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1. Introduction

I welcome this opportunity to submit written evidence to the Public Accounts Committee Inquiry on the Financial Sustainability of Local Authorities. This reply draws on my personal senior level experience and recent published academic work on financial sustainability, accountability and transparency in central and local government.

Overall, the main focus of my response concerns accountability, financial performance and position, and structural and strategic arrangements. The scope of the response is confined to England, and it should be noted that there are some important differences in arrangements for other parts of the UK.

2. Accountability

Since abolition of the Audit Commission and scrapping of centrally controlled performance management arrangements coupled with austerity policies, the main focus on assurance by the National Audit Office for local government has been on financial conformance ensuring a balanced budget is accomplished that is a statutory requirement (Ferry and Eckersley, 2015).

There is an emphasis placed on service performance and associated value for money by the National Audit Office, but this is at a high level and not in detail relative to the assessments undertaken by the Audit Commission (Ferry and Eckersley, 2015). This is because the National Audit Office operates under a more contained scope from the Audit Commission that had a broader remit, more resources and undertook an assessment of individual local authority financial conformance and operational performance. Instead, the assessment of value for money by the National Audit Office is a field level account of local government and not of individual local authorities and their services, so there can be wide variations of financial and service risk that are masked (Ferry and Murphy, 2017).

The government suggested reduction in accountability arrangements was to be replaced by increased transparency initiatives, but armchair auditors – citizens analysing data and challenging public services - have not materialised (Ferry et al., 2015a).

In this context, financial sustainability was therefore arguably initially more of a focus than service sustainability, but there is an increasing realisation that many services are now under serious threat (Ferry and Murphy, 2017).

3. Financial Performance and Position

Given the financial crisis 2007/08 and subsequent austerity policies that have gradually played out over the subsequent decade, demand for local public services has increased at the same time as significant cuts to budgets.

Under austerity policies, on the revenue side of the local government budget the funding from central government grants has been significantly reduced to local authorities. Also of the central government funding that has been allocated, the fair funding methodology has been criticised for leading to political and geographic impacts, which of course has in turn been rebutted as part of the politicisation of the budget process (Ahrens and Ferry, 2015). From being one of the most centrally funded local government regimes in Europe (Ferry et al., 2015b) there has been tentative moves to begin addressing this position, with an attempt for more increased reliance on local funding through changes to NNDR and council tax. Again such changes have not fell equally. The NNDR changes will benefit those council areas more able to raise business rates. Only adult services has a council tax precept, but it is likely that the public will eventually become less supportive and challenge the fairness of such targeted increases especially given the lottery in adult care around the country and application of rules on use of personal assets towards costs.

On the expenditure side of the local government budget, a fundamental problem for financial sustainability is that after almost a decade of austerity since the financial crisis most (if not all) of the easier savings have been banked by local authorities, and so the low hanging fruit has gone and now budget cuts are to the root of the vine.

Reserves have been seen as a short term fix, but are not a medium term (never-mind long term) panacea. Most balance sheet risks across the field of local government, and more so of individual local authorities, therefore focus on reserves. For example, Northamptonshire County Council section 114 notice (first in over 20 years) explicitly illustrates the risks of depleted reserves and cash-flow problems.

However, many other balance sheet risks are not fully understood and well costed. For instance, since the Localism Act 2011 afforded local government new powers there has been an increase by local authorities in property and other commercial investments sometimes well beyond their geographic area and outside their routine activities as they felt a need to find new ways to raise revenue given the significant and ongoing budget cuts they have had to endure (Andrews et al., 2018).

4. Structural and Strategic Risks

Structural and strategic risks to financial sustainability of local government are also apparent. For example the initial focus of local authorities under austerity was on controlling input costs to balance budgets, but they quickly realised they had to become more innovative as cuts continued (Ferry et al., 2017). It is therefore no surprise that there has been a significant increase in local authority companies, which have varied governance structures, financial considerations and performance intentions with associated risks that are not well understood and costed (Ferry et al., 2018a). In particular, an important antecedent for establishing a local authority company has been debt of the council, the ability to operate in markets otherwise closed off and to generate profit for reinvestment back in the council (Andrews et al., 2018).

Whilst this can be beneficial it can also lead to some perverse affects for the council and in the market place, making it questionable if these structures are indeed the best way to deliver certain local public services.

Devolved structures have also complicated financial sustainability. For example, the Manchester devolution deal includes local government and the NHS that have different budgetary arrangements and requirements that can further confuse the management of financial sustainability.

Outside of the financial sustainability of local government itself, over the past decade outsourcing of local government services has continued to drastically increase with fragmented structures meaning different levels of financial sustainability threats and performance risks. For example, the collapse of Carillion highlights the problems for capital projects whereby public services including local government ultimately bare the risks. More so the significant fall in Capita share price following concerns around its operations also shows the potential sustainability risk to suppliers of everyday local government services, with associated financial and service sustainability risks for local authorities themselves.

In addition, local government financial sustainability is all too often being looked at in isolation, but is highly inter-connected both from a financial and service perspective with other local public services in particular such as the NHS, police and fire (Ferry and Murphy, 2015; Murphy et al., 2018). This can be extended beyond public services as local government works closely with local businesses for economic growth and so the resulting problems can be manifestly greater. In turn, these issues form part of the argument for some form of place based accountability.

Furthermore, the impact of Brexit will have risks and opportunities concerning financial sustainability of local government (Ferry and Eckersley, 2017, 2018). For example, adult social care is an area that has many relatively lower paid EU workers, and indeed just as many workers from outside the EU. There could therefore be an impact on staffing capacity in the medium term as churn is not replaced by a pool of new workers and this may in turn lead to an upward pressure on wages. Alternatively, procurement may become easier to use local providers and therefore create a multiplier effect from local business in terms of business rates retention for local authorities.

Given the above context, a fair funding review needs to look at the amount of resource allocated as well as how it is distributed, as the sustainability of local government itself is under serious pressure. An independent advisory board could be established for local government funding as a means to reduce politicisation, but how easily this could operate in a Westminster political system that is more combative and centralised is debateable.

It is also important to recognise that rather than merely focussing on financial sustainability a broader approach to accountability is needed (Ferry and Ahrens, 2017). This has to look at the financial performance and position but also be linked to service performance and value for money in much greater detail, along with governance and cultural arrangements that need to be taken into account. Otherwise, only part of the picture is being made visible and manageable (Hillier, 2016a, 2016b; Ferry and Murphy, 2017; Ferry et al., 2018b).

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