Norfolk County Council
at your service

Policy and Resources Committee

Date: **Monday 1 December 2014**

Time: **10am**

Venue: **Edwards Room, County Hall, Norwich**

SUPPLEMENTARY
A g e n d a

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Policy & Resources Committee

Item No. 13

Report title:	**Digital Norfolk Ambition Programme**
Date of meeting:	**1 December 2014**
Responsible Chief Officer:	**Anne Gibson, Executive Director of Resources**

Strategic impact

The Digital Norfolk Ambition (DNA) programme is a key part of the Council's change and improvement activity. The programme will ensure the Council has a robust ICT infrastructure and support the introduction of a strong, evidence based and targeted approach to the way we commission and provide services.

The Programme is ambitious and has a 5 year timeframe. The Council and its partners are aiming to implement a step change in technology provision, deploying modern laptops, collaboration software and stable systems maximising advances in modern delivery methods such as cloud computing. However there is a significant challenge in moving from an aging, complex and disparate ICT estate which should not be under estimated especially when being delivered in conjunction with the reduction in ICT budgets.

Executive summary

The DNA programme will provide a stable and future proof technology and information platform for the council and its partners into the future. Norfolk County Council has in the past looked to maximise the return on its investments in technology in some instances made many years ago. As a result of this it is significantly behind many organisations in both the private and public sector in terms of its adoption and use of ICT. As the programme is progressing a number of these legacy issues are manifesting into challenges which need to be addressed as part of the implementation.

This report describes the background to the programme, its expected outcomes, and progress and challenges to date against key objectives.

Technology deliveries to date as part of the programme include -

- The roll out of the upgraded network by BT has been completed with 363 site receiving new network connections, including many schools and libraries where performance improvements have been delivered.
- The upgrade to the Council's internet service is also complete meaning performance improvements for the vast majority of schools.
- The upgrade to the Council's corporate telephony systems is now complete
- Migration to a new e-mail system is complete
- Migration to a new libraries system is complete
- Wireless networking has been provided to all libraries
- New video conferencing services have been deployed
- New cloud based infrastructure has been built to provide the following services
    - Anti-Virus
    - Application Virtualisation
    - Remote Access Services
    - Secure hosting
- The roll out of new laptop computers has started; with over 600 new devices being deployed to date.

Work continues at pace to build the ‘information hub’ with integration, data warehousing and modelling technologies all ready for use. The first project to make use of the Hub has commenced and is already yielding good results.

The programme is not without challenge and two major issues have manifested themselves since the last update these are: –

- Challenges around data storage within the OneDrive platform used by laptop users
- The readiness of the data hosting environment for large scale migration of council systems

These issues have impacted on the timescales for device roll out and have been escalated to senior levels within HP.A detailed plan is in place to address them which is being closely monitored with HP.

Notwithstanding these issues, once fully delivered the DNA programme will provide an unrecognisable environment from the one that went before, delivering a true step change in the use of information not just for NCC but for the wider partner community.

Recommendations:

1) **To note the progress in the delivery of the DNA programme**
2) **To receive a further progress report in two months**
3) **To agree to an interactive demonstration for members of the Information Hub**

1. DNA programme objectives and progress to date

1.1 The business case for the DNA programme was considered extensively by members, at Cabinet meetings on 8 April and 7 October 2013 and at Corporate Resources Overview and Scrutiny Panel on 8 July 2013. The business case was based on a number of drivers and immediate issues that needed to be addressed within the Council's IT service:

- The contract with BT for networking services was due to expire in March 2014 and this needed to be extended or re-tendered quickly to allow for the implementation of a possible new service within these timescales.

- The council's desktop estate was 'end of life' and was running software that would become 'end of life' within the same timescales. The Council must run 'supported' levels of software to ensure connectivity to government networks and to protect users and data.

- Recent audits had highlighted issues with the Council's data hosting facilities, the resilience of which needed to be addressed.

1.2 Alongside these drivers, it was recognised that:

- The need for local authorities and other public services to transform is placing a massive emphasis on the use of information and data to better inform commissioning, demand management, intervention, partnership working and numerous other initiatives and work streams.

- Modern cloud computing models offer access to secure, resilient and low cost models of computing 'as a service'. Cloud technologies, now widely used in government, allow organisations access to secure computing environments hosted by a third party negating the need for on-site servers. These technologies present an opportunity for organisations to reduce their cost base through leveraging economies of scale and to consume computing power 'as a service' therefore removing the need to make capital investment and providing the ability to flex the resource needed, either buying more computing power or reducing it depending on demand.

- New models of service offered the opportunity for the organisation not just to make savings against its current model of operation but also to gain access to modern and supported technologies such as the most updated versions of Microsoft Office and collaboration technologies such as video conferencing. These technologies are vital to the facilitation of new and more efficient ways of working.

1.3 The DNA programme contract with HP was signed on 2 December 2014. HP have demonstrated their commitment to Norfolk, recently looking to support the UEA in a national bid to create a new institute focused on the development of new technologies. If the bid is successful, this £30m facility would be created mainly through investment from the private sector, in this case HP themselves.

1.4 The key objectives of the DNA programme are as follows:

- Significant cost reduction in the ICT shared service.

- Delivery of a shared “Platform for Norfolk” from which services can be delivered and sold.
- An information centre / hub and sharing protocols for the collation and sharing of information by partners. Tightly bound by strict adherence to statute, protocols, privacy and security mechanisms.
- Identity management and security across NCC and partners
- An up to date managed desktop service and modern collaboration tools.
- A modern voice and data service integrated with the mobile telephony provision.
- The ability to package services to communities, SME’s and the voluntary sector.

1.5 Progress against the objectives is set out in the table below:

Benefit	**Current Position**	**Future Look**
Significant cost reduction in the ICT shared service by April 2014	Staff numbers reduced by 40 Costs for ICTSS reduced by £1.8 m	
Delivery of a shared “Platform for Norfolk” from which services can be delivered and sold.	The first priority migration activity was focused on the email platform which was deemed to be the area of the legacy ICT estate at most risk. All 6,700 email accounts were migrated by July 2014. The technical infrastructure has been built ready for the roll out of devices and the implementation of the information hub. Work is underway to allow the migration of web services to the new environment and this will be completed in January 2015. Connectivity to 11 key NCC systems have been completed, demonstrated and signed off. The first 12 of 283 Servers have been deployed in the HP secure data centre in the north of England.	The expected completion date for all servers has moved from March 15 to September 15 due to delays in filling posts following ICT re-structuring.
An information centre / hub and sharing protocols for the collation and sharing of information by partners. Tightly bound by strict adherence to statute, protocols, privacy and security	The Information Hub has now been built and is undergoing the last of its required testing. This build represents installing the new software required to bring data together and to derive intelligence from it. The team have spent considerable time testing extract data from County Council systems and placing this into the data warehouse within	The information hub will ultimately enable: • A more automated approach to reporting and performance management • The ability to link information and data to allow intelligence to be derived

mechanisms	the information hub. As part of this testing process we have been able to demonstrate the linking of financial data to data from other business systems. This is providing a very greatly enhanced capability to provide insight into areas such as procurement spend, supplier performance and service delivery outcomes. An Information Management Competency Centre (IMCC) has been established. This will manage the demand for information in and out of the information Hub in accordance with good governance and demand management Principles. The first Information “Sprint” is underway: this is the process by which the information hub is exploited. The aim of this first sprint is to help deliver a more robust and granular understanding of key spend areas for the Authority. The procurement team, commissioners and finance staff need to be able to view accurate information about expenditure –against subjective, purchasing category, supplier, contract, responsible budget officer (RBO) and geography – regardless of the ordering system.	• The possibility of putting information and data at the heart of business cases • The ability to model long and short term trends and drivers • To better understand and manage supplier delivery • To better understand our citizens and services within the context of need or service requirement The team working on the sprint has been drawn from right across the business and are looking to use the hub to deliver radical improvements to NCC’s ability to forecast, develop practise, safe guard, understand and link outcomes. This first sprint represents the first of many steps. To date the following desired outcomes have been identified: • To view weekly commitments against purchase of care costs • Spend against budgets • Trends over time • More accurate forecasting for home and day support • The identification of payments made for the same client in different systems • Better utilisation of block contract provision • Better identification of sport placements to allow recharging • Management of the true costs against declared rates • Better identification of providers charging over

		the declares rates • Better and easier reporting in accordance with the ‘code of practice’ • The identification of unacceptable price trends by providers Further “Sprints” are planned to take place over next 12 months.
Identity management and security across NCC and partners	Significant steps forward have been made in allowing authenticated access to the Council’s systems. Proof of concept has been completed and tested with both Great Yarmouth and Breckland Councils. Streamlined identity management within the organisation will be achieved through “Sailpoint”. This solution will enable us to manage access to systems for new users and leavers much more efficiently, both in terms of time and cost. It will also improve compliance with Data Protection Laws.	Sailpoint is currently in a test environment and will be ready for initial implementation early in 2015.
An up to date managed desktop service and modern collaboration tools	To date 629 new devices have been deployed with Microsoft Cloud Services available and Lync instant messaging and sharepoint (which will enable connectivity to the information hub) available to users. These first stages of deployment have identified a number of technical problems and issues which have been escalated to senior levels within HP. A detailed plan is in place to address these issues and that is being closely monitored with HP. A Customer Relationship Management (CRM) pilot is underway to support the development of the Customer Service Centre by enabling the provision of a more personalised service to customers. This will provide a single view of all an individual’s interactions with NCC so that we can ensure we provide a joined up services and a	The significantly larger number of applications in use that require packaging before deployment has moved the expected completion of roll out to 5500 users from October 2014 to June 2015.

	personalised experience.	
A modern voice and data service integrated with the mobile telephony provision	The Blackberry Service has been migrated to the new platform. BT Contract has been extended by two years with significant cost reduction of circa £2M each year	An extension to the BT contract has been agreed. 386 sites have been upgraded at x2 internet speed on previous. Work is now underway to re-tender the data and voice contract with a planned implementation date from April 2016

2. Financial Implications

2.1 The spend on the DNA project forms part of the monthly budget monitoring process. Spend against the contract is closely reviewed by Finance and the ICT Contract Manager and current spend and projections are within the detailed business case.

3. Issues, Risks and Innovation

3.1 **Staff:** The ICT & IM service delivery model has been redesigned to support the delivery of new technologies and the new structure is now in place. It is anticipated that the requirements will be delivered within the agreed resources, but the ICT service has been carrying a large number of vacancies following the restructure and whilst interviews have now taken place the full benefit of the new employees has not taken place yet due to staff induction and training.

3.2 **Property:** The DNA programme will continue to support the implementation of the County Council's estate strategy.

3.3 **IT:** The Digital Norfolk Ambition programme will be delivered as part of the NCC ICT Programme during 2014/15. Delivery of the project will impact all areas of ICT Shared Services as operational services will need to be maintained up to, during and after implementation.

3.4 **Technical:** Some downtime will be required by each service area when the servers holding their systems are migrated in 2015. The contract will mitigate several significant risks, in particular those associated with the current data centre, ICT resilience and the existing operating system which resulted in the email outage earlier this year.

4. Conclusion and Recommendations

4.1 The DNA programme is an ambitious and complex programme. It has made good progress in its first year, but there is a significant challenge in moving from an aging, complex and disparate ICT estate. However, once fully delivered the DNA programme will provide an unrecognisable environment from the one that went before, delivering a true step change in the use of information not just for NCC but for the wider partner community.

4.2 The development of the Information Hub is well advanced and it would be possible to provide an interactive demonstration of the Hub for members early in the New Year.

4.3 The Committee is recommended to:

1) **Note the progress in the delivery of the DNA programme**
2) **Receive a further progress report in two months**
3) **To agree to an interactive demonstration for members of the Information Hub**

5. Background Papers

- 8 April 2013 Cabinet report – Digital Norfolk Ambition, including a copy of the Strategic Outline Business Case.
- 8 July 2013 Corporate Resources Overview and Scrutiny Panel report – Digital Norfolk Ambition Programme
- 7 October 2013 Cabinet report: DNA update
- 14 July 2014 Policy & Resources Committee: DNA Update
- 29 September 2014 Policy & Resources Committee: DNA Update

Officer Contact

If you have any questions about matters contained in this paper please get in touch with:

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Policy and Resources Committee Item No 16

Report title:	**NAO reports on: The Financial sustainability of local authorities 2014, and , The impact of funding reductions on local authorities.**
Date of meeting:	**1 December 2014**
Responsible Chief Officer:	**Executive Director of Finance (Interim)**

Strategic impact

The National Audit Office (NAO) issued two reports on November 19, 2014, under its new powers, the Local Audit and Accountability Act 2014. It provides an insight into the system of funding reductions from 2010 to 2015 from the point of view of the DCLG (the Department), who are responsible for local authorities, Government departments, and local government.

The NAO identified shortcomings in the system, which improves our understanding of the risks the Council face and suggest lines of development to improve the Council's information to Government, that would help mitigate the risks

Executive summary

A summary of the two reports is attached at Annex 1 and 2. They point to shortcomings in DCLG's understanding of the effect on services, of the 2010-15 savings.

Members are recommended to note the following to mitigate the risks:

- **Improved analysis of service data to better manage budgets over the medium to long term;**
- **Engage with Government to develop a better understanding of local impacts;**
- **Ensure financial reserves are adequate for the Councils risks.**

1. Introduction

The two NAO reports, help set out the context for the 2015-16 budget, and the work required to improve the understanding, by Government, of the risks local government, and Government, faces.

2. Evidence

The attached Annex's set out the seriousness of the challenge facing local government.

Annex 1, *The Financial sustainability of local authorities 2014,* includes the following causes of concern:

1 That local auditors are increasingly concerned, with 16% of single tier and County Councils not well placed to deliver this year's budget, and 52% not well placed to deliver their future budgets (para 12);

2 The Department used partial information to comment to the Treasury on the 2015-16 funding reductions (para 16), which together with its main indicator, that does not

adequately measure the financial challenge facing local authorities over time (para 13), a limited understanding of the deliverability of savings from transformation (para 15), and a similar misunderstanding of financial sustainability (para 18), does not give the Department a good view of whether local authorities can absorb future spending reductions (para 18);

3 The Department should be better informed about the situation on the ground (para 23) and needs to better assess the capacity to make more savings and the timescales involved (recommendations b, c & d);

Annex 2, *The impact of funding reductions on local authorities,* includes the following causes of concern:

1 Locally raised income has fallen, – Council Tax by 3.1% and fees & charges by 0.4% in real terms (para 14), resulting in savings being found by spending reductions (para 16), rather than a balanced range of options. Uncertainty about future income has caused local authorities to increase reserves (para 15);

2 Spending reductions have been focused on individual services within broader service areas (para 20), such that analysis at the strategic level, misses the significant changes, and risks, at the sub-service level;

3 Savings from efficiencies may now be lessening (para 22), but nationally, there is little evidence to disentangle savings through efficiencies, from cuts to service (para 21). However, a change of Government could put this subtlety to one side. They could concentrate on a revision to the distribution of savings, that over 2010-15 have been an average of 37%, but favoured the Counties (a 33% reduction), compared to the 41% reduction for Metropolitan authorities (para 11).

3. Financial Implications

As stated above, local government faces serious challenges, and has armed itself with adequate reserves to manage the risks (Annex 2 para 15)

4. Issues, risks and innovation

Risk implications

4.1 To actively manage the risks, the Council should continue to develop its understanding of the underlying service data, especially in its biggest services, Adults and Children's. It will be able to better engage Government on the challenges we face, as well as better manage its budgets over the medium to long term.

4.2 Apart from those listed in the report, there are no other implications to take into account.

5. Background

5.1 The publication of the two NAO reports.

Officer Contact

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Annex 1
Department for Communities and Local Government

Financial sustainability of local authorities 2014

11 November 2014

Key facts

37% estimated real-terms reduction in government funding to local authorities, 2010-11 to 2015-16	25% estimated real-terms reduction in local authorities' income once council tax is included, 2010-11 to 2015-16	56% metropolitan and unitary councils that local auditors are concerned will not meet medium-term savings targets

46%	budgeted real-terms reduction to planning and development service area, 2010-11 to 2014-15
7%	budgeted real-terms increase to children's social care service area, 2010-11 to 2014-15
16.6%	reduction in full-time equivalent posts in local authorities, excluding the total school workforce, between 2010 and 2013
6.9%	limit to annual fall in a local authority's income in 2014-15, set by the Department for Communities and Local Government
10%	reduction in local authority funding in 2015-16 set by the government at the 2013 spending round
0	'section 114' reports issued during the 2010 spending review period by local authority chief finance officers because of unbalanced budgets

Summary

1 Since 2010, the government has reduced funding for local government in England as part of its plan to reduce the fiscal deficit. The government has also changed the nature of funding for local authorities. This has created financial opportunities for local authorities, but also increased financial risks and uncertainty.

2 Local authorities deliver a range of services. The government sets statutory duties for them to provide certain services, ranging from adult social care to waste collection. Local authorities also provide discretionary services, according to local priorities. To remain financially sustainable, local authorities must be able to meet their statutory service obligations. This is becoming more challenging in the current financial context.

3 The Department for Communities and Local Government (the Department) has overall responsibility in central government for local authorities' funding. Its main responsibilities include:

- distributing the majority of funding voted by Parliament to support local authorities in delivering their core services;
- taking the cross-government lead in supporting HM Treasury over decisions on local government funding; and
- overseeing the system of local accountability, which enables the government to assure Parliament that local authorities spend their resources with regularity, propriety and value for money.

4 Government policy dictates factors such as the overall scale of funding reductions faced by the sector, the statutory responsibilities placed on local authorities and the introduction of new statutory duties.

5 The Department's position is complex. It oversees the government's planned reductions in funding for local authorities in the context of the government's localism agenda. Under this, local authorities have greater control over their spending decisions. A consequence of localism is that the Department has less oversight of the financial and service sustainability of local authorities.[1] It also relies on a network of other departments for funding and service information relating to local authorities.

6 This report examines whether the Department understands the impact of funding reductions on the financial and service sustainability of local authorities. We do not think it is a contradiction to the government's policy of localism to assess whether the Department and other government departments have enough information to make good decisions about the level of central funding provided to local authorities. In particular, we think it reasonable that the Department should put itself in a position to understand when local authorities are under threat of being unable to discharge properly the statutory duties placed on them by central government.

Our report

7 In January 2013 we reported on central government's approach to reducing local authority funding.[2] For this report, we analysed 2 more years of local authority financial and service data. This provides a clearer picture of the impact of the Department's decisions on local authorities. We also considered whether the Department has improved its understanding of the impact of its funding reductions on local authorities' income and ability to deliver services. The report has 3 parts:

- Part One summarises the evidence on the impact of funding reductions on local authorities.
- Part Two assesses how well the Department keeps itself informed of the risks and impacts arising from its funding changes.
- Part Three assesses whether the Department is managing the risk that its funding reductions will lead to local authorities failing to deliver their statutory services effectively.

8 This report complements *The impacts of funding reductions on local authorities*, our companion report that analyses in detail the impact of funding reductions on local authorities.[3]

Key findings

Impact of funding reductions since 2010

9 **The government will reduce its funding to local authorities by 37% in real terms between 2010-11 and 2015-16.** This equates to 25% of local authorities' total income when taking into account council tax receipts. The

Department has changed the funding system to allow local authorities to keep a share of locally raised business rates. The Department intends these changes to provide local authorities greater flexibility and incentives to increase their income (paragraphs 1.3 to 1.6).

10 **Local authorities as a whole have coped well in financial terms with the reductions.** So far, there have been no financial failures, whether in the form of a local authority failing to agree a balanced budget at the start of the year or being unable to finance expenditure in-year. Many local authorities have also increased their financial reserves (paragraphs 1.13 and 1.19).

11 **While local authorities have tried to protect service users, there is emerging evidence that funding reductions have led to a fall in service volumes**. Local authorities have tried to protect spending on core areas such as adult social care and children's social care, and to make savings through efficiencies rather than reducing services. Nonetheless, and despite increased demand, provision of core services such as homecare and day care for adults and residential care for adults and children has reduced since 2010-11. Levels of reduction in services tend to be greatest among authorities facing the highest funding reductions. However, a reduction in the volume of activity does not necessarily imply a worsening in the quality of provision or outcomes for service users (paragraphs 1.15 to 1.18, Figures 3 and 4).

12 **Local auditors are increasingly concerned about the future financial sustainability of some authorities and their capacity to make further savings.** Auditors report that 16% of single tier and county councils (those authorities responsible for social care and education) are not well placed to deliver their 2014-15 budgets. Auditors are also concerned about the longer-term financial sustainability of single tier and county councils, reporting that 52% of these authorities are not well placed to deliver their medium-term financial strategies. Auditors' responses reflect their concerns over the capacity of certain authorities to identify and make further savings given the scale of savings they have already made (paragraphs 1.19 to 1.21 and 1.25 to 1.26 and Figures 5 and 6).

The Department's understanding of funding changes

13 **The Department's main indicator of the change to local authority income does not give it a measure of the scale of the financial challenge facing local authorities over time.** The Department uses 'spending power' – an indicator that combines government funding with council tax income. Spending power gives a broadly accurate picture of the distribution of funding reductions across local authorities. However, it does not measure overall changes in funding as not all funding streams are reflected in the data, often because allocations have not been announced. The Department has not developed a way of showing the extent of funding reductions over more than one year at a time. This reflects the complexities of producing a genuinely like-for-like time series due to a number of changes in the duties placed on local authorities over this period (paragraphs 2.2 to 2.6).

14 **Authorities that depend most on government grants have been affected most by government funding reductions and reforms.** This is an outcome of policy decisions to tackle the fiscal deficit by reducing public spending. The Department's modelling of different scenarios for future local government income suggests that the most grant-dependent authorities would still have the largest cuts in spending power, even if they experience strong local growth in business rates (paragraphs 2.8 and 2.15).

15 **The Department expects local authorities to manage future funding reductions by transforming the way they deliver services, but has limited understanding of the size and timing of resulting savings.** Through initiatives such as the Transformation Challenge Fund and the Public Service Transformation Network, the Department is supporting a number of local authorities to redesign selected services and join up with other local service providers. Its aim is to expand the design of services around the user to improve their effectiveness and efficiency. The Department expects that local authorities would need to adopt ambitious programmes of service transformation in order to maintain services if funding reductions continue. However, it has not yet assessed whether such projects could deliver savings which are large and timely enough to enable local authorities to maintain services (paragraphs 2.17 to 2.21).

16 **The Department used partial information to comment to HM Treasury on a proposed 10% reduction in the main component of government funding to local authorities in 2015-16.** At the 2013 spending round the government agreed to implement a 10% reduction in 2015-16 in the local government departmental expenditure limit, the main government budget for local authority revenue funding. This decision was supported by a cross-government assessment of how local authorities would find the required savings, and of the potential impact on services. This exercise was coordinated by the Department. While the submissions it obtained from other departments were better overall than at the 2010 spending review, they still varied in quality and completeness. Service areas such as libraries, youth services and trading standards were not covered. None of the submissions assessed the capacity of different types of authority to manage further reductions (paragraphs 2.24 to 2.30 and Figure 7).

The Department's assurance on financial and service sustainability

17 **Local authorities are subject to a legal framework that makes it difficult in practice for them to fail financially.** Local authorities have a statutory duty to balance their budgets. Chief finance officers also have the power to issue a Section 114 report to the full council in the case that a balanced budget cannot be agreed. This framework has a powerful influence on local authorities to reduce their spending in step with any decline in their income (paragraphs 3.2 to 3.4).

18 The Department has a limited understanding of the financial sustainability of local authorities and the extent to which they may be at risk of financial failure. The financial framework for local authorities acts as a strong deterrent to prevent insolvency. The Department has assessed the financial sustainability of the sector using indicators such as the number of qualified accounts in the sector, or from published reports from the Local Government Association's (LGA) peer review process. These were not designed as a system to monitor financial sustainability. They do not give a robust indication of whether local authorities can absorb further funding reductions (paragraphs 3.5 to 3.11).

19 **Owing to the strength of the legal framework, the Department expects that stress from funding reductions will lead to service pressures rather than financial failure.** The requirement for local authorities to balance their budgets means they are likely to reduce spending on services in line with reductions to their income. In many cases, this will create pressure on services. The Department takes significant confidence that this legal framework will prevent financial failure. It recognises the likelihood that financial stress will pass through into service pressures, although it believes authorities could manage service pressures through transformation of the way they deliver services (paragraph 3.12).

20 **The Department emphasises the role of local democratic processes in holding councils to account, but there is a risk this in itself would not be enough to safeguard financial sustainability.** In line with the government's policy of localism, the Department has taken steps to strengthen the accountability of authorities to their local residents. It says it wants local authorities to focus more on reporting to local people rather than central government, and that councils which do not deliver for their local communities can be voted out. Local accountability mechanisms focus primarily on how councils use their resources, however, rather than the total resources available to them. In the event of continued funding reductions, there is an increased risk of local service failure being driven primarily by lack of funding. It is not clear that local accountability mechanisms would be sufficient either to avoid or respond successfully to the problem (paragraph 3.15).

21 **The Department does not monitor the impact of funding reductions on services in a coordinated way.** The Department is reliant on other departments and inspectorates to alert it to individual service failures. It prioritises its interest in service delivery on services where local authorities spend the most money, engaging more closely with relevant departments. However, its reliance on other departments, and selective focus on services, means it risks only becoming aware of serious problems with the financial sustainability of local authorities after they have occurred. The Department is the single point within government that should monitor the impact of funding reductions across the full range of local authority services on an ongoing basis, but does not do so robustly enough (paragraphs 3.13 to 3.20).

Conclusion on value for money

22 Local authorities have worked hard to manage the reductions in government funding through a mixture of efficiency measures and service transformation. At the same time, there is some evidence of reductions in service levels. Because of the legal requirement on local authorities to balance their budgets, it is unlikely that stress in local authorities will manifest itself in financial pressures. Instead, the Department will need to look for evidence of financial stress in local authorities' ability to deliver the services they are responsible for. Some services, such as adult social care, are also under pressure from demographic-led demand. Demands on children's services are also increasing.

23 The Department for Communities and Local Government has a central role in funding local authorities and establishing and maintaining contact between central and local government. It should be better informed in discharging this role, both in its information about the situation on the ground among local authorities across England, and about the various funding decisions and initiatives taken by departments in Whitehall. This is particularly important given the pressures on local government arising from austerity to date, and the fact that this is likely to continue for some years to come.

Recommendations

a **The Department should publish a real-terms time series of change in individual local authority income since 2010-11.** It should base this on revenue spending power and update it each year so that the cumulative impact of funding reductions on individual authorities is clear.

b **The Department needs to analyse savings so far from local authorities' transformational schemes and the timescales involved.** It should use this to update its assessment of the capacity of different local authorities to make more savings. The Department is clear that local authorities will need to transform the way they deliver services through greater joint working and integration. The Department must develop a more robust methodology for assessing the potential savings local authorities can make and the timescales involved.

c **The Department should have a clearer ongoing understanding of whether authorities' funding is sufficient to support their core services.** The government has taken a clear policy direction towards focusing on local accountability mechanisms with regard to authorities' spending and service quality. Other departments also retain responsibility for particular services. However, the Department continues to have a role in securing financial and service sustainability. The Department can discharge this role more effectively by making fuller use of existing information. The Department should:

- **strengthen oversight of the financial sustainability of local authorities.** The Department should develop a targeted approach to assessing the financial sustainability of particular local authorities it deems to be high risk; and
- **improve its engagement with other departments with an interest in local services, and systematically review data across a range of services.** The Department should use existing data more intensively to monitor for emerging signs of financial stress, which could indicate that certain services or types of authority were at greater financial risk.

d **The Department should strengthen its processes for assessing local authority funding requirements at future spending reviews. It should:**

- **focus on the impact of funding changes on all service areas which are underpinned by statutory duties.** In the 2013 spending round, the Department did not obtain information on a range of statutory services provided by local authorities;
- **work with other departments to develop, where possible, more robust methods for assessing the extent to which proposed funding will be sufficient to deliver services.** Analysis in previous spending reviews by other departments has often been limited and not based on a genuine understanding of the actual costs of providing services. Other departments should work with the Department in adopting a consistent approach to reviewing implications for local services at future spending reviews; and
- **ensure that, where practical, analysis submitted by other departments at future spending reviews includes sub-national analysis, ideally by individual local authority or local authority type.** To date, local authorities have received differing levels of funding reductions, which may affect each local authority's ability to make further savings. However, departments' submissions during the 2013 spending round did not reflect this potential variation between local authorities.

The impact of funding reductions on local authorities

Key facts

37% estimated real-terms reduction in government funding to local authorities, 2010-11 to 2015-16	25% estimated real-terms reduction in local authorities' income , 2010-11 to 2015-16, once council tax is included	**40%** **largest local authority** real-terms budgeted funding reduction, 2010-11 to 2015-16

80%	single tier and county councils that have added to their total reserves between 2010-11 and 2013-14
46%	budgeted real-terms reduction in spending on planning and development services, 2010-11 to 2014-15
7%	budgeted real-terms increase in spending on children's social care services, 2010-11 to 2014-15
40%	total savings between 2013-14 and 2014-15 made through reducing adult social care services
16.6%	reduction in full-time equivalent posts in local authorities, excluding the total school workforce, between 2010 and 2013
56%	metropolitan district and unitary councils that local auditors are concerned will not meet medium-term savings targets

Summary

1 Since 2010, the government has reduced its funding for local government in England as part of its plan to reduce the deficit. The government has also changed the nature of its funding for local authorities, to provide incentives for local growth. This has created financial opportunities for local authorities, but also increased financial risks and uncertainty.

2 Within this challenging context, local authorities must deliver a range of services. Local authorities have a statutory duty to provide certain services. These range from adult social care to collecting waste. They also provide discretionary services according to local priorities.

3 Ensuring that local authorities remain financially sustainable, in that they deliver their statutory services to a sufficient standard, is becoming more difficult. There is a robust financial framework in place that effectively prevents local authorities becoming insolvent. However, the impact on services caused by funding reductions is more difficult to discern. A lack of services affects service users and can be poor value for money. This increases costs in the long run or pushes costs on to other service providers.

4 The Department for Communities and Local Government (the Department) has overall responsibility in central government for local authorities' funding. This includes distributing the majority of funding voted by Parliament to support local authorities in delivering their core services.

Our report

5 This is the first local government report published under the Comptroller and Auditor General's new powers under the Local Audit and Accountability Act 2014. These allow the Comptroller and Auditor General to examine the economy, efficiency and effectiveness with which local authorities use their resources in discharging their functions. The purpose is to provide evaluation, commentary and advice of a general nature to local authorities.

6 This report aims to provide local authorities with detailed comparative analysis of changes in income, spending and financial and service sustainability across the sector. Our objective is to contribute to their ongoing financial planning by:

- allowing local authorities to compare their performance on key financial issues against trends in the wider sector; and
- disseminating information across the sector about the strategies and actions different local authorities have taken to tackle their financial challenges.

7 The report is comparative, allowing local authorities to assess their performance and experiences against similar types of local authorities or those that have experienced similar levels of funding reduction.

8 This report has 3 parts:

- Part One sets out the changes to local government income and spending since 2010-11.
- Part Two assesses the impact funding reductions have had on local authority service spending and provision since 2010-11.
- Part Three examines the financial sustainability of local authorities based mainly on a survey of local auditors.

9 This report complements our value for money report on central government's approach to local authority funding, *Financial sustainability of local authorities 2014*.[1]

10 The report draws on detailed analysis of local authority data on spending and activities, along with information from case study local authorities. A separate methodology is available for this report (www.nao.org.uk/report/impacts-funding-reductions-local-authorities/).

Key findings

Changes in income and expenditure

11 **Government funding for local authorities has fallen by 28% in real terms over the 2010 spending review period. This reduction will reach 37% by 2015-16 based on illustrative data from the Department.** Metropolitan districts will face the largest fall in government funding, with a 41% reduction by 2015-16. County council funding, in contrast, will have fallen by 33%. There have been differences in the timing of the reductions, with district councils' reductions having an earlier impact than in other types of authority (paragraphs 1.2 to 1.6 and Figure 2).

12 **The 37% fall in government funding by 2015-16 is equal to a 25% fall in revenue spending power**. The Department uses 'revenue spending power', a combination of government funding and council tax income, to assess the scale of the financial challenge facing local authorities. Including council tax income gives a fuller view of the implications of funding reductions on authorities' spending capacity than looking at changes in government funding alone (paragraphs 1.7 and 1.8).

13 **Reductions in spending power vary widely, with authorities that depend more on government grants seeing bigger falls in spending power.** The significance of government funding to individual local authorities' spending power varies substantially. Reductions in government funding have a proportionately greater impact on the revenue spending power of authorities more dependent on government funding (paragraph 1.9 and Figure 3).

14 **Locally-raised income has fallen and has not offset reductions in government funding.** The council tax freeze grant, along with the requirement for a local referendum to increase council tax above centrally prescribed levels, has suppressed increases in council tax. Real-terms council tax income between 2010-11 and 2013-14 fell by 3.1% for single tier and county councils and 2.3% for district councils on average. Similarly, authorities have not raised extra income from fees and charges. From 2010-11 to 2013-14, income from fees and charges fell by 0.4% in real terms for single tier and county councils, and 0.1% for district councils (paragraphs 1.13 to 1.16).

15 **Local authorities have increased their reserves significantly.** Between 2010-11 and 2013-14, 80% of single tier and county councils, and 78% of district councils, increased their reserves (earmarked and unallocated reserves combined). Reserves held by single tier and county councils have increased from the equivalent of 25% of net revenue expenditure in 2010-11 to 33% in 2013-14. District councils' reserves increased from 62% to 76% of net revenue expenditure. Our case study authorities told us they increased reserves because of uncertainty about future income (paragraphs 1.20 to 1.26 and Figure 4).

16 **Local authorities have managed reductions in government funding mainly by reducing spending.** Staffing costs have fallen more sharply than running costs. Local authorities reduced full-time equivalent posts, excluding the total school workforce, by 16.6% between 2010 and 2013. Activities that reduced local authorities' running costs, such as shared services, have been greatest in authorities with the largest reductions in government funding (paragraphs 1.27 to 1.36, Figures 5 to 8).

Impacts of funding reductions on services

17 **Local authorities have tried to protect statutory services.** Among single tier and county councils, spending on adult and children's social care has been relatively protected. Environmental and regulatory services, which include statutory duties to collect and dispose of waste, have also seen lower spending reductions than other areas. Areas with a higher proportion of spending on discretionary activities, such as planning and development, and housing, have seen much larger reductions (paragraphs 2.2 to 2.6 and Figures 9 and 10).

18 **There have been significant changes in the focus of local authorities' spending reductions over the 2010 spending review period.** Adult social care, for example, accounted for 40% of total savings between 2013-14 and 2014-15. This compared with only 15% from 2010-11 to 2011-12. Planning and development, in contrast, now contributes a far smaller component of savings. Unless spending in some service areas is to be run down completely, this pattern, where formerly protected service areas contribute more towards savings, is likely to continue (paragraphs 2.7 and 2.8, Figures 11 and 12).

19 **Local authorities' spending decisions are influenced by the size of the fall in their spending power.** Authorities facing larger reductions have protected adult social care, children's social care, and environmental and regulatory services less than those with smaller reductions. Aggregate figures show that local authorities have increased spending on children's social care by 7% between 2010-11 and 2014-15. However, among authorities with the greatest funding reductions, spending on this service fell by 4%. This indicates that, in some services, aggregate analysis of spending can be misleading and hide substantial differences between local authorities (paragraphs 2.9 to 2.11, Figure 13).

20 **Local authorities have focused spending reductions on individual services within broader service areas.** Within environmental and regulatory services, spending on community safety fell 47.1% in real terms, compared with a fall in spending of 11.7% in waste services. Within highways and transport, spending on traffic management fell by 43%. The fall in spending on street lighting was 4.1% in real terms. Analysis of spending changes at the aggregate service level means that significant changes in important sub-services risk being missed (paragraphs 2.12 and 2.13 and Figure 14).

21 **There is little evidence of the extent to which local authorities have made savings through efficiencies rather than service reductions.** Other than data on children's and adult social care, there are almost no data on local authority outputs and activities. Assessing how far savings have impacted on service users for most service areas, based on comparable national data, is not possible for the most part (paragraphs 2.14 and 2.15).

22 **Evidence from adult social care shows that local authorities have made savings through both efficiencies and reductions in activity levels, but that savings from efficiencies may now be lessening.** In the 2 years after 2010-11 there is evidence that local authorities made significant price-based savings from core elements of their adult social care services. In combination with a fall in service levels this produced large total savings. Price-based savings appear to have stopped in 2013-14, however (paragraphs 2.16 to 2.21, Figures 15 and 16).

Financial sustainability

23 **Some local authorities are showing persistent signs of financial stress, particularly metropolitan districts.** Local auditors reported that 16% of single tier and county councils had difficulties in delivering their 2013-14 budgets. Among metropolitan districts, the figure was 22%, with 19% having difficulties in 2012-13 and 2013-14. An increasing number of authorities also needed unplanned in-year actions to deliver their budgets. In 2013-14, 33% of metropolitan districts needed unplanned reductions in service spend to balance their budgets (paragraphs 3.4 to 3.14, Figures 18 to 20).

24 **Local auditors' confidence that local authorities can make medium-term savings has fallen.** Auditors are relatively confident about the future financial sustainability of district councils, but are increasingly pessimistic about single tier and county councils, particularly metropolitan districts and unitary authorities. Auditors have raised concerns about the capacity of 56% of both types of authority to deliver their medium-term financial strategies (paragraphs 3.15 to 3.21, Figures 21 and 22).

25 **Auditors are concerned about 'funding gaps' within local authorities' medium-term plans, and the risks that could prevent authorities delivering savings through service redesign and transformation.** Auditors are positive about authorities' financial management capabilities and take confidence from their record in delivering savings to date. Despite this, auditors are concerned that some authorities are unable to show how they will deliver savings required in 2015-16 and beyond. Furthermore, where they have identified methods to deliver savings over the medium term, these often involve substantial, but largely untested, restructuring and transformation of services (paragraph 3.22).

Overview

26 Overall, we found that local authorities have managed their finances successfully through a prolonged period of funding reductions. Authorities have used reductions in spending, rather than increases in locally raised income, as the main method of addressing falls in government funding. They have cut back on their staffing costs in particular. There has been an increase in levels of reserves as authorities have sought to guard against financial uncertainty and provide investment funding to support savings programmes.

27 Authorities have tried to protect spending on statutory services in areas such as adult and children's social care. But there is significant variation between authorities. Those with large funding reductions are less likely to have protected this spending. Within adult social care, savings have been made through efficiencies rather than service reductions alone. However, the large savings made through falls in unit costs in this area in the first 2 years of the 2010 spending review period have now ended. Aside from social care, there is no real evidence of the impact of spending reductions in different service areas on services and service users.

28 While local authorities have maintained financial resilience overall, some – particularly among metropolitan districts – are now showing persistent signs of financial stress, such as unplanned in-year reductions in service spend. Looking to the future, there is increased uncertainty about how local authorities can manage further possible falls in income. While local authorities are planning for continued savings, they are increasingly relying on untested service transformation programmes to achieve them. Local auditors have expressed concern about more than half of all metropolitan districts and unitary authorities, in terms of their capacity to deliver medium-term savings targets.