Background

1 In November we published two complementary reports on local government funding. In *Financial sustainability of local authorities 2014*, we held the Department for Communities and Local Government (the Department) to account over how well it is informing central government of the impacts of funding changes on local government. This was supported by our second report, *The impact of funding reductions on local authorities*, in which we reported our own in-depth analysis of the impacts on the sector and how it is responding.

2 On 18 December the Department announced the provisional local government settlement for 2015-16. In response to the Committee’s request, this briefing note updates our analysis of funding reductions to take these newly-announced figures into account, and provides analysis which excludes income local authorities will receive from the Better Care Fund.

3 We have also included an additional section that presents further analysis on change in local government funding since 2010-11 based on a range of different definitions. This reflects the fact that there are multiple definitions in use currently, and this analysis allows for a genuine comparison between them.

4 A brief methodological note is provided in Appendix 1 and the full methodology underlying our analysis is available [here](#).

Update on published analysis

Reductions to government funding and revenue spending power

Aggregate change

5 Based on the provisional local government settlement for 2015-16 published in December, we find that the government will have reduced its funding to local authorities by 37.4% in real terms over the period 2010-11 to 2015-16 (Figure 1). This analysis excludes income from the Better Care Fund, as well as funding for public health duties.
The Department measures the impact of reducing government funding on local authority income via an indicator known as ‘spending power’. This includes the core funding local authorities receive from central government and the council tax income they raise themselves. Taking the new funding figures published in December into account, our analysis shows that spending power will have fallen in real terms by 25.2% between 2010-11 and 2015-16.

Figure 1
Change in spending power and government funding, 2010-11 to 2015-16

Government funding has been cut more steeply than local authority income once council tax is taken into account

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>100</td>
</tr>
<tr>
<td>2011-12</td>
<td>89.6</td>
</tr>
<tr>
<td>2012-13</td>
<td>82.5</td>
</tr>
<tr>
<td>2013-14</td>
<td>78.5</td>
</tr>
<tr>
<td>2014-15</td>
<td>72.1</td>
</tr>
<tr>
<td>2015-16</td>
<td>62.6</td>
</tr>
</tbody>
</table>

Note
1. Spending power includes both the core funding local authorities receive from central government and the council tax income they raise themselves.

This new analysis is almost identical to the findings we published in *Financial sustainability of local authorities 2014*. There, we reported that the government was reducing its funding to local authorities by 37.3% in real terms between 2010-11 and 2015-16, with spending power going down by 25.2% over this time. One reason for this similarity is that the provisional local government settlement for 2015-16 has not changed greatly from the draft figures published by the Department in July 2014, of which we took account in our report. Another is that our analysis already excluded the Better Care Fund and public health funding, in order better to represent a like-for-like reduction in funding for local services over the period.

1 In our original report we stated that funding to local authorities would fall by 37.3% in real terms between 2010-11 and 2015-16, with spending power going down by 25.2% over this time.
Change by authority type

Funding reductions apply differently to different types of authority (Figure 2). Amongst metropolitan district councils the median real terms change in revenue spending power between 2010-11 and 2015-16 is 30%. This compares with real terms median reductions of 28.5% for London boroughs, 24.8% for unitary authorities and 19.7% for county councils. District councils have seen a median reduction of 25%. As with the updated analysis of change in total funding, there is little difference between the update analysis by authority type and the original figures published in the report.

Figure 2
Change in spending power by local authority type, 2010-11 to 2015-16

Metropolitan districts had the biggest average reductions

<table>
<thead>
<tr>
<th>Percentage of change in revenue spending power 2010-11 to 2015-16 (2012-13 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan districts</td>
</tr>
<tr>
<td>London boroughs</td>
</tr>
<tr>
<td>Unitary authorities</td>
</tr>
<tr>
<td>County councils</td>
</tr>
<tr>
<td>Shire districts</td>
</tr>
</tbody>
</table>

- Average

Note
1 The vertical lines illustrate the range of reductions within each class of authority. The bars represent the average reduction for each class.

Source: National Audit Office analysis of Department for Communities and Local Government data
Additional comparative analysis
Multiple definitions

9 The analysis in our report, and that updated above, both use the Department’s revenue spending power data published annually. However, there are a number of differences between the way that the Department presents this data compared to our analysis. These differences make direct comparison between the two difficult to do. For instance, in contrast to our analysis the Department:

- Presents figures in cash terms
- Includes funding for Public Health grant and the Better Care Fund
- Publishes data for pairs of years only, rather than over longer periods

10 To allow for comparison between our figures with those presented by the Department, the following analysis presents analysis for different definitions of government funding and revenue spending power. In each case, we have used a chain-linking approach to construct a time series across the pairs of adjusted years published by the Department (see Appendix 1). We have also provided year-on-year change figures.

11 The purpose of this analysis is not to question the approach used by the Department. Rather it is to aid the Committee in understanding how the wide range of figures on change in local government funding can be produced from a single set of data.

12 This analysis also emphasises how the impact of annual reductions as experienced by local authorities may be more accurately reflected when these are presented over time. In general, annual changes appear small and it is only when they are considered in aggregate across the full period that the scale of change can be judged in a meaningful way.

Analytical output

13 Figure 3 shows change in revenue spending power funding. Revenue spending power includes the main streams of government funding for local authorities outside education as well as income from council tax. Three different definitions are used:

1. The full spending power data published by the Department in cash terms
2. The full spending power data published by the Department in real terms at 2012-13 prices
3. The full spending power data published by the Department in real terms at 2012-13 prices, excluding Public Health grant and the Better Care Fund. This is the definition used in the NAO reports and corresponds with the data published in the section above.

14 This analysis demonstrates that based on the Department’s full data there has been a 13.2% reduction in revenue spending power over the period 2010-11 to 2015-16 in cash terms. This increases to 21.1% reduction when converted into real terms, and increases further to 25.2% if funding for public health and the Better Care Fund is excluded.
Figure 3
Change in ‘revenue spending power’ using three different definitions

<table>
<thead>
<tr>
<th></th>
<th>2010-11 to 2011-12 (%)</th>
<th>2011-12 to 2012-13 (%)</th>
<th>2012-13 to 2013-14 (%)</th>
<th>2013-14 to 2014-15 (%)</th>
<th>2014-15 to 2015-16 (%)</th>
<th>2010-11 to 2015-16 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1: Cash terms</td>
<td>-4.7</td>
<td>-3.4</td>
<td>-1.2</td>
<td>-2.9</td>
<td>-1.8</td>
<td>-13.2</td>
</tr>
<tr>
<td>2: Real terms</td>
<td>-6.8</td>
<td>-5.1</td>
<td>-3.1</td>
<td>-4.9</td>
<td>-3.2</td>
<td>-21.1</td>
</tr>
<tr>
<td>3: NAO definition</td>
<td>-6.8</td>
<td>-5.1</td>
<td>-3.5</td>
<td>-5.3</td>
<td>-7.5</td>
<td>-25.2</td>
</tr>
</tbody>
</table>

NOTES
1. Figures show percentage change in a chain-linked index. See appended full methodology.

Source: National Audit Office analysis of Department for Communities and Local Government data

15 Figure 4 shows change in government funding. This is revenue spending power minus council tax income. Three different definitions are used:

1. The full government funding data published by the Department in **cash** terms
2. The full government funding data published by the Department in **real** terms at 2012-13 prices
3. The full spending power data published by the Department in **real** terms at 2012-13 prices, excluding Public Health grant and the Better Care Fund. This is the **definition used in the NAO reports** and corresponds with the data published in the section above.

16 This analysis demonstrates that based on the Department's full data there has been a 23.2% reduction in government funding\(^2\) over the period 2010-11 to 2015-16 in cash terms. This increases to 30.2% reduction when converted into real terms, and increases further to 37.4% if funding for public health and the Better Care Fund is excluded.

Figure 4
Change in ‘government funding’ using three different definitions

<table>
<thead>
<tr>
<th></th>
<th>2010-11 to 2011-12 (%)</th>
<th>2011-12 to 2012-13 (%)</th>
<th>2012-13 to 2013-14 (%)</th>
<th>2013-14 to 2014-15 (%)</th>
<th>2014-15 to 2015-16 (%)</th>
<th>2010-11 to 2015-16 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1: Cash terms</td>
<td>-8.3</td>
<td>-6.3</td>
<td>-2.2</td>
<td>-5.2</td>
<td>-3.6</td>
<td>-23.2</td>
</tr>
<tr>
<td>2: Real terms</td>
<td>-10.4</td>
<td>-7.9</td>
<td>-4.1</td>
<td>-7.2</td>
<td>-5.0</td>
<td>-30.2</td>
</tr>
<tr>
<td>3: NAO definition</td>
<td>-10.4</td>
<td>-8.0</td>
<td>-4.8</td>
<td>-8.2</td>
<td>-13.2</td>
<td>-37.4</td>
</tr>
</tbody>
</table>

NOTES
1. Figures show percentage change in a chain-linked index. See full methodology.

Source: National Audit Office analysis of Department for Communities and Local Government data

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\(^2\) Government funding as set out in the Department’s annual revenue spending power data.
Further lines of inquiry

17 We would be happy to provide any further briefing on these figures which the Committee would find useful. In addition to analysis of the 2015-16 financial settlement, there are other themes from our recent reports on financial sustainability which the Committee might find particularly interesting, for example:

- **Future challenges for the Department in its oversight role** (with respect to the financial sustainability both of statutory services and individual local authorities), especially at forthcoming spending reviews.

- **Impacts of funding reductions on local services for which the Department has policy responsibility** (for example, planning and housing).

18 Our key contacts for future work are:

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Appendix 1

Methodology note

19 Our analysis shows 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. We address this by creating a chain-linked index in which pairs of adjusted years are linked by a weighting process.\(^3\)

20 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.

21 The original report’s full methodology is available here.

\(^3\) Robjohns, J, ‘Methodology Notes: Annual Chain Linking’, Economic Trends, Number 630, Office for National Statistics, May 2006