Briefing 20-64 **2 July 2020**

APSE Briefing: Chancellors Summer Statement

All: Contacts in England, Northern Ireland, Scotland & Wales

1. Introduction

As UK Governments move towards further relaxation of lockdown measures and moves to end the Furlough scheme As APSE briefings have previously highlighted the current funding package available to local councils, to cover the costs of COVID-19, has not substantially covered income losses, incurred as a result of closures of areas of activity where fees and charges have previously applied, such as car parks, which generated much needed additional sources of income to councils.

As a result of this highly significant problem calls have been made for the Government to support councils make up the substantial income deficits that have occurred as a result of COVID-19, not just the extra costs incurred in supporting communities through the pandemic.

2. Headline Announcements

The initial package announces £500 million extra for councils in addition to previously announced funding bringing that total to £4.3 billion. (*It should be noted this sum includes social care funding not directly provided to councils.)*

- A new scheme to compensate councils for losses of income, though not in there entirety
- Allow council tax and business rates deficits to be repaid over 3 years instead of one year
- Barnett consequentials are £50 million for the Scottish Government, £30 million for the Welsh Government and £15 million for the Northern Ireland Executive.

3. New funding and income losses

Councils in England will now receive a further, unringfenced £500 million to respond to spending pressures. In addition to this to reimburse councils from lost income the Government states: -

"Where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover them for 75p in every pound lost.

Additionally, to enable them to get on the front foot and build much-needed breathing space into their budgets, the government is also bringing in changes so that they can spread their tax deficits over 3 years rather than the usual one.

Overall, in the last 6 months, government has worked closely with local authorities to understand their needs and provided more than £27 billion to help councils, businesses and communities through COVID-19.

This comprehensive support includes:

- *£3.2 billion of new funding to councils*
- *£600 million to adult social care to support providers through a new infection control fund*
- *Over £20 billion in support for businesses*
- *£500 million in council tax hardship funds to offer economic support to the most vulnerable*
- *£300 million to support track and trace*

Local Government Secretary Robert Jenrick MP said:

Councils are playing a huge part in supporting their communities during this pandemic. From supporting the most vulnerable and keeping vital services running to operating local track and trace, council workers have been at the forefront of this great national effort and are the unsung heroes of this pandemic.

Today I am providing a further package of support that takes our support for councils during this pandemic to £4.3 billion to help meet the immediate pressures councils are facing. I know that the loss of revenue from car parks and leisure centres has created huge difficulties, so I am introducing a new scheme to help cover these losses.

This government will continue to stand shoulder to shoulder with councils and communities as we recover from this pandemic as we renew our commitment to unite and level up the country.

The package also follows the Prime Minister's announcement yesterday of the fast tracking of £96 million of investment through the Towns Fund to help kick-start activity in town centres and high streets, improve outdoor spaces, build cycle lanes and more. £360 million will also be provided to redevelop brownfield sites to provide much-needed housing".

4. How will the new scheme work?

The press statement suggests that for all relevant losses, over and above the first 5% of planned income from sales, fees and charges, this will be compensated at a rate of 75p in every pound.

The Government argues, that the introduction of a 5% deductible sum, adequately takes into account an acceptable level of volatility (in income from fees and charges) whilst ensuring authorities are shielded from the worst losses. This should also encourage councils to minimise losses where they can.

In addition to this relief on income losses a further cause for concern has been the issue of deficits arising from both council tax and business rates. Therefore, as part of the proposals, Government has announced a proposal for a phased repayment of council tax and business rates deficits over 3 years, rather than requiring complete repayment of deficits next year. This is designed to limit the cashflow pressures reported by many authorities, including those facing S.114 notices.

5. Future Actions

The Government has promised further details about these new allocations of the funding, which will be made in due course, but essentially they state that the new income loss scheme will involve a 5% deductible rate, whereby councils will pay the first 5% of all lost planned sales, fees and charges income, with the government compensating them for 75p in every pound of loss thereafter.

Following this in the next Spending Review, the government will agree an apportionment of irrecoverable council tax and business rates losses, between central and local government for 2020 to 2021.

MHCLG have also continued to state that councils facing unmanageable pressure should contact the Ministry of Housing, Communities and Local Government.

APSE comment

The issue of income loss has proven to be a gaping wound in council finances. Whilst the upfront allocations have been welcomed by councils it is widely viewed as insufficient with the £4.3 billion (which includes specific social care funding) so far provided regarded to be widely short of the £10 billion plus which the LGA suggest is the figure needed to cover the impact of COVID-19 on council budgets.

Nevertheless, the recognition that the loss of income will be at least be partially met will be welcomed. However, this appears to only consider the losses in areas like fees and charges, directly attributable to council activity.

The scheme will not – as predicated in APSE Briefings 20-33 and 20-37 – cover losses from assets and investments. There is also a big question over the impact on Leisure services. This is whereby councils face pressure to continue to fund external leisure contracts or operations, for example operating contracts run via Trust models. In these scenarios the income from the Leisure centres, which supported the operating costs contract payments, have been lost but these losses have not been incurred directly by the council; therefore this is an ongoing financial burden to the local authority as 'the client'' and it appears these losses would not be covered by this newly announced scheme. This will be an area where much further detail must be provided to councils as soon as possible. In the case of directly provided council 'in-house' leisure operations, who have lost income through fees and charges, it would appear that these losses will be covered under the new formulae of the 5% deductible sum followed by the 75p in every pound lost.

A simplistic way of looking at this would be to, for example, look at a loss of £10 million in fees and charges.

£10,000,000 loss
Less 5% deductible £500,000
£9,500,000 compensated at 75p in the £1
Expected recovery from the scheme £7,125,000
Loss in total to the council reduced from £10m to **£2,875,000**

With the 5% deductible therefore, this is less than the 75% recovery rate stated in earlier media reports.

In addition, whilst the promise to consider 'irrecoverable' losses in a future Spending Review is again a welcome step in the right direction it does not provide sufficient detail, at this stage, for financial planning, in terms of the parameters of what is considered 'irrecoverable' and the levels at which these adjustments will subsequently be made.

In conclusion, this new announcement is very much welcomed but there remains a number of financial uncertainties facing councils, which must still be addressed, to provide the financial certainty and stablility in these unprecedented times.

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