13th October 2023

Chancellor of the Exchequer, Rt.Hon Jeremy Hunt MP
Secretary of State for Levelling Up, Housing & Communities, Rt.Hon Michael Gove MP
Sent by email

Dear Jeremy and Michael

County Authority Overspends, Budget Forecasts and Autumn Statement

On behalf of the County Councils Network (CCN) and Society of County Treasurers (SCT), we write to you to set out the financial position of our local authorities ahead of the Autumn Statement in November.

Firstly, can we start by thanking you for the financial support you gave councils last year. The government's bold, brave and right decision to delay charging reforms in adult social care allowed a significant boost in funding for these services, enabling councils to deliver thousands of more care packages and support those most in need of care.

Although this funding was extremely welcome and went a long way in stabilising the adult social care sector, severe financial challenges for county and unitary councils persist. As you will be all too aware, inflation has remained stubbornly high for longer than expected, while demand for services across the board has continued to rise sharply post-pandemic. This means that most of our member councils are now forecasting they will significantly overspend their budgets this year, worsening an already challenging financial outlook.

To better understand the position of all our member councils, CCN and the SCT recently undertook a detailed budget survey of the 41 county and unitary authorities we collectively represent, providing details of their in-year financial position and forecasts for future years.

The presentation in Annex 1 provides a full breakdown of the analysis, but the key findings show;

- Councils total additional cost pressures this year are set to top £3.7bn from a combination of higher than expected inflation and demand, with councils now forecasting they will overspend their budgets in 2023/24 by £639m this year – an average of £16m per council.

- Rising costs and demand totalling £319m in children's services account for almost half (45%) of the projected overspend. Adult social care (25% - £179m), education, transport – including home to school transport – and highways (22% - £154m), alongside housing (£24m – 3%), make up the bulk of the remaining additional in-year pressure.

- Overspends have worsened an already challenging financial outlook. This year, councils funding gap has grown to £1.6bn, with a further shortfall of £1.1bn in 2024/25 and £1.3bn in 2025/26, meaning a total funding shortfall of £4bn between 2023-2026. Over the course of the three-year period councils have pencilled in £2bn of savings and service cuts but this would only reduce the deficit by half.

While our analysis shows that all council frontline services are experiencing higher than expected costs, including adult care, in-year spending requirements for children's services and home-to-school transport (HTST), particularly driven by arrangements for children with Special Educational Needs and Disabilities (SEND), are becoming increasingly unmanageable, with this making up over half the projected overspend.

Recent research by the CCN showed the scale of children's demand facing their councils, with a surge in over 20,000 extra referrals to children's services in county areas following the pandemic and 1,079 more children in local authority care; a trend that has not abated since. Inflation, an acute shortage of placements and meeting the requirements of new regulatory changes in semi-independent accommodation, are also conspiring to create a broken provider market in children's care placements, with councils facing no choice but to pay spiralling fees to fulfil their statutory duties and protect vulnerable children.

In SEND HTST, we are also seeing additional pressures created by the continued rise in Education, Health and Care plans (EHCP) resulting in enormous demand for travel assistance. Last year, there were 66,356 young people who started new EHCP plans – the highest-ever number. CCN member councils have seen demand rise higher than the national average – with 28,753 more EHCPs. Demand is again coupled with inflation and higher parental expectations driving up the costs of delivering SEND HTST, in particular fuel costs; availability of appropriate transport providers; and increased demand for individualised travel arrangements post-Covid.

CCN recognise that reform is part of the solution to the medium-term financial stability of county authorities, and in particular, reducing these escalating costs in both children's services and SEND HTST. Our network would like to engage government in putting in motion a number of reforms that could help reduce costs and stabilise provider markets over time.

In children's services, this includes exploring the possibility of developing a rounded bundle of measures similar to those consulted on in relation to the agency social worker workforce – an equally dysfunctional market. These would incorporate price caps for basic placements and tariffs on any additional services provided in placement, strict requirements around notice periods on placements, an 'open book' on available placements, and publicly available reviews of provider behaviour.

On SEND HTST, CCN will shortly be publishing an in-depth study by ISOS Partnership. This will put forward an extensive evidence base on drivers of increased demand and costs, alongside a set of practical recommendations to bring parental expectations, statutory rights and service provision onto a more sustainable footing – including exploring the case for the introduction of means-testing. CCN will share these findings as soon as possible.

However, with these medium to long-term solutions, councils need immediate financial support in the interim.

County authorities will do all they can to bring down costs over the coming months and are putting in place emergency cost cutting and savings programmes to bring in-year expenditure down. This is on-top of county authorities already delivering £1bn of unprecedented saving this year to balance the books.

However, with the additional in-year costs largely attributable to demand-driven statutory services, and after a decade of continuous cutbacks, councils have very little wriggle room. With costs unlikely to abate this year, councils will need to make cuts to services both this year and next, to bring overspends down and meet the projected funding gap in future years.

Whilst some of the 2023/24 overspend may ultimately be met from reserves, the ongoing need to use these to balance budgets is now giving rise to concerns over the levels remaining. SCT's previous research, prior to the latest round of overspending, showed reserves fell by approximately 8% on average in 2022/23 with forecasts suggesting a further 38% reduction by March 2025. This means that by the start of 2024/25, reserves will be c£3.7bn, of which over £2.8bn is earmarked for risks, capital and grants. If the use of reserves were needed to continue at this rate it exacerbates the position for 2024/25 and beyond with regards to our members financial sustainability and the level of service reductions that will be needed from April 2024.

For many well-managed county authorities, nonetheless, the scale of reductions and use of reserves needed to fill the funding shortfall is simply unsustainable. The survey shows that in the absence of additional funding, 1 in 10 CCN member councils are unsure or not confident they can balance their budget this year. Councils' confidence in setting a balanced budget plummets further over the next two years, with some 4 in 10 CCN councils unsure or not confident they can balance their budget in 2024/25, with this increasing to 6 in 10 by 2025/26.

Unlike Birmingham's recent financial difficulties and issuing of a Section 114 - which were undoubtedly made worse by the council's performance and governance - county authorities are well-managed, efficient and high-performing, but are grappling with rising costs largely outside their control.

Therefore, it is critical that the government uses the upcoming Autumn Budget to provide emergency funding this year and next to meet the escalating costs in children's social care and SEND HTST. Failure to do so would mean that as we head into the final year of the parliament, councils are having to put in place widespread unpopular reductions to frontline services, while inevitably levying significantly higher council tax rises to bridge the funding shortfall. Moreover, as indicated by our survey, several well-managed county authorities may also have no choice but to issue a Section 114 notice over the course of the next 12 months.

I hope that, despite the tight fiscal environment the government is operating within, you can provide this financial support while engaging CCN in longer term solutions.

Officers at the CCN and SCT would be welcome the opportunity to discuss our budget survey findings and pressures facing our member councils in more detail with your Officials. To arrange this, please contact james.maker2@local.gov.uk.

Your sincerely,

Cllr Tim Oliver
CCN Chairman

Cllr Barry Lewis
CCN Vice-Chair and Finance Spokesperson

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