



National Audit Office

## Local government report

by the Comptroller and Auditor General

### Local government

# Methodology

Financial sustainability of local authorities 2014; and  
The impact of funding reductions on local authorities

---

Our vision is to help the nation spend wisely.

Our unique end-to-end view of public sector service delivery allows us to provide commentary, advice and insight to local authorities to help achieve the best use of resources and improve public services.

The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons, independent of government and leads the National Audit Office, which employs some 820 employees. The Local Government and Accountability Act 2014 provides for the C&AG to conduct examinations into the economy, efficiency and effectiveness with which local authorities have used their resources in discharging their functions. The C&AG may publish the results of such an examination in such manner as he considers appropriate.

---



National Audit Office

---

Local government

# Methodology

## **Financial sustainability of local authorities 2014; and The impact of funding reductions on local authorities**

Report by the Comptroller and Auditor General

This report has been prepared and published under  
Section 7Z(A) of the National Audit Act 1983 as introduced  
by the Local Audit and Accountability Act 2014

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

November 2014

---

---

© National Audit Office 2014

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact [copyright@nao.gsi.gov.uk](mailto:copyright@nao.gsi.gov.uk). Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

---

---

# Contents

## **Introduction**

Background 4

## **Part One**

Changes in local authority income  
and spending 7

## **Part Two**

Impact on services 12

## **Part Three**

The financial sustainability  
of local authorities 17

---

# Introduction

## Background

### Structure

**1** On 19 November 2014 the NAO published two linked reports on local government finance; *Financial sustainability of local authorities 2014*,<sup>1</sup> and *The impact of funding reductions on local authorities*.<sup>2</sup> This document provides a joint methodology for the quantitative analysis contained in both reports. Information on the qualitative components of each study, such as lists of interviewees and case study local authorities, is contained in the reports themselves.

**2** Quantitative analysis in the two reports covered three main areas:

- analysis of changes in local authority income and spending;
- analysis of the impact of funding changes on services; and
- an assessment of the financial sustainability of local authorities based on a survey of local auditors.

**3** The data sources and analytical approaches for each of these areas are covered in the following sections.

### Common features across all analysis undertaken

**4** Details on individual pieces of analysis are set out in the subsequent sections. However, there are a number common features shared across the analysis.

<sup>1</sup> Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014

<sup>2</sup> Comptroller and Auditor General, *The Impact of funding reductions on local authorities*, National Audit Office, November 2014. Available at: [www.nao.org.uk/report/impacts-funding-reductions-local-authorities](http://www.nao.org.uk/report/impacts-funding-reductions-local-authorities)

## Financial data

5 Common features relating to financial analysis include:

- Unless otherwise stated, all financial data is presented in real terms at 2012-13 prices. We have used the GDP deflator series published by HM Treasury in December 2013. The 2012-13 deflator set was the most recently published series at the time we undertook the analysis.
- Data is presented for revenue expenditure only and focuses on the General Revenue Fund Account. We do not analyse Housing Revenue Account data.
- Owing to changes in local authorities' responsibilities for schools with the growth of academies over this period we have excluded education spending from our analysis.

## Defining local authorities

6 By 'local authorities' we mean the 353 councils in England. Other types of local authority including National Park Authorities, Police and Crime Commissioners, Fire and Rescue Authorities and the Greater London Authority are excluded.

7 We have also removed the City of London and Isles of Scilly from our analysis due to the unique combination of functions these local authorities undertake. This leaves us with 351 local authorities.

### **Groups of local authorities by function**

8 There are five types of councils making up the 351 local authorities covered by this report:

- **Unitary authorities** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 53 unitary authorities across England (excluding the Isles of Scilly).
- **Metropolitan districts** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 35 metropolitan districts across England.
- **London boroughs** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 30 London boroughs across England (excluding the City of London).
- **County councils** are the upper-tier authorities within a two-tier system of local government. They are responsible for most of the services, including social care, provided within their administrative boundary, with the remainder provided by the district councils. There are 26 county councils across England.
- **District councils** are the lower-tier authorities within a two-tier system of local government. They are responsible for a small number of services and do not have responsibility for social care. There are 201 district councils across England.

**9** Owing to the similarities between unitary authorities, metropolitan districts, London boroughs and county councils we frequently focus on them as a distinct group of authorities called **single tier and county councils**. In some service areas, such as adult and children's social care, it is only these authorities that have responsibility for a service.

#### **Groups of local authorities by size of reduction in spending power**

**10** In order to examine the impact of different levels of funding reductions on local authorities we categorise single tier and county councils into three groups based on their reduction in spending power from 2010-11 to 2014-15. Groups were based on one standard deviation plus or minus from the mean. This creates a:

- 'High cut' group of 30 single tier and county councils that have had a real terms reduction in spending power of over 23.5% from 2010-11 to 2014-15.
- 'Medium cut' group of 92 single tier and county councils that have had a real terms reduction in spending power of between 15.0% and 23.5% from 2010-11 to 2014-15.
- 'Low cut' group of 28 single tier and county councils that have had a real terms reduction in spending power of less than 15.0% from 2010-11 to 2014-15.

**11** Note that in some cases when we have used these groups the analysis has been based on a sample of the 150 single tier and county councils meaning that the sizes of these groups will be different. Where this has happened details are given in the relevant sections linked to the specific analysis.



# Part One

## Changes in local authority income and spending

### Changes in government funding for local authorities

Reductions in government funding to local authorities

#### Data source

**1.1** Our analysis of change in government funding draws directly on the underlying data for revenue spending power published annually by the Department for Communities and Local Government (the Department) alongside the announcement of the local government finance settlement.

**1.2** The Department publishes data on the components of revenue spending power which includes council tax and government funding. For our analysis of change in government funding we retain data on government funding and exclude the council tax data.

**1.3** Government funding included within revenue spending power includes:

- Settlement Funding Assessment figures, and Formula Grant figures prior to 2013-14;
- certain specific grants, including Council Tax Freeze grant and Public Health grant;
- New Homes Bonus;
- NHS funding for spend on social care that also benefits health; and
- revenue funding from the Better Care Fund.

**1.4** For our analysis we exclude funding from the Public Health grant as this funds a substantial new duty placed on local authorities. We also exclude funding provided by the Better Care Fund in 2015-16. This funding is pooled with local health bodies and it is unclear at the current time how much of this funding will be used to support local authorities' services.

**1.5** Revenue spending power excludes the following types of government funding to local authorities:

- certain specific grants where the criteria have not yet been set or where the outcome of a competitive bidding process is not yet known;
- frontline funding for schools via the Dedicated Schools grant;
- PFI grant; and
- capital grants.

### **Time series**

**1.6** Our analysis shows real terms change in government funding to local authorities over the period 2010-11 to 2015-16. There have been significant changes in the duties placed on local authorities and the way financial data is reported over this period. This means that a like-for-like comparison over time is only possible if the data is adjusted to account for these changes.

**1.7** The Department address this by publishing annually an adjusted base year alongside the new data for that year. This means that data published by the Department is comparable over any two consecutive years. However, it is not possible to join pairs of adjusted years into a time series.

**1.8** We address this by creating a chain-linked index in which pairs of adjusted years are linked by a weighting process. We use the method set out by the Office for National Statistics (ONS).<sup>3</sup>

**1.9** This means that the results from our time series analysis show percentage change in a weighted index. This provides a good estimate of change over the period that is not skewed by changes in duties and reporting approaches. But it cannot be used to estimate absolute change in funding. For example, our figure of a reduction in government funding of 37% is a measure of change in the weighted index. It cannot be applied to the baseline spending power figure in 2010-11 to calculate a savings figure in cash terms.

### Revenue spending power

**1.10** Our analysis of revenue spending power draws on the same data sources and uses the same methods as our analysis of central government funding. However, for the spending power analysis we include the council tax data published alongside the government funding data annually in the Department's revenue spending power figures.

<sup>3</sup> Robjohns, J, 'Methodology Notes: Annual Chain Linking', *Economic Trends*, Number 630, Office for National Statistics, May 2006.

## Changes in locally-raised income and reserves

### Income from council tax

**1.11** Council tax income data is outturn drawn from the Revenue Summary for local authorities published annually by the Department as part of the Revenue Outturn data collection. We have used data from 2010-11 to 2013-14, which has been converted into 2012-13 prices.

**1.12** Data for 2013-14 is provisional and does not contain returns from 20 single tier and county councils and 13 district councils on council tax. These authorities have been removed from the full time series, creating a sample of 89% of single tier and county councils and 95% of district councils.

**1.13** To address the impact of the localisation of council tax support in 2013-14, we have added the adjustment published by the Department in its revenue spending power figures for 2013-14 to the 2013-14 Revenue Outturn figures for council tax for each authority.

**1.14** We have not adjusted the data to reflect income from council tax freeze grant. This is central government grant funding and is included in our analysis of government funding.

### Income from sales, fees and charges

**1.15** Sales, fees and charges income data is outturn data drawn from the Revenue Summary Expenditure statistics for local authorities published annually by the Department as part of the Revenue Outturn data collection. We have used data from 2010-11 to 2013-14, which has been converted into 2012-13 prices.

**1.16** Data for 2013-14 is provisional and does not contain returns from 6 single tier and county councils and 2 district councils on sales, fees and charges income. These authorities have been removed from the full time series, creating a sample of 96% of single tier and county councils and 99% of district councils.

### Use of reserves

**1.17** Data on reserves is outturn data drawn from the Revenue Summary statistics for local authorities published annually by the Department as part of the Revenue Outturn data collection. We have used data from 2010-11 to 2013-14, which has been converted into 2012-13 prices. In each year we take the figure for reserves held on 31 March.

**1.18** Data for 2013-14 is provisional and does not contain returns from 20 single tier and county councils and 13 district councils on reserves. These authorities have been removed from the full time series, creating a sample of 87% of single tier and county councils and 94% of district councils.

**1.19** For the calculation of reserves as a percentage of net revenue expenditure, we have used net revenue expenditure in 2010-11 (at 2012-13 prices) as the denominator across the time series - ie the figures for 2013-14 are shown as a percentage of net revenue expenditure in 2010-11.

## **Changes in local authorities' spending**

### Staffing costs

#### **Spend data**

**1.20** Data on spending on staffing costs is outturn data drawn from the Revenue Summary Expenditure statistics for local authorities published annually by the Department as part of the Revenue Outturn data collection. We have used data from 2010-11 to 2013-14, which has been converted into 2012-13 prices. We have excluded spend on education, and police and fire services.

**1.21** Data for 2013-14 is provisional and does not contain returns from 7 single tier and county councils and 3 district councils on staffing costs. These authorities have been removed from the full time series, creating a sample of 95% of single tier and county councils and 99% of district councils.

#### **Employment data**

**1.22** Data on employment change in local authorities is taken from Quarterly Public Sector Employment Survey (QPSES) data published by ONS. We have used data for quarter 4 for the calendar years 2010 to 2013. We used the data at individual local authority level.

**1.23** We have removed the total school workforce from the data for single tier and county councils. To do this we have subtracted the total schools workforce figure published annually in the schools census data by the Department for Education.<sup>4</sup> We first adjusted this figure by removing the total schools workforce in academies and free schools in each local authority. Data for these schools is not included in the QPSES so does not need to be subtracted.

**1.24** There are a small number of local authorities that do not include their schools workforce on their payroll. This means that their schools workforce is not reported in the QPSES. Therefore, their data does not need to be adjusted as set out above. However, for reasons of consistency we have excluded these authorities from our analysis. This means that our analysis is based on a full set of district councils, alongside a sample of 82% of single tier and county councils.

**1.25** Our data on change in civil service employment is taken from the QPSES. We have used data for quarter 4 for the calendar years 2010 to 2013 for England.

4 The census takes place in the fourth quarter of each calendar year.

## Reducing running costs

### **Aggregate change in running costs from 2010-11 to 2013-14**

**1.26** Data on spending on total running costs is outturn data drawn from the Revenue Summary Expenditure statistics for local authorities published annually by the Department. We have used data from 2010-11 to 2013-14, which has been converted into 2012-13 prices. We have excluded spend on education, and police and fire services.

**1.27** Data for 2013-14 is provisional and does not contain returns from 7 single tier and county councils and 3 district councils on running costs. These authorities have been removed from the full time series, creating a sample of 95% of single tier and county councils and 99% of district councils.

### **Disaggregated change in running costs from 2010-11 to 2012-13**

**1.28** Our analysis of the components of running costs over the period 2010-11 to 2012-13 is taken from the Subjective Analysis Return provided by a sample of local authorities to the Department. We have used the case level data provided by the Department and have made the following adjustments:

- Non-councils, such as police authorities, have been removed.
- The data has been grossed up by authority type using the same method as used by the Department.
- We have stripped out estimated running cost spend on education. We have estimated the share of total running costs accounted for by education by applying the proportion of total running cost spend by this service in 2011-12 to the 2012-13 data. This was necessary as since 2012-13 education is no longer identified as a separate service area.

### **Analysis by cut group**

**1.29** This section also uses the high, medium and low cut groups for single tier and county councils. Because there is missing data in the time series the analysis is based on a sample of single tier and county councils. The group sizes are therefore different to where they are used elsewhere in the analysis. There are 21 high cut, 75 medium cut and 22 low cut authorities in this specific analysis.

# Part Two

## Impact on services

### Change in service spend

#### Spending change by service

**2.1** We have used budget data for the period 2010-11 to 2014-15 converted into real terms. Data is taken from the Revenue Account series published by the Department. The data is net revenue expenditure and excludes income from fees and charges, and transfers from other public bodies.

**2.2** Change in spend in service spend is shown as median percentage change. Authorities that failed to provide data in either the base or end years, or recorded no spend in both years are excluded.

**2.3** We have made four adjustments to the underlying data:

- We have adjusted the data in 2010-11 for highways and transport to reflect the transfer in responsibilities for concessionary fares in 2011-12. This alters the distribution of spending between different types of authorities, particularly district and county councils, but does not affect the overall quantum of spend.
- We have adjusted the spend figure since 2011-12 for adult social care by adding in the annual transfer from the NHS to support adult care. As this is a transfer rather than a grant it is not recorded in the Revenue Account data. However, it now forms an important part of local authority income so we include it.
- We have adjusted the adult social care figure for 2010-11 by adding in the Learning Disability Commissioning transfers from primary care trusts to local authorities. This funding was converted into a grant in 2011-12 so is present in the rest of the time series.
- We have excluded local authority budgeted spend on services for young people from the 2014-15 figure for spending on children's social care. This funding had previously been recorded under education services.

**2.4** Changes in the recording of revenue expenditure funded from capital by statute (RECS) mean that service level expenditure for 2010-11 from the Revenue Account data is not directly comparable with subsequent years. However, RECS figures are not available for individual service areas so cannot be subtracted directly. To address this we remove local authorities where RECS has accounted for more than 3% of net revenue expenditure in any year in the period 2010-11 to 2014-15. On average this removes 68% of RECS from the data in each year. It also means that our analysis of service expenditure is based on a sample of 83% of single tier and county councils and 76% of district councils.

### Share of total savings

**2.5** The same data is used as in the previous section.

**2.6** The analysis shows each service area's share of total savings over the period 2010-11 to 2014-15. This is compared to each service area's share of total service spend in 2010-11.

**2.7** Total service spend includes spending on adult social care, children's social care, housing services, cultural and related services, planning and development services, central services, environmental and regulatory services and transport and highways.

### Change in savings patterns over time

**2.8** The same data is used as in the previous section.

**2.9** The analysis shows savings by service area as a share of total savings in 2010-11 and 2014-15.

**2.10** Total savings relates to spending reduction across adult social care, children's social care, housing services, cultural and related services, planning and development services, central services, environmental and regulatory services and transport and highways.

### Links between spending changes and size of funding reduction

**2.11** The same data is used as in the previous section.

**2.12** This section also uses the high, medium and low cut groups for single tier and county councils. Because the data in this specific analysis is based on a sample to reflect the exclusion of RECS, the group sizes are different to where they are used elsewhere in the analysis. There are 22 high cut, 79 medium cut and 23 low cut authorities in this specific analysis.

## Spending change within services

### **Data sources**

**2.13** This analysis focuses on sub-service expenditure over the period 2010-11 to 2014-15 and draws on Revenue Account data for most service areas. We have made two main adjustments:

- In a small number of cases we have amalgamated sub-services into larger groups around a common theme. Regulatory services, for instance, includes 12 separate monitoring and inspection activities.
- We have adjusted the public transport sub-service line in 2010-11 within highways and transport to reflect the transfer of responsibilities for concessionary fares in 2011-12.

**2.14** For children's and adult social care the sub-services in the Revenue Account data are not consistent over this time period. We have therefore used alternative data sources for the sub-service analysis for these areas. We have also only been able to do this analysis over the period 2010-11 to 2013-14 as the relevant data sets are not yet available up to 2014-15.

**2.15** For children's social care we used net revenue expenditure budget data from the S251 data set published by the Department for Education. We mapped the sub-services over the time period. However, there are substantial discontinuities in the recording of expenditure on Sure Start centres, which means that this spending cannot be accurately compared over time in this data. We have excluded any expenditure on this activity in both 2010-11 and 2013-14.

**2.16** For adult social care we took data from the Personal Social Services Expenditure (PSSEX) data published by the Department for Health. This is outturn expenditure. We used gross total cost as this means that the changes created by the Learning Disabilities Commissioning transfers and the more recent transfers to support adult social care do not create a discontinuity in the time series. We excluded spending on Supporting People from the data.

### **Analysis**

**2.17** Change in spend in sub-services is shown as median percentage change. Authorities that did not provide data in either the base or end years, or recorded no spend in both years are excluded.



## Impact on services

### Assessing impacts on services

**2.18** Data on change in spending on libraries and the number of service points is taken from the annual survey of library services undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). We have used a sample of the 60% of single tier and county councils that responded in each of the 2009, 2011 and 2013 surveys.

**2.19** Data on food standards inspections are taken from the Food Standards Agency's annual publication of data from their Local Authority Enforcement Management System.

**2.20** Data on planning applications processing times are taken from the Department for Communities and Local Government 2010 statistical release for planning decisions, and the Department's Live Table P132, District planning authorities – Planning decisions by development type, speed of decision and authority.

### Impacts on adult social care services

**2.21** Data is taken from the PSSEX data set published by the Department for Health. We downloaded data from the National Adult Social Care Intelligence Service (NASIS) PSSEX unit costs summary tool for the period 2008-09 to 2013-14. The most recent year's data is provisional.

**2.22** To ensure we had a consistent time series we removed local authorities with missing data, either activity or spend, at any point in the time series. This left an 81% sample of single tier and county councils.

**2.23** Activity data is weeks of care. Expenditure data is gross total costs at 2012-13 prices.

**2.24** Data is not available for homecare and day care services in 2009-10. We have imputed this by taking the mid-point between the data for 2008-09 and 2010-11 for each local authority.

**2.25** Our analysis of delayed discharges uses data from the 2013-14 Adult Social Care Outcomes Framework (ASCOF) data set. This provides the figure for delayed discharges in 2010-11. We have calculated the figure for 2013-14 using the Delayed Transfer of Care data set published by the Department for Health. This is an update of the data as used in ASCOF. We also used the adult population for 2013 from ONS.

## Evidence of efficiencies in adult social care

**2.26** We undertook cost variance analysis of provision of the four largest forms of care in terms of spend. We used the data as set out above. Analysis was in real terms.

**2.27** Cost variance analysis uses unit cost data and output data to estimate the share of change in spend that is attributable to a change in the unit cost of a service, and the share that is driven by a change in the volume of output. Separate analysis was undertaken for each of the four main user groups for each type of care; 16 separate calculations.

**2.28** This section also uses the high, medium and low cut groups for single tier and county councils. Because missing data time series this specific analysis is based on a sample. The group sizes are therefore different to where they are used elsewhere in the analysis. There are 25 high cut, 76 medium cut and 21 low cut authorities in this specific analysis.

## Impacts on children's care services

**2.29** Data on children's services was taken from CIPFAstats. This resource draws on the SSDA903 return and the s251 data set, both published by the Department for Education.

**2.30** In terms of outputs, we defined:

- Foster care as nights of care placed with a relative or friend, with other foster carers, and/or placed for adoption. We did not differentiate by type of provider.
- Residential care as nights of care placements in residential accommodation not subject to children's homes regulations, residential schools and residential care homes. We did not differentiate by type of provider.

**2.31** Spending data is gross total spend in real terms on foster care and residential care separately. We did not differentiate by type of provider.

**2.32** We used the activity and cost data to undertake cost variance analysis.

# Part Three

## The financial sustainability of local authorities

### Surveys of auditors

#### Data source

**3.1** All the quantitative data in this section is taken from a series of four surveys of local authorities' externally appointed auditors. These have been undertaken annually since 2011-12. The surveys were undertaken by the Audit Commission.

**3.2** Councils' external auditors were surveyed between March and May 2011, and between June and July in 2012, 2013 and 2014. The surveys formed part of auditors' work in reaching a value-for-money conclusion for the previous financial year for all single tier, county and district councils in England.

**3.3** Responses were received from auditors covering 100% of single-tier, county and district councils in all four surveys.

**3.4** It is important to note that auditors' views were provided towards the start of the financial year in all surveys. Their responses should therefore be seen as interim views which were subject to change as councils' actual performance, both against their budgets and in delivering services, became apparent.

#### Data analysis

**3.5** The surveys were undertaken by the Audit Commission. The Audit Commission has passed anonymised analysis of the survey findings to the NAO. The NAO holds no information that is able to identify the responses of individual local authorities to the survey.



National Audit Office