



# LOCAL GOVERNMENT SECTOR UPDATE

JANUARY 2023

*Presented to the Audit, Governance and Standards Committee on 6 February 2023*

## SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

## FINANCE

### **Croydon set to withdraw rental property investment**

Concerns over higher borrowing cost, have prompted the London borough to propose the withdrawal of £30m invested into a social housing property fund.

In 2013, the authority invested £29.4m in a property fund managed by social investment firm Resonance that provided an investment return and properties to house 146 tenants in the borough.

The fund matures next month, and the authority is expected to receive £36m from the investment - a 22.4% return, a [council report](#) said.

The report, going to a cabinet meeting this week, said the council could reinvest the money into a new fund homelessness fund managed by Resonance, which would give the authority a further 96 homes to house social tenants. However, the council has proposed fully divesting from the fund, and using the proceeds to help reduce the £1.3bn of external debt, and safeguard against higher interest rates. "Due to recent rises in the Bank of England base rate, the cost of borrowing for council has increased substantially and Croydon has a need to refinance a large proportion of its debt," the report said.

<https://www.publicfinance.co.uk/news/2023/01/croydon-set-withdraw-rental-property-investment>

### **Shrinking commercial income threaten council's budget**

The reliance on falling commercial income to fill funding gaps at Woking Borough Council has placed the authority's finances at an "immediate risk", according to an internal report.

Income from the council's off-street parking and commercial estate has been used to help balance budgets in recent years. However, changes to consumer spending habits post Covid-19 have seen income drop resulting in the financial position now "becoming an immediate problem", a [council report](#) said.

The report, discussed by the council's executive on Thursday, said the economic downturn has meant that borrowing for investments made by subsidiary Thamesway and on Victoria Square regeneration, now exceed expected values. The council said it is reviewing the level of minimum revenue provision set aside for existing debt, but warned that any additional funding for debt servicing would restrict finances further. "There is a significant and substantial risk that a more prudent assessment of MRP provision should be adopted," the report said. "At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

<https://www.publicfinance.co.uk/news/2023/01/shrinking-commercial-income-threaten-councils-budget>

### **Ministers defend £2.1bn Levelling up allocations**

Senior ministers have defended the allocation of regeneration funds, amid concerns that projects in the southeast and London received preferential treatment. The Department for Levelling up,

Housing and Communities announced on Wednesday that 111 bids from the Levelling up Fund were successful, totalling £2.1bn.

While the North West of England and Wales received a large share of funding at £354m and £208m respectively, the West Midlands, Yorkshire and Humber and North East received less than £350m combined. Politicians and the local government sector criticised the funding earmarked for the East, South East and London, which received a combined £527m. Shadow levelling up secretary Lisa Nandy said the fund was “akin to the Hunger Games” pitting communities and councils against each other for money. She said on Twitter: “Many communities have lost out today. “And there is a cost to this competition. “Hard-pressed councils have to spend precious time and money submitting applications, many of which are rejected.

<https://www.publicfinance.co.uk/news/2023/01/ministers-defend-ps21bn-levelling-allocations>

### **Auditors warn over borough's financial sustainability**

If Hastings Borough Council cannot meet its savings targets it risks running out of reserves in three years, its external auditors have warned. An interim Grant Thornton report on the authority's 2020-21 accounts outlined two key recommendations for the authority's financial stability and the depth of internal audit coverage.

The firm said while additional government funding allowed the council to balance its 2020-21 budget, it has failed to identify proposals to deliver savings and additional income. The council's latest medium-term financial strategy forecast reserves could shrink from £9.1m at the end of 2021-22 to £3.6m by the end of next year.

Darren Wells, local government director at Grant Thornton, said the absence of savings to plug forecast medium-term budget gaps and reliance on reserves represent an “unsustainable position for the council to continue to adopt”. He told the audit committee: “We are not saying that this is not recognised by the council, but we are acknowledging the challenging financial position the council finds itself in in the medium term. “We noted that your level of reserves are low and the section 151 officer acknowledges there is a risk of the general fund reserves falling below the minimum level that was set by him, potentially as early as 2023-24.

<https://www.publicfinance.co.uk/news/2023/01/auditors-warn-over-boroughs-financial-sustainability>

### **2022 in local government: looking back and looking forward**

Iain Murray, director of public financial management at CIPFA reviews the key pinch points for local authorities 2022, and previews the key issues facing the sector next year. Speaking to PF, Murray said this year has been dominated by inflation and the impact that rising cost has had on local authorities' budgets, combined with rising demand stemming from Covid-19. He said that while last year's Spending Review was more generous to local government than many had expected, higher-than-expected inflation has subsequently eroded much of the funding increase, constraining budgets further while many residents are also struggling with rising prices.

“There is a bit of a double whammy effect there for local authorities and the public sector in terms of seeing increased costs, but also then seeing extra demand for services, which just makes life very difficult,” Murray said. “It is doubly difficult coming off the back of the pandemic. “Just as public services are trying to get into a reset mode trying to recover from the pandemic, they are hit by another external shock.”

Local audit continues to be a concern this year, after data from Public Sector Audit Appointments showed sign-off on more than 600 local authority accounts from 2020-21 and 2021-22 is outstanding, Murray added.

<https://www.publicfinance.co.uk/news/2022/12/2022-local-government-looking-back-and-looking-forward>



### **Harpur v Brazel**

The judgement in Harpur v Brazel for part year workers created an issue for many employers who employ workers all year but only call on them to work as and when required. The Government has announced a consultation on holiday pay seeking views as to whether holiday pay calculations should revert to using the pre Harpur Brazel decision i.e., the percentage method.

[Please contact BDO for further advice](#)

### **Ministers urged to outline timetable for local audit reforms**

The government auditor has urged ministers to work with local authorities to speed up accounts publication. The Department for Levelling Up, Housing and Communities must produce a timeline to help improve the timeliness of local audit reporting, experts have said.

Since the abolition of the Audit Commission in 2015, the number of local audits completed on time has reduced from 97% in 2015-16, to 12% in 2021-22.

A National Audit Office report said the reduction is due to a lack of qualified and experienced staff in local authorities and audit firms, and the complex nature of council accounts. The watchdog said audit delays have negative implications for governance and accountability in local government, and lead to the late publication of the Whole of Government Accounts.

The NAO welcomed reforms to suspend accounting requirements to improve timeliness, but said it is key that ministers work with the sector to adopt long term reforms. "Local government audit provides transparency and accountability to both taxpayers and locally elected representatives," Gareth Davies, head of the NAO said. "It also provides assurance that local authorities' financial management is strong enough and delivering value for money. "The Department for Levelling Up, Housing and Communities must continue working with the FRC and other key stakeholders to secure the timely production of audited accounts for local authorities."

<https://www.publicfinance.co.uk/news/2023/01/ministers-urged-outline-timetable-local-audit-reforms>

## **Environment**

### **Councils need 'simplified funding landscape' for net zero**

Councils will struggle to meet their net-zero goals because the funding model is too short-term, experts have warned as some authorities begin scaling back their ambitions. Most councils in England have issued climate emergencies and developed proposals to make their operations carbon neutral, either meeting or surpassing the government's legal target of 2050.

However, these plans are resource-intensive and need upfront investment to help authorities develop projects in collaboration with local businesses and stakeholders.

Andrew Walker, head of research at think-tank the Local Government Information Unit, told *PF* the government needs to reduce the number of bidding pots that drain council resources. "We need to start moving away from the current approach, which is based around pots of funding, that is allocated in Whitehall for specific purposes, that local authority then go and administer," he said. "Firstly, it means funding is not responsive to local needs, but it is also a huge job for local authorities to bid for these pots, which takes a load of resources, and costs a lot of money. "It would be far better if we had money available across places, that is available for local authorities to work with residents, local stakeholders and businesses to spend that money effectively."

An independent review on net zero, led by former energy minister Chris Skidmore, said the conditions attached to the various funding pots restrict the sector's ability to plan for the longer term.

<https://www.publicfinance.co.uk/news/2023/01/councils-need-simplified-funding-landscape-net-zero>

## HOUSING

### **2022 in review, and key property management issues for the new year**

Property experts outline the important trends in local government this year, and what authorities must consider going into the new year. Local authorities have entered the cost-of-living crisis in a weak position due to having just experienced the shock of Covid-19 and in the context of having previously gone through a decade of austerity, experts at Avison Young have said.

James Dair, principal head of real estate finance at Avison Young, told PF rising interest rates have increased future borrowing costs and added to existing local authority finance pressures. “The situation has slightly worsened compared to the same period last year,” he said. “But the problems we are seeing at the moment have been in place for a long time. “As a result, local authorities really should not be shying away from having those difficult conversations, and making difficult decisions to deliver stability going forward.”

Kimberley Grieveson, principal of land and development at Avison Young, said councils have sought out risk audits of subsidiary companies this year, to gain a greater understanding of potential pitfalls. “A number of wider questions have been raised over wholly owned housing vehicles and regeneration companies,” she said. “Local authorities want a bit of an audit to get an understanding of why we set these vehicles up, what they are doing and what they are capable of. And in some instances, whether they are fit for purpose or whether they should be looking at options to close some of these down.

<https://www.publicfinance.co.uk/news/2022/12/2022-review-and-key-property-management-issues-new-year>