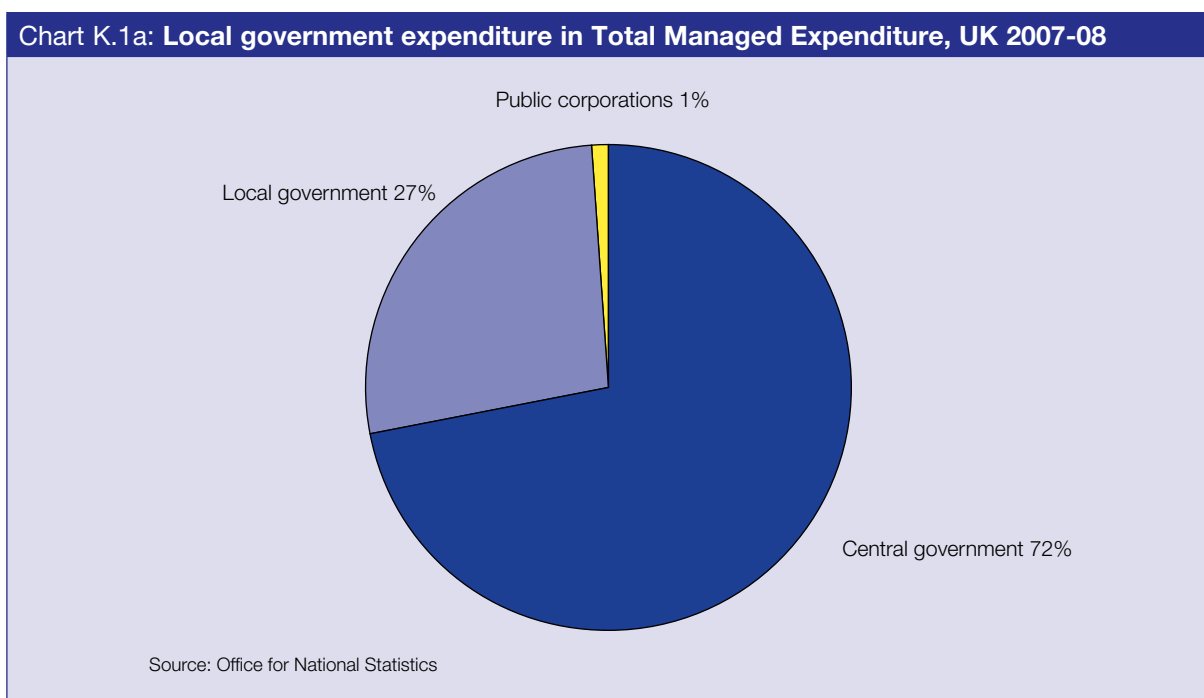


TRENDS IN LOCAL GOVERNMENT FINANCE

Local government finance in England

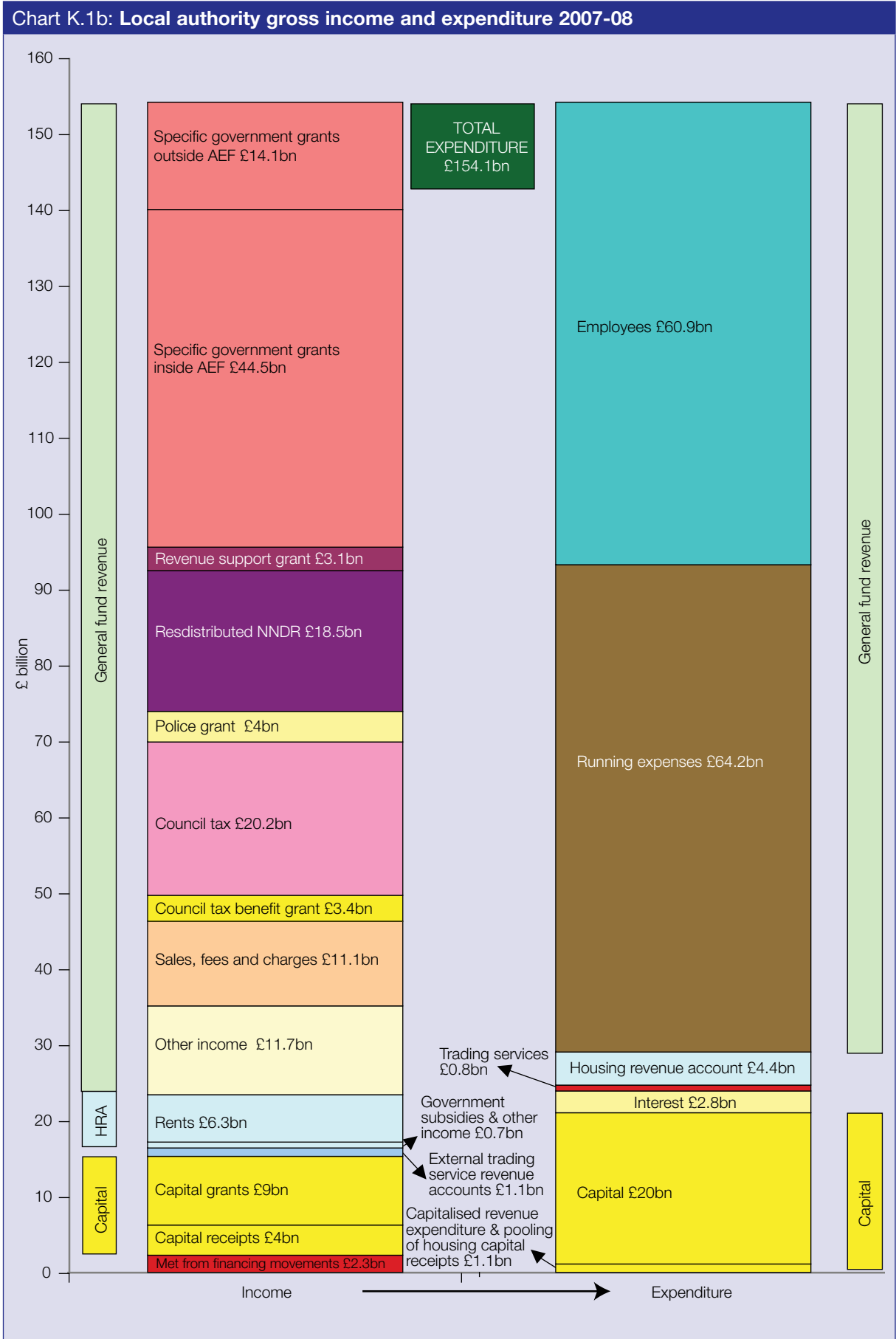
K.1 Overview

- Setting out local government expenditure and income in context, local government accounts for 27% of the UK public sector as a whole (see **section 1.5**).



Total managed expenditure has been derived using the National Accounts definition

- In England, local authorities' total expenditure was £154bn in 2007-08 compared with £144bn in 2006-07 and £139bn in 2005-06.
- After deducting non-grant income, the overall cost to the central and local taxpayer of local authority services is around £116bn, or £2,300 per head in 2007-08.

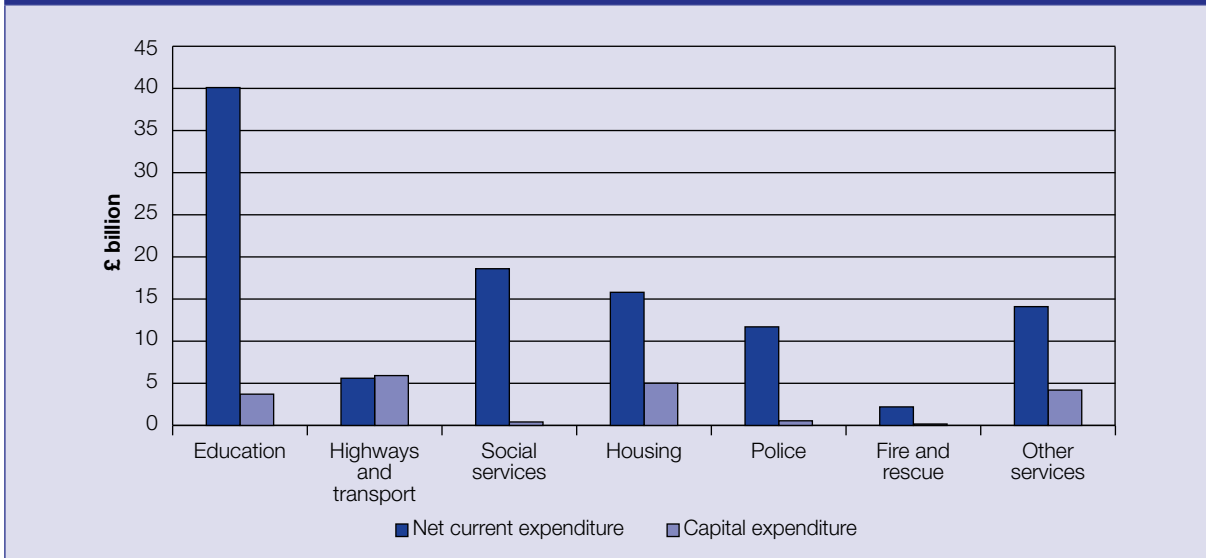


Total expenditure has been calculated as shown in table 1.6b

K.2 The pattern of spending

- In 2007-08, net current expenditure (see **section 3.2**) on general services was £108.2bn. Total capital expenditure was £20.0bn (see **section 4.2**).

Chart K.2a: Expenditure on services 2007-08



- Local government is collectively one of the largest employers in England, employing 1.8m full time equivalent staff (FTEs). The majority of these are in administration and other support services (see **section 6.3**). In 2007-08, local government employee expenditure accounted for 50% of all local government service expenditure (gross of income). (see **section 6.2**).

Chart K.2b: Employee expenditure by service 2007-08

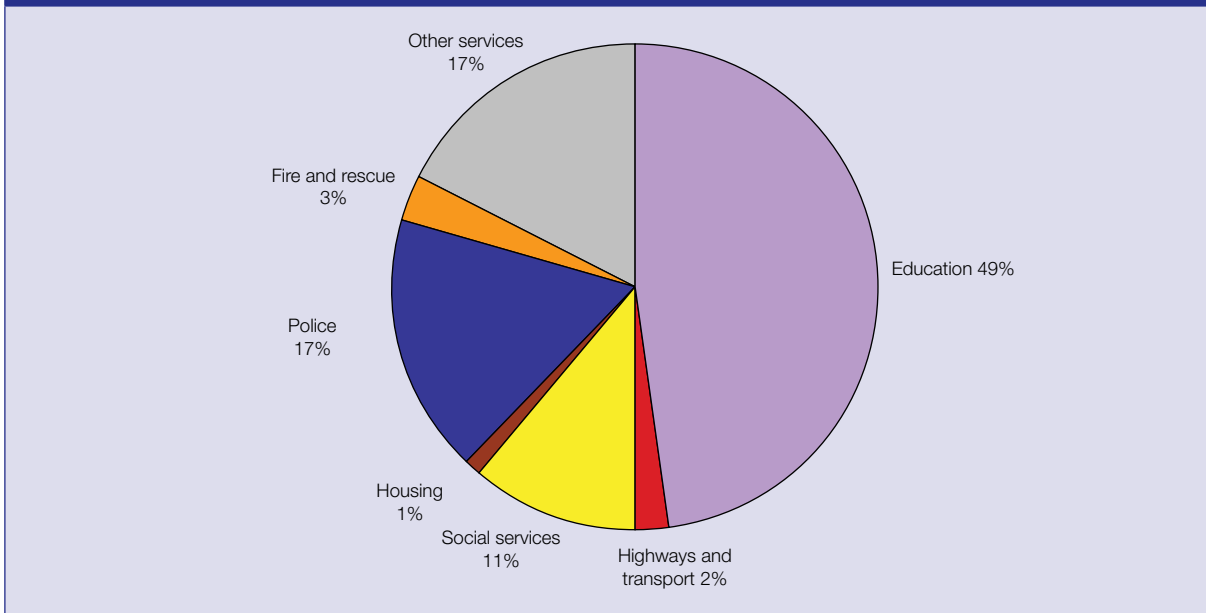
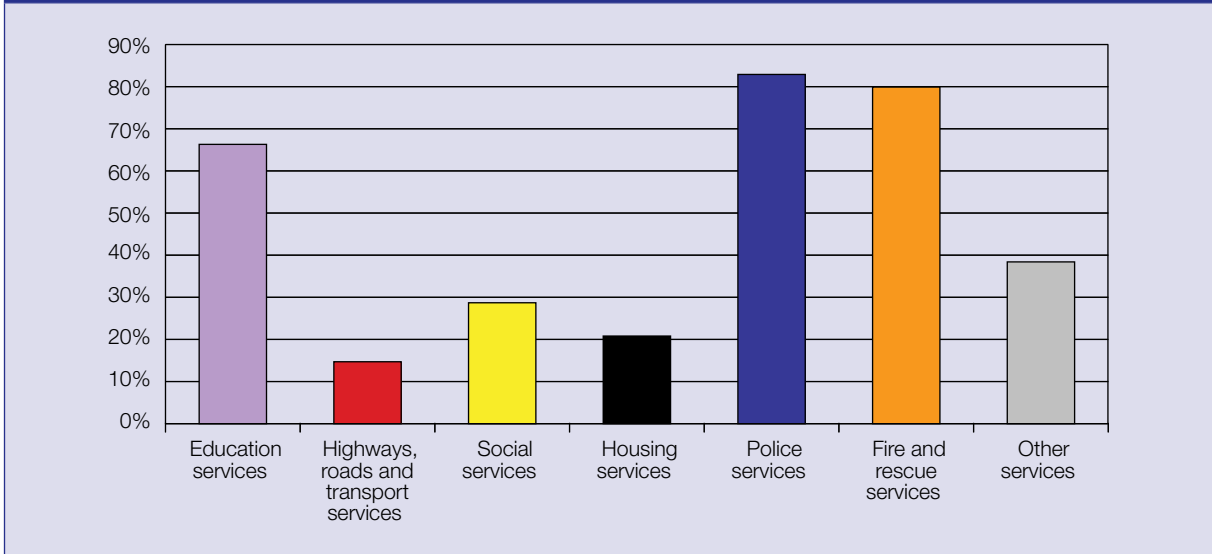
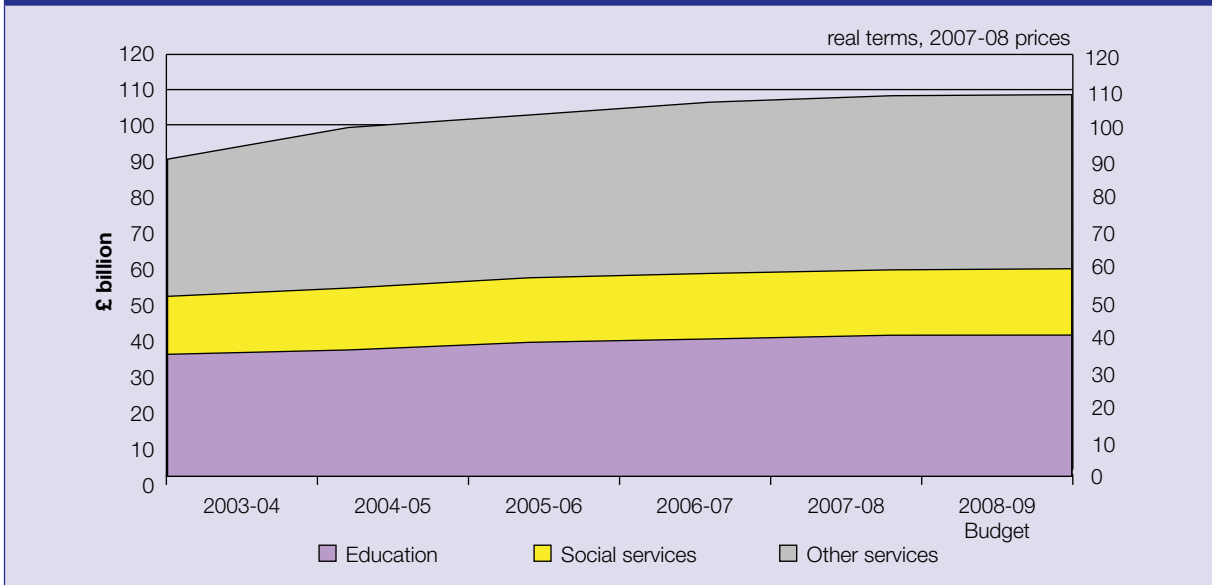


Chart K.2c: Employee expenditure as a proportion of service expenditure for 2007-08



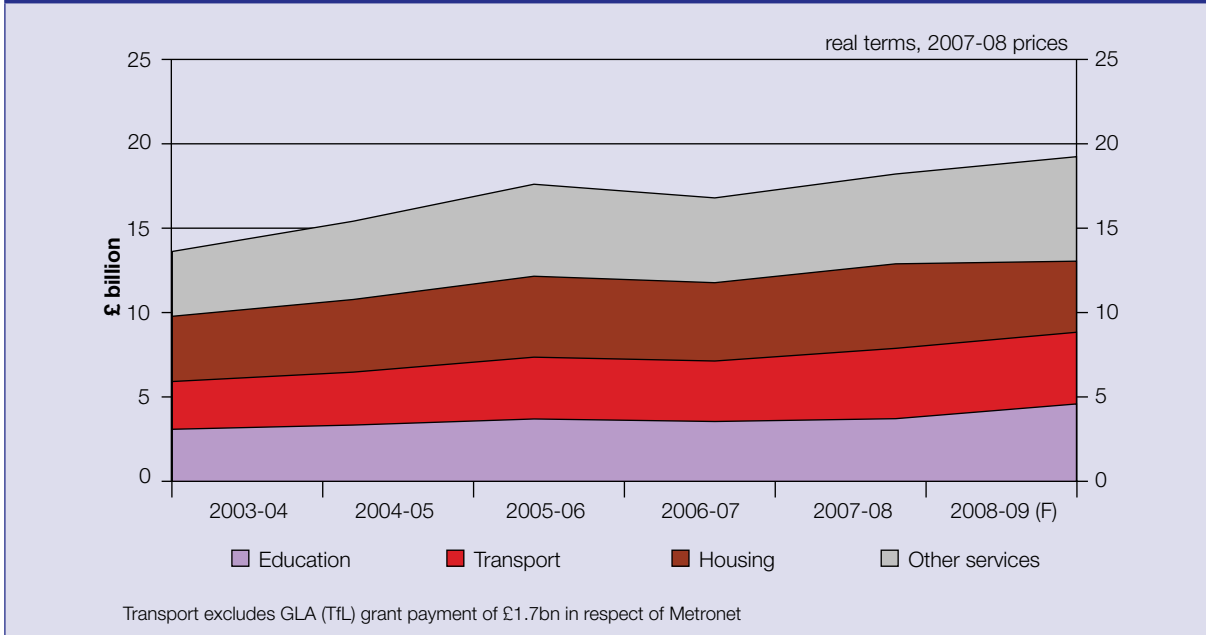
- Comparisons of service expenditure over time are affected by changes in local government responsibilities. Net current expenditure on education increased by about 16% in real terms between 2003-04 and 2007-08. Other Services have increased by 27% over the same period, mainly owing to non-HRA housing (see **section 3.2**).

Chart K.2d: Net current expenditure by service 2003-04 to 2008-09



- In real terms, capital spending increased by 34% between 2003-04 and 2007-08. During this period, capital expenditure on transport has increased by 47%, on other services by 39%, on education by 20% and on housing by 30% (see **section 4.2**). These figures exclude the GLA (TfL) grant payment of £1.7bn in respect of Metronet.

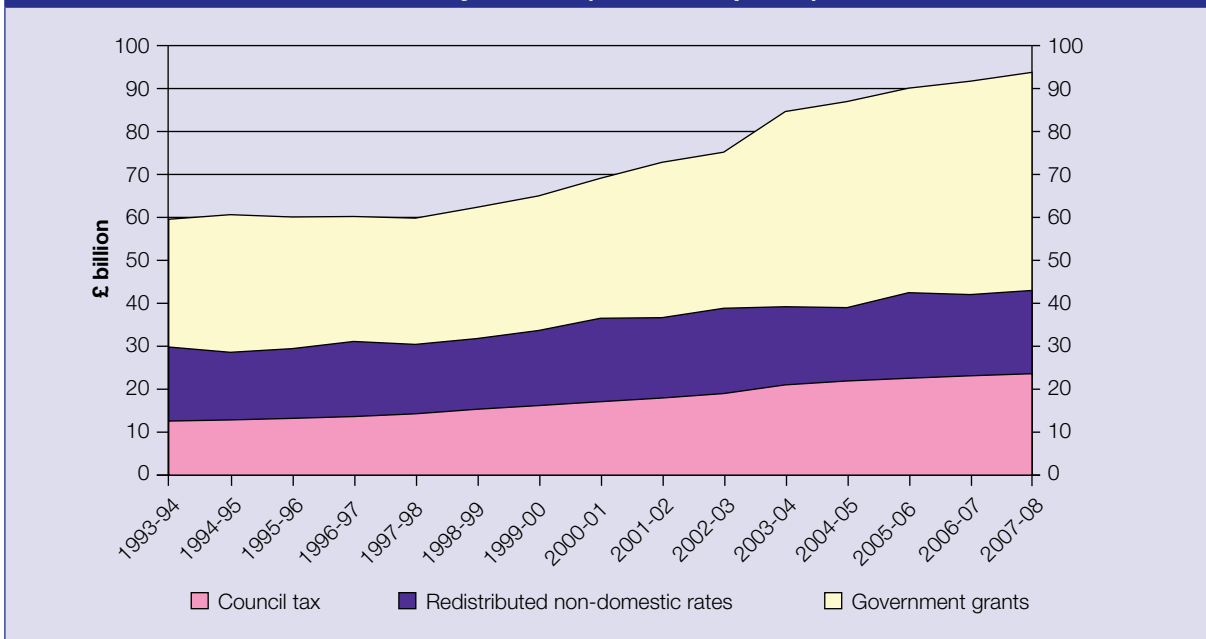
Chart K.2e: Total capital expenditure by service 2003-04 to 2008-09



K.3 Balance of funding

- About 61% of local authorities' total gross income in 2007-08 came from central government (including redistributed non-domestic rates, revenue and capital grants), and the remaining 39% from local sources, including council tax, charges, rents and capital receipts (see **section 2.1** for full breakdown of local authority income).
- Using a narrower definition, as seen in chart K.3a, 55% of revenue expenditure was funded from government grant in 2007-08, 25% from local taxes and 20% from redistributed non-domestic rates. The locally-funded percentage increased slightly after the introduction of the council tax in 1993-94, but it has remained broadly stable since 1998-99 (see **section 3.2**).

Chart K.3a: Source of local authority income (at 2007-08 prices)



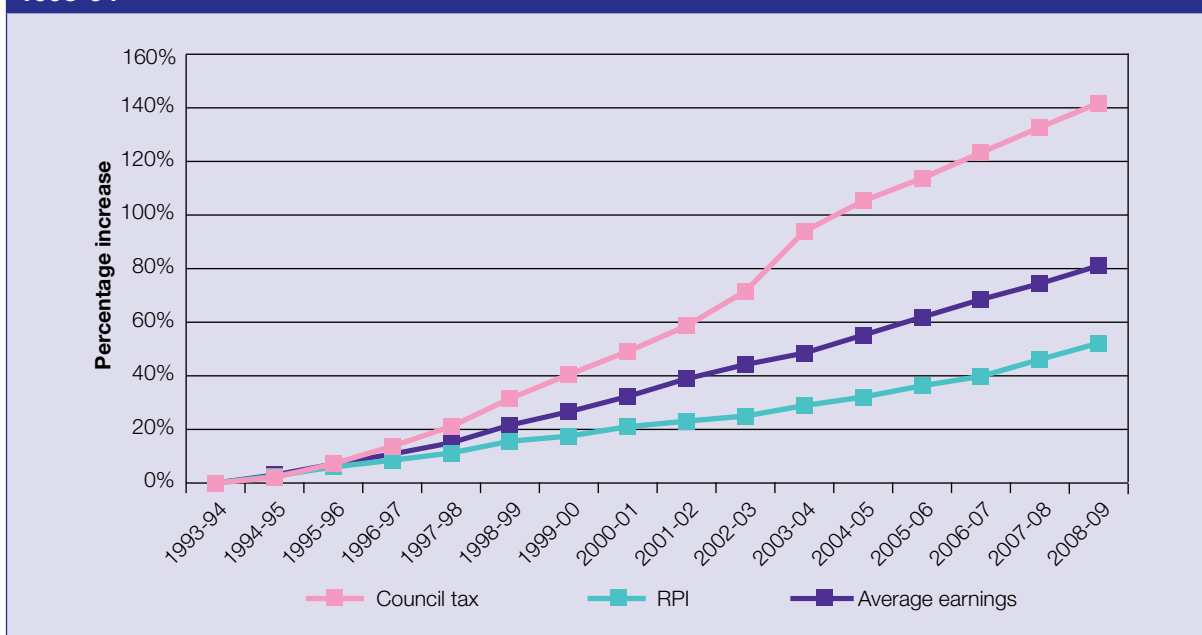
K.4 Council tax

- Council tax requirement was £24.8bn in 2008-09, around £3.5bn of which was expected to be funded by council tax benefit. Since the introduction of council tax in 1993-94 average Band D council tax bills have increased by 142%, almost three times the rate of inflation, and almost double the increase in average earnings (see **section 2.2**).

Table K.4a: Annual increases in average Band D council tax

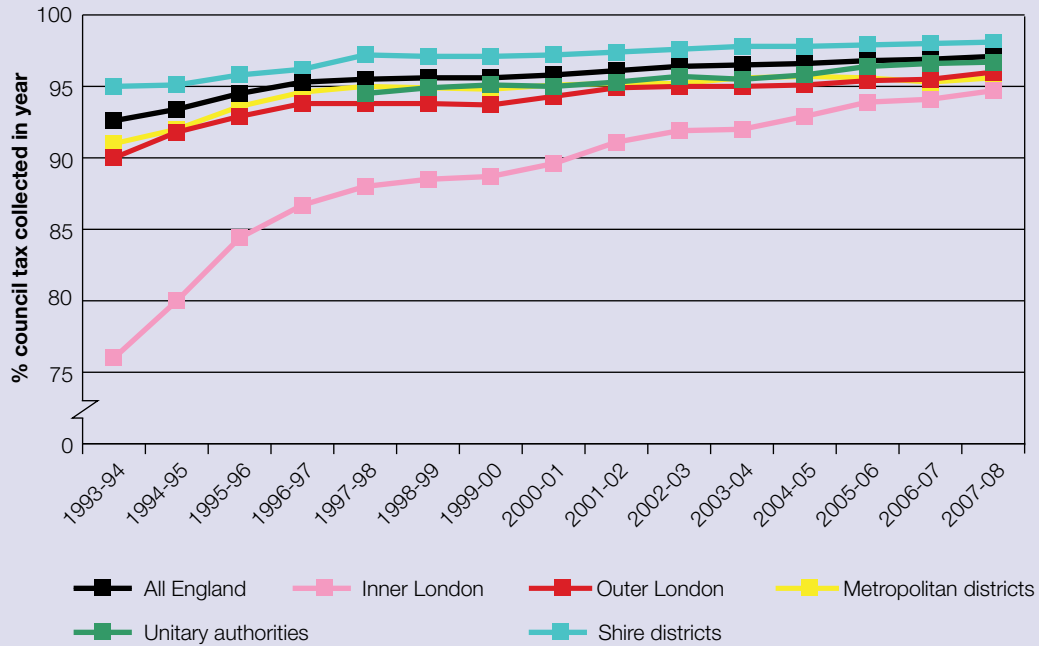
| | % increase | real terms % increase |
|---------|------------|--------------------------|
| 1994-95 | 2.1 | -0.4 |
| 1995-96 | 5.0 | 1.6 |
| 1996-97 | 6.1 | 3.6 |
| 1997-98 | 6.5 | 4.0 |
| 1998-99 | 8.6 | 4.4 |
| 1999-00 | 6.8 | 5.1 |
| 2000-01 | 6.1 | 3.1 |
| 2001-02 | 6.4 | 4.5 |
| 2002-03 | 8.2 | 6.7 |
| 2003-04 | 12.9 | 9.5 |
| 2004-05 | 5.9 | 3.3 |
| 2005-06 | 4.1 | 0.8 |
| 2006-07 | 4.5 | 1.9 |
| 2007-08 | 4.2 | -0.3 |
| 2008-09 | 3.9 | -0.3 |

Chart K.4b: Cumulative increase in council tax, retail prices and average earnings since 1993-94



- Since 1993-94, the percentage of council tax collected in-year in England has improved steadily until, in 2007-08, authorities collected 97.1% of council tax collectable in-year. The biggest improvement has been made in the collection rate of Inner London boroughs which collected 94.7% of council tax in 2007-08 as opposed to 76.0% in 1993-94 (see **section 2.2**).

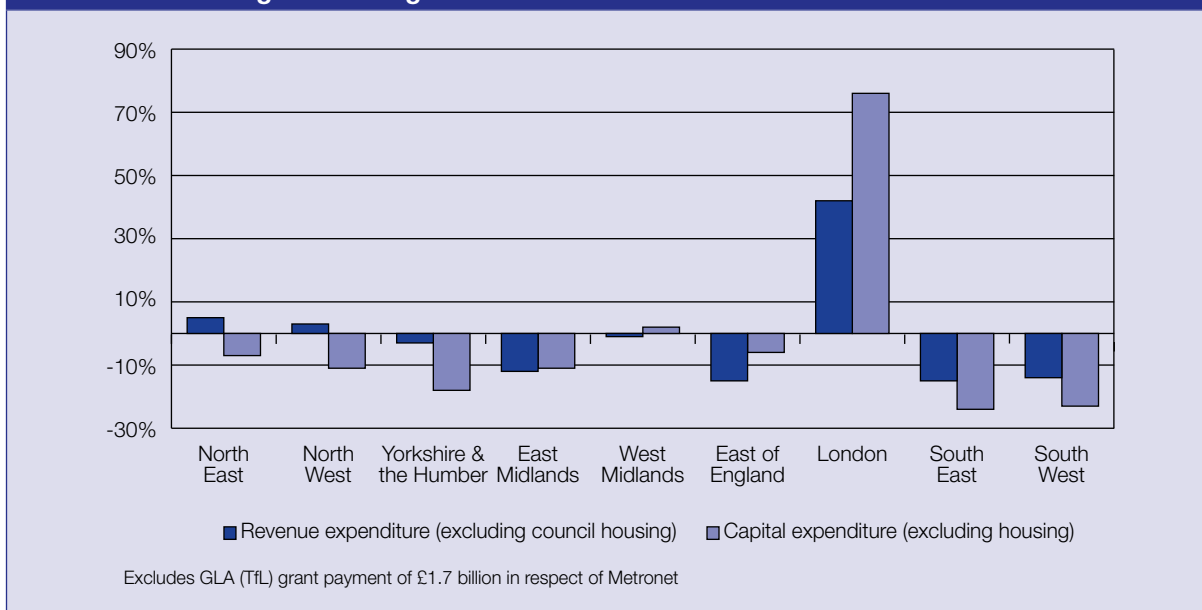
K.4c: Council tax collection rates 1993-94 to 2007-08



K.5 Regional variations

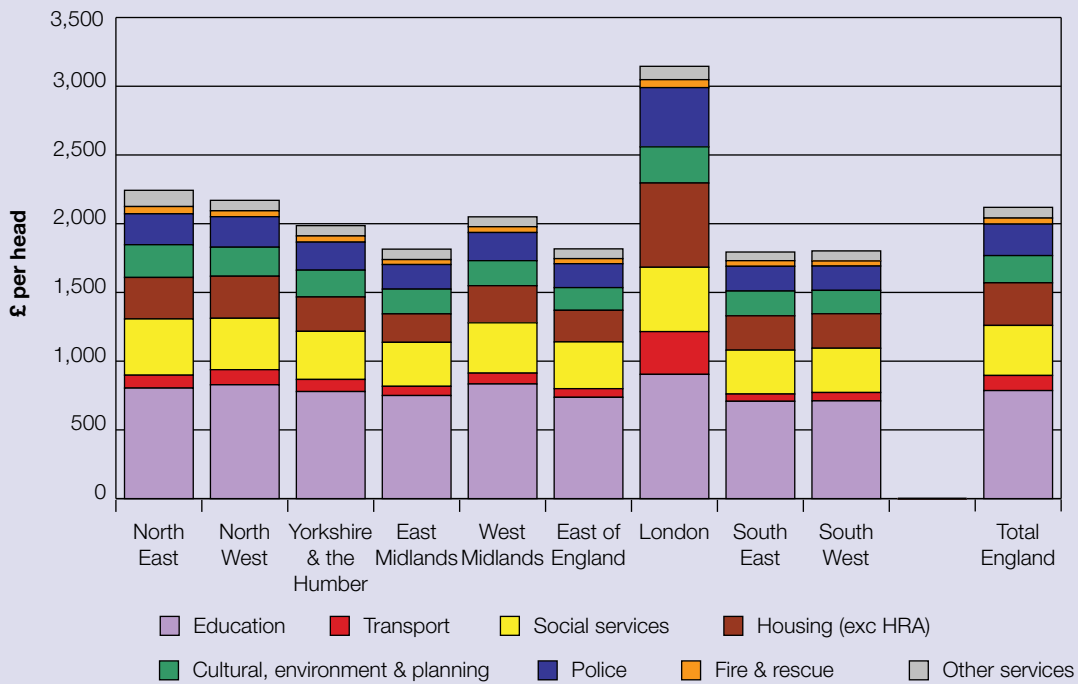
- In 2007-08, London had the highest expenditure per head at 42% above the average for revenue and 76% for capital. Due to this large variation, most of the other regions are below the national average. The East of England and the South East had the lowest expenditure per head at 15% below the average for revenue and South East the lowest for capital at 24% below the average (see **section 3.3** and **section 4.1**).
- This graph excludes GLA (TfL) grant payment in respect of Metronet.

Chart K.5a: Revenue and capital expenditure per head 2007-08 by region, percentage difference from England average



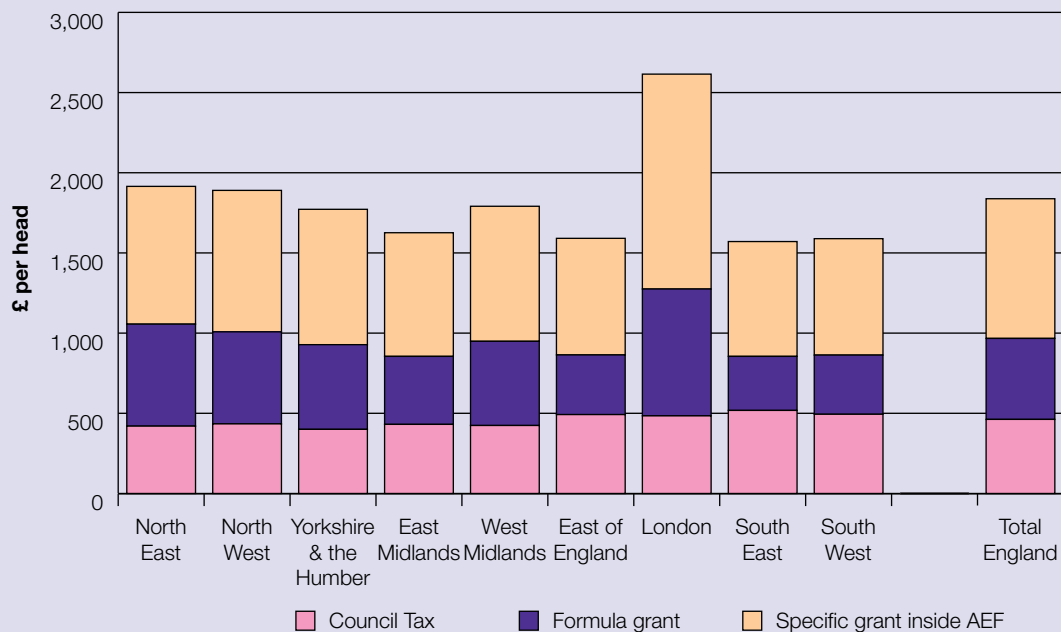
- Net current expenditure on services was around £2,100 per head in 2007-08. London’s spend was 48% above the England average including 182% above average for transport, 88% above average for police and 98% above average for housing. The East of England, South East, South West and East Midlands were all broadly around 15% below the England average. This was mainly due to the variations in levels of spending on the three services mentioned above.

Chart K.5b: Net current expenditure on services per head 2007-08



- Regional expenditure differences reflect the differences in the amount of central government funding received. Because of its relatively greater needs and higher costs, London receives the highest levels of both **formula grant** and **specific grants inside AEF**. In comparison, the differences in council tax income between the regions are relatively small, and less than the variation that would be expected if all authorities set the same Band D council tax (see **section 2.4**).

Chart K.5c: Sources of revenue funding per head 2007-08



- Because of regional differences in house prices, there is a big difference in the proportion of properties in the different council tax bands in each region. In the North East, 85% of all properties are in Bands A to C, whereas in London the figure is only 44% (see **section 2.2**).

