

# Local Government Association Briefing

## National Audit Office report into the financial sustainability of local authorities

### House of Commons

Tuesday 20 March 2018



#### Key messages

- **Funding reductions:** The National Audit Office (NAO) found that local authorities experienced a 49.1 per cent real terms reduction in central government funding between 2010/11 to 2017/18.<sup>1</sup> We have repeatedly warned of the serious consequences of funding pressures facing local services from unprecedented funding reductions since 2010 and growing demand for services. Inadequate funding for local government has a knock-on effect on other parts of the public sector.
- **Funding gap:** Councils in England face an overall funding gap that will exceed £5 billion by 2020. The NAO's report is further compelling evidence as to why the Government must urgently secure the financial sustainability of local government and the 1,300 different statutory duties and responsibilities councils provide.
- **Demand and cost pressures:** The report acknowledges that, since 2010, councils have faced a range of new demand and cost pressures. The growing demand for services including adult social care, children's services and homelessness support means councils are increasingly having to divert scarce resources from other local services on which residents rely.
- Our assessment of the funding gap relates to current costs and responsibilities and does not account for new costs that are out of local authority control or new burdens imposed through revised central government policy. For example, councils are struggling with cost pressures and new burdens arising from insufficiently funded central government policies, such as paying for the National Living Wage and Apprenticeship Levy, or statutory responsibilities under the Homelessness Reduction Act and unexpected exceptional costs arising from conducting fire safety and major remedial work. We call for the Government to provide sufficient funding to cover these new costs and any future new burdens. Leaving councils to pick up the bill for unfunded government policies, at the same time as managing spending reduction and such growing demand for services, is unacceptable.
- **Reserves:** The NAO highlights that the dwindling reserves of an increasing number of councils is not sustainable. Reserves are designed to help councils manage growing financial risks to local services and do nothing to address the systemic underfunding that they face. The size of the cuts councils are having to make is simply too big to be plugged by reserves.
- **Financial certainty:** The report warns about the huge uncertainty over how the Government intends to fund local services after 2020. Core central government funding to councils will be further cut in half over the

# Briefing

next two years and almost phased out completely by the end of the decade. The Government needs to urgently address this cliff-edge and the growing funding gaps facing local services. We are calling on the Government to commit to allow local government as a whole to keep every penny of business rates collected to plug this funding gap.

## Background information

### Funding reductions

The National Audit Office (NAO) found that local authorities experienced a 49.1 per cent real terms reduction in central government funding between 2010/11 to 2017/18. The report recognises that local government has done well to manage substantial funding reductions since 2010/11, but financial pressure has increased markedly since their last study.

Years of unprecedented funding reductions have had a significant impact on the local services our communities rely on, and the knock-on effect on other parts of the public sector. We have repeatedly warned of the serious consequences of funding pressures facing local services from unprecedented funding reductions since 2010 and growing demand for services.

### Funding gap

Despite the funding measures announced in Spring Budget 2017, Autumn Budget 2017 and the 2018/19 Local Government Finance Settlement, councils will still face a funding gap of £5.5 billion by 2019/20 plus £1.3 billion needed to stabilise the adult social care provider market today. The pressures facing adult social care, children's services and homelessness support are particularly acute, as highlighted in the table below.

*Table A: LGA analysis of the funding gap facing local government:*

	2017/18	2018/19	2019/20
Children's services	£1.1 billion	£1.6 billion	£1.9 billion
Adult social care (including pre-existing pressure to stabilise the adult social care provider market)	£1.1 billion	£1.3 billion	£2.2 billion
Homelessness	£100 million	£100 million	£200 million
Apprenticeship levy	£200 million	£200 million	£200 million
All other services funded through core spending power	£1.2 billion	£1.8 billion	£2.3 billion
<b>Total funding gap including the £1.3 billion pre-existing pressure to stabilise the adult social care provider market</b>	<b>£3.7 billion (£2.4 billion + £1.3 billion)</b>	<b>£5.1 billion (£3.8 billion + £1.3 billion)</b>	<b>£6.8 billion (£5.5 billion + £1.3 billion)</b>

The NAO report is further compelling evidence as to why the Government must urgently secure the financial sustainability of local government and the 1,300 different statutory duties and responsibilities councils provide.

## **Demand and cost pressures**

The report acknowledges that, since 2010, councils have faced a range of new demand and cost pressures. In particular, the report focuses on the growing demand for social care services which is placing increased strain on local authority budgets and impacting on the delivery frontline services. Between 2010/11 to 2016/17 there was a 32.6 per cent real terms reduction in local authority spending on non-social-care services and a 3 per cent fall in social care spending, despite increasing demand. The report acknowledges that non-social-care budgets have already been reduced substantially, which leaves many councils with less room for manoeuvre in finding further savings.

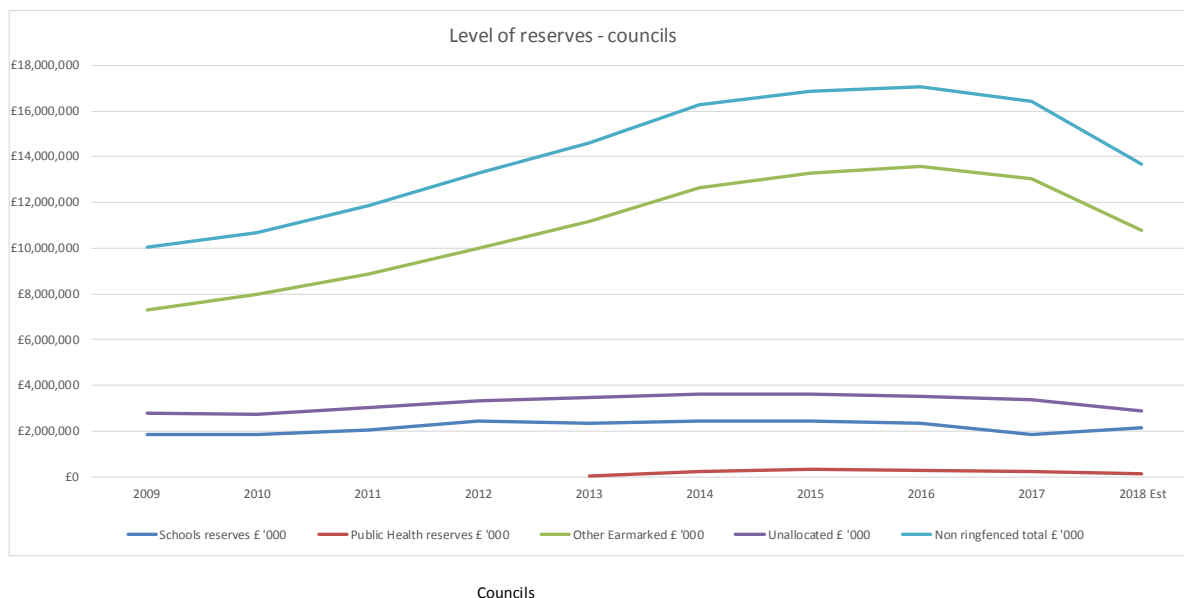
The impact of growing demand for the services highlighted in Table A means councils are increasingly having to divert scarce resources from other local services on which residents rely. This includes filling potholes, maintaining our parks and green spaces and running children's centres, leisure centres and libraries.

Our assessment of the funding gap relates to current costs and responsibilities and does not account for new costs that are out of local authority control or new burdens imposed through revised central government policy. For example, councils are struggling with cost pressures and new burdens arising from insufficiently funded central government policies, such as paying for the National Living Wage and Apprenticeship Levy. We are also concerned that the new burdens funding for councils to undertake their statutory responsibilities under the Homelessness Reduction Act is likely to fall short of the costs of delivering duties, and councils face unexpected exceptional costs arising from conducting fire safety and major remedial work. We call for the Government to provide sufficient funding to cover these new costs and any future new burdens. Leaving councils to pick up the bill for unfunded government policies, at the same time as managing spending reduction and such growing demand for services, is unacceptable.

## **Reserves**

The report recognises that the dwindling reserves of an increasing number of councils is not sustainable. Reserves are designed to help councils manage growing financial risks to local services and do nothing to address the systemic underfunding that they face. The size of the cuts councils are having to make is simply too big to be plugged by reserves. The table on page 4 shows that the amount of reserves being held by councils peaked in 2015/16 and has been declining since. It shows that in 2009 the total reserves held by councils (excluding schools reserves) was £10 billion, in 2015 it was £17.2 billion and in 2017 it had fallen to £16.7 billion. This is a consequence of the financial challenges faced by local government.<sup>2</sup>

Some authorities will have accumulated reserves as part of a plan to ease future budget reductions and to allow longer term savings to come to fruition. However, it is not a proper use of reserves to just draw down to support revenue budgets with no clear plan for how the gap will be bridged in future years when reserves are no longer available.



Of the most recent £16.7 billion figure, £13.3 billion is ring-fenced or earmarked for specific projects and to cover known liabilities. This leaves £3.4 billion of general and unallocated reserves that can be used to cover any unexpected events and to protect councils' financial integrity.

The £23 billion figure quoted for local authority reserves in a recent exchange at Treasury Questions includes councils, fire authorities, schools, national parks, the Greater London Authority (GLA) and combined authorities. Councils do not have control over the entirety of this money as, for example, schools reserves can only be used by the schools that have put the reserves aside. Therefore, any decision on them will be down to each school's governing body.

### Financial certainty

The NAO has warned about the huge uncertainty over how the Government intends to fund local services after 2020. In particular, it highlights that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

Core central government funding to councils will be further cut in half over the next two years and almost phased out completely by the end of the decade. We support the report's recommendation that the Government should, at the earliest opportunity, set out 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. From our perspective, this financial plan should urgently address the cliff-edge facing councils and the growing funding gaps facing the services we provide.

We are committed to engaging extensively in discussions with the Government on the implementation of further business rates retention. We remain clear that extra business rates income should go towards meeting the funding gap facing local government and no council should see its funding reduce as a result of a new distribution system.

<sup>1</sup> National Audit Office report, [Financial sustainability of local authorities 2018](#), published March 2018

<sup>2</sup> LGA analysis of Ministry of Housing, Communities and Local Government data, [Local authority revenue and expenditure](#)