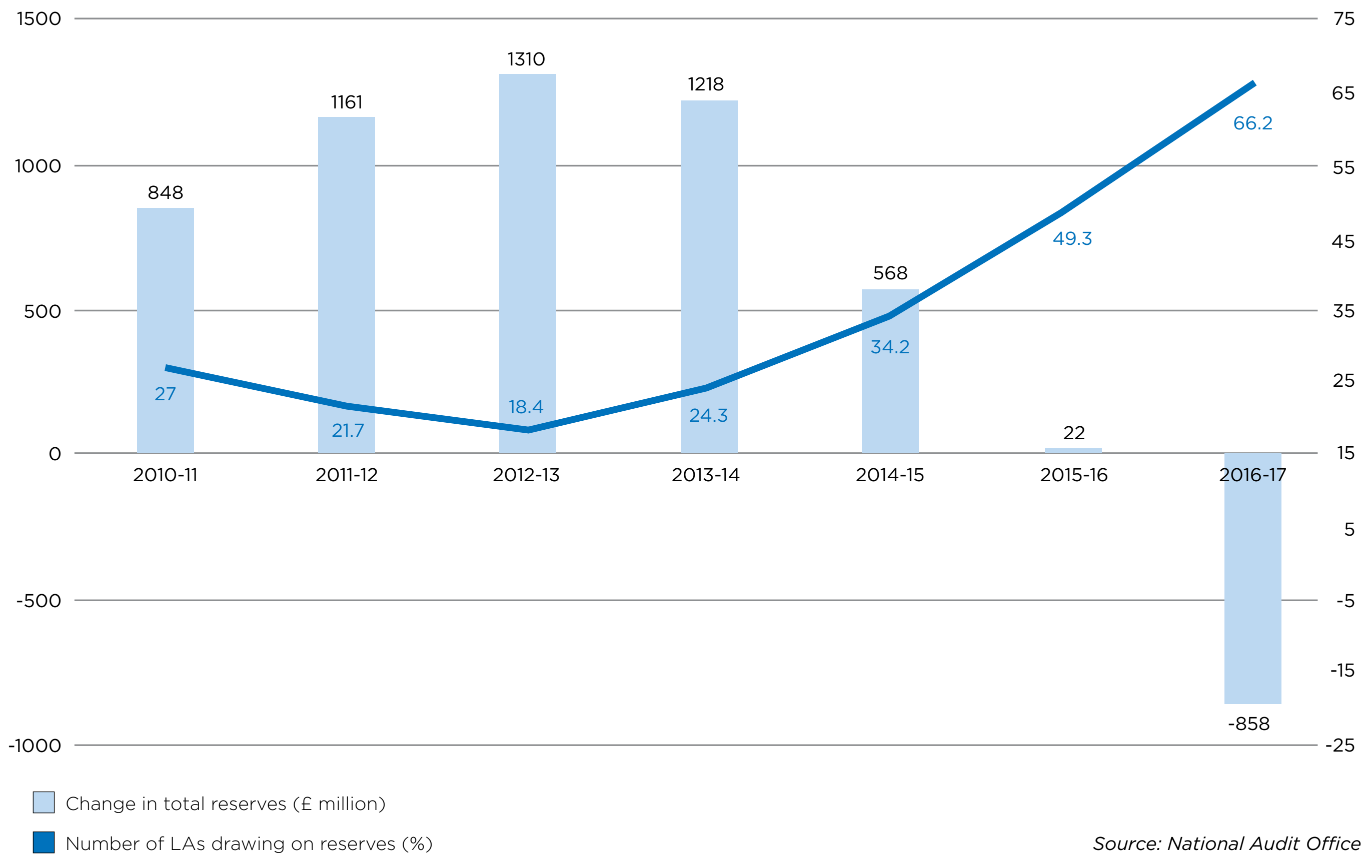
Breaking point

Northamptonshire County Council has declared itself bankrupt. **Ryan Perrott** and **Clare Connell** of Connell Consulting ask what does this actually mean for social care?

In February this year, Northamptonshire County Council (NCC) became the first LA in almost 20 years to effectively declare itself bankrupt when NCC's chief financial officer, Mark McLaughlin, issued a section 114 notice. Interestingly though, while councillors scramble to make cuts and savings to balance the books, social care looks likely to be the only area of funding that will survive the axe, providing the first example of an LA reshaping its council around social care.

While highly unusual and in many ways unprecedented, it should come as no real surprise that NCC finds itself unable to budget for expenditure projections. There have been enormous increases in the demand for social care, particularly in the elderly care category, with a 12.5% increase in the population of over 65s, representing the fastest growth rate in the country. NCC's director of adult social care, Anna Earnshaw, described her department

FIGURE 1: IN YEAR USE OF TOTAL RESERVES: SINGLE-TIER AND COUNTY COUNCILS IN ENGLAND, 2010-2017



Source: National Audit Office

as "severely underfunded" and "on the edge of being unsafe" with 2,000 unassigned elderly and disabled cases. Social care has been by far the biggest strain on the NCC budget and the pressure won't stop there either – it's predicted that Northamptonshire's over 65s population will continue to grow significantly over the next six years, increasing by approximately 28% by 2024. This heightened demand has come at a time when NCC has been forced to find savings of £376 million since 2010 as a result of government spending cuts.

In light of that, it's useful to analyse what does a section 114 notice exactly mean. Well for starters, all new expenditure is prohibited except where there are legal/statutory responsibilities, for example the safeguarding of vulnerable children and adults. The last LA to do this was Hackney in 2000, where serious management errors, inadequate accounting and benefit overpayments created a black hole in local finances. So severe was the extent of spending restrictions that a nursery was forced to close as new spending could not be authorised to fix a leaking roof.

NCC's notice revealed that for the 2017-18 financial year, they were heading for a projected overspend of £21.1 million – this would be unlawful according to existing legislation. Once the notice has been issued, the council has 21 days where all existing services continue as normal while councillors and commissioners convene to come up with alternative spending plans. Behind the scenes, the local Conservative party who run the council have blamed LA officials for gross mismanagement of public money, who have in turn shifted the blame back to them for the crippling austerity drive that has starved the council of funds.

Squabbling atmosphere aside, the spending exception for the safeguarding of vulnerable children and adults should be reassuring for social care providers. NCC explicitly states that "no new expenditure is permitted, with the exception of safeguarding vulnerable people and statutory services" giving clear and complete preference to social care funding ahead of all other areas of expenditure.

Significantly, the notice sets out plans to introduce a mechanism for social care funding that allows proposals for new spending to be considered and, if appropriate, approved. NCC states that this mechanism will most likely be in the form of regular meetings of a spending approval panel chaired by the interim chief executive, on a weekly or more frequent basis.

NCC's revised spending plans further confirm that social care will be safeguarded. Councillors agreed on a revised budget that will cut spending by nearly £40 million in their attempt to balance the books. Among the services to get the axe are libraries, bus subsidies, trading standards, highway maintenance and street parking. Furthermore, councillor's allowances are also to be slashed and staff will be hit with a pay freeze for 2018-19. Again, there is an absence of any cuts to social care funding.

As the first council to declare bankruptcy in the austerity era, NCC's responsive measures not only indicate a funding preference for social care, but a remodelling of local government. It has set a precedent that in a difficult funding environment, social care sits at the top of the ladder in local priorities. NCC's spending plans are therefore significant reading for social care providers.

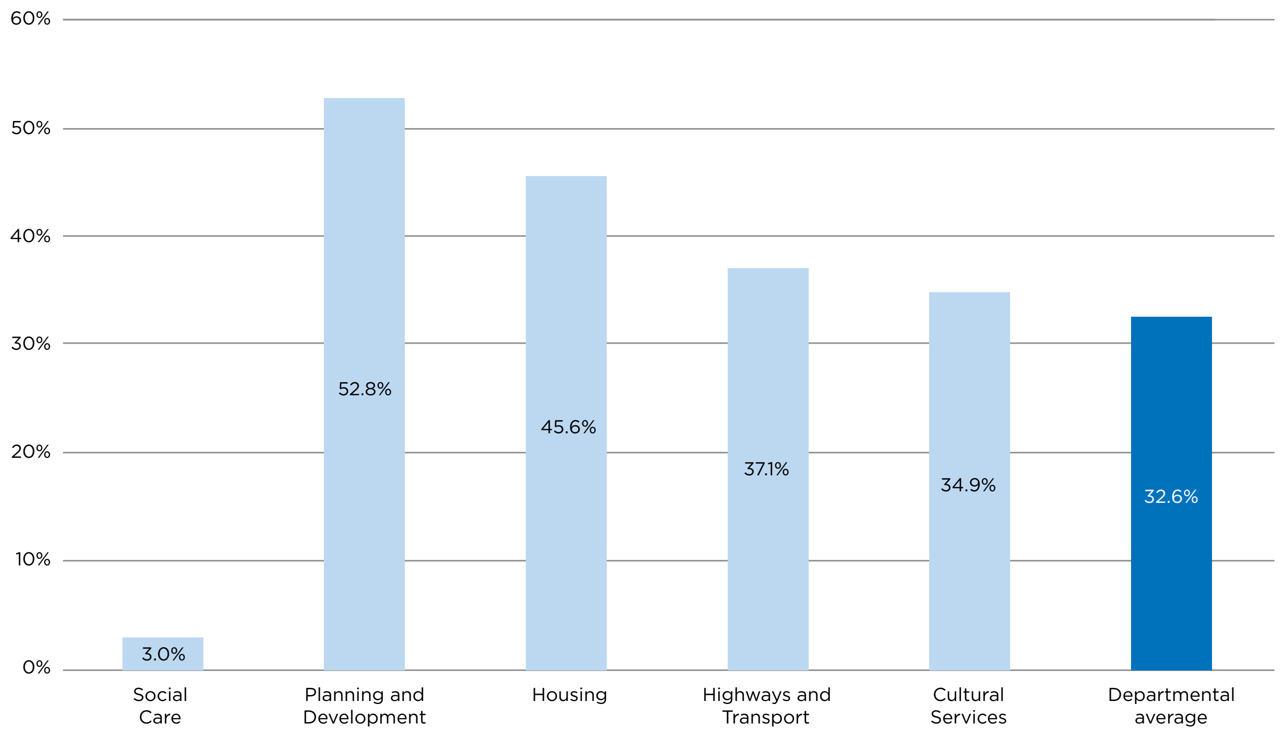
Interestingly, the government has also suggested that NCC should be split into two smaller unitary authorities in an effort to maximise efficiency when it comes to spending, a recommendation that NCC has accepted. This is something that could be of further benefit to providers of social care, allowing them to work with an LA operating under a simpler, more streamlined spending process.

The budgetary squeeze, however, isn't just limited to NCC. It is widely predicted that it will not be the last LA to declare bankruptcy, with many other councils facing similar financial challenges. Last month, the NAO issued stark warnings to LAs across England, questioning their long-term financial sustainability.

The NAO's findings indicate that much like NCC, two-thirds of councils with statutory social care responsibilities are depleting their reserves in order to fill funding gaps (*figure 1*). It is estimated that one in ten LAs could run out of their reserves in three years if they continue at their current rates. The growing demand for social care is also nationwide – since 2010 the number of children being looked after grew by nearly 11%, while the number of over 65s in need of care grew by 14%. This has come at a time of government spending cuts of nearly 50% since 2010. As of 2017, the total overspend by LAs in England had reached over £900 million, with significant funding gaps in Surrey, Manchester, Birmingham, Liverpool and Bristol.

However, the funding gaps at LAs have actually been beneficial to providers of social care. Much like NCC, the financial pressures ▶

FIGURE 2: SPENDING CUTS BY LOCAL AUTHORITY DEPARTMENT IN ENGLAND, 2010-2017



Source: National Audit Office

have put LAs on a new trajectory since 2010, a changing model of local government with a more narrow, social care focused remit. This is seen by the fact that LAs now devote more resources to social care in the austerity climate. In the 2010-11 financial year, social care accounted for 45.3% of national LA expenditure. This figure has since grown and now stands at 54.4%, again highlighting the significant level of priority placed upon social care at local level and the narrowing focus of LAs.

The extent to which LAs are willing to prioritise social care funding is also evident when compared to other spending trends over the same period. Since 2010, spending on social care has only fallen by 3%. This is dwarfed by much larger spending cuts in other areas under the remit of local government, which have been cut by an average of 32.6%. Among these, planning and development has been cut 52.8%, housing 45.6%, highways and maintenance 37.1% and cultural services has been cut 34.9% (*figure 2*).

East Sussex is one such LA planning for a new future. It has started to outline plans for local government beyond 2020, suggesting that council functions could soon be restricted merely to social care. It has warned that if resources continue to be depleted and there are no new funds from central government, then it will be left with no choice other than to implement what it is calling a 'minimum service offer.' Under this system it will "still meet critical and substantial needs in adult social care, and will deal with the highest level of need and risk cases in children's services". It has explained it will no longer be able to invest in other services as it has done in the past. In particular, it will not be able to fund early intervention or prevention services for adults or children, initiatives to improve attainment in schools or assets management for its highways.

Not only is it significant that East Sussex could be reduced to a very narrow social care remit, but just as critical is the fact that preventative and early intervention services could also soon be cut. This will unleash a greater demand for residential and long-term care places as risks and care needs will not be picked up at early stages. For care providers, this means new potential for their services.

It is therefore abundantly clear that the landscape of local government is changing. The austerity climate has forced LAs to create a hierarchy of priorities, and social care very prominently sits at the top of that pyramid with more resources devoted to it at the expense of non-statutory services. This is positive news for independent providers in the social care market. Savvy providers should now work with LAs who have set out social care as their number one local priority and who place social care at the centre of their narrow operations. ■

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