

Financial Sustainability of local authorities: 2018

Purpose of report

For discussion.

Summary

The National Audit Office (NAO) published “Financial sustainability of local authorities: 2018” on 8 March and Alex Burfitt, NAO, will attend to present the report. This will provide an opportunity to review our support offer to the sector.

Recommendation

That the Improvement and Innovation Board consider the implications of the recent NAO report.

Action

Officers to progress in the light of members’ comments.

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Financial Sustainability of local authorities: 2018

Background

1. The National Audit Office published “Financial sustainability of local authorities: 2018” on 8 March. The report updates and builds on similar reports in 2013 and 2014.
2. The report sets out
 - 2.1. the financial and non-financial challenges faced by local authorities since 2010-11 and examines how they have responded,
 - 2.2. examines service sustainability by exploring changes in patterns of service spending and activity in local authorities,
 - 2.3. assesses levels of financial pressure and their implications for financial sustainability in the sector,
 - 2.4. assesses whether the Ministry of Housing, Communities and Local Government and other departments are sufficiently informed about the risks and impacts from pressures in the sector and are managing those risks.
3. In summary the report found, amongst other things, that:
 - 3.1. 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).
 - 3.2. Alongside reductions in funding, local authorities have had to deal with growth in demand for key services, as well as absorbing other cost pressures.
 - 3.3. 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.
 - 3.4. 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.
 - 3.5. Compared with the situation described in the 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities.

- 3.6. The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities.
4. A summary of the report, its findings and recommendations, is **attached at Appendix A** and Alex Burfitt, NAO, will attend to present the report.
5. Responding to the publication of the report Lord Porter, said:

“This stark report sets out the significant funding challenges facing all councils and the effect years of unprecedented funding reductions have had on the local services our communities rely on and other parts of the public sector. It is yet 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”.

<https://www.local.gov.uk/about/news/lga-responds-nao-report-financial-sustainability-local-authorities>

Issues

6. In response to the challenging financial environment the LGA has progressively strengthened our support offer to the sector. The offer includes the following key elements:

6.1. Leadership: Our development programme includes:

- 6.1.1. The Leadership Academy which has a specific module to help develop councillors' ability to lead and manage complex change and improve effectiveness and efficiency. The programme also includes a specific Leadership Essentials Finance programme (a two day residential programme to help leaders and finance portfolio holders get to grips with the financial challenges facing their authority).
- 6.1.2. More generally our member peer support offer includes support for Finance portfolio holders from an experienced pool of Member peers.

6.2. Peer Challenges

- 6.2.1. The Corporate Peer Challenge: the CPC now has an explicit focus on finances, with financial sustainability as one of the five core elements of the challenge. The challenge asks “Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?”

- 6.2.2. The Finance Peer Review: This is a form of specialist peer challenge that dovetails closely with the Corporate Peer Challenge and looks at how councils are setting the strategy, making the decisions required and implementing the changes that will give them the best chance of balancing the books in the medium and long term.
- 6.2.3. In addition we also offer a financial health check (an in-depth technical assessment and analysis of a council's finances) and a budget challenge (a facilitated discussion, led by a member peer, working with cabinet or equivalent, offering political advice/guidance on budget options and issues).

6.3. Productivity and Efficiency: Our Productivity programme aims to help councils reduce their financial dependence on government and their call on local taxpayers by:

- 6.3.1. Transforming services; e.g. helping councils explore new models of service delivery through the Design in the Public Sector programme; helping manage demand through the Behavioural Insights programme; and supporting shared services through the annual shared services map and shared services matchmaking service.
- 6.3.2. Smarter sourcing: helping councils commission and procure services more efficiently and effectively through our work on procurement.
- 6.3.3. Generating income: helping councils explore opportunities to generate a greater proportion of funding locally. So far this year our productivity and income generation experts are working in 21 councils contributing towards efficiency savings and/or income generation of £34.5 million.
- 6.3.4. Other support:** Additional support is also available e.g. by way of LG Inform and LG Inform vfm profiles, enabling councils to make performance and cost comparisons with others and through our work with Local Partnerships.

7. As well as this range of practical advice and support the LGA's regionally based Principal Advisers, working with our small team of Financial Improvement and Sustainability Advisers (FISAs), utilise data and intelligence to keep under review councils in their areas with performance and financial challenges in order to be able to offer proactive support.

Implications for Wales

8. This report is about England only and does not relate to the WLGA or to Welsh member councils. Improvement work is provided directly by the WLGA.

Financial Implications

9. There are no additional financial implications arising from this report.

Next steps

10. To be determined in the light of members' comments.