Financial sustainability of local authorities 2018
Our vision is to help the nation spend wisely.
Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £734 million in 2016.
Ministry of Housing, Communities & Local Government

Financial sustainability of local authorities 2018

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 6 March 2018

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office
5 March 2018
This report reviews developments in the sector and examines whether the Department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.
The National Audit Office study team consisted of:
Alex Burfitt, Mark Burkett, Janiece King, Simon Lowe, Robindra Neogi, Cameron Paton and Sumbay Saffa under the direction of Aileen Murphie.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:
National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Enquiries: www.nao.org.uk/contact-us
Website: www.nao.org.uk
Twitter: @NAOorguk

Contents

Key facts 4
Summary 5
Part One
Challenges to the financial sustainability of local authorities 14
Part Two
Service sustainability 25
Part Three
Financial sustainability 43
Part Four
The role of government 56
Appendix One
Our audit approach 67
Appendix Two
Our evidence base 69
Key facts

49.1%  
real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

28.6%  
real-terms reduction in local authorities’ spending power (government funding plus council tax), 2010-11 to 2017-18

1  
number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available

3.0%  
real-terms reduction in local authority spending on social care services, 2010-11 to 2016-17

32.6%  
real-terms reduction in local authority spending on non-social-care services, 2010-11 to 2016-17

£901 million  
overspend on service budgets by local authorities in 2016-17

66.2%  
percentage of local authorities with social care responsibilities that drew down their financial reserves in 2016-17

10.6%  
percentage of local authorities with social care responsibilities that would have the equivalent of less than three years’ worth of reserves left if they continued to use their reserves at the rate they did in 2016-17

13  
number of departments asked by the Ministry of Housing, Communities & Local Government to provide information as part of the 2015 Spending Review
Summary

1. Since 2010, successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit. Changes in funding arrangements and new pressures on demand have created both new opportunities and further pressures for the sector.

2. Local authorities deliver a range of services. The government sets statutory duties for them to provide services, ranging from adult social care to waste collection. Local authorities also provide discretionary services according to local priorities. The Ministry of Housing, Communities & Local Government (the Department) views authorities’ ability to deliver their statutory services as the defining test of their financial sustainability.

3. 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 to deliver services;
   - taking the cross-government lead in supporting HM Treasury on decisions about local government funding at major fiscal events; and
   - maintaining a system of local accountability that assures Parliament about how local authorities use their resources, including preventing and responding to financial and service failure.

4. Government policy dictates the overall levels and distribution of funding provided to the sector, and local authorities’ statutory responsibilities.

5. While the Department is responsible for the financial framework for local government and developing an overview of the overall service cost pressures faced by local government, responsibility for statutory services delivered by local authorities is spread across government departments. Each department is responsible for establishing its own arrangements to assure itself that services remain sustainable and that statutory responsibilities are being met. These departments are also responsible for giving the Department information on services to support decision-making at major fiscal events.
In our previous work, we described the complex position of the Department in terms of delivering its functions in the context of the localism agenda. Localism gives local authorities greater control over spending decisions, but consequently, the Department has less oversight over their financial sustainability. The same challenge is faced by other departments with responsibility for local services.

This report reviews developments in the sector and examines whether the Department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities. It is entirely compatible with the principles of localism to assess whether the Department and other government departments have enough information to make good decisions about the level and nature of funding provided to local authorities. While we recognise that departmental roles vary, we expect the Department and other government departments to have oversight and assurance mechanisms in place for their policy areas that enable them to understand when local authorities are under threat of being unable to discharge their statutory duties.

Our report

We reported on the financial sustainability of local authorities in 2013 and 2014. This report updates and builds on that work. It has four parts:

- Part One sets out the financial and non-financial challenges faced by local authorities since 2010-11 and examines how they have responded.
- Part Two examines service sustainability by exploring changes in patterns of service spending and activity in local authorities.
- Part Three assesses levels of financial pressure and their implications for financial sustainability in the sector.
- Part Four assesses whether the Department and other departments are sufficiently informed about the risks and impacts from pressures in the sector and are managing those risks. This assessment is informed by our independent analysis of risks and impacts presented in the preceding parts.


3 Comptroller and Auditor General, Financial sustainability of local authorities, Session 2012-13, HC 888, National Audit Office, January 2013.
4 See footnote 1.
Key findings

Financial, demand and cost pressures

9  **Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010-11 to 2017-18.** This equates to a 28.6% real-terms reduction in ‘spending power’ (government funding and council tax). In the 2015 Spending Review and the 2017 Budget, the government provided extra funding to relieve growing spending pressures in adult social care. Consequently, the rate of reductions has levelled off since 2016-17 for social care authorities and is predicted to remain relatively flat until 2019-20 (paragraphs 1.4 to 1.6 and 1.10 to 1.13, and Figures 1 to 3).

10 **Alongside reductions in funding, local authorities have had to deal with growth in demand for key services, as well as absorbing other cost pressures.** Demand has increased for homelessness services and adult and children’s social care. From 2010-11 to 2016-17 the number of households assessed as homeless and entitled to temporary accommodation under the statutory homeless duty increased by 33.9%; the number of looked-after children grew by 10.9%; and the estimated number of people in need of care aged 65 and over increased by 14.3%. Local authorities have also faced other cost pressures, such as higher national insurance contributions, the apprenticeship levy and the National Living Wage (paragraphs 1.15 to 1.21 and Figure 4).

11 **Local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income.** Local authorities have faced funding reductions for six years. For the first three years, authorities as a whole reduced spending on services at a rate in excess of their income reductions, allowing them to build up reserves. In the second three-year period, net reductions in service spending accounted for less than half of the required savings. Instead, in aggregate, local authorities have increasingly offset funding reductions by reducing other spending – including reducing the cost of servicing debt – reducing their net contributions to reserves or drawing them down, and increasing alternative income such as commercial trading profits or external interest (paragraphs 1.22 to 1.29 and Figures 5 and 6).

Service sustainability

12 **Local authorities have protected spending on service areas such as adult and children’s social care where they have significant statutory responsibilities, but the amount they spend on areas that are more discretionary has fallen sharply.** Adult and children’s social care services have seen a reduction of 3.3% and an increase of 3.2% in real terms, respectively. In contrast, spending on planning and development fell by 52.8% in real terms, with spending on housing services and highways and transport falling by 45.6% and 37.1% respectively. Spending on cultural and related services fell by 34.9% (paragraphs 2.2 to 2.3 and Figure 7).
13 Local authorities now spend less on services, and their spending is more concentrated on social care. Since 2010-11, spending on services has fallen by 19.2% in real terms. This is the net outcome of a 3.0% fall in spending on social care and 32.6% fall in spending on non-social-care services. Consequently, social care now accounts for 54.4% of service spend, compared with 45.3% in 2010-11 (paragraphs 2.8 to 2.9).

14 Local authorities have tried to protect front-line services in their savings plans; while this has been successful in some areas, there are signs that services have been reduced in others. In adult social care, the number of users accessing services fell steeply in the early years of funding reductions, and there is evidence that funding pressures in local authorities are adding to pressures within the wider health care system and adult care provider markets. Service provision in some non-social-care services has changed, including reductions in weekly domestic waste collection (a 33.7% reduction in the number of households receiving at least a weekly service between 2010-11 and 2016-17), miles of subsidised bus journeys (a 48.4% reduction from 2010-11 to 2016-17 in England outside of London) and libraries (a 10.3% reduction in the number of service points from 2010-11 to 2016-17). For many service areas, a lack of data on outputs and outcomes means it is difficult to assess the impacts of spending reductions (paragraphs 1.29, 2.21 to 2.28 and 2.32 to 2.33 and Figures 14 to 16).

Financial sustainability

15 Compared with the situation described in our 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities. We noted in 2014 that the sector had coped well financially with funding reductions, but our current work has identified signs of real financial pressure. A combination of reduced funding and higher demand has meant that a growing number of single-tier and county authorities have not managed within their service budgets and have relied on reserves to balance their books. These trends are not financially sustainable over the medium term (paragraphs 3.4 to 3.19 and Figures 17 to 23).

16 Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities’ ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years’ worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17 (paragraphs 3.14 and 3.20 to 3.23, and Figures 20 and 24).
A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful. The authority has effectively placed itself in special financial measures in order to ensure that it avoids unlawful expenditure. The Department had already appointed an inspector in January 2018 to look into financial management and governance at the authority (paragraphs 3.25 to 3.27).

The role of government in securing financial and service sustainability

Assessing funding need

The Department’s work to assess the sector’s funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department’s advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments. At the conclusion of the Spending Review ministers took a cross-government view on the level of funding for local government, taking into account the other calls on government resources and the evidence provided by departments about potential risks of financial and service failure (paragraphs 4.3 to 4.8).

As part of its work for the 2015 Spending Review, the Department identified adult social care as a key area of pressure in the sector. Outcomes from the Spending Review included a new flexibility to increase council tax to pay for social care and the introduction of the Improved Better Care Fund. Since the Spending Review, the Department has continued to monitor pressures in this area alongside the Department of Health & Social Care. This has led to further funding to support social care. This funding has conditions associated with it which might limit some local authorities’ flexibility to spend social care funding on local priorities (paragraphs 4.9 to 4.11 and Figure 3).
The financial model for the sector

20  The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer, such as the adult social care support grant and a second tranche of funding within the Improved Better Care Fund. The Department’s view is that these are responses to new pressures and risks that have been identified by their monitoring. Ultimately, however, the funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives. There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear. Financial uncertainty, both short term and long term, creates risks for value for money as it encourages short-term decision-making and undermines strategic planning (paragraphs 4.19 to 4.24 and Figure 3).

The assurance system for financial sustainability

21  The Department has improved its understanding of the extent to which local authorities are at risk of financial failure. Since our 2014 study, it has improved its oversight of the financial sustainability of the sector. There is evidence that it is systematically collecting and using data and other forms of information and developing relationships with other key departments. It has robust internal reporting mechanisms and engagement from the highest level of management. There remain areas that can be strengthened, however. These include developing analytical work further and engaging more widely with other departments. Understanding and responding to the risk of failure protects value for money, as intervening after failure is likely to be more costly than preventing it in the first place (paragraphs 4.28 to 4.39).

The assurance system for service sustainability

22  There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services. The interdependent and connected nature of service delivery in local authorities is not reflected at the level of government departments. Individual government departments have an understanding of the service areas for which they are accountable, but not necessarily of the potential implications of pressures in other service areas locally. The Department has a role in developing an overview of the overall service cost pressures faced by local government. However, to date it has focussed its attention on priority areas such as social care rather than on understanding the impact of funding reductions across local authority services as a whole (paragraphs 4.38, 4.42 to 4.45, and 4.50 to 4.53).
23 As funding continues to tighten for local authorities and pressure from social care grows, there are risks to statutory services. In certain areas where data are limited, it may not be possible to ascertain whether service levels are being maintained. In other services where there are concerns about performance, departments need to coordinate actions to influence local authorities’ prioritisation rather than simply place competing demands on authorities’ diminishing resources (paragraphs 4.46 to 4.49, 4.51 and 4.54).

**Conclusion on value for money**

The Department

24 The sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since our last study. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams. The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014. The financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

25 The Department’s performance has improved since our last study. The Department’s work on the 2015 Spending Review was an improvement on its predecessors and the Department has improved its oversight of the sector’s financial sustainability. However, conditions in the sector have worsened and the Department must continue to strengthen its oversight and assurance mechanisms to protect against risks to value for money from financial failure in the sector. It must also set out at the earliest opportunity a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure the sector’s future financial sustainability.
Wider government

26 The Department’s capacity to secure the sector’s financial sustainability in the context of limited resources is shaped by the priorities and agendas of other departments. The Department’s improvements in understanding and oversight are necessary but not enough. Equally, because responsibility for services is dispersed across departments, each department has its own narrow view of performance within its own service responsibilities. There is no single central understanding of service delivery as a whole or of the interactions between service areas. To date, the current spending review period has been characterised by one-off and short-term funding fixes. Where these fixes come with restrictions and conditions, this poses a risk of slowly centralising decision-making. This increasingly crisis-driven approach to managing local authority finances also risks value for money.

27 The current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources. The implications for value for money to government from the resulting re-shaping of local government need to be considered alongside purely departmental interests. Departments need to build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than engaging with authorities solely to deliver their individual service responsibilities.

Recommendations

a The Department should continue to strengthen its processes for assessing local authority funding requirements at future spending reviews. It should:

- work with other departments to develop more robust methods for assessing savings and efficiency options available for local authorities; and
- ensure that other departments are informed of the outcomes of the Department’s final analysis and are aware of the possible implications for their service areas, to assist them in discharging their responsibilities for those service areas.

b The Department, together with the Department for Education, should consider whether their current plans to improve their understanding of ongoing cost pressures in children’s social care:

- will provide a genuine understanding of developments in the sector; and
- are being carried out quickly enough given the current pressures in this service area.
c The Department should work with the sector to ensure that the Department’s current activity in areas such as retaining local business rates and the Fair Funding Review will enable it to develop a long-term plan that is genuinely able to address the current financial and demand pressures in the sector and to secure its financial sustainability. As part of this, the Department should:

- engage with the sector to ensure that current plans are sufficiently timely, and assess whether interim measures are required in the meantime;
- use the next spending review to ensure that any new funding framework is based on a review of unfunded service pressures within the sector and an assessment of the absolute level of funding required to meet statutory responsibilities; and
- set out its long-term plans for the flexibility to increase council tax to raise money for adult social care and for the funding currently provided through the Improved Better Care Fund.

d The Department should continue to build on its improved oversight of the sector’s financial sustainability by:

- continuing to develop its analytical work and subjecting this to external scrutiny where possible;
- ensuring that its risk analysis and reporting strike a balance between specific instances of leadership or governance failure in poorly performing individual authorities and systemic issues affecting broader elements of the sector; and
- broadening its engagement with other departments in order to understand pressures on funding and demand in a wider range of service areas.

e The government, led by the Department, should:

- develop a clear understanding of the role and significance of local authorities as a whole in the context of the current funding climate; and
- create an understanding of how funding pressures and increased demand for services are interacting locally and impacting on different services, improving the availability of service outcome data as necessary, and establish a coordinated approach to cross-government engagement with local authorities.
Part One

Challenges to the financial sustainability of local authorities

1.1 Since 2010-11, local authorities have faced a range of challenges to their financial sustainability and their ability to provide services. This part of the report sets out:

- the pressures on funding, demand and costs faced by local authorities; and
- local authorities’ response.

Funding, demand and cost pressures

1.2 Local authorities have been challenged not only by funding reductions but also by growth in demand in certain service areas, as well as other cost pressures.

Funding pressure

Reductions in spending power

1.3 Government funding to local authorities has fallen substantially since 2010-11, to help meet the government’s objective to reduce the deficit. The 2010 Spending Review set out a 27% reduction by 2014-15 in the local government departmental expenditure limit (DEL). The government announced an extra 1% reduction in 2014-15 in the 2013 Budget. The 2013 spending round included a further 10% reduction for 2015-16. The 2015 Spending Review set out a reduction of £6.1 billion in the remaining local government DEL from 2015-16 to 2019-20.

1.4 The Ministry of Housing, Communities & Local Government (the Department) measures the impact of reducing government funding on local authority income via ‘spending power’. This indicator captures the main streams of government funding to local authorities alongside council tax. It also includes some funding streams that are not within the local government DEL.

---

5 Government funding is defined in this report as the grants and funding streams listed by the Department in any given year as components of spending power, with the exception of council tax, Public Health grant, and transfers from health bodies. This definition includes an assumed amount for 50% retained business rates.

6 Until 8 January 2018 the Department was called the Department for Communities and Local Government. We use the current name throughout this report. Similarly, we use Department of Health & Social Care throughout.
1.5 We found that spending power fell by 28.6% in real terms from 2010-11 to 2017-18 (Figure 1). The overall reduction by 2019-20 is forecast to be only slightly higher at 28.7%.

1.6 If council tax is removed, our analysis shows that spending power funded by government fell in real terms by 49.1% from 2010-11 to 2017-18. The reduction is forecast to be 56.3% by 2019-20.

Distribution of funding reductions

1.7 There have been differences in the level of funding reductions between local authorities. Metropolitan district councils saw a median reduction in spending power of 33.9% in real terms from 2010-11 to 2017-18. Over the same period, county councils’ median reduction in spending power was 22.1% (Figure 2 overleaf).

---

**Figure 1**

Estimated change in spending power of local authorities in England, 2010-11 to 2019-20

Previous reductions in spending power have largely levelled off but this is a combination of ongoing reductions in government funding and anticipated increases in council tax

Spending power (real terms in 2016-17 prices) (indexed: 2010-11=100)

- **Spending power**
- **Government-funded spending power**
- **Council tax**

**Notes**
1. Dotted lines indicate Departmental predictions.
2. Spending power is an indicator that captures the main streams of government funding to local authorities alongside council tax.
3. The values of the three data series are indexed against their 2010-11 values to enable comparison from a common starting point.

**Source:** National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Between 2010-11 and 2017-18 the range of reductions in government funding by local authority type was narrow, from a 48.2% median reduction for London boroughs to 51.1% for shire districts. However, these reductions have a proportionately greater impact on the spending power of authorities that depend more on government funding as opposed to council tax. As a consequence, authorities that are relatively more grant-dependent, such as metropolitan district councils, have had greater reductions in their overall spending power.

**Figure 2**
Change in spending power by type of local authority in England, 2010-11 to 2017-18

There is variation in the level of reductions in spending power both between and within different local authority types.

Note
1. The white line in the centre of each block shows the median. The top and bottom of each block show the upper and lower quartiles respectively. The top and bottom error bars show minimum and maximum values respectively.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
1.9 From 2016-17, the Department introduced a new method of allocating revenue support grant, the main government funding stream for authorities. This took account of the main resources available to an authority (including revenue support grant, baseline funding from retained business rates and council tax), rather than focusing only on revenue support grant. This new method was beneficial to authorities that were more grant-dependent but led to relatively larger reductions for less grant-dependent authorities.\footnote{National Audit Office, Transition grant and rural services delivery grant, National Audit Office, February 2017.}

**The 2015 Spending Review**

1.10 The 2015 Spending Review brought about significant changes to local authority funding, which have continued (Figure 3 overleaf).

1.11 Since the 2015 Spending Review, the rate of reduction in spending power has dropped. From 2010-11 to 2016-17 it fell by 28.5%. But from 2016-17 to 2019-20, it is predicted to fall by only by a further 0.4% in real terms. There are differences in funding reductions by authority type, however. London boroughs, metropolitan district councils and unitary authorities will see total reductions in spending power of 1.7%, 0.2% and 0.1%, respectively, in real terms. Total spending power for county councils is forecast to grow by 2.5%. In contrast, however, district councils will see a 13.9% real-terms reduction during this period. The majority of district councils, and a smaller number of unitary authorities, county councils and London borough councils, will stop receiving the revenue support grant by 2019-20.

1.12 The slower rate at which spending power has reduced from 2016-17 reflects a slight slowing in the rate of reductions in government funding. This is partly due to the introduction of the Improved Better Care Fund after the 2015 Spending Review (Figure 3). Council tax income is also likely to rise following the introduction of the new flexibility that enables social care authorities to increase their council tax rate specifically to pay for adult social care (Figures 1 and 3). The ending of council tax freeze grants, which operated from 2011-12 to 2015-16, may also lead to increases in council tax. These compensated local authorities that froze or reduced council tax. Their removal means that there is no financial incentive from government for local authorities to freeze or reduce council tax.
**Figure 3**
Major funding changes at the 2015 Spending Review and later

<table>
<thead>
<tr>
<th>Year announced</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>Social care authorities are allowed to add up to 2% per year to the council tax rate above the referendum threshold from 2016-17 to fund adult social care. From 2017-18 this changed to a maximum of 3% per year, but no more than 6% over the three years from 2017-18 to 2019-20.</td>
</tr>
<tr>
<td>2015-16</td>
<td>The Improved Better Care Fund was announced. This provided grant funding to social care authorities to support adult social care alongside partner health bodies. The initial allocation was £105 million rising to £1.5 billion by 2019-20. An element of the New Homes Bonus was used to resource the fund. An additional tranche of funding announced at the Spring Budget 2017 increased the 2017-18 figure to £1.2 billion, growing to £1.8 billion by 2019-20.</td>
</tr>
<tr>
<td>2015-16</td>
<td>A new flexibility allowing authorities to treat capital receipts as revenue for three years if used to fund service transformation from 2016-17. In 2017-18 it was announced that this would be extended for a further three years, finishing in 2021-22.</td>
</tr>
<tr>
<td>2015-16</td>
<td>Allowing district councils to raise their council tax rate by up to £5 without a referendum, as long as the increase was below 2% in 2016-17. This also applied to 2017-18. For 2018-19 the accompanying limit was raised to 3%.</td>
</tr>
<tr>
<td>2015-16</td>
<td>The publication of a four-year settlement which provided authorities that accepted the settlement and published an efficiency plan with a degree of certainty over elements of their funding up to 2019-20. The elements covered are: revenue support grant, rural services delivery grant transition grant, and the tariffs and top-ups within the business rates retention system.</td>
</tr>
<tr>
<td>2015-16</td>
<td>A new model of allocating revenue support grant was introduced for 2016-17 onwards. A transition grant worth £150 million in both 2016-17 and 2017-18 was introduced for authorities that had lost funding as a result of the new allocation model.</td>
</tr>
<tr>
<td>2015-16</td>
<td>Planned upfifs in rural services delivery grant were enhanced further with an additional £60.5 million in 2016-17 and £30 million in 2017-18.</td>
</tr>
<tr>
<td>2016-17</td>
<td>Publication of the Local Government Finance Bill, which took forward the introduction of 100% local retention of business rates. The bill fell following the dissolution of Parliament before the 2017 general election. In 2017-18 the Department announced plans to introduce 75% local retention by 2020-21.</td>
</tr>
<tr>
<td>2016-17</td>
<td>Announcement of the adult social care support grant, which repurposed £241.1 million of New Homes Bonus to fund adult social care in 2017-18. Some authorities saw a net benefit as their gains from the new grant exceeded their New Homes Bonus losses. Others made a net loss.</td>
</tr>
<tr>
<td>2017-18</td>
<td>2018-19 provisional local government finance settlement announces new business rates pilots and an increase of 1% in the council tax referendum threshold to 3% to reflect inflation. A further £15 million for rural services delivery grant in 2018-19 was also announced.</td>
</tr>
<tr>
<td>2017-18</td>
<td>2018-19 final local government finance settlement announces £150 million in funding for 2018-19 via the adult social care support grant. A further £16 million in funding through the rural services delivery grant for 2018-19 was also announced. This was in addition to the increase in this grant announced at the provisional settlement.</td>
</tr>
</tbody>
</table>

*Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government documents*
1.13 While the overall rate of reduction in spending power slowed following the 2015 Spending Review, much of the new funding that underpins this latest phase of austerity is in principle available only for adult social care. The adult social care council tax flexibility and the Improved Better Care Fund have conditions. 9

1.14 The rate of reduction in spending power from 2016-17 to 2019-20 is 8.2% in real terms, excluding new funding for adult social care. Services other than adult social care are continuing to face reducing funding.

Demand and cost pressures

Demand pressures

1.15 From 2010-11 to 2016-17, the total population grew by 5%. There was also growth in the adult population in need of care and growth in demand relating to homelessness and children’s social care (Figure 4 overleaf). 10 Our 2017 study on homelessness reported on growing demand for services relating to homelessness and identified that elements of recent welfare reforms have contributed to this trend. 11

1.16 Case study authorities illustrated some of the specific pressures faced by authorities, such as increases in the number of referrals to, and the complexity of cases in, both adult and children’s social care. 12

1.17 Case study authorities noted that the pace of growth in demand for children’s social care has accelerated recently. Nationally, numbers of looked-after children saw the second-largest year-on-year increase in 2016-17 since 2000-01. These authorities identified a range of possible reasons, ranging from reductions in spending on early intervention services to the long-term effects of austerity on deprived communities. However, there was no shared or fully evidenced explanation.

1.18 Case study authorities also reported rising demand in relation to services for children with special educational needs or disabilities, or both. Others identified cost pressures linked to asylum-seekers with no recourse to public funds.

Other cost pressures

1.19 Local authorities have also faced a range of other cost pressures. These include increased employer national insurance contributions, the apprenticeship levy and the National Living Wage. Some of our case study authorities also indicated that they had voluntarily increased their spending on children’s social care in response to adverse outcomes from recent Ofsted inspections.

---

9 Income generated by the 1% rise in the council tax referendum limit from 2018-19 was for general use, however, rather than solely for adult social care.

10 This relates to growth in the population in need of care, and does not imply that all individuals in these populations would meet the threshold for local authority-funded care or would request that care even if they met the threshold. It is a measure of change in potential rather than actual demand.


12 See Appendix One and Appendix Two.
Figure 4  
Change in demand in key local authority service areas in England

There has been growth in actual or potential demand in a range of core service areas

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of children looked after</td>
<td>100</td>
<td>102.4</td>
<td>103.9</td>
<td>105.1</td>
<td>106.1</td>
<td>107.5</td>
<td>110.9</td>
</tr>
<tr>
<td>Estimated population in need aged 18 to 64</td>
<td>100</td>
<td>102.2</td>
<td>103.7</td>
<td>105.5</td>
<td>107.8</td>
<td>108.7</td>
<td>109.5</td>
</tr>
<tr>
<td>Estimated population in need aged 65 and over</td>
<td>100</td>
<td>101.9</td>
<td>105.0</td>
<td>107.4</td>
<td>110.1</td>
<td>112.0</td>
<td>114.3</td>
</tr>
<tr>
<td>Households accepted as unintentionally homeless and priority need</td>
<td>100</td>
<td>113.9</td>
<td>121.8</td>
<td>118.4</td>
<td>123.3</td>
<td>130.7</td>
<td>133.9</td>
</tr>
</tbody>
</table>

Source: National Audit Office analysis of departmental data. See standalone methodology

1.20 The National Living Wage was cited frequently by our case study authorities as a significant cause of higher costs. This was particularly true in relation to adult social care, where it was felt to be driving up the cost of care and placing significant pressures on budgets. Our study on the adult social care workforce indicated that the National Living Wage could consume a significant proportion of the income from the adult social care council tax flexibility.13

1.21 In terms of future cost pressures, the possibility of a relaxation of the national public sector pay cap was cited by several case study authorities as a real concern. While pay is negotiated and determined by local government employers and trade unions, it is influenced by what happens in wider national public sector pay policy.

Responses by local authorities

Balance between reducing spending, generating income and using reserves

1.22 In order to absorb funding reductions (in government funding and council tax), authorities can reduce service spend, cut other spending, raise alternative income or use reserves. Our modelling indicates that local authorities have used these latter three options to absorb some of the funding reductions to date.\textsuperscript{14}

1.23 Our modelling indicates a shift in the way that authorities have used these different options since 2010-11 (\textbf{Figure 5} overleaf). For the first three years of funding reductions, local authorities as a whole reduced service spending at a rate in excess of their income reductions. This allowed them to build up their reserves and also offset growth in other spending.

1.24 In the second three-year period, the scale of funding reductions was similar to the first period, but net reductions in service spend accounted for less than half of the required savings. Instead, at the aggregate level, local authorities have increasingly offset funding reductions by reducing other spending, reducing their net contributions to reserves or drawing them down, and growing alternative income such as commercial trading profits or external interest.

1.25 This suggests that authorities have moved from simply reducing service spend to looking for alternative savings and sources of income. However, a growing reliance on the use of reserves to offset funding reductions raises questions about the sustainability of the current model.

Other spending and income generation

1.26 Savings in other spending areas in the second phase of this period have come primarily from reductions in local authorities’ debt-servicing costs. This is likely to reflect authorities recalculating the minimum revenue provisions they must set aside to cover debt repayments.\textsuperscript{15} The level at which authorities fund capital expenditure directly from their revenue resources has also fallen (\textbf{Figure 6} on page 23). Savings from recalculating minimum revenue provision charges or reducing capital spend funded by revenue cannot be repeated indefinitely by individual local authorities.

1.27 Local authorities have secured increased income from other sources. This has come from growth in external interest payments, which grew by 31.4% to £707 million from 2013-14 to 2016-17, and growth in trading profits, which grew by 15.6% to £358 million. Several of our case study authorities had begun to make commercial investments. In recognition of this trend the Department has recently updated its statutory guidance on local authority investments.

\textsuperscript{14} See Appendix Two and standalone methodology.
\textsuperscript{15} Comptroller and Auditor General, \textit{Financial sustainability of local authorities: capital expenditure and resourcing}, Session 2016-17, HC 234, National Audit Office, June 2016.
Figure 5
Methods used to address year-on-year income reductions: all local authorities in England

Local authorities have moved from an approach of addressing income reductions predominantly through reductions in service spend to a mixed approach including savings on other spending, the use of reserves and generation of alternative income.

<table>
<thead>
<tr>
<th>Year-on-year change (£bn) (real terms in 2016-17 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in service spend (£bn)</td>
</tr>
<tr>
<td>Change in appropriations to/from reserves (£bn)</td>
</tr>
<tr>
<td>Change in other spending (£bn)</td>
</tr>
<tr>
<td>Change in alternative income (£bn)</td>
</tr>
</tbody>
</table>

Notes
1. The chart shows how funding reductions in each year have been addressed through four different actions. The sum of the four bars in each year is equal to the level of funding reduction in that year. Note that in all instances negative numbers represent an offset to funding reductions while positive figures represent an additional use of funding. Thus for alternative income a negative figure represents growth in income and shows the value of the funding reduction that has been offset by income growth. A positive figure for alternative income is in fact a reduction in income relative to the previous year. A negative figure for appropriations to or from reserves implies either that reserves were built up less or were drawn down more than the previous year.
2. Totals may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Figure 6
Change in selected other spending items and alternative income: all local authorities in England, 2010-11 to 2016-17

Local authorities have made large savings in areas such as debt servicing, and have also begun to generate increased alternative income in areas such as trading profits and external interest.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt servicing</td>
<td>3.88</td>
<td>3.95</td>
<td>3.88</td>
<td>3.85</td>
<td>3.72</td>
<td>3.48</td>
<td>3.17</td>
</tr>
<tr>
<td>Capital spend funded from revenue (CERA)</td>
<td>0.64</td>
<td>0.92</td>
<td>1.08</td>
<td>1.25</td>
<td>1.19</td>
<td>1.13</td>
<td>1.01</td>
</tr>
<tr>
<td>Trading profit</td>
<td>0.29</td>
<td>0.31</td>
<td>0.30</td>
<td>0.31</td>
<td>0.27</td>
<td>0.33</td>
<td>0.36</td>
</tr>
<tr>
<td>Interest payments</td>
<td>0.53</td>
<td>0.62</td>
<td>0.56</td>
<td>0.54</td>
<td>0.53</td>
<td>0.66</td>
<td>0.71</td>
</tr>
</tbody>
</table>

Notes
1. CERA is capital expenditure funded from the revenue account. It is a direct contribution from revenue by local authorities to support their capital programmes.
2. Totals may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
1.28 In 2016-17, the Department introduced a new three-year flexibility to allow authorities to treat capital receipts as revenue income in order to invest in transforming services. The Department told us that local authorities used £118.5 million of capital receipts flexibly in 2016-17.

Reducing service spending

1.29 Our case study local authorities identified a diverse range of measures that they had pursued to deliver savings in service spending. Key themes are apparent from the diversity:

- **Protecting frontline services**
  Savings programmes have often been based on efficiencies or service redesign, and local authorities had sought to avoid affecting front-line services. Nationally, authorities reduced total spending on management and support costs by 25.7% in real terms.

- **Evolution in the nature of savings programmes**
  There is evidence that savings programmes have changed since our 2014 review of the sector:
  - Authorities have tended to moved away from a phase of relatively ‘easy wins’ like closing government-funded programmes or delivering efficiencies through ‘salami slicing’ (setting standard efficiency targets across multiple service areas). Some of these early savings initiatives, such as freezing adult social care fees or restructuring senior teams, can only be sustained for so long or undertaken so many times.
  - We found growing evidence that authorities were redesigning and transforming services, often driven by the use of digital technologies to support both business management and service delivery.

- **Concerns over future service savings**
  Given the length of time local authorities have been delivering savings, they report that they are nearing the end of their ability to make further service savings without impacting on front-line services. Ongoing income and demand pressures, with uncertainty about long-term funding arrangements, have created a situation in which they are likely to have to reduce spending on front-line services. This may lead to reductions in service levels and activities, although the authorities had not yet identified where these would occur.

16 The duration of the flexibility has since been extended to six years.
Part Two

Service sustainability

2.1 This part reviews the pattern of spending reductions by service area and examines the implications in terms of service activity and outcomes.

Changes in patterns of service spending

Protecting key services

2.2 Our 2014 report identified that local authorities had sought to protect service areas, such as adult and children’s social care, where they had significant statutory responsibilities.

Distribution of spending reductions

2.3 Adult and children’s social care services have been relatively protected, seeing a reduction of 3.3% and an increase of 3.2% in real terms, respectively (Figure 7 overleaf). Spending on environmental services, which include statutory duties to collect and dispose of waste, has also seen smaller spending reductions than other services. Some other service areas have seen substantial reductions in spending, however.

Trends over time

2.4 Spending on social care reached its lowest point in 2014-15 (Figure 8 on page 27). The increase in spending in 2016-17 is likely to reflect local authorities’ use of council tax flexibility to support adult social care.

2.5 Spending on other services fell rapidly in the first year of the funding reductions and has continued steadily. Initially this was partly driven by the cancellation of certain government-funded programmes delivered by local authorities, such as the Working Neighbourhoods Fund.

2.6 Figure 8 sets out the change in spending on non-schools education. It shows estimated spending reductions by local authorities on education and certain children’s services. It excludes spending supported by funding passed directly to schools or funded by grants. It includes local authority-funded spending on areas like early years (including Sure Start), school standards and improvement, special educational needs, school transport and services for young people. Local authorities’ spending on this group of activities has fallen by an estimated 40.5% in real terms.
Figure 7
Change in spend by service area, 2010-11 to 2016-17 – all local authorities in England

Spend on social care has been relatively protected, but several other service areas have seen large reductions since 2010-11

Note 1: Data shown are net current expenditure. However, for adult social care we also include transfers from health care bodies. This includes the element of the Better Care Fund received and used by local authorities.

Note 2: GFRA is the General Fund Revenue Account. This provides revenue funding for the bulk of local authority services and is funded primarily by government grants, business rates and council tax. It is separate to the housing revenue account which is used to maintain local authority housing stock and is funded primarily through rental income.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
A theme from our case study visits was that where spending in non-schools education had fallen this was often driven by reductions in discretionary spending on early years support and services for young people. Separate data from the Department for Education indicate that, from 2010-11 to 2016-17, spending on youth services fell by 65.5% in real terms, and spending on Sure Start fell by 49.8%.

Figure 8
Spend by service: all local authorities in England, 2010-11 to 2016-17

Social care and non-schools services have seen the levels of spending reduction tail off in recent years, but this has not been the case for other service areas.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Social care (£bn)</td>
<td>23.2</td>
<td>22.9</td>
<td>22.4</td>
<td>22.4</td>
<td>22.1</td>
<td>22.2</td>
<td>22.5</td>
</tr>
<tr>
<td>Non-schools education (£bn)</td>
<td>6.8</td>
<td>6.0</td>
<td>4.9</td>
<td>4.3</td>
<td>4.7</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Other services (£bn)</td>
<td>21.2</td>
<td>18.8</td>
<td>18.0</td>
<td>17.2</td>
<td>16.6</td>
<td>15.6</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Note
1. Change in non-schools education is an estimate. See standalone methodology.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Reduction and concentration of service spending

2.8 The overall level of service spending by local authorities has fallen. Since 2010-11, overall service spending by all local authorities has fallen by 19.2% in real terms. This is the net outcome of a 3.0% fall in spending on social care and 32.6% fall in spending on other services. The scale and pattern of service reductions has varied between different types of authority (Figure 9). Figure 9 also shows change in two-tier areas, which includes combined spend by county and district councils.

2.9 A consequence of reductions in non-social-care spend outstripping those for social care is that remaining service spend is increasingly concentrated on social care. Social care spending now accounts for 54.4% of overall service spend in 2016-17 compared with 45.3% in 2010-11. This pattern has varied by authority type and area: metropolitan districts saw an increase from 46.9% to 56%; London boroughs increased from 46.4% to 54.1%; and unitary authorities increased from 43.4% to 55.9%. Social care as a share of overall service spend in two-tier areas increased from 45% to 52.7% over the same period.

Variation by sub-service

2.10 There are differences in spending reductions at the sub-service level (Figure 10 on pages 30 and 31). Spending on Supporting People, a programme that provides housing-related support to vulnerable people, has fallen by 69.2%, compared with a fall of 45.6% in housing services overall. Spending on community safety has fallen 51.1% compared with the 16.9% reduction in its parent service, environmental and regulatory services. Both Supporting People and community safety are mainly paid for through discretionary spending.
Figure 9
Change in overall service spending by type of local authority in England, 2010-11 to 2016-17

The reduction in overall service spend in different authority types is the net outcome of limited falls or even growth in social care spend offset by large falls in other service spending

<table>
<thead>
<tr>
<th>Change in overall service spend 2010-11 to 2016-17 (%)</th>
<th>Metropolitan districts</th>
<th>London boroughs</th>
<th>Unitary authorities</th>
<th>Two-tier areas</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>-25.0</td>
<td>-22.0</td>
<td>-20.8</td>
<td>-13.2</td>
<td>-19.2</td>
<td></td>
</tr>
<tr>
<td>-37.8</td>
<td>-33.2</td>
<td>-38.3</td>
<td>-25.3</td>
<td>-32.6</td>
<td></td>
</tr>
<tr>
<td>-10.4</td>
<td>-9.0</td>
<td>2.1</td>
<td>1.7</td>
<td>-3.0</td>
<td></td>
</tr>
</tbody>
</table>

Notes
1. ‘Non-social-care services’ includes non-schools education services.
2. The ‘Two-tier areas’ data series combines the data from the shire districts and county councils.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology
There are marked differences in changes in spend between sub-services within larger service areas.

**Planning and development services (53% reduction)**
- Economic development
- Environmental initiatives
- Community development
- Development control
- Building control
- Planning policy

**Housing services (GFRA only) (46% reduction)**
- Supporting People
- Private sector housing renewal
- Housing strategy and other
- Homelessness administration, prevention and support
- Other council property
- Other welfare services
- Housing benefits administration
- Temporary accommodation

**Highways and transport services (37% reduction)**
- Traffic management and road safety
- Other roads (structural and routine maintenance)
- Winter service
- Transport planning, policy and strategy
- Principal roads (structural and routine maintenance)
- Bridges (structural maintenance)
- Public transport
- Street lighting
- Parking services

![Bar chart showing changes in spending by sub-service by local authorities in England, 2010-11 to 2016-17](chart.png)
Figure 10 Change in spending by sub-service by local authorities in England, 2010-11 to 2016-17

There are marked differences in changes in spend between sub-services within larger service areas.

Notes
1. We do not show data for adult social care as changes in data definitions in 2013-14 mean that it is not possible to compare subservice areas over this period.
2. GFRA is the General Fund Revenue Account.
3. A small number of sub-services have been excluded for presentational purposes. See standalone methodology.
4. Data for children’s social care is drawn from a different source to that shown in Figure 7. As a result, the percentage change figures at the parent service level are not the same.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government and Department for Education data. See standalone methodology.
Protecting services by drawing on alternative resources

Total spend

2.11 Total service spending includes net current expenditure which is funded by an authority’s own resources, such as business rates, grants and council tax. Total spending is also funded by income generated within the service area and reserved for use within the service. This includes income from sales, fees and charges or transfers from other public bodies. Our analysis shows that, in many service areas, total spend has not fallen at the same rate as net current expenditure (Figure 11).

2.12 In some sub-services, the implications of this are marked. Net current spending on development control fell by 52.9% in real terms from 2010-11 to 2016-17 (Figure 10). However, due to an increase in income sales, fees and charges, total spend on this service area fell by only 6.7%.

Sales, fees and charges income

2.13 Recent growth in income from sales, fees and charges means that a greater share of the cost of service provision now falls on the service user (Figure 12 on page 34). Across all non-social-care service areas as a whole, income from sales, fees and charges increased from 16.1% to 21.9% as a share of total spend.

Capital spending

2.14 A number of our case study authorities said that, where they can legitimately treat revenue spending incurred as part of a capital investment as capital expenditure, they do. Capitalising revenue costs in this way means they can be met from sources such as capital receipts or borrowing, rather than from authorities’ revenue income.

2.15 Capitalising revenue costs may be of value in the short term, allowing authorities to offset certain immediate revenue pressures. However, this approach may not be sustainable over the long term. Debt costs must be met from revenue resources and capital receipts may be limited or required to support other elements of an authority’s capital programme.17

2.16 Capital spending in non-social-care services has increased in this period (Figure 13 on page 35).18 Overall, reductions in net current revenue and total revenue expenditure in these service areas need to be considered in the context of overall spending.

17 Comptroller and Auditor General, Financial sustainability of local authorities: capital expenditure and resourcing, Session 2016-17, HC 234, National Audit Office, June 2016.
18 However, some of this recent growth is likely to reflect investments made by authorities for commercial purposes rather than necessarily to support service provision.
Figure 11
Change in net current and total service expenditure, 2010-11 to 2016-17: all local authorities in England

In many service areas, total spend which includes sales, fees and charges and other income has not fallen as sharply as authorities' net current spending.

Change in expenditure 2010-11 to 2016-17 (%) (real terms in 2016-17 prices)

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Change in net current expenditure (%)</th>
<th>Change in total expenditure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and development services</td>
<td>-52.8</td>
<td>-34.2</td>
</tr>
<tr>
<td>Housing Services (GFRA only)</td>
<td>-45.6</td>
<td>-25.1</td>
</tr>
<tr>
<td>Highways and transport services</td>
<td>-37.1</td>
<td>-19.3</td>
</tr>
<tr>
<td>Cultural and related services</td>
<td>-34.9</td>
<td>-30.6</td>
</tr>
<tr>
<td>Environmental and regulatory services</td>
<td>-16.9</td>
<td>-11.6</td>
</tr>
<tr>
<td>Central services</td>
<td>-14.6</td>
<td>-21.3</td>
</tr>
<tr>
<td>Adult social care</td>
<td>-3.3</td>
<td>-3.6</td>
</tr>
<tr>
<td>Children's social care</td>
<td>3.2</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Notes
1. The net spend for adult social care has already been adjusted for transfers from health bodies. These transfers are also in the total spend figure and account for the similarity between the two figures.
2. GFRA is the General Fund Revenue Account. This provides revenue funding for the bulk of local authority services and is funded primarily by government grants, business rates and council tax. It is separate to the housing revenue account which is used to maintain local authority housing stock and is funded primarily through rental income.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Figure 12
Change in sales, fees and charges income as a share of total spend by service: all local authorities in England

Sales, fees and charges income now represents a greater share of total spend in many service areas

Notes
1. Children’s social care is excluded as sales, fees and charges constitute only a minor element of total spend: no more than 2% in either 2010-11 or 2016-17.
2. GFRA is the General Fund Revenue Account. This provides revenue funding for the bulk of local authority services and is funded primarily by government grants, business rates and council tax. It is separate to the housing revenue account which is used to maintain local authority housing stock and is funded primarily through rental income.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Figure 13
Change in combined total revenue and capital spend in non-social-care services (excluding housing services) by local authorities in England

Capital spending on many service areas has grown since 2010-11, and now represents a greater share of combined revenue and capital spending in non-social-care services

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Spend (£bn)</th>
<th>Capital Spend (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>36.1</td>
<td>16.1</td>
</tr>
<tr>
<td>2011-12</td>
<td>33.1</td>
<td>16.9</td>
</tr>
<tr>
<td>2012-13</td>
<td>32.0</td>
<td>16.2</td>
</tr>
<tr>
<td>2013-14</td>
<td>31.0</td>
<td>17.6</td>
</tr>
<tr>
<td>2014-15</td>
<td>30.3</td>
<td>20.5</td>
</tr>
<tr>
<td>2015-16</td>
<td>29.6</td>
<td>22.2</td>
</tr>
<tr>
<td>2016-17</td>
<td>28.3</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Note
1 Housing services are excluded. See methodology.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Public health grant

2.17 Public health funding transferred to local government in 2013-14. Several case study authorities gave examples of service activities with public health impacts (in areas such as parks, children’s services and keeping older people independent) that they funded from the ringfenced public health grant. In general, these activities had been funded previously from unringfenced income. We saw no evidence that these activities fall outside the grant conditions. Overall, it appears that public health grant has provided a useful resource for some authorities to maintain spending on pre-existing activities (related to the wider determinants of health) that may not have continued without it.

2.18 Public Health England told us that it continues to ensure that assurance arrangements are in place over the use of the grant and that its main and primary purpose remains the public’s health. The government intends to replace the ringfenced public health grant and conditions with retained business rates funding from April 2020.

Implications for service outputs and outcomes

2.19 Reductions in spending experienced by local authorities do not necessarily lead directly to equivalent reductions in service activity. For instance, authorities may be providing the same service level more efficiently.

Adult social care

2.20 In 2016, the Care Quality Commission (CQC) stated that adult social care was “approaching a tipping point”. Its 2016-17 review stated that, while some areas had moved back from this point, others had moved closer.

Reductions in provision: impacts on users

2.21 Our 2014 study showed that fewer users were accessing different forms of adult social care for a number of years prior to 2010-11. However, this pattern accelerated from 2010-11 to 2013-14, particularly in relation to day care and homecare. A number of our case study authorities stated that they had reorganised day-care services in the early stages of austerity. New national data introduced from 2014-15 indicate that the number of users receiving services is still reducing, although at a slower rate. However, these data are not comparable with previous data.

2.22 The implications of service reductions for users are not clear. The CQC has cited analysis that suggests levels of unmet need among those aged over 64 have increased markedly since 2010. However, the NHS Health Survey for England shows that unmet need has remained relatively stable between 2011 and 2016 for this age group.

2.23 Our case studies provided mixed pictures of the implications for service users where service levels have fallen. Some thought that former users would have accessed alternative forms of provision. However, others were not clear how service users had been affected.

2.24 Where users have accessed services, national data on user satisfaction and outcomes have largely remained stable.

**Impacts on health bodies and the social care market**

2.25 There is some evidence that pressures on adult social care services are being passed on to the health sector. The number of days by which transfers of care were delayed that can be attributed wholly or partly to social care more than doubled between the last quarter of 2013-14 and the last quarter of 2016-17.

2.26 Government has provided additional funding through the second tranche of funding in the Improved Better Care Fund to help local authorities and health bodies address this complex issue. Data from the first three quarters of 2017-18 suggests that the number of days by which transfers of care were delayed attributable partly or wholly to social care has begun to fall. By quarter three of 2017-18 the number of days of delayed transfers of care attributable wholly or partly to social care had fallen by 23.2% from its peak in quarter four of 2016-17.

---

22 See footnotes 19 and 20.


24 In both pieces of analysis the definition of need used differs from the eligibility criteria used by local authorities to determine whether they will provide state-funded care. Both pieces of analysis include individuals who would have fallen below the local authority threshold.

Market fragility

2.27 Since 2010-11, local authorities have reduced staffing costs in adult social care significantly (Figure 14). In contrast, running costs, which represented 77.6% of total spend in 2010-11 and include payments to external providers, initially stayed stable before increasing from 2014-15.26 Several of our case study authorities said they had initially held down fees to social care providers but that this had proved unsustainable because of the pressures it created for providers.

2.28 A number of other bodies have raised concerns about market fragility.27 The government intends that local authorities should use a share of the second tranche of the Improved Better Care Fund to stabilise provider markets.

Children’s social care

2.29 Our studies on children in care and children in need of protection have raised concerns about the outcomes for children.28 Furthermore, the overall effectiveness of 20% of authorities’ children’s services is rated as being inadequate by Ofsted. The overall effectiveness of a further 46% is rated as requiring improvement.29 However, neither Ofsted’s work nor our previous studies have indicated that these outcomes are directly linked to pressure on local authorities’ budgets.30

2.30 Our case study authorities tended to indicate that pressures in this area were driven by factors such as growing demand and issues with the supply of professional staff or child placements, rather than budget reductions. Furthermore, many aspects of children’s social care services are statutory responsibilities, which means that pressure in this area tends to lead to use of reserves or spending reductions in other service areas, rather than a reduction in service.

26 The recent increase in spend on running costs might represent local authorities reviewing the level of payments made to external providers. However, if authorities have switched from providing services directly to increasing outsourcing this may also have driven this outcome.

27 Competition and Markets Authority, Care homes market study: Final report, November 2017. Available at: https://assets.publishing.service.gov.uk/media/5a1fdf30e5274a750b82533a/care-homes-market-study-final-report.pdf


30 However, other work has argued that financial pressures may have led to rationing in the provision of certain children’s social care services, particularly in more deprived areas. C J R Webb and P Bywaters (2018): ‘Austerity, rationing and inequity: trends in children’s and young peoples’ service expenditure in England between 2010 and 2015’. Local government studies, published online 6 February 2018.
Figure 14

Change in type of spending on adult social care for local authorities with social care responsibilities in England

Local authorities’ spend on adult social care employee costs has fallen in every year since 2010-11, but running costs, which includes payments to external service providers have grown.

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee costs (%)</th>
<th>Employee costs (real terms in 2016-17 prices (£bn))</th>
<th>Running costs (%)</th>
<th>Running costs (real terms in 2016-17 prices (£bn))</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>100.0</td>
<td>4.9</td>
<td>100.0</td>
<td>16.8</td>
</tr>
<tr>
<td>2011-12</td>
<td>88.0</td>
<td>4.3</td>
<td>100.5</td>
<td>16.9</td>
</tr>
<tr>
<td>2012-13</td>
<td>80.2</td>
<td>3.9</td>
<td>100.6</td>
<td>16.9</td>
</tr>
<tr>
<td>2013-14</td>
<td>75.4</td>
<td>3.7</td>
<td>99.0</td>
<td>16.7</td>
</tr>
<tr>
<td>2014-15</td>
<td>73.9</td>
<td>3.6</td>
<td>98.8</td>
<td>16.6</td>
</tr>
<tr>
<td>2015-16</td>
<td>71.2</td>
<td>3.5</td>
<td>102.0</td>
<td>17.2</td>
</tr>
<tr>
<td>2016-17</td>
<td>68.1</td>
<td>3.3</td>
<td>104.5</td>
<td>17.6</td>
</tr>
</tbody>
</table>

Note

1. Local authorities with social care responsibilities are London boroughs, metropolitan districts, county councils and unitary authorities.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
2.31 The Association of Directors of Children’s Services and some authorities we talked to have begun to raise concerns about the long-term implications of reductions in discretionary spending on early years provision, such as Sure Start and services for young people. They questioned whether there is a risk that this may be linked to recent increases in demand for children’s social care services.

Non-social-care services

2.32 The availability of data in non-social-care areas varies. In some areas, there have been substantial reductions in spending, but it is hard to assess the implications in terms of service activity from national data (Figure 15).

2.33 Where data are available, there is a mixed picture of the extent to which activity and outcomes in these service areas had changed (Figure 16 on page 42). Changes in local authority activity can be driven by a range of factors other than funding reductions. Reductions in local authority activity also do not necessarily imply that service outcomes will have fallen proportionately, as there can be improvements in efficiency or effectiveness.
Figure 15
Selected sub-service areas where there are limited data on local authority activity, for all local authorities in England 2010-11 to 2016-17

There are a number of sub-services or activities where spending has fallen markedly, but there are limited data on what the implications for local service activity has been

<table>
<thead>
<tr>
<th>Service area</th>
<th>Sub-service/activity</th>
<th>Change in total expenditure (%)</th>
<th>Change in total expenditure (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural services</td>
<td>Arts development and support</td>
<td>-41.4</td>
<td>-67</td>
</tr>
<tr>
<td></td>
<td>Community centres and public halls</td>
<td>-34.0</td>
<td>-36</td>
</tr>
<tr>
<td></td>
<td>Tourism</td>
<td>-48.1</td>
<td>-83</td>
</tr>
<tr>
<td>Environmental and regulatory services</td>
<td>Community safety (crime reduction)</td>
<td>-54.0</td>
<td>-203</td>
</tr>
<tr>
<td></td>
<td>Community safety (safety services)</td>
<td>-53.6</td>
<td>-127</td>
</tr>
<tr>
<td>Highways and transport</td>
<td>Traffic management and road safety (other)</td>
<td>-41.7</td>
<td>-128</td>
</tr>
<tr>
<td></td>
<td>Road safety education and safe routes (including school crossing patrols)</td>
<td>-35.5</td>
<td>-65</td>
</tr>
<tr>
<td></td>
<td>Winter service</td>
<td>-37.1</td>
<td>-88</td>
</tr>
<tr>
<td>Housing services</td>
<td>Housing welfare: Supporting People</td>
<td>-67.5</td>
<td>-996</td>
</tr>
<tr>
<td>Planning and development</td>
<td>Community development</td>
<td>-56.2</td>
<td>-360</td>
</tr>
<tr>
<td></td>
<td>Economic development</td>
<td>-51.8</td>
<td>-724</td>
</tr>
<tr>
<td>Non-schools education</td>
<td>Sure Start</td>
<td>-49.6</td>
<td>-763</td>
</tr>
<tr>
<td></td>
<td>Services for young people</td>
<td>-65.6</td>
<td>-855</td>
</tr>
</tbody>
</table>

Note
1 Data are in real terms in 2016-17 prices.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
### Change in activity and outcomes in non-social-care services

<table>
<thead>
<tr>
<th>Service area</th>
<th>Sub-service/activity</th>
<th>Change in activity/outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental and regulatory services</td>
<td>Domestic waste collection (residual)</td>
<td>The total number of households receiving at least a weekly service reduced by 33.7% from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td></td>
<td>Recycling</td>
<td>Domestic recycling rates increased by 2.2 percentage points from 2010-11 to 2016-17. This is a marked slowdown from the previous rate of improvement.</td>
</tr>
<tr>
<td></td>
<td>Waste disposal</td>
<td>The proportion of all local authority waste disposed of in landfill has fallen from 43.3% in 2010-11 to 15.7% in 2016-17.</td>
</tr>
<tr>
<td></td>
<td>Fly-tipping</td>
<td>The total number of incidents between 2010-11 and 2016-17 rose by 22.3%. In response, the number of investigations increased by 11.2%. However, the number of enforcement actions over this period reduced by 42.6%.</td>
</tr>
<tr>
<td></td>
<td>Food safety</td>
<td>Numbers of food samples taken by local authorities fell by 40.9% from 2010-11 to 2016-17. Total establishments subject to enforcement actions relating to food standards and hygiene increased by 4.9% between 2010-11 and 2016-17. Full-time equivalent professional posts occupied fell by 25.9% from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td></td>
<td>Health and safety</td>
<td>Health and safety enforcement notices issued by local authorities fell by 67.0% between 2010-11 and 2016-17.</td>
</tr>
<tr>
<td>Cultural services</td>
<td>Libraries</td>
<td>The number of service points fell by 10.3% from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td></td>
<td>Sport</td>
<td>The rate of adult participation in sport in the median local authority increased by 0.5 percentage points from 2010-11 to 2015-16.</td>
</tr>
<tr>
<td></td>
<td>Museums and heritage</td>
<td>The number of people visiting a museum or gallery grew by six percentage points from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td>Highways and transport</td>
<td>Road maintenance</td>
<td>The percentage of principal and non-principal roads where maintenance should be considered fell by two and four percentage points respectively from 2010-11 to 2016-17. However, for unclassified roads this statistic rose by two percentage points over the same period.</td>
</tr>
<tr>
<td></td>
<td>Bus services</td>
<td>Local authority-supported bus service mileage reduced in England outside London by 48.4% between 2010-11 and 2016-17.</td>
</tr>
<tr>
<td>Planning and development</td>
<td>Development control</td>
<td>The percentage of major, minor and other planning applications processed within the target time period has increased by 19, seven and three percentage points respectively from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td>Housing services</td>
<td>Homelessness</td>
<td>The number of cases where authorities took action to prevent or relieve homelessness increased by 14.0% from 2010-11 to 2016-17. Separately, the number of households that approached their local authority as homeless and were assessed as being entitled to temporary accommodation grew by 33.9% over the same period.</td>
</tr>
<tr>
<td>Central services</td>
<td>Tax collection</td>
<td>Council tax collection rates largely held up, falling by 0.1 percentage points from 2010-11 to 2016-17. Levels of business rates collection increased by 0.3 percentage points from 2010-11 to 2016-17.</td>
</tr>
<tr>
<td></td>
<td>Benefits processing</td>
<td>The average speed of processing for new housing benefit claims remained stable at 22 days from 2010-11 to 2016-17. Time taken to process changed circumstances in housing benefits claims improved from nine to seven days.</td>
</tr>
<tr>
<td></td>
<td>Registration of births and deaths</td>
<td>The percentage of births registered within 42 days fell by 1.8 percentage points from 2010-11 to 2016-17. The percentage of deaths registered within five days fell by 18.3 percentage points.</td>
</tr>
</tbody>
</table>

**Note**

1. This refers to those entitled to temporary accommodation under the statutory homeless duty.

**Source:** National Audit Office analysis of departmental data. See standalone methodology.
Financial sustainability

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 that require them to balance their annual budgets and ensure that they have adequate reserves. Reductions in funding and growth in demand for services make achieving these financial responsibilities while meeting statutory service obligations increasingly challenging.

3.2 This section examines financial pressures within local authorities in controlling in-year spend and the use of reserves from 2010-11 to 2016-17. It also examines future prospects for securing financial sustainability.

3.3 This section sets out data on single-tier and county councils, and also on district councils. However, it focuses on single-tier and county councils in particular. While district councils are under financial pressure, and some may be at risk of financial failure, the data suggest that the greatest financial risks appear to lie currently with authorities with social care responsibilities.

In-year service spend

Controlling in-year service spend

3.4 In the early years of funding reductions, local authorities in general were able to deliver underspends on their service budgets. However, since 2014-15, the sector has consistently overspent these budgets (Figure 17 overleaf). Total overspending on services in 2016-17 amounted to £901 million. Overspends on service budgets need to be addressed by the use of reserves, making more savings elsewhere or generating extra income.

3.5 Service overspending has been driven by single-tier and county councils. In 2016-17 total net overspends across these authorities amounted to just over £1 billion, equivalent to 3.1% of their budgeted service spend.
3.6 Adult and children’s social care services have driven the budget overspends in single-tier and county councils (Figure 18). By 2016-17, overspends for children’s services were equivalent to 10.4% of budgeted spend for that service. For adult social care, the figure was 3.7%.
Overspends on social care have been the drivers of overall service overspends in single-tier and county councils.

Net variance between budget and outturn spend (£m) (cash terms)

<table>
<thead>
<tr>
<th>Year</th>
<th>Children's social care (£m)</th>
<th>Adult social care (£m)</th>
<th>Other (£m)</th>
<th>All services (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>237</td>
<td>-32</td>
<td>-197</td>
<td>8</td>
</tr>
<tr>
<td>2011-12</td>
<td>121</td>
<td>-161</td>
<td>-317</td>
<td>-358</td>
</tr>
<tr>
<td>2012-13</td>
<td>98</td>
<td>-210</td>
<td>-269</td>
<td>-381</td>
</tr>
<tr>
<td>2013-14</td>
<td>280</td>
<td>-84</td>
<td>-527</td>
<td>-332</td>
</tr>
<tr>
<td>2014-15</td>
<td>530</td>
<td>132</td>
<td>-358</td>
<td>304</td>
</tr>
<tr>
<td>2015-16</td>
<td>729</td>
<td>318</td>
<td>-301</td>
<td>745</td>
</tr>
<tr>
<td>2016-17</td>
<td>714</td>
<td>526</td>
<td>-216</td>
<td>1,023</td>
</tr>
</tbody>
</table>

Notes:
1. Spend on non-schools funding not included. See standalone methodology.
3. A positive figure indicates outturn spending outstripping budgeted spend: an ‘overspend’.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Drivers of overspends

3.7 A major driver in the growth of aggregate overspends in adult social care across the sector has been authorities overspending in the context of a shrinking budget. This means they have failed to meet savings targets (Figure 19).

3.8 Recently, however, a growing number of authorities have overspent their adult social care budget despite a budget increase. In 2012-13, 40 authorities had an increase in their adult social care budget and 12 of these (30.0%) overspent nonetheless. In 2016-17, 67 authorities had a budget increase, with 39 of those (58.2%) overspending.

3.9 In children’s social care, authorities failing to deliver planned savings or remain within an increased budget have both driven overspends. Between 2012-13 and 2016-17 gross overspends in both cases roughly doubled in size to £389 million and £385 million respectively.

3.10 The number of single-tier and county councils with growth in their children’s social care budget increased slightly from 82 to 83 from 2012-13 to 2016-17. However, these authorities were more likely to have overspent in 2016-17 (83.1%) than in 2012-13 (56.1%). The rate at which authorities with a declining children’s social care budget overspent increased from 77.1% in 2012-13 to 88.2% in 2016-17.

Use of reserves

3.11 Reserves allow financial uncertainty to be managed. They support authorities in meeting the legal requirement to balance their budgets by providing a resource to cushion the impact of unexpected events or emergencies.  

3.12 In the context of funding reductions, reserves can be used in the short term to offset funding reductions in order to protect services, or reserves can be used to deliver long-term savings by meeting redundancy costs or by funding ‘invest to save’ initiatives.

Trends in reserves

3.13 Authorities hold reserves in two main forms. Unallocated reserves include working balances to manage cash flows and funds to protect budgets against financial uncertainty. Earmarked reserves are held for a specific purpose or project.

3.14 Local authorities have generally been able to build up both types of reserves since 2010-11 relative to their net revenue expenditure (Figure 20 on page 48). Our 2014 study indicated that authorities were building up reserves due to increasing uncertainty over their future finances. However, for single-tier and county councils the speed of the increase relative to expenditure reduced in 2015-16, and both forms of reserves started to dip in 2016-17.

31 Chartered Institute of Public Finance and Accountancy, English local authority reserves, CIPFA briefing, June 2015.
32 We exclude public health and schools reserves from our analysis.
33 Earmarked and unallocated reserves are held separately by local authorities. However, local authorities are able to re-assign earmarked reserves for general use if required either during budget setting or in-year. While this is possible, it will have implications in relation to their original intended use, however.
Figure 19
Components of net variance between budget and outturn spending for adult social care, single-tier and county councils in England, 2012-13 to 2016-17

Overspends in adult social care occur predominantly where authorities have reduced their budgets, but in recent years they are increasingly occurring in the context of budget increases.

Variance between budget and outturn in-year (£m) (cash terms)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross overspends where budgets increased (£)</th>
<th>Gross overspends where budgets decreased (£)</th>
<th>Gross underspends where budgets increased (£)</th>
<th>Gross underspends where budgets decreased (£)</th>
<th>Net variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>81</td>
<td>-325</td>
<td>-198</td>
<td>-221</td>
<td>-221</td>
</tr>
<tr>
<td>2013-14</td>
<td>54</td>
<td>-236</td>
<td>-204</td>
<td>-86</td>
<td>-86</td>
</tr>
<tr>
<td>2014-15</td>
<td>80</td>
<td>-166</td>
<td>-109</td>
<td>138</td>
<td>138</td>
</tr>
<tr>
<td>2015-16</td>
<td>129</td>
<td>-140</td>
<td>-135</td>
<td>327</td>
<td>327</td>
</tr>
<tr>
<td>2016-17</td>
<td>252</td>
<td>-112</td>
<td>-155</td>
<td>527</td>
<td>527</td>
</tr>
</tbody>
</table>

Note
1 Single-tier and county councils includes unitary councils, metropolitan districts, London boroughs and county councils.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Figure 20
Trends in levels of reserves by authority type in England, 2010-11 to 2016-17

Reserves have grown relative to net revenue expenditure since 2010-11, but have now started to fall for single-tier and county councils.

<table>
<thead>
<tr>
<th>Year</th>
<th>Single-tier and counties (earmarked) (%)</th>
<th>Single-tier and counties (other) (%)</th>
<th>Districts (earmarked) (%)</th>
<th>Districts (other) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>19.7</td>
<td>5.7</td>
<td>39.5</td>
<td>22.0</td>
</tr>
<tr>
<td>2011-12</td>
<td>22.3</td>
<td>6.3</td>
<td>48.5</td>
<td>28.9</td>
</tr>
<tr>
<td>2012-13</td>
<td>25.6</td>
<td>6.9</td>
<td>51.6</td>
<td>36.1</td>
</tr>
<tr>
<td>2013-14</td>
<td>27.8</td>
<td>6.7</td>
<td>65.5</td>
<td>36.1</td>
</tr>
<tr>
<td>2014-15</td>
<td>29.5</td>
<td>7.1</td>
<td>76.3</td>
<td>34.2</td>
</tr>
<tr>
<td>2015-16</td>
<td>30.1</td>
<td>7.0</td>
<td>87.8</td>
<td>37.0</td>
</tr>
<tr>
<td>2016-17</td>
<td>28.0</td>
<td>6.5</td>
<td>98.5</td>
<td>39.1</td>
</tr>
</tbody>
</table>

Note

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
3.15 The change in the pattern of use of reserves by single-tier and county councils is marked (Figure 21). Up to 2013-14, these authorities as a whole had made large additions to their total reserves (earmarked and unallocated combined). There was net growth in 2014-15, but at a lower level. This was accompanied by an increase in the share of these authorities drawing on their reserves.

3.16 In 2015-16, 49.3% of these authorities drew down on reserves and total reserve levels were essentially stable. The overall trend has continued into 2016-17, with 66.2% of single-tier and county councils drawing on their reserves and generating a total reduction of £858 million. This was the outcome of a £166 million (7.6%) net reduction in unallocated reserves, and a £692 million (9.2%) net reduction in earmarked reserves.

Figure 21
In-year use of total reserves: single-tier and county councils in England, 2010-11 to 2016-17

Single-tier and county councils have begun to draw on their reserves

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in total reserves (£m)</th>
<th>Number of local authorities drawing on reserves (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>848</td>
<td>27.0</td>
</tr>
<tr>
<td>2011-12</td>
<td>1,161</td>
<td>21.7</td>
</tr>
<tr>
<td>2012-13</td>
<td>1,310</td>
<td>18.4</td>
</tr>
<tr>
<td>2013-14</td>
<td>1,218</td>
<td>24.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>568</td>
<td>34.2</td>
</tr>
<tr>
<td>2015-16</td>
<td>22</td>
<td>49.3</td>
</tr>
<tr>
<td>2016-17</td>
<td>-858</td>
<td>66.2</td>
</tr>
</tbody>
</table>

Note
1 Single-tier and county councils includes unitary councils, metropolitan districts, London boroughs and county councils.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology.
Drivers of use of reserves

3.17 The use of reserves need not in itself indicate financial pressure. Local authorities can draw down their reserves to support ‘invest to save’ programmes. However, our analysis indicates that single-tier and county councils are increasingly drawing down their reserves where this was ‘unplanned’ (Figure 22). This includes making no allowance for use of reserves in the budget but then using them in-year, or drawing down more reserves than budgeted for. This could indicate that authorities have struggled to implement savings plans or manage costs in-year. The use of earmarked reserves was the main driver in the growth of ‘unplanned’ use of reserves.

Figure 22
‘Planned’ and ‘unplanned’ movement in total reserves in single-tier and county councils in England, 2011-12 to 2016-17

The majority of gross appropriations from reserves by single-tier and county councils now takes place on an ‘unplanned’ basis

Note
1 Single-tier and county councils includes unitary councils, metropolitan districts, London boroughs and county councils.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology
3.18 The use of reserves where this was ‘planned’ has also increased. This could indicate authorities deliberately drawing down their reserves to support specific initiatives. However, it may also indicate cases where authorities have failed to identify resources to meet known pressures when setting their budgets and instead have had to rely on reserves. The use of earmarked reserves was also the main driver in the growth of ‘planned’ use of reserves.

3.19 It is not possible to draw a direct link between a specific pressure on funding and the use of reserves in the national data. However, there has been a marked increase in the number of single-tier and county councils that have both experienced social care overspends and have also drawn on their reserves (Figure 23 overleaf). Several of our case study authorities indicated that they had used reserves to address in-year social care overspends.

Financial sustainability

3.20 In the context of funding reductions and demand pressures, a growing number of single-tier and county councils have overspent against core service budgets and used reserves, often on an unplanned basis, to balance their books. A financial model based on dwindling reserves and difficulties in delivering savings is not financially sustainable over the medium term.

Dwindling reserves

3.21 While many single-tier and county councils have begun to draw down their reserves, they had built up reserves in the preceding years. In this context, drawing down reserves does not necessarily make an authority financially vulnerable.

3.22 However, while this picture may still hold at the level of the sector as a whole, it is not the case for all of these types of authority. Their ability to build up their reserves has varied, as has the rate at which they have begun to draw them down. Our analysis shows that 10.6% of single-tier and county councils would have the equivalent of less than three years’ worth of total reserves left if they continued to use their reserves at the rate they did in 2016-17 (Figure 24 on page 53). A further 9.9% have the equivalent of more than three but less than five years of reserves. Among district councils, 3.5% have the equivalent of less than three years’ worth of their reserves based on their 2016-17 rate of use, with a further 3% with the equivalent of more than three but less than five years of total reserves.

3.23 Reducing reserve levels means that local authorities have less scope to support ‘invest to save’ programmes, and any delays in delivering savings or unexpected cost pressures have a greater impact on their financial position.

34 Our analysis is based on total reserves and assumes that all these funds are available to manage financial uncertainty. In reality, much of this resource will already be allocated for activities such as insurance funds, redundancy costs or to manage Private Finance Initiative costs.
Figure 23
Social care overspends and use of total reserves: single-tier and county councils in England, 2011-12 to 2016-17

A growing number of authorities have both used their reserves and had an overspend in social care

Number of single-tier and county councils (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>No social care overspend – did not use reserves</th>
<th>No social care overspend – used reserves</th>
<th>Social care overspend – did not use reserves</th>
<th>Social care overspend – used reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>47.4</td>
<td>6.6</td>
<td>15.1</td>
<td>30.9</td>
</tr>
<tr>
<td>2012-13</td>
<td>44.1</td>
<td>7.2</td>
<td>17.1</td>
<td>37.5</td>
</tr>
<tr>
<td>2013-14</td>
<td>34.9</td>
<td>7.2</td>
<td>17.1</td>
<td>37.5</td>
</tr>
<tr>
<td>2014-15</td>
<td>19.7</td>
<td>8.6</td>
<td>19.7</td>
<td>37.5</td>
</tr>
<tr>
<td>2015-16</td>
<td>9.9</td>
<td>11.8</td>
<td>25.7</td>
<td>37.5</td>
</tr>
<tr>
<td>2016-17</td>
<td>10.6</td>
<td>9.3</td>
<td>23.2</td>
<td>37.5</td>
</tr>
</tbody>
</table>

Notes
2. The figure shows that there has been growth in the number of single-tier and county councils that have used their total reserves and had a social care overspend. Separate analysis shows that this trend holds true in relation to the use of both earmarked and unallocated reserves.
3. A similar trend over time is apparent if the analysis is based on use of total reserves against overspends or underspends on all services rather than just social care. Again this holds true in relation to the use of both earmarked and unallocated reserves.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data.
See standalone methodology.
**Figure 24**

Remaining years’ worth of total reserves based on preceding year’s usage: single-tier and county councils in England

More than 10% of single-tier and county councils would have the equivalent of less than three years’ worth of reserves left if they continued to use their reserves at the rate they did in 2016-17

Limited room for manoeuvre in delivering further savings

3.24 Service provision by single-tier and county councils is increasingly focused on social care ([Figure 25 overleaf](#)). The combination of statutory duties and rising demand makes delivering savings in these areas more challenging than in other areas. Our case study authorities were clear that this makes delivering further savings increasingly difficult, as they face more limited savings options. This in turn creates risks for financial sustainability.

Risk of financial failure

3.25 In February 2018 the section 151 officer for Northamptonshire County Council issued a section 114 notice (under the Local Government Finance Act 1988). This was issued as it appeared that the authority is at risk of spending more in the financial year than the resources it has available, which would be unlawful. The council has 21 days to respond. During the period that the notice is in place the authority is legally prevented from entering into new agreements that would incur expenditure.
Since the section 114 notice was issued, Northamptonshire’s external auditor has issued an advisory notice (under the Local Audit and Accountability Act 2014) that effectively pauses the council’s 2018-19 budget-setting process until the council has considered further. The advisory notice was issued because Northamptonshire was about to vote on a proposed budget that the auditor considered to be not balanced and therefore unlawful.

Northamptonshire County Council was already the subject of an inspection of its financial management and governance ordered by the Secretary of State in January 2018.
3.28 The precise causes of Northamptonshire’s financial difficulties are not yet clear. However, we note that it exhibits a range of characteristics that are becoming increasingly common across single-tier and county councils as explored above. These include overspending on social care in recent years, and drawing on its reserves, often on an ‘unplanned’ basis. It also has low levels of reserves relative to its recent rate of use; the equivalent of 2.3 years’ worth based on its 2016-17 usage. Its service spend is also heavily focused on social care, which accounted for 65.7% of net current expenditure on services in 2016-17.
The role of government

4.1 The Ministry of Housing, Communities & Local Government (the Department) and other departments have important roles relating to the financial and service sustainability of local authorities. These include:

- assessing funding needs to inform decision-making;
- maintaining a framework that provides assurance about how local authorities use their resources, including preventing financial failure; and
- ensuring that statutory services are sustainable.

4.2 This part of the report examines how effectively departments have discharged their responsibilities.

The effectiveness of the system for assessing funding needs

4.3 The Department has responsibility within government for the financial framework for local government, taking the lead on assessing funding requirements and supporting the financial sustainability of the sector by changing the overall financial framework as necessary.

The 2015 Spending Review

The system for assessing funding needs

4.4 The primary assessments of funding needs take place at spending reviews. The most recent one took place in 2015. The Department coordinates a cross-government process that provides information to HM Treasury on spending requirements in the sector; this supports ministers in deciding on funding allocations.

Information-gathering and modelling

4.5 The Department requested information from 13 government departments on:

- services delivered by local authorities where the department has policy responsibility;
- the cost of delivering services and cost pressures;
the scope for efficiencies and savings; and

- funding expected to be available to local authorities from all sources.

All but one department provided a return.35

4.6 The Department drew together all information, including sector submissions, to inform its overall estimates and modelling. Creating the overall estimates involved some judgement and estimates in relation to remaining gaps, particularly on potential savings within different service areas. The Department identified adult social care, children's social care and homelessness for closer monitoring over the Spending Review period.

Outcome

4.7 At the conclusion of the Spending Review ministers took a cross-government view on the level of funding for local government, taking into account the other calls on government resources and the evidence provided by departments about potential risks of financial and service failure.

4.8 Overall, the exercise the Department undertook for the Spending Review in 2015 was better than in 2013, and advice to ministers drew on a stronger and more comprehensive evidence base. However, as in 2013, the information from other departments was highly variable in quality. Their analysis also tended to be at a high level, with little evidence that the departments had analysed distributional issues and understood how pressures differed across authorities with the same duties, for example geographically or by type.

Areas for special attention during the Spending Review period and after

Additional funding for adult social care

4.9 The Spending Review 2015 resulted in measures to support adult social care, including the Improved Better Care Fund, and council tax flexibility for adult social care (Figure 3). Following the Spending Review, the Department of Health & Social Care and the Department continued to work together to monitor financial pressure and risk within adult social care. Following a cross-government piece of work, the Department of Health & Social Care concluded that there were real pressures within the market, particularly associated with higher proportions of publicly funded clients and that any additional funding pressures from local authorities would risk capacity being lost.

4.10 The government decided to provide additional funding for adult social care in the 2017-18 local government finance settlement and in the Spring Budget 2017. Additional funding included the introduction of the adult social care support grant, changes to adult social care council tax flexibility and the allocation of a second tranche of funding for the Improved Better Care Fund (Figure 3).

35 Twelve of the requests were to ministerial departments and one was to a non-ministerial department (Food Standards Agency). The Department itself, in relation to specific policy responsibilities, was one of the departments.
4.11 In general, our case study authorities welcomed the new funding, but noted that funding conditions and the focus on addressing delayed transfers of care, limited their flexibility to use the funding to address pressing local issues. Some case study authorities also highlighted the short-term nature of the Improved Better Care Fund, viewing it as temporary funding, rather than building it into budget baselines.

**Children’s social care**

4.12 The reasons vary for why demand and other cost pressures have increased in children’s social care. There is no settled consensus on this variation. The Department has increased joint working with the Department for Education, focusing on growth in demand. As part of this it has jointly commissioned research into children’s social care costs. However, this work is designed primarily to support the Fair Funding Review, rather than to focus specifically on understanding current trends in demand and cost. The research will not conclude until summer 2019. The Department indicated that their current work on children’s social care will inform the next Spending Review, which sets out departmental allocations for 2020-21.

4.13 The Department for Education has also undertaken other work recently to understand children’s social care costs and demands, including publishing an overview of trends in children’s social care spend, unit costs and demands from 2010-11 to 2015-16. In February 2018 it also published a review of Foster care in England, which examined a range of factors within the foster care market.

**Homelessness**

4.14 The Department’s main focus is on the Homelessness Reduction Act 2017, which encourages prevention. The Department expects the Act to reduce the cost of homelessness, with savings outweighing additional costs by April 2020. We found that there is uncertainty about the Department’s estimates of the impact of the Act. The Department has committed to reviewing the estimates of costs and impacts, concluding no later than two years after the measures come into force.

The Department’s wider support for the sector

**Support for service transformation**

4.15 The Department shut down the Public Sector Transformation Network and did not extend transformation funding. The Department has introduced a flexibility to use capital receipts for the revenue costs of transformation programmes in 2016-17 to 2018-19. This has subsequently been extended to 2021-22.

---

36 The same point was also raised in our recent study on emergency admissions to hospital. Comptroller and Auditor General, Reducing emergency admissions, Session 2017–2019, HC 833, March 2018.

37 At the time of writing the Department had not provided us with evidence on the other work in this area it was undertaking other than this specific piece of research.

38 Department for Education, Children’s services: spending, 2010-11 to 2015-16, November 2017 (this updates work originally published in July 2016; also in July 2016 the Department published a review of residential care in England).


4.16 Authorities that we spoke to that have used the flexibility welcomed its introduction. However, as we noted in our 2016 report there is a risk that authorities sell assets at a scale that limits future capital spending, or they may invest in transformation schemes in which planned revenue savings are not delivered.\footnote{Comptroller and Auditor General, Financial sustainability of local authorities: Capital expenditure and resourcing, Session 2016-17, HC 234, National Audit Office, June 2016.}

**Devolution and reorganisation**

4.17 The Department told us it sees devolution as a locally driven process to promote local growth and productivity. While this may lead to improved local efficiency, the Department does not have its own expectations about potential savings from devolution.

4.18 The Department also told us that there is evidence that reorganisation is able to make a significant contribution to achieving efficiencies and savings, among other benefits. However, these expectations have not been quantified for the sector as a whole.

**Supporting long-term financial planning**

4.19 In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. They asked authorities to accept the settlement and publish an efficiency plan, which almost all did. Some case study authorities welcomed the four-year settlement, although several noted that it is not a rolling settlement or otherwise highlighted funding uncertainty beyond 2019-20.

4.20 The majority of our case study authorities with social care responsibilities also pointed out that central funding outside the settlement had changed a number of times, for instance with some New Homes Bonus funding being repurposed to fund adult social care. As described in Part One (Figure 3), since 2015-16 there have been a series of grants or other funding changes to address specific issues, particularly adult social care, for example:

- three adult social care grant announcements;
- the introduction of, and a subsequent change to, the adult social care precept; and
- two changes to rural services delivery grant.

4.21 The Department’s view is that these changes reflect considered responses to new pressures and risks that have been identified by their ongoing monitoring. Ultimately, the funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding streams and initiatives, often introduced at relatively short notice.
A long-term funding plan for the sector

4.22 There is uncertainty about the funding model for the sector after 2019-20, and the prospect of some important changes:

- The government aims to increase the proportion of local business rates that authorities can retain to 75% in 2020-21, by incorporating existing grants into business rate retention.

- The government is working towards implementing the Fair Funding Review to determine the distribution of locally retained business rates from 2020-21.

- The government is developing proposals for a long-term, sustainable solution to providing the care older people need, with a parallel piece of work on care for working-age adults. The proposals for older people will build on the additional tranche of the Improved Better Care Fund announced at the Spring Budget 2017.

4.23 The distributional implications of the Fair Funding Review are not yet clear, and plans for retention of business rates beyond 75% are still a work in progress. A green paper on care and support for older people is due to be published in summer 2018. The implications for local authority funding are not yet clear. No timescale for consultation or implementation has yet been announced.

4.24 Accordingly, while there are clear funding and demand pressures, there is as yet no comprehensive, long-term financial plan to address them. Financial uncertainty, both short term and long term, creates risks for value for money. Uncertainty encourages short-term decision-making and undermines strategic planning. These points apply within local authorities, and to the Department in its role as lead department for local government funding.\(^\text{42}\)

The effectiveness of the system for securing financial sustainability in the sector

The assurance system for financial sustainability

4.25 The Department is responsible for overseeing the framework that provides assurance about the financial sustainability of local authorities. At the core of the system is a set of statutory codes and rules that require councils to act prudently in their spending.

4.26 Local authorities have legal duties to set balanced annual revenue budgets, and must have regard to the adequacy of their reserves. Chief finance officers have a legal duty to advise full council about these aspects at the point of budget-setting. They also have a duty to issue a ‘section 114’ notice if it appears that an authority might spend more in a financial year than the resources available. This notice prevents the authority from engaging in further spending for a set period.

4.27 The Department advises ministers about use of their powers to order an inspection and ultimately to intervene where councils may not be meeting their ‘best value’ duty, including by risking financial failure. Ministers have ordered one such inspection in relation to risk of financial failure since the start of funding reductions in 2010.

The operation of the system

4.28 While recognising strengths in the system, our 2014 report highlighted that the framework did not provide early warning of whether an authority was close to financial failure. We also questioned some of the information that the Department used to understand financial pressure in the sector. Understanding the scale of financial risk and where it lies is important, as intervention after a failure is likely to be more costly than preventing the failure in the first place.43

4.29 The Department has improved its assurance over financial sustainability in the sector. The Department adopted a more strategic approach to data and analysis, moving from producing bespoke analysis for each fiscal event to having a range of tools that can be re-used on an ongoing basis.

4.30 It has developed a local authority sustainability tool, which models the share of ‘inflexible spend’ (on social care and debt servicing) by each authority against the scale of its reserves. Authorities with higher shares of inflexible spend and lower levels of reserves are less financially resilient. It then investigates authorities in more detail.

4.31 The Department uses the tool to:

- model the impact of different scenarios, such as new policies, on financial risk;
- track how far assumptions underpinning the 2015 Spending Review modelling have been borne out; and
- inform the Department’s assessment of the level of risk of widespread financial failure.

4.32 In our view, there are strengths in the principles underlying the model. It is also a significant improvement on the Department’s analytical work in 2014. However, as the Department recognises, the model remains a work in progress.
Other information and engagement

4.33 The Department complements its analytical work with a wide range of other information, including:

- local auditors’ conclusions on value for money;
- public concerns expressed via correspondence to the Department or via MPs;
- national and local media reports;
- the Department for Business, Energy & Industrial Strategy’s (BEIS’s) local function;
- departmental contacts with local authorities and sector representatives;
- information from other government departments and their inspectorates; and
- local authority papers.

Risk assessment process

4.34 The Department draws on all information to identify authorities with issues about leadership, financial capacity and service delivery. This involves weighing multiple pieces of evidence to judge each authority. It then tests assessments at working-level meetings within the Department, with the Local Government Association, the Department of Health & Social Care and the Department for Education.

4.35 The Department has identified that failings in leadership are the defining feature of authorities that are of greatest concern. It links leadership to the quality of decision-making, to willingness to make difficult decisions, and to the level of innovation displayed by local authorities.

4.36 There is a substantial level of engagement from the Department’s accounting officer, who receives updates on issues and areas of concern at least three times a year, and an overall assessment of the effectiveness of the assurance system twice a year. Following the updates, the accounting officer meets departmental officials and the accounting officers for health and education.

Effectiveness of the system

4.37 The Department has improved its oversight of the financial sustainability of the sector since our 2014 report. There is evidence of systematic collection and use of data and other information, growing relationships with other key departments, robust internal reporting mechanisms and strong engagement from the highest level of management.

4.38 There are areas that can still be strengthened. Its oversight is narrowly focused on the financial risks associated with adult and children’s social care, as acknowledged by the Department and demonstrated in the details of its risk-assessment process. The oversight could be expanded to allow for a greater understanding of financial pressures generated by other service areas or to understand the implications of pressure on social care services for the funding available for other services.
4.39 The Department’s approach to the role played by local leadership in authorities deemed to be at risk deserves further consideration (see paragraph 4.35). In its current approach there is a possibility that the Department could overstate the role of leadership and underplay systemic factors in its analysis and reporting of risk in the sector. This creates the risk that authorities are held primarily responsible for the challenges they face. The Department itself does not believe that there has been an overall deterioration in local authority leadership, and it does recognise that financial pressures have grown.

The effectiveness of the system for securing service sustainability in the sector

The system for service sustainability

4.40 The government has put in place a range of statutory duties on authorities to provide certain services. There is also a general ‘best value’ duty, which covers decisions about service provision. Each local authority has a monitoring officer, who has a legal duty to report if the authority has broken the law.

4.41 Most central government funding for local government is unringfenced. Local authorities have wide-ranging powers to provide services other than those they are required to provide. Authorities are accountable to their local electorates for setting priorities and allocating resources between different services.

4.42 Some government departments have specific arrangements, such as inspectorates, for assessing overall service quality across authorities and reacting to failure in those services. Other departments with accountability for particular services conduct their own monitoring or consider that the general accountability system provides sufficient assurance.

The Department’s responsibilities in relation to services

4.43 The Department’s accounting officer system statement is clear that individual departments are responsible for understanding demand, costs and the scope for efficiency in those policy areas for which they are accountable. Individual departments are also responsible for deciding whether or not there should be additional accountability or assurance arrangements in relation to these services. Information from other departments and their assurance arrangements assist the Department in discharging its responsibility, usually in periodic spending reviews, of developing an overview of the overall service cost pressures faced by local government.

4.44 As part of its work to understand which local authorities or groups of authorities are at highest risk of financial distress, the Department meets regularly with the Department of Health & Social Care and the Department for Education. The Department does not have structured engagement in the same way with other departments, although other departments may volunteer information, and the Department can draw on information in the public domain.

Variability across non-social-care service areas

4.45 Service oversight by other departments varies, depending on:

- whether financial data are available to pinpoint service spending;
- whether the government collects comparable performance data;
- whether there is a specialised body that oversees the service or this falls to a team within the responsible department; and
- the nature of the powers available to the oversight body.

4.46 Data are vital. Without data, it is difficult to understand how services are being prioritised within local authorities. For example, financial data on trading standards services cannot be broken down between responsibilities owned by several different departments. Without official performance data, monitoring is likely to be more reactive and depend, for example, on complaints.

Evidence of concern

4.47 Some government departments and bodies have expressed concern about the potential impact of reduced funding on services for which they have responsibility. For example:

- BEIS, which has responsibility for consumer and product safety functions delivered by local trading standards services, told us that it sees trading standards as a high-risk area in the medium term and is concerned about local reductions going too far.45
- during the 2015 Spending Review the Department for Environment, Food & Rural Affairs (Defra) highlighted the potential risks, in the context of other service pressures, that proposed changes to government funding may pose for delivery of departmental objectives through local services;
- the Department for Transport said that local authorities were concerned about the level of revenue spending that they are able to devote to preparing business cases and bids for funding, and to highways maintenance itself;

45 Separately 67.9% of English local authorities covered by responses to the Chartered Trading Standards Institute’s 2017 workforce survey were reported not to have the expertise to fully cover the range of statutory duties required of trading standards teams. See standalone methodology.
the Food Standards Agency has said that local authorities are “… under increasing financial pressure, such that some are struggling to fully discharge their functions [for food safety enforcement]”; and

the Home Office raised concerns with us about the capacity of local authorities to continue to meet targets for registering deaths.

4.48 There is also evidence of departments taking a range of actions in response to identified under-performance. In some cases this involves departments and agencies seeking to support authorities to raise additional income or deliver in more efficient ways. The Home Office, for instance, has altered legislation to increase the scope of registration services for which cost-recovery fees can be charged.

4.49 In other cases departments have sought to influence the priority placed by local authorities on a particular service or duty. Defra, for instance, has indicated that it could use its powers of direction in relation to local authorities’ duty to prepare a local flood risk-management strategy. The Department has also introduced a performance system in relation to development control, whereby failure to meet a sufficient standard can lead to the authority being bypassed in the decision-making process.

An integrated view of service sustainability

4.50 In our 2014 report we raised the concern that there is no single point within government that monitors the impact of funding reductions across the full range of local authority services on an ongoing basis. Departments tend to have an understanding of their service area at the local level, but not necessarily of the potential implications of pressures in other service areas. A consequence is that the integrated nature of service delivery in local authorities, in which the sustainability of individual services is often shaped by decisions and pressures in other services, is not reflected at the departmental level.

4.51 The importance of an integrated view is highlighted by current pressures in social care. Our case study authorities and our analysis have demonstrated how pressure in these areas is not contained to these service areas, but is transferred across multiple service areas as social care is prioritised in the budget-setting process at the expense of other service areas. Analysis of the implications of social care pressure therefore needs to include an understanding of its impacts on other service areas rather than on social care provision alone.

4.52 The lack of an integrated view is also an issue where departments seek to ensure that their service areas continue to be resourced from a rapidly diminishing pool of unringfenced funding. Government departments need to coordinate their actions to influence local authorities’ prioritisation. Otherwise, they risk competing for increasingly rare revenue resources, knowingly or unknowingly, by seeking to focus local attention on ‘their’ service areas. Alternatively, departments might seek to implement service-specific remedial actions that may be insufficient given the full pressures on authorities.

46 See footnote 42.
4.53 The lack of an integrated approach is also apparent where there are overlapping policy interests. We recently found that the Department for Work & Pensions had not fully assessed the impact of its welfare reforms on homelessness, which is a policy responsibility of the Department. The Home Office expressed concern to us about the potential impact on efforts to reduce crime of changes in local authority spending on drug and alcohol treatment programmes supported by public health funds.

4.54 Councils that do not deliver for their communities can be voted out. However, as we noted in our 2014 report, it is less clear what the local mechanism to deliver improvement is when the issue is a lack of funding rather than the performance of councillors. Council tax rises provide a possible response but authorities we spoke to in 2014 saw the referendum principles as a significant obstacle.

47 See footnote 40.
48 See footnote 42. This view has been more recently expressed in Chartered Institute of Public Finance and Accountancy, Building financial resilience, June 2017.
Appendix One

Our audit approach

1. This study provides insight into the financial sustainability of local authorities and builds on work published in our report *Financial sustainability of local authorities 2014*. It examines changes in local authorities’ resources since 2010-11, as well examining trends in spending on services. It also examines the Ministry of Housing, Communities & Local Government’s (the Department’s) approach to carrying out its functions in relation to local authorities’ financial and service sustainability. This approach includes working with other government departments.

2. There were four main elements to our work:

   - We gathered information from interviews with local authorities, government departments and agencies, as well as local government stakeholders. By local authorities, we mean the 353 councils in England. We spoke to 10 authorities as individual case studies, in addition to engaging with representative bodies. They enriched our understanding of the national data, and provided valuable illustrations of pressures and responses to pressures.

   - We analysed the scale of government funding reductions and how local authorities have responded to these reductions. This involved studying data from 2010-11 to 2016-17 about the full range of sources of local authority income, and examining the ways in which authorities have changed their spending, generated additional income or used reserves to ensure that overall spending matches income.

   - We analysed how local authority expenditure across the breadth of service areas has changed over time and how service activity has changed over the same period. This involved looking at changes in spending and income generation at both service and sub-service level, and examining both capital and revenue spending. We reviewed comprehensive, high-quality data on activity for all services for which it existed.

   - We reviewed the Department’s understanding of the financial challenges faced by local authorities, the implications for their financial and service sustainability and the effectiveness of the local accountability system. We compared this understanding and the actions taken by the departments with the evidence we gathered about the changing situation in the sector (as described in the preceding bullets).

3. Our audit approach is summarised in Figure 26 overleaf. Our evidence base is summarised in Appendix Two.
Figure 26
Our audit approach

The objective of government

Central government’s objective
Reduce funding to local authorities while ensuring delivery of statutory services.

Local government’s objective
Local authorities deliver local priorities while meeting legal obligations and ensuring their financial sustainability.

How this will be achieved

Reducing revenue funding and requiring authorities to fund services through local income, while ensuring there is adequate information and accountability mechanisms to manage service risks.

Local authorities can choose between different approaches to managing income reductions: increasing efficiency or transforming services, reducing service levels, income generation, and using reserves.

Our study

This report examines whether the Department, along with other departments with local service responsibilities, understands the impact of funding reductions on the financial and service sustainability of local authorities and has appropriate assurance mechanisms in place.

Our evaluative approach

To review the understanding of the sector’s funding requirements and the impact of funding reductions on local authorities in the Department and government more widely.

To review understanding in the Department and wider government of how local authorities make savings, and also review Department and wider government actions to support councils in maintaining financial and service sustainability.

To review the Department’s assurance that its accountability framework, including the contributions of other departments, is effective in dealing with the pressures faced by local authorities.

Our evidence (see Appendix Two for details)

We engaged with the Department about its oversight of Spending Review 2015, and other departments about their roles. We analysed funding and spending data to assess financial pressure.

We interviewed officials and reviewed departmental documents. We also spoke to local authorities and sector stakeholders about departmental support. We examined evidence of service changes.

We interviewed departmental officials, reviewed accountability system assurance mechanisms, examined case study examples and interviewed key stakeholders. We compared this information with our evidence of pressures in the sector.

Our conclusions

See paragraphs 24 to 27.
Appendix Two

Our evidence base

1. We reached our independent conclusions on the value-for-money risks of reducing local authority funding after analysing evidence collected between September 2017 and January 2018. Our audit approach is outlined in Appendix One. A separate methodology document setting out the approach to our quantitative analysis is available on our website: www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/.

2. We applied an analytical framework with evaluative criteria that considers the Ministry of Housing, Communities & Local Government’s (the Department’s) role in overseeing financial and service sustainability in local government. Our audit approach is set out in Appendix One.

3. We held several meetings with the Department. These meetings covered the 2015 Spending Review process and subsequent funding changes; children’s social care; adult’s social care; the core mechanisms of the accountability system; monitoring of financial and service pressures under the accountability system; local government finance reform; support for local authorities in making savings; and the Department’s oversight of local authority work on development control, supported housing and homelessness.

4. We spoke with officials from other government departments. We used these interviews to understand how these departments:
   - interacted with the Department as part of the Spending Review 2015 process;
   - have worked with the Department since the conclusion of the Spending Review process;
   - inform themselves about the impact of changes to local authority funding on the services they have policy responsibility for;
   - make use of any accountability arrangements they have put in place; and
   - how they interact with the overall accountability framework operated by the Department.
We met with:

- Department for Environment, Food & Rural Affairs regarding flooding; waste collection and disposal; fly tipping and littering; and food composition standards.
- Department for Business, Energy, & Industrial Strategy regarding protecting consumers from scams, unfair trading and unsafe goods.
- Department for Education regarding children's services, concentrating on children's social care.
- Department for Digital, Culture, Media & Sport regarding libraries; arts and museums; and sport.
- Department for Transport regarding road maintenance and local transport services.
- Home Office regarding crime prevention; interaction between local authorities and the system for support of asylum seekers; and registration of births, deaths and marriages.
- Department for Work & Pensions regarding housing benefit, discretionary housing payments, local welfare provision and the introduction of Universal Credit.
- Department of Health & Social Care regarding adult social care services.
- HM Treasury regarding the 2015 Spending Review process and local authority financial sustainability.

We also engaged with a range of government agencies and non-ministerial departments with interests relating to local authorities’ responsibilities. We spoke to:

- Ofsted regarding quality of children's services;
- the Care Quality Commission regarding the quality of adult social care services;
- the Food Standards Agency regarding food safety and food hygiene;
- Public Health England regarding local authorities’ use of public health grant; and
- the Health and Safety Executive regarding enforcement of health and safety standards.
7 **We visited case study authorities.** We selected these authorities to ensure a mix by authority type, region and the degree of the severity of reduction in government funding they experienced. We used these case studies to provide illustrations of how local authorities had experienced and managed funding reductions, and of approaches to protecting services, rather than to generalise across the sector. In total, we visited 10 case study authorities, two from each type of authority (London boroughs, metropolitan district councils, unitary authorities, county councils and shire districts). We visited:

- Hackney London Borough Council and Richmond-upon-Thames London Borough Council;
- Salford City Council and Sheffield City Council;
- Bedford Borough Council and Durham County Council;
- Lancashire County Council and Leicestershire County Council; and
- Hastings Borough Council and Worcester City Council.

8 **We engaged with a range of other stakeholder groups.** We spoke to:

- the Local Government Association;
- the County Councils Network;
- the District Councils Network;
- London Councils;
- the Special Interest Group of Municipal Authorities;
- the Chartered Institute of Public Finance and Accountancy;
- the Chartered Trading Standards Institute;
- the Association of Directors of Adult Social Services;
- the Association of Directors of Children’s Services;
- the Association of Directors of Environment, Economy, Planning and Transport; and
- Lawyers in Local Government.

9 We also engaged with local authority treasurers’ societies, such as the Society of County Treasurers, the Society of District Council Treasurers and the Society of Municipal Treasurers. This included receiving a small number of individual written submissions from members of treasurers’ societies.
10 We reviewed departmental documents. This included a review of the Department’s accounting officer system statement for local government as well as a wide range of documentation relating to Spending Review 2015.

11 We carried out a review of our own research and external literature. We focused on our recent research covering financial sustainability as well as evidence on trends in local services activity since 2010-11. We also reviewed external literature, including Select Committee reports.

12 We analysed quantitative data on local authority income and expenditure. We used a chain-linking method detailed in the methodology to analyse the change in local government spending power from 2010-11 to 2016-17. We engaged with the Office for National Statistics regarding our methodological approach in calculating the change in local government spending power. We also analysed changes in service activity across the breadth of local services.

13 We modelled the different mechanisms used by local authorities to offset funding reductions drawing on departmental data. Details of our approach are set out in the standalone methodology, available at: www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/.
This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.