The Rt Hon Robert Jenrick MP

2 Marsham Street

London

SW1P 4DF

4th May 2020

Dear Secretary of State,

**COVID-19 Funding for Local Government**

I am writing to you as President of the Society of District Council Treasurers (SDCT) in response to your letter dated 30th April to set out the Society’s concerns over future funding for COVID related income and expenditure pressures, and the impact on the financial sustainability of district councils. SDCT represents the 188 district council finance functions in England.

Whilst we welcome the COVID response funding to date of £3.2bn, and particularly the allocation mechanism for the second tranche which more fairly recognised the pressures faced by districts, the overall quantum of funding is still insufficient to meet all of the income reductions and increased expenditure caused by the current COVID19 situation. The LGA’s analysis shows that funding required is likely to be 3-4 times more than what has been provided so far. There are also additional demands on district councils that are not being fully recognised – such as the changing expectations on how we should accommodate rough sleepers and domestic abuse victims, and our future role in contact tracing.

The society has serious concerns that income pressures and their impact on district council finances are not receiving the same funding guarantee as COVID related expenditure. Your letter of 30th April states that expenditure pressures are the priority, but it must be recognised that plummeting income streams are causing the greatest impact on the financial resilience of district councils. We have stepped up to provide urgent support for the most vulnerable in our communities as well as providing support for business through the small business grants, and whilst we have prioritised our resources to enable us to provide these services, it is our income streams that are putting the most pressures on our financial position and will continue to do so for many months to come. A number of district councils have been considering issuing S114 notices due to the financial impact of COVID and limited unallocated and earmarked reserves. Councils so far have been reluctant to do this due to the service and reputational impact of doing so but this may be unavoidable in the near future.

Whilst some income reductions may be deferrals rather than absolute losses, there are services where the impact of lockdown has caused a massive reduction in income that will never be recovered – car parking income and leisure being two key ones and these may take a significant amount of time to get back to their pre-lockdown levels, if indeed they ever do. There are a number of district areas that are hit even harder by income shortfalls, such as those in areas of high tourism, and further consideration will need to be given to those outliers. We would welcome assurance that lost income which will never be recovered will be backed by government in the same way that your recent letter has given assurance over additional expenditure from the COVID response.

The long term impact on council tax and business rates collection and the take-up of Local Council Tax Support may not be evident for many months but this will continue to have an effect on both the cash flow and revenue funding of district councils beyond the current financial year. The impact of lockdown and the resultant economic impact on the housing construction industry is also likely to impact on council finances well in to 2021/22 as a result of lower housing growth. Council tax and business rate collection will need to be kept under review and consideration of how the government may look to de-risk these income sources – through a minimum income guarantee for instance - would be helpful to aid financial sustainability and avoid significant service cuts. The level of this support required could be closely monitored through the various statutory returns that councils are required to complete for both council tax and business rates.

The reference to principal authorities discussing funding with parish councils was unhelpful especially without the clarification that it was those in financial distress only, and places further pressure and expectation on district councils to spread their allocations even more thinly.

Looking ahead, we appreciate the early confirmation that the Fair Funding Review and move to 75% business rates retention will be deferred, but the question mark over the treatment of accumulated growth and the potential cliff edge we face adds to the growing uncertainty over district council finances.

In conclusion, whilst the £3.2bn of funding is welcomed and may have deferred the potential S114 notices that were being prepared, district councils need urgent clarity on the timing and scale of the next tranche of funding. This will help to prevent a raft of cuts to frontline services or ultimately financial failure of some councils, which will only distract the sector from continuing to provide the critical support to aid the COVID response alongside continuing to run our day to day services to our communities. This may also limit the ability of Councils to aid the post-COVID recovery of their areas and Councils will have a vital role to play in providing ongoing support to businesses, vulnerable residents and the regeneration of our town centres.

The financial consequences of the pandemic are especially acute for district councils. For many, the combination of higher costs and lower income is as much as 75% of their net budget, for some it will exceed 100% of their net budget.

Our key asks from this letter in summary are:

* Urgent clarity on the next round of COVID funding for local government
* Confirmation that this funding will provide the same level of assurance over income losses as expenditure pressures
* Consideration of a minimum income protection for Council Tax and Business Rates
* Clarification of funding for 2021/22 and particularly that accumulated growth will not be redistributed in the absence of a Fair Funding Review and move to 75% business rates retention.

I look forward to hearing from you and working together with MHCLG on a constructive way forward for district councils.



Simone Hines

President

Society of District Council Treasurers