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How procurement choices impact local governments' budgeting capability: The case of children's social care

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Abstract:

Local governments in many countries are navigating a turbulent financial environment, challenging their ability to maintain budgetary control. A key indication of this declining control is the occurrence of budget deviations, defined as over- or underspending relative to the original budget. While budget deviations can have significant negative societal consequences there is limited understanding of what drives deviations. In this paper, we examine budget deviations in local government in England, specifically focusing on the budgets allocated for children's social care provision. In recent years, children's social care in England has experienced rising demand and changes in service delivery, with many English local authorities shifting from traditional in-house provision to care provided by private sector companies. Using a panel dataset covering the period 2015 to 2022, we find that local authorities that have outsourced a larger portion of their children's social care to for-profit providers are more likely to exhibit budget deviations compared to those that have retained more in-house provision. In contrast, reliance on external providers with a non-profit orientation is associated with fewer budget deviations. Additionally, our analysis reveals that local authorities with greater administrative capacity and higher debt levels show lower levels of budget deviation. This suggests that increased administrative resources and heightened local financial pressures may contribute to the development of more accurate budgets, thereby reducing the likelihood of deviations during implementation. We conclude by discussing policy implications, including strategies for local authorities to enhance budgetary control in challenging service delivery areas such as social care.

Points for practitioners:

Procurement choices matter for budget control. Heavy reliance on for-profit providers in children's social care is associated with higher budget deviations, while non-profit (voluntary)

provision shows greater predictability. Maintaining a balanced mix of in-house, voluntary, and commercial provision can reduce financial risk. Investing in central administrative capacity improves forecasting, contract oversight, and budget discipline. Local governments should therefore align commissioning strategies with market conditions and ensure sufficient managerial capacity when outsourcing essential services.

Keywords: budget deviations; England; local government; outsourcing; social care.

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1. Introduction

Local governments, commonly referred to as local authorities (hereafter: LAs) in England, face persistent budget strain from rising demand and revenue volatility, making it harder to deliver services while staying on budget. We focus on budget deviations – variance between outturn and the original budget – because overspends erode financial resilience while underspends can signal under-investment and unmet need. Aggregate data shows that LAs in countries such as Germany, the Netherlands, and the UK (DESTATIS, 2023; NAO, 2021; Steiner, 2018) often struggle to implement budgets without deviations at year-end. Such deviations raise concerns about financial management, reduce transparency, and impose social costs (Benito et al., 2015; Boukari and Veiga, 2018). In cases of overspending, costs may include reduced financial resilience with financial shortfalls forcing LAs to cut or scale back local services or increase local taxes and charges, placing a burden on residents. Underspending, conversely, may reflect investment deferrals and capability losses that constrain service and productivity improvements, as well as timely responses to citizen need. Social care spending presents unique budgetary challenges. In England, councils overspent on children's social care by £872 million in 2017/18, with similar amounts in subsequent years, although there are significant differences across LAs (NAO, 2019; LGA, 2023). LAs in England spent £8.84 billion on children's social

care in 2017/18 (Cromarty, 2019), accounting for around 12% of their service expenditure, which highlights the importance of understanding what drives variation in this area.

In England, children's social care comprises foster and residential care, provided either in-house, outsourced to independent contractors (both for-profit and non-profit), or through a combination of these. The private sector plays a critical role, providing more than three-quarters of residential care places (82% in 2022, Ofsted statistics). While some variation in spending on Looked-After Children (LAC) stems from demographics (Bach Mortensen, 2022a), governance and procurement choices – i.e., whether services are in-house or outsourced – can alter cost structures, forecasting difficulty, and contracting risk, and thus plausibly affect budget adherence. Despite the significant role of private providers in English children's social care, little research has explored the budgetary implications for LAs of private provision. While public sector commercialisation has been studied extensively, the specific effects on budget management remain underexplored, especially in children's social care and across different jurisdictions.

This study asks a focused question: *does the mode of provision for children's social care – in-house, for-profit, or voluntary (non-profit) – systematically affect budget deviations?* We contribute by disentangling voluntary from for-profit outsourcing and by showing that administrative capacity is a key managerial lever for maintaining budgetary control. Our analysis uses both quantitative and qualitative data, including a panel dataset covering English LAs responsible for children's social care from 2015–2022, supplemented by documentary evidence. Findings highlight that governance models contribute to varying levels of budget control, with important implications for accountability. The article is structured as follows. We first develop hypotheses grounded in budgeting, financial resilience, and outsourcing literatures; we then set out the institutional context; present data and methods; report results; and conclude with implications for policy and management.

2. Statement of Hypotheses

While early contributions emphasised budget formulation and approval (Ebdon and Franklin, 2006), a substantial body of work also examines budget execution and forecast deviations (e.g., Benito et al., 2015). Findings from political economy approaches – investigating issues such as fragmentation and electoral cycles – are mixed and often context-dependent (Benito et al., 2015; Goeminne et al., 2008). Opposite to political factors, administrative factors influencing budget deviations have received little attention. Administrative factors include the service delivery models, and the policy fields these relate to. Since the 1980s, the New Public

Management (NPM) reforms have driven the commercialisation of public services, presenting challenges for accountability and contractor oversight (Bovaird, 2014; Greve, 2023).

Outsourcing, the primary delivery model for private LAC services in England, is defined as the provision of public services by private providers following competitive tendering (Sasse et al., 2019, p.5). Success factors of outsourcing include market competition and the commissioning organisation's contract management abilities. While cross-sector collaboration research is abundant (Andrews and Entwistle, 2010; Bovaird, 2014), to the best of our knowledge no empirical study to date has investigated the budgetary impact of different delivery arrangements. Hence, to hypothesise the relationship between sectoral choices and budget deviations, we need to consider different public service delivery modes in relation to budgetary control.

First, some studies emphasise the financial predictability outsourcing can provide due to the use of contracts (Johnstone, 2002). Further, purchaser-provider splits in outsourcing arrangements may lead to efficiency gains by increasing outcome focus and competition, potentially reducing costs or enhancing quality (Bovaird, 2014). Thus, outsourcing may lower budget deviations through cost predictability and efficiency. However, the opposite may also hold as contract overruns frequently occur in relation to outsourcing, often due to factors such as cognitive biases (Flyvbjerg et al., 2004) and complex or poorly structured outsourcing arrangements (Hui et al., 2008). Political pressures may also affect outsourcing arrangements, especially in highly visible services, as concerns about outsourced service standards might cause officials to accept overspending to meet quality demands (Cristofoli et al., 2010).

Further, reliance on a small number of providers can lead to oligopolistic pricing and financial risks if providers fail (Girth et al., 2012). Limited competition and planning challenges in English LAs add to dependency risks, as inaccurate forecasts increase the risk of budget deviations. Given the presence of a small number of commercial childcare providers and the large number of English LAs they serve, this dependency risk is also present in the English system. However, it may be less severe when outsourcing children's care to non-profit providers, as the voluntary sector includes a larger number of smaller-scale providers with altruistic objectives, likely reducing oligopolistic risks and strengthening LAs' buyer power (CMA, 2022). Similarly, recent reviews highlight severe difficulties experienced by English LAs in effectively engaging with private sector childcare providers, including many LAs' limited ability to accurately forecast their future need for LAC places (CMA, 2022). Consequently, given the market context of children' social care provision in England, the

political sensitivity of this service domain, and existing evidence of cost deviations in the public sector generally, the following hypotheses have been formulated:

> *Hypothesis 1a:* For-profit provision of children's social care is positively associated with children's social care budget deviations.

> *Hypothesis 1b:* Non-profit (voluntary) provision of children's social care is negatively associated with children's social care budget deviations.

The literature on LA financial resilience and sustainability has identified multiple indicators of financial resilience (Barbera et al., 2017; Jacob and Hendrick, 2013). Prominent are reserves, which provide a safeguard against shocks and provide a working balance to smooth uneven cashflows, thereby reducing the need to implement budget deviations (Coe, 2007). Budget variances are often treated as indicators of financial vulnerability, especially overspending constrained by fiscal rules (Foremny, 2014). Consistent with this view, evidence from Italian LAs suggests that larger reserves and surpluses reduce budget deviations by increasing flexibility at the budget-setting stage (Anessi-Pessina et al., 2012). However, the opposite may also hold as higher reserves can soften budget constraints and ease overspending or delay necessary adjustment, as shown in studies across multiple jurisdictions (Ahrens and Ferry, 2020; CIPFA, 2024; Serritzlew, 2005). Building on arguments that reserves can reflect 'fiscal slack' (Ghosh Moulick and Taylor, 2017; Gorina et al., 2019), higher reserves may signal weaker financial management capacity, leading to less accurate budget setting and more in-year rebudgeting. Thus, we formulate:

> *Hypothesis 2:* A greater level of financial resilience is positively associated with children's social care budget deviations.

As stated, most studies on budget deviations focus on political factors such as political fragmentation of the executive or electoral cycles. Anessi-Pessina et al. (2012) suggest this focus may be due to a "misperception" that budget execution is solely political. Yet, studies incorporating administrative factors suggest these may more strongly affect rebudgeting. In a survey of officials in 91 US cities, Forrester and Mullins (1992) find that the rebudgeting process is highly technical, with administrators playing a key role. Administrative factors may be even more important for outsourced services, as the skills and experience held by

administrators impacts the outsourcing organisation's ability to interact with private sector service providers, including procurement and monitoring of service delivery (Lamothe and Lamothe, 2010).

The administrative capacity of LAs resides principally within the corporate centre, encompassing the LAs central administrative departments, such as finance, performance management and personnel. These departments' cross-cutting focus puts them in a strong position to contribute to the larger policy objectives of public organisations which for English LAs includes managing partnerships with the private sector. Previous studies have highlighted that to effectively manage these relationships and monitor private contractors' performance public organisations may require expanding their administrative capacity (O'Toole and Meier, 2004). More specifically, Andrews and Entwistle (2015) find that the anticipated efficiency gains from public-private partnerships are only achieved by LAs with above-average levels of administrative capacity; spending more on their central administrative office creates "a kind of 'slack' resource" that can be reconfigured to respond to strategic challenges, including those posed by managing outsourced services.

Consequently, we expect that organisations with greater administrative capacity have more resources to better manage outsourcing arrangements – for example, more accurately forecasting future childcare spending needs and closely overseeing contracts – thereby reducing the risk of budget deviations. Hence, the subsequent hypothesis is formulated:

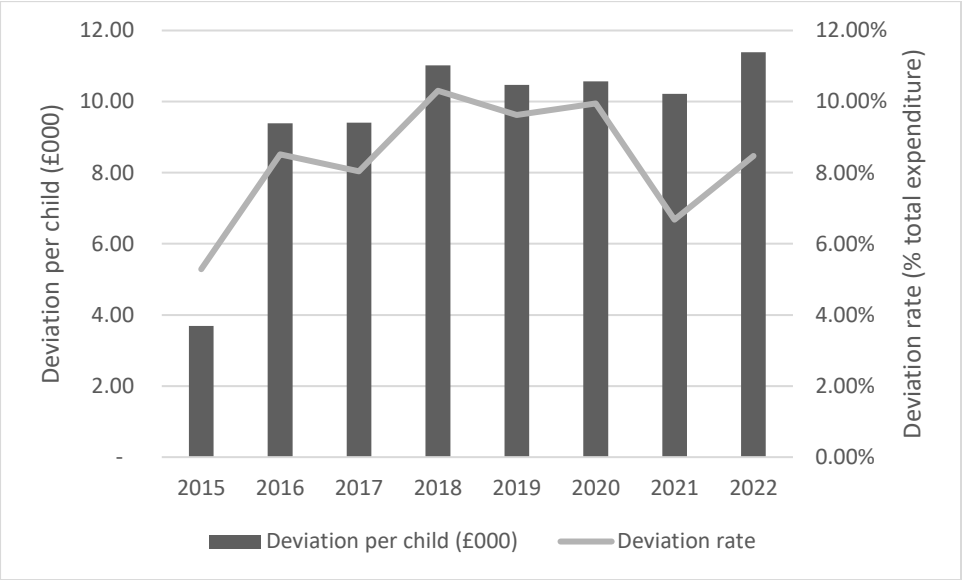
> *Hypothesis 3:* a greater level of LA administrative capacity reduces children's social care budget deviations.

3. Institutional context

In the UK, providing children's social care is a statutory duty for LAs. This study focuses on England, where LAC numbers have risen due to more complex care needs, increasing from 64,400 in 2010 to 82,170 in 2022—a 27.6% increase. Around 65% of these children enter care due to abuse or neglect, a percentage that has remained relatively stable over the years (Ofsted, 2022). During our study period, children's social care represented a substantial expenditure for English LAs. For instance, in 2017/18 English councils spent approximately £8.84 billion on children's social care services, accounting for around 12% of their service expenditure (Cromarty, 2019). With rising LAC numbers, LAs have increasingly overspent on their children's social care budgets (Figure 1), exacerbating the already challenging austerity context faced by English LAs. Deviation on the children's social care budget, measured as percentage

of a LA's total current expenditure, was slightly below 4 percent in 2015, but had almost tripled by 2022.

Figure 1. Budget deviations in children's social care spending.



Source: authors' compilation, based on Ministry of Housing, Communities and Local Government statistics.

Children's social care spending by English LAs has no dedicated external funder but is funded through a mixture of LAs' own revenues (council tax, retained business rates, and sales/fees/charges revenue) and general grants deriving from central government. Consequently, any budget deviation in this service must be absorbed within the LA's overall finances. By law, English LAs must set a balanced budget and maintain accounts in line with nationally recognised 'proper practices' (i.e., the CIPFA Code), while public procurement is governed by a statutory framework designed to ensure open competition and value for money (Public Contracts Regulations 2015; now the Procurement Act 2023).

LAs have a duty to safeguard and promote children's welfare, including providing foster or, less frequently, residential care (Children Act 1989). While childcare responsibilities have remained stable, LAs have shifted from in-house residential care to private sector provision. This shift was driven by several factors, including reputational risks from scandals in LA-run facilities (CMA, 2022) and funding cuts that made outsourcing more attractive. Private provision has also increased in foster care, although 64% of foster placements remain LA-provided (see Table 1). In England, private sector provision of children's social care is largely carried out by private equity-owned companies, which report high returns – for

example, the only stock market-listed provider, CareTech, had an EBITDA margin of 19.8% in 2020 (*FT*, 2021; Rome, 2022).

Table 1. Number of looked-after children (LAC) England by type of provision, 2022.

	Private (for-profit) provision	**Voluntary (non-profit) provision**	**Local authority provision**	**Total**
Foster care	22,777	5,690	40,493	68,960
Residential settings	10,781	1,045	2,366	14,192
Total	33,558	6,735	42,859	83,152

*The total number of LAC in 2022 was 83,152, which includes 5,753 children in settings other than foster and residential care (e.g., residential special schools, family centres).

Source: data from Ofsted (2022)

Research by Bach-Mortensen et al. (2022a) finds children's care services provided by for-profit providers are rated lower in quality than voluntary or LA services and receive more improvement recommendations from Ofsted. Although LAs must create sufficiency strategies to ensure enough childcare placements, many lack updated or complete plans, indicating inadequate capacity to manage market oversight of private providers (Bach-Mortensen et al., 2022b). Moreover, LAs struggle to forecast LAC demand, limiting effective engagement with private providers (CMA, 2022). This uncertainty in turn discourages private investments in expanding placements, forcing LAs to accept higher rates, and sometimes placements less appropriate for the child. While placements average £4,000 per week, with some reaching £10,000 (*FT*, 2021), recent evidence shows that the mean of the highest placement costs exceeds £21,000 per week, with one LA reporting paying as much as £63,000 per week for a single placement (LGA, 2023).

Regarding the procurement of placements, a survey by the Independent Children's Homes Association (ICHA) in 2020 found that 51% of children's home placements are spot

purchased individually, 47% are secured via framework agreements, and only 2% through block contracts (ICHA, 2020a). A later ICHA survey reported a higher rate (around 20%) for block contracts (ICHA, 2020b). These figures highlight the predominant methods used by English LAs to procure placements for looked-after children, though procurement practices vary widely. Some LAs procure collaboratively, however, due to differences in LA governance systems and the expectation children stay within their local areas, inter-LA contracting has remained challenging (CMA, 2022). Further, evidence on the impact of different procurement methods – on both quality and cost – is limited. This paper statistically examines how LAs' budgeting in children's social care is influenced by their choice of procurement mode, with methodology details in the following section.

4. Methodology

4.1 Research sample and data

We focus on England as our study context, due to its extensive outsourcing of children's social care services and the availability of consistent data across LAs. In England, our focus, single-tier local authorities provide looked-after children (LAC) services, while in two-tier areas this responsibility rests with the upper (county) authorities. All these authorities share the same duty to provide children's social care, making the data comparable across our sample. While this comprises 152 LAs in total, missing data led us to a balanced panel of 125 English LAs, comprising 49 unitary authorities, 21 county councils, 22 London boroughs, and 33 metropolitan boroughs. Our dataset covers the financial years 2015/2016 to 2022/2023 and utilises multiple public data sources. This includes children's care providers' statistics from the Office for Standards in Education, Children's Services and Skills (Ofsted). LA financial data derive from budget and outturn datasets published by the Ministry of Housing, Communities and Local Government (MHCLG). Using LAs' financial statements and council websites, we also hand-collected data on the gender and tenure of each LA's Chief Financial Officers (CFOs), i.e., Section 151 Officers. These officers are responsible for ensuring the sound financial management of English LAs, encompassing tasks such as budget preparation, financial risk management and ensuring value for management, all of which apply in the context of children's social care too. Further, demographic statistics and income data were sourced from the Office for National Statistics (ONS). Table 2 outlines all data sources and measurements.

Table 2. Definitions of variables, along with their sources.

Variable	Description	Source
deviation per child	Total deviation divided by the number of children in care (£000)	MHCLG
outsourced places	Children's social care places operated by for-profit and non-profit/voluntary providers as part of total number of childcare places available	MHCLG
ssgrants	Total revenue support grants received (£000)	MHCLG
council tax	Total council tax collected (£000)	MHCLG
debt short	Total long-term debt (£000)	MHCLG
debt long	Total short-term debt (£000)	MHCLG
administrative capacity	Spending on central services and management and support services, per capita	MHCLG
ideology	Equal to 1 in case of a left-wing council majority, 0 otherwise	BBC election results
fragmentation	Equal to 1 for LAs having no major party (i.e., no party controlling more than 50% of council seats)	BBC election results
CFO tenure	Number of years a CFO has occupied their role.	Financial statements and council websites
CFO gender	Equal to 1 in case of a female CFO, 0 otherwise	Financial statements and council websites
children's care spending	Per capita children's social care spending (£000)	Ofsted
density	Population density (in natural logarithm)	ONS
children in care total	Children in care (in natural logarithm)	Ofsted
children in care % total children	Ratio of children in care to the total number of children	Ofsted
earnings median	Local residents' median earning (in natural logarithm)	ONS

4.2 Variables

Dependent and independent variables

Our dependent variable is budget-outturn deviation, calculated as outturn (actual) children's social care spending minus the budgeted spending for children's social care. To ensure

comparability across different-sized LAs, we employ deviation per child measured by the total deviation on the children's social care budget divided by the number of children in care.[1]

Our first key independent variable is the outsourcing of children's services. In line with previous research (Bach-Mortensen et al., 2022a), we measure this by the proportion of children's care places that are operated by for-profit and non-profit providers as part of the total number of children care places available within the LA. This indicator captures the degree of service provision that is outsourced (to either type of external provider) versus provided in-house.

To consider the impact of a LA's financial position, we include multiple financial resilience indicators including: (1) revenue grants received, with the assumption that higher grant dependency reflects a weaker LA financial position (Clingermayer and Wood, 1995; De Widt, 2016), (2) council tax, with the assumption that a higher level of locally raised taxes reflects a stronger financial position (Boyne et al., 2001), and (3) per capita (p/c) debt (measured both as short and long-term debt) as an indicator of LA financial fragility (Jacob and Hendrick, 2013). We anticipate that the first two indicators may increase deviation (grants via a flypaper effect, council tax via resource abundance reducing discipline), while debt is expected to reduce deviation (Denison and Guo, 2015).

Regarding LA administrative capacity, we follow previous studies (Andrews et al., 2020; Andrews and Entwistle, 2015; Boyne and Meier, 2013) and measure this by a locality's expenditure on central services (e.g., finance, internal audit, human resources) and management/support services. This indicator captures the administrative capacity available to coordinate service provision, and we assume that greater administrative capacity will enhance the accuracy of forecasting children's social care demand, thereby reducing budget deviation for this service.

Control variables

In addition to the primary variables, we augment our models with local political, socio-economic, and demographic factors that may impact deviation. To account for political-economy dynamics, we include two dummies: political fragmentation (equals 1 when no party controls more than 50% of council seats); and ideology (equals 1 if Labour controls over 50% of council seats) (Boukari and Veiga, 2018); Goeminne et al., 2008).

[1] To ensure robustness, we also conducted estimations using, as the dependent variable, deviation measured as a proportion of total budgeted children's social care spending. We find consistent empirical results, which can be provided upon request.

To capture managerial effects, we control for CFO tenure and gender. CFO experience (tenure in years) proxies for managerial capability and may result in the CFO exercising greater control (Andrews et al., 2020; Cabral, 2017), while gender is included because some studies find female CFOs to be more risk-averse and ethical in financial management, potentially leading them to recommend larger initial budgets to avoid overspending (Donatella and Tagesson, 2021; Sun et al., 2019).

Next, we control for children's social care spending p/c. Higher spending may indicate inefficiencies or greater demand pressure – either way, it could correlate with needing more in-year adjustments. Conversely, population density (logged) and number of children in care (logged) are included to capture scale effects; higher values of these are expected to be negatively related to deviation by enabling more efficient service delivery through economies of scale. In other words, an urban LA or one with a large LAC population might manage slightly lower cost per child and less variance, all else equal, because fixed costs are spread and processes become routinised.

Finally, we control for median earnings in the local area (logged), as a proxy for socio-economic status. Drawing on Catalão et al. (2022), who hypothesise that better economic conditions provide governments with money to spend (potentially reducing spending controls), we expect higher local earnings to correlate with higher deviation – the intuition is that wealthier areas may tolerate or afford overruns more easily or face political pressure to spend surplus resources.

4.3 Model and estimation strategy

Using the above variables, the following baseline model is established:

$$deviation_{it} = \gamma_0 + \gamma_1 outsourcedplaces_{it} + \gamma_2 ssgrants_{it} + \gamma_3 counciltax_{it} + \gamma_4 debtshort_{it} + \gamma_5 debtlong_t + \gamma_6 administrativecapacity_{it} + \gamma_7 ideology_{it} + \gamma_8 fragmentation_{it} + \gamma_9 cfotenure_{it} + \gamma_{10} cfogender_{it} + \gamma_{11} childrenspending_{it} + \gamma_{12} density_{it} + \gamma_{13} childrencarepop_{it} + \gamma_{14} childrencareratio_{it} + \gamma_{15} earningsmedian_{it} + \mu_i + \delta_t + \varepsilon_{it}$$

, where $deviation_{it}$ refers to the deviation level for LA *i* in year *t*, measured by deviation per child; $outsourcedplaces_{it}$ is the proportion of children care places that are managed by private and voluntary providers; $ssgrant_{it}$ is p/c total revenue grants received to support

service delivery; $counciltax_{it}$ refers to council tax p/c; $debtshort_{it}$ and $debtlong_{it}$ refer to the short and long term debt, respectively; $administrativecapacity_{it}$ is p/c administrative spending for central services; $fragmentation_{it}$ measures political fragmentation; $ideology_{it}$ represents leftwing council control; $fdtenure_{it}$ and $fdgender_{it}$ measure CFO tenure and gender; $childrenspending_{it}$ is p/c children's care spending; $density_{it}$ is the logged population density of a LA; $childrencarepop_{it}$ is the logged number of children in care in a LA; $childrencareratio_{it}$ is the rate of children under care in a LA; and $earningsmedian_{it}$ is the median LA earnings; μ_i and δ_t capture unobservable LA and year-specific effects, respectively.

Our empirical analysis begins with summary statistics for all variables. Subsequently, we report models using deviation per child as the dependent variable. All specifications use robust standard errors. Given potential persistence in budgetary behaviour (e.g., a tendency for some LAs to consistently overspend or underspend), controlling for the lagged dependent variable is essential. However, including a lagged dependent variable in a standard fixed-effects OLS regression would bias its coefficient (Nickell, 1981). Therefore, we use two-way dynamic Generalised Method of Moments (GMM) estimations (Arellano and Bond, 1991). By using lagged variables as instruments, GMM addresses endogeneity stemming from omitted variables and reverse causality, and suits datasets with small T (time dimension) and large N (cross-section dimension) (Cameron and Trivedi, 2009), matching our data. To retain most observations, we include only the one-year lagged dependent variable. In the GMM framework, all time-varying regressors are treated as potentially endogenous (Arellano and Bond, 1991), meaning we allow the estimator to use appropriate instruments for each, thereby guarding against bias. Finally, we tested the validity of instruments with Hansen tests and checked for absence of second-order autocorrelation (using the AR(2) test); these diagnostics indicate that the model is well-specified.

5. Results

5.1 Summary statistics

Table 3 presents the summary statistics. For our dependent variable, *deviation per child*, the average is £9,490, closely aligning with the median value of £8,690. The minimum value is -£126,060, while the maximum value is £135,820. The relatively low standard deviation suggests a normal distribution for this variable.

Table 3. Summary statistics.

VARIABLES	mean	median	stdev	min	max	VIF[2]
Deviation per child (£000)	9.49	8.69	17.92	-126.06	135.82	NA
Outsourced place (%)	0.72	0.79	0.28	0	1	NA
Commercial places (%)	0.50	0.50	0.30	0	1	1.06
Voluntary places (%)	0.22	0.08	0.27	0	1	1.19
Ssgrants (£000)	0.000386	0	0.00101	0	0.0111	1.32
Council tax (£000)	0.65	0.38	2.87	0.033	51.04	1.04
Reserves (£000)	0.770	0.28	4.90	0	115.00	1.03
Debt short (£000)	0.40	0.02	1.78	0	27.74	1.17
Debt long (£000)	3.39	1.11	15.75	0	313.50	1.04
Administrative capacity (£000)	0.18	0.18	0.11	0.00362	0.85	1.54
Ideology	0.43	0	0.50	0	1	2.18
Fragmentation	0.25	0	0.43	0	1	1.5
CFO tenure	4.84	4	3.62	1	18	1.11
CFO gender	0.30	0	0.46	0	1	1.09
Children's care spending	131	120.2	51.81	7.2	531.4	2.32
Density	2858	1719	3276	63	16791	NA
Density (ln)	7.26	7.45	1.31	4.14	9.73	2.21
Children in care total	513.6	434	342.4	25	2310	NA
Children care (ln)	6.05	6.07	0.65	3.22	7.75	1.52
Children in care % total children	0.00719	0.00676	0.0031	0.00194	0.0224	2.15
Earnings median	25320	24248	4585	16347	42707	NA
Earnings median (ln)	10.12	10.10	0.17	9.70	10.66	2.29

For outsourced places, the mean and median values are around 0.50 (50%), indicating that, on average, half of children's care places have been outsourced. Notably, some LAs have all provision outsourced (max value: 1), whilst others do not use any external provision (min value: 0). Financial resilience and administrative capacity variables vary significantly across LAs. In terms of local politics, fragmentation (*fragmentation* = 1 for having a majority party) and Labour party dummies (= 1 for *Labour*) indicate that most LALAs have a dominant council party, with 43% led by Labour. LA CFOs exhibit an average tenure of 4.8 years, with approximately 70% male. Population density, number of children, and median earnings data exhibit high variations, underscoring the importance of logging the original dataset. Given that our financial resilience indicators (*ssgrants, counciltax*, *debtshort*,and *debtlong*) are highly correlated, we control them separately to reduce collinearity.

5.2 Findings

[2] Variance Inflation Factor (VIF) values for reserve, cctax, and debtlong are separately generated from the models in which they are separately controlled. If we control them together, their VIF values will be 15.09, 9.57, and 6.69, showing strong collinearity.

Table 4 presents our empirical findings with per child deviation as the dependent variable. We highlight results separately for outsourced provision by commercial and voluntary providers. For commercial provision, the results demonstrate that outsourcing of children's care services (*outsourcedplaces*) positively correlates with budget deviations across all four specifications. This finding validates our first hypothesis (H1a) and provides timely evidence aligning with the growing criticism of the costs associated with commercial children's care provision by English LAs (CMA, 2022; *FT*, 2021). The result can be explained by the lack of a fully competitive market for children's care in England, with the commercial sector dominated by a limited number of providers, effectively an oligopoly. In such a market structure, providers benefit from pricing advantages and, particularly in essential services like children's care, occupy a "too big to fail" position (Girth et al., 2012). This dynamic enables providers to overcharge, leading to expenditures exceeding initial budget allocations.

In case of voluntary providers, however, we find opposite results, with an increase in outsourced places to voluntary providers reducing the occurrence of deviations in the children's social care budget. In other words, LAs that partner more with voluntary organisations tend to have smaller (or more favourable) deviations. This outcome supports our Hypothesis 1b, which posited that non-profit provision would not exacerbate budget deviations and might even help contain them. The mechanism here also appears related to market structure and incentives: unlike the concentrated commercial sector, the voluntary sector in children's care consists of many providers - often regionally based and smaller in scale than the for-profit - which puts LAs in a stronger negotiating position when dealing with voluntary providers, compared to the leverage large private firms have. In addition, due to their non-profit orientation, voluntary providers are likely to experience fewer incentives to overcharge. This suggests that outsourcing per se is not inherently detrimental to budgetary control – it matters who the service is outsourced to.

Regarding financial indicators, revenue grants (*ssgrants*) have positive coefficients, which may be explained by the flypaper effect, which states that grant funding causes a greater increase in spending than what would have happened with an equal rise in tax income, thereby increasing the likelihood of overspending (Gramlich, 1977). However, the variable for grants is only statistically significant at the 10% level in one specification. Our two debt indicators are negative and significant in most models, suggesting that debt repayment pressures prompt LAs to use funds more prudently, thereby reducing deviations (Denison and Guo, 2015). This supports H2, suggesting that financial pressure strengthens budget discipline, thereby reducing deviations. Consistent with our hypothesis (H3), administrative capacity is negatively related

to deviation at the 1% significance level, underlining the importance of LA central administrative departments when engaging in public-private partnerships. This finding is supported by case study evidence which highlights how administrative capacity enables LAs to implement robust monitoring systems, conduct regular performance reviews, and quickly address discrepancies between projected and actual expenditures (CIPFA, 2024).

Regarding the political variables, we find that political fragmentation increases deviation, while a Labour-led council may reduce it. The fragmentation-deviation link may stem from coalition governments' greater uncertainty about future power and difficulty in reaching agreements, leading politicians to be overly optimistic in budgeting, thereby increasing deviation (Boukari and Veiga, 2018; Goeminne et al., 2008). The ideology-deviation relationship may reflect left-leaning politicians' tendency to set higher welfare budgets to meet real demand (Lowndes and Gardner, 2016); however, the variable is significant mostly at the 10% level only, hence would require further investigation to substantiate the relationship.

Table 4. GMM regression results with per child deviation as the dependent variable, with outsourced places displayed separately for commercial and voluntary/non-profit provision, panel data 2015-2022.

	COMMERCIAL				VOLUNTARY			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
L.deviationperchild	0.154***	0.139***	0.171***	0.165***	0.187***	0.196***	0.175***	0.167***
	(0.020)	(0.021)	(0.021)	(0.023)	(0.021)	(0.023)	(0.024)	(0.024)
outsourced places	9.480**	12.382***	16.646***	15.637***	-5.417	-10.393**	-15.627***	-13.265**
	(3.708)	(3.780)	(4.287)	(4.759)	(4.524)	(5.035)	(5.875)	(6.446)
ssgrants	1013.240	422.198	1424.650*	724.787	1009.882	898.460	777.556	559.106
	(840.497)	(735.873)	(818.596)	(818.351)	(663.187)	(584.365)	(843.038)	(841.205)
council tax	-0.653	-0.673			0.151	-0.226		
	(0.437)	(0.445)			(0.325)	(0.352)		
debt short	-0.861***	-0.622***	-0.070	-0.054	-0.617**	-0.589**	0.043	0.046
	(0.219)	(0.221)	(0.055)	(0.056)	(0.298)	(0.287)	(0.061)	(0.051)
debt long			-0.691***	-0.377*			-0.948***	-0.671**
			(0.208)	(0.217)			(0.339)	(0.299)
administrative capacity	-65.355***	-65.364***	-80.463***	-88.825***	-89.702***	-90.827***	-86.274***	-98.353***
	(7.575)	(8.191)	(9.654)	(10.582)	(8.199)	(8.590)	(8.471)	(8.745)
ideology (ln)	-2.187**		-1.972*		-2.040*		-1.715	
	(1.049)		(1.157)		(1.078)		(1.212)	
fragmentation		3.895**		7.026***		4.635***		4.700**
		(1.763)		(2.065)		(1.655)		(2.216)
CFO tenure	0.182	0.341*	0.262	0.255	0.090	0.292	0.491***	0.448**
	(0.183)	(0.194)	(0.183)	(0.194)	(0.171)	(0.180)	(0.190)	(0.197)
CFO gender	-0.735	-0.308	3.115**	2.468	-0.396	-0.681	2.854	3.335
	(1.460)	(1.989)	(1.579)	(2.324)	(1.576)	(2.103)	(2.160)	(2.864)
children's care spending	0.146***	0.148***	0.167***	0.185***	0.196***	0.188***	0.164***	0.181***
	(0.013)	(0.014)	(0.015)	(0.019)	(0.022)	(0.021)	(0.016)	(0.017)
density (ln)	2.648	1.924	-3.027	-3.549	7.922***	6.476***	0.974	0.775
	(1.761)	(1.930)	(2.037)	(2.320)	(2.230)	(2.403)	(1.573)	(1.646)
children in care (ln)	-11.034***	-8.470**	-23.143***	-22.399***	0.632	0.152	-18.696***	-16.685***
	(3.987)	(3.968)	(4.051)	(4.565)	(4.693)	(5.176)	(3.895)	(4.213)
children in care % total children	1580.845*	1454.364*	3560.739***	2530.434***	384.864	479.728	3343.680***	2959.370***
	(923.686)	(848.152)	(868.080)	(835.756)	(950.505)	(851.435)	(946.320)	(883.650)
earnings median (ln)	35.175***	34.781***	20.631**	22.990**	38.293***	26.421**	9.164	17.379
	(7.986)	(8.787)	(9.649)	(11.420)	(10.203)	(11.442)	(11.948)	(11.261)
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	802	802	802	802	802	802	802	802
Sargan-Hansen	71.8778	74.3032	62.1945	65.9490	61.6559	62.3438	66.8135	66.2955
P > chi2	0.4486	0.3400	0.7629	0.6151	0.7778	0.7308	0.4489	0.6034
Arellano–Bond (1)	-3.7735***	-3.8662***	-3.7143***	-4.0477***	-3.7942***	-4.0392***	-3.8006***	-3.9979***
P > |z|	0.0002	0.0001	0.0002	0.0001	0.0001	0.0001	0.0001	0.0001
Arellano–Bond (2)	-0.1740	-0.2210	-0.4096	-0.3756	-0.4194	-0.3400	-0.6588	-0.5392
P > |z|	0.8619	0.8251	0.6821	0.7072	06749	0.7338	0.5100	0.5898

Our results fail to provide strong support for the influence of CFO-related variables. Neither CFO tenure nor CFO gender is consistently significant in most models. One exception is that in two of the models focusing on voluntary provision, CFO tenure has a positive and significant coefficient. This could imply that longer-tenured CFOs might become more conservative in budgeting, setting lower initial budgets which could lead to higher deviations if those budgets prove insufficient (Muttakin et al., 2019). For CFO gender, the coefficient was negative in most models, as hypothesised, but not significant – possibly due to the smaller sample of female CFOs.

Among other control variables, deviation is significantly positively correlated with total children's spending per child, and the number of children in care as percentage of the total child population. Both variables may indicate the burden on care providers, thereby explaining the positive impacts on deviation. Population density shows a negative correlation, though it is statistically significant in only two models. Finally, in line with expectations (Catalão et al., 2022), earnings positively correlate with deviation, suggesting that resource abundance may lessen budgetary control.

6. Conclusions

As a key responsibility for LAs in many countries, social care provision has become an increasingly challenging service area. This is partly due to demographic shifts, including more complex needs in children's social care; however, specific arrangements for organising social care provision matter too. This paper investigates how sectoral arrangements used by English LAs in children's social care impact budgetary control. Our findings indicate that outsourcing – accounting for about half of children's care provision in England – significantly impacts budget control. LAs using for-profit providers are more likely to exceed their original children's care budgets compared to LAs with a larger share of in-house or voluntary provision. These results highlight that, from a budgetary control perspective, LAs should be cautious about heavy reliance on for-profit outsourcing. Indeed, maintaining a mix of provision modes appears beneficial. If market conditions allow, bringing certain services back in-house (or expanding in-house capacity) could improve budget predictability, which aligns with an increasingly international trend of "insourcing" previously outsourced services, particularly in domains characterised by weak market competition (Lu and Hung, 2023).

Beyond the mode of provision, administrative capacity also strongly influences budget control, with LAs demonstrating higher administrative capacity showing lower budget deviations. This highlights the central role of public managers and underlines the importance

of LAs sharing best practices in the administrative skills required to effectively manage partnerships with the private sector (CIPFA, 2024). Additionally, we find that an authority's financial position matters, as higher debt is negatively associated with budget deviations, offering insights into financial resilience not only as an outcome (e.g., whether an LA remains solvent) but also as a factor shaping day-to-day budget management. Consistent with studies focused on political economy variables, we examined political factors and find that LAs with greater political fragmentation tend to have higher budget deviations.

By examining outsourcing of public service delivery and its budgetary impact, our study contributes to the literature which has largely overlooked the link between outsourcing and the budgetary capabilities of public organisations. In addition, our reliance on proxy variables, which necessitates cautious interpretation of the findings, could be complemented in future studies with more granular administrative and institutional factors, such as the specific administrative roles occupied within LAs central departments that may enhance their capacity to manage relationships with for-profit providers.

Further discussion with LG CFOs and children's social care experts could enrich understanding of how LG characteristics affect budget deviations. Lastly, expanding this research beyond social care to other service domains would be valuable to understand outsourcing's budgetary impact across service domains, and how aggregate budget deviations may be mediated through administrative capacity variables, and subsequently influence LAs' financial position.

Supplementary documents:

No supplementary material is associated with this article.

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