the NHS.
- *Public Health* – focusing on the need to align funding to that of the NHS and fully fund ongoing new burdens that have resulted from the pandemic, as well as updating the outdated funding formula to better reflect need in London.
- *Children’s social care* – setting out the key London-specific factors driving the annual funding gap of £300 million as well as the growth in complexity and demand resulting from the pandemic; and the need for further support for the costs of UASC former UASC Care Leavers.



- *SEND* – seeking a long-term strategy to resolve High Needs deficits (with London boroughs carrying DSG deficits of over £300 million), that ensures this doesn't affect the funding of other local govt services.
- *Homelessness* – asking for longer term certainty over homelessness funding that fully recognises London's level of need with a greater focus on Temporary Accommodation, as well as rough sleeping; establishing a needs-based funding model for Discretionary Housing Payments; reforming Local Housing Allowance rates; and providing direct financial support for families with no recourse to public funds.

23. **Supporting London's economic recovery** – As with last year's submission, it is planned to set out a wider set of policy proposals to support London's, and the wider UK, economic recovery, aligned with the work of the London Recovery Board Missions where appropriate. Where possible investible propositions will be developed to set out the investment case for London. This will include, but not be limited to, the following key areas:

- Building on agreed components of the economic recovery framework reported elsewhere on the July Leaders Committee agenda.
- *Supporting jobs* – emphasising the disproportionate impact of the pandemic on employment in London that has exacerbated underlying productivity issues, linking closely with the "Good Work for All Londoners" and "Digital Inclusion" missions.
- *Green economy* – including proposals to develop London's low carbon sector and green the economy, develop low carbon infrastructure, accelerate low carbon skills development – reflecting the investment proposals that will support lobbying ahead of COP26.
- *Retrofit* - new financing mechanisms for retrofitting housing and public buildings in local government.
- *Boosting housing delivery* – calling for flexibility over how long Right to Buy receipts can be retained and used, seeking social rent certainty over much longer periods (e.g. 30 years); and sufficient funding to support domestic retrofitting and ongoing fire safety costs.

- *Supporting London's transport system* - investment in important sub-regional projects within London; supporting TfL to recover to a sustainable operating model, and the urgent need for investment in roads maintenance.
- *Skills reform/devolution* – developing previous arguments for the devolution of skills via a whole systems local approach.
- *UKSPF* – ensuring a fair distribution (London's allocation remains at EU Structural Funds levels) and a less centralised delivery process.

#### Planned lobbying activity

24. Arguments and evidence supporting the above priorities will be further developed over the summer with an overview of the draft representation shared with London Councils' Executive in September. As with the last two SRs it is proposed that a short two-page summary including the highest priorities be produced alongside the more detailed submission to HM Treasury, to be used to brief MPs and other stakeholders.
25. London MPs will be a key audience and a partner for lobbying government. As well as briefing them individually, it is proposed to hold a session with the London APPG closer to the SR date. A meeting will also be sought, closer to the time of the SR, to brief the Minister for London. As with previous years, it is also planned to provide Leaders with a template letter that can be adapted locally to send to their local MPs when the Spending Review process is officially launched in the summer.
26. Other key stakeholders will be London business groups, with whom it is planned to meet in early September to explore areas for joint lobbying in the lead up to the SR, most obviously with regard to the economic recovery. There are likely to also be a number of commonalities with the other big cities, particularly on finance reform, devolution and economic recovery, and so early exploration will be undertaken in the coming weeks with Core Cities on the potential for joint campaigning.
27. Discussions have already begun with GLA colleagues regarding areas of commonality that reflect broad pan-London priorities and how these may be

reflected in respective submissions or via coordinated lobbying activity in the lead up to the SR.

## **Reforms to business rates and local government finance**

### Business rates reform

28. The outcome of the Treasury's fundamental review of business rates is due to be published in the autumn (having been pushed back at the March Budget). The pandemic has exacerbated a number of existing issues with the tax. The level of government support required to prop up the business rates system, the additional complexities of different relief schemes and inconsistencies in which types of business qualified for reliefs have increased underlying concerns that the tax is not fit for purpose. The complexity of the system has no doubt provided a greater administrative burden on local and central government during the pandemic, particularly when compared to the relative simplicity of the furlough scheme. The fact that new legislation was needed to prevent a huge volume of Material Change of Circumstance appeals – which would have had a big impact on local government funding - has further highlighted issues with the way properties are valued.

29. London Councils and the GLA's joint submission to the call for evidence last autumn restated long term ambitions for greater control and devolution of the tax to the local level. The scale of those longer-term ambitions will be heavily dependent on how the tax is reformed and how the impact of the pandemic on the property market plays out. Given this uncertainty about the future of the tax, it would be sensible for the Government to pause any proposals for further retention of business rates (i.e. increasing to 75%) in the short- to medium-term.

### Local government finance reforms

30. Delays to the Brexit process meant the deadline for implementing 75% business rates retention and the "reset" of business rates baselines, alongside the wider reform of the distribution of funding through the Review of Relative Needs and Resources (the "Fair Funding Review"), were initially moved back to 2020-21 and then again to 2021-22. The pandemic led to a further delay by at least a year. The

Government confirmed its commitment to the reforms at the 2021-22 Local Government Finance Settlement; however, it now seems increasingly unlikely that these reforms could be implemented in time for April 2022.

31. The Fair Funding Review and business rates “reset” will both require the overall funding envelope that can only be provided by a multi-year Spending Review. The autumn SR means it is unlikely there would be enough time to consult on and deliver any detailed reforms between the autumn and the start of the next financial year. It seems more likely that these reforms will be delivered in April 2023, especially if the impact of the pandemic on levels of need is to be considered.

### **Next Steps**

32. Officers will continue to work on the response to, and recovery from, Covid-19 and will further refine and develop policy proposals over the summer ahead of the Spending Review. When greater clarity over the timetable and extent of the wider reforms to local government finance is confirmed, a detailed report will be provided Leaders’ Committee regarding setting out priorities and a lobbying strategy for those reforms.

### **Recommendations**

33. Leaders’ Committee is asked to:

- note the latest Covid-19 financial impact on London local government and immediate priorities with regard to funding for the remainder of 2021-22;
- discuss the proposed priorities and lobbying activity ahead of Spending Review 2021; and
- note the latest progress with regard to the wider reforms of the finance system.

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### **Financial Implications for London Councils**

None

### **Legal Implications for London Councils**

None

### **Equalities Implications for London Councils**

None

## Appendix A – All confirmed COVID-19 funding to local government relating to 2020-21

	Date	England	London Boroughs	% share
Emergency funding (tranche 1)	27-Mar	1,600.0	254.2	15.9%
Emergency funding (tranche 2)	28-Apr	1,594.0	245.0	15.4%
Emergency funding (tranche 3)	16-Jul	494.0	87.4	17.7%
Emergency funding (tranche 4)	22-Oct	919.0	218.0	23.7%
<b>Total Emergency funding</b>		<b>4,607.0</b>	<b>804.6</b>	<b>17.5%</b>
Test and Trace Service Support Grant	10-Jun	300.0	60.2	20.1%
Additional Surge Funding 2020/21	26-Nov	1,417.1	216.4	15.3%
<b>Additional Surge Funding 2020/21 (£m)</b>		<b>1,717.1</b>	<b>276.5</b>	<b>16.1%</b>
Infection control fund for adult social care (tranche 1)	15-May	600.0	50.7	8.5%
Infection control fund for adult social care (tranche 2)	01-Oct	546.0	56.9	10.4%
Workforce Capacity Fund	21-Jan	120.0	18.6	15.5%
Adult Social Care Rapid Testing Fund	18-Jan	149.1	12.5	8.4%
Clinically Extremely Vulnerable Support Grant	02-Nov	114.0	18.7	16.4%
Community Champions	19-Jan	21.6	2.8	13.2%
LA compliance and Enforcement grant	08-Oct	30.0	5.3	17.7%
Reopening High Streets Safely	24-May	50.1	8.0	16.0%
Rough Sleeping Fund	16-Mar	3.2	0.9	26.6%
Next Steps Accommodation Programme	17-Sep	91.5	23.0	25.1%
Local Authority Emergency Assistance Grant for Food and Esse	11-Jun	63.0	10.1	16.1%
Additional HTST - Full Year Final Allocation	07-Apr	108.3	0.0	0.0%
COVID Winter Grant	11-Nov	170.0	27.4	16.1%
Additional HB Admin Grant	15-Mar	17.4	5.2	29.7%
Business grants new burdens funding	19-Nov	TBC	24.8	TBC
Cold Weather Payment (housing)	05-Nov	10.0	2.7	27.0%
Protect Programme (housing)	03-Dec	9.8	2.7	27.5%
Substance Misuse Fund	04-Dec	19.7	8.3	42.1%
Test and trace support grants	06-Oct	50.0	8.4	16.8%
Test and Trace Support Payment scheme	08-Jan	20.5	2.8	13.7%
TTSP Feb Top-up	15-Mar	39.3	7.9	20.1%
<b>Targeted grants</b>		<b>2,233.4</b>	<b>297.7</b>	<b>13.3%</b>
<b>Sales, Fees and Charges Compensation Scheme (£m)</b>		<b>930.9</b>	<b>216.3</b>	<b>23.2%</b>
<b>TOTAL</b>		<b>9,488.4</b>	<b>1,595.2</b>	<b>16.8%</b>

### Notes

1. The SFC compensation above represents that confirmed for the first 8 months of 2020-21, with funding for the final 4 months still to be confirmed.
2. Funding has also been provided by local CCGs agreeing support with local authorities for additional spending pressures within adult social care.

## Appendix B - Direct Covid funding allocated to local authorities in 2021-22 so far

	Date	England	London Boroughs	% share
COVID-19 expenditure pressures grant (2021-22)	17-Dec	1,550	274	17.7%
LCTS grant - (2021-22)	10-Feb	612	92	15.0%
COMF - 2021	08-Apr	400	71	17.7%
Infection Control 3 - April 2021	08-Apr	203	21	10.3%
ASC Rapid Testing 2 - April 2021	08-Apr	139	16	11.4%
Local Elections 2021 Additional Funding	12-Mar	15	3	22.0%
Practical Support for those Self-Isolating	25-Mar	13	2	17.7%
COVID Winter Grant - Easter extension	26-Mar	59	10	16.1%
Additional HTST - Summer First Half Term	07-Apr	20	0	0.0%
Local Support Grant (to June)	08-Apr	40	6	16.1%
Business grants new burdens funding 2	29-Apr	70	10	14.0%
Local Support Grant (to Sept)	22-Jun	160	27	17.1%
Infection Control 4 - June 2021	28-Jun	143	TBC	TBC
ASC Rapid Testing 3 - June 2021	28-Jun	109	TBC	TBC
<b>Total</b>		<b>3,531</b>	<b>532</b>	<b>16.2%*</b>

NB – The “total” percentage represents London boroughs’ share of funding confirmed so far (i.e. excluding the last two grants for which allocations are not yet published)