



National Audit Office

Ministry of Housing, Communities and Local Government

Financial sustainability of local authorities 2018

Methodology

MARCH 2018

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Summary

Structure

1 On 8 March 2018 the National Audit Office (NAO) published *Financial sustainability of local authorities 2018*.¹ This document provides a methodology for the quantitative analysis contained in the report. Information on the qualitative components of the study, such as lists of interviewees and case study local authorities, is contained in the report itself.

2 Quantitative analysis in the report covered three main areas:

- funding and demand challenges faced by local authorities;
- service sustainability; and
- financial sustainability.

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

4 This methodology report follows the same structure as the main report. Descriptions of the methods used in each section of the main report are covered under the same headings in the methodology report.

Defining local authorities

5 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, combined authorities and the Greater London Authority are excluded.

Groups of local authorities by function

6 There are five types of councils making up the 353 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 56 unitary authorities across England.
- **Metropolitan districts** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 36 metropolitan districts across England.

¹ Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017–2019, HC 834, National Audit Office, March 2018.

- **London boroughs** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 33 London boroughs.
- **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 27 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.

7 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 statutory responsibilities.

Deflation of cash figures

8 Unless otherwise stated, all financial data are presented in real terms in 2016-17 prices. We have used the HM Treasury deflator series published on 28 November 2017.

Time series

9 We use 2010-11 as the starting point for most time series analysis. We recognise that this will not capture the impact of the in-year funding reductions in 2010-11 following the June 2010 emergency budget. However, owing to significant definitional differences in the reporting of service spending in 2009-10 compared with subsequent years, we do not feel that using 2009-10 as the base year would be appropriate.

Missing data and use of grossed figures

10 In general we use case-level data and adjust for any missing cases, rather than using the grossed or adjusted national figures published by departments.

Type of expenditure

11 In general we use spend and income data relating to local authorities' general revenue fund accounts (GFRAs). These provide revenue funding for the bulk of local authority services and are funded primarily by government grants, business rates and council tax. They are separate to authorities' housing revenue accounts, which are used to maintain local authority housing stock and are funded primarily through rental income. We do not include data from authorities' housing revenue accounts in the report.

12 The report does not address local authority capital expenditure, with the exception of Figure 13 and paragraphs 2.14 to 2.16.

Part One

Challenges to the financial sustainability of local authorities

Funding, demand and cost pressures

Funding pressure

Reductions in spending power

1.1 Our analysis of change in spending power and government funding draws on data published annually by the Ministry of Housing, Communities & Local Government (the Department) alongside the announcement of the local government finance settlement. We use the most recent data published by the Department on 7 February alongside the final local government settlement for 2018-19.

1.2 The Department publishes data on the components of revenue spending power, which includes council tax and government funding. We use these data but we exclude funding for Public Health grant, the original Better Care Fund and NHS funding for spend on social care that also benefits health. This funding was removed from the Department's definition of spending power from 2016-17 onwards. To improve consistency over time, we remove this funding from the time series as a whole.

1.3 For our analysis of change in government funding we retain data on government funding from the spending power data and exclude the council tax data. Our measure of government funding includes:

- formula grant figures (2010-11 to 2012-13), start-up funding assessment figures (2013-14) and settlement funding assessment figures (2014-15 to 2019-20); and
- all other grants and funding streams listed by the Department in any given year as components of spending power with the exception of Public Health grant, the original Better Care Fund and NHS funding for spend on social care that also benefits health.

1.4 Our definition of government funding includes an assumed amount for 50% retained business rates as this is included in the start-up funding assessment and settlement funding assessment figures. However, our figures do not include the possible impacts of business rates retention pilots.

Time series

1.5 Our analysis shows real-terms change in revenue spending power to local authorities over the period 2010-11 to 2019-20. The figures are deflated to 2016-17 prices. Separately, we index the data, with 2010-11 set as 100.

1.6 From 2015-16 to 2019-20 the Department has published data on a consistent basis. It is therefore comparable over this time period. However, during the period 2010-11 to 2015-16 there were significant changes in the duties placed on local authorities and the way financial data were reported. This means that a like-for-like comparison over time is only possible if the data are adjusted to account for these changes.

1.7 The Department addressed this by publishing annually an adjusted base year alongside the new data for that year. This means that data published by the Department from 2010-11 to 2015-16 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).² We use the chain-linking method to link the data for 2010-11 to 2015-16 to the later data for 2015-16 onwards.

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.

1.10 Data from our time series analysis are in Figures 1 and 2 in the report and the accompanying paragraphs in the text.

The 2015 Spending Review

1.11 Data in this section draw on the chain-linked analysis as set out above, and therefore use the same definitional basis. However, all references to changes in funding from 2015-16 onwards are in effect exactly the same as those published by the Department (but in real terms) as their data for 2015-16 to 2019-20 have been published on a consistent basis.

1.12 One difference, however, relates to our figure (in paragraph 1.14 of the report) for change in spending power from 2016-17 to 2019-20 once additional funding for adult social care has been excluded. Our figure is calculated by removing income from the adult social care council tax flexibility and the Improved Better Care Fund from the spending power data published by the Department.

1.13 All data in this section are in real terms at 2016-17 prices.

² Robjohns, J, 'Methodology Notes: Annual Chain Linking', *Economic Trends*, Number 630, Office for National Statistics, May 2006.

Demand and cost pressures

Demand pressures

1.14 Figure 4 shows indexed change in a range of different local authority service user groups.

- Data on change in households assessed as homeless are taken from the Department's homelessness statistics. The figure shows the change in total cases of households assessed by their local authority as unintentionally homeless and in priority need.
- Data on change in looked-after children are taken from the Department for Education's looked-after children statistics. The figure shows the change in all children looked after from 2010-11 to 2016-17 as of 31 March in each year.

1.15 Our data on estimated change in those aged 18-64 in need of care, and those aged 65 and over in need of care are based on our analysis of NHS Digital data. Our figures for those aged 18-64 in need of care are based on estimates of the number of people with a severe learning disability, mental health issue or physical disability. For those aged 65 and over, our estimates are based on rates of population with one or more limitations of activities of daily living. Our precise methodology is available on request.

1.16 Our estimates of need in the adult population relate to growth in the population in need of care, and do not imply that all individuals in these populations would meet the threshold for local authority-funded care or would request that care even if they met the threshold. It is a measure of change in potential rather than actual demand.

Responses by local authorities

Balance between reducing spending, generating income and using reserves

Revenue outturn model

1.17 In order to understand how local authorities have responded to reductions in income we modelled patterns of income and expenditure from 2010-11 to 2016-17 using data published in the Department's revenue outturn (RO) returns.

1.18 The purpose of the work was to identify how local authorities had responded to reductions in their main funding lines (government grants, the local share of business rates, and council tax). It examines the extent to which local authorities have used four different actions on a year-on-year basis in order to address funding reductions. The four actions are:

- reducing service spend;
- reducing other spending;
- increasing income from other sources; and
- reducing contributions to, or drawing down, reserves.

1.19 The model is designed so that changes in these four elements in any given year reconcile to the change in the main funding lines in that year.

1.20 The purpose of the work is to understand how local authorities have used spending and income over which they have a degree of control to address changes in their main income. For this reason we exclude grant-funded income and the associated spending related to front-line schools and adult education provision. We also exclude ringfenced funding and the associated spending for public health. We also exclude appropriations to and from schools reserves and public health reserves. However, the model does include income and service spend for fire and rescue services and for police services where this is relevant to particular authorities.³

1.21 The model is not comparable with the Department's spending power data, which includes other forms of income. The Department's spending power figures provide a fuller measure of change in income and are our preferred measure for looking at change in income in isolation. However, the spending power data are not easily reconciled with the four financial options set out above, and it is for this reason alone that we have produced an alternative measure of change in income.

1.22 Outputs from the model are used in Figures 5, 8, 9 and 25 in the report and the text in the accompanying paragraphs.

Data and design

1.23 The model is based on net current expenditure and the associated income. It does not include spend funded by sales, fees and charges or by transfers from other bodies. It therefore does not include spend or income associated with the original Better Care Fund and the preceding transfers from health bodies.

1.24 It covers the period 2010-11 to 2016-17. All data are outturn with one exception where we have used grant allocation data (see paragraph 1.26). Data are shown in real terms in 2016-17 prices using the deflator series published at the 2017 Autumn Budget.

³ Fifteen county and unitary councils are fire and rescue authorities and incurred spend in this area. Only one authority incurred spend on police services.

1.25 Figure 1 sets out the main elements of the model. A detailed account of the underlying variables and adjustments is available on request from the National Audit Office (NAO).

1.26 All the data are taken from the Department's revenue outturn summary return (RS) and revenue outturn special and specific grants (RG) form. There is one exception, however, as we use data on the funding for two-year-olds from 2013-14 onwards from the Department for Education's dedicated schools grant data. These data are used to make adjustments to non-schools education spending within the service spending component of the model.

Figure 1
Main model components

	Model component	Description	Main adjustments
Actions (Net spending)	Service spend (split into three main service areas)	1 Social care spend – adult and children's.	We subtract spending on Sure Start and services for young people from this line from 2014-15 onwards.
		2 Non-schools education spend. Spend on education and early years from local authorities' own resources rather than from grant funding passed to schools.	A number of adjustments are made to remove spending by schools and spending passed through local authorities to support adult education. We add spending on Sure Start and services for young people into this line from 2014-15 onwards.
		3 All other services.	We exclude spending supported by Public Health grant or public health reserves.
	Net other spending	This includes precepts, levies, non-current expenditure and external receipts, and capital financing and debt servicing costs.	We exclude income from trading accounts and external interest.
	Alternative income	This includes external trading accounts profits and losses, external interest, and use of the capital receipts flexibility.	
	Appropriations to/from reserves	Appropriations to and from earmarked and unallocated reserves.	We exclude schools and public health reserves.
Income	Main income	Government grants, local share of retained business rates, and council tax. We also include a number of smaller funding lines.	All the adjustments made in the 'actions' elements of the model set out above are mirrored on the 'income' side.

Source: National Audit Office

Limitations and caveats

1.27 Given that this is a model based on a range of adjustments, its outputs need to be treated as estimates. This is particularly the case in relation to the output for non-schools education spend, which is subject to a number of adjustments. Some of these adjustments are also made to the main income line, so caution needs to be exercised here as well. Overall the modelled outputs should be used to illustrate broad changes in savings approaches taken by authorities rather than to identify precise outcomes.

1.28 There are three particular issues related to our adjustments to non-schools education spending.

- In 2014-15 a number of sub-service spending lines were moved in the RS returns from education services to children's services. In order to ensure consistency over time we remove these two sub-services – Sure Start and services for young people – from the children's service line and return them to education services (which we rename non-schools education services in our model). However, owing to definitional changes in the components of services for young people, there is still a discontinuity from 2013-14 to 2014-15 even after the adjustment is made. There is no discontinuity when the data are presented at the level of 'service spend', but when they are broken down into service areas the discontinuity means that from 2014-15 spend on non-schools education services is slightly understated relative to spend before 2014-15, and spend on social care is slightly overstated. However, it is likely that the discontinuity is marginal as the two primary areas of spend in the services for young people line that cause the discontinuity (funding for teenage pregnancy services and substance misuse services) had a combined gross spend of only £24.4 million in 2014-15 (based on data from the Department for Education's section 251 data).
- In 2014-15 a new grant for universal free school meals was introduced. Given that this funding was passed directly through local authorities to schools it should be excluded from our model. The allocations received by local authorities for this grant are highlighted in the RG data in 2015-16 and 2016-17, and we subtract them from our non-schools education services and main income lines using these data. However, allocations in 2014-15 were not identified separately in the RG form, although it is possible that some local authorities recorded the funding in 'other grants'. Rather than attempt to estimate the amount recorded in 'other grants' or to assume that all local authorities recorded their full allocation, we do not make an adjustment for this grant in 2014-15. If any local authorities have recorded this grant in their data in 2014-15 this will mean that our model slightly overstates spend in non-schools education and also slightly overstates their main income in that year.
- In 2013-14 funding for early education for disadvantaged two-year-olds was transferred from the early intervention grant (which we keep in our model) to the dedicated schools grant (which we exclude). In order to adjust for this transfer we add the value of funding for disadvantaged two-year-olds in the dedicated schools grant back into our model. Funding for this activity was increased from 2013-14. This means that our model is likely to understate reductions in non-schools education services on a like-for-like basis to a degree as it includes this expanded funding.

1.29 For these reasons, our education services figures need to be treated with caution. However, we think it is important to include them in our analysis as they form a significant part of the savings made by local authorities in this period. Omitting them would mean that the full picture of change in service spend is not presented.

Other spending and alternative income generation

1.30 Our data on other spending and alternative income generation shown in Figure 6, is taken from the Department's RS return. We use outturn data at 2016-17 prices.

1.31 Our measure for debt costs includes:

- interest payable and similar charges (adjusted for 'HRA [housing revenue account] item 8 payments and receipts' in order to remove interest payments met via the HRA).
- provision for repayment of principal;
- leasing payments; and
- Private Finance Initiative (PFI) schemes – difference from service charge.⁴

1.32 Our measure for capital spend funded from the revenue account (CERA) is taken from the RS. We exclude CERA used to fund public health investment.

1.33 Our measure for trading profit includes the net surplus or deficit on external trading accounts (plus capital charges). Interest payments are drawn from the interest and investment income (external receipts and dividends) line of the RS.

1.34 Our figure for the flexible use of capital receipts by local authorities was provided by the Department. It is based on a reconciliation of data held in the revenue outturn (RO) and capital outturn return (COR). While we present the Department's figure in the text, we use the original figure from the RO elsewhere in our analysis in order to ensure consistency across our data.

⁴ This is not the main PFI service charge paid by local authorities. Rather, it is a small adjustment that is occasionally required where an authority has taken a particular approach to recording making minimum revenue provision charges on their PFI service charges.

Part Two

Service sustainability

Changes in patterns of service spending

Protecting key services

Distribution of spending reductions

2.1 Data on change in spend by service area (Figure 7) are taken from the Ministry of Housing, Communities & Local Government's (the Department's) revenue outturn summary (RS). We use net current expenditure on an outturn basis in 2016-17 prices. However, in this instance we adjust the adult social care line to include transfers from health bodies including an estimate of the amount spent by local authorities that was funded by the Better Care Fund. We use data published by NHS Digital to make these adjustments.

2.2 The children's social care line has been adjusted to remove funding for Sure Start and services for young people from 2014-15 onwards. This is the same adjustment as made in our model of income and expenditure set out above. This also means that there is a slight discontinuity in this service spending line in 2014-15 (see the first bullet in paragraph 1.28).

2.3 For presentational purposes we do not show change in non-schools education services in Figure 7. The size of the absolute reduction in spend in this service area relative to the other service areas would skew the chart significantly.

Trends over time

2.4 Data on spend in services over time in Figure 8 are taken from the RS. We use net current expenditure on an outturn basis in 2016-17 prices. We have grouped these data into the same three service areas as in our model for income and expenditure set out above and using the same definitions (paragraphs 1.17 to 1.29). This means that fire and rescue spend and police spend are included where relevant in the 'all other services' line. It also means that there are slight discontinuities in 2014-15 in our social care and non-schools education services lines (see the first bullet in paragraph 1.28).

2.5 Paragraph 2.7 in the report sets out data on change in spending on Sure Start and services for young people. These are taken from the Department for Education's section 251 data return. We recognise that there have been some definitional changes in this data set over the time period in question. However, following discussions with the Department for Education we are happy that the overall trends shown are accurate.

Reduction and concentration of service spending

2.6 Data in Figure 9 are taken from the Department's revenue outturn (RO) return. We use net current expenditure on an outturn basis in 2016-17 prices. It uses the same groupings and definitions as our income and expenditure model set out above (paragraphs 1.17 to 1.29). However, we show only two service spending lines – social care is as set out above. However, 'non-social-care services' is a combination of 'non-schools education services' and 'all other services' as set out in Figure 1 above.

2.7 Both the social care and other services lines in Figure 9 contain a slight discontinuity in 2014-15. This is the same issue as set out in the first bullet in paragraph 1.28 above and relates to an adjustment made to children's social care. It also means that fire and rescue spend and police spend are included where relevant in the 'all other services' line.

2.8 Figure 9 is based on net current expenditure. It therefore does not include spend funded by sales, fees and charges or other income such as transfers from other public bodies. Ideally we would have used total spend, which includes these additional items, as we would like to demonstrate change in this full body of spend, rather than just the element with a direct cost to the local authority. This reflects the fact that the purpose of the analysis is to draw out the implications for service users by showing how the range and breadth of spend of all types on local services has changed. However, total spend includes internal recharges within the 'central services' line, which effectively builds an element of double counting into our aggregate total spend measure. While we can strip recharges out of aggregate total spend, we do not know which services they apply to, and therefore we cannot strip them out of our social care and other service lines. As a result we use net current expenditure for this analysis instead.

2.9 Figure 9 shows change in spend by different types of authority. In each case these data are for aggregate spend by council type.

2.10 Figure 9 also shows aggregate change in spend in two-tier areas. To do this, we add together the aggregate figures for county councils and district councils. We show change at the two-tier level rather than by separate authority type as we are trying to draw out the implication for service users rather than simply the authorities.

Variation by sub-service

2.11 Data for Figure 10 are taken from the revenue outturn suite of returns published by the Department (RO1 to RO6). It shows change at the sub-service level and compares these against change in the 'parent' service. Data for change in the parent service are the same as Figure 7.

2.12 We also use data from the Department for Education's section 251 return for data on change in children's social care. We use these data as definitional changes at the sub-service level in children's social care within the Department's RO data mean that comparable analysis over time at the sub-service level is not possible. We recognise that there have been changes in the definitions used in the section 251 data return in this period (see paragraph 2.5 above). Because we use data from section 251 in Figure 10 this means that change in the children's social care at the 'parent service' level is slightly different from that shown in Figure 7, which is based on RO data.

2.13 We do not include data for change in spend on Sure Start and services for young people as these fall within our non-schools education services line. However, owing to the adjustments required in relation to this service area, we do not present data for spending for non-schools education services at the sub-service level.

2.14 We do not show data for sub-service change for adult social care. Definitional changes in the data over this period mean that reliable sub-service comparisons are not possible.

2.15 In some cases where we have used RO sub-service data we have grouped some of the sub-services into slightly larger service areas for presentational purposes. For information on which RO sub-services are included in each of the sub-services we present and our approach to addressing any definitional changes over time please contact the National Audit Office directly.

2.16 We have excluded a small number of sub-services from the figure for presentational reasons. These are low spending areas that have experienced substantial changes in percentage terms.

Protecting services by drawing on alternative resources

Total spend

2.17 Figure 11 shows change in total spend by service area. This is taken from the Department's RS return and includes net current expenditure plus sales, fees and charges and other income such as transfers from other public bodies. We show outturn data at 2016-17 prices.

2.18 We also include change in net current expenditure on its own by service area as a comparator to change in total service spend. This is the same as in Figure 7. As in Figure 7 we have adjusted the net current expenditure line for adult social care to include transfers from health bodies.

2.19 As with other analysis in this report, the children's social care line has a slight discontinuity in 2014-15 (see the first bullet in paragraph 1.28).

2.20 We do not show change in total spend on non-schools education services. We are able to make the necessary adjustments to produce this spending line in relation to net current expenditure, but we do not have the information to make the adjustments to total spend. For instance, we do not know what share of sales, fees and charges income is generated by schools (which we would subtract) or local authorities (which we would retain).

Sales, fees and charges income

2.21 Figure 12 shows data on income from sales, fees and charges. These are taken from the Department's RS data return and are shown in real terms at 2016-17 prices.

2.22 For presentational reasons we do not show data for children's social care. Sales, fees and charges income in this service area is very low as a share of total spend (no more than 2% of total spend in either 2010-11 or 2016-17), but it has changed substantially in percentage terms from a very low base. This has the effect of skewing the chart.

2.23 We do not show sales, fees and charges income for non-education services as we cannot calculate this given the adjustments required.

Capital spending

2.24 Figure 13 shows total revenue spend from local authorities' general fund revenue accounts and capital spend in non-social care service areas. Total revenue spend is taken from the Department's RS return. Capital spend is taken from the Department's annual capital outturn return (COR) data set. Both capital and revenue data are outturn and shown in 2016-17 prices.

2.25 We exclude spending on housing services as the revenue and capital budgets are not directly comparable. Much of local authorities' capital spending on housing is spent on any remaining housing stock they may hold. The revenue costs associated with this stock fall on their housing revenue accounts rather than their general funds.

Implications for service outputs and outcomes

Adult social care

Impacts on health bodies and the social care market

2.26 Data on delayed transfer in care are taken from statistics published by NHS England. These data show the total number of delayed days by month for those aged 18 and over. We present the data in quarters rather than months. We present data on delayed days attributed wholly or partly to social care. This includes delays attributed solely to social care and also delays attributed to a combination of both social care and the NHS.

Market fragility

2.27 Data on running and employee costs in adult social care in Figure 14 are taken from the Department's RS return. It shows total spend on an outturn basis in 2016-17 prices. Separately, we index the data, with 2010-11 set as 100.

Non-social-care services

2.28 Figure 15 shows a selection of sub-service areas where there have been substantial falls in spend, and where in our view there are limited data on the implications for local authority service activity. This Figure is illustrative and is designed to demonstrate that there are large areas of local authority spend where it is not always clear from national data whether spending reductions have affected service levels. It is not designed to be an exhaustive analysis of the availability of local service data.

2.29 We have included sub-service areas that have had real-terms funding reductions of more than 35% from 2010-11 to 2016-17 and where in our view there are insufficient robust data published to allow for analysis of change in activities and outputs over this period.

2.30 Figure 15 includes data on change in spending on Sure Start and services for young people. These are taken from the Department for Education's section 251 data return. We recognise that there have been some definitional changes in this data set over the time period in question (see paragraph 2.5 above).

2.31 All data in Figure 15 are total or gross spend (which includes income from sales, fees and charges and other forms of income). It is in real terms at 2016-17 prices.

2.32 Figure 16 contains selected data on local authority service activities and outcomes. It is drawn from a broad range of sources (see Figure 3 in Appendix One).

Part Three

Financial sustainability

In-year service spend

Controlling in-year service spend

3.1 Data in Figure 17 are taken from the Ministry of Housing, Communities & Local Government's (the Department's) revenue account (RA) and revenue outturn summary (RS) returns. Data are shown in cash terms.

3.2 It is not possible for us to adjust the budget data on the same basis that we have for outturn data. As a result, our analysis of budget data draws on a narrower range of services than our analysis based on outturn data in the previous section. These are planning and development, culture and leisure, environmental services, central services, highways and transport, housing services (non-housing revenue account (HRA)), adult social care and children's social care. This means that none of our analysis that draws on budget data includes spend on non-schools education services. Where we compare budget and outturn data we use matching sets of services.

3.3 We adjust budget data for children's social care by removing spend on Sure Start and services for young people from 2014-15. As with the outturn data, this creates a slight discontinuity (see first bullet paragraph 1.28).

3.4 We do not use budget data relating to service expenditure in 2010-11. The RA data return in that year included revenue expenditure funded from capital by statute (RECS) in each of the service spending lines. This expenditure is not included in any of the subsequent years' budget data, or any of the outturn data (including 2010-11) in our analysis, and it is not possible to remove RECS from individual service lines in the 2010-11 budget data.

3.5 Data in Figure 18 are drawn from the RA and RS data returns as set out above (paragraphs 3.1 to 3.3). The 'other services' category includes planning and development, culture and leisure, environmental services, central services, highways and transport, and housing services (non-HRA). These services are added to children's and adult social care to create the 'all services' line.

3.6 Data in Figure 18 are in cash terms and relate solely to single-tier and county councils.

Drivers of overspends

3.7 Data on drivers of overspends are taken from the RA and RS data sets. Figure 19 shows data for adult social care. The following paragraphs include data on children's social care. We do not present them together in the Figure as the trends are slightly different.

3.8 The analysis compares budget data between pairs of years to establish whether the budget has increased or decreased. We then assess whether there has been an overspend or underspend in the second year of each pair by comparing budget and outturn figures for that year.

3.9 We sum all of overspends and underspends separately in each year and group according to whether they took place in the context of budget growth or decline. In each case this is a gross figure. Figure 19 overlays the net variance figure, which is the sum of overspends and underspends in each year.

3.10 Because we cannot use the budget data for 2010-11, this means that our first year of analysis is 2012-13. This shows gross overspends and underspends in 2012-13 grouped by whether an authority's budget had increased or decreased from 2011-12 to 2012-13.

3.11 Our data on children's social care in paragraphs 3.9 and 3.10 have been adjusted to remove spending on Sure Start and services for young people from 2014-15 onwards (see first bullet of paragraph 1.28).

Use of reserves

3.12 All our analysis of reserves relates to useable revenue reserves (earmarked and unallocated). Unusable, capital, schools and public health reserves are not included.

3.13 In some cases our analysis focuses on total reserves – the sum of earmarked and unallocated reserves. Earmarked and unallocated reserves are held separately by local authorities. Earmarked reserves are held for a specific purpose or projects. However, local authorities are able to re-assign earmarked reserves for general use if required either during budget setting or in-year. While this is possible, it will have implications in relation to their original intended use, however.

Trends in reserves

3.14 Data in Figure 20 on trends in levels of reserves are taken from the Department's RS return. This figure shows earmarked and unallocated reserves as a share of net revenue in each year in single-tier and county councils, and district councils.

3.15 Data in Figure 21 on in-year use of reserves are taken from the Department's RS return. This figure shows the number of single-tier and county councils making appropriations from their reserves in each year. It also shows the net change in levels of reserves across these authorities in each year.

3.16 This figure shows change in 'total reserves', which is the sum of earmarked and unallocated reserves. It excludes schools and public health reserves.

Drivers of use of reserves

3.17 Our data on ‘planned’ and ‘unplanned’ use of reserves in Figure 22 in the report are taken from the Department’s RA budget and RS outturn returns. The figure shows data for single-tier and county councils only. Our classification of sums appropriated to or from reserves as ‘planned’ and ‘unplanned’ is shown in **Figure 2** below. At the heart of our analysis is that an authority can make both planned and unplanned appropriations from its reserves in a particular year. Likewise, it can also make both planned and unplanned appropriations to its reserves in a particular year.

3.18 There are a range of reasons why local authorities may make ‘unplanned’ use of reserves. It may indicate additional in-year cost or demand pressures or the failure to deliver savings as planned. However, there are other reasons why authorities may use reserves in-year that were not included in their budget such as taking advantage of commercial investment or additional invest to save opportunities that may arise in-year. Other factors such as failure to secure planned additional income may also be a factor.

Figure 2

Classification of ‘planned’ and ‘unplanned’ appropriations to or from reserves

Scenario	Budget intention	Outturn outcome	Classification
1	Draw down	Drew more than budgeted	Amount drawn down that was budgeted for classed as ‘planned use’ Amount drawn down in excess of budget classed as ‘unplanned use’
2	Draw down	Drew less than budgeted	Total amount drawn down classed as ‘planned use’
3	Draw down	Added to	Total amount added to reserves classed as ‘unplanned growth’
4	No change	Drew down	Total amount drawn down classed as ‘unplanned use’
5	No change	Added to	Total amount added to reserves classed as ‘unplanned growth’
6	Add to	Drew down	Total amount drawn down classed as ‘unplanned use’
7	Add to	Added to less than budgeted	Total amount added to reserves classed as ‘planned growth’
8	Add to	Added to more than budgeted	Amount added to reserves that was budgeted for classed as ‘planned growth’ Amount added to reserves in excess of budget classed as ‘unplanned growth’

Note

1 We do not include an option for no change in the reserves in the budget, and no change in the outturn as this does not arise in the data.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data

3.19 Figure 2 sets out how the analysis takes the actual use of reserves from the RS outturn returns and classifies this usage as 'planned' or 'unplanned' by comparison with the RA budget returns.

3.20 Data in Figure 23 in the report are drawn from the Department's RA and RS data returns. The figure uses the RS data to group single-tier and counties in each year by whether they made appropriations to or from their reserves. Using the RS and RA data it then further sub-divides these two groups by whether each authority had overspent or underspent on their combined social care budget. This produces the four groups shown in the Figure.

3.21 Our budget and outturn data on children's social care have been adjusted to remove spending on Sure Start and services for young people from 2014-15 onwards (see first bullet in paragraph 1.28).

Financial sustainability

Dwindling reserves

3.22 Data in Figure 24 are taken from the Department's RS return. The figure shows data for single-tier and county councils. It includes earmarked and unallocated reserves. It excludes schools and public health reserves.

3.23 It focuses on authorities that have made appropriations from their reserves in any year. In each case we calculate the reserves at year end (31 March) as a ratio of the level of reserves used in that year.

3.24 The figure shows two groups for each year. One where the ratio of in-year use to year-end levels is less than three, and one where the ratio is three or more but less than five. We do not show authorities where the ratio is more than five or where authorities have added to their reserves in any given year.

3.25 The statistic shown in the figure (the number of years' worth of reserves left based on the rate of use in the preceding year) is a financial ratio that captures both the scale of authorities' reserves and the rate at which they are being used. It is not a prediction or forecast of when particular authorities are likely to have used up their reserves. Rather, using the financial ratio we can see that in 2016-17 there were more social care councils that had a relatively limited amount of total reserves compared to their rate of use than in previous years.

3.26 The group of authorities that we identify in the report as having the equivalent of only a few years' of reserves left based on existing levels of use could be in that position due to drawing on their reserves very rapidly, having very low levels of reserves or both. Our analysis includes both earmarked and unallocated reserves so it may be the case that some authorities in this group have drawn on their reserves to fund invest to save schemes on a one-off or short-term basis.

Limited room for manoeuvre in delivering further savings

3.27 Data in Figure 25 are drawn from our income and expenditure model set out in paragraphs 1.17 to 1.29 above. This means that the figure includes spend on non-schools education, fire and rescue, and police services where relevant.

3.28 We adjust the social care line to remove Sure Start and services for young people from 2014-15 onwards (see first bullet in paragraph 1.28).

3.29 Data are shown for single-tier and county councils only.

Glossary

Data Glossary

Acronym	Name	Content	Web link (for 2016-17 data)
RO	Revenue outturn return	A suite of data returns on revenue income and expenditure published by the Ministry of Housing, Communities & Local Government (the Department). It contains a number of sub-returns on specific types of spending, income and service areas.	www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-individual-local-authority-data-outturn
RS	Revenue outturn summary	Part of the RO return. It includes headline information on service spend and income on an outturn basis.	www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-individual-local-authority-data-outturn
RG	Revenue outturn specific and special grants	Part of the RO return. It includes information on income from specific and special grants.	www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-individual-local-authority-data-outturn
RA	Revenue account budget return	Published by the Department. It includes headline information on authorities' budgeted service spend and income.	www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-budget-individual-local-authority-data
COR	Capital outturn return	A suite of data returns on capital income and expenditure returns published by the Department. It contains a number of sub-returns on specific types of spending, income and service areas.	www.gov.uk/government/statistics/local-authority-capital-expenditure-and-financing-in-england-2016-to-2017-individual-local-authority-data

Appendix One

Sources and definitions used in Figure 16

Figure 3

Sources and definitions used in Figure 16 in the report

Service area	Sub-service/activity	Definition of indicator(s) used
Environmental and regulatory services	Domestic waste collection (residual)	We have used data provided by the Waste & Resources Action Programme. It includes data on the frequency of collection of several refuse waste collection schemes across all local authorities. The total number of households with access to a 'weekly' or 'more than weekly' collection service have been aggregated to define the total number of households with access to a collection service 'at least weekly'. We calculate the percentage change in the total number of households with access to a collection service 'at least weekly' from 2010-11 to 2016-17.
	Recycling	Data are taken from statistical data set ENV18 published by the Department for Environment, Food & Rural Affairs (Defra) on local authority collected waste (Table 3a). Data presented show the percentage point change between 2010-11 and 2016-17.
	Waste disposal	Data are taken from statistical data set ENV18 published by Defra on local authority collected waste (Table 2a). Data presented show the percentage point change between 2010-11 and 2016-17.
	Fly-tipping	Data are taken from statistical data set ENV24 published by Defra. We present the change in total fly-tipping incidents. We calculate change in investigation actions conducted in response to incidents. Finally, we present the change in other enforcement actions, which we define as total actions excluding investigations. All data presented show the percentage change between 2010-11 and 2016-17.
	Food safety	We calculate the change in total samples taken across England. We exclude authorities for which data are missing in the start and/or end year. Total establishments subject to enforcement actions include those across both food standards and food hygiene. We present the change across England. We aggregate the total full-time equivalent professional posts occupied across food standards and food hygiene in England. All data presented show the percentage change between 2010-11 and 2016-17. All data are published by the Food Standards Agency.
	Health and safety	We calculate the percentage change in enforcement notices issued by local authorities between 2010-11 and 2016-17. Data are published by the Health and Safety Executive.

Figure 3 *continued*

Sources and definitions used in Figure 16 in the report

Service area	Sub-service/activity	Definition of indicator(s) used
Cultural services	Libraries	<p>We calculate the percentage change in total library service points across England between 2010-11 and 2016-17. We include mobile and community-run libraries.</p> <p>Data are taken from an annual survey delivered by the Chartered Institute of Public Finance and Accountancy (CIPFA). We exclude data for authorities that did not respond to the survey in both 2010-11 and 2016-17. Therefore, our data are based on a sample of 126 local authorities. CIPFA includes grossed totals for missing authorities in its published data and therefore our figures for England differ to those published by CIPFA.</p>
	Sport	<p>Our figure for change in adult participation in sport across in England is the median change across single-tier and district authorities. We exclude data for county councils to prevent double counting. This indicator reflects adult participation in sport for at least 30 minutes each week. The data are taken from Sport England's Active People Survey. Data presented show the change from 2010-11 to 2015-16. Each year begins in October and ends in September.</p>
	Museums and heritage	<p>The number of people visiting a museum or gallery is based on the Taking Part Survey undertaken by the Department for Digital, Culture, Media & Sport. We calculate the percentage point change in people visiting a museum or gallery in the past 12 months between 2010-11 and 2016-17.</p>
Highways and transport	Road maintenance	<p>We calculate the percentage point change in roads where maintenance should be considered between 2010-11 and 2016-17. We exclude data for authorities that did not provide information in both 2010-11 and 2016-17. We calculated the percentages using medians for each year as this approach is less affected by changes in non-response.</p> <p>We use data on principal, non-principal and unclassified roads published by the Department for Transport. However, our results should not be expected to be identical to those in the Department's road condition statistics. The Department's statistics are derived from the same data but use a different method (which includes weighting the percentage of road in each authority in need of maintenance by the length of road in each authority) to calculate the national figure.</p>
	Bus services	<p>We calculate the percentage change in local authority-supported bus mileage in England outside London between 2010-11 and 2016-17. Buses in London operate under a different regulatory framework.</p> <p>We use data on local authority-supported bus mileage published by the Department for Transport and used in the Department for Transport's bus statistics.</p>
Planning and development	Development control	<p>Data for all statistics are taken from Table P120 from the Ministry of Housing, Communities & Local Government's (the Department's) live tables on planning application statistics. All data show the percentage point change between 2010-11 and 2016-17.</p>
Housing services	Homelessness	<p>Our figures for homelessness show the percentage change in the number of cases where local authorities took action to prevent or relieve homelessness and the percentage change in households that presented themselves to local authorities that were assessed as unintentionally homeless and in priority need. Those assessed as such are entitled to temporary accommodation. The data are taken from the Department's homelessness statistics (Tables 787 and 770). All figures show the change from 2010-11 to 2016-17.</p>

Figure 3 *continued*

Sources and definitions used in Figure 16 in the report

Service area	Sub-service/activity	Definition of indicator(s) used
Central services	Tax collection	Collection rates for council tax and national non-domestic rates (NNDR) are published by the Department. All data show the percentage point change in collection rates between 2010-11 and 2016-17.
	Benefits processing	Data are taken from the Department for Work & Pensions statistics on speed of processing. The data presented are the average time taken to process new housing benefit claims and changes in claimant circumstances. We compare 2010-11 with 2016-17.
	Registration of births and deaths	Local registration data have been provided to us by the Home Office. The data show the percentage of births recorded within 42 days of the date of birth and the percentage of deaths recorded within five days of the date of death. We calculate the change in the percentage of births and deaths registered within these timeframes between 2010-11 and 2016-17.

Source: National Audit Office analysis of departmental data

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