

# The economic lessons learned from the COVID-19 pandemic and the measures necessary to repair the UK economy

## House of Lords

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### Key messages:

- Councils are working tirelessly to protect lives, livelihoods and the most vulnerable in our communities. They have ensured that our most important public services keep running successfully.
- The crisis has shown how vital councils are in leading the response to a national emergency. National government has rightly recognised this work and it is vital that councils continue to get further support from the Treasury and adequate funding to ensure their financial position remains viable. Without stable finances for local government, national recovery is not possible.
- Councils have shown extraordinary capability to lead their communities so far and it is important that they are in the forefront of the economic recovery work. Councils are already working with their communities and businesses on their own local recovery plans.
- The recovery will look different in different areas of the country and only a locally coordinated response will be effective. The effective delivery of the next phase will depend on all agencies working in partnership at the local level and councils are best placed to convene this work.
- As society begins to reopen, councils need to be included in discussions on how best to open sectors that are currently closed. The involvement of local government in the Government's five new ministerial-led taskforces, set up to develop plans for how and when closed sectors can reopen safely, is essential.
- Councils will need flexibility in the use of a range of levers to support the economic recovery as the emergency measures are lifted. Government can support this by bringing forward:
  - Proposals and consultation for the UK Shared Prosperity Fund (UKSPF)
  - A Devolution White Paper that recognises the place leadership of councils and provides them with the powers and resources to drive recovery at the local level; and
  - Proposals to move towards aligning a range of funding streams towards a single funding pot.
- Local government will be analysing the implications of the emergency period on the public's expectations around clean air and climate change and what this might mean for the economic recovery. A range of councils have raised the need for an economic recovery from the crisis that is socially equitable and decarbonises the economy.

# Briefing

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## Further information:

### Finance

- For councils to play their full role in the economic recovery, cost pressures, the loss of income, and liquidity issues that all councils are experiencing need monitoring and addressing as they arise.
- The LGA is working with the Government to ensure that councils have the funding they need to do whatever it takes to keep supporting communities, local economies, the care sector and health service during the COVID-19 crisis. In order to provide the most robust evidence to government on the financial challenges they face, councils have been completing detailed monthly returns to the Ministry of Housing, Communities and Local Government.

LGA analysis of May's returns shows that:

- Extra COVID-19 costs and losses of income incurred by councils in March, April and May, amounted to £3.2 billion. This has been met in full by the two tranches of emergency funding provided by government to councils so far.
  - Councils could need as much as £6 billion more to cover the costs of coping with the coronavirus pandemic during this financial year. This figure will need to be kept under review. The MHCLG survey assumes things return to normal from July. If councils have used this assumption in their returns then this figure could rise.
  - Based on LGA analysis of the latest returns, almost two thirds of further funding needed would be to cover lost tax income (council tax and business rates) and non-tax income (mostly sales, fees and charges). The rest would be needed to cover extra cost pressures as a result of the pandemic.
  - The loss of business rates (£470 million) and council tax income (£506 million) combined in the past three months accounts for more than half of all income losses for councils over the same period. This highlights the impact of the virus on local economies as some businesses close or people who are struggling to pay bills as a result of loss of earnings.
- Councils need an assurance that all additional costs and losses incurred as a direct result of COVID-19 will be funded by government. Without certainty of further funding and flexibility around budget setting, many councils will have to take measures in anticipation of future funding shortfalls. This could mean in-year cuts to vital local services that are supporting communities through this crisis and the national effort to beat this deadly disease (including for services which were already under pressure such as social care, hardship and homelessness support).
  - A package of measures must be put in place to address funding pressures and provide the certainty councils need to keep responding fully to the COVID-19 emergency and help prepare for the recovery. The Government needs to work with the sector to look ahead to the impact of the crisis to the end of this year, into next and beyond as the loss of income and additional costs of the immediate crisis taper and new challenges emerge. This will include support with rising demand for some services as lockdown ends and to reshape services and invest in infrastructure, housing and communities to aid regeneration and recovery. Only this will ensure

council chief finance officers have the certainty they need to reassure them that they do not need to consider issuing section 114 reports.

## **Business support**

- Businesses and communities are rightly worried about their income and livelihoods. The Government has put in place around £100 billion in grants and reliefs to support businesses and individuals through the current crisis. Councils have been given responsibility for paying out the Small Business Grant and the Retail Hospitality and Leisure Grants. Together these amount to £12.3 billion of support to businesses. Councils received this funding on 1 April 2020 and as of 10 May 2020 have paid out £9.1 billion or 74 per cent of the funding. Public messaging by Government about the payment of these grants should seek to support councils in delivering this function.
- There are still gaps in support for individuals and some businesses including those who are newly self-employed and cannot access the self-employed income support scheme. The introduction of the discretionary grant scheme for small businesses that are not eligible for existing grants is welcome. However, we remain concerned that the size of the fund, £617 million, will be insufficient to meet demand. Support is needed for businesses that are in shared office space or in council or privately-owned business parks, where businesses are not individually rated and where business rates are rolled into rent payments. Evidence from just one council, Plymouth, shows that there are 400 of these businesses in that area, accounting for over 3000 employees. Clarity is also needed on some elements of grant guidance, particularly around state aid, where the government has sought a derogation for the schemes from the EU. This has not yet been agreed.
- A key issue for the hardship fund is sufficiency, with many councils not expecting there to be any money available for the discretionary element of the scheme once the council tax relief for vulnerable households has been funded, especially given the substantial rise in benefit claimants.
- The Job Retention Scheme has been extended to the end of July in its current form and then to the end of October 2020 with increased payments from employers. The scheme will need to be kept under review to ensure that the productive capacity and skills across a range of sectors that remain closed, including tourism, are maintained. Guidance on the use of the scheme is still inconsistent, posing difficulties to councils both as users of the scheme and as sources of information for other employers. The restrictions on furloughed employees' ability to do anything for their employer also limits the responsiveness of businesses throughout the supply chain who may not want to call people back to work during a three-week furlough period and risk losing the scheme's financial support.

## **Restart and recovery**

- The social and economic task ahead is great. Councils are ready to support their communities and businesses as we begin the process of recovery and will flex local services accordingly. This means working in partnership with national Government to collectively develop service provision to meet the needs of local communities. As we have co-designed the emergency response, we will need to co-design the 'new normal' and the support our communities will need to move towards reopening society and towards economic recovery.
- Economic recovery is broadly being considered in three phases, restart, recovery and renewal. The first is the exit from emergency measures. The Government published its strategy for exiting the lockdown measures on 11 May 2020, including the gradual reopening of schools and non-essential retail in June. Throughout there is no change

to the social distancing requirements.

- To accompany the strategy, the Government has also published a number of COVID Secure guides for workplaces, public spaces, transport and schools and childcare settings, which highlight councils' enforcement role. Councils' regulatory teams are already stretched, and councils will need to have local flexibility to prioritise their use to best meet the needs of their communities. National messaging around social distancing and carrying out vital activity needs to remain consistent so that councils can deliver effective local services in line with current resourcing pressures.
- The reopening of society and return to normal for councils requires a careful balancing of workforce resources as many staff are currently redeployed to provide the COVID response and cannot return to their original roles until it is clear which elements of COVID response are stopping. Similarly, there are some areas where additional demands (for example on tracing) are being put on a relatively small workforce of environmental health officers. This is indicative of a medium-term risk to workforce capacity in some areas.
- Councils will need flexibility in the use of a range of levers to support the economic recovery as the emergency measures are lifted. The policy levers include:
  - **Local Industrial Strategies:** recalibrated with an explicit focus on economic recovery (Local Economic Recovery Strategies) with councils as the preeminent partners in developing and implementing local responses.
  - **UK Shared Prosperity Fund (UKSPF):** Proposals for the UKSPF need to be brought forward at pace and underpin local efforts to drive economic recovery in the medium-long term. Councils and combined authorities should be responsible for the design, prioritisation, commissioning and oversight of the UKSPF, which should be allocated in line with local need and support the move towards a single pot for growth funding.
  - **State Aid:** Government should explore how the new regime could provide councils with greater flexibilities to support non-profit-making activities or local social enterprises who reinvest surplus back into the local community.
  - **English Devolution:** the proposed White Paper on English devolution should be brought forward and focused on providing a devolution baseline with a package of powers over employment and skills, planning, housing and transport made available to councils everywhere.
  - **Skills:** a multi-agency approach is required, led by combined authorities and councils. This should be based on Local Labour Market Agreements / Work Local model. Significant national investment will be needed in all training and back to work support. Local Labour Market Intelligence based careers advice and guidance will help prioritise increased levels of funding. Targeted support for specific groups vulnerable to COVID related job loss but also those low skilled / unemployed even before COVID.
  - **Inclusive recovery:** Government must place inclusiveness at the core of its recovery strategy. Councils to shape more inclusive local economies and create and maintain wealth within local areas through public sector procurement, supporting social enterprises, community asset transfers and providing more affordable transport, housing and improved connectivity.
  - **Sector Led Improvement:** the LGA will develop a support offer in relation to supporting councils on local economic recovery and we will continue to

engage with councils to ensure that this support reflects the challenges that councils face in that phase.

- **European Structural Investment Funds (ESIF):** involve councils in the review of the current project pipeline so programmes can concentrate on COVID-19 issues and be assured that their running costs will be continued to be met, as far as possible. Remaining funds should support those businesses / residents most in need within the ESIF framework.
- The Government has agreed to establish a Task Force between the LGA and MHCLG ministers to address economic recovery. The Task Force brings together economic and social partners to ensure a common purpose in driving and coordinating recovery at both a national and local level. It will be important for the Economic Recovery Task Force to influence the direction of national fiscal policy in the recovery period as well as the practical measures that can be put in place at the national, regional and local level.
- The Government is also establishing five Task Forces to support sectors that are currently closed to plan for their safe opening, covering; pubs and restaurants, non-essential retail (including salons), recreation and leisure, including tourism, culture and heritage, libraries, entertainment and sport, places of worship, and international aviation. It is critical that local government is represented on these task forces.

### **Green recovery**

- Councils will be analysing the implications of the emergency period on the public's expectations around clean air and climate change and what this might mean for the economic recovery. A range of councils have raised the need for an economic recovery from the crisis that is socially equitable and decarbonises the economy.
- Public Transport will be critical to a climate smart economic recovery. The need for social distancing and the corresponding reduction in capacity has meant that public transport is now supported entirely by public funding. However, the links between payments to bus operators and the services being provided is no longer there. It is unclear when, if ever, we can return to the models of commercial operation that we saw before the crisis hit. Currently the only viable model is for the Department for Transport to direct its funding of the sector through councils, who will be able to commission a network of services according to local circumstances. In areas with other modes like light rail it will allow bus, tram and light rail to be properly integrated with bus services. In the longer term, any future funding mechanism to support public transport should be directed through councils so that they can commission transport networks that reflect the wider social, economic and environmental aspirations of local people and businesses.