



House of Commons

Committee of Public Accounts

Financial sustainability of local authorities 2014

Thirty-fourth Report of Session 2014–15



House of Commons
Committee of Public Accounts

Financial sustainability of local authorities 2014

Thirty-fourth Report of Session 2014–15

*Report, together with the formal minutes
relating to the report*

*Ordered by the House of Commons
to be printed 19 January 2015*

HC 833

Published on 28 January 2015
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

[Rt Hon Margaret Hodge](#) (*Labour, Barking*) (Chair)
[Mr Richard Bacon](#) (*Conservative, South Norfolk*)
[Guto Bebb](#) (*Conservative, Aberconwy*)
[Mr David Burrowes](#) (*Conservative, Enfield, Southgate*)
[Stephen Hammond](#) (*Conservative, Wimbledon*)
[Chris Heaton-Harris](#) (*Conservative, Daventry*)
[Meg Hillier](#) (*Labour, Hackney South and Shoreditch*)
[Mr Stewart Jackson](#) (*Conservative, Peterborough*)
[Andrea Leadsom](#) (*Conservative, South Northamptonshire*)
[Rt Hon Dame Anne McGuire](#) (*Labour, Stirling*)
[Austin Mitchell](#) (*Labour, Great Grimsby*)
[Stephen Phillips QC](#) (*Conservative, Sleaford and North Hykeham*)
[John Pugh](#) (*Liberal Democrats, Southport*)
[Nick Smith](#) (*Labour, Blaenau Gwent*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Sue Alexander and Jamie Mordue (Committee Assistants) and Janet Coull Trisic (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 4099; the Committee's email address is pubaccom@parliament.uk

Contents

Report	<i>Page</i>
Summary	3
Introduction	4
Conclusions and recommendations	4
1 The Department's leadership in central government and support for local government	9
2 Reducing financial uncertainty	16
Formal Minutes	18
Witnesses	19
Published written evidence	19
List of Reports from the Committee during the current Parliament	20

Summary

The Department for Communities and Local Government (the Department) does not have a good enough understanding of the impact of funding cuts, either on local authorities' finances or on services. It is unclear whether the Department is exercising a cross-government leadership role with respect to local government. It relies on data on spending and has little information on service levels, service quality, and financial sustainability. HM Treasury should better support the Department by ensuring compliance with its requests for information at future spending reviews. While the Department has identified that local authorities will need to change the way they deliver services to remain financially sustainable, it is unclear if it is providing sufficient leadership to ensure they can implement service transformation programmes successfully. Furthermore, if funding reductions were to continue following the next spending review, we question whether the Department would be in a position to provide assurance that all local authorities could maintain the full range of their statutory services. Overall, as pressure from cuts grows, so do the risks to local authorities' finances and their provision of services. The depth and quality of the Department's insight into these issues needs to keep pace with these changes, something it has struggled to achieve so far.

Introduction

Since 2010, the Government has reduced funding for local government in England as part of its plan to reduce the fiscal deficit. In real terms, the Government will reduce its funding to local authorities by an estimated 37% over the period 2010–11 to 2015–16. The funding reductions have not hit all local authorities equally, with reductions ranging between 5% and 40%. Local authorities have, on the whole, responded well to the cuts in funding. But the external auditors of local authorities have voiced concerns over whether some authorities will continue, over the medium term, to be financially sustainable and be able to make further savings. This is particularly the case for authorities responsible for adult social care and children’s services. The Department has overall responsibility for central government funding to local authorities. However, a number of other government departments have policy responsibility for specific duties which local authorities are obliged to perform. At spending reviews, the Department is also responsible for leading a cross-government assessment of local authorities’ ability to maintain statutory services while dealing with the consequences of a funding reduction.

Conclusions and recommendations

Risks to value for money arising from a failure of leadership

1. **The Department should be the single point that is overseeing the implications of government funding reductions and their implications for the delivery of local statutory services.** The Department’s Accounting Officer is the lead accounting officer in central government with respect to local government, and is responsible for distributing government funding to support local authorities to deliver their core services. However, in taking a largely “hands off” approach, both with respect to the information it obtains from other departments and in supporting local authorities to manage ongoing funding reductions, the Department is creating risks to value for money.
2. **The Department does not understand the impact over time of reductions in funding to local authorities, and the potential risks of individual authorities becoming financially unsustainable if reductions continue.** The changes in the system of local government funding have meant that the funding reductions have impacted in different ways on different authorities. The Department does not calculate or publish figures on the impact of the reductions over time. The information sources that the Department does use to understand local authorities’ financial sustainability were not designed to provide assurance on the financial viability of local authorities. The Department accepts it should make better use of the information it has got. As a consequence, the Department does not have clear processes for identifying local authorities which are at risk of experiencing financial difficulties as a result of the reductions.

Recommendations: *The Department should improve its oversight of the financial sustainability of local authorities. It should:*

- *produce, and update annually, a measure of change in revenue spending power agreed with local authorities which are transparent in showing change over time.*
 - *adopt a targeted approach to monitor more closely the financial sustainability of individual local authorities deemed to be at high risk.*
3. **There is a risk that value for money might be undermined by reductions in spending in one area leading to additional costs elsewhere.** Where local authorities make changes in one service, this could lead to increased demand for other services over the longer term or reduced income for the local area. Changes in delivering of youth services could impact on welfare expenditure; changes in planning and development could inhibit growth and slow down housing developments. Also, local authority funding reductions lead to “cost-shunting” between local government and other service providers; for example, reductions in local authorities’ social care provision has, in some cases, led to bed blocking in NHS hospitals. The Department agrees that it should have enough information to make good decisions about the level of funding provided to local authorities. It believes that local authorities have safeguarded value for money by absorbing the funding reductions primarily through efficiencies, rather than cutting services. However, the Department does not use data on the level of services that authorities are actually providing, putting it in a weak position to know what the real effects of its funding reductions are on service users and other local service providers. Without the data the Department could well consider implementing further grant reductions without understanding the impact on the level or quality of local services.

Recommendation: The Department should review regularly existing activity data across a range of key services such as adult social care and children’s services to monitor the impact of funding reductions on services including those delivered by other bodies locally like the NHS.

4. **There is a risk that central government will not appreciate when reductions in funding threaten the viability of some statutory services.** For spending reviews, the Department leads a cross-government exercise to provide assurance to HM Treasury that local authorities can maintain their statutory services. The Department believes the assessments of the impacts of funding decisions it obtained from other government departments were better at Spending Round 2013 than at Spending Review 2010. However, it acknowledged that for the 2013 Spending Round its information on a range of statutory services had still been incomplete. The evidence it received from other departments was patchy and limited, and not one department broke its analysis of impacts down on a sub-national level or looked at different types of authority, at either Spending Review 2010 or Spending Round 2013. This matters because those local authorities with the highest spending needs have been receiving the largest reductions. Further funding reductions could not just undermine the entire viability of most discretionary services, but might threaten some statutory services in these areas. Consequently, neither Spending Review 2010 nor Spending Round 2013 amounted to a comprehensive cross-government assessment of whether all authorities would be able to maintain their full range of statutory services. The Department accepts that it needs to strengthen its relationships with other

departments to improve its understanding of local services, and committed to improve its processes for a potential spending review 2015.

Recommendations:

- *HM Treasury should ensure that all relevant departments comply fully with the Department's requests for information at future spending reviews.*
 - *The Department should ensure that other departments' assessments of impact consider the full range of local authority statutory services. The impact assessment should also focus on types of authority in which, because of higher funding reductions coupled with more intense service demand, services are at greater risk of becoming unsustainable.*
 - *The Department should open up a wider consultation with local government on which statutory services local authorities should be expected to deliver, if there are to be further periods of funding reductions.*
5. **The Department's assessment of what transformation projects can deliver is limited.** The Department recognises that local authorities are reaching the limits of achieving efficiency savings, and believes that transforming the way they deliver services is the only way they can make further savings. It is supporting local authorities to do this through initiatives such as the Better Care Fund and the Public Service Transformation Network. The Department cannot at present satisfy us that it understands whether it is feasible and practical for local authorities to deliver the service transformation necessary to maintain financial sustainability. Nor does it understand what the effects on service users would be.

Recommendation: *Focussing on its own transformation programmes for local government first, the Department needs to understand whether transformation initiatives are capable of delivering the size and pace of grant reductions. If necessary the Department should expand its support for transformation programmes across the country.*

Lack of financial certainty

6. **HM Treasury should endeavour to give more clarity to local authorities about future funding, so that local authorities can plan their delivery of services going forward.** The Department and HM Treasury announce settlements and grants late and on some occasions have given local government one-year settlements. The Department told us it has given two-year settlements where possible, and cannot announce settlements earlier in the year because of the timing of the Chancellor's Autumn Statement. Combined with the introduction of incentive-based funding mechanisms such as Business Rates retention, this has increased uncertainty for local authorities over future funding which has led to many adding to their reserves as a hedge against future events. This undermines the value for money of government funding, as it takes even more money away from services at a time of spending reductions.

Recommendation: *HM Treasury should work with the Department to introduce multi-year finance settlements for local authorities.*

1 The Department's leadership in central government and support for local government

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Communities and Local Government (the Department) and HM Treasury, on the impacts of funding reductions on local authorities' financial sustainability.¹

2. Local authorities provide a range of services, in many cases underpinned by statutory duties. To remain financially sustainable, local authorities must be able to meet their statutory service obligations. This is becoming more challenging in the current financial climate. Since 2010, the Government has reduced funding for local government in England as part of its plan to reduce the fiscal deficit. In real terms, the Government will have reduced its funding to local authorities by an estimated 37% over the period 2010–11 to 2015–16.²

3. The funding reductions have not affected all local authorities equally, with reductions ranging between 5% and 40%.³ The external auditors of local authorities have voiced concerns over whether some authorities will continue, over the medium term, to be financially sustainable and be able to make further savings. This is particularly the case for single tier and county councils, those authorities with social care responsibilities.⁴

4. The Department has overall responsibility for central government funding to local authorities. A number of other government departments have policy responsibility for specific duties local authorities are obliged to perform: for example, the Department for Culture, Media and Sport has responsibility for library services, while the Department for Business, Innovation and Skills has responsibility for trading standards. At spending reviews, the Department is responsible for leading a cross-government assessment of local authorities' ability to maintain statutory services while dealing with the consequences of a funding reduction.⁵

The Department's leadership role

5. The National Audit Office (NAO) has set out its view that it is not a contradiction of the government policy of localism to expect the Department to have sufficient information to make good decisions about the level of funding it provides to local authorities. Specifically, the NAO explains that the Department should put itself in a position to understand when

1 [C&AG's Report, *Financial sustainability of local authorities 2014*, Session 2014–15, HC 783, 19 November 2014.](#)

2 [C&AG's Report, para 9.](#)

3 [C&AG's Report, Figure 2.](#)

4 [C&AG's Report, paras 12, 1.25.](#)

5 [C&AG's Report, paras 2.22–23, 2.28.](#)

local authorities may be under threat of being unable properly to discharge the statutory duties placed on them by Parliament.⁶ We endorse this view.

6. The picture which emerges from the NAO's report is of a department which is not on top of the implications arising from its funding decisions. The NAO's report, which has been agreed by the Department, is clear that the Department is the single point within central Government that ought to be monitoring the impact of funding reductions across the full range of local authority services. However, the NAO found that the Department does not fulfil this role robustly enough.⁷ The Department does not monitor local services itself, and is not set up systematically to identify signs of financial stress within local authorities in advance.⁸ In respect of individual services, it is reliant on other departments to raise concerns about whether local authorities can cope with further reductions in funding. But the information it has succeeded in obtaining from other departments to date has been variable, and the Department itself says it has experienced different levels of engagement across Whitehall.⁹

7. We note that in his "Accountability System Statement for Local Government", the Department's Accounting Officer states he is "the lead accounting officer in central government with respect to local government".¹⁰ The Accountability System Statement also refers to the Department's role, on behalf of the Government, in distributing funding to local authorities to support their core services.¹¹ We would expect this to mean the Department displayed effective leadership across central government, not least in providing accountability to Parliament for the effects of funding decisions on the delivery of statutory services. By contrast, the Department appears to be taking a largely "hands off" approach, both with respect to the information it obtains from a number of departments and to supporting local authorities to manage ongoing funding reductions. We believe this creates a number of risks to value for money, which we explore under four headings in the rest of this chapter.

Impacts on local authority finances

8. Over the period 2010–11 to 2015–16, central government will have reduced its funding for local authorities by 37% in real terms. This equates to a reduction of 25% in "spending power", a measure of local authorities' total income for services, taking into account not only government funding but also local council tax receipts.¹² Within this aggregate picture, individual authorities have received different levels of funding reduction. The Department for Communities and Local Government (the Department) confirmed that authorities in the most deprived areas had received the biggest cuts in spending power.¹³

6 [C&AG's Report, para 6.](#)

7 [C&AG's Report, para 21.](#)

8 [C&AG's Report, paras 3.15, 3.19.](#)

9 [C&AG's Report, paras 2.27–28, 2.30–31.](#)

10 [Department for Communities and Local Government, "Accounting Officer Accountability System Statements for Local Government and Fire and Rescue Authorities", September 2013, para 2.](#)

11 [Q 21.](#)

12 [C&AG's Report, para 9.](#)

13 [Q 6.](#)

9. We asked why the most deprived authorities were receiving the biggest cuts. The Department said this was a simple piece of arithmetic: as more deprived areas received relatively more funding within the system, then so would they lose the most from a cut in government funding. It also pointed to the fact that the most deprived 10% of authorities still have 50% more spending power per head than the least deprived 10%.¹⁴ However, as the NAO has shown, the Department is unable to demonstrate that the extra per capita funding which more deprived authorities receive is sufficient to enable them to meet their additional service demands.¹⁵

10. Under the previous system of funding local government the Department used an annual assessment of each authority's relative needs to revise its distribution of funding each year. However, the Department has now stopped updating this relative needs assessment.¹⁶ The Department told us that the reason for this was that in 2013–14 it introduced a major change to the funding system in the shape of Business Rates retention, and that in response to this reform local authorities requested a period of stability. The Department implied that by fixing its distribution of funding according to a past assessment of relative needs, rather than continuing to update it every year, it was meeting this request.¹⁷

11. The Department said that it had still taken account of the impact of its funding decisions on more deprived authorities. In fact, the Department said it had made adjustments to the system to soften the impacts somewhat on more deprived areas, although it acknowledged these authorities were still the worst off from the reductions.¹⁸ We were left wondering, however, what other options for altering the distribution of funding the Department might have explored. Evidence submitted to us by Paul Woods, former Treasurer of Newcastle City Council, suggested there could be alternative methods of distribution which might have offered more protection to the most deprived authorities, without any alteration to the overall reductions in aggregate.¹⁹ While unable to comment ourselves on the merits of this analysis, we asked the Department for its views on some key points. The Department said it thought it had already included protections for those authorities that were dependent on government grant.²⁰

12. The Department told us it tried to have a good understanding of the impacts of its funding decisions in aggregate.²¹ It is less apparent that the Department has a good understanding of the differential impacts on individual local authorities and how these might diverge further over time. While the Department publishes figures showing changes in spending power for every local authority, it does so for only one year at a time. The Department did not think it possible to calculate in any meaningful way a measure of

14 [Qq 9, 11, 23; Local Government Finance Settlement 2014/15, Standard Note SN/SG/6816, House of Commons Library, February 2014, Table 4.](#)

15 [C&AG's Report, para 2.9.](#)

16 [C&AG's Report, para 2.9.](#)

17 [Qq 5, 9, 74.](#)

18 [Qq 6–7, 9.](#)

19 [Written evidence from the Chartered Institute of Public Finance and Accountancy](#)

20 [Qq 24–26, 74.](#)

21 [Q 3.](#)

spending power over a longer period.²² We would observe, however, that not only has the NAO produced a calculation for the reduction of spending power since 2010–11 (figures which were agreed by the Department), but the Department has itself managed to provide us with such an estimate in the recent past.²³

13. The Department also suggested that, even if it were to publish a measure of the reduction in spending power across the duration of a Parliament, this would not significantly aid its understanding of authorities' financial sustainability.²⁴ We would contrast this with the NAO's opinion that the Department needs to be better informed in its role as funder of local authorities. Following this conclusion, the NAO recommended that the Department "should publish a real-terms time series of change in individual local authority income since 2010–11."²⁵

14. Both the Department and HM Treasury referred to the frequent conversations departmental officials have with local authorities, enabling them to understand the impacts of funding reductions on the ground.²⁶ However, with regard to its programme of visits to local authorities by senior officials, the Department has acknowledged that any insights about the financial sustainability of authorities is effectively an ad hoc consequence of this system. The NAO has concluded that the Department has only a limited understanding of the financial sustainability of local authorities and the extent to which they may be at risk of financial failure.²⁷ In response to the NAO's criticism, the Department said it had a number of different information sources to help it identify potential problems and ensure financial sustainability. However, it accepted that it should make better use of this information when making policy decisions and at the next spending review.²⁸

Impacts on demand for other services

15. The Department confirmed that it ought to be expected to have enough information to make good decisions about the level of funding provided to local authorities. Regarding information on the consequences of its funding reductions, the Department told us it believed these had led to some service reductions.²⁹ However, both the Department and HM Treasury believed that local authorities had succeeded in absorbing the majority of funding reductions to date in the form of efficiencies.³⁰ The main evidence which the Department referred to in support of this was the annual returns it receives from local authorities, providing data on how much authorities are spending in each service area.³¹ However, it did not refer to any data on the actual level or quality of services delivered. In

22 [Written evidence from the Department for Communities and Local Government](#)

23 [Oral evidence taken before the Committee of Public Accounts on 30 June 2014. Assurance to Parliament on funding for local authorities, HC \(2014–15\) 456-I, Q 14.](#)

24 [Written evidence from the Department for Communities and Local Government](#)

25 [C&AG's Report, paras 29, a.](#)

26 [Qq 19, 47, 70.](#)

27 [C&AG's Report, paras 18, 3.9.](#)

28 [Written evidence from the Department for Communities and Local Government](#)

29 [Qq 1, 48.](#)

30 [Qq 15, 19, 47.](#)

31 [Qq 16–18.](#)

this respect, the Department has not made any progress since the last time it came before us to give evidence on this topic, in February 2013. Then, too, the Department said it only monitored data on spending rather than service activities. As a result, it conceded it had no way of knowing to what extent local authorities were managing their funding reductions by making service cuts as opposed to efficiencies.³²

16. Where local authorities make reductions in one service area, there is a risk this could lead to increased costs or reduced income at a later date. We were concerned to note, for example, that local authorities had focused their biggest spending cuts to date in planning and development, when investment in these areas could be crucial in increasing income from local growth.³³ Equally, we were concerned that cuts to some services in the short term could lead to a rise in other costs in the longer term. For example, we were concerned that cuts to youth services could have a knock-on cost to the economy.³⁴

17. We also expressed concern that cuts in provision of one service could lead to a rise in demand for another service. Where this increased demand is met by another service provider, this is sometimes referred to as “cost shunting”. We asked in particular about the potential for reductions in local authorities’ social care to lead to increased demands on the NHS, especially given rising trends in Accident and Emergency (A&E) admissions. HM Treasury acknowledged the rise in demand for A&E, but said it was not clear that this was all being driven by local authorities’ social care decisions.³⁵ The Department said it was important for service providers from different parts of the public sector to work together, implying this would help to address the risk of cost shunting. It said it was helping in this regard, for instance in initiatives such as community budgets.³⁶

Future impacts of funding reductions on services

18. Parliament has passed legislation to require local authorities to perform a range of services, such as adult social care and waste collection (although they also provide a number of discretionary services).³⁷ The Department agreed that it should be in a position to understand when local authorities were under threat of not being able to maintain statutory services.³⁸

19. The Department has a particular role to play in this respect during the Government’s periodic spending reviews. Led by HM Treasury, spending reviews decide government resource budgets over a future period. There have been two spending reviews in this Parliament, Spending Review 2010, and the shorter Spending Round 2013 (a review which set budgets for one year only, 2015–16).³⁹ The Department told us it was its responsibility

32 [Committee of Public Accounts, Department for Communities and Local Government: Financial sustainability of local authorities, Third Report of Session 2013–14, HC 134, June 2013, paragraph 14](#)

33 [Q 65](#).

34 [Q 68](#).

35 [Q 69](#).

36 [Q 68](#).

37 [C&AG’s Report, para 2](#).

38 [Q 1](#).

39 [C&AG’s Report, para 2.22 to 2.25](#).

at these reviews to advise HM Treasury on the impact of different potential funding decisions on local government.⁴⁰ In order to do this, it asks other departments to submit analysis on the potential impacts of budget proposals on the local authority services which are relevant to them.⁴¹

20. In our 2013 report on this topic, we criticised the quality of the data obtained by the Department at Spending Review 2010, and recommended that central government's assessment of the impacts of funding reductions should be improved before the next spending review.⁴² In its recent analysis of the equivalent processes at Spending Round 2013, the NAO found that there had indeed been improvements, but that the data from other departments still varied considerably in quality and completeness. For example, while two departments were able to provide quantitative estimates of the impacts of savings on local services, more were not. In addition, just as at Spending Review 2010, not one department broke its analysis down by region or type of authority. Moreover, the departmental submissions did not cover a number of statutory services, including youth services, food safety and standards inspections, and libraries.⁴³

21. The Department agreed that the information it obtained at Spending Round 2013 was incomplete, but stressed that this was still a considerable improvement on what it collated at Spending Review 2010. Regarding the number of statutory services which were not covered in this analysis, the Department said it had prioritised its focus on adult social care and children's services, as these made up the largest elements of service spend. Its view was that inevitably this meant some services and duties would not get as much time and attention as others.⁴⁴ Overall, the Department excused some of the gaps in its analysis at Spending Round 2013 by saying it was not a full spending review. The Department was confident of making further improvements at a potential Spending Review 2015.⁴⁵ Not least, it accepted the need to strengthen its relationships with other departments, acknowledging this was fundamental to understanding services within local authorities.⁴⁶

22. On the assumption that there would be further reductions at the next spending review, we expressed concern regarding the future impacts on services. In particular, we were concerned this might lead to more service cuts, given local authorities had already made a number of efficiencies and had diminishing room to make discretionary spending decisions.⁴⁷ The concerns we expressed were not just for statutory services but also some discretionary services, such as street lighting. The Department said with regard to the maintenance of service quality it was relying on a combination of local accountability and inspections of specific services, such as adult social care and children's services.⁴⁸ However,

40 [Q 21](#).

41 [C&AG's Report, para 2.23 to 2.25](#).

42 [Committee of Public Accounts, Department for Communities and Local Government: Financial sustainability of local authorities, Third Report of Session 2013–14, HC 134, June 2013, conclusion 1](#).

43 [Q 64; C&AG's Report, paras 2.24–2.28](#).

44 [Qq 53, 55](#).

45 [Qq 55, 64](#).

46 [Written evidence from the Department for Communities and Local Government](#)

47 [Qq 19–20, 53](#).

48 [Q 75](#).

while the Department's focus on adult and children's social care may be understandable, the NAO has found that local authorities have to date sought to protect their spending on these services as far as they are able, at the expense of some other statutory duties and discretionary activities.⁴⁹ This raises questions about whether it is those services which the Department has *not* been focusing on which are at greater risk of becoming financially unsustainable.

23. The overarching question we pressed the Department on was this: would it be able to provide advice on whether or not the overall level of government funding was enough to enable local authorities to maintain their statutory duties? It replied that it could not in fact know how much funding every local authority needed for all of its services, since this depended on local circumstances.⁵⁰ Without at least an idea of the amount of funding required to maintain statutory services to a minimum standard, however, it is hard to see how the Department could live up to its stated intent, working alongside HM Treasury and other departments, to ensure that local authorities are able to fulfil their statutory duties.⁵¹

Transforming services to cope with further reductions

24. We asked the Department how in practice it thought local authorities were going to continue to deliver savings. The Department acknowledged that local authorities had reduced scope for making further efficiencies, given those they had already made. However, it believed local authorities could continue to absorb funding reductions by transforming the way they delivered their services. To this end, the Department referred to ways in which it was striving to help local authorities achieve service transformation.⁵² One major initiative was the Better Care Fund, which involved the Department working with the Department of Health to create a fund aimed at joining up local adult social care and NHS spending. Other initiatives included the Public Service Transformation Network, which has been working with 16 local authorities (and other service providers) to help develop good practice in joining up services.⁵³

25. Initiatives to help join up services and increase efficiency are very welcome. We note, however, what the NAO had to say about the Department's reliance on such schemes to enable local authorities to continue to deliver savings. The NAO found that the Department had not yet assessed whether service transformation projects could deliver savings which are large and timely enough to enable local authorities to maintain services. Nor had the Department estimated the potential impact of such projects on service users.⁵⁴

49 [National Audit Office, *The impact of funding reductions on local authorities*, November 2014, para 17.](#)

50 [Qq 4–5, 21.](#)

51 [Q 63.](#)

52 [Qq 20, 53, 60.](#)

53 [Qq 20, 54; C&AG's Report, para 2.20.](#)

54 [C&AG's Report, paras 15, 2.18.](#)

2 Reducing financial uncertainty

Helping local authorities plan for future savings

26. Given the challenges faced by local authorities in coping with ongoing funding reductions, it is important the Government does what it can to provide authorities with certainty over their future funding. Financial uncertainty can create risks to value for money by undermining the ability of organisations to act according to longer-term savings plans.⁵⁵ However, in this Parliament the Department has made some late funding announcements, reducing the time local authorities have had to set their annual budgets and council tax rates. For example, it announced the funding settlement for 2014–15 three weeks later in the year than it announced the 2010–11 settlement. In addition, on occasion it has only announced funding for one year at a time, rather than two or more.⁵⁶

27. The Department has also changed the local government funding system so that authorities now receive a proportion of their funding from incentive-based mechanisms, such as the Business Rates retention scheme. Under this system local authorities keep around half of any local growth in Business Rates. Such mechanisms increase the uncertainty over authorities' future funding by making part of it dependent on local growth.⁵⁷ As the Department confirmed, the total amount of money collected by local authorities in Business Rates will vary from year to year.⁵⁸

28. One potential consequence of this degree of financial uncertainty has been the significant increase in local authorities' financial reserves over this Parliament. For example, in 2010–11 single tier and county councils (those authorities responsible for social care) held reserves equal to a quarter (25%) of their annual net revenue expenditure; in 2013–14 this had increased to a third (33%). Local authorities the NAO spoke to said they had increased reserves because of uncertainty over future income.⁵⁹

29. The Department agreed that the more funding certainty it could give to local authorities, the better. On one level, it thought there was only so much it could do to assist, as the radical funding reductions and reforms it was implementing were bound to bring with them some uncertainty.⁶⁰ But at the same time the Department referred to a number of actions it had taken to limit the uncertainty arising from its new incentive-based funding mechanisms. It also said that where possible it had made two-year announcements of funding to provide greater certainty.⁶¹

30. Regarding the timing of its main funding announcements, the Department said it tried to make these as early as possible, but that it was constrained by the timing of the

55 [C&AG's Report, para 1.12.](#)

56 [Q 77; C&AG's Report, paras 1.11, 2.10.](#)

57 [C&AG's Report, para 1.11.](#)

58 [Q 34.](#)

59 [National Audit Office, *The impact of funding reductions on local authorities*, November 2014, para 15.](#)

60 [Qq 76, 78.](#)

61 [Qq 5, 36, 77.](#)

Chancellor's Autumn Statement. In that case, we said, the Treasury should ensure that local authorities had greater certainty and more notice of their funding. HM Treasury said it did not disagree.⁶²

62 [Qq.77-78](#).

Formal Minutes

Monday 19 January 2015

Members present:

Mrs Margaret Hodge, in the Chair

Mr David Burrowes	Dame Anne McGuire
Stephen Hammond*	Austin Mitchell
Chris Heaton-Harris	Stephen Phillips
Meg Hillier	John Pugh
Stewart Jackson	Nick Smith

Draft Report (Financial sustainability of local authorities), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 30 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Thirty-fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 21 January at 2.00pm]

* *Stephen Hammond was not a Member of the Committee when it took evidence in relation to this Report.*

Witnesses

Wednesday 26 November 2014

Questions

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/pubaccom.

Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government; **Matthew Style**, Director of Local Government Finance, DCLG; and **Sharon White**, Second Permanent Secretary, HM Treasury

[Q1-79](#)

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/pubaccom. CGA numbers are generated by the evidence processing system and so may not be complete.

- 1 Chartered Institute Of Public Finance and Accountancy ([CGA0001](#))
- 2 Department For Communities And Local Government ([CGA0004](#))
- 3 Kent Environment And Community Network ([CGA0005](#))
- 4 The Chartered Institute Of Public Finance And Accountancy ([CGA0003](#))
- 5 Unison ([CGA0002](#))

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

First Report	Personal Independence Payment	HC 280
Second Report	Help to Buy equity loans	HC 281
Third Report	Tax reliefs	HC 282
Fourth Report	Monitor: regulating NHS Foundation Trusts	HC 407
Fifth Report	Infrastructure investment: impact on consumer bills	HC 406
Sixth Report	Adult social care in England	HC 518
Seventh Report	Managing debt owed to central government	HC 555
Eighth Report	Crossrail	HC 574
Ninth Report	Whistleblowing	HC 593
Tenth Report	Major Projects Authority	HC 147
Eleventh Report	Army 2020	HC 104
Twelfth Report	Update on preparations for smart metering	HC 103
Thirteenth Report	Local government funding: assurance to Parliament	HC 456
Fourteenth Report	DEFRA: oversight of three PFI waste projects	HC 106
Fifteenth Report	Maintaining strategic infrastructure: roads	HC 105
Sixteenth Report	Early contracts for renewable electricity	HC 454
Seventeenth Report	Child maintenance 2012 scheme: early progress	HC 455
Nineteenth Report	The centre of government	HC 107
Twentieth Report	Reforming the UK Border and Immigration System	HC 584
Twenty First Report	The Work Programme	HC 457
Twenty Second Report	Out-of-hours GP services in England	HC 583
Twenty Third Report	Transforming contract management	HC 585
Twenty Fourth Report	Procuring new trains	HC 674
Twenty Fifth Report	Funding healthcare: making allocations to local areas	HC 676
Twenty Sixth Report	Whole of government accounts 2012–13	HC 678
Twenty Seventh Report	Housing benefit fraud and error	HC 706
Twenty Eight Report	Lessons from major rail infrastructure programmes	HC 709
Twenty Ninth Report	Managing and removing foreign national offenders	HC 708
Thirtieth Report	Managing and replacing the Aspire contract	HC 705
Thirty First Report	16- to 18-year-old participation in education and training	HC 833
Thirty Second Report	School oversight and intervention	HC 735
Thirty Third Report	Oversight of the Private Infrastructure Development Group	HC 675