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The Committee of Public Accounts

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Contents

Summary

Despite receiving additional funding during Covid, many local authorities are in a precarious financial situation and will experience long-term financial effects from the pandemic. Many expect to make cuts to their budgets for local services in 2021–22. Typical council tax bills will rise by an average of 4.3% across England in 2021–22, meaning that local people could be paying more for less.

The government does not have sufficient information about how these financial pressures will impact on local services. Despite this in many respects, the Ministry of Housing, Communities & Local Government has acted effectively to stave off widespread financial failure within the sector despite the unprecedented impacts of the pandemic in the short term. Regular submission of financial data by local authorities has given the Department a timely evidence base to support local authorities, the £9.7 billion of increased costs and lost income faced by local authorities to December 2020 were nearly matched by the £9.1 billion of government support provided. However, there are still lessons that the Department and the rest of government need to learn from the experience of the pandemic to ensure the financial sustainability of the sector and discussion between local authorities and the Department when a council is in serious financial difficulty are still behind closed doors. The Government should be more transparent with the National Audit Office about the level of financial stress in councils and the potential for Section 114 notices to enable better scrutiny of these issues which hit taxpayers and service users hard if a council fails financially.

While the Department has worked well with local authorities, it was not sufficiently prepared for the financial impacts of the pandemic. Across government, support schemes have not always been designed with sufficient knowledge or consideration of local government finance, which can create confusion and excessive bureaucracy. Crucially, uncertainty about government funding and support has hindered local authority financial planning for the year ahead and been a driver for cost cutting. Despite the Department's detailed work in earlier years, longer-term reform of local government finance has been delayed twice, first by Brexit and now by the pandemic, and reform to adult social care remains undelivered. Even if the sector's current financial situation is stabilised, there is a looming problem in local government finance that needs a structural solution which needs to take account of the impacts of the pandemic.

Introduction

Local authorities in England have played a vital role during the COVID-19 pandemic: paying grants to businesses, providing support to vulnerable people who are shielding, setting up community testing facilities and taking on the most challenging contact tracing, all the while keeping existing services running. Authorities have achieved this while dealing with the impact of the pandemic on their finances, which were already under strain going into the pandemic.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for working across government to support HM Treasury to make major decisions about local government funding. The Department plays a significant role in distributing that funding. The Department is also responsible for the accountability system that assures Parliament about how local authorities use their resources, including preventing and responding to financial and service failure.

The Department acted quickly to support local authority finances early in the pandemic, announcing unringfenced grants for local authorities of £1.6 billion on 19 March 2020 and £1.6 billion on 18 April 2020. It supported local authority cash flow through measures totalling nearly £6.85 billion in the same months. In total, by early December 2020, the Department had provided £4.55 billion in unringfenced grants to support local authorities' response to the pandemic, as part of £9.1 billion in COVID-19 funding for local authorities from government announced by that point.

Conclusions and recommendations

1. **The Department was not sufficiently prepared for the local government finance implications of a severe emergency.** Local authorities went into the pandemic with 82.6% of their (non-education) income, such as council tax, retained business rates and car parking charges, dependent to some extent on local conditions. The pandemic has caused sudden and severe drops in local authority income, which the Department needed to respond to urgently to reduce the risk that the local response to the pandemic would be hampered by a lack of funding. In addition, authorities face cost pressures from the pandemic such as the need to deliver new programmes and services alongside increases in the cost of delivering existing services. However, the existing national pandemic emergency plan did not cover local government finance and the Department's previous contingency planning did not provide an immediate basis for this response. There has been some confusion in parts of the sector about the government's position in the earliest stages of the pandemic. While the Department announced emergency funding in March and April 2020, it was July before the Department set out the principles it would use for dealing with local authority income losses and arrived at a stable method for allocating funding to support COVID cost pressures.

   Recommendation: ***The Department should capture learning from the pandemic and write to us by the end of 2021 setting out how it will use this to prepare a flexible framework for responding quickly to the implications of severe national emergencies for local government.***

2. **The pandemic has exposed limitations in the data that the Department normally collects from local authorities, meaning it has not had a proper picture of local financial resilience.** Prior to the pandemic, the Department's collection of local authority finance data covering areas such as service spending and income from sources such as council tax, business rates and sales fees and charges was generally undertaken on an annual basis. This approach could not provide information quickly enough to navigate a fast-moving and unprecedented pandemic. The Department has put in place a monthly survey collecting data on authorities' spending and income pressures due to COVID-19. The data from the monthly survey has underpinned decision making in the Department and has also informed decision making in some other government departments. The Department's new approach to data collection included gathering experimental data on the level of reserves authorities had available to respond to the pandemic. Information on the financial reserves held by local authorities is central to understanding local authorities' financial resilience and their ability to balance their budgets. However, the Department accepts that its experimental approach has not been entirely successful, with 65 local authorities responding that they had no reserves available to respond to the pandemic. In addition to data collected specifically in the pandemic to assess financial sustainability the Department has an existing financial risk framework with which it monitors the sector. Using information collected through this framework, the Department was aware of some financial weaknesses at Croydon Council before the pandemic. However, the Department did not fully understand the depths of the commercial and other problems facing the council, and had not begun intensive work with the council until April 2020. The financial

pressures faced by the council have ultimately resulted in a £120 million bailout via capitalisation directions, which allow authorities to borrow or use capital receipts to support revenue spending.

Recommendation: ***The Department should draw on the experience of collecting data during the COVID-19 pandemic to improve its regular collections of local government financial data. In particular, it should write to us by October 2021, setting out:***

- ***what, if any, changes it plans to make to its regular collections based on its experience of data collection and use in the pandemic; and***
- ***how it plans, in consultation with the sector, to improve the usefulness of its data on local authority reserves specifically.***

Recommendation: ***The Department needs to examine its arrangements, and make changes as necessary, for oversight of financial risk in the sector and ensure that lessons from the financial issues at Croydon Council have been learned. The Department should set out its response when it writes to us by October 2021.***

3. **Government support schemes during the pandemic were not always designed with sufficient knowledge of local government finance or input from the sector.** Representatives of the local government sector assert that government departments other than MHCLG did not always engage with the sector during the pandemic sufficiently and consequently were not well informed about the pressures and needs of the sector when designing support schemes. This has resulted in support schemes being designed with too much bureaucracy, a lack of co-ordination, and a focus on speed of delivery that does not always take account of the need for assurance against fraud. These issues place additional burdens on local authorities. For instance, an announcement that business support grants would be simplified came almost one year after they were introduced. The Department recognises that communication with local government is variable across Whitehall. At least one other department has now recognised this itself. The Department for Health and Social Care has identified lessons in relation to adult social care through the work of the Adult Social Care taskforce, including the need to boost its expertise and capacity in relation to social care, and improve local engagement. We are less confident that other departments have recognised the issue.

Recommendation: ***HM Treasury, the Department for Education, the Department of Health & Social Care, the Department for Business, Energy & Industrial Strategy, the Department for Environment, Food & Rural Affairs, and the Department for Digital, Culture, Media & Sport, in co-operation with the Department, should write to us by October 2021 setting how they will improve, and then maintain, their understanding of the operational realities of local government finance and the financial pressures authorities face.***

4. **The Department has not fulfilled previous assurances that it will be transparent about financial risk in the sector by sharing information with the National Audit Office.** The Department previously told us that it would ensure the National Audit Office can see any information that it needs to about local authority financial risk in order to support proper scrutiny by this Committee on behalf of Parliament.

However, the Department has not provided all the information the National Audit Office has requested. Without this information, it is not possible for the National Audit Office or Parliament to get a full picture of the financial stress in the sector or evaluate how effectively the Department has addressed any issues. The Department has not yet found a satisfactory way of being transparent about the level of financial stress within the sector while maintaining appropriate levels of confidentiality in respect of information provided by local authorities. In the absence of other oversight mechanisms, Parliamentary scrutiny of the Department's handling of financial risk in the sector is essential.

Recommendation: ***In discussion with the National Audit Office, within three months the Department should find a way to share information relevant to financial risk in the sector, including about individual local authorities, while indicating on what basis it can or cannot be shared further.***

5. **The Department's over-optimism about the impact of the pandemic on local authorities risks leading to reductions in services for local people.** The Department is confident about the sector's stability and sustainability in relation to the immediate and short-term impacts of the pandemic. However, it recognises that there will be financial impacts on local authorities. Local government sector representatives are clear that most councils will not be able to manage solely using reserves and will also need to make service cuts in 2021–22. We were told about many councils facing multi-million pound budget reductions due to COVID-19, even after government support. Typical council tax bills will rise by an average of 4.3% across England in 2021–22, meaning that local people could be paying more for less. We have previously found that there is insufficient monitoring of the way that local government financial pressures affect services. Given this, we are not convinced by the Department's confidence about the sustainability of services. Both the Department and local government representatives recognise that the pandemic will affect the sector's finances in the short and medium term as they seek to understand the 'new normal' for local services.

Recommendation: ***The Department, working with other government departments, should ensure that decision-making about actions to stabilise local government finance is informed by sufficient information about the service implications of current financial pressures.***

Recommendation: ***The Department and HM Treasury should ensure that their work for the next Spending Review includes full consideration of the longer-term effects of the pandemic on local government finance and the demands placed on local authorities.***

6. **The Department has yet to address the longstanding structural issues within local government finance.** Since 2015–16, the government has been planning to put in place significant changes to local government finance, but these have yet to be introduced. Parts of the current finance system are broken or flawed. The pandemic has also cast doubt on planned financial reforms which were centred on greater local retention of business rates. For instance, local authorities expect to collect £1.6 billion less in business rates for 2020–21 than planned. Reforms to local government finance need to be co-ordinated with long-awaited reforms to adult social care, with

social care proposals now promised in 2021. The Department recognises that there are a range of significant issues that should not be dealt with separately. It will be crucial to put in place meaningful and well thought-through reforms that reflect the lasting changes flowing from the pandemic and ensure that there is a period of financial stability in the interim while new reforms are being devised.

Recommendation: ***The Department should write to us by October 2021 setting out its plans to ensure that:***

- ***local government finance is reconsidered from first principles, reformed in a measured fashion working with the sector, and ultimately new arrangements put in place that are fit for purpose and built to last; and***
- ***a stable funding environment, ideally based on a multi-year settlement, is established as a bridging mechanism while more fundamental long-term reforms are designed.***

7. **It is unacceptable that local authorities continue to face uncertainty about the level of financial support they can expect from government on top of the other pressures and uncertainty with which they are currently required to cope.** The pandemic has created financial uncertainty for local authorities about their future commercial and other income, service needs, ability to make savings, and ability to collect local taxes. Additional uncertainty and late information about government funding on top of this could risk cuts to the services residents and businesses rely on. The Department and HM Treasury recognise the importance of funding certainty and early information to good financial management. Yet neither have committed to improving their current approach in light of recent experience. Local authority public health grant allocations were published by the Department for Health & Social Care in mid-March 2020, after local authorities had set their budgets for 2021–22, and only 15 days before the end of the financial year. We welcome the announcement that the government will take steps to rule out business rates appeals related to changes in circumstances due to the pandemic, removing a source of uncertainty for local authority finances. However, this decision came less than a week before the end of the financial year.

Recommendation: ***HM Treasury, working with the Department and other departments as necessary, should explore ways that the government can give local authorities more financial certainty as they develop their 2022–23 spending plans and write to us with conclusions by June 2021.***

1 Supporting local authority financial sustainability in the first year of the pandemic

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Housing, Communities & Local Government (the Department) and HM Treasury about local government finance in England during the COVID-19 pandemic.[1] We also took evidence from the Society of County Treasurers, the Society of Local Authority Chief Executives and Senior Managers (SOLACE), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Manchester City Council.

2. The Ministry of Housing, Communities and Local Government has overall responsibility for the financial framework for local authorities. This includes maintaining a system of local accountability that assures Parliament about how local authorities use their resources, including preventing and responding to financial failure. Other government departments have policy responsibility for statutory services delivered by local authorities.[2]

Government preparedness at the outset of the pandemic

3. Leading into the pandemic, local authority finances were under pressure following a period of funding reductions, growth in service demand and delayed reforms to the local government finance framework. As a result, local authorities' finances were potentially more vulnerable to the impact of the pandemic than they might otherwise have been. The spending power of local authorities (which consists of government grants, locally retained business rates and council tax) fell by 26.3% in real terms from 2010–11 to 2020–21.[3] In our report on the *Financial sustainability of local authorities*, we highlighted that demand for key services such as adult and children's social care had also increased.[4] A number of planned major financial reform initiatives such as the Fair Funding Review, a proposed move to 75% local retention of business rates, and a reform plan for adult social care funding, have not been delivered due to competing pressures such as the UK's exit from the European Union.[5]

4. During the last financial year before the pandemic, 2019–20, 82.6% of local authorities' income came from sources such as council tax, locally retained business rates and sales, fees and charges, that depended to some extent on local conditions. The pandemic very quickly had significant financial impacts on local authorities.[6] We received written evidence from the Special Interest Group of Municipal Authorities (SIGOMA) which told us that even in March 2020, as government action started, councils reported £174 million of income pressures. These were alongside £79 million of cost pressures, such as new services to support their communities, delivering programmes for government, or increased costs

1 C&AG's Report, *Local government finance in the pandemic*, Session 2019–2021, HC 1240, 10 March 2021
2 C&AG's Report, paras 3–5
3 C&AG's Report, paras 1.1–1.7 and Figure 1
4 Committee of Public Accounts, *Financial sustainability of local authorities*, Fiftieth report of session 2017–19, HC 970, 4 July 2018, para 1
5 Q144
6 C&AG's Report, paras 1.4 and 1.11–1.16

within existing services.[7] The National Audit Office (NAO) found that the lockdown and other COVID restrictions had led to local authorities losing income from fees and charges such as car parking income and from the closure of council-owned facilities like leisure centres.[8] The government committed to supporting the sector to respond to the unprecedented challenge of the pandemic, and that support would be "timely, targeted and temporary". The Department responded quickly to support the sector's finances early in the pandemic. It announced £3.2 billion in grant funding for the sector, spread across two equal tranches, on 19 March and 18 April 2020. In the same months, it introduced measures worth a total of £6.85 billion to support cash flow in the sector.[9]

5. The Department did not have a strategy or framework to draw on in the early stages of the pandemic. Local government finance was not mentioned in the government's high-level plan for pandemic flu. In addition, at the start of the pandemic there was no structured data on COVID-19 pressures on local authorities. The NAO found that the uncertainty of the situation, the lack of information and the need to respond quickly meant that the initiatives developed in February, March and April 2020 prioritised speed over the information needed to design a targeted response. The Department told us that its response drew on "experience of contingency planning—for example, in relation to EU exit, the end of the transition period and Operation Yellowhammer". However, this contingency planning did not cover impacts as large or as fast as those that flowed from the pandemic. The Department told us that during the pandemic it developed approaches to supporting local authorities, which were now available for future use if needed.[10]

6. Ministerial statements in March 2020 that government would do whatever was necessary to support councils were taken by some finance directors and stakeholder bodies as meaning that it had issued a blanket guarantee as opposed to setting an expectation that the sector would cover some of the costs of the pandemic. We heard and received evidence that early in the pandemic the Government had not communicated the extent of, or limits to, its support for local authorities sufficiently clearly. CIPFA told us that "the language did change, in that the original language of 'whatever it takes' changed to language of burden sharing" and added that a lot of councillors were led by the original language to think they would get more resources than they ultimately got. SIGOMA similarly submitted that support had fallen short of the expectations raised by statements that government would do 'whatever it takes' to support local government.[11]

7. We asked the Department when it became aware that Ministerial statements had potentially been misinterpreted and what action it had taken to clarify the situation. The Department asserted that the commitment to support local authorities for their legitimate expenditure costs was clear from the start and that it had been in regular dialogue with local authorities about its approach.[12] We and the Housing, Communities and Local Government Committee attempted to establish the boundaries of this commitment through several evidence sessions with Departmental witnesses and correspondence

7 LGF0007 SIGOMA submission, para 2.3
8 C&AG's Report, para 1.19
9 C&AG's Report, para 2.1 and Figure 7; £2.9 billion funding to strengthen care for the vulnerable – GOV.UK (www.gov.uk) and Government pledges extra £1.6 billion for councils – GOV.UK (www.gov.uk)
10 Q82; C&AG's Report, para 2.4, 2.6 and 2.9
11 Qq 35–36; LGF0010 submission by CIPFA para 2.4 and LGF0007 submission by SIGOMA para 2.6; C&AG's Report, paras 2.1–2.2
12 Qq 83–84

with the Department in May, June and July 2020.[13] The Department told us that it had been clear with the sector that its approach for compensating local authorities for income losses would be different to that for supporting authorities to manage new expenditure costs. It further asserted it had been clear in discussions with local authorities and finance chiefs that it would be necessary to share the income losses due to the pandemic between central government and local government to a degree.[14] However, the earliest example it gave of communicating this message was in July 2020, when the principles underlying the government's approach to local authority income losses were set out. The scheme the Department introduced provided partial compensation for local authorities' lost income from sales, fees and other charges; it does not cover commercial income losses.[15]

8. In addition to the March and April unringfenced funding, the Department provided two further tranches of unringfenced funding in 2020–21, bringing the total value of these grants to £4.55 billion. The Department took us through the ways in which its approach to allocating unringfenced funding changed. It used three different approaches (existing funding formulas, population, and a new formula drawing on pandemic data returns) to allocate funding of £3.7 billion between March and July 2020. Since July 2020 the approach to funding allocation has been stable, although when asked if the current formula needed further revision the Department did not commit itself either way.[16] By early December 2020 estimated financial support for the sector from the Department in unringfenced grants and support for sales, fees and charges income losses, funding from other government departments, and support from clinical commissioning groups stood at £9.1 billion. In December 2020 authorities estimated their full COVID-19 costs pressures and income losses for 2020–21 at £9.7 billion.[17]

Departmental data on local authority financial resilience during the pandemic

9. The Department introduced a monthly survey in April 2020 to collect data on the financial pressures faced by local authorities due to the pandemic. Prior to the pandemic, the majority of its regular financial data sets tended to be collected on an annual basis. The Department told us that the switch to a monthly approach did not necessarily mean there was a problem with the data it collected before, but reflected the unprecedented nature of the challenge faced by the sector. The Department told us that the survey had given it "huge insight" into local authorities' finances on a more immediate and responsive basis than it would normally have. The survey data was also a valuable source of information for other departments.[18] In terms of learning from this experience, the Department recognised that there was a benefit to having more information on the sector over the longer-term,

13 Housing, Communities and Local Government Committee, Oral evidence: Work of the Department, HC 302, Monday 4 May 2020; Letter to the Secretary of State from the Chair of the Housing, Communities and Local Government Committee requesting further information following his appearance on 4 May, 14 May 2020; Committee of Public Accounts, Oral evidence: Local authority commercial investment, Friday 15 May 2020; Committee of Public Accounts, Oral evidence: Whole of Government Response to COVID-19, HC 404, 15 June 2020; Committee of Public Accounts, Oral evidence: Readying the NHS and social care for the COVID-19 peak, HC 405, 22 June 2020; Committee of Public Accounts, Oral evidence: Progress in Remediating Dangerous Cladding, HC 406, 6 July 2020; Housing, Communities and Local Government Committee, Oral evidence: Work of the Department, HC 302, 22 July 2020

14 Qq 84–85

15 Q85, 87, 94; C&AG's Report, paras 2.35–2.36, 4.3 and Figure 7

16 Qq 90, 93–94; C&AG's Report, para 2.24, 2.31 and Figure 7

17 Qq 87, 90, 94, 120, 123, 135, 139–140, 161; C&AG's Report, Figure 10

18 Qq 100, 103 and 105; C&AG's report, paras 2.10, 2.12 and 2.22

but that this needed to be balanced against the burden this placed on authorities. The Department told us that this type of lessons learned exercise in relation to data was now actively "in train".[19]

10. Local authorities need to hold sufficient reserves to deal with known future needs and the financial risks they face. Accordingly, reserve levels are a key measure of the financial sustainability of local authorities over the medium-term.[20] As part of its monthly survey the Department collected data on local authorities' reserves in order to assess the extent to which their reserves were under pressure. To do this the Department did not use the traditional categorisation in which reserves are classed either as allocated (for defined purposes) or unallocated (and therefore available for any purpose). Instead the Department introduced a new, experimental category of "available" reserves. The concept of availability reflects the fact that owing to local authority accounting practices not all an authority's unallocated reserves are necessarily available, while some of their allocated reserves may be. This means that despite the publication of data on allocated and unallocated reserves it is not possible to identify the level of reserves that an authority actually has available to respond to the pandemic or any other issue. However, the Department told us that it was "not sure that [the collection of this experimental data] has been entirely successful" as 65 authorities simply replied that they did not have reserves available to respond to the pandemic. The Department told us that later in the year, rather than concentrating on reserves it instead focused on the capacity of authorities to set their 2021–22 budgets. It explained that it was reassured by the fact that all authorities either had, or were in the process of, agreeing their 2021–22 budgets.[21]

11. The Department's monthly survey is an addition to a broader framework of risk monitoring that draws on a range of other information sources.[22] Through the use of this framework the Department had placed Croydon Council on its 'long list' of councils at financial risk for some years. However, it was only in the light of the council's return to the Department's monthly survey in April 2020 and subsequent conversations that the Department became fully aware of the scale of the financial challenge faced by the sector.[23] The council's section 151 officer subsequently issued a section 114 notice in October 2020, indicating that the council was at risk of failing to balance its budget, which is unlawful. We challenged the Department on whether it should have taken earlier action in relation to the council. The Department told us that in its view the authority itself was not fully aware of the scale of its own financial pressures for much of 2020, and by extension that the Department could not have been expected to know.[24] The Department has agreed £120 million worth of capitalisation directions, which allow local authorities to either borrow or use receipts from the sale of capital assets to support revenue spending, in order to stabilise the council's finances.[25]

19 Qq 100 and106

20 C&AG's Report, paras 3.15, 3.16 and 3.21

21 Q103; C&AG's Report, paras 3.17 and 3.19

22 Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, HC 834, Session 2017–2019, 8 March 2018, para 21

23 C&AG's report, para 3.27

24 Qq 97–98

25 Letter from Jeremy Pocklington CB, Permanent Secretary Ministry of Housing, Communities & Local Government to the Committee of Public Accounts regarding exceptional financial support, dated 17 March 2021. The £120 million comprises £70 million confirmed for 2020–21 and £50 million in principle for 2021–22.

Designing schemes to support local authorities and their communities during the pandemic

12. We asked representatives of the local government sector how well the Department had engaged with it over the last year. We heard and received evidence praising the quality of the Department's engagement with the sector during the pandemic. For example, Manchester City Council told us that the Department's engagement had been good both in relation to individual authorities and collectively with the sector as a whole.[26] However, the Society of County Treasurers conveyed an equally clear message that the engagement by other government departments was not as good and that other departments had not listened as much to the sector. It suggested that this should be a key lesson the government should learn from the pandemic.[27] The Department told us it recognised that communication with local government "is variable across departments" because they differ in their normal exposure to local government, but asserted that increased joint working during the pandemic had strengthened relationships in key areas of public health and social care.

13. The Department highlighted "the excellent work" within the Department for Health and Social Care (DHSC) as an example of "that deepening of the connection with local government".[28] In June 2020, DHSC created the Social Care Sector COVID-19 Support Taskforce to oversee the delivery of two packages of support for the care sector as well as support the government's work on community outbreaks and consider how to reduce the risk of infection in care homes and the wider social care sector. The Taskforce was chaired by an individual with substantial operational experience as the former President of the Association of Directors of Adult Social Services and drew members from across the sector. In September 2020, the Taskforce published its report setting out progress and learning from the first phase of the pandemic and recommendations to help improve resilience in the sector. As part of this, it recommended that DHSC "significantly boosts its own expertise and capacity in relation to social care", to continue beyond the pandemic, and used this expertise to link effectively with regional and local structures. This included bringing in senior local authority figures with experience within social care and public health.[29]

14. We received written evidence from representative of the local government sector criticising a range of support schemes that were introduced during the pandemic, particularly business grants, as being complex or challenging to administer.[30] Pandemic business rates relief started in March 2020 and the first business support grants distributed through local authorities started in April 2020.[31] In relation to business grants, SOLACE told us that "the centrally set rules have been counterproductive" and on occasion had led to some councils "rapidly trying to 'chuck the money out of the door'", risking the effectiveness of spending and some assurance against fraud. SOLACE also told us "we made it clear to the Government early on with our business community that [the

26 Q32; LGF0007 submission from SIGOMA paras 2.18, 3.1; C&AG's report, para 2.15–2.16.

27 Qq 34, 47

28 Q89

29 Department of Health & Social Care, *Social Care Sector: Covid-19 Support Taskforce Final Report*, September 2020, particularly recommendation 34

30 Qq 10, 12, 30, 33; LGF0011 submission from SOLACE pages 2 and 3, LGF0003 submission from DCN paragraphs 13 and 17, LGF0007 submission from SIGOMA paragraphs 2.15 and 2.16, LGF0010 submission from CIPFA paragraphs 3.5–3.6; C&AG's Report, para 2.17

31 Financial support for businesses during coronavirus (COVID-19); Coronavirus grant funding: local authority payments to small and medium businesses

proliferation of business grants] just needed to be rationalised."[32] However, the District Council Network (DCN) observed that it was not until March 2021 that BEIS responded to calls to simplify the schemes.[33] SIGOMA pointed out in relation to a wide range of grants that "there seems to be a lack of appreciation in government" that the nature and timing of the government's own scheme rules would have an impact on the speed with which authorities would start to make payments under the schemes.[34] In April 2020, the London Chamber of Commerce and Industry said "the pace of funding delivery to businesses is imperative", as cashflow was fast running out for many small and medium-sized enterprises across London and these grants were important to keeping them afloat in the short term.[35]

Transparency about financial risks in the sector

15. The Department told us that during the early months of the pandemic it developed greater structure and a stronger framework around exceptional financial support for individual authorities. Exceptional financial support is used where the Department accepts authorities face unmanageable financial pressures despite other government support measures.[36] The Department asserted that it had been transparent in relation to cases where Ministers had agreed to provide exceptional financial support.[37] However, the Department did not and does not share information on the total number of authorities that have approached it in relation to financial pressures, or the number of authorities where the Department has identified financial concerns itself. Similarly, while the NAO calculated the number of authorities at different levels of risk of financial failure using Departmental thresholds for comparing COVID-19 related funding gaps to reserves for individual authorities, the Department did not share with us or the NAO its own assessment of authorities at risk or how this had changed over time.[38]

16. The Department told the NAO that sharing information on the number of authorities interested in exceptional financial support or at risk more generally would invite public speculation on the identity of the authorities affected. However, the information the Department does not share is valuable for assessing the level of financial stress in the sector and therefore how well the Department's other measures have served to deal with the burdens the pandemic has placed on local authorities. This information is needed to support Parliamentary scrutiny: the NAO told us it was not possible for it to get a full picture of the financial stress in the sector or evaluate how effectively the Department had addressed any issues without knowing the level of demand for exceptional support or the Department's view on financial risk more generally.[39]

17. We previously discussed the provision of this type of information with the Department as part of our examination of the Department's Starter Home programme. We recognised that sensitive information should not necessarily be made public, but we asked the Department to commit to ensuring "the National Audit Office can see anything it needs

32 Qq 12 and 30, LGF0011 submission from SOLACE page 2
33 LGF0003 submission from DCN paragraph 17
34 LGF0007 submission from SIGOMA paragraph 2.16
35 LCCI comment on coronavirus grant roll-out by councils (londonchamber.co.uk)
36 Qq 82, 85; C&AG's Report, paras 19 and 2.5
37 Q 56; letter from Jeremy Pocklington CB, Permanent Secretary Ministry of Housing, Communities & Local Government to the Committee of Public Accounts regarding exceptional financial support, dated 17 March 2021.
38 Qq 109–115; C&AG's Report paras 2.45–2.46 and 3.22–3.23.
39 Q110; C&AG's Report, paras 2.45–2.46

to" in relation to financial pressure on individual authorities. The Department agreed at the time.[40] We therefore asked the Department why, given this commitment, the NAO had struggled to access this information. The Department told us that its position was that information relating to individual councils and its analysis of their financial position should remain private and confidential. It asserted that it was important that it had "a private space where we can have confidential discussions with local authorities". The NAO explained that it understood the need for this safe space but would have liked to have had more information shared with it. The NAO regularly receives confidential and highly sensitive information, in order to support Parliamentary scrutiny, and has demonstrated it can reach sensible judgements about what is put into the public domain. We therefore asked the Department what steps it thought it could take to ensure that the NAO and Parliament were aware of the scale of risk in the sector in future. The Department told us that it took its responsibilities to be open to Parliament and the NAO seriously and agreed to think further what more could be done.[41]

40 Public Accounts Committee, Oral evidence: Starter Homes, HC 88, 22 October 2020; Q33
41 Qq 109–112, 117

2 The prospects for financial and service sustainability

Impacts of the pandemic on local authority finance and services in the future

18. In its examinations of the local government sector prior to the pandemic, our previous Committee raised concerns in 2018 that "the Department may not know if pressures in one service area quickly transfer to others or the extent of the risk that this poses to local authorities or service users" due to insufficient data.[42] In 2019 we remained similarly concerned that the Department was not fully evidencing financial sustainability using expectations across the full range of local authority services.[43] When we asked about the immediate prospects for the sector, the Department told us that the local government finance settlement for 2021–22, which provides authorities with their grant funding levels and other key financial parameters, would allow, "the sector to stabilise and be sustainable." It also explained that it had a degree of confidence in the sustainability of the sector in relation to the immediate and short-term impacts of the pandemic. The Department told us that it had been clear that "there would be financial impacts on local authorities" but suggested this would not necessarily affect services due to authorities finding efficiencies rather than reducing service provision, and the use of reserves. We asked the Department about the impact of over a decade of financial pressure on the ability of local authorities to make further efficiency savings. The Department responded by saying it recognised the pressures that authorities are managing and had consequently enabled real-terms funding increases in the last few years. It did not provide further explanation of its confidence in authorities' ability to make widespread efficiencies.[44]

19. Manchester City Council told us that government support has not fully mitigated the impact of the pandemic, and the average pressure on next year's budget is £15 million across the 10 authorities in Greater Manchester and £32 million across the eight core cities.[45] In written evidence, SIGOMA told us that despite government support, member councils would be "assessing the viability" of the services they provide in 2021–22.[46] CIPFA noted that in the same financial year, council tax will rise by 4.3% on average, representing a funding gap of £217 million relative to the government's assumption in the local government finance settlement.[47] The Society of County Treasurers explained that "there will be real challenges across the country in balancing the budgets next year" and that it thought this would be "a combination of the use of reserves and having to make cuts in services".[48] An NAO survey found that 81% of respondents from district councils and 94% of respondents from single tier and county councils intended to make savings from service budgets in 2021–22.[49]

42 Committee of Public Accounts, *Financial sustainability of local authorities*, Fiftieth report of session 2017–19, HC 970, 4 July 2018
43 Committee of Public Accounts, *Local government spending*, Seventy-sixth report of session 2017–2019, HC 1775, 6 February 2019
44 Qq 84, 85, 132, 135–138
45 Q 9
46 LGF0007 submission from SIGOMA paragraph 3.6
47 Q13; LGF0010 submission from CIPFA paragraph 3.4
48 Q25
49 C&AG's Report, para 4.24

20. The Department and HM Treasury explained that their judgement of the sustainability of the local government sector was not a long-term one and any government assessment of funding needs beyond 2021–22 was a matter for the next spending review.[50] Sector representatives told us "the impact of Covid will be with us for a long time yet."[51] The Department recognised that there would be short-, medium- and long-term impacts from the pandemic. In particular it told us that it was reflecting on the difference between "the scarring effects of COVID", which would "diminish over time", and any permanent changes as a result of the pandemic.[52] We have previously expressed concern about the quality of evidence about the funding needed to sustain local authority services that has been assembled for past spending reviews.[53] Around half of authorities did not expect their finances to return to pre-pandemic levels until 2023–24 at the earliest. The Department said using £400 million of reserves in 2020–21, as forecast by the Office for Budget Responsibility, was an "appropriate way of helping to manage the impact of the pandemic on local government finance." Nonetheless, this will have lasting effects: 53% of NAO survey respondents from single tier and county councils indicated that they would need to build up their reserves in the next two to three years, but only 16% of these respondents felt confident that they would be able to do this.[54]

The need to reform local government finance

21. Government has had plans to enact a range of local government financial reforms for a number of years, but these have not yet been introduced.[55] Witnesses from the sector were clear that this reform was still required. The Society of Local Authority Chief Executives (SOLACE) described current arrangements as "a very broken system".[56] However, CIPFA raised questions over whether simply restarting the previous planned reform arrangements to increase the share of locally retained business rates to 75% and design a new funding allocation model were appropriate in the light of the impact of the pandemic. Manchester City Council explained that a key issue was the uncertainty over the impact that the pandemic has had on business rates over the long-term. This was in addition to existing concerns, expressed by SOLACE for instance, over whether a business tax system based on physical properties was effective in the context of the rapid growth of online business activity. As a result of the pandemic local authorities expect to collect £1.6 billion less from business rates for 2020–21 than budgeted.[57]

22. CIPFA and SOLACE called for a broader review of potential reform options rooted in a deeper understanding of the impact of the pandemic on council tax and business rates, encompassing the government's promised reforms to adult social care funding, and potentially leading to more radical reforms than current proposals.[58] However, Manchester City Council and the Society of County Treasurers were clear that these reforms should not be rushed. This was both to allow the effects of the pandemic on local government finance to settle down, and also to ensure that sufficient time was available to allow for

50 Qq 125, 132, 141
51 Q1, Q5
52 Qq 145, 159
53 Committee of Public Accounts, *Local government spending*, Seventy-sixth report of session 2017–2019, HC 1775, 6 February 2019, conclusions 3, 4 and 5
54 Q108; C&AG's Report, paras 4.28–4.29
55 C&AG's Report, para 1.6
56 Q43
57 Qq 15, 19, 39; C&AG's Report, para 12
58 Qq 15, 17, 38

the creation of substantive and workable reforms. SOLACE also called for stability in any interim period, ideally in the form of a multi-year settlement, while a new system is designed.[59] The Department told us that it will set out its plans for taking reform forward before the end of this calendar year. However, it was clear that there was a "big suite of moving parts" involving other departments such as HM Treasury's review of business rates, and the Department of Health and Social Care's plans for social care. Nonetheless, the Department committed to reflecting on the messages from the sector "which is first, […] 'Do not rush,' and secondly, 'Please make sure it is fit for purpose.'"[60]

Financial uncertainty for local authorities

23. Local authority representatives told us about the unprecedented level of financial uncertainty they have faced and continue to face as a result of the pandemic.[61] Manchester City Council said that the impact on local authority commercial income, which does not attract any government support, was beyond what could "have reasonably been planned for or fully mitigated in the budget and reserves".[62] DCN similarly told us that councils faced significant uncertainties on the income they will receive from business rates and council tax. It explained that the long-term impact of the pandemic on business was still to be seen and increasing numbers of households were seeking support with council tax.[63] Business failures can reduce authority business rates income, for example if properties become vacant.[64] If a household receives council tax support, then the council tax income received by the authority is reduced by up to 100% .[65] SIGOMA stressed that council 2020–21 budgets and plans included changes to increase efficiency which would have delivered savings into 2021–22 and beyond. These changes, and so these savings, may now not be possible.[66] Manchester City Council told us that the pandemic had created pressures in its services due to ongoing demand for homelessness, adult social care and children's services. CIPFA, SOLACE and Manchester City Council suggested that public expectations of some local authority services, such as libraries, parks and open spaces, may well have also increased.[67]

24. Representatives of the local government sector told us that the way in which government support had been designed or announced has also created or perpetuated uncertainty. SIGOMA explained that "2020–21 has been a year of month to month existence with incremental and mostly reactive funding without which all of our members would have failed".[68] The LGA highlighted that councils were receiving more funding through specific grants accessed by making bids in competition with other councils; while CIPFA observed that "this preponderance of bids [as a basis for funding decisions] is making life even more uncertain".[69] We also heard about delayed or late announcements of the details of funding, leaving local authorities in uncertainty, for example the date of

59 Qq 38–43
60 Qq 143–144
61 LGF0001 submission from LGA page 2, LGF0008 submission from Surrey CC paragraphs 7–9
62 Q6
63 LGF0003 submission from DCN paragraph 20; C&AG's Report, paras 4.4–4.5
64 Business rates relief – GOV.UK (www.gov.uk)
65 Apply for Council Tax Reduction – GOV.UK (www.gov.uk)
66 LGF0007 submission from SIGOMA paragraph 4.3; C&AG's Report, 1.16
67 Qq 9, 13, 14, 16, 39
68 LGF0007 submission from SIGOMA paragraph 4.1; also Q4
69 LGF0001 submission from LGA page 2; Fragmented Funding – report | Local Government Association; Q15

the local government provisional finance settlement or of public health allocations.[70] For local authorities the financial year 2021–22 starts on 1 April 2021, and local authorities were legally required to set their budgets and council tax levels for 2021–22 by either 1 March 2021 (precepting authorities) or 11 March 2021 (billing authorities).[71] Local authority public health grant allocations for 2021–22 were published on 16 March 2021, so authorities were required to set their budgets for that year without full knowledge of their funding.[72] We received evidence from DCN expressing concern that business rates appeals related to changes in circumstances due to the pandemic could have "serious material financial impacts" on district councils; such impacts would affect financial years from 2021–22.[73] The government announced on 25 March 2021 that it will take steps to rule out such appeals. Authorities had to set their budgets while this uncertainty about their business rates income was still an issue.[74]

25. We received written evidence from SOLACE, which told us that "one-year financial settlements, which are delivered late in the budget planning cycle, presents risks and can result in very damaging cuts to services residents and businesses rely on." Similarly, CIPFA argued that delayed or incomplete information from government adds to the complexity of financial planning and leads to increased financial instability and may result in service reduction. SIGOMA similarly emphasised that without certainty, councils "cannot plan a future service structure that fits within a known, sustainable funding envelope".[75] The provisional local government finance settlement for 2021–22 was published on 17 December 2020 and Manchester City Council stressed the need for earlier information next year, citing that not having certainty on funding for 2022–23 until December was going to be "incredibly difficult to manage".[76]

26. We asked the Department about the sector's concerns that government information coming late in the day and leaving little time to finalise plans tended to lead to decisions that were not the best value for money. We also asked when local authorities can expect to see a long-term financial plan for the sector. HM Treasury praised local authority finance directors for driving value for money "based on the information they have at any given time" and recognised that this had been particularly difficult and challenging in the last year. The Department and HM Treasury told us they had heard the desire for greater certainty by local authorities. Neither department made any commitments, however. HM Treasury stressed "the importance of multi-year certainty for good financial management and good financial planning", but also emphasised that the length of spending reviews were Ministerial decisions.[77]

70 Q16; LGF0001 submission from LGA page 2, LGF0006 submission from Core Cities paragraph 5.7, LGF0007 submission from SIGOMA paragraph 3.3, LGF0010 submission from CIPFA paragraph 3.9

71 Local Government Finance Act 1992, sections 30(6), 40(5), 116(1) https://www.legislation.gov.uk/ukpga/1992/14/contents and Local Government Association, A councillor's workbook on local government finance, March 2018

72 Public health grants to local authorities: 2021 to 2022 – GOV.UK (www.gov.uk)

73 LGF0003 submission from DCN paragraph 9; C&AG's Report, paras 4.2–4.3.

74 Business rates relief boosted with new £1.5 billion pot – GOV.UK (www.gov.uk)

75 LGF0011 submission from SOLACE page 3; LGF0010 submission from CIPFA paragraph 3.9; LGF0003 submission from SIGOMA, paragraph 4.5

76 Q16; Provisional local government finance settlement: England, 2021 to 2022 – GOV.UK (www.gov.uk)

77 Qq 88, 124, 129–131

Formal minutes

Thursday 20 May 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Olivia Blake	Peter Grant
Sir Geoffrey Clifton-Brown	Craig Mackinlay
Dan Carter	James Wild

Draft Report (*COVID-19: Local government finance*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Fourth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 24 May at 1:45pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 15 March 2021

Lorna Baxter, Finance Director, Oxfordshire County Council; **Rob Whiteman**, Chief Executive, The Chartered Institute of Public Finance and Accountancy; **Martin Reeves**, Finance Lead, Solace; **Carol Culley**, Deputy Chief Executive, Manchester City Council — Q1–55

Thursday 18 March 2021

Jeremy Pocklington CB, Permanent Secretary, Ministry of Housing, Communities and Local Government; **Alex Skinner**, Director Local Government Finance, Ministry of Housing, Communities and Local Government; **Catherine Frances**, Director General Local Government, Strategy and Analysis, Ministry of Housing, Communities and Local Government; **Cat Little**, Director General Public Spending, Her Majesty's Treasury — Q56–163

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

LGF numbers are generated by the evidence processing system and so may not be complete.

1 Chartered Institute of Public Finance and Accountancy (LGF0010)

2 Children's Services Funding Alliance (CSFA) (LGF0009)

3 Core Cities UK (LGF0006)

4 COVID-19 Review Observatory, Birmingham Law School, University of Birmingham (LGF0004)

5 District Councils' Network (LGF0003)

6 Duke-Williams, Dr Oliver (Senior Adviser, Centre for Longitudinal Study Information & Support Group, University College London) (LGF0005)

7 Local Government Association (LGA) (LGF0001)

8 Shelton, Professor Nicola (Head of Health and Social Surveys Research Group, Centre for Longitudinal Study Information & Support Group, University College London) LGF0005)

9 Solace (LGF0011)

10 Special Interest Group of Municipal Authorities (LGF0007)

11 Stockton, Dr Jemima (Research Associate, Department of Epidemiology and Public Health, UCL) (LGF0005)

12 Surrey County Council (LGF0008)

13 Theatres Trust (LGF0002)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650

Number	Title	Reference
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940

Number	Title	Reference
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941