National Audit Office

Local government report
by the Comptroller and Auditor General

Local government

The impact of funding reductions on local authorities

NOVEMBER 2014

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Local government

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Report by the Comptroller and Auditor General

This report has been prepared and published under Section 7Z(A) of the National Audit Act 1983 as introduced by the Local Audit and Accountability Act 2014

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Comptroller and Auditor General
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19 November 2014

This study is the first local government report published under the Comptroller and Auditor General's new powers under the Local Audit and Accountability Act 2014. This report examines comparative patterns of change in income, spending and financial and service sustainability across local authorities since 2010-11.

Contents

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Key facts

37%

estimated real-terms reduction in government funding to local authorities 2010-11 to 2015-16

25%

estimated real-terms reduction in local authorities' income 2010-11 to 2015-16, once council tax is included

40%

largest local authority real-terms budgeted funding reduction, 2010-11 to 2015-16

80% single tier and county councils that have added to their total reserves between 2010-11 and 2013-14

46% budgeted real-terms reduction in spending on planning and development services, 2010-11 to 2014-15

7% budgeted real-terms increase in spending on children's social care services, 2010-11 to 2014-15

40% total savings between 2013-14 and 2014-15 made through reducing adult social care services

16.6% reduction in full-time equivalent posts in local authorities, excluding the total school workforce, between 2010 and 2013

56% metropolitan district and unitary councils that local auditors are concerned will not meet medium-term savings targets

Summary

1 Since 2010, the government has reduced its funding for local government in England as part of its plan to reduce the deficit. The government has also changed the nature of its funding for local authorities, to provide incentives for local growth. This has created financial opportunities for local authorities, but also increased financial risks and uncertainty.

2 Within this challenging context, local authorities must deliver a range of services. Local authorities have a statutory duty to provide certain services. These range from adult social care to collecting waste. They also provide discretionary services according to local priorities.

3 Ensuring that local authorities remain financially sustainable, in that they deliver their statutory services to a sufficient standard, is becoming more difficult. There is a robust financial framework in place that effectively prevents local authorities becoming insolvent. However, the impact on services caused by funding reductions is more difficult to discern. A lack of services affects service users and can be poor value for money. This increases costs in the long run or pushes costs on to other service providers.

4 The Department for Communities and Local Government (the Department) has overall responsibility in central government for local authorities' funding. This includes distributing the majority of funding voted by Parliament to support local authorities in delivering their core services.

Our report

5 This is the first local government report published under the Comptroller and Auditor General's new powers under the Local Audit and Accountability Act 2014. These allow the Comptroller and Auditor General to examine the economy, efficiency and effectiveness with which local authorities use their resources in discharging their functions. The purpose is to provide evaluation, commentary and advice of a general nature to local authorities.

6 This report aims to provide local authorities with detailed comparative analysis of changes in income, spending and financial and service sustainability across the sector. Our objective is to contribute to their ongoing financial planning by:

- allowing local authorities to compare their performance on key financial issues against trends in the wider sector; and
- disseminating information across the sector about the strategies and actions different local authorities have taken to tackle their financial challenges.

7 The report is comparative, allowing local authorities to assess their performance and experiences against similar types of local authorities or those that have experienced similar levels of funding reduction.

8 This report has 3 parts:

- **Part One** sets out the changes to local government income and spending since 2010-11.
- **Part Two** assesses the impact funding reductions have had on local authority service spending and provision since 2010-11.
- **Part Three** examines the financial sustainability of local authorities based mainly on a survey of local auditors.

9 This report complements our value for money report on central government's approach to local authority funding, *Financial sustainability of local authorities 2014*.[1]

10 The report draws on detailed analysis of local authority data on spending and activities, along with information from case study local authorities. A separate methodology is available for this report (www.nao.org.uk/report/impacts-funding-reductions-local-authorities/).

Key findings

Changes in income and expenditure

11 Government funding for local authorities has fallen by 28% in real terms over the 2010 spending review period. This reduction will reach 37% by 2015-16 based on illustrative data from the Department. Metropolitan districts will face the largest fall in government funding, with a 41% reduction by 2015-16. County council funding, in contrast, will have fallen by 33%. There have been differences in the timing of the reductions, with district councils' reductions having an earlier impact than in other types of authority (paragraphs 1.2 to 1.6 and Figure 2).

12 The 37% fall in government funding by 2015-16 is equal to a 25% fall in revenue spending power. The Department uses 'revenue spending power', a combination of government funding and council tax income, to assess the scale of the financial challenge facing local authorities. Including council tax income gives a fuller view of the implications of funding reductions on authorities' spending capacity than looking at changes in government funding alone (paragraphs 1.7 and 1.8).

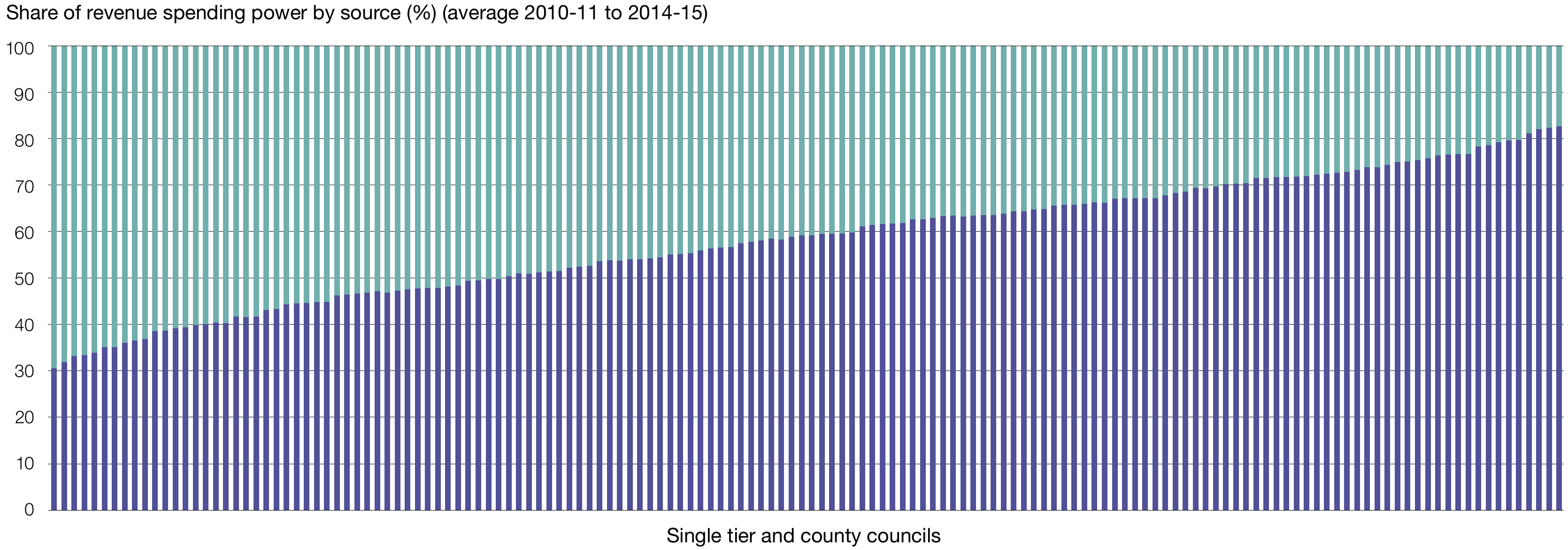
13 Reductions in spending power vary widely, with authorities that depend more on government grants seeing bigger falls in spending power. The significance of government funding to individual local authorities' spending power varies substantially (**Figure 1**). Reductions in government funding have a proportionately greater impact on the revenue spending power of authorities more dependent on government funding (paragraph 1.9 and Figure 3).

1 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014. Available at: www.nao.org.uk/report/financial-sustainability-of-local-authorities/

Figure 1

Government funding and council tax as a share of 'revenue spending power'

Authorities that are more dependent on government grants will be affected relatively more by reductions in government funding



Council tax

Central government funding

Note

1 Data are for single tier and county councils only.

Source: National Audit Office analysis of Department of Local Government and Communities data

14 **Locally-raised income has fallen and has not offset reductions in government funding.** The council tax freeze grant, along with the requirement for a local referendum to increase council tax above centrally prescribed levels, has suppressed increases in council tax. Real-terms council tax income between 2010-11 and 2013-14 fell by 3.1% for single tier and county councils and 2.3% for district councils on average. Similarly, authorities have not raised extra income from fees and charges. From 2010-11 to 2013-14, income from fees and charges fell by 0.4% in real terms for single tier and county councils, and 0.1% for district councils (paragraphs 1.13 to 1.16).

15 **Local authorities have increased their reserves significantly.** Between 2010-11 and 2013-14, 80% of single tier and county councils, and 78% of district councils, increased their reserves (earmarked and unallocated reserves combined). Reserves held by single tier and county councils have increased from the equivalent of 25% of net revenue expenditure in 2010-11 to 33% in 2013-14. District councils' reserves increased from 62% to 76% of net revenue expenditure. Our case study authorities told us they increased reserves because of uncertainty about future income (paragraphs 1.20 to 1.26 and Figure 4).

16 **Local authorities have managed reductions in government funding mainly by reducing spending.** Staffing costs have fallen more sharply than running costs. Local authorities reduced full-time equivalent posts, excluding the total school workforce, by 16.6% between 2010 and 2013. Activities that reduced local authorities' running costs, such as shared services, have been greatest in authorities with the largest reductions in government funding (paragraphs 1.27 to 1.36, Figures 5 to 8).

Impacts of funding reductions on services

17 **Local authorities have tried to protect statutory services.** Among single tier and county councils, spending on adult and children's social care has been relatively protected. Environmental and regulatory services, which include statutory duties to collect and dispose of waste, have also seen lower spending reductions than other areas. Areas with a higher proportion of spending on discretionary activities, such as planning and development, and housing, have seen much larger reductions (paragraphs 2.2 to 2.6 and Figures 9 and 10).

18 **There have been significant changes in the focus of local authorities' spending reductions over the 2010 spending review period.** Adult social care, for example, accounted for 40% of total savings between 2013-14 and 2014-15. This compared with only 15% from 2010-11 to 2011-12. Planning and development, in contrast, now contributes a far smaller component of savings. Unless spending in some service areas is to be run down completely, this pattern, where formerly protected service areas contribute more towards savings, is likely to continue (paragraphs 2.7 and 2.8, Figures 11 and 12).

19 Local authorities' spending decisions are influenced by the size of the fall in their spending power. Authorities facing larger reductions have protected adult social care, children's social care, and environmental and regulatory services less than those with smaller reductions. Aggregate figures show that local authorities have increased spending on children's social care by 7% between 2010-11 and 2014-15. However, among authorities with the greatest funding reductions, spending on this service fell by 4%. This indicates that, in some services, aggregate analysis of spending can be misleading and hide substantial differences between local authorities (paragraphs 2.9 to 2.11, Figure 13).

20 Local authorities have focused spending reductions on individual services within broader service areas. Within environmental and regulatory services, spending on community safety fell 47.1% in real terms, compared with a fall in spending of 11.7% in waste services. Within highways and transport, spending on traffic management fell by 43%. The fall in spending on street lighting was 4.1% in real terms. Analysis of spending changes at the aggregate service level means that significant changes in important sub-services risk being missed (paragraphs 2.12 and 2.13 and Figure 14).

21 There is little evidence of the extent to which local authorities have made savings through efficiencies rather than service reductions. Other than data on children's and adult social care, there are almost no data on local authority outputs and activities. Assessing how far savings have impacted on service users for most service areas, based on comparable national data, is not possible for the most part (paragraphs 2.14 and 2.15).

22 Evidence from adult social care shows that local authorities have made savings through both efficiencies and reductions in activity levels, but that savings from efficiencies may now be lessening. In the 2 years after 2010-11 there is evidence that local authorities made significant price-based savings from core elements of their adult social care services. In combination with a fall in service levels this produced large total savings. Price-based savings appear to have stopped in 2013-14, however (paragraphs 2.16 to 2.21, Figures 15 and 16).

Financial sustainability

23 Some local authorities are showing persistent signs of financial stress, particularly metropolitan districts. Local auditors reported that 16% of single tier and county councils had difficulties in delivering their 2013-14 budgets. Among metropolitan districts, the figure was 22%, with 19% having difficulties in 2012-13 and 2013-14. An increasing number of authorities also needed unplanned in-year actions to deliver their budgets. In 2013-14, 33% of metropolitan districts needed unplanned reductions in service spend to balance their budgets (paragraphs 3.4 to 3.14, Figures 18 to 20).

24 Local auditors' confidence that local authorities can make medium-term savings has fallen. Auditors are relatively confident about the future financial sustainability of district councils, but are increasingly pessimistic about single tier and county councils, particularly metropolitan districts and unitary authorities. Auditors have raised concerns about the capacity of 56% of both types of authority to deliver their medium-term financial strategies (paragraphs 3.15 to 3.21, Figures 21 and 22).

25 Auditors are concerned about 'funding gaps' within local authorities' medium-term plans, and the risks that could prevent authorities delivering savings through service redesign and transformation. Auditors are positive about authorities' financial management capabilities and take confidence from their record in delivering savings to date. Despite this, auditors are concerned that some authorities are unable to show how they will deliver savings required in 2015-16 and beyond. Furthermore, where they have identified methods to deliver savings over the medium term, these often involve substantial, but largely untested, restructuring and transformation of services (paragraph 3.22).

Overview

26 Overall, we found that local authorities have managed their finances successfully through a prolonged period of funding reductions. Authorities have used reductions in spending, rather than increases in locally raised income, as the main method of addressing falls in government funding. They have cut back on their staffing costs in particular. There has been an increase in levels of reserves as authorities have sought to guard against financial uncertainty and provide investment funding to support savings programmes.

27 Authorities have tried to protect spending on statutory services in areas such as adult and children's social care. But there is significant variation between authorities. Those with large funding reductions are less likely to have protected this spending. Within adult social care, savings have been made through efficiencies rather than service reductions alone. However, the large savings made through falls in unit costs in this area in the first 2 years of the 2010 spending review period have now ended. Aside from social care, there is no real evidence of the impact of spending reductions in different service areas on services and service users.

28 While local authorities have maintained financial resilience overall, some – particularly among metropolitan districts – are now showing persistent signs of financial stress, such as unplanned in-year reductions in service spend. Looking to the future, there is increased uncertainty about how local authorities can manage further possible falls in income. While local authorities are planning for continued savings, they are increasingly relying on untested service transformation programmes to achieve them. Local auditors have expressed concern about more than half of all metropolitan districts and unitary authorities, in terms of their capacity to deliver medium-term savings targets.

Part One

Changes in local authority income and spending

1.1 Since 2010-11, government funding for local authorities has changed in both scale and structure. In response to financial pressures, local authorities can raise income locally through council tax or fees and charges, use reserves, or reduce spending. This part examines:

- reductions in government funding for local authorities and changes to the structure of funding;
- changes in locally raised income and reserves; and
- changes in spending by local authorities.

Changes in government funding for local authorities

Reductions in funding

1.2 Government funding to local authorities has fallen since 2010-11, in line with the government's objective to reduce the deficit. The 2010 spending review set out a 26% reduction by 2014-15 in the local government departmental expenditure limit, which is the main government revenue budget for local authorities. The government announced an extra 1% reduction in 2014-15 in the 2013 Budget. The 2013 spending review included a 10% reduction in funding for 2015-16.

1.3 There have also been changes in funding to local authorities via special and specific grants and transfers. These funding streams often fall outside the local government departmental expenditure limit and tend to come from other departments. In general these funding streams have fallen, but some, such as transfers from the NHS to support adult social care, have increased.

1.4 Our analysis of Department of Local Government and Communities (the Department) data shows that total government funding to local authorities fell by 27.9% over the 2010 spending review period, 2010-11 to 2014-15. Provisional figures suggest that by 2015-16 there will have been a total reduction of 37.3%.[2]

2 This excludes public health grant and the Better Care Fund. We have calculated change in government funding and revenue spending power using a chain-linked index. The change figure shows change in the weighted index and cannot be used to estimate absolute change in funding. See the separate methodology (www.nao.org.uk/report/impacts-funding-reductions-local-authorities/).

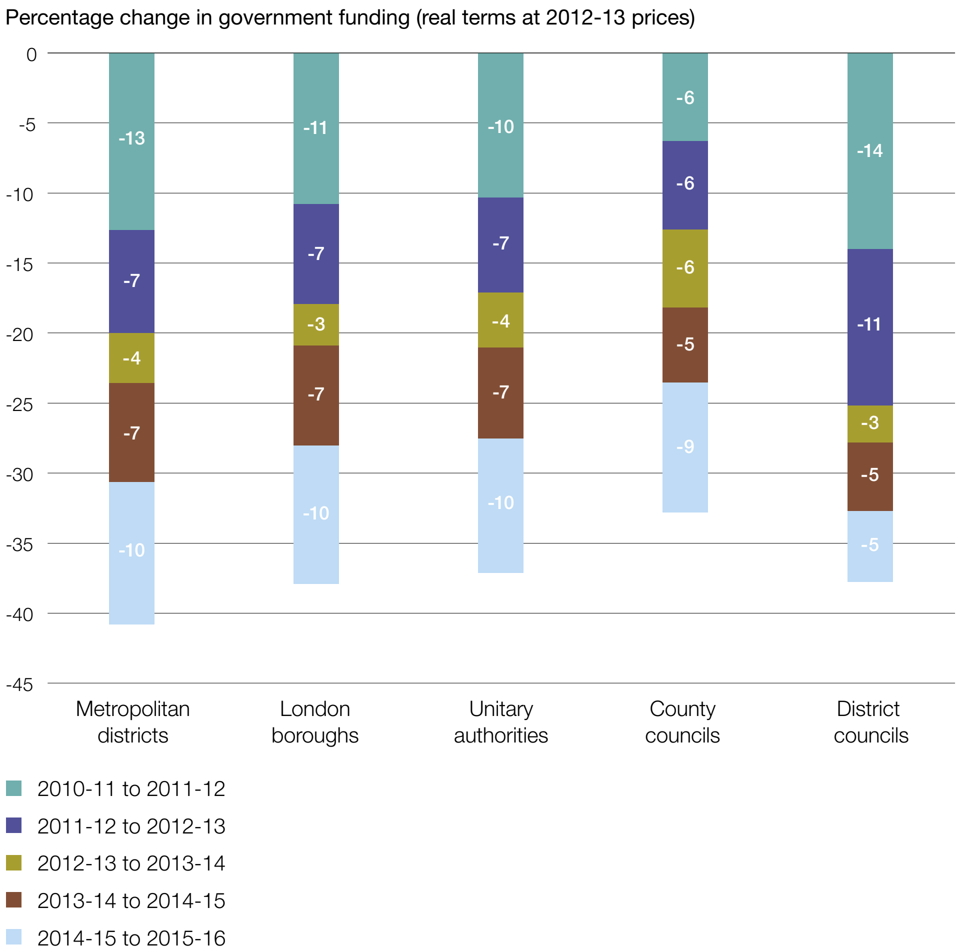
1.5 Metropolitan district councils have seen the largest fall in government funding, with a 40.8% reduction (**Figure 2**). County council funding has fallen by 32.8%.

1.6 There have been different phases to the timing of the reductions, with some types of authorities experiencing periods of relative exposure to and protection from them. District councils had large funding reductions in the first 2 years of the spending review period, but these have lessened in the final 3 years. In contrast, county councils had relatively small reductions in the first 2 years, but have since seen reductions largely in line with those of single tier authorities.

Figure 2

Changes in government funding to local authorities, 2010-11 to 2015-16

There is variation in the level of funding reductions across different authority types



Notes

1 Chart includes government funding component of revenue spending power data published annually by the Department. Public health grant and the Better Care Fund are excluded.

2 Chart shows annual change in a weighted index. See methodology available at: www.nao.org.uk/report/impacts-funding-reductions-local-authorities/

3 Individual bands show annual change as a percentage of funding in 2010-11, rather than year-on-year percentage change. Individual bands are summable to produce total change from 2010-11 to 2015-16.

Source: National Audit Office analysis of Department of Local Government and Communities data

Changes in the structure of local authority funding from government

Revenue spending power

1.7 The Department measures the impact of government funding reductions against local authorities' combined income from both government funding and council tax. This combined measure of income is called revenue spending power. This represents the impact of government funding reductions on local authorities more fully than analysing government funding alone.

1.8 Adding council tax reduces the scale of reductions for local authorities. Government funding for local authorities will fall in real terms by 37.3% by 2015-16.[3] Once council tax is included, spending power will fall by 25.2% overall by 2015-16.

1.9 The significance of council tax as a share of local income is the key factor in the large variations in change in spending power since 2010-11 (**Figure 3** overleaf). Metropolitan districts and county councils have seen similar annual reductions in government funding. However, on average council tax income accounted for 56.4% of county council income over this period, compared with 33.7% for metropolitan districts. This reduces the impact of funding reductions on counties.

New financial arrangements

1.10 The Department has made changes designed to give local authorities flexibility over spending, as well as introducing changes intended to incentivise growth in income. Changes include:

- **Business rates retention scheme**

  From 1 April 2013 local authorities have kept around half of any additional growth in business rates.[4] From the same date, the Department stopped revising its distribution of annual grant funding according to updated assessments of need.

- **New Homes Bonus**

  Since 2011-12, local authorities have received extra funding for new residential property in their area. The Bonus is mostly funded by reallocating a portion of revenue support grant, meaning some authorities gain, while others lose.[5]

- **Council tax support**

  In 2013-14 the Department devolved responsibility to local authorities for subsidising council tax bills of poorer households, while cutting funding by 10%.[6]

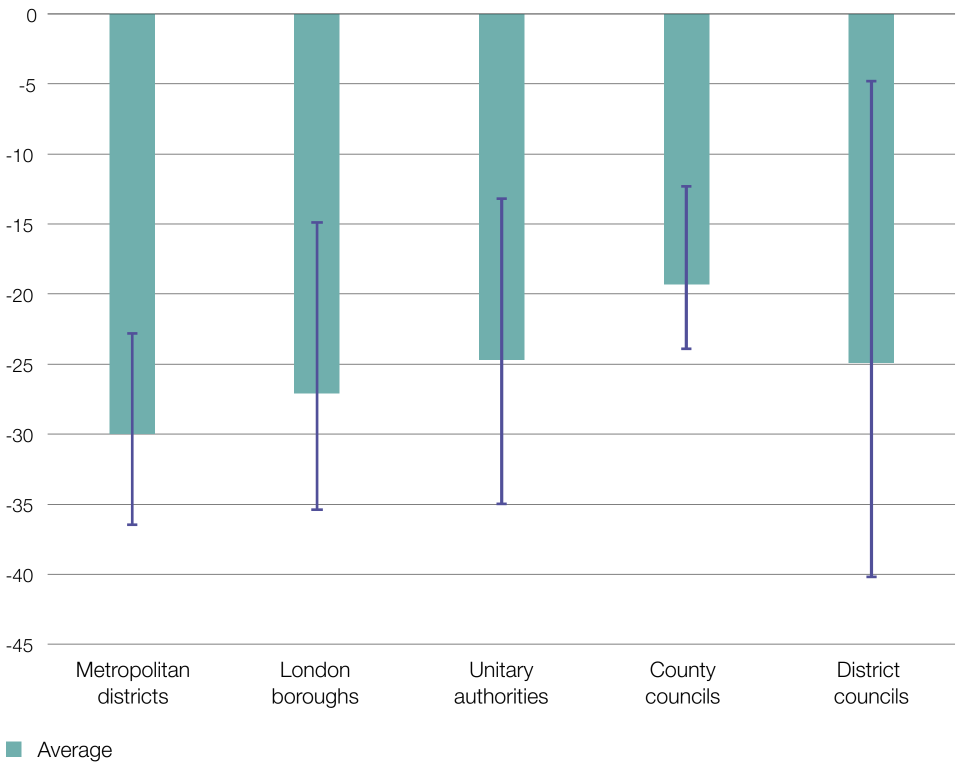
3 This excludes public health grant and the Better Care Fund.
4 Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013, pp. 24–26.
5 Comptroller and Auditor General, *The New Homes Bonus*, Session 2012-13, HC 1047, National Audit Office, March 2013.
6 Comptroller and Auditor General, *Council Tax support*, Session 2013-14, HC 882, National Audit Office, December 2013.

Figure 3

Change in spending power by local authority type, 2010-11 to 2015-16

Metropolitan districts have on average received the biggest reductions

Percentage change in revenue spending power 2010-11 to 2015-16 (2012-13 prices)



Notes

1 The vertical lines illustrate the range of reductions within each class of authority. The bars represent the average reduction for each class.

2 Chart includes government funding component of revenue spending power data published annually by the Department. Public health grant and the Better Care Fund are excluded.

3 Chart shows annual change in a weighted index. See methodology available at: www.nao.org.uk/report/impacts-funding-reductions-local-authorities/

Source: National Audit Office analysis of Department of Local Government and Communities data

1.11 While new funding arrangements created opportunities for local authorities, they also increased uncertainty. For instance, case study authorities we spoke to said the appeals process within the business rates retention scheme had created uncertainty.

Changes in locally raised income and reserves

1.12 Government funding is only one component of local authority funding. In 2013-14 local authorities received £26 billion from central government (excluding public health grant), council tax income of £19 billion and income from fees and charges of over £8 billion.[7]

Income from council tax

Changes in council tax income

1.13 As well as council tax support, there have been other changes to council tax in the 2010 spending review period:

- Since 2011-12, central government has offered 4 council tax freeze grants to local authorities that froze or reduced household council tax bills. These grants vary in amount and the years to which they apply. In general, they represent a below-inflation increase.
- Since 2012-13, where authorities have not taken the council tax freeze grant they have had to hold a referendum if they wish to increase council tax above a centrally prescribed level. Originally this was 3.5%, but it has fallen to 2% since 2013-14.

1.14 All local authorities took the initial freeze grant in 2011-12. Take-up has fallen since then, with 88% taking the grant in 2012-13 and only 65% and 66% in the following 2 years. In 2014-15, local authorities received £843 million via the grant. Although paid in lieu of council tax, this funding is government grant and does not represent part of council tax income.

1.15 Among local authorities that have not taken the freeze grant, none have increased council tax above the centrally prescribed level. Our case study authorities said that the political and financial costs of holding a council tax referendum are practical obstacles to raising council tax beyond this level:

- **Blackpool Council** noted that a 1% increase in council tax would deliver approximately £0.6 million. It needs to make £88 million in savings by 2015-16.
- **Liverpool City Council** stated that the cost of holding a referendum, which it estimates to be around £0.4 million, is a disincentive to raise council tax above the referendum limit.

7 Local authorities also generate income from sources such as investments and treasury management. This can be significant for some small authorities but is not significant across the sector. Local authorities also receive income from other local authorities but we have excluded this as it is double counting.

1.16 Consequently, council tax income has remained stable in real terms over the 2010 spending review period. Between 2010-11 and 2013-14, excluding income from council tax freeze grant, single tier and county councils have seen a real-terms median fall in council tax income of 3.1%. For district councils the median change is a 2.3% fall.

Income from sales, fees and charges

1.17 Fees and charges make up a substantial source of locally raised income. Local authorities levy charges on a range of services and activities such as car parking, some social care services and leisure and cultural facilities. Local authorities' ability to increase fees and charges varies and needs to be balanced against risks. Our case study authorities demonstrated a range of, generally cautious, approaches:

- **London Borough of Bromley** reviewed the services it charges for, looking to increase fees where possible.
- **Liverpool City Council** does not consider increasing fees to be viable. It wants to ensure services are affordable for residents.
- **Hastings Borough Council** is limited in how much it can increase charges, such as parking, as it does not want to affect tourism income and the local economy negatively.

1.18 Income from fees and charges depends on local economic conditions. These have been depressed in many areas for much of this period. It will also be affected by local authorities' savings plans. Closing a facility or cancelling an event to reduce spending also limits opportunities to generate fees and charges.

1.19 Consequently, despite the financial pressures faced by authorities, income from fees and charges has remained stable. From 2010-11 to 2013-14, it has fallen by 0.4% in real terms for single tier and county councils and 0.1% for district councils.

Use of reserves

1.20 Authorities hold reserves in two main forms.[8] Earmarked reserves are held for a specific purpose or project. Unallocated reserves include working balances to manage cash flows, and funds to protect budgets against unpredictable in-year costs.

Changes in reserves

1.21 Between 2010-11 and 2013-14 80% of single tier and county councils, and 78% of district councils, added to their reserves (earmarked and unallocated reserves combined) over the spending review period. Authorities were more likely to have built up earmarked reserves, which increased among 81% of single tier and county councils and 71% of district councils. For unallocated reserves, the figures were 58% and 56%.

8 We exclude Public Health and schools reserves from our analysis.

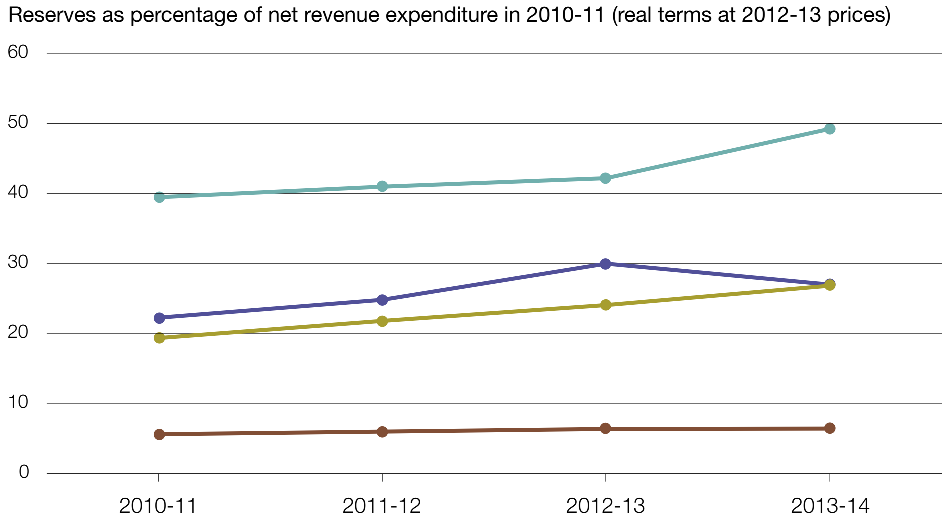
1.22 There has been a marked increase in levels of both types of reserve (**Figure 4**). For single tier and county councils most growth has been in earmarked reserves. These have increased from 19% to 27% of net revenue expenditure in real terms. Unallocated reserves have remained stable at 6% of net revenue expenditure.[9]

1.23 Within the overall pattern of growth in reserves, there have been signs of change in the past few years. Growth in unallocated reserves between 2012-13 and 2013-14 for single tier and county councils slowed to 1%, compared with 6% and 7% in the previous 2 years. Additionally, more of these authorities used their unallocated reserves: 59% compared with 44% in the previous year. Levels of unallocated reserves also fell for district councils in 2013-14.

Figure 4

Change in local authority reserves as a share of net revenue expenditure, 2010-11 to 2013-14

Local authorities have increased both their earmarked and unallocated reserve levels over the spending review period



	2010-11	2011-12	2012-13	2013-14
District councils (earmarked)	39.50	40.99	42.21	49.27
District councils (unallocated)	22.28	24.83	30.01	27.02
Single tier and counties (earmarked)	19.37	21.81	24.09	26.85
Single tier and counties (unallocated)	5.62	6.01	6.37	6.43

Note

1 Net revenue expenditure in 2010-11 is used as the denominator across all years.

Source: National Audit Office analysis of Department of Local Government and Communities data

9 To remove the effect of change in net revenue expenditure, we use net revenue expenditure in 2010-11 as the denominator for both years.

Changes in use of reserves

1.24 Reserves enable local authorities to manage financial uncertainty and fund some costs associated with service transformation such as redundancy payments. Local authorities can use reserves to offset funding reductions directly and protect services. However, as they are a finite resource this can only be a short-term strategy.[10]

1.25 In general, our case study authorities have added to their reserves to fund savings programmes rather than offset funding reductions directly. The uncertainties and opportunities created by recent changes in the way local authorities are funded, particularly local business rates retention, have also shaped local authorities' reserves strategies:

- **Leicestershire County Council** has built a £23 million transformation reserve to fund a combination of redundancies and service re-designs to meet ongoing savings requirements.
- **Liverpool City Council** has built up reserves as a contingency against the uncertainty of delivering its savings programmes. This is part of a risk-based approach to setting reserve levels, which takes into account factors such as risk of grant claw-back and legal claims. Reserves are needed when savings are not delivered as planned.
- To boost its revenue income, the **London Borough of Bromley** has set up an economic development investment reserve to buy investment properties and generate income from business rates growth.
- **Blackpool Council** has added to its reserves to protect against adverse outcomes from local business rates appeals. Each local authority is now liable for 50% of repayments under the new arrangements.

1.26 Overall, there is evidence of authorities building their reserves for specific purposes linked to the risks created by the funding reductions and changes in funding arrangements. Underpinning this prudent approach, and reflected in other comments from case study authorities, is the legal requirement that authorities balance their budgets. Local authorities cannot run a deficit or borrow for revenue purposes. This means authorities view reserves as increasingly important in times of financial uncertainty.

Changes in local authorities' spending on services

1.27 Local authorities have not offset reductions in government funding appreciably through council tax, fees and charges and use of reserves. As a result, authorities have dealt with reductions in government funding mainly by reducing spending on services. Local authority data and our case studies demonstrate that there was a wide range of approaches taken to reducing service spending across both back-office and front-line activities.

10 Audit Commission, *Striking the Balance: improving councils' decision making on reserves*, December 2012.

Different types of spending on services

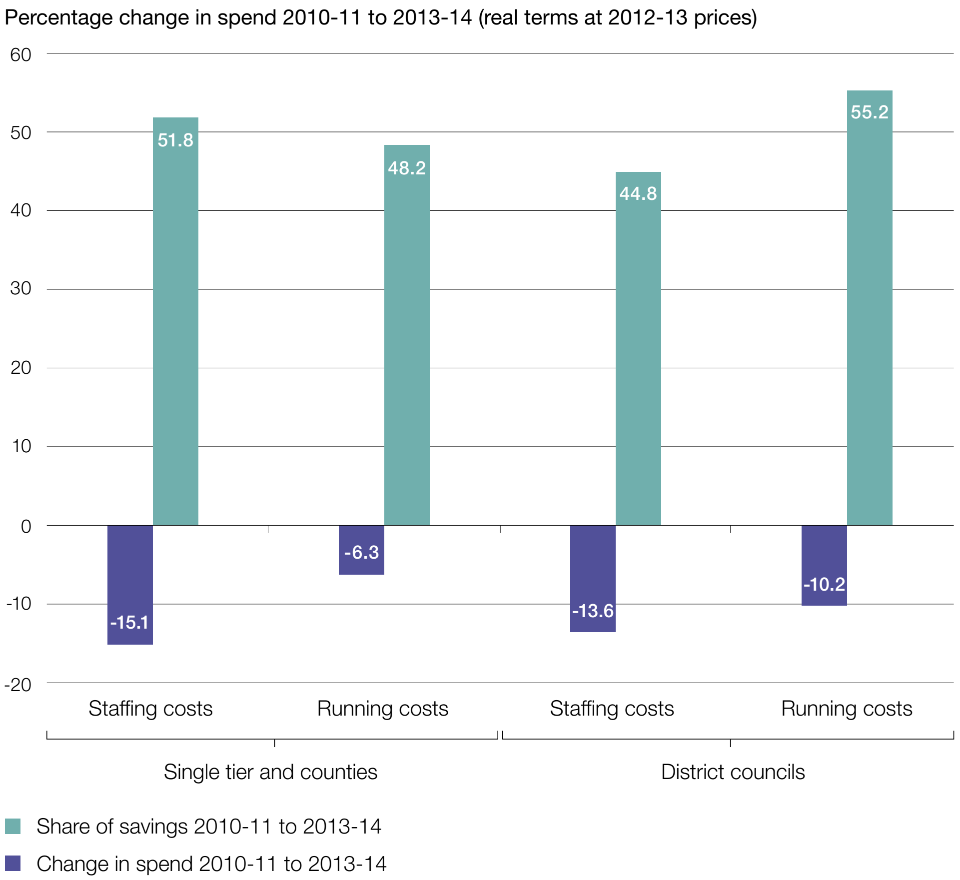
1.28 Local authorities' spending on services falls into 2 main types of costs:

- **staffing costs**, which represented 32% of local authorities' total service costs in 2010-11; and
- **running costs**, on areas such as transport, premises and payments to third parties such as private contractors – these accounted for 68% of local authorities' total service costs in 2010-11.

1.29 Staffing costs have fallen more sharply than running costs over this period (**Figure 5**). However, as running costs represent a larger proportion of total costs both areas have made roughly equal contributions to overall reductions in spending.

Figure 5
Change in running and staffing costs, 2010-11 to 2013-14

Staffing costs have fallen more sharply than running costs



Source: National Audit Office analysis of Department of Local Government and Communities data

Reducing staffing costs

1.30 Our case study authorities had found numerous ways to reduce staff costs:

- **Birmingham City Council** said it will reduce its full-time equivalent positions from 21,000 in April 2010 to 7,000 by 2017-18.
- **London Borough of Bromley** has saved more than £20 million in the spending review period by reducing staff. This includes significant reductions in back-office functions in areas such as the policy unit team, the improvement efficiency team, finance and the information and technology team as well as other changes across the organisation.
- **Hastings Council** has saved £350,000 by restructuring senior management posts by removing some heads of service and the post of chief executive. Along with a wider redundancy programme, this has reduced full-time equivalent posts from 460 in April 2010 to 316 in April 2014.
- **West Oxfordshire Council** in common with other councils was able to manage pay pressures through the 3-year national pay freeze for all staff. Among a range of other measures, **Blackpool Council** has tried to reduce its staffing costs by offering unpaid leave. It has an annual savings target of £1.1 million from this approach, with staff encouraged to take 5 days' unpaid leave.

1.31 Our analysis of employment data for local authorities shows that the number of full-time equivalent posts, excluding the total school workforce, fell by 16.6% between 2010 and 2013. Single tier and county councils experienced a 17.4% fall compared with 13% in district councils. The rate of reduction in employment levels in single tier and county councils has increased since 2011-12 (**Figure 6**). Civil service employment in government departments and agencies fell by 12.8% over the same period.

Reducing running costs

1.32 Our case study authorities used several ways to reduce the running costs of their services:

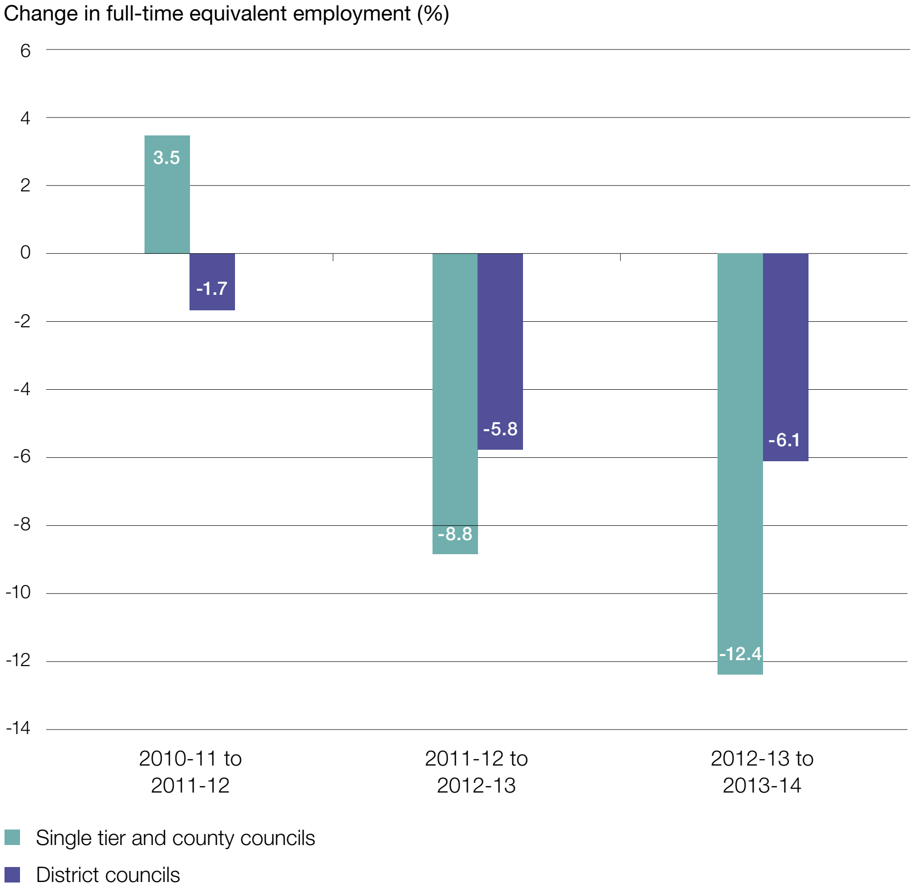
- **Use of shared services**

  Local authorities have tried optimising running costs by sharing services with other local authorities. **West Oxfordshire District Council** said that sharing management and a range of back-office services including ICT, legal and financial services with a neighbouring authority was vital in delivering £3 million of efficiency savings. **Hastings Borough Council** also noted that jointly procuring waste management services with 3 other local authorities saves £650,000 annually.

- **Increased outsourcing**

  The **London Borough of Barnet** told us it used private contractors to improve efficiency (for instance, using a call centre in Belfast to lower costs) and increase commercial revenues. The contract it has let for planning services guarantees it an income of £39 million over 10 years. **Liverpool City Council** said it had outsourced facilities management and residential care. **Blackpool Council** externalised major elements of adult social care.

Figure 6
Change in employment in local authorities, 2010 to 2013



Note
1 Data excludes total school workforce.

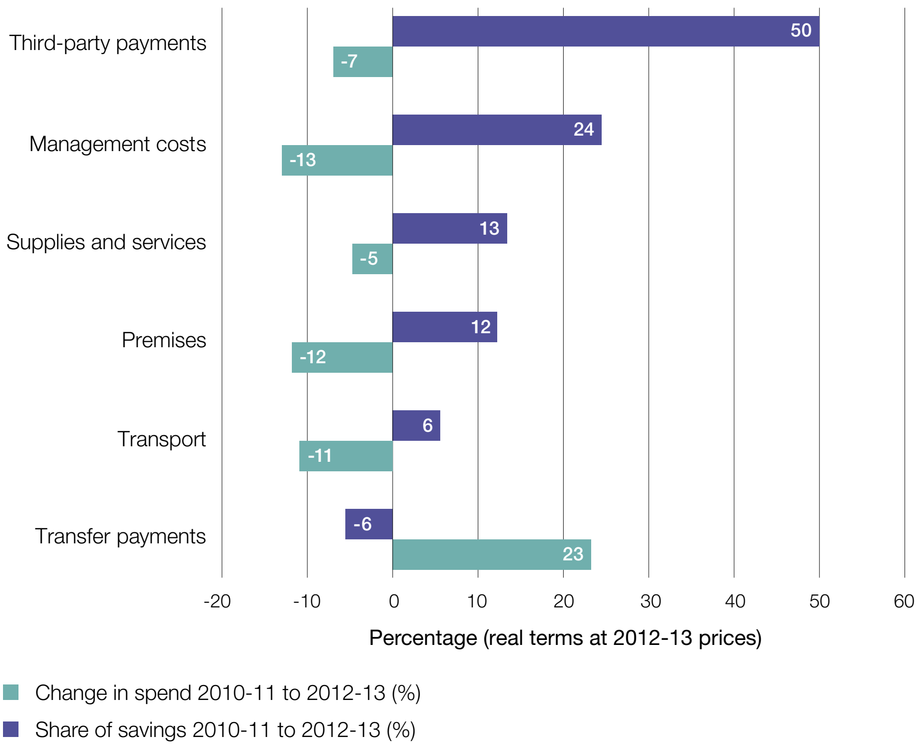
Source: National Audit Office analysis of Office for National Statistics Quarterly Public Sector Employment Survey and Department for Education data on school workforce in England.

1.33 Departmental data show the impact of local authorities actions to reduce running costs (**Figure 7**). Between 2010-11 and 2012-13 local authorities reduced their management costs by 13%. This accounted for 24% of total savings in running costs. Management costs are recharged to service areas by an authority's corporate centre for support functions such as payroll, human resources and information and technology support.[11]

1.34 Third-party payments fell by 7%, representing 50% of total savings in running costs. Within this overall figure, payments to voluntary bodies, joint authorities and other local authorities fell by 23%. Payments for professional services, such as legal and consultancy services and agency staff, fell by 10%. In contrast, the largest area of spend, 'other' payments to private contractors, saw a real-terms fall of only 3%. This area of spend includes activities such as purchased care for social care clients and outsourced refuse collection and disposal.

Figure 7
Change in components of running costs, 2010-11 to 2012-13

Local authorities management costs have seen the greatest reduction



Note

1 Total share of savings 2010-11 to 2012-13 may not sum to 100% due to rounding.

Source: National Audit Office analysis of Department of Local Government and Communities data

11 Not all local authorities report their management costs in this way as some will retain these costs within individual service areas. The Audit Commission estimated that 63.5% of authorities recharge management costs to the corporate centre. Audit Commission, *Councils' centrally managed spending*, February 2014.

Different strategies in different authorities

1.35 There are differences to the changes in staffing and running costs between authorities experiencing different levels of reductions (**Figure 8**). Single tier and county councils have seen falls in staffing costs, with the largest occurring in authorities with the lowest funding reductions. In contrast, reductions in running costs are greatest in those with the highest funding reductions, while running costs have been stable in authorities with lower funding reductions.

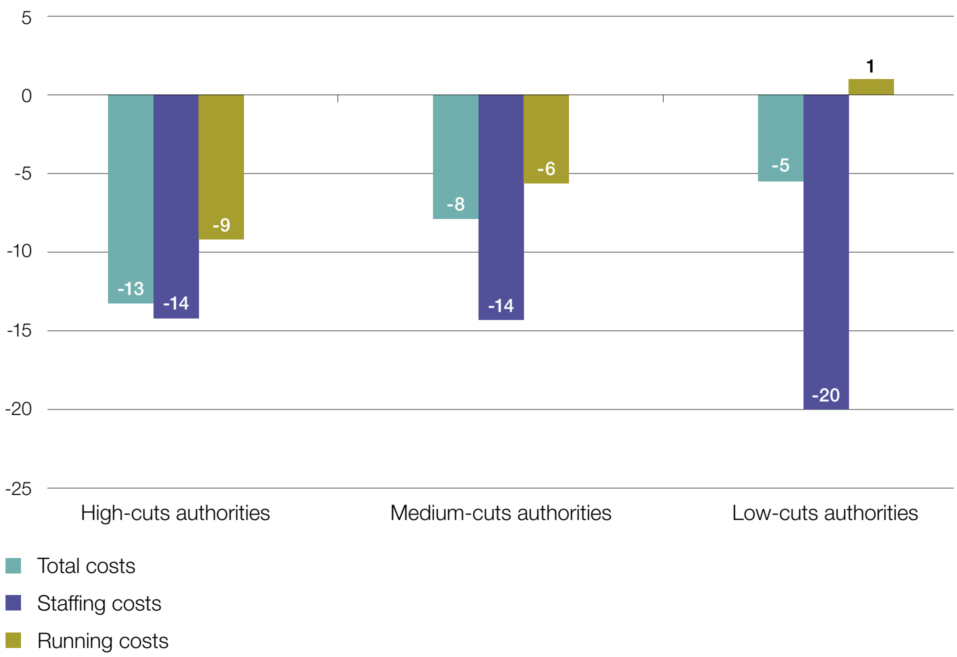
1.36 This may be evidence of an increase in outsourcing among authorities with lower funding reductions, as this activity transfers spending from staff to running costs. It may also mean authorities with higher levels of funding reduction are reducing levels of outsourced activity or the costs of existing outsourced activities. The data are not detailed enough to identify the precise cause. But they do suggest there are different mechanisms at work in authorities with different levels of funding reduction.

Figure 8

Change in staffing and running costs across authorities facing different levels of funding reduction

Local authorities experiencing higher funding reductions have reduced running costs more signifcantly

Percentage change in median spend 2010-11 to 2013-14 (real terms at 2012-13 prices)



Notes

1 Local authorities with high cuts are those with a real-terms reduction in spending power greater than 23.5% (1 standard deviation below the mean) between 2010-11 and 2014-15. Those with low cuts saw a reduction in spending power of less than 15.0% (1 standard deviation above the mean).

2 Data are for single tier and county councils only.

Source: National Audit Office analysis of Department of Local Government and Communities data

Part Two

Impact on services

2.1 In response to falling government funding, local authorities have reduced their staffing and running costs. This part focuses on the implications of these reductions for specific service areas. It examines:

- how local authorities have prioritised different service areas within their savings programmes;
- the impact of funding reductions on service spending; and
- the impact of funding reductions on service activity and service users.

Strategies for prioritising services

2.2 Our case studies demonstrated a range of approaches to protecting different service areas within their savings programmes (**Figure 9**). Although local authorities vary in how they distribute funding reductions between services, their main consideration has been protecting statutory duties. What statutory duties require of local authorities is not always clearly defined. This complicates how authorities prioritise spending across services.

2.3 Despite the emphasis on statutory duties, our case study authorities wanted to reflect the priorities of local residents. Therefore, some councils identified discretionary services that they felt were local priorities and should be protected. Others were concerned that discretionary activities were often the ones most widely used by the public. Reducing these activities risked the authority providing services to a smaller proportion of its population.

Change in service spend

Spending change by service

2.4 The focus on protecting statutory services is reflected in budget data for 2010-11 to 2014-15. Among single tier and county councils, spending on adult and children's social care has been relatively protected. Spending on environmental and regulatory services, which includes local authorities' statutory duties to collect and dispose of waste, has also seen lower spending reductions than other areas.

Figure 9

Local authorities' approaches to distributing funding reductions between services

Liverpool City Council

Liverpool took legal advice on what its minimum statutory requirements were, taking account of local residents' needs. This enabled it to classify which functions are statutory and which discretionary within each of its services. Liverpool aims to reduce the budget for its discretionary services by 50% over 3 years. It will make 25% reductions to budgets for statutory functions. The council told us it thought protecting some discretionary services was better long-run value for money, as it alleviated demands on statutory services, which were more costly. Extra savings are then taken from the mandatory service budgets.

Blackpool Council

For 2013-14, Blackpool Council carried out a priority-based budgeting process, splitting services into 5 categories. The highest priority group included both statutory and discretionary services. These are considered political priorities for the council so are protected, such as providing free school breakfasts. The council expects to reduce lower priority services significantly over time. The lowest category priority group of services will end within 3 years.

Hastings Borough Council

Hastings Borough Council has asked service heads to model the effect of different percentage reductions in spending on local services. Hastings told us that through running public consultations every 2 years, it is aware of the services that are valued by local residents. Many of the in-demand services, such as maintaining parks and gardens, are discretionary. But given their popular demand, the council said it was reluctant to scale them back.

London Borough of Bromley

London Borough of Bromley has carried out 'baseline reviews' of its services to find additional savings. This involved an examination of statutory and non-statutory functions to consider efficiency options, income reviews and alternative service delivery models as well as identify the boundaries of what constitutes providing a statutory service. Bromley also noted that many of the discretionary services it provides are among the most visible to the public and thus difficult to roll back.

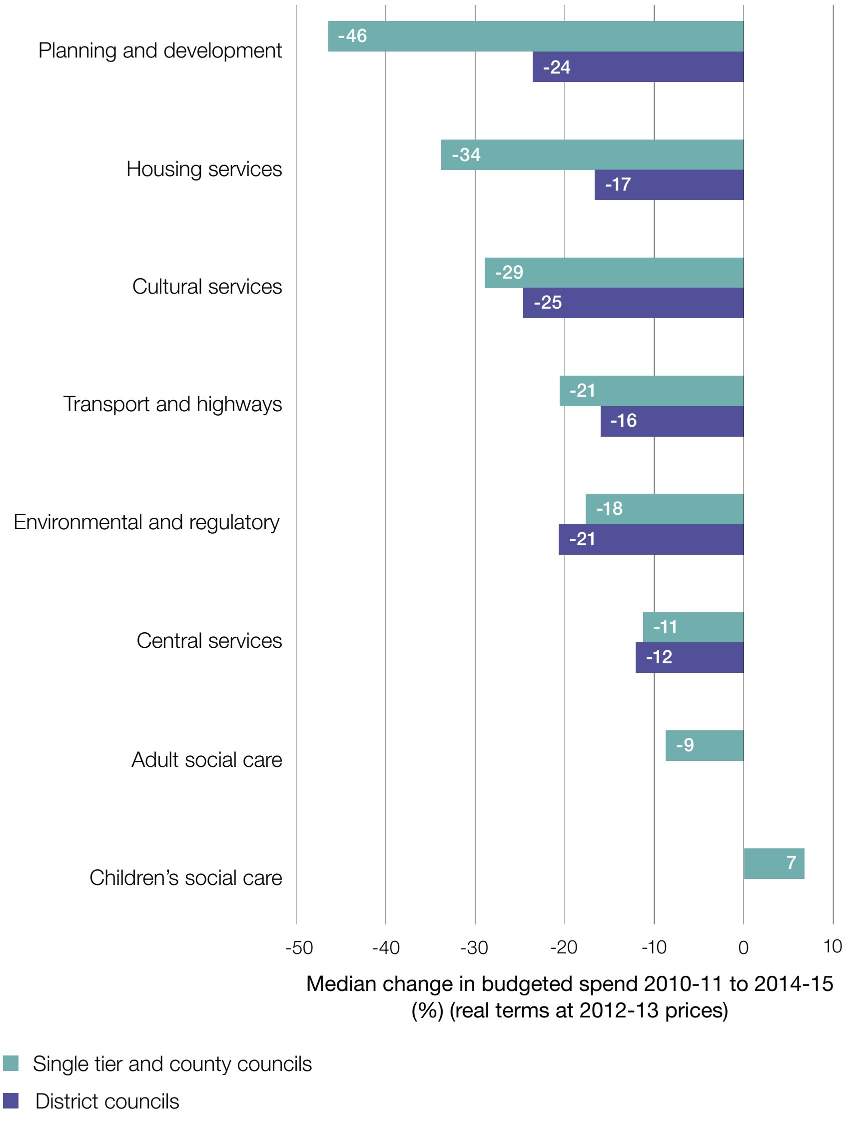
Source: National Audit Office analysis of case study interviews

2.5 The largest spending reductions have been in planning and development services in single tier and county councils. The average reduction is 46% (**Figure 10** overleaf). Most of this reduction took place in the first 2 years of the spending reductions, in 2010-11 and 2011-12. This involved ending centrally funded programmes such as the Working Neighbourhoods Fund, the Neighbourhood Renewal Fund, Housing Market Renewal Pathfinders and the Local Enterprise Growth Initiative.

2.6 Most spending reductions in housing services have come from planned reductions in the Supporting People programme. This is a discretionary service that gives advice and support on housing to elderly and vulnerable people to allow them to continue living independently. During this period, spending on this area will fall by a median of 45.3%, across single tier and county councils.

Figure 10
Change in budgeted spend by service, 2010-11 to 2014-15

Spending on adult and children's social care has been relatively protected



Note

1 Data for Adult Social Care and Children's Social Care is for single tier and county councils only.

Source: National Audit Office analysis of Department for Communities and Local Government data

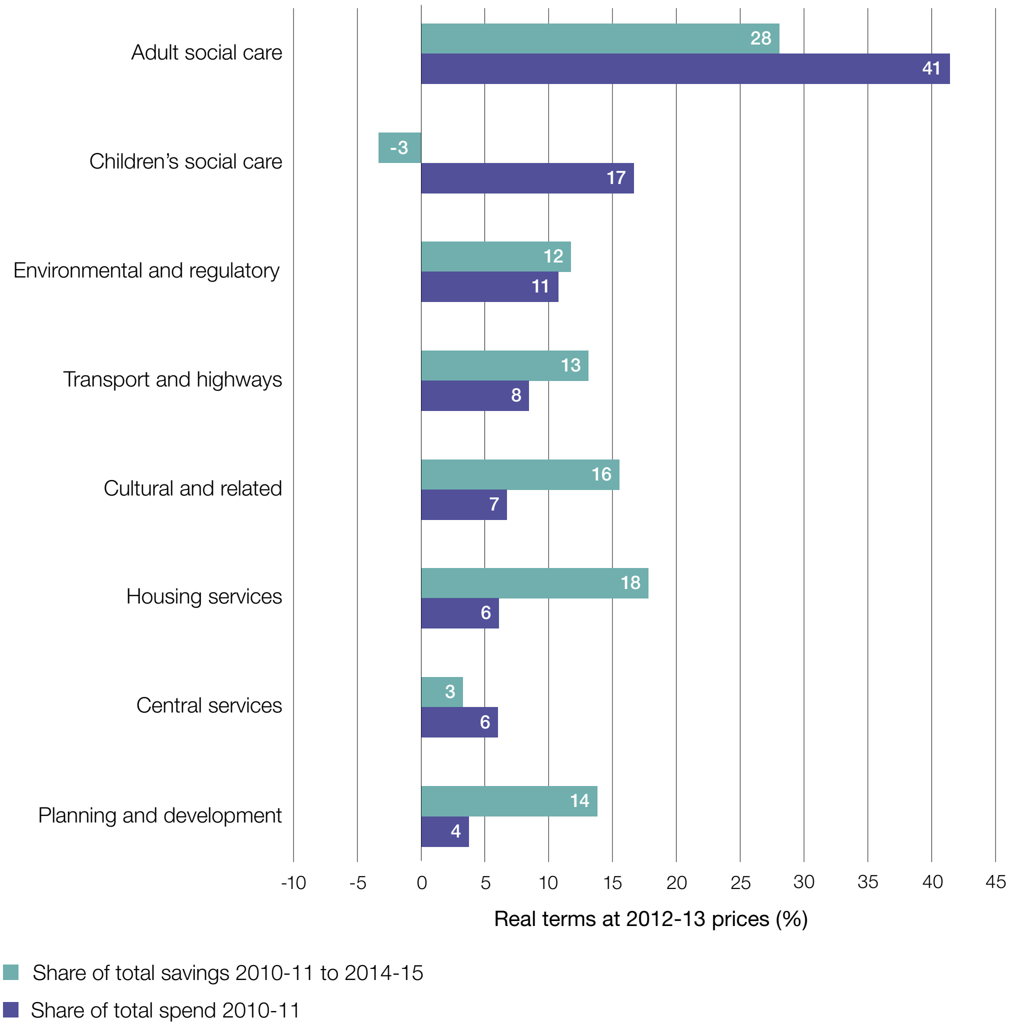
Share of total savings

2.7 The extent to which different service areas have been protected can be seen by comparing a service's share of spend against its share of savings (**Figure 11**). Among single tier and county councils, adult social care, children's social care and central services have made lower contributions to total savings relative to their share of total spend. Other services such as housing and cultural services have made a relatively greater contribution.

Figure 11

Share of total budgeted spend and savings by service area, 2010-11 to 2014-15

Adult social care and children's social care have made lower contributions to total savings relative to their share of total spend



Notes

1 Figures may not sum to 100% due to rounding.

2 Data are for single tier and county councils only.

3 The negative figure for children's social care indicates an increase in spending over the period 2010-11 to 2014-15.

Source: National Audit Office analysis of Department for Communities and Local Government data

Change in savings patterns over time

2.8 The pattern of spending reductions by service area is not fixed. There have been significant shifts in the focus of savings between 2010-11 and 2014-15 as the relative degree of protection given to different service areas has changed (**Figure 12**). Adult social care, for example, accounted for 40% of total savings between 2013-14 and 2014-15 compared with only 15% between 2010-11 and 2011-12. Planning and development, in contrast, now makes up a far smaller proportion of savings. Unless spending in some service areas is to be run down completely, this overall pattern, in which formerly protected service areas start to contribute a larger share of savings, is likely to continue.

Links between spending changes and size of funding reduction

2.9 Local authorities have faced varying levels of reduction in their spending power. This is reflected in the different spending profiles between authorities (**Figure 13** on page 30). Our analysis shows that:

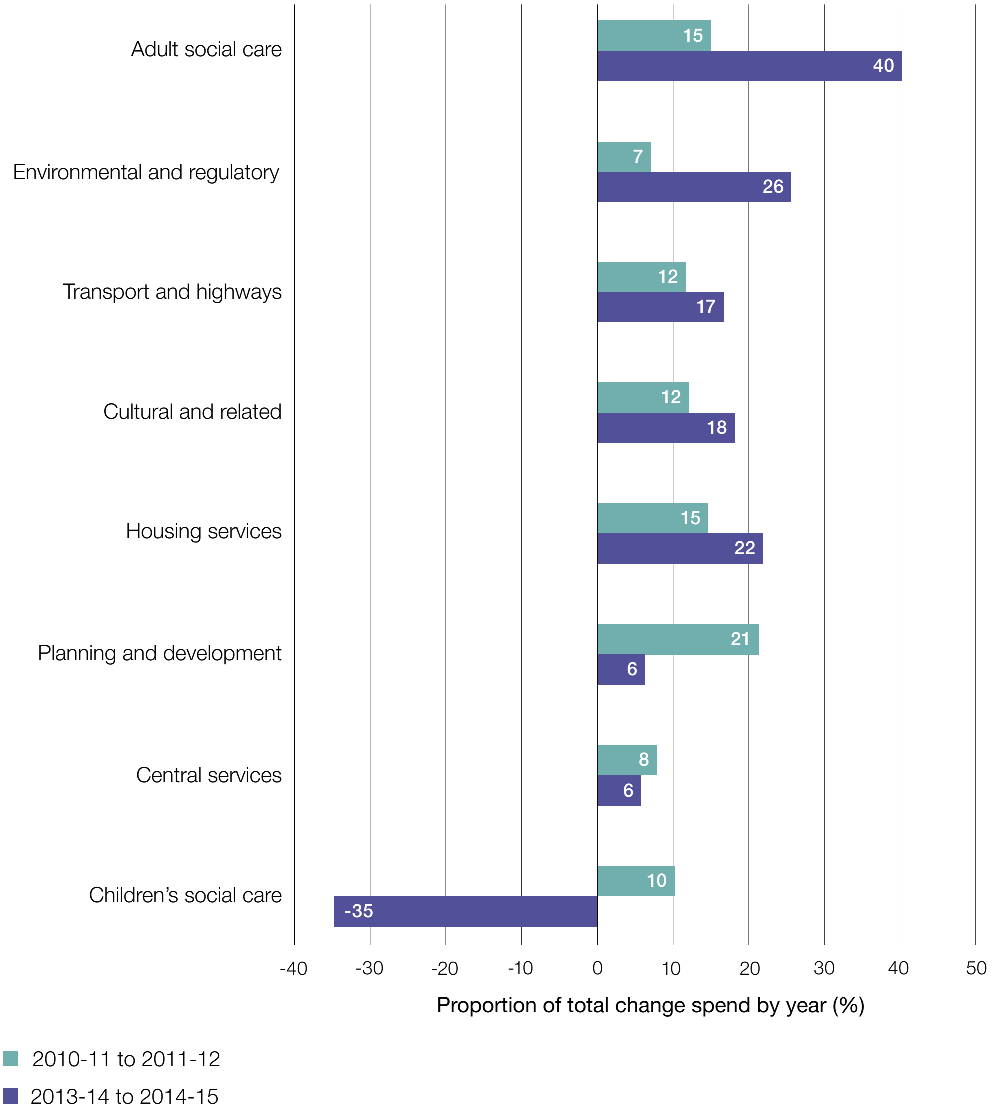
- there is no clear pattern linking the size of spending reduction in housing services, cultural services, central services and transport with the size of overall funding reduction faced by an authority;
- authorities with the largest funding reductions have made far greater cuts in spending on planning and development. This is largely because the government has decided to end certain programmes focused on deprived areas; and
- there is a link between the size of funding reduction faced by an authority and its spending decisions in adult social care, children's social care and environmental and regulatory services. Authorities facing higher funding reductions have been less able to protect these areas than those with lower reductions.

2.10 This indicates that, in some service areas, the national picture of spending may be misleading as a guide to what is happening at a local level. For instance, aggregate figures show that, on average, local authorities have increased spending on children's social care by 7% (Figure 10). However, among authorities with the greatest funding reductions, spending on this service area has fallen by 4% on average (Figure 13).

2.11 All authorities have made roughly equal reductions in service areas with more discretionary activities or where statutory responsibilities are less clearly defined, such as culture, housing and transport. In contrast, authorities with lower reductions have protected spending in areas where they have greater levels of statutory responsibilities, to a larger extent than authorities with higher reductions. The fact that authorities with large reductions have not made proportionately greater savings in their discretionary areas, and instead have made larger reductions in their statutory areas, suggests they are approaching the limits to the amount they can save by reducing discretionary activities.

Figure 12
Share of total budgeted savings in 2010-11 and 2014-15

The focus of savings has shifted significantly



Notes

1 Figures may not sum to 100% due to rounding.

2 Data are for single tier and county councils only.

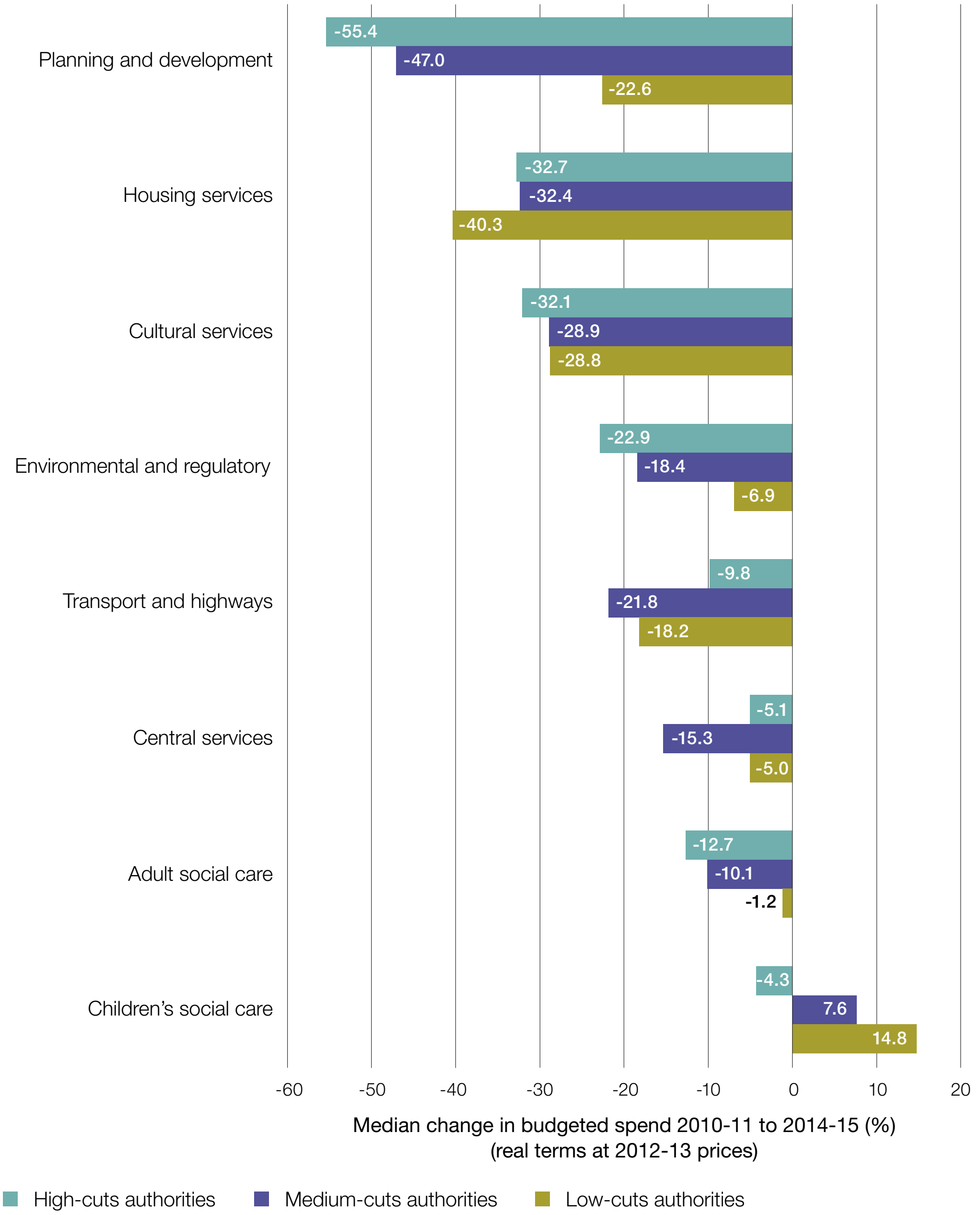
3 The negative figure for children's social care indicates that expenditure grew in 2014-15.

Source: National Audit Office analysis of Department for Communities and Local Government data

Figure 13

Change in budgeted spend, 2010-11 to 2014-15

High-cuts councils have been less able to protect social care



Notes

1 Local authorities with high cuts are those with real-terms reductions in spending power greater than 23.5% (1 standard deviation below the mean) between 2010-11 and 2014-15. Those with low cuts saw a fall in spending power of less than 15.0% (1 standard deviation above the mean).

2 Data are for single tier and county councils only.

Source: National Audit Office analysis of Department of Local Government and Communities data

Spending change within services

2.12 As well as different spending patterns between authorities, there are significant differences in how much authorities reduced spending on individual services within a broad service area (**Figure 14** overleaf). For instance:

- Over the period 2010-11 to 2013-14, budgeted spend for children's services was relatively stable in real terms (0.1% median reduction in total spend), but this included a 34% median fall in spending on services for young people. These falls were offset by median increases in family services (20%), mainly in respite care for disabled children.
- Within environmental and regulatory services, the median fall in spending on community safety is 47% in real terms. This compares with a median fall in spending on waste collection of only 12%.
- Within highways and transport, the median fall in spending on traffic management and safety is 43%. For street lighting, the median fall in spending is only 4% in real terms.

2.13 Overall, this shows that change in aggregate spend for a service area is often a poor indicator of change on a particular activity. A focus at the aggregate level means significant changes in important individual services such as youth services or community safety may be overlooked.

Impacts on service levels

2.14 Reductions in spending on services do not necessarily feed through into reductions in service activity and impact on service users. All the case study authorities we spoke to stressed that they tried to minimise the impact of funding reductions on service users. For example, they referred to initiatives such as pay freezes, using shared services and reductions in running costs for premises and transport as ways of making savings through efficiencies rather than reducing services.

Figure 14

Change in budgeted spend by individual service, 2010-11 to 2014-15[3]

Higher reductions than median for whole service area				Median change for service area	Lower reductions than median for whole service area				
	Building control **-55.8%**	Environmental initiatives **-48.6%**	Economic development **-47.5%**	Planning and Development **-46.5%**	Development control **-38.3%**	Planning Policy **-33.2%**	Community Development **-31.7%**		
Housing welfare: supporting people **-45.3%**	Other welfare services **-42.9%**	Housing strategy and other **-37.9%**	Other council property **-36.9%**	Housing **-33.3%**	Housing benefits administration **-23.1%**	Homelessness **2.6%**	Housing benefits: rent allowances **137.0%**		
		Tourism **-43.2%**	Recreation and sport **-39.6%**	Cultural and recreational **-28.9%**	Culture and heritage **-27.9%**	Open spaces **-25.8%**	Library service **-25.4%**		
Traffic management **-43.0%**	Structural maintenance **-27.9%**	Transport planning, policy and strategy **-27.5%**	Environmental, safety and maintenance **-25.2%**	Highways and transport **-20.4%**	Public transport **-8.1%**	Parking services **-5.2%**	Street lighting **-4.1%**	Winter service **-1.1%**	Airports, harbours and toll facilities **10.7%**
		Community safety **-47.1%**	Regulatory services **-32.6%**	Environmental and regulatory **-17.6%**	Street cleansing **-13.2%**	Waste **-11.7%**	Recycling **-9.4%**	Flooding and related services **15.0%**	Other environmental and regulatory services **16.3%**
Local tax collection **-29.4%**	Emergency planning **-27.0%**	Corporate and democratic core **-26.9%**	Other court services **-23.1%**	Central services **-11.3%**	Non-distributed costs **-4.6%**	Other central services **-3.2%**	Coroners' court service **0.8%**		
	Services for asylum seekers **-54.5%**	Other adult services **-27.8%**	Adults with mental health needs **-9.8%**	Adult social care[3] **-8.3%**	Services for older people **-7.5%**	Adults with physical disability **-7.2%**	Service strategy **-3.7%**	Adults with learning disability **-2.3%**	
		Services for young people **-34.1%**	Youth justice **-11.5%**	Children's social care[3] **-0.1%**	Children looked after **2.5%**	Safeguarding children and youth services **5.8%**	Family support services **20.1%**		

Notes

1 For example, the median change for adult social care is -8.3% between 2010-11 and 2013-14. The median reduction in spend for adults with physical disabilities is -7.2%, lower than the median for the category of adult social care as a whole, whereas median reduction in services for asylum seekers is -54.5%, which is higher than the median reduction of the total service category.

2 Data are for single tier and county councils, in real terms.

3 For adult social care and children's social care, the analysis is conducted for 2010-11 to 2013-14. All other service categories are analysed between 2010-11 and 2014-15.

Source: National Audit Office analysis of Revenue Account, Personal Social Services Expenditure and S251 data

Assessing change in service levels

2.15 With the exception of children's and adult social care there are limited data on local authority activity and how much this has changed over the spending review period. We analysed the available data and found that while there are signs of service-level reductions these have not been large and may be a continuation of past trends:

- Within cultural services, libraries are more efficient, as spending per employee fell by 2% from 2011 to 2013 in nominal terms compared with a 6% increase in the previous 2 years. However, the number of library service points has fallen by 4%. The previous 2 years had seen a fall of only 1%.
- Within environmental and regulatory services, the number of samples taken in food standards and food hygiene inspections fell by 24% between 2010-11 and 2012-13. This fall has continued, albeit at a reduced rate, with a further 2% reduction in 2013-14. The extent to which this was driven by reductions in funding is unclear, as the number of samples taken were already falling in 2009-10.
- Within planning and development services, the percentage of minor planning applications processed within 8 weeks fell from 75% in 2010-11 to 70% in 2013-14, despite a 3% fall in the number of applications. The share of 'other applications' processed within 8 weeks fell from 86% in 2010-11 to 83% in 2013-14, despite a 4% fall in the number of applications. In contrast, the share of 'major applications' processed within 13 weeks increased from 67% to 71% over this period.

Impacts on adult social care service volumes

2.16 There are more data within adult social care to assess the extent to which spending reductions have impacted on services.[12] The data show that the provision of residential care, nursing care, home care and day care fell between 2010-11 and 2013-14 (**Figure 15** overleaf). Day care provision fell by 30% (as measured in the number of weeks' care each person being cared for received). Nursing care was relatively stable, falling by only 1%.

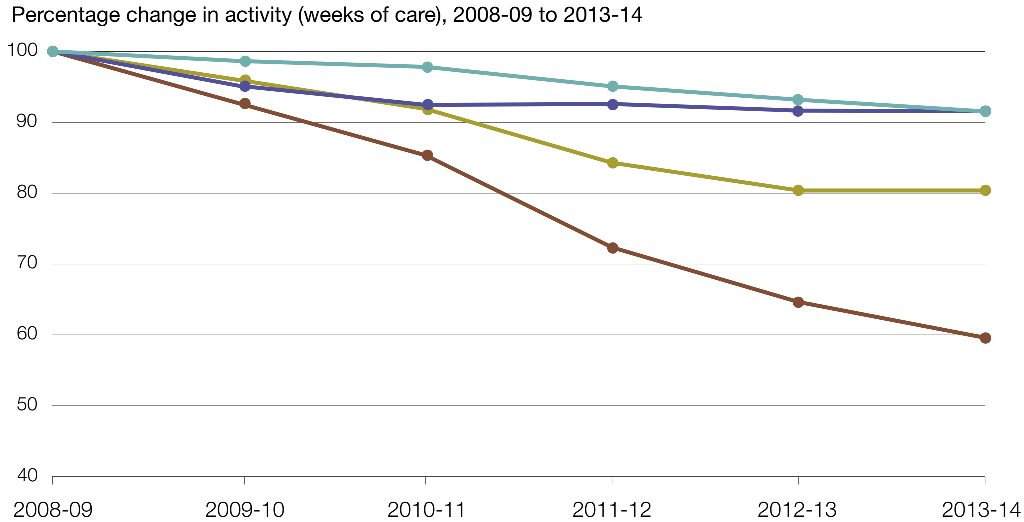
2.17 Provision was falling before 2010-11, however. So it is unclear how far the reductions since 2010-11 were a response to the funding reductions in this Parliament. Provision fell faster in 2011-12 and 2012-13 for most forms of care but this slowed in 2013-14. Reductions in provision in 2013-14 were the lowest for 5 years for all forms of provision. The exception was residential care, which continued to have larger reductions than before 2010-11. The slower rate of reductions in 2013-14 coincided with the lowest annual reduction in government funding over the spending review period.

2.18 Reductions in services do not necessarily mean that outcomes for service users have worsened. For instance, the average number of delayed transfers of care that are attributable to social care or jointly to social care and the NHS has fallen. In 2010-11 there were 4.1 delays per 100,000 adults. By 2013-14 this had fallen to 3.1.

12 Comptroller and Auditor General, *Adult social care in England: overview*, Session 2013-14, HC 1102, National Audit Office, March 2014. Available at: www.nao.org.uk/report/adult-social-care-england-overview-2

Figure 15
Change in local authority activity in adult social care, 2008-09 to 2013-14

Local authorities have made some reductions in social care services since 2010-11



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Residential care	100	98.63	97.81	95.05	93.18	91.52
Nursing care	100	95.14	92.44	92.58	91.64	91.59
Homecare	100	95.93	91.87	84.27	80.37	80.38
Day care	100	92.67	85.34	72.33	64.64	59.59

Source: National Audit Office analysis of Personal Social Services Expenditure data

Evidence of efficiencies in adult social care

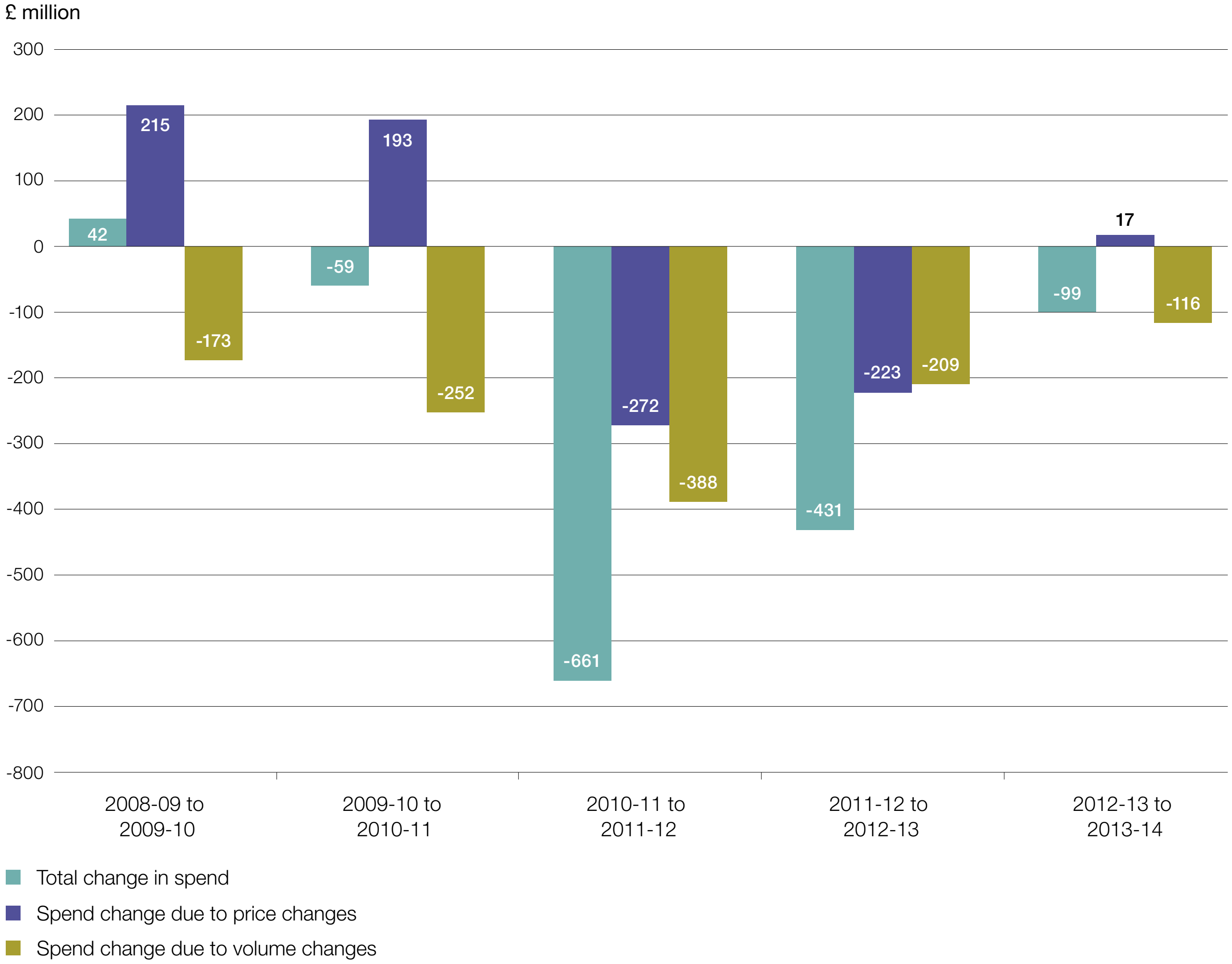
2.19 Combining activity data with spending data demonstrates that even though activity levels have been falling, local authorities have also made savings through efficiencies (**Figure 16**).

- In the 2 years before 2010-11, local authorities saw little real-terms change in the total cost of these services. This was the net outcome of local authorities providing fewer services, which cost them more.
- This changed significantly in the 2 years after 2010-11, where local authorities saw large savings in these service areas. These savings resulted in local authorities providing fewer services, which also cost them less to provide.
- This pattern ended in 2013-14, with savings from these activities limited and delivered entirely through reductions in activity, rather than price.

Figure 16

Components of total savings in adult social care – price and volume

Change in spend (real terms at 2012-13 prices)



Note

1 Chart includes spend and activity data for day care, homecare, residential care and nursing care for all user groups.

Source: National Audit Office analysis of Personal Social Services Expenditure data

2.20 Local authorities with the largest reductions in funding were particularly effective in making savings through price reductions. These authorities accounted for only 18% of total spend in 2010-11, but made 47% of the savings linked to price reductions in 2011-12 and 2012-13. In contrast, local authorities with the lowest reductions in funding made no savings linked to price reductions across these 2 years. Instead, their savings were made solely through reducing service levels. Savings via price reductions came to an end in 2013-14 for authorities with the highest funding reductions, and they began to experience price rises.

2.21 The precise mechanisms underlying these patterns are unclear. However, it is possible that methods used by authorities with high funding cuts to deliver substantial savings linked to price in 2011-12 and 2012-13 are no longer effective. For instance, these authorities may have renegotiated or re-tendered contracts and such an approach cannot be used repeatedly to deliver savings.

Impact on children's social care services

2.22 Data for services for looked-after children show a slight change in levels of activity since 2010-11, particularly in residential care (**Figure 17**). A period of growth in residential care activity for the previous 2 years has been replaced by a reduction in service.

2.23 Some of our case study authorities said that, in response to budget constraints, they were looking at other methods to protect vulnerable children rather than taking them into care. However, given the demand-led nature of this activity, and longer-term trends in different forms of provision, further evidence would be required to link these changes in activity with the spending pressures faced by authorities. Furthermore, reducing the volume of activity does not necessarily imply any worsening in the quality of provision or outcomes for service users.

2.24 We analysed the role played by price and volume factors in the changes in spending by authorities on children's social care services. We found that significant factors, other than spending reductions, are shaping local authorities' actions:

- Real-terms spending on foster care increased by similar amounts in the 2 years before and after 2010-11 (8.5% and 9.7% respectively). The increase before 2010-11 was the net outcome of a large increase in volume and slight reduction in price. In contrast, the increase after 2010-11 resulted from an increase in both volume and price.

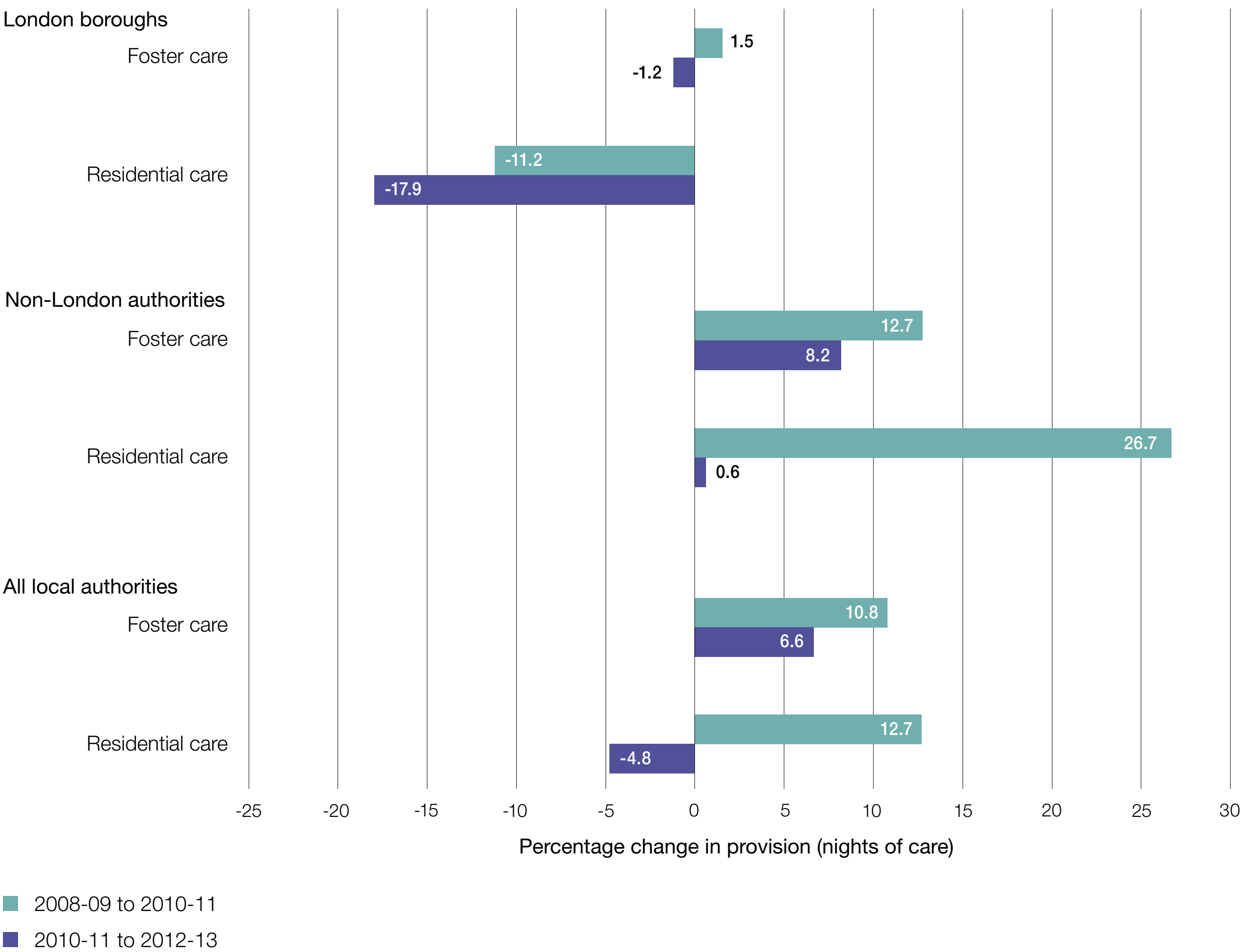
- The pattern for residential care is different, with an increase in spend of 4.3% between 2008-09 and 2010-11, followed by a reduction of 6.8% in the following 2 years. Roughly equal savings due to price were present in both phases. The difference in total cost between the 2 periods was caused by an increase in volume between 2008-09 and 2010-11, which increased costs, and a fall in volume after 2010-11, which reduced costs.

2.25 These patterns contrast with those for adult social care. Here, prices fell in the 2 years after 2010-11. Since 2010-11, despite financial pressures faced by authorities, prices for both foster care and residential care have risen. The capacity for local authorities to secure price-based savings is not guaranteed in all service areas.

Figure 17

Change in provision of residential and foster care for children, 2008-09 to 2012-13

Local authorities have reduced residential care services for looked-after children since the 2010 spending review



Source: National Audit Office analysis of the Chartered Institute of Public Finance and Accountancy data

Part Three

The financial sustainability of local authorities

3.1 Local authorities operate within a legal framework that effectively prevents them becoming insolvent. They cannot borrow to finance revenue expenditure or run a deficit. This is enforced by legal duties requiring them to balance their annual budgets and ensure they have adequate reserves. This framework influences local authorities to reduce their spending in step with any decline in income, to avoid incurring unfinanced expenditure. Financial pressures are therefore more likely to manifest themselves in service rather than financial failure.

3.2 Nonetheless, assessing the financial pressure experienced by authorities so far, and their capacity to absorb further reductions, is fundamental to understanding future impact. It is also vital for identifying whether any local authorities are at risk of breaching their statutory financial responsibilities.

3.3 This section:

- sets out the financial stress experienced by local authorities in making the required savings to date; and
- examines evidence on the financial sustainability of local authorities over the short and medium term.

Evidence of financial stress

3.4 While local authorities have balanced their budgets, they have experienced some financial stress in doing so. The scale and persistence of financial stress is likely to indicate whether an authority is financially sustainable and whether it can make further savings.

3.5 Since 2011-12, the Audit Commission has asked local auditors to complete a survey on the financial resilience of the authority. Auditors provide 2 types of information on the financial stress experienced by local authorities in delivering annual budgets:

- the extent to which the auditor felt the authority had experienced difficulties in delivering its budget; and
- the extent to which the authority needed unplanned in-year actions to balance its budget.

Difficulties in delivering budgets

3.6 Local auditors reported that 16% of single tier and county councils had difficulties in delivering their 2013-14 budgets. No district councils had difficulties in this year.

3.7 The core issues underlying authorities' difficulties include:

- demand pressure in adult and children's social care services;
- local authorities' failure to make planned savings that were large enough and to the agreed timetable; and
- meeting the costs of redundancy programmes and the national pay award.[13]

3.8 The overall picture has worsened slightly in the 3 years that data have been available. The number of single tier and county councils that local auditors describe as having had difficulties in delivering their previous year's budget has increased from 13% in 2011-12 to 16% for 2013-14. There have been marked improvements in relation to district councils, however. None of their auditors felt they had difficulties in delivering their 2013-14 budgets, compared with 7% in 2011-12.

3.9 Within single tier and county councils there are marked differences in how far different types of authority experienced difficulties (**Figure 18** overleaf). Metropolitan districts and unitary authorities are significantly more likely to have had difficulties in delivering their budgets than London boroughs or county councils.

3.10 Metropolitan districts are more likely to have shown signs of persistent stress, with roughly a fifth (19%) having difficulties in delivering their budgets in 2012-13 and 2013-14. The figures for unitary authorities, London boroughs and county councils are 9%, 6% and 4% respectively.

Unplanned in-year actions

3.11 To deliver their 2013-14 budgets, local authorities undertook a range of unplanned actions (**Figure 19** on page 41). More than a quarter of single tier and county councils made unplanned reductions in service spend in 2013-14, increasing from 18% in 2011-12. Unitary authorities and metropolitan districts were the most likely to take this action in 2013-14, 33% in each case. In contrast, the share of authorities that have re-profiled their savings initiatives in-year has fallen substantially since 2011-12.

3.12 Auditors stated that for 8 (5.3%) single tier and county councils, the section 151 officer had reported concerns over the authority's budgetary position to their council.[14] Despite these concerns, auditors also reported that no section 114 notices relating to unbalanced budgets were issued from 2011-12 to 2013-14.

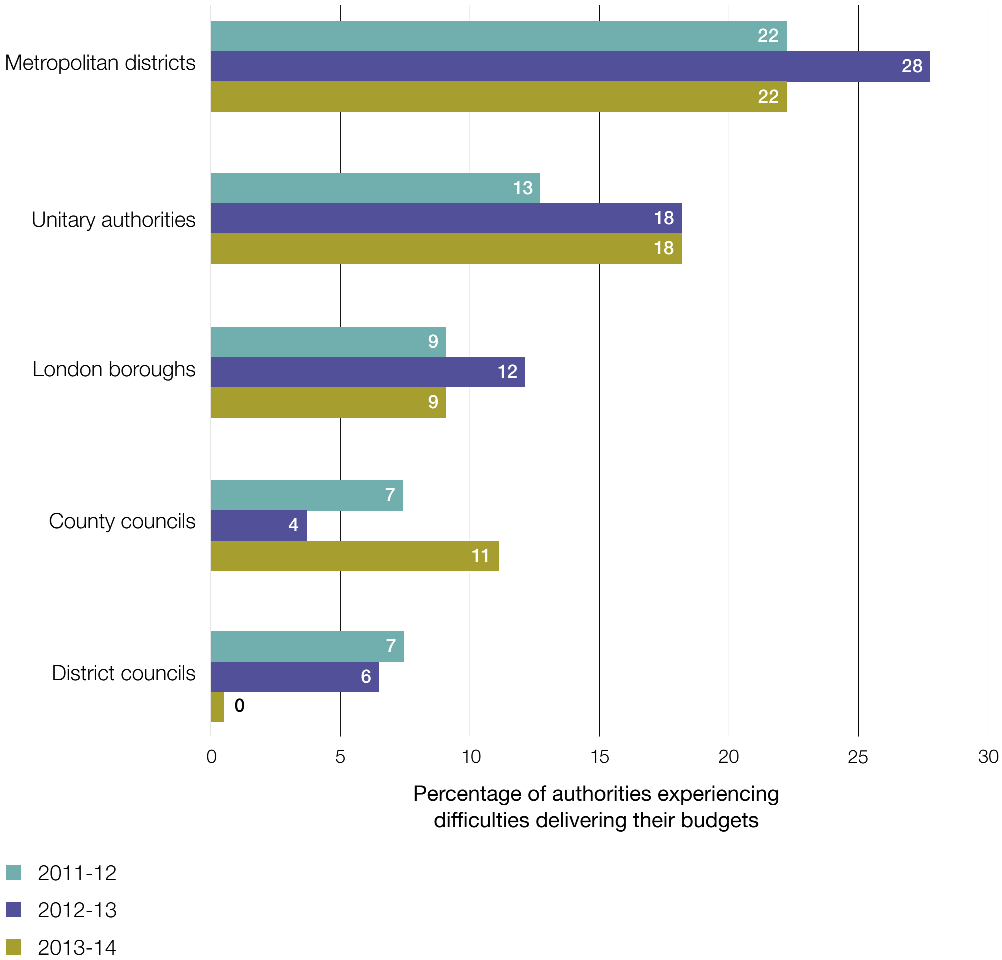
13 Local authority staff were given a national pay award of 1% in 2013. This followed pay freezes from 2010 to 2012.

14 Local authorities are required by statute to appoint a section 151 officer. This is the legal name for chief finance officer, as set out in Section 151 of the Local Government Act 1972. It is usually the Director of Finance or Resource.

Figure 18

Local authorities experiencing difficulties in delivering their budgets in the view of their auditor

Metropolitan districts and Unitary authorities are more likely to have difficulty delivering their budgets



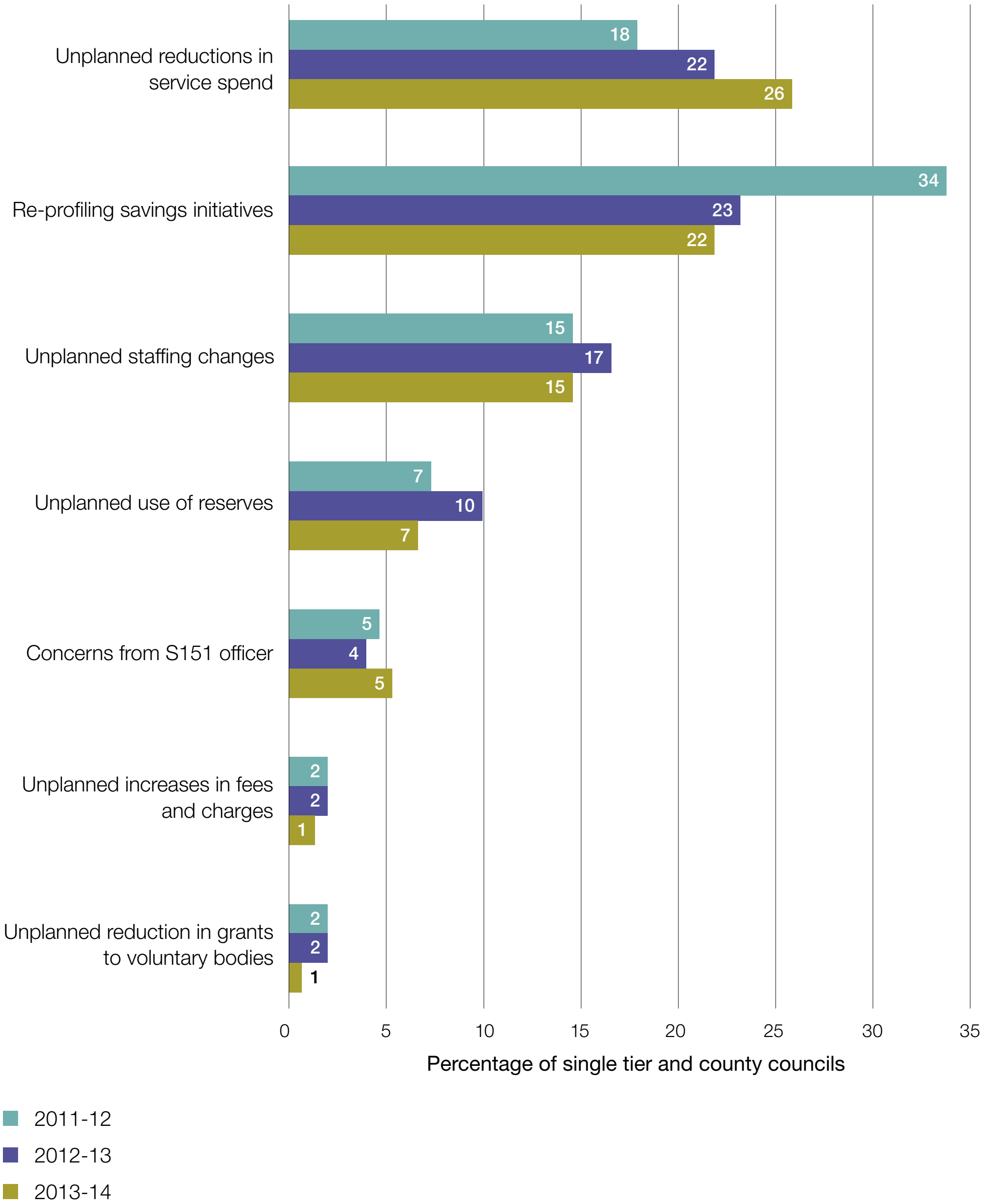
Note

1 Figures have been rounded.

Source: National Audit Office analysis of Audit Commission data

Figure 19
Unplanned in-year actions

The number of unplanned reductions in service spend has increased



Notes

1 Data is for single tier and county councils only.

2 Figures have been rounded.

Source: National Audit Office analysis of Audit Commission data

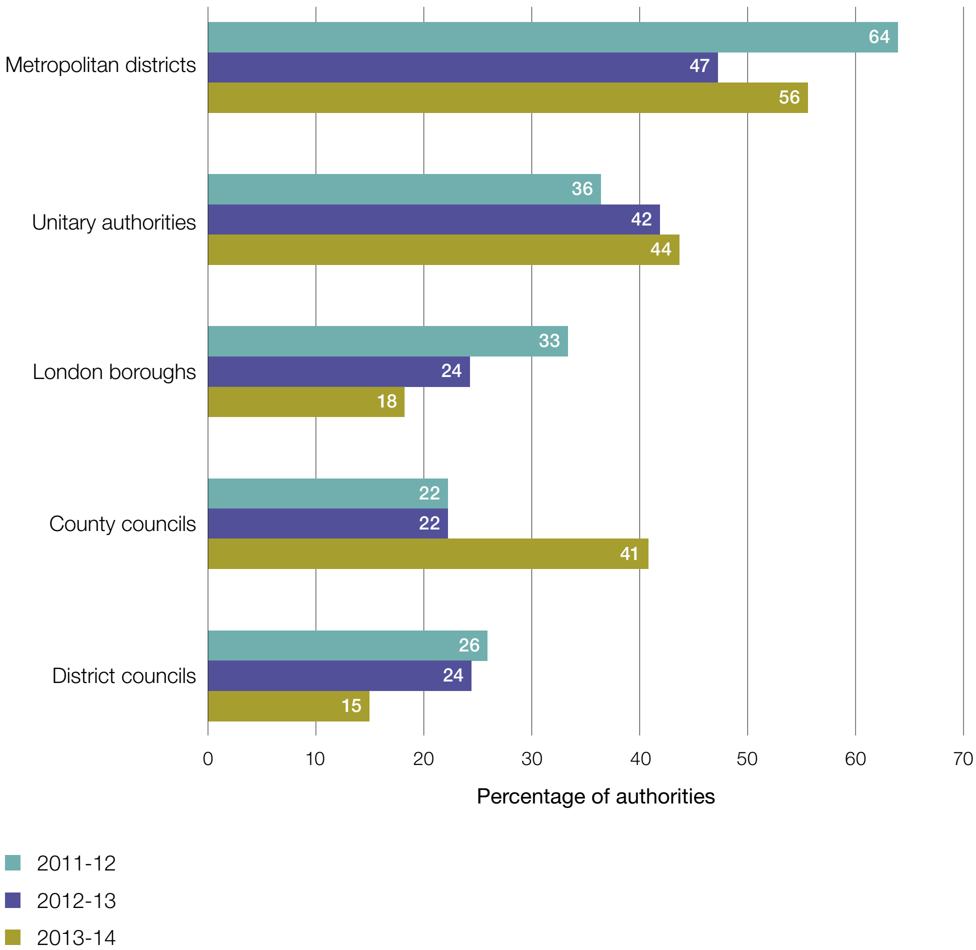
3.13 Metropolitan districts are the most likely to have undertaken an unplanned in-year action in any year (**Figure 20**). In 2012-13 and 2013-14, 44% of metropolitan districts undertook unplanned actions. For unitary authorities, London boroughs and county councils the figures were 29%, 15% and 19% respectively.

3.14 London boroughs and district councils have become less likely to undertake unplanned actions over this period. In contrast, the number of county councils pursuing unplanned actions in 2013-14 has increased.

Figure 20

Authorities undertaking unplanned in-year actions

Metropolitan districts are more likely to have taken unplanned in-year actions



Source: National Audit Office analysis of Audit Commission data

Financial sustainability

Local authorities' funding expectations

3.15 The government has published indicative figures for local authorities' funding for 2015-16. The picture beyond 2015-16 for local government funding is less clear. However, HM Treasury forecasts that government resource budgets (less depreciation) will fall by £10.9 billion (3.8%) from 2015-16 to 2016-17, and by a further £11.4 billion (4.1%) by 2017-18. If the government maintains protections for education and health funding, local authorities need to make savings well above these rates.

3.16 Local authorities we visited believe funding reductions will continue past 2015-16 until at least 2018-19. Some authorities have started to estimate future funding reductions. Bromley Council estimates it will face a further £44 million funding reduction by 2018-19, while Leicestershire County Council expects to have to make savings of £120 million over the same period to reflect reduced government grant and demographic and cost pressures.

Medium-term concerns

3.17 While local authorities are confident they can deliver their 2014-15 budgets, they foresee significant difficulties from 2015-16 onwards. Local authorities say it is becoming harder to manage funding reductions through efficiencies without impacting on services.

- **Blackpool Council** noted that initial savings at the start of the spending review period involved "salami slicing" combined with closing individual ringfenced programmes such as the Working Neighbourhood Fund. Finding the £16 million in savings needed in 2014-15 and £20 million in 2015-16 is proving more difficult.
- **Leicestershire County Council** reported that it had a target of achieving two-thirds of annual savings since 2010-11 through efficiencies, but that it was increasingly difficult to achieve similar efficiency savings.
- **Barnet** believed its proactive response to reduced funding left it in better financial health than some other authorities. However, it still expected profound challenges in maintaining financial sustainability by 2018-19 if reductions continue.
- **Birmingham City Council** said the reductions it faced were becoming harder to manage. Even by 2015-16 it would be hard to maintain statutory services to a minimum standard.
- The **London Borough of Bromley** advised us that it had delivered £60 million of savings over the last 4 years and progressed transformation and other options to protect key services. However, they stated that further funding reductions could result in the council being unable to meet some statutory service levels and not providing discretionary services that matter to their residents.

3.18 Increasing demand on services, particularly in adult social care and children's services, has compounded local authorities' difficulty in making savings. A number of auditors identified increasing demand as a key factor underlying their concerns over the medium-term sustainability of their local authorities.

3.19 Local authorities recognise service transformation and joint working are needed to meet these challenges. For example, Leicestershire County Council told us it expects its Supporting Leicestershire Families Programme to achieve £1 million in savings by 2016-17 by reducing demand on the Children and Young People's Service. However, it appears that initial savings will benefit other bodies, such as the police and health services, rather than the council.

Auditors' views of the financial sustainability of local authorities

3.20 Many local auditors share local authorities' concerns. Auditors' confidence in their authority being well-placed to deliver its budget over the next financial year, and whether it was well placed to deliver its medium-term financial strategy, has reduced for 2014-15 (**Figure 21**). They have raised concerns over 15.9% of single tier and county councils in regards to 2014-15, and 52.3% in relation to the delivery of the medium-term financial strategy. This latter figure has increased from 41.1% in the 2013-14 survey.

3.21 Auditors' concerns about metropolitan districts and unitary authorities have increased steadily since 2011-12. Their concerns over London boroughs have fallen but stayed stable for district councils. As with other indicators from the auditor survey, there has been a marked worsening in auditors' confidence in relation to county councils (**Figure 22** on page 46).

3.22 Auditors' concerns fall into 2 main areas:

- **The capacity of local authorities to continue finding savings given the scale of savings already achieved**

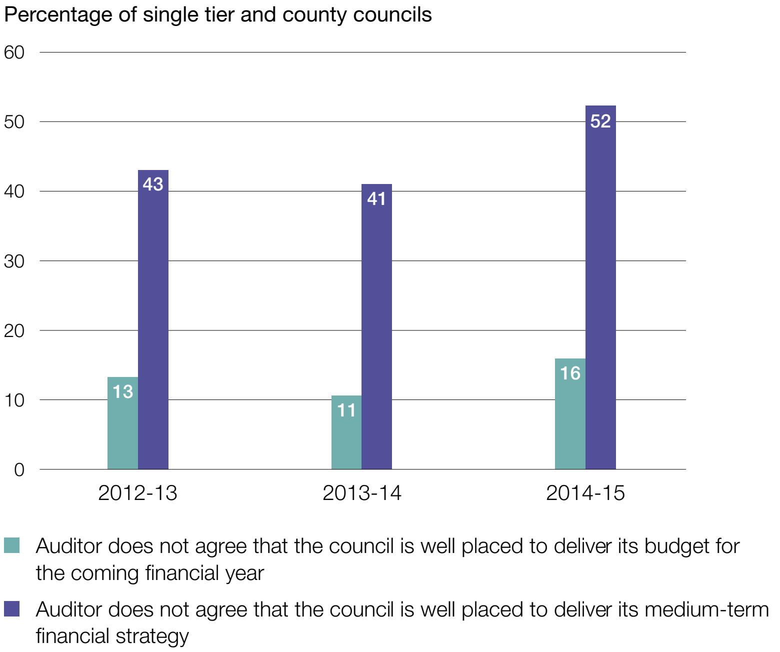
  Many auditors referred to local authorities with substantial unfilled 'funding gaps' for 2015-16 and beyond. Auditors are generally positive about local authorities' financial management and take confidence from their authorities' track record in delivering savings. They are, however, clearly concerned that some authorities have been unable to identify ways of making anticipated savings for 2015-16 and beyond.

- **The risks associated with delivering the transformative change needed to achieve savings year-on-year**

  Where authorities have identified ways of making savings over the medium term, these often involve substantially redesigning and transforming services. These initiatives are required for local authorities to continue to make savings, but are also inherently risky. Auditors identified the long timescales required, the complications of setting up partnerships for activities such as shared services, the difficulties of introducing new job roles and ways of working, and uncertainty as to whether savings will materialise as planned and on schedule.

Figure 21
Auditors' views on the financial health of local authorities

Auditors have increased concerns about financial health in 2014-15 and beyond



Note

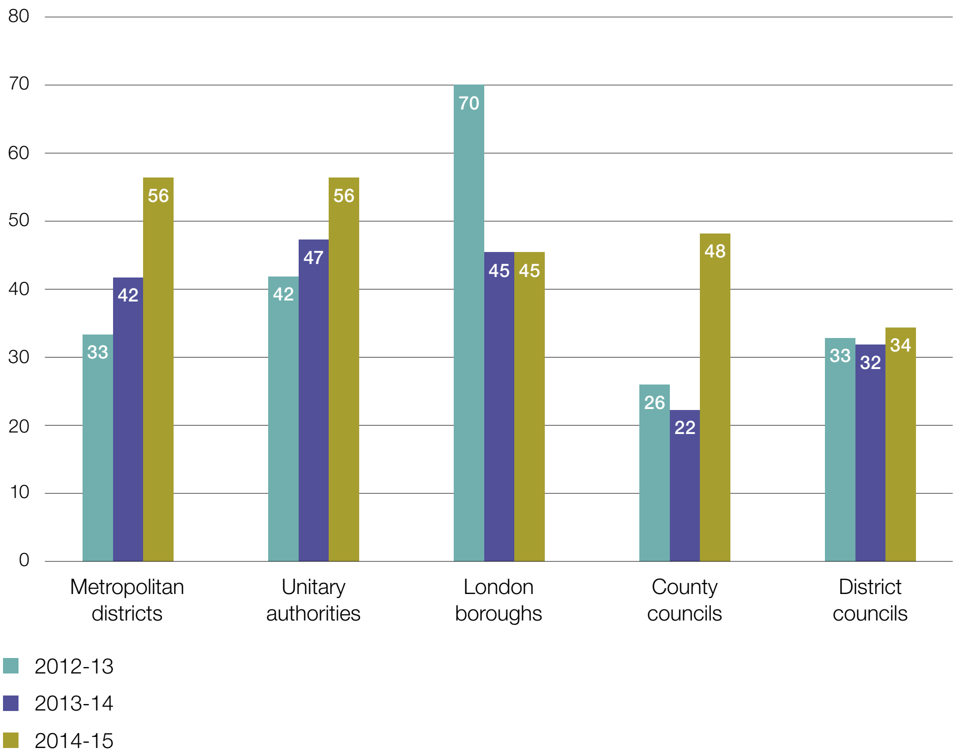
1 Data are for single tier and county councils only.

Source: National Audit Office analysis of Audit Commission data

Figure 22

Authorities where auditors have concerns about their capacity to deliver their medium-term financial plans

Percentage of authorities where auditors have expressed concerns over their ability to deliver their medium-term plans



Source: National Audit Office analysis of Audit Commission data

Appendix One

Our audit approach

1 This study is the first local government report published under the Comptroller and Auditor General's new powers under the Local Audit and Accountability Act 2014. This report examines comparative patterns of change in income, spending and financial and service sustainability across local authorities since 2010-11. It complements the report *Financial sustainability of local authorities 2014*.

2 There were 3 main elements to our work:

- We analysed data from Department for Communities and Local Government (the Department) data to understand the changes in local authority income and expenditure since 2010-11.
- We analysed service and activity data from the Department, local auditors and other key departments to assess the impact funding reductions have had on local authority service spending and provision since 2010-11.
- We gathered information from local authority case studies to gain insight into the financial challenges the sector is experiencing and the different approaches authorities are taking to manage funding reductions and plan for the medium-term future.

3 Our audit approach is summarised in **Figure 23** overleaf. Our evidence base is summarised in Appendix Two.

Figure 23
Our audit approach

Context	Central government Since 2010, the government has reduced funding for local government in England and changed the nature of funding to incentivise local growth.		Local authorities Local authorities must provide services while balancing their budgets and remaining accountable to their electorates.
Our study	Our study examined evidence on the impact of funding reductions on local authorities to give the sector a detailed comparative analysis of patterns of change in income, spending and financial and service sustainability across the sector.		
Purpose of our examination	To assess the impact of spending reforms on local government income, expenditure, and service provision and spend since 2010-11.	To enable local authorities to compare their performance on key financial issues against trends in the wider sector.	To disseminate information across the sector on different strategies and actions taken by local authorities in addressing their financial challenges.
Our evidence (see Appendix Two for details)	We visited 8 case study local authorities, interviewing finance directors and other senior officers.	We analysed quantitative data on local authority income, spending, service activity and staff levels.	We analysed findings from an annual survey of local auditors carried out by the Audit Commission.

Appendix Two

Our evidence base

1 We reached our independent conclusions on the comparative impacts of reducing local authority funding after analysing evidence collected between May and October 2014. Our audit approach is outlined in Appendix One.

2 We reviewed interviews from government departments. For our complementary value for money study, *Financial Sustainability of local authorities 2014*, **we carried out interviews with a range of central government departments**. This study does not directly use those interviews, but we did draw on them to help understand the context of changes to local authority spending, expenditure and service activity levels.

3 We visited case study authorities. We spoke to finance directors and other senior officers at 8 local authorities: London Borough of Barnet, Birmingham City Council, Blackpool Council, London Borough of Bromley, Hastings Borough Council, Leicestershire County Council, Liverpool City Council and West Oxfordshire District Council. We made this purposive selection in order to speak to a range of local authority types, located in different regions, facing different levels of funding pressures. We used these visits to gain insight into the financial challenges the sector is experiencing, approaches some authorities are taking to managing reductions in funding, and the way some authorities are planning for the medium-term future.

4 We analysed quantitative data on local authority income, spending, service activity and staff levels. A separate methodology setting out our approach to our quantitative analysis in detail is available at: www.nao.org.uk/report/impacts-funding-reductions-local-authorities/. In brief:

- we used the Department of Local Government and Communities (the Department's) spending power data to construct a measure of the overall reduction in government funding, and local authority spending power, over the period 2010-11 to 2015-16;
- we collated data on service spend from the Department's *Revenue Account* and *Revenue Outturn* publications, the Department of Health's *PSSEX* publication and Department of Education's *S251* publication, over the period 2010-11 to 2013-14 (2014-15 for the *Revenue Account* publication);

- we collated running cost data from the Department's *Revenue Outturn* and *Provisional Revenue Outturn* publications for 2010-11 to 2013-14; and
- we analysed data on full-time equivalent staff levels from the Office for National Statistics Quarterly Public Sector Employment Survey and the Department for Education's School Workforce in England data for the period 2010-2011 to 2013-14.

5 **We analysed findings from the Audit Commission's annual survey of local auditors**. We analysed these findings to identify trends in auditors' concerns about the financial sustainability of local authorities, breaking down this analysis by different types of local authority.

6 **We consulted an expert panel and interviewed stakeholders**. We organised an expert panel, with senior representatives from local government, the accounting profession and academia. We drew on their expertise and experience to test our methodology, key evidence and emerging issues. We also spoke to representatives from the Local Government Association, the Chartered Institute of Public Finance and Accountancy and Unison. We spoke to these stakeholders to capture their insights into how local authorities were responding to funding reductions.

7 **We carried out a review of research by the National Audit Office and external literature**. We focused on recent National Audit Office research, which covered services delivered by local authorities, such as adult social care, food safety and standards inspections, trading standards and road maintenance. We also examined reports published by stakeholder groups on reported impacts of funding reductions on services and financial sustainability.

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