



Cabinet (Resources) Panel

9 December 2014

Report title	Update on the Financial Sustainability of Authorities (NAO Report, November 2014)	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	No	
In forward plan	No	
Wards affected	All	
Accountable director	Mark Taylor, Assistant Director Finance	
Originating service	Policy / Strategic Finance	
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Report to be/has been considered by	SEB	27 November 2014

Recommendations for noting:

The Cabinet (Resources) Panel is asked to note:

1. The information on the November 2014 NAO report on the financial sustainability of local authorities.

1.0 Purpose

- 1.1 The purpose of this report is to provide information to Cabinet on the recent NAO report on the [financial sustainability of local authorities](#), published on 19 November 2014.

2.0 Background

- 2.1 In January 2013, the NAO reported on the [central government's approach to reduce local authority funding](#). The latest report analyses two more years of financial and performance data to understand the impact of DCLG's decisions on local government and if the Department has improved its understanding of the impact of its funding reductions on council's ability to deliver services.
- 2.2 The Government will reduce its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant.

3.0 Key Findings and Implications for Wolverhampton

- 3.1 The key messages from the NAO in the report are as follows:

- Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress.
- DCLG has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services
- DCLG does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. Therefore DCLG risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.
- DCLG's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.
- In keeping with past reports, the councils hardest hit were those most dependent on government grants.

- 3.2 Regarding the impact of the reductions in government funding the NAO report found:

- Auditors are increasingly concerned about the sector's capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.
- Auditors report that 16% of single-tier and county councils are not well placed to deliver their 2014-15 budgets.
- Councils have tried to protect spending on social care services. Other service areas such as housing services (-34%) and culture and leisure services (-29%) have seen larger reductions.
- While councils have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels. Since 2010-11, for example, fewer days of residential care and homecare for adults are being provided.
- In Wolverhampton 1425 adults (75 per 10,000 population) were supported in permanent residential or nursing care services during 2010/11 compared with 1420 (70 per 10,000 population) in 2013/14. 2230 (115 per 10,000 population) were

supported with a home care service during 2010/11 compared with 1795 (90 per 10,000 population) in 2013/14.

- 3.3 In a complementary report, [Impacts of funding reductions on local authorities](#), the NAO found that there is significant variation in the way that authorities have responded to the funding reductions. Authorities that have had larger cuts in government funding have not been able to protect funding of adults' and children's social care to the same extent as those with lower cuts. The report also shows that certain sub-services have experienced very substantial cuts in spending. Nationally, spending on the Supporting People programme, housing support and advice for vulnerable people fell by 45%. Between 2010-11 and 2013-14, budgeted real terms spending on services for young people fell by 34%.
- 3.4 The following table summarises Wolverhampton's position in comparison to the national figures and examples in the NAO report:

Measure	NAO Report	Wolverhampton
Estimated real-terms reduction in government funding 2010-11 to 2015-16	37%	40.8% ¹
Estimated real-terms reduction in local authorities' income once council tax is included, 2010-11 to 2015-16	25%	30.0% ²
Reduction in full-time equivalent posts in local authorities, excluding the total school workforce, between 2010 and 2013	16.6%	12.3%
Budgeted real-terms reduction to planning and development service area, 2010-11 to 2014-15	46%	50.3%
Budgeted real-terms increase to children's social care service area, 2010-11 to 2014-15	7%	11.1%
Reduction in spending on the Supporting People programme, housing support and advice for vulnerable people	45%	47.7%
Reduction in spending on services for young people	34%	20.2% ³
Reduction in spending on housing services	34%	33.5%
Reduction in spending on culture and leisure services	29%	47.5%

¹ The average real-terms reduction for Metropolitan District authorities has been included in the table above, rather than a Wolverhampton City Council comparison. In order to arrive at a real-terms reduction in government funding, the National Audit Office have conducted a time series analysis showing the percentage change in a weighted index; the full data sets are not available however, so a like-for-like comparator is not possible.

² Per note 1 above, the average real-terms reduction for Metropolitan District authorities has been included.

³ A change in the classification of data within the S251 return between 2010/11 and 2013/14 has resulted in difficulties deriving a like-for-like comparator to the National Audit Office statistics. As the full data sets are not available from the National Audit Office, general assumptions have been made.

- 3.4.1 Whilst for some of the data there are no direct comparisons, broadly the information tells us that the City has fared slightly worse than the national average in relation to the reduction to local authority funding. This is not surprising, and has been consistent with the messages that the Council has been giving to Government. Despite the large scale redundancy programme, the Council has had a less than average reduction in full-time equivalent posts – this may be because posts removed in 2014 are not included.
- 3.4.2 The report shows us that the Council has reduced spending slightly more than the national average in areas such as the Supporting People programme, housing support, advice for vulnerable people and planning and development services. There is a more significant reduction in spending against national average for culture and leisure services. However the Council has protected spending on housing services slightly more than others, and significantly protected spending on services for young people. The real terms increase in the Children’s social care budget when compared to others is also not a surprise given the rising numbers of Looked After Children in the City.
- 3.5 Nationally there have been several reactions to the report.

Margaret Hodge, Chair of the Public Accounts Committee, which will scrutinise the auditors’ findings, said she found it extraordinary that the DCLG had little idea whether local authorities were at risk of financial failure, and she warned of “potentially disastrous” consequences.

Hilary Benn, the shadow Communities Secretary, said the report revealed the true impact of the decisions government had made. He states that “it is now clear that an increasing number of councils are facing serious financial pressures, but DCLG ministers are completely out of touch. That’s why the NAO has told them to start finding out what is actually happening in communities up and down the country”

Cllr Claire Kober, Chair of the Local Government Association's Resources Board has said about the report that "with further public spending cuts expected in the next Parliament, it is clear that a "more of the same" approach will not work... Devolution to local areas is the only answer. Across a wide range of issues, there is compelling evidence that taking decisions closer to the people affected achieves better results and saves money.”

Nick Golding, editor of the Local Government Chronicle referred to the report as a ‘suitably damning epitaph for the Department for Communities and Local Government’s stewardship of council finances this parliament’ and has called for the abolishment of DCLG in order to invest the savings in efficient local services.

4.0 Financial implications

- 4.1 Due to the reduction in local authority finances by Government, the Council has been managing a severe financial challenge. The Council has already identified £86 million of savings towards the target of £123 million over the next five years. There are £27 million of savings proposals identified for 2015-16, which are currently being consulted on with residents.

[MH/28112014/C]

5.0 Legal implications

- 5.1 Should the Council's Section 151 Officer believe that the bank balance will go in to deficit in the financial year; a Section 114 notice must be issued. The issue of a Section 114 notice has serious operational implications. Full Council must meet within 21 days to consider the notice. During that period, the Council is prohibited from entering into new agreements involving spending.

[TS/28112014/E]

6.0 Equalities implications

- 6.1 Any savings proposal to meet the financial challenge is subject to a equality analysis so that Councillors can pay due regard and meet the requirements of the Equality Act 2010 and the Public Sector Equality Duty. The Council also produces a cumulative equality analysis of the budget. Given DCLG's lack of understanding of the cumulative impact of cuts to services, there is no national equivalent to understand the impact of the government's funding decisions on communities or any analysis against the nine protected characteristics.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from this report.

10.0 Schedule of background papers

- 10.1 [Financial Sustainability of Local Authorities](#) (NAO, November 2014 – Full Report)
[Financial Sustainability of Local Authorities](#) (NAO, November 2014 – Summary)
[Impacts of funding reductions on Local Authorities](#) (NAO, November 2014)
[Financial Sustainability of Local Authorities](#) (NAO, January 2013 – Full Report)