Tough times
Methodology and data definitions
Audit Commission
The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.
Methodology and data definitions

1 Two main data sources are used in this briefing:
   ■ a survey of appointed auditors; and
   ■ analysis of the revenue account (RA) data for 2010/11 and 2011/12 returned to DCLG annually by councils.¹

Auditor survey

2 Auditors were surveyed between March and May 2011 as part of their ongoing VfM work.² Responses were received from auditors covering 100 per cent of councils.

3 As part of the survey auditors provided data on the estimates of fees and charges income councils used in their 2010/11 and 2011/12 budgets. Fees and charges data was only provided for 62 per cent of STCCs and 64 per cent of DCs.

4 It is important to note that auditors’ views were provided around the start of the 2011/12 financial year. The views are therefore interim. They may change as councils’ actual performance, both against their 2011/12 budgets and in delivering services, becomes apparent.

Use of revenue account data

General principles

5 In all cases data excludes income and expenditure related to:
   ■ police services;³
   ■ Councils’ Housing Revenue Accounts; and
   ■ frontline schools funding and services.

6 Other key aspects of the data include the following.
   ■ Comparisons are made between budget data in 2010/11 and 2011/12. The 2010/11 baseline has not been adjusted to account for the 2010/11 in-year cuts – they are included as part of the overall reduction.
   ■ All data drawn from the RA and special and specific grant (SSG) forms is net of fees and charges and other income.

¹ RA data is available from DCLG: http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/revenueexpenditure/

² ‘Auditors’ refers to auditors of STCCs or DCs appointed by the Audit Commission from either the Commission’s audit practice or from private firms.

³ Income and expenditure data for fire and rescue services for the Isle of Wight, shire unitaries and county councils that have this responsibility has been retained as it is not possible to separate out the component delivered through formula grant.
- All financial data is at 2011/12 prices based on the GDP deflator for 2010/11 of 2.9 per cent published by HM Treasury in March 2011.
- The Isles of Scilly and the City of London are excluded from all financial analysis.\(^i\)

**Central government revenue funding – definition and adjustments**

7 Table 1 sets out the components used to calculate ‘central government revenue funding’ in 2010/11 and 2011/12. This has been calculated as a single block which rolls formula grant and specific grants together in each year. Data is drawn directly from the RA and SSG forms with the exception of the NHS funding to support social care.

8 Other changes to the RA/SSG data in addition to those in the table include the following.
- Local authority income from central government for 2010/11 has been adjusted to reflect the transfer of responsibilities for concessionary fares in 2011/12.
- Revenue funding for 2010/11 has been increased to reflect the value of Learning Disability Commissioning Transfers between PCTs and councils.
- An adjustment to the 2010/11 baseline to reflect the top-slicing of formula grant in 2011/12 to fund academies has been made.
- A small number of case level changes have been made to address non-reporting of specific grants by individual councils in both years.

| Table 1: Funding streams included and excluded from central government revenue funding definition |
|---|---|---|
| **2010/11** | **2011/12** |
| **Included** | Specific and special grants inside AEF | Specific and special grants inside AEF |
| | Area Based Grant | Local Services Support Grant |
| | Revenue Support Grant | Revenue Support Grant |
| | Redistributed non-domestic rates. | Redistributed non-domestic rates |
| | | NHS funding to support social care and benefit health |
| **Excluded** | Dedicated Schools Grant (and the other frontline schools grants that were rolled into DSG in 2011/12) | Dedicated Schools Grant |
| | Police Grant | Pupil Premium Grant |
| | Grants outside AEF | Police Grant |
| | PFI grant | Grants outside AEF |

\(^i\) Leicester city is excluded from all council tax calculations based on RA data.
Revenue spend – definition and adjustments

9 ‘Revenue spend’ or ‘revenue expenditure’ is defined as RA form Line 795 for both 2010/11 and 2011/12. However, a number of adjustments have been made. In general, these reflect the changes made to central government revenue funding set out above, and include the following.

- NHS funding to support social care has been added to the 2011/12 figure.
- Frontline schools funding and police grants have been subtracted from both years.
- Learning Disability Grant transfers from PCTs have been added into the 2010/11 figure.
- Revenue expenditure for 2010/11 has also been adjusted to reflect the transfer of responsibilities for concessionary fares in 2011/12.
- The value of PFI grant has been subtracted in 2010/11 and 2011/12.
- An adjustment to the 2010/11 baseline to reflect the top-slicing of formula grant in 2011/12 to fund academies has been made.
- A small number of case level changes to revenue expenditure have been made to address non-reporting of specific grants by individual councils in both years.

Service expenditure – definition and adjustments

10 Service expenditure is defined as net current expenditure in RA lines 290, 390, 490, 509, 590, 599, 602, 690 and 698. Note that this excludes spend on education services of all forms.\(^i\)

11 The following adjustments have been made.

- Service expenditure for Social Care for Adults has been increased in 2010/11 to reflect the value of Learning Disability Commissioning Transfers between PCTs and councils and in 2011/12 to reflect the non-recurrent allocations for joint working between health and social care.\(^ii\)
- Service expenditure for Highways and Transport for 2010/11 has been adjusted to reflect the transfer of responsibilities for concessionary fares in 2011/12.

\(^i\) Non-schools funding is problematic at the service level due to inconsistencies in the recording of LSC funding in grants outside AEF. It is therefore not analysed at the service level. Non-schools funding can be included in aggregate central government funding and councils’ revenue expenditure as grants outside AEF are not included within these figures.

\(^ii\) In a small number of cases additions have been made to the 2011/12 ASC council level data to address under-reporting of LDG transfers.
12 Changes in the recording of revenue expenditure funded from capital by statute (RECS) mean that service level expenditure in 2011/12 is not directly comparable with 2010/11 data. To address this, only councils with no (65 per cent of STCCs and 62 per cent of DCs) or very low\(^{i}\) (11 per cent of STCCs and 7 per cent of DCs) levels of RECS spend are included in the service analysis.

13 Service level data is not comparable with data on central government funding or on a council’s overall revenue spending. Service level data includes grants outside AEF. These are recorded as spend by councils but are passed from central government straight through councils to other organisations such as LSCs or to individuals. Councils have no control over how this income is spent. These grants are removed from councils’ figures on central government income and revenue spending, but they cannot be subtracted accurately from service level data.

\(^{i}\) Councils with low levels of RECS spend are those with RECS spending equivalent to less than 2 per cent of net current expenditure in 2011/12 and less than 20 per cent of change in net current expenditure from 2010/11 to 2011/12.
Comparability with DCLG figures

14 The data on central government funding to councils in this briefing is not directly comparable with the data published by DCLG at the time of the settlement. The briefing uses different data sources and reporting methods to those used by DCLG.

Different approaches

Different objectives

15 DCLG’s data provides a comprehensive account of the settlement.\textsuperscript{i} However, we wanted to understand the differences between councils’ 2010/11 budgets, before the in-year spending cuts, and those for 2011/12. We also wanted to:

\begin{itemize}
  \item focus on the financial management actions taken by councils in preparing for and setting their 2011/12 budgets in the light of the spending reductions; and
  \item understand the actual spending decisions councils had taken and to compare these with last year.
\end{itemize}

16 We used RA data provided by councils to address these issues as it:

\begin{itemize}
  \item covers the in-year cuts and the 2011/12 settlement;
  \item sets out the funding information that councils had available to them at the time they were setting their budgets; and
  \item links directly to councils’ spending plans for specific services and for their use of reserves.
\end{itemize}

17 RA data reflects councils’ understanding of their central government funding at the start of the financial year. This understanding is not final as some grant allocations are not finalised until later in the year. As a result there can be differences between the figures reported by councils at the start and end of the year as well as between locally and centrally-reported figures.\textsuperscript{ii} Comparing council-reported data at the same point in each year ensures consistency between the two years.\textsuperscript{iii}

\textsuperscript{i} DCLG’s figures are net of the 2010 in-year cuts.
\textsuperscript{ii} These differences mean that it is not possible to reconcile directly the data in the RA forms with that published by DCLG in any year.
\textsuperscript{iii} Many specific grants were rolled into formula grant in 2011/12 meaning their allocations were fully announced at the time councils were preparing their budgets. This may mean that specific grants in 2010/11 are slightly under-reported by councils relative to 2011/12 in the RA data. We have addressed this by identifying and rectifying clear examples of under-reporting of specific grants in the 2010/11 data.
Different reporting approaches

18 This briefing focuses on the changes in funding from the perspective of councils preparing their budgets for the year ahead. The briefing:
- uses real terms financial data at 2011/12 prices – DCLG data is in cash values for each year; and
- measures the size of the reduction in central funding as a proportion of revenue spending in 2010/11 (which includes council tax and use of reserves). The briefing also examines the reductions in total income (central government funding, council tax, use of reserves and income from fees and charges) for a sample of councils. It does not use the concept of ‘revenue spending power’ used by DCLG.\(^i\) Neither of our measures is comparable to changes in revenue spending power as we focus on change in different components of council income.

Implications

19 The implications of our different approach are as follows.
- Our analysis includes the in-year cuts, which increases the overall size of the reduction between 2010/11 and 2011/12. The in-year cuts were also focused on particular councils, and this creates differences in the council level distribution of cuts between our analysis and DCLG’s figures.
- Our use of real terms figures makes the size of the reduction appear larger, but this is a purely statistical outcome. For instance, converting DCLG’s data using the 2011/12 GDP deflator of 2.9 per cent adds a further £600 million to the cash values for the reduction in central government funding.
- Using RA data is likely to produce a slightly different pattern at the council level in the distribution of funding reductions.
- Our measures of change in central government funding are fundamentally different to revenue spending power. They include different components of councils’ income, and use different underlying data (as set out in the previous bullets).

20 These differences mean that our figures are not the same as those published by DCLG. However, any disparities are driven by differences in data sources and reporting approaches rather than any substantive disagreement between our analysis and DCLG’s.

\(^i\) Change in revenue spending power measures the change in total income for councils from central government and council tax between 2010/11 and 2011/12.
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:
■ any director/member or officer in their individual capacity; or
■ any third party.

Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

November 2011