

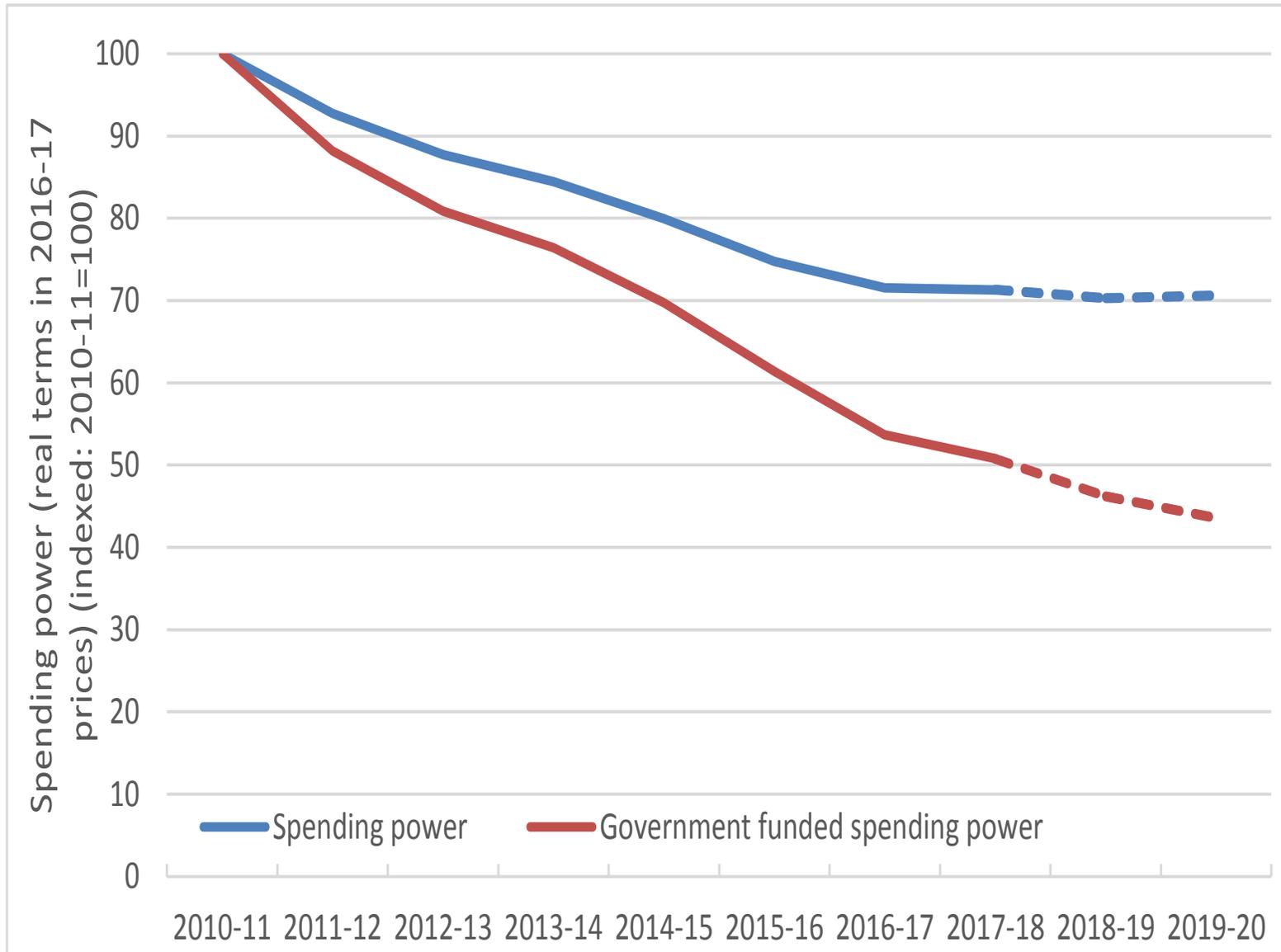
# Financial sustainability of local authorities 2018: an NAO perspective

January 2018

# Overview | **NAO study: key questions**

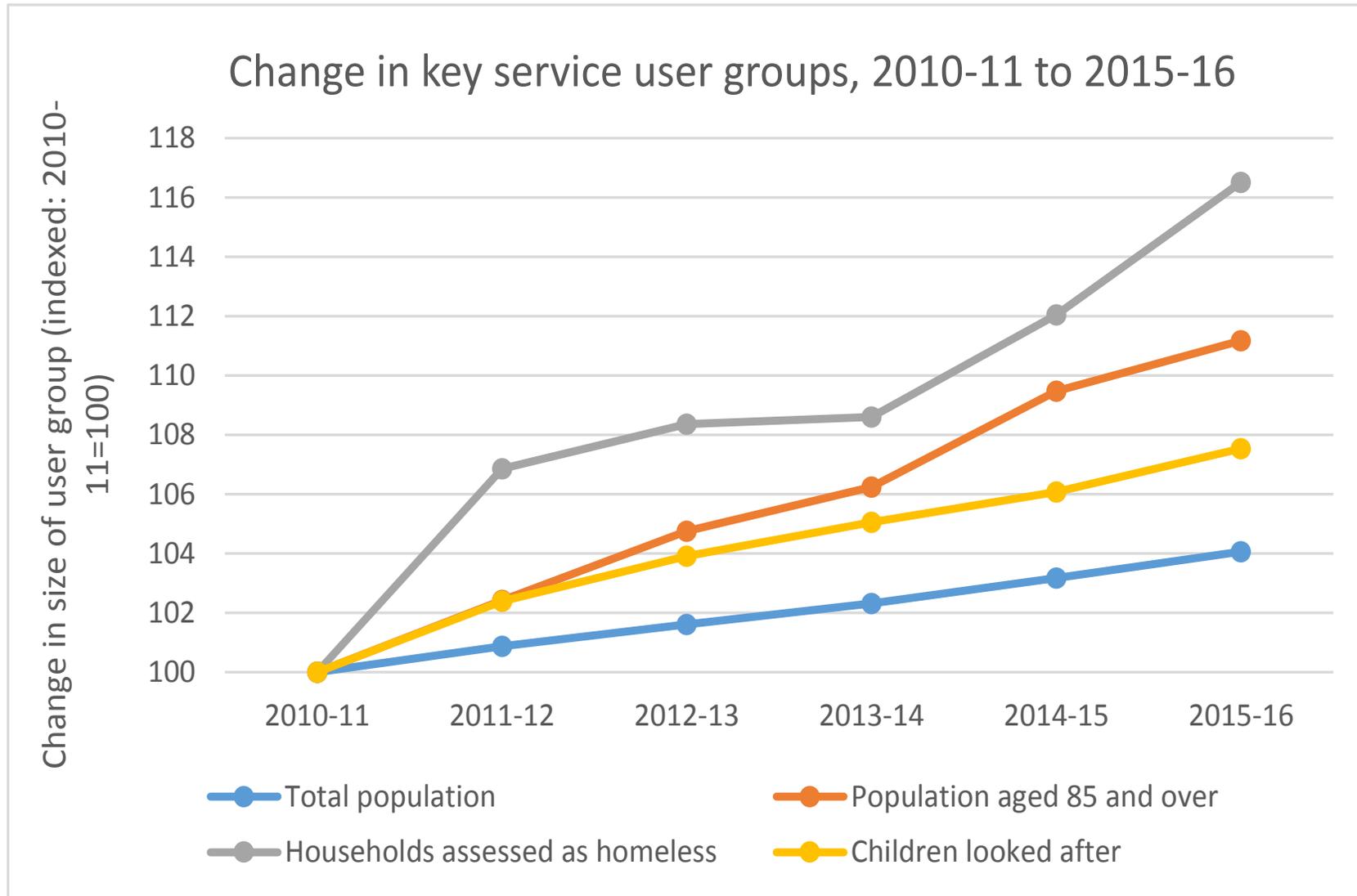
- What **financial challenges** have councils faced since 2010-11 and how have they **responded**?
- What are the **implications** of funding reductions for **financial** and **service** sustainability in the sector?
- Does DCLG have a **clear understanding** of funding requirements and the effectiveness of the accountability system for **managing risks** to financial and service sustainability?
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# Overview | The financial challenge from 2010-11



- Government funding has fallen by **49.2% in real terms**
- **Revenue spending power** fell by **28.7%**.
- Two phases of **austerity**:
  - **2010-11 to 2016-17 sharp reductions**
  - **2016-17 to 2019-20 slower rate of reduction**

# Overview | The financial challenge: demand & cost pressures



**At the same time that spending power has fallen by 29% in real terms:**

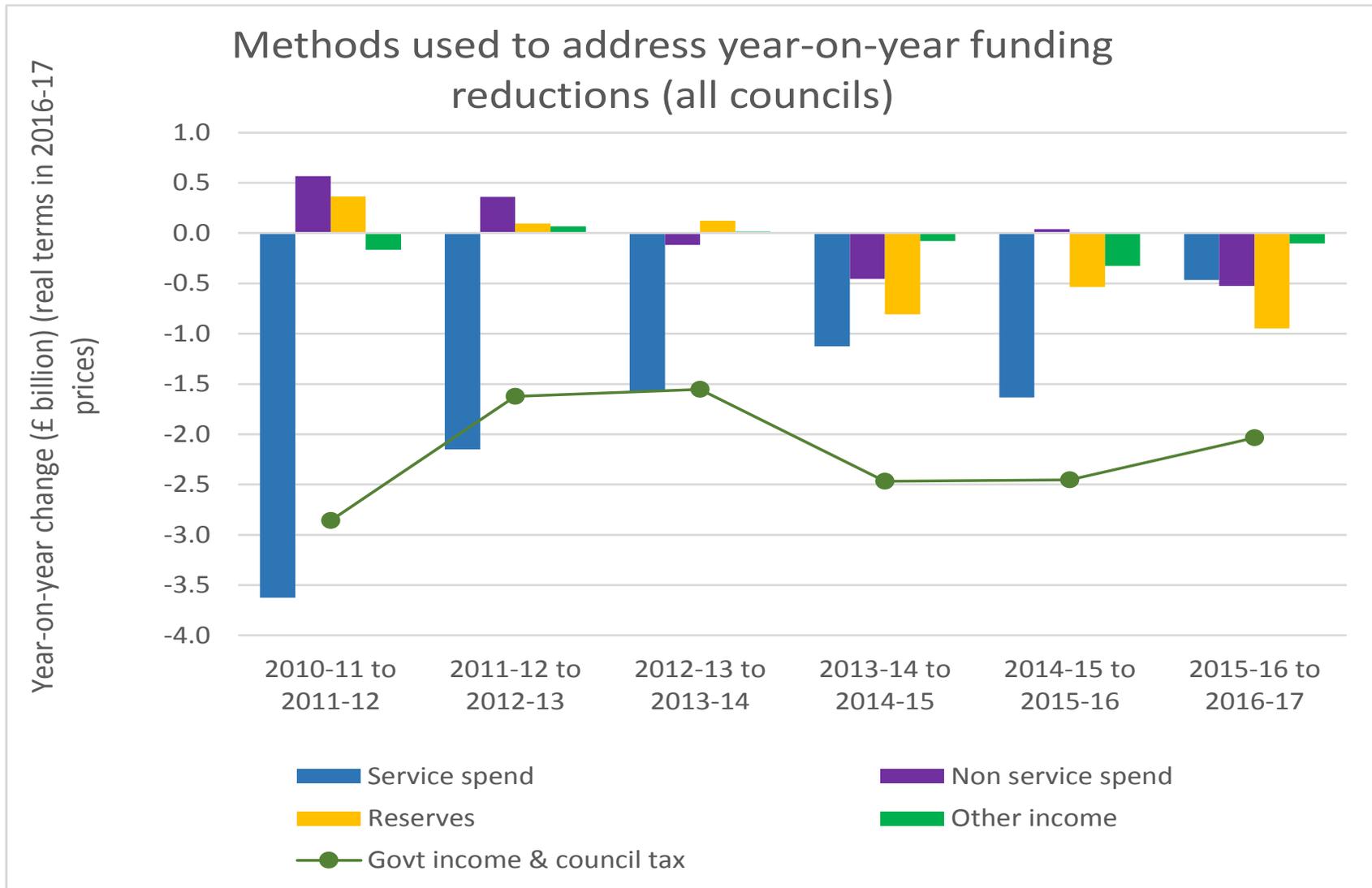
## **Demand pressures:**

- **Population grew by 4%**
- **8% increase in looked after children**
- **11% growth in those 85+**
- **16% growth in homeless households.**

Plus additional **cost pressures:**

- **national minimum living wage**
- **apprenticeship levy**
- **pension costs.**

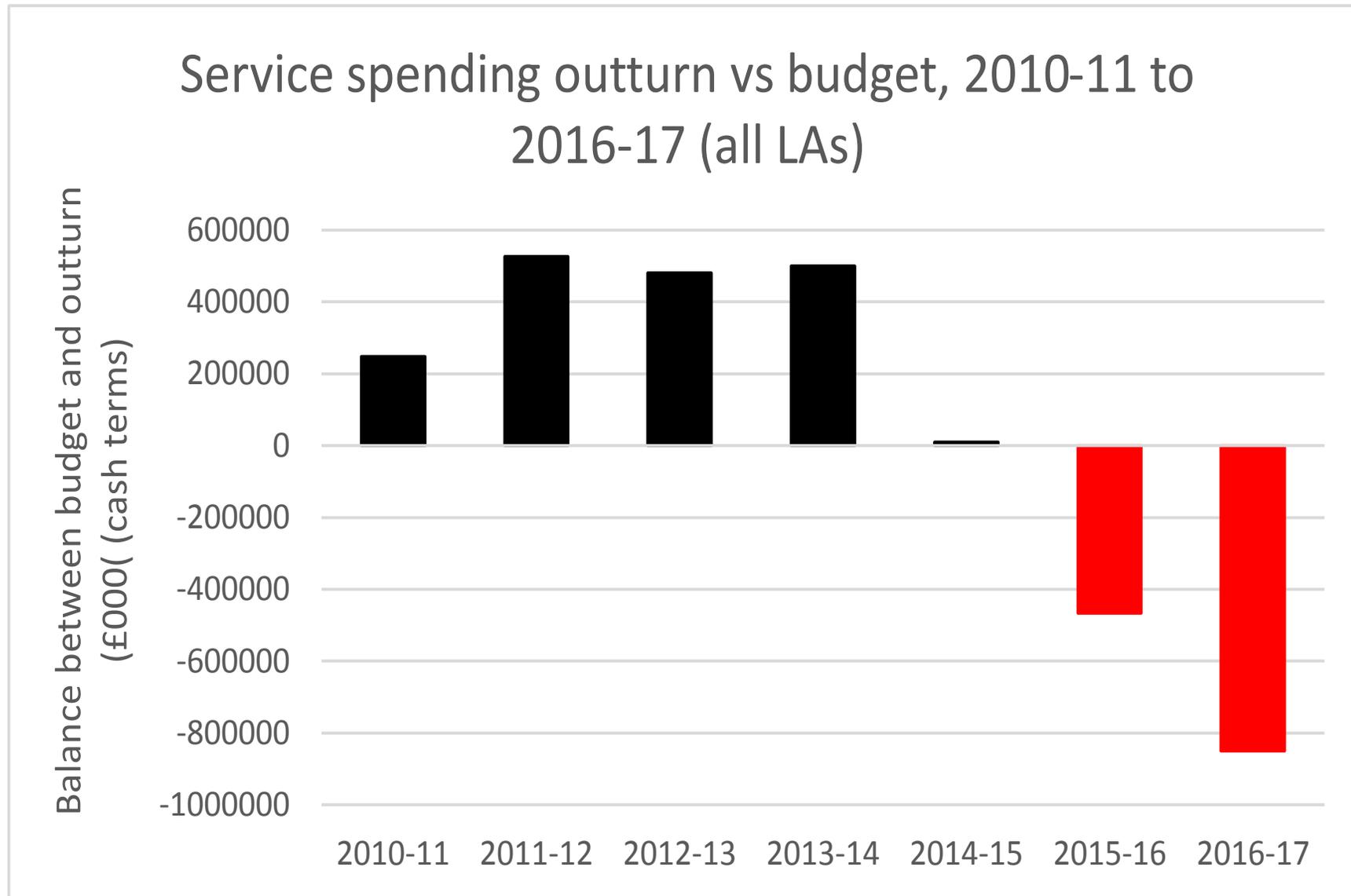
# Overview | Response to the financial challenge



## Two distinct phases:

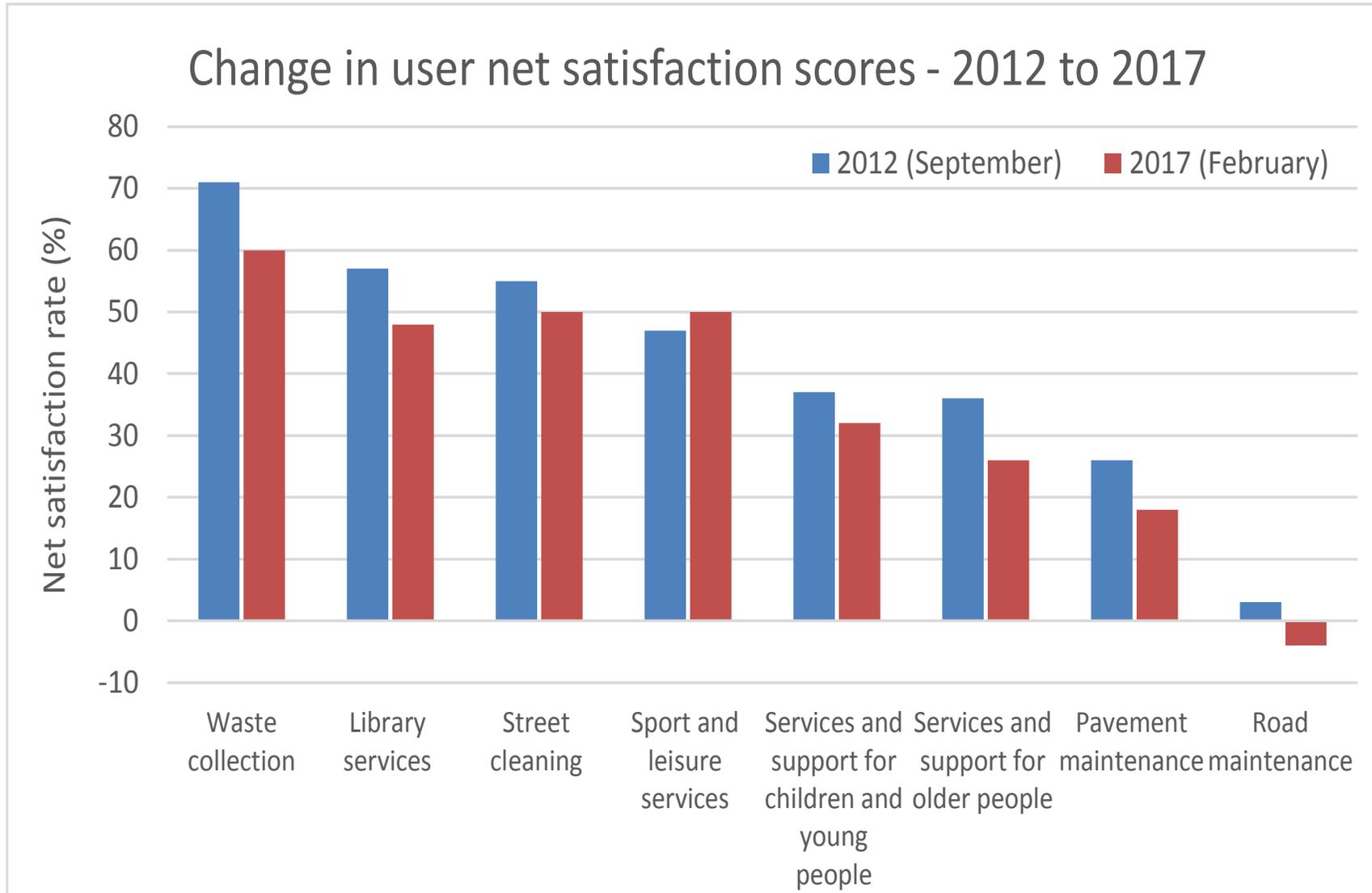
- First three years of austerity, funding reductions translated **directly into reductions in service spend.**
- In the second three year phase **impact of funding reductions on service spending significantly reduced by:**
  - **savings in non-service spending**
  - **the use (or non-accumulation) of reserves**
  - **alternative sources of income**

# Overview | Implications for financial sustainability



- In the first few years of austerity the sector **delivered underspends** on its service budgets.
- But from 2014-15, the sector as a whole delivered a **£850m service 'overspend'**

# Overview | Implications for service sustainability



## User outcomes

- **Little data** on the implications of changes in servicing spending for service users.

## User satisfaction

- Net satisfaction **has fallen** across almost all service areas since 2012.

## Cost to service users

- Fees and charges now account for **21% of gross service spend on non-social care services**, compared to 15.5% in 2010-11.

# Issues for central government

- The Department has improved its **oversight** of the financial sustainability of the sector including developing stronger relationships with certain other departments.
- But the sector has been receiving **short term measures** to address specific problems, rather than to secure broader longer term sustainability.
- For the rest of government, there is **no clear understanding** of the implications of many spending reductions on services, service users and other local service providers.

So:

- Need for a long term plan for the financial sustainability of the sector
- Need **single central understanding** of service delivery as a whole and interactions between service areas.
- Need to address the **lack of data on outcomes.**

# Issues for the sector

- The sector **has done well** in the context of substantial funding reductions. But **financial pressure has increased markedly** since our last study and **conditions in the sector have worsened**.
- However, spending is increasingly concentrated on social care with many other service areas seeing substantial spending reductions. The **breadth** of local authorities' service spending has narrowed.
- Where data are available there is a **mixed picture** across local authorities.

So:

- Need to address the **lack of data on outcomes**.
- Need to analyse service spending and **variations**.
- Need to know what the **implications of spending reductions** for service areas and users and make the case.

# Thank you

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