Written evidence submitted by the Bureau of Investigative Journalism
[FSR 014]

Introduction

For the last 18 months The Bureau of Investigative Journalism has been investigating local authority finances. We believe the findings of this ongoing project are of relevance to the Local Government Finance and the 2019 Spending Review Inquiry because of our detailed assessment of the current financial situation of councils, how this has affected their ability to deliver services and the barriers that exist to public understanding of these issues. Our key findings are:

- There are major inaccuracies in the financial data the government published on local authorities;
- Local authorities are being pushed to the brink of financial collapse, due to a combination of pressures;
- Children’s services is the biggest pressure on council budgets. 82 authorities overspent in this area in three consecutive financial years;
- An increasing number of councils are borrowing large sums of money to make commercial property investments in an attempt to bring in additional revenue. This is being done with little scrutiny or oversight;
- Councils are paying for redundancies by using funds from the sell-off of publicly-owned land and buildings.

1. Context

1.1. The Bureau of Investigative Journalism is an independent, not-for-profit organisation which collaborates with other media organisations to hold power to account at a local, regional, national and international level. The Bureau Local team within the Bureau focuses on data-led reporting and collaborates with a network of 1,000 people across the UK - reporters and citizens - to shine a light on local and national issues.

1.2. For the past 18 months, one of our primary areas of focus has been the financial sustainability of local authorities and the impact of the reduction in central government funding. The team member who led on this topic - award-winning investigative reporter Gareth Davies - found it particularly difficult to place the financial figures and spending decisions of a single council into a local, regional or national context due to issues around the accessibility, transparency and quality of information. As a result, the public’s knowledge of decisions which affect their day-to-day lives is diminished. This is the very reason the Bureau took on an investigation into this topic and why we are well-placed to address the inquiry.

You can read the Bureau’s full reports on this topic here.
You can access our open data on the topic here.

2. Inaccurate and unchecked - problems with local council spending data
2.1. We first set out in August 2017 to contextualise local government funding and spending decisions by bringing together a myriad of publicly available data. As the inquiry will be aware, local authorities publish information about their budget-setting processes on their websites. However, there is no single agreed upon format for doing so. This means for the 353 local authorities in England there are dozens of ways of disclosing how spending is going to change and the figures these decisions are based on. Councils use different file formats, timetables and terminology. They publish varying levels of detail. While an experienced reporter or particularly engaged member of the community would be able to understand their local authority’s documentation, for others it is likely confusing and inaccessible. Even those with specialist knowledge would find it difficult to compare one council to another or, for example, to put proposed funding cuts affecting one service area into a regional context. This prohibits the public’s ability to understand changes to local government funding that might result from the 2019 spending review.

2.2. Due to the lack of uniformity described above, the Bureau had to manually build a centralised dataset in order to standardise budget information and make it available to the wider public. We used the Freedom of Information Act to obtain the budget-setting schedule for all local authorities in England and then recorded key financial information published by councils as they drew up plans for the 2018/19 year. The picture that emerged was of a sector contending with a sharp rise in demand for its most costly services in the face of continued reductions in core funding from central government, a situation made more challenging by delays to a new funding system based on greater retention of business rates. The overriding theme of the hundreds of budget documents we read was one of deep uncertainty over the future and the impact this was having on services and councils’ ability to plan ahead.

2.3. As the inquiry will be aware, the Ministry of Housing, Communities and Local Government (MHCLG) collects and publishes data relating to local authority revenue expenditure and financing. The Bureau discovered serious issues with this information while trying to make use of it during our project. For example, despite the extensive checks which are made before these datasets are published, the government published budget data for the 2017/18 year which falsely showed more than a dozen local authorities had run out of the money they should hold to protect from financial uncertainty. No one had noticed this discrepancy until we raised the issue. Not the councils that compiled the figures, nor MHCLG, which vetted and released them.

2.4. Most of the councils we contacted blamed human error. One finance officer admitted to us the process had “not been taken seriously enough”. This data discrepancy, and the responses we received from the affected councils, suggests strongly that the published record of how councils spend public money is not only inaccurate but unchecked. Again, this hampers understanding of the issues under consideration by the inquiry.

You can read the Bureau’s full report on the data problems here.

3. Councils on the brink
3.1. Through careful fact-checking, The Bureau was able to combine the revenue and financing data published by MHCLG with the information we had collected from local authorities’ draft budgets. Then, in February 2018, the government announced a best value inspection of Northamptonshire County Council. Within the press release accompanying that announcement, MHCLG explained the rationale behind the decision, citing audit and other inspection reports where concerns had been raised about the financial sustainability of the council.

3.2. The Bureau read these documents carefully and recorded figures relevant to the issues raised within them to create thresholds that could be compared to other councils using the dataset we had created. We also added another factor - the projected budget position for that current year (2017/18) - so the formula we had built contained councils’ up-to-date financial position. The resulting five criteria of financial stress, endorsed by local government experts such as Professor Tony Travers from LSE, were:

- A fall in usable reserves of more than 50% over five years
- Overspends (either overall outturn, children’s services or adults services) in each of the last three years
- Low level of unallocated reserves (below 3%)
- Cuts planned that exceed usable reserve levels
- Predicted overspend in current financial year

3.3. After analysing historical data, draft budgets and monitoring reports, we identified Surrey, Somerset, Norfolk, Lancashire and Worcestershire as counties exhibiting most of these “symptoms”. Numerous other authorities across the country exhibited at least one of these signs of stress but it was clear from our findings that county councils were under particular pressure. Somerset’s usable reserves had fallen 60% in five years. The authority had spent more than it had budgeted for children’s and adult social services in each of the previous three financial years. Its overall budget in 2017/18 was projected to be £7.7 million in the red, including a £14.6 million overspend on children’s services - the biggest such deficit in the country.

3.4. Norfolk’s usable reserves had halved during the same period and analysis of financial records published by the government show the authority spent more than it budgeted in each of the last three financial years, and was set to do so again in 2017/18. The council had slashed funding for children’s centres in response to these pressures. Meanwhile Lancashire predicted it could run out of reserves entirely within three years.

3.5. Simon Edwards, director of The County Councils Network, said more local authorities would follow Northamptonshire in issuing Section 114 notices. He told The Bureau: “The government may want to dismiss Northamptonshire as unique but, as The Bureau’s work is showing, the pressures on much of local government is intolerable. This has to be a wake-up call.”

3.6. This part of the project also highlighted how some local authorities had attempted to hide from the public the true extent of their financial problems. Our dataset revealed Worcestershire County Council as showing similar signs to financial distress as Northamptonshire. But the authority had buried an independent report which called for it to take “urgent” action to address the
situation. A review, undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) criticised the council’s planning as “overly optimistic”, “counter-intuitive” and in need of “radical overhaul” but the council decided not to share the findings with the public or opposition councillors ahead of a vote on the budget earlier in the year. Following the Bureau’s story the council held an urgent public meeting and published the CIPFA report.

You can read the Bureau’s full report on the councils in crisis here.

4. **Children’s services in “perilous state”**

4.1. The Bureau also found more than half of councils in England planned to slash costs in 2017/18 by cutting spending on services for children. These measures included closing children’s centres, reducing support for disabled children and cutting child protection teams. Our analysis of in-year budget monitoring reports showed nine out of ten councils were predicting an overspend on children’s services that year, one by as much as £14 million.

4.2. The findings came as a survey of councils by the Local Government Information Unit revealed nearly a third (31.8%) said finding money to pay for children’s social care was their biggest immediate concern, a huge leap from the 7% that said it was their biggest concern the previous year.

4.3. The Bureau’s analysis of past spending data reported to MHCLG showed children’s services had been a bigger cost pressure than adult care in each of the previous four years. Adjusted for changes in costs, the overspend across all councils on children’s social care reached £655m in 2016/17, while it was £536m for adult social care.

4.4. Dr Sam Royston, director of policy and research at the Children’s Society, said: “These stark figures reveal an all-too familiar picture of the perilous state of children’s services...it’s no surprise that they are over-spending as they struggle to cope with slashed budgets and soaring demands.”

4.5. The biggest projected overspend on children’s services in 2017/18 was in Somerset. The county council forecast being in excess of £14m over budget. Our research showed the county council was one of 82 authorities to have overspent in this area in each of the previous three financial years, spending a total of £40.8m more than it had budgeted for during that period.

4.6. Part of the reason was the huge cost of external social care placements. It costs Somerset County Council an average of £4,208 a week to house a child in a private care home, according to the council’s records. With a lack of available foster families, the council ended up paying for 2,200 more days accommodation in the second quarter of 2017/18, 14% more than was expected.

4.7. In Hampshire, the council forecast a £7.6m overspend on children’s social care in part due to an increase in the number of young people in need. An extra
£11.9m was allocated to children’s services “to partly cover the forecast increased costs for looked after children”, the council told us.

4.8. However, the Bureau's research found the council based the 2018/19 budget, and the two after that, on the assumption that it can safely reduce the number of children in care by 410 by 2021, thereby saving £18m.

4.9. According to a council report, this would be achieved through a “complete shift in the children’s social care operating model” which would “enable social workers to be more effective in enabling families to stay together, help families to be more resilient and promote rehabilitation - particularly of the troubled and troublesome teenager group”.

4.10. Hampshire also planned to cut its 0-19 grant by 66%. The fund provides support to children with multiple needs; important services but not among those councils are legally obliged to provide.

4.11. “The council will continue to deliver high quality statutory services but would be unable to fund non-statutory services,” said a council report.

4.12. Anna Feuchtwang, chief executive of the National Children’s Bureau, said: “Local authorities have seen significant cuts to their funding while facing rising demand for children’s services. These pressures have forced them to cut back on spending on early intervention, which could reduce costs and help children and families before their problems escalate.”

You can read the Bureau’s full report on the threat to children’s services here.

5. Councils turn to investments and sell-offs to replace lost funding

5.1. In summer 2018, the focus of our project shifted to how the financial instability we had reported on was affecting communities at a local level. We were approached by a freelance journalist with a pitch for a new investigation into what was happening to public spaces as a result of local government funding cuts. The Bureau subsequently began a period of research to establish what councils publish about the land and buildings they own, and what additional information we would need to obtain by other methods.

5.2. Further data transparency problems

5.3. Under the Local Government Transparency Code 2015, local authorities in England and Wales are obliged to publish annual lists of the property they own, in order to ensure “local people are able to scrutinise how well their local authority manages its assets.” However, we found 223 councils (63%) were updating the same spreadsheet each year instead of publishing a new one, meaning changes over time are lost because it’s not possible to compare one year to another. These datasets are difficult enough for the public to access and understand without this major obstacle in the way.

5.4. The Code does not require councils to publish key pieces of information such as how much an asset was sold for or who it was sold to. Such details are
often discussed in sections of public meetings from which the press and the public are excluded. As a result we had to submit two sets of FOIs to each of the 353 local authorities in England to build a comprehensive picture of the assets local authorities had bought and sold during the last five years. The results of this extensive investigation told two seemingly opposing but interlinked stories about the wide-ranging impact funding cuts have had on local government.

5.5. **Councils gamble on the property market**

5.6. Firstly, we reported on the growing practice of local authority commercial investments, the aim of which is to replace lost government funding with rental income. We found in the last two years the number of councils investing in commercial property had doubled. In 2017/18 alone, authorities spent £1.8 billion on investment properties, a six-fold increase from 2013/14. Of most concern was the scale of the debts accrued by four of the smallest councils in England - including Spelthorne Borough Council in Surrey, which said it had become “heavily reliant on investment income” to fund its services.

5.7. Our investigation found Spelthorne had borrowed £1 billion despite having a net annual budget of just £22 million. This equates to 46 times its spending power. Three other councils - Woking, Runnymede and Eastleigh - have borrowed more than ten times their budget. “If you look at the most extreme examples, there are public services used by vulnerable people which are dependent on how well rental income in the property market is doing,” Don Peebles, CIPFA’s head of policy, told The Bureau. “This is a risk that local authorities have never been exposed to before and you have to ask whether they are equipped to handle that risk.”

5.8. The investment spree has been made possible by councils’ easy access to low interest loans from the Public Works Loan Board (PWLB), which is overseen by the Treasury. In answer to written questions submitted by Lord Hollick (who is a member of the board of The Bureau), the Treasury confirmed:

- There is no limit to the amount of money a council can borrow from the PWLB;
- When a council requests to borrow money the PWLB undertakes no assessment of its ability to repay the loan and does not take into account the level of outstanding loans the authority already has;
- The PWLB has no record of how much each council has borrowed to invest in commercial property.

5.9. Councils are only required to “have regard” for the Prudential Code set out by CIPFA when they borrow from the PWLB or any other lender. The Treasury’s response to our questions added that “responsibility for local authority spending and borrowing decisions lies with locally elected council members, who are democratically accountable to their electorates”. In short, councils police themselves. But how can the public determine where they stand on these investments when access to details about them, and other financial information, is restricted?

5.10. Following our report, Secretary of State James Brokenshire said he “shared the concerns” about councils becoming overexposed to commercial investments and that he would discuss with the Treasury “whether further
intervention might be required” on the issue. In January, senior civil servant Dr Jo Farrar admitted the government was worried “two or three” councils had borrowed too much to finance the purchases.

You can read the Bureau’s full report on council investments here.

6. **A call for greater transparency**

6.1. A [YouGov survey](#) - done in collaboration with the Bureau - found public opinion split on whether the investments are a concern but there was a clear desire for greater transparency. Some 80% of the 1,737 polled said the properties or land being bought should be made public, 82% believe councils should be transparent about how the purchases are being funded and 78% thought councils should reveal any external consultants advising on the deal. In the course of our reporting, the Bureau found these crucial pieces of information are almost always discussed in Part B of council proceedings, from which the press and the public are excluded on grounds of commercial confidentiality - a decision there is no opportunity to challenge.

6.2. Deals worth tens of millions of pounds have even been signed off by unelected council officials without public scrutiny. In 2017/18 Newham Council in London spent £90 million on five investment properties, all of which were outside the borough. The decisions to buy the offices and warehouses in Surrey, Lincolnshire, Yorkshire, Warwickshire and the West Midlands were all made by council officers under “delegated authority” - meaning they were not reviewed by councillors or at public meetings before being approved.

6.3. A report by the council’s auditor, Ernst & Young, said: “Whilst we have not identified any significant issues with the governance arrangements in place for these acquisitions the council should consider whether delegated authority for such decisions is appropriate.”

6.4. Councils have made use of other measures which have led to purchases not being subject to the usual level of scrutiny. Leeds City Council, which has also moved to a delegated authority model, took away the power councillors had to “call in” potential purchases for in-depth scrutiny, arguing the delay the additional meeting would cause could lead the council to lose out to a competitor.

6.5. Furthermore, important details such as which consultants councils are using are not publicised. The Bureau had to combine and analyse more than 30 individual spreadsheets containing nearly 6,000 rows of spending data, published under transparency rules, to discover that US property consultants Cushman & Wakefield have been paid £2.3 million by Spelthorne Borough Council since 2017, more than any of the council’s other suppliers during the same period.

6.6. And some local authorities have even gone as far as concealing information from the figures they are obliged to publish under the Local Government Transparency Code. We found Eastleigh Borough Council, in Hampshire, had redacted details of payments for building and land totalling £200 million from
spending spreadsheets, withholding the names of those who had received the money due to “commercial confidentiality”.

6.7. The Bureau had to use the Freedom of Information Act to obtain the detail needed to build a comprehensive picture of what local authorities are doing with publicly-owned land and buildings. But there were barriers along this route as well. Many councils initially provided incorrect information or missed the deadline by which they legally had to provide a response. Some refused to publish the data, claiming it would cost or take too long to provide, was available elsewhere or would damage the council’s commercial interests.

6.8. All these issues combine to restrict the public’s understanding of how councils spend their money and, in turn, the issues being explored by this inquiry.

7. **Council sell-offs - the public services, spaces and servants affected**

7.1. On the other end of the scale from commercial investments, local authorities are selling assets in an attempt to make ends meet. The latest phase of The Bureau’s investigation, published in March 2019, found the local government funding crisis has become so dire that councils are selling off public spaces such as libraries, community centres and playgrounds and using the money to pay for hundreds of redundancies, including to vital frontline services.

7.2. The Bureau, in partnership with HuffPost UK, compiled data on more than 12,000 public spaces disposed of by councils in England since 2014/15. The findings laid bare the spiralling impact of eight successive years of austerity, leaving services shut and buildings closed, with those vacant properties now being sold to fund further spending cuts. The investigation found a link between the sell-off of public assets and a sharp rise in redundancies at some councils, following a new government policy which has given councils more freedom over what they can do with capital receipts.

7.3. Freedom of Information requests found 64 councils in England spent £381 million under flexible receipts guidelines introduced in April 2016 which enabled councils to spend money raised from selling assets on cost-cutting measures, such as sharing back-office functions with other authorities, investing in new technology or other reforms which have upfront costs but reduce spending in the long-term. Almost a third of that sum - £115 million - was spent on making people redundant. Our work revealed a clear trend - over the three years since the rules were relaxed, the average number of redundancies was 75% higher at councils that made use of the new spending powers than at those which did not.

7.4. In Bristol, the number of council workers made redundant jumped ten times - from 39 the year before the new rules were introduced to 401 the year after. The council paid for many of the redundancies by using proceeds from the sale of assets, which that year included a historic library. Councils including Leeds, Sunderland and Telford and Wrekin also made significantly more layoffs than usual once they were able to fund them through flexible capital receipts. Five local authorities in London spent money from selling assets on making people redundant. Haringey spent £8 million this way and job losses increased 70%.
7.5. The biggest user of flexible capital receipts to date is Birmingham City Council, our research found. During the last three years, the authority has spent £49 million generated by selling assets on making reforms or cuts to services. That figure includes £23 million on redundancies, of which there have been nearly 1,000 since 2016/17. The council’s workforce has halved since 2010. Earlier this year it announced plans to cut a further 1,095 jobs. These financial challenges are being felt on the ground. In total the council disposed of 167 buildings or plots of land between April 2016 and July 2018, according to The Bureau’s investigation. They include much-loved public spaces such as Nechells Green Community Centre, Phoenix Community Centre and Square Club Community Centre, as well as the impending loss of Newtown Community Centre. The council refused under FOI to reveal sale prices or who assets were sold to.

7.6. The Bureau’s research found services for society’s most vulnerable people have often been hit twice by council sell-offs. In the last three years, Staffordshire County Council sold four care centres including residential homes for the elderly and day facilities for adults with disabilities. During the same period, it spent £843,000 made from selling assets on making people redundant, with two thirds of the job cuts being made in social services. We found a number of other councils where adult and children's social care departments suffered job cuts as public buildings and spaces were sold. Rotherham was one example. It put £3 million from asset sales towards redundancies, with 70% of the jobs being lost in social care.

7.7. Councils making use of the flexible capital receipts guidelines must, in the government’s words, “demonstrate the highest standards of accountability and transparency.” This means producing annual reports detailing the amount of money being spent, the projects funded and the savings targets set. Our investigation found those standards were not always being met, preventing proper scrutiny and denying the public the chance to debate the decisions about what is sold and what the money is used for. Returning to the local authority revenue expenditure and financing data published by MHCLG, we found more than a dozen councils had made use of the flexible receipts policy but had not declared having done so in their official returns.

7.8. Given the unprecedented financial strain placed on local government, it is unsurprising that, offered the freedom to sell things off, some councils have done so. Selling a community centre and using the money to pay for people to be made redundant is within the rules. The problem is the public is often denied the chance to properly scrutinise these decisions.

7.9. This lack of transparency is compounded by what appears to be a dearth of understanding over the use, and impact of, these guidelines. None of the union officials we contacted knew redundancies were being funded by property sales, for example. The influential cross-party Public Accounts Committee recently completed an investigation into council finances that made no mention of the sale of land and property.

7.10. Our councils – now financially bare-boned – are having to make extremely difficult decisions to stay afloat, and that has meant a shrinking of public space and the loss of public jobs and services.
You can read the Bureau’s full report on council sell-offs here.

8. **A worrying case: the use of property sales to meet running costs**

8.1. We also discovered one local authority - Peterborough - had used £23 million from the sale of public spaces to balance its books in a way that appears to us to be unlawful. Statutory guidelines forbid councils from spending capital receipts on running costs. The rules are designed to protect publicly-owned land and buildings by preventing councils from becoming reliant on selling them off in order to break even. Our analysis of Peterborough Council’s finances suggested it had used £23 million in this way, with its budget for the current financial year reliant on a further £10.6 million of asset sales. The council has sold 50 assets since 2014/15 - including pubs, petrol stations, a former community college and farmland. It acknowledges using capital receipts to meet running costs, but argues the way it has done so is legal.

8.2. A report last month revealed the council had earmarked a further 27 sites for sale over the next two years, including Peterborough United’s football ground, a bowling green, allotments, a library and a car park, with an additional 13 described as under consideration. “The best way to describe it is a fire sale,” local councillor Ed Murphy told the Bureau.

8.3. Peterborough’s accounts last year stated the council had become dependent on income from selling property - it was “reliant on maximising the revenue benefit of capital receipts”, the report said. It is doing so by using capital receipts to meet the cost of Minimum Revenue Provision (MRP), an amount local authorities must set aside from their budgets each year against whatever debt it has - similar to a monthly mortgage repayment. We passed our analysis of Peterborough’s finances and the council’s response to our questions to the Ministry of Housing, Communities and Local Government, which has launched an investigation.

8.4. MRP is a significant pressure on local authority budgets. Many have already attempted to reduce this pressure by changing their MRP policies, reducing how much they pay each year by effectively increasing the amount of time it will take to repay their debt. If given the opportunity to use capital receipts to meet the cost of this annual charge, many local authorities will follow Peterborough’s example. This should be a major concern for the inquiry. Not only would this inevitably lead to more councils becoming reliant on selling off assets to break even (an unsustainable policy) but it will place publicly-owned land and buildings at greater risk of being squandered. Additionally, it would undermine the flexible receipts guidelines introduced in April 2016, as using receipts as lump sums to pay MRP would produce more immediate and straightforward revenue savings.

You can read the Bureau’s full report on Peterborough Council here.

9. **Conclusion**
9.1. The committee invited submissions on the lessons that could be learned from the current financial situation of councils and how this has affected their ability to deliver services. The Bureau’s reporting shows a sector on the brink of financial collapse, forced to make cutbacks in services used by some of the most vulnerable members of society. These services are at risk as councils seek alternative sources of funding - whether that’s by borrowing huge sums of money to finance commercial investments or through the sell-off of much-loved community spaces. These factors combined are cause for genuine concern and amount to an unsustainable situation for councils to operate within. Furthermore, issues with the accessibility, transparency and quality of the data published by and about local authorities seriously undermines the public’s understanding of these vital issues. The Bureau strongly believes that if the public is to have faith in the changes to local authority funding that come about as a result of the 2019 Spending Review then it is vitally important that these issues are addressed.

*April 2019*