



## DEBATE PACK

Number CDP 2020/0079, 2 July 2020

# Local Government estimates debate

## Summary

On Thursday 9 July 2020, there will be a debate in the House of Commons on the Spending of the Ministry of Housing, Communities and Local Government. The subject for this debate was selected by the Backbench Business Committee following the publication of the Central Government Supply Estimates 2020-21 on 4 May 2020.

This debate comes at a time when the Government is responding to the Covid-19 pandemic, and a series of additional funding announcements have been made by Central Government to support Local Government, that have not all been included in the Main Supply Estimates.

The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

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# 1. Background

## Summary

The Ministry for Housing, Communities and Local Government (MHCLG) has the fifth largest Resource DEL (day-to-day spending) budget, and the third largest Capital DEL (investment spending) budget in government. MHCLG's Resource DEL budget is split between Housing and Communities, and, Local Government.

This debate covers England only as it is focused on the Local Government part of MHCLG's budget, which covers England alone. This is because Local Government finances are devolved to Scotland, Wales and Northern Ireland.

## 1.1 The Estimates process

The scrutiny of the Main Estimates, or Supply Estimates, is one of Parliament's longest serving functions through which Parliament considered the proposed spending plans for the Government.

### Box 1: Types of Spending

Departmental Expenditure Limit (DEL) cover net spending, which is subject to limits set in Spending Reviews, and based on the assumption that the expenditure is within the department's control:

- **Resource DEL** (day-to-day spending) covers the costs of running and purchasing goods and services; staff costs; current grants; rent; and maintenance costs. This budget also includes profit or loss on sale of assets, depreciation and some impairments.
- **Capital DEL** (investment spending) cover costs associations with the purchase, disposal and major improvement of assets, alongside capital grants and loans.

**Annually Managed Expenditure** (AME) (demand led day-to-day spending) covers the net spending where the expenditure is difficult to control and forecast. For MHCLG this is mainly the Local Share resulting from ending the 75 per cent Business Rates Retention Pilots introduced in 2019-20 under both Resource AME and under Capital AME.

## 1.2 Authorisation of the 2020-21 Main Estimates by Parliament

Estimate day debates take place on the main floor of the House of Commons before the latest Main Supply Estimates can be approved.

One of the debates has been set aside to discuss Local Government Finances.

Following the debates, the House will be invited to agree a motion on MHCLG's Main Estimate. Members may agree or reject this motion, or suggest amendment reducing expenditure. Under the 'Crown prerogative' only Government can propose spending, so amendments to increase spending are not permitted. There are further motions for other Estimates selected for debate, and a final 'roll-up motion' covering the remaining Estimates, which members may accept or reject.

To ensure that all government departments continue to have access to funds until this process is completed, they have been advanced monthly through a 'Vote on Account' which was approved by Parliament in March 2020. The departments also have access to further funds if needed from the government's Contingency Fund, with the expectation being that any monies borrowed from the Contingencies Fund is adjusted for in the Supplementary Estimates and repaid in the same financial year as it is borrowed.

Once motions have been authorities, a Supply and Appropriation bill is presented. Unlike most bills, there is no committee stage, and as with other financial legislation, the House of Lords' role is purely formal. On receiving Royal Assent, departments are able to draw upon the agreed funds set out in the Act for the purposes Parliament has authorised.

## 2. Overview of MHCLG’s Local Government 2020-21 spending

The Ministry for Housing, Communities and Local Government (MHCLG) has the fifth largest Resource DEL budget, and the third largest Capital DEL budget in government. MHCLG’s Resource DEL budget is split between Housing and Communities, and Local Government.

This debate covers England only as it is focused on the Local Government part of MHCLG’s budget, which covers England alone. This is because local government finance is devolved to Scotland, Wales and Northern Ireland.

### 2.1 MHCLG Local Government Main Estimate

Between 2010-11 and 2019-20, MHCLG’s funding for Local Government from the consolidated fund decreased by over 80 per cent in real terms. This significant decrease has been driven by a decrease in grants from central government, which has been offset to an extent by retained business rates.

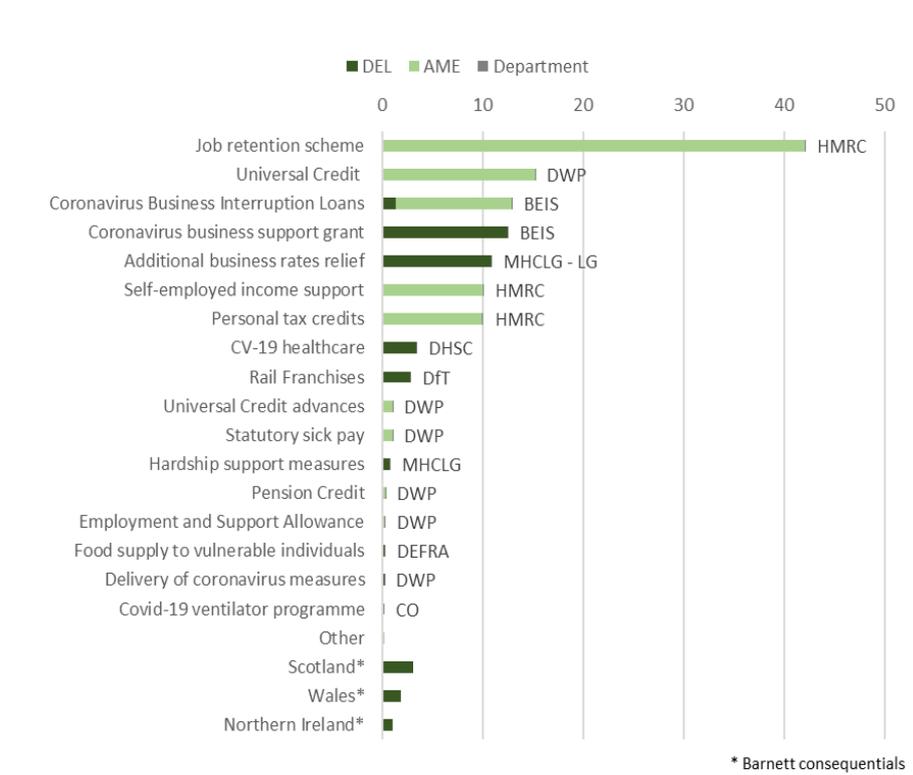
**Figure 1: Percentage change in Local Government Resource DEL (day-to-day spending) compared to 2010:**



Source: Scrutiny Unit, House of Commons

Due to the timing of Covid-19, support measures were being announced whilst the Main Estimates were being prepared and published. The announcements that were included in the Main Estimates are included in the graph below, which shows that at the time of publication, additional funding for Local Government, was one of the biggest support mechanisms to be included.

**Figure 2 Coronavirus measures and responsible department in £ billion<sup>1</sup>**



Source: Scrutiny Unit, House of Commons

In MHCLG's Local Government funding, the Local Government Resource DEL proposed for 2020-21 is £16,954.7 million, an increase of £11,768.5 million (+226.9%) compared to last year. This increase is predominantly driven by additional funding provided in response to Covid-19. The notable increases are:

- An increase of £10,805.7 million additional Business Rates reliefs announced at the Spring 2020 budget alongside the Government's response to Covid-19; and
- An increase of £959.6 million for Revenue Support Grant, as a result of the reduction in the number of Business Rates Retention pilots.

There is no Capital DEL budget for MHCLG Local Government.

<sup>1</sup> Spending measures show £129 billion included in Main Estimates (including £6 billion of Barnett consequentials for devolved spending). As of 4 June 2020, the [OBR](#) estimate coronavirus spending measures of £121 billion. As of 15 May 2020 the [NAO](#) estimate spending of £124 billion.

## 3. Local Government finances

### 3.1 Local government budgets

Local authority income can be divided into five main categories: council tax; business rates; central government grants; local fees and charges; and commercial income. Based on their estimates of the funding from each of these sources, local authorities in England must set a balanced budget for each financial year.<sup>2</sup> Their forecast expenditure must align with its income. 'Income' may include transfers from the authority's reserves, but this must be specified in the calculations. Local authorities cannot borrow to cover their annual revenue expenditure.

Each local authority's chief finance officer is also under a statutory duty to issue a formal report if s/he believes that the council is unable to set or maintain a balanced budget.<sup>3</sup> This is often known as a 'section 114 notice', after section 114 of the *Local Government Finance Act 1988*:

114 (3) The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

After a section 114 report is issued, the local authority may not incur new expenditure commitments,<sup>4</sup> and the full council must meet within 21 days to discuss the report.<sup>5</sup> There is no legal provision regarding what action they must take then. There is no procedure in law for a UK local authority to go bankrupt, and none has ever done so.

During mid-2020, numerous authorities have been reported to be considering issuing section 114 reports as a result of the financial pressures arising from Covid-19.<sup>6</sup> This does not mean that those authorities necessarily have gone or will go bankrupt: it is an early warning system that they may be unable to meet their financial commitments by the year end.

### 3.2 Background: the state of local finances

The Local Government Association has produced regular calculations of the 'funding gap' facing local authorities. The first of these reports, published in 2012, was entitled [Funding outlook for councils from 2010-11 to 2019-20: preliminary modelling](#). It estimated a £16.5 billion annual funding gap by 2019-20. A further paper in 2015 revised the projected funding gap for 2019-20 to £9.5 billion.<sup>7</sup> In a briefing published on 1 October 2018, the LGA estimated an annual funding

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<sup>2</sup> [Local Government Finance Act 1992](#) section 32 (2) (a)

<sup>3</sup> CIPFA, *Balancing local authority budgets*, 2016

<sup>4</sup> See section 115 (6) of the [Local Government Finance Act 1988](#)

<sup>5</sup> See section 115 (2-3) of the [Local Government Finance Act 1988](#)

<sup>6</sup> <https://www.lgcplus.com/finance/now-manchester-city-council-contemplates-a-s114-notice-24-06-2020/>

<sup>7</sup> LGA, [Future funding outlook for councils 2019-20: interim 2015 update](#), July 2015

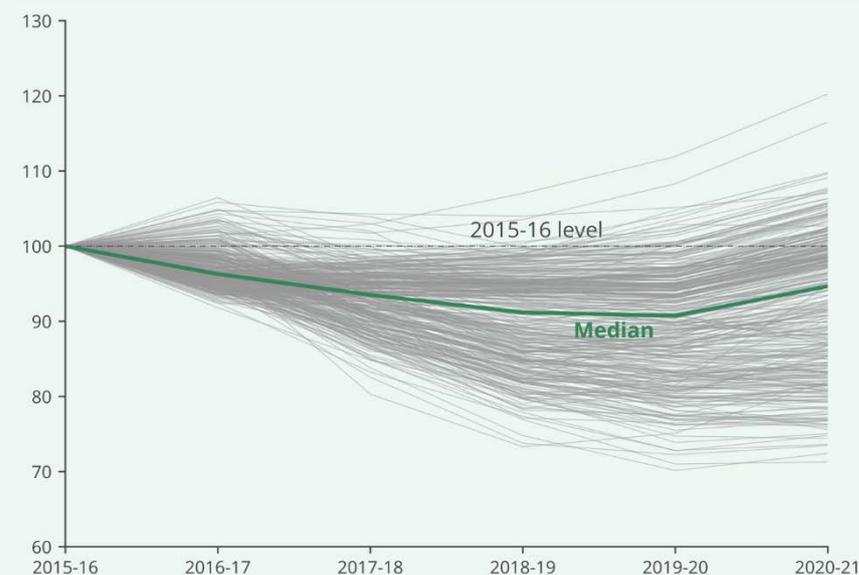
gap of £3.85 billion in 2019-20, rising to £7.81 billion by 2024-25.<sup>8</sup> These calculations take no account of the effects of Covid-19 on local government funding.

The principal cause of the 'funding gaps' is that central government grant funding for local authorities in England has fallen substantially since 2010. England-wide and regional figures outlining the change can be found in the Library briefing [Local government finances](#). Figures for individual local authorities can be found in the Library's [interactive local authority finance data pages](#).

Although 'core spending power' (an estimate of the amount of money local authorities have available for discretionary spending) has generally begun to increase, for most local authorities it remains below its level from a few years ago. Each line in the chart below shows spending power for one local authority in England, relative to its level in 2015-16 in real terms. Most authorities saw an increase in spending power in the 2020-21 settlement, but not enough to take them back above their 2015-16 level.

### Spending power in England has started to recover

Core spending power, adjusted for inflation, indexed (2015-16 level = 100)



Source: MHCLG, Local Government Finance Settlement data, multiple years

In addition, the National Audit Office's 2018 report *Financial sustainability of local authorities* stated that demand for certain services had risen during the 2010s:

From 2010-11 to 2016-17, the total population grew by 5%. There was also growth in the adult population in need of care and growth in demand relating to homelessness and children's social care ... Our 2017 study on homelessness reported on growing demand for services relating to homelessness and identified that

<sup>8</sup> LGA, [Local services face further £1.3 billion government funding cut in 2019/20](#), 1 October 2018

elements of recent welfare reforms have contributed to this trend.<sup>9</sup>

### 3.3 Covid-19: impacts on local funding

MHCLG has collected voluntarily supplied data from 339 local authorities on the impact Covid-19 has had on their finances.<sup>10</sup> Whilst not an official set of statistics, this data provides the best available insight into local government finances at the time of publication.

Based on these returns, local government has incurred £3.25 billion of additional expenditure and lost revenue by the end of May 2020 (additional expenditure of £1.25 billion and lost revenue of £1.99 billion). This can be broken down by class of local authority, as seen in the table below.

Extra local authority spending due to Covid-19, England						
£ millions, by function and class of authority, March-May 2020						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult social care	0.7	208.7	134.5	118.8	68.0	530.7
Environmental and regulatory	8.3	28.1	22.0	22.0	21.8	102.3
Finance and corporate	17.1	18.1	17.4	19.7	13.5	85.8
Children's social care	0.0	21.3	20.9	22.2	11.0	75.5
Housing	17.3	1.6	17.2	11.3	15.9	63.3
Other	35.9	74.3	95.5	92.5	92.9	391.1
<b>Total</b>	<b>79.3</b>	<b>352.1</b>	<b>307.6</b>	<b>286.5</b>	<b>223.1</b>	<b>1,248.7</b>

Note: Shading in cells reflects the breakdown of spending by function for each class of authority.

Source: MHCLG, [Local authority COVID-19 financial impact monitoring information](#), 21 June 2020

This shows that adult social care has been the biggest source of extra spending overall, although it was not the largest contributor for either shire districts (which are generally not responsible for adult social care) or London boroughs. Overall, local authorities have spent about £1.2 billion tackling Covid-19 between March and May.

The additional expenditure lines reported can be mapped directly to MHCLG's Local authority revenue expenditure and financing England: 2019 to 2020.<sup>11</sup> Using the last five years' data, we can create a reasonable proxy for the average monthly spend by local government in these expenditure areas. This allows us to see what this additional expenditure represents in percentage terms to the average spend per month.

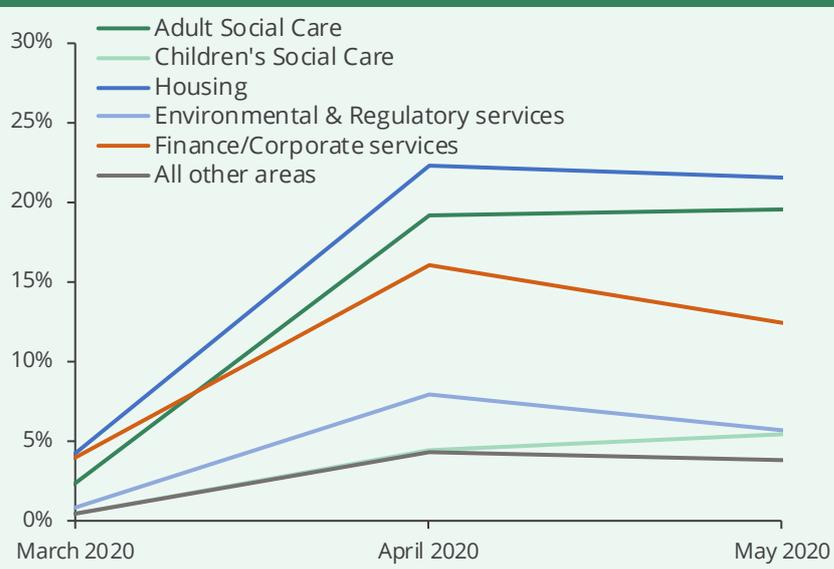
<sup>9</sup> National Audit Office, *Financial sustainability of local authorities 2018*, HC 834 2017-19, 2018, p19

<sup>10</sup> MHCLG, [Local authority COVID-19 financial impact monitoring information](#), 21 June 2020

<sup>11</sup> MHCLG, [Local authority revenue expenditure and financing England: 2019 to 2020 budget](#), 27 June 2019

## Increases in local government spending during the Covid-19 pandemic, England only

% increase relative to five-year average monthly spending



Source: MHCLG, [Local authority Covid-19 financial management information reporting data](#), 21 June 2020, and, MHCLG, [Local authority revenue expenditure and financing England: 2019 to 2020](#), 27 June 2019

This shows that housing has seen the greatest percentage increase – in May this year, local authorities were overall spending 21% more on housing than they would have in a typical month.

Local authorities have reported a loss in income of £2 billion between March and May. The financial impact of lost income, for local government, is £0.7 billion greater than the extra spending costs.

### Local authority income losses due to Covid-19, England

£ millions, by income type and class of authority, March-May 2020

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	134.2	0.0	101.4	49.1	185.9	470.6
Council tax	180.7	0.0	131.5	88.1	106.9	507.2
Sales fees and charges	166.0	69.1	198.2	125.9	172.1	731.3
Commercial income	38.2	22.1	43.0	69.5	25.9	198.7
Other	14.9	20.5	16.4	14.5	13.2	79.4
<b>Total</b>	<b>533.9</b>	<b>111.8</b>	<b>490.5</b>	<b>347.1</b>	<b>503.9</b>	<b>1,987.2</b>

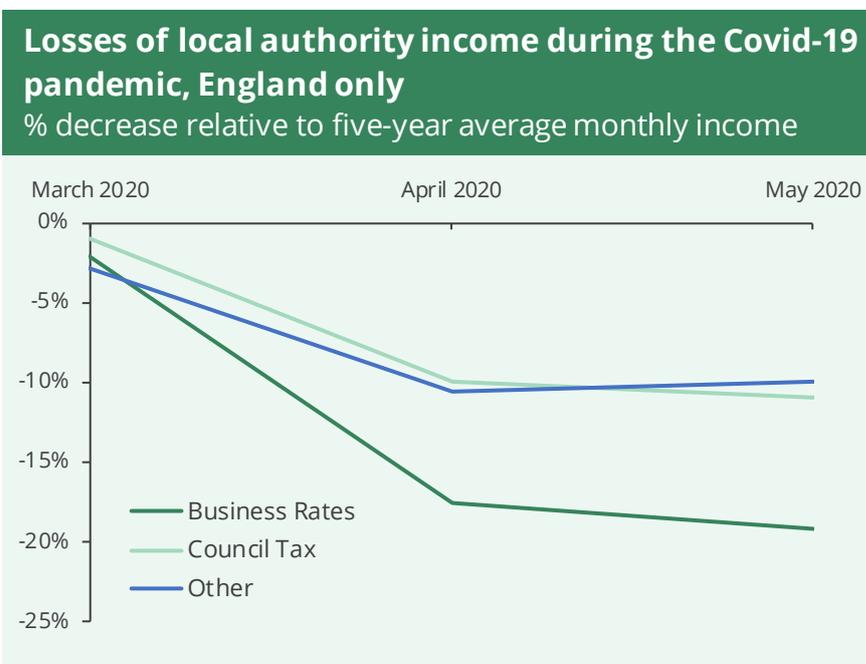
Note: Shading in cells reflects the breakdown of spending by function for each class of authority.

Source: MHCLG, [Local authority COVID-19 financial impact monitoring information](#), 21 June 2020

Sales, fees and charges is the largest area of lost income, contributing over one-third of the £2 billion lost in England. Business rates and council tax each contribute around one-quarter of the total lost income. The Local Government Association project income losses of more than £5.5 billion across the entire financial year.<sup>12</sup>

<sup>12</sup> Local Government Association. [MHCLG May financial information survey – breakdown of results](#), 5 June 2020

Only two of the lost income lines reported can be mapped directly to MHCLG's Local authority revenue expenditure and financing England: 2019 to 2020.<sup>13</sup> Using the last five years' data, we created a reasonable proxy for the average monthly income by Local Government for business rates and council tax. This allows us to see what this loss of income represents in percentage terms, relative to the average month.



Source: MHCLG, [Local authority Covid-19 financial management information reporting data](#), 21 June 2020, and, MHCLG, [Local authority revenue expenditure and financing England: 2019 to 2020](#), 27 June 2019

Authorities are reliant on these income sources to different extents. The Institute for Fiscal Studies (IFS) reports that:<sup>14</sup>

- shire districts are particularly reliant on business rates revenues and income from sales, fees and charges. However, falls in business rates revenues only affect budgets in 2021/22 when forecasts for 2020/21 are reconciled with the actual amounts collected;
- shire counties are particularly reliant on council tax revenues, but they won't feel the effect of falls in this year's council tax revenues until 2021/22. This is a result of the way that the council tax system operates in shire areas;
- shire districts collect council tax and business rates on behalf of shire counties. Falls in these taxes might present cash flow problems to shire districts;
- there is variation within types of authority. Even neighbouring authorities, with similar characteristics, may rely on these sources for very different amounts

<sup>13</sup> MHCLG, [Local authority revenue expenditure and financing England: 2019 to 2020 budget](#), 27 June 2019

<sup>14</sup> IFS, [The financial risk and resilience of English local authorities in the coronavirus crisis](#), June 2020

Local authorities have reserves that they can use to help manage budgetary pressures. The IFS report that across all authorities' reserves are equivalent to around 36% of budgets. This includes reserves that are earmarked for specific projects and to cover known liabilities. There is significant variation in reserve levels within groups of local authorities.<sup>15</sup>

The IFS have published a [spreadsheet dashboard](#) that collates for each local authority in England a series of indicators of coronavirus-related risks. It looks at the extent to which these risks vary and the degree to which they are correlated, focusing on local authorities' revenues and financial resilience.<sup>16</sup>

### 3.4 Support from Government

The Ministry of Housing, Communities and Local Government (MHCLG) has made a number of financial commitments to assist local authorities' cashflow, and supplement their funding during the pandemic. To date, these include:

- 11 March 2020:** A £500 million 'hardship fund' for residents struggling to pay council tax bills. This funding is to be allocated to residents currently benefiting from local council tax support schemes. [Government guidance was published](#) on 24 March, and [additional guidance](#) on 16 April.
- 19 March 2020:** £1.6 billion additional funding [made available to local authorities](#). £1.4 billion of this funding was allocated via the adult social care needs formula. The remaining £200 million was allocated in line with each councils' Settlement Funding Assessment. [The Institute for Fiscal Studies has argued](#) that the impact of the virus on different councils, "may not reflect historical differences in social care spending needs." As a result, the formulas used to allocate funding are "out of date."
- 25 March 2020:** £1.8 billion grants [paid to local authorities in advance](#). This followed the Chancellor's announcement of widespread exemption from business rates for 2020-21. Normally, business rates relief would be applied first, and local authorities would seek reimbursement after it had been applied.
- 1 April 2020:** £12 billion funding for business rates grants transferred to local authorities. These funds will be distributed under the Business Rates Grants schemes (see [Coronavirus: support for businesses](#)).
- 16 April 2020:** Councils will be allowed to defer £2.6bn in business rates payments to central government from April to June 2020. This is in respect of the 'central share' of business rates.
- 16 April 2020:** £850m in central government social care grants for both children and adults, from April to June 2020. This was [paid up front in April](#).

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<sup>15</sup> IFS. [The financial risk and resilience of English local authorities in the coronavirus crisis](#), June 2020, [pages 24-31](#)

<sup>16</sup> IFS. [The financial risk and resilience of English local authorities in the coronavirus crisis](#), June 2020

- 18 April 2020:** [A second £1.6 billion of additional funding](#) for local government. This is to be [distributed on a different basis](#) from the funding announced on 19 March, with district councils receiving a considerably larger share of the 18 April funds.
- 2 May 2020:** [a further discretionary fund of £617 million](#) to be made available for grants to businesses that do not qualify for the Small Business Grant scheme and the retail grant scheme.
- 15 May 2020:** £600 million made available to local authorities to support social care provision. 75% of the funding to be passed on direct to care homes, with the other 25% to “be used for infection control measures [which] ... local authorities are able to allocate based on need”.<sup>17</sup>
- 24 May 2020:** £160 million of funding to tackle homelessness brought forward from 2021-22. A further £105 million was made available on **24 June 2020** (see section 3.6 below).
- 24 May 2020:** £50 million made available to councils via the [Reopening High Streets Safely Fund](#). This funding was to cover planning and communications to assist the reopening of high street businesses, together with temporary changes to the public realm. This fund may not be used to provide grants to businesses or for capital spending. Grant funding agreements will be instituted between local authorities and the Government.
- 11 June 2020:** A [‘local welfare assistance fund’](#) of £63 million made available to councils to “support people struggling to secure food and other essentials”. This funding will be made available to upper-tier authorities.<sup>18</sup>
- 11 June 2020:** A £300 million fund announced for local authorities to support [the Government’s test and trace service](#). 11 authorities will lead on sharing best practice.
- 2 July 2020:** an additional £500 million in general funding, plus a commitment to local authorities to reimburse 75% of lost sales, fees and charges income, above the first 5% lost. The Government’s press release also says that further account will be taken of lost council tax and business rates income in the Spending Review; and that councils will be able to repay deficits arising from those sources over three years instead of one.

The two amounts of £1.6 billion, announced on 19 March and 18 April, constitute additional funding: so do the amounts made available from 15 May to 11 June inclusive. The other amounts in the list above represent **existing funding made available on an earlier timescale**.

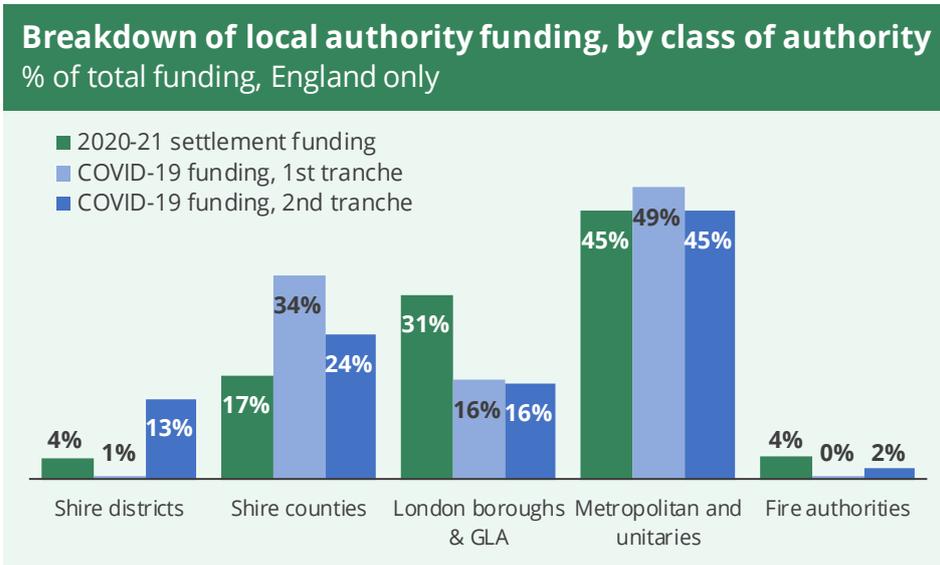
Funds have been distributed between local authorities in a different way to that at the usual finance settlements. For example, the two tranches of £1.6 billion were divided up among the different classes of authority

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<sup>17</sup> DHSC, [Care home support package backed by £600 million to help reduce coronavirus infections](#), 15 May 2020

<sup>18</sup> Sarah Calkin, [“Districts hit out at decision to hand food poverty cash to counties”](#), *Local Government Chronicle*, 7 Jul 2020

as follows (with the proportion that each class received at the most recent Local Government Finance Settlement included for comparison).



Source: MHCLG, [Local Government Finance Settlement 2020-21](#) and [COVID-19: emergency funding for local government](#), 28 April 2020

This shows that shire districts and shire counties have received proportionally more funding than they did in the most recent settlement, while London boroughs and the Greater London Authority have received proportionally less.

The sector has stated that further support from the Government will be necessary before the end of the financial year in order to avoid large-scale reductions in services, and/or the issue of multiple section 114 notices:

Councils have said they need a further £3.2bn in funding to support them through the crisis, on top of the £3.2bn they have received so far, but the IFS warns it will be difficult to target funding effectively.

IFS associate director, David Phillips, said: 'Big differences in financial risk and significant variation in the reserves councils hold mean the Government should also consider temporarily relaxing the rules that prevent councils from borrowing to cover day-to-day spending.

'If it does not, difficulty in targeting funding means it will either have to provide more funding to the sector as a whole than is necessary or step in to provide specific support for councils that are particularly struggling.'<sup>19</sup>

### 3.5 Fair Funding Review

The current debates on local government finance are taking place in a wider context. The Government's 2016 consultation [Business rates reform: call for evidence on needs and redistribution](#) launched the 'Fair

<sup>19</sup> Heather Jameson, "Whitehall must relax finance rules says IFS", *Municipal Journal*, 25 Jun 2020, p7

Funding Review'. This is a review of the underlying allocations of funding to each local authority in England.

A [response to this consultation](#) was published on 19 December 2017. A further consultation (see section 3.2) was launched at the same time. A [third consultation was published](#) in December 2018 (see section 3.3).

The Government currently intends to implement the Fair Funding Review as of 1 April 2022, for the 2022-23 financial year. This has twice been postponed by a year. The local authority budgeting process would require the shape of the Review to be clear by autumn 2021.

The outcomes of the Fair Funding Review are to be implemented alongside the introduction of 75% business rate retention. Implementation of the Review will include a 'reset' of the Business Rate Retention Scheme. Ongoing discussions around how local authority needs will be assessed within the Review have been the subject of some controversy (see the Library briefing [Reviewing and reforming local government finance](#) for more information).

### 3.6 Homelessness funding

On 17 March 2020 the Government [announced](#) **£3.2 million in emergency funding** for local authorities to provide accommodation and services to enable rough sleepers, and those at risk of rough sleeping, to self-isolate during the Covid-19 outbreak. By May 2020 a total of 14,610 people in England who were sleeping rough or at risk of sleeping rough had been provided with emergency accommodation.

The Government has established a **specialist taskforce**, headed by Dame Louise Casey, to work with local authorities, charities, faith groups and other partners on plans to ensure the rough sleepers accommodated during the coronavirus emergency can receive the physical and mental health support they need and are able move into long-term accommodation once the immediate crisis is over - ensuring as few people as possible return to life on the streets. The Government has provided additional funding to enable this:

- The March 2020 budget had allocated £381 million over four years for rough sleeping services (comprised of £237 million for accommodation for up to 6,000 rough sleepers and £144 million for associated support services). On 24 May 2020, the Government [announced](#) that this funding would be increased to £433m, **with £160 million brought forward to 2020/21 to enable 3,300 new housing units to be delivered in the next 12 months**. (Of the £160 million, £130 million is capital funding for the acquisition or renovation of homes and £30 million is revenue funding for tenancy-sustainment support). Homes England will work with the housing sector and local authorities to fast-track delivery of these units.
- On 24 June 2020 the Government [announced](#) **a further £105 million for local authorities in England in 2020/21** to enable them to support and accommodate the approximately 15,000 vulnerable people accommodated during the pandemic. The

funding is intended to help individuals secure their own tenancies as well as provide interim accommodation pending the delivery of longer-term accommodation.

- The Government has also made £23 million available in this financial year to tackle the substance dependence treatment needs of rough sleepers.

Section 5 of the Commons Library briefing paper [Coronavirus: A ban on evictions and help for rough sleepers](#) (June 2020) provides further information.

## 4. Press Articles

[Local governments deserve national help: Stretched regional and city authorities have borne the brunt of the crisis](#)

Financial Times, 29 June 2020

[Councils set to make sweeping cuts to local services to fill £6bn Covid hole: Chancellor urged to step in as local authorities face hit from pandemic and risky commercial investments](#)

Tom Rees

Sunday Telegraph, 27 June 2020

[Coronavirus: UK councils fear bankruptcy amid Covid-19 costs](#)

BBC, 25 June 2020

[Liverpool asks for government help to avoid 1980s recession rerun: City's business and political leaders develop coronavirus recovery plan that aims to create 38,000 jobs](#)

Andy Bounds

Financial Times, 25 June 2020

[Councils call for Government to provide more cash as they risk going bankrupt: Five councils said emergency spending controls, named section 114 notices, could be needed due to the impact of coronavirus](#)

Jessica Carpani

Daily Telegraph, 25 June 2020

[London's City Hall faces making £500m in cuts if government fails to support local authorities, Sadiq Khan warns: Mayor of London urges ministers to avoid 'a new era of austerity'](#)

Lizzy Buchan

The Independent, 24 June 2020

[Local councils face a Covid-19 cash crisis – and it's about to get ugly: The Local Government Association says £6bn is needed just to keep the show on the road as its members prepare emergency budgets after years of neglect](#)

James Moore

The Independent, 24 June 2020

[Eight out of 10 English councils at risk of bankruptcy, says study: 131 upper-tier councils face fresh round of service cuts or going bust, thinktank finds](#)

Patrick Butler

The Guardian, 23 June 2020

[Comptroller urges long-term solution to councils' 'serious' financial plight](#)

Nick Golding

Local Government Chronicle, 23 June 2020

[Tory councils warn coronavirus second wave could bankrupt local authorities: Report says more government help needed to avoid cuts to local services in England](#)

Patrick Butler

The Guardian, 17 June 2020

[Covid-19 crisis means England's local authorities could go bust, warn mayors: Councils say they need financial help now from government to avoid devastating hardship](#)

Kate Proctor

The Guardian, 11 June 2020

[Councils face bankruptcy as they try to prepare for a second wave of Covid-19: Austerity and the government's broken pledge on coronavirus funding has put localities – including Tory England – on the brink of collapse](#)

Anoosh Chakelian

New Statesman, 10 June 2020

[Councils threaten bankruptcy as coronavirus crisis tears £10bn hole in finances](#)

Caroline Wheeler, Rosamund Urwin, Shingi Mararike and Tom Calver

The Sunday Times, 17 May 2020

[Councils' outgoings are rocketing and revenues collapsing: The crisis is hitting councils every which way](#)

The Economist, 2 May 2020

[Does Covid-19 spell the end of austerity for UK councils? After ten years of cuts, the pandemic may usher in a new settlement for local government](#)

Jonny Ball

New Statesman, 10 April 2020

## 5. Parliamentary material

### 5.1 Written questions

[Ministry of Housing, Communities and Local Government: Local Government Finance: 63482](#)

**Asked by: Layla Moran (Oxford West and Abingdon)**

**Asked on: 23 June 2020**

To ask the Secretary of State for Housing, Communities and Local Government, what estimate he has made of the number of local authorities who have discussed Section 114 orders with a Minister in his Department in each of the last five years.

**Answered by: Mr Simon Clarke**

**Answered on: 30 June 2020**

In the past five years, two section 114 notices have been issued, both by Northamptonshire County Council in 2018. This is a measure that councils can use, under the Local Government Finance Act, to impose immediate spending controls on the authority. The notices were issued at the same time as Ministers and officials from MHCLG were involved in a range of discussions with Northamptonshire County Council in relation to the intervention made by the Secretary of State in 2018 using powers in the Local Government Act 1999.

The Department recognises the additional costs and pressures on finances councils are facing as a result of the current COVID-19 crisis. We continue to engage regularly with the local government sector, which includes our ongoing financial monitoring survey and direct contact with councils and their representatives, local leaders and Chief Executives.

Throughout the pandemic, the Department has encouraged any local authorities with concerns about unmanageable financial pressures to approach MHCLG in the first instance. We have worked closely with CIPFA who have temporarily amended their guidance on the use of section 114 notices to further encourage local authorities to make contact with the Department to advise of any immediate financial concerns. The Department is working on a comprehensive plan to ensure councils' financial sustainability over the financial year ahead.

[Ministry of Housing, Communities and Local Government Local Government Finance: Coronavirus: 62394](#)

**Asked by: Alec Shelbrooke (Elmet and Rothwell)**

**Asked on: 22 June 2020**

To ask the Secretary of State for Housing, Communities and Local Government, whether local authorities will receive grant funding for additional covid-19 related spending required by central Government;

and if he will issue guidance to local authorities that normal democratic scrutiny including full council meetings must resume before (a) consideration of emergency budgets and (b) the issue of statutory notices.

**Answered by: Mr Simon Clarke**

**Answered on: 30 June 2020**

We have made £3.2 billion available to local authorities through an unringfenced grant so they can address pressures they are facing in response to the COVID-19 pandemic. In total, the Government has committed over £27 billion to local areas to support councils and their communities. I am working closely with colleagues across government on a comprehensive plan to ensure councils' financial sustainability over the financial year ahead and will continue to keep the House informed as these plans develop.

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 enable all local authority meetings to be held remotely and do not preclude physical meetings or a hybrid form of meeting where these can be held in accordance with public health regulations and guidance. It is for each local authority to determine what is appropriate in their specific circumstances. In giving councils this flexibility, they are expected to hold these meetings in a manner that ensures the decision-making process remains accessible to their residents.

**[Ministry of Housing, Communities and Local Government: Local Government Finance: Coronavirus: 57959](#)**

**Asked by: Dr Matthew Offord (Hendon)**

**Asked on: 10 June 2020**

To ask the Secretary of State for Housing, Communities and Local Government, if he will allow local authorities greater flexibility in the use of financial receipts over future years in order to address monetary demands following the covid-19 outbreak.

**Answered by: Mr Simon Clarke**

**Answered on: 18 June 2020**

We are committed to ensuring that councils are managing as the pandemic progresses. The Government has backed councils with £3.2 billion of extra funding, as part of a wider £27 billion support package for communities, to ensure they can meet the unique pressures that the COVID-19 pandemic has placed upon them, both in terms of expenditure pressures and their income.

In addition, we have also taken a number of measures to support immediate cash flow concerns, namely deferring £2.6 billion in local authority payments of the Central Share of retained business rates and making an upfront payment of £850 million in social care grants.

Central Share payments due to government in April, May and June will instead be spread over the second half of the year. The restrictions on the use of capital resources ensure that such resources are available for long-term investment.

**[Ministry of Housing, Communities and Local Government: Local Government Finance: HL5112](#)**

**Asked by: Lord Storey**

**Asked on: 02 June 2020**

To ask Her Majesty's Government what are the consequences when auditors fail to sign off a district council's annual budget.

**Answered by: Lord Greenhalgh**

**Answered on: 16 June 2020**

A council's annual budget is signed off by a meeting of the full council as presented by its chief finance or Section 151 Officer. An auditor does not generally have a role to play in this process. However, the auditor issues an opinion on ie 'signs off' a council's year-end financial statements. This opinion may be unmodified or, where an auditor has identified significant issues, they may give a modified opinion. Auditors also have powers to issue an advisory notice or a public interest report. Local authorities are accountable to their electorate.

It is a legal requirement for a council's accounts to be signed off by the external auditor, however as the auditor must be satisfied with the accounts before doing so, there is not a specific timescale within which they must give their opinion or other specific consequences of a failure to sign off the accounts. Recently there has been a significant increase in the number of council accounts that remain outstanding. As at 31 May 2020, the 2018/19 accounts of 57 councils had not been signed off.

To help address the audit delay issue, we commissioned the independent Redmond review to review arrangements supporting the transparency and quality of local authority financial reporting and external audit within the Local Audit and Accountability Act 2014. The Review is due to report later this year. We also recognise the pressures councils - and auditors - are under in the context of Covid-19 and have therefore extended the deadlines for them to publish their draft and final accounts in 2019/20 to 1 September and 30 November 2020 respectively.

**[Ministry of Housing, Communities and Local Government: Local Government Finance: HL5020](#)**

**Asked by: Lord Kennedy of Southwark**

**Asked on: 02 June 2020**

To ask Her Majesty's Government what representations they have received from the Local Government Association about the financial situation of local authorities in England and Wales.

**Answered by: Lord Greenhalgh**

**Answered on: 16 June 2020**

The Department regularly meets with council Leaders, Chief Executives of English councils and their representatives, including the Local Government Association, to ensure we have a collective understanding of the issues arising from the Covid-19 outbreak. Local government is a devolved matter, and therefore MHCLG do not engage directly with Welsh councils.

We have now made £3.2 billion available to local authorities in England through an un-ringfenced grant so they can address pressures they are facing in response to the pandemic. The package recognises the additional costs and pressures on finances councils as a result of the current crisis. It demonstrates the Government's commitment to making sure councils, including upper and lower tier authorities, have the resources they need to support their communities through this challenging time.

In total, the Government has committed over £27 billion to local areas to support English councils and their communities. This also includes: £300 million to support the new test and trace service, £600 million to support providers through a new Infection Control Fund and £12.3 billion of support through the Small Business Grants Fund and the Retail, Hospitality & Leisure Grants.

We will continue to work with local government and their representatives to ensure they are managing as the pandemic progresses.

**[Ministry of Housing, Communities and Local Government: Local Government Finance: Coronavirus: 48516](#)**

**Asked by: Karin Smyth (Bristol South)**

**Asked on: 18 May 2020**

To ask the Secretary of State for Housing, Communities and Local Government, what assessment he has made of the implications for his policies of the estimate by the Local Government Association that the cost to local authorities of tackling the covid-19 outbreak is £13 billion; and whether he has plans to allocate additional funding from the public purse to local authorities to meet that cost.

**Answered by: Mr Simon Clarke**

**Answered on: 02 June 2020**

MHCLG continues to work closely with local authorities to manage the impacts of Covid-19 on our society.

The Government has made £3.2 billion available to local authorities in England through unringfenced grant so they can address pressures they are facing in response to the Covid-19 pandemic. We have also announced measures worth over £5 billion to ease immediate cashflow concerns. These measures recognise the additional costs and financial pressures councils are facing as a result of the current crisis. They demonstrate the Government's commitment to making sure all councils have the resources they need to support their communities through this challenging time.

These measures are part of a comprehensive package of support for local areas from across Government, including £13 billion to support small businesses, £10.2 billion in business rates support for businesses, £600 million for infection control in care homes and £500 million of council tax support for vulnerable families.

Estimates of full-year costs are necessarily unreliable at this stage since the progress of the pandemic is unknown. We will continue to work with councils over the coming weeks, including through new monthly financial monitoring, to ensure we have a collective understanding of the issues they are facing.

**[Ministry of Housing, Communities and Local Government: Local Government Finance: Coronavirus: 43837](#)****Asked by: Sir George Howarth (Knowsley)****Asked on: 06 May 2020**

To ask the Secretary of State for Housing, Communities and Local Government, what methodology was used to determine the distribution of the second round of emergency funding to local authorities in response to the covid-19 outbreak; what consultation the Government undertook with organisations and individual stakeholders in determining that methodology; and if he will publish the advice received on that methodology from local government organisations.

**Answered by: Mr Simon Clarke****Answered on: 15 May 2020**

On 18 March, Government announced a first wave of £1.6 billion of funding to respond to covid-19 impacts on local councils.

On 28 April, the Local Government Secretary announced allocations of an additional £1.6 billion to individual local authorities. Whereas the first funding allocation was primarily allocated to local authorities through the Adult Social Care Relative Needs Formula, in recognition that the greatest immediate pressures would fall on local authorities with social care responsibilities, this second wave of funding was allocated on a per capita basis. This reflects our latest understanding of

the distribution of additional covid-related pressures, which are likely to be distributed in a way that is different from pre-existing needs. The 65:35 split in this per capita allocation between counties and districts in two-tier shire areas provides more funding to district councils than the first wave of funding, whilst providing significant support to social care authorities.

It is important that these two waves of funding are seen together and that false comparisons between the two are avoided. Across both waves, almost 70 per cent of district councils will receive £1 million or more in support, whilst more than 90 per cent of the funding will go to social care authorities.

We intend to publish a summary of the results of the financial monitoring in due course.

## 5.2 Oral questions

### [Covid-19: Local Government Finance](#)

HL Deb 29 June 2020, c 474-76

### [Local Authority Funding: Covid-19](#)

HC Deb 15 June 2020, c 510-511

### [Covid-19: Local Authorities and Devolved Administrations](#)

HC Deb 18 May 2020 c 363-64

### [Covid-19: Local Authority Revenue](#)

HC Deb 28 April 2020 c 207-08

## 5.3 Written Statements

### [Local Government Finance update: Ministry of Housing, Communities and Local Government: HCWS220](#)

**Made on: 29 April 2020**

**Made by: Robert Jenrick (Secretary of State for Ministry of Housing, Communities and Local Government)**

I wish to set out to the House the financial support my department has provided to local government so that it can fulfil its essential role in the national response to covid-19.

#### **Additional Funding**

In total I have announced over £3.2 billion of additional funding for councils to support their continued efforts to address the impacts of the

coronavirus pandemic in their communities, both through increased expenditure and those budgetary pressures that arise from falls in income during the lockdown period.

Recognising that councils are best placed to decide how to meet pressures in their local area, this funding has not been ringfenced; however, we expect councils to prioritise spending in those areas where we asked them to carry out extra work and new tasks, in particular, in relation to adult social care, children's services, public health services, shielding the vulnerable, homelessness and rough sleeping, supporting the NHS, and managing excess deaths.

An initial £1.6 billion of funding was announced on 19 March, and allocated based on a mixture of the Adult Social Care Relative Needs Formula; and the 2013-14 Settlement Funding Assessment, which is a measure of general service needs – both of which are familiar formulations to local councils. Further details of this allocation, broken down by individual local authority, can be found on the government website.

On 18 April I announced a further £1.6 billion to support councils in their continued response to the pandemic. Full details of the allocation of this further funding were announced on 28 April 2020 and have, once again, been made available on the Government website. These additional allocations have been made on a per capita basis, using the latest ONS population projections. This reflects that this is a national emergency and there are a range of pressures across local government. For two-tier areas, the split of this funding between county and district authorities will be 65:35. This provides significantly more funding to district councils than the first round of allocations reflecting the impact that a reduction in incomes from sales, fees and charges has had, particularly on these councils. However, this formulation also continues to reflect the acute pressures on social care.

Of the additional funding, £28.5 million will support standalone fire and rescue authorities (including Greater Manchester Fire). In addition, the Home Office will launch a £6 million Fire Covid-19 Contingency Fund specifically to support fire and rescue authorities who incur significant costs as a result of additional duties during the covid-19 outbreak.

### **Cashflow Support**

On 16 April, I announced measures to provide cashflow support to authorities. These were intended in part to mitigate the impact of temporary delays in tax payments. These measures include deferring the payment of the central government share of business rates by councils: payments collectively worth £2.6 billion; and, bringing forward central government payments of social care grants worth £850 million, so that they are paid entirely in April rather than in April, May, and June.

### **Future Reform**

I am committed to reforming the funding framework for local government so that it is simpler, more up to date, and more transparent. However, in order to ensure that we get these reforms

right, both the Government and councils need to work together to arrive at the right approach. Neither we nor councils currently have the capacity, nor the necessary degree of financial certainty, to engage properly with these reforms now. As such, I have announced that we will be suspending implementation of the Review of Relative Needs and Resources and the planned increase to 75% business rates retention in 2021-22. These decisions will allow councils to focus on meeting the immediate public health challenge posed by the pandemic.

The Government will work closely with local councils as it determines how best to treat accumulated business rates growth and the local government finance settlement in 2021-22.

This statement has also been made in the House of Lords: [HLWS216](#)

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