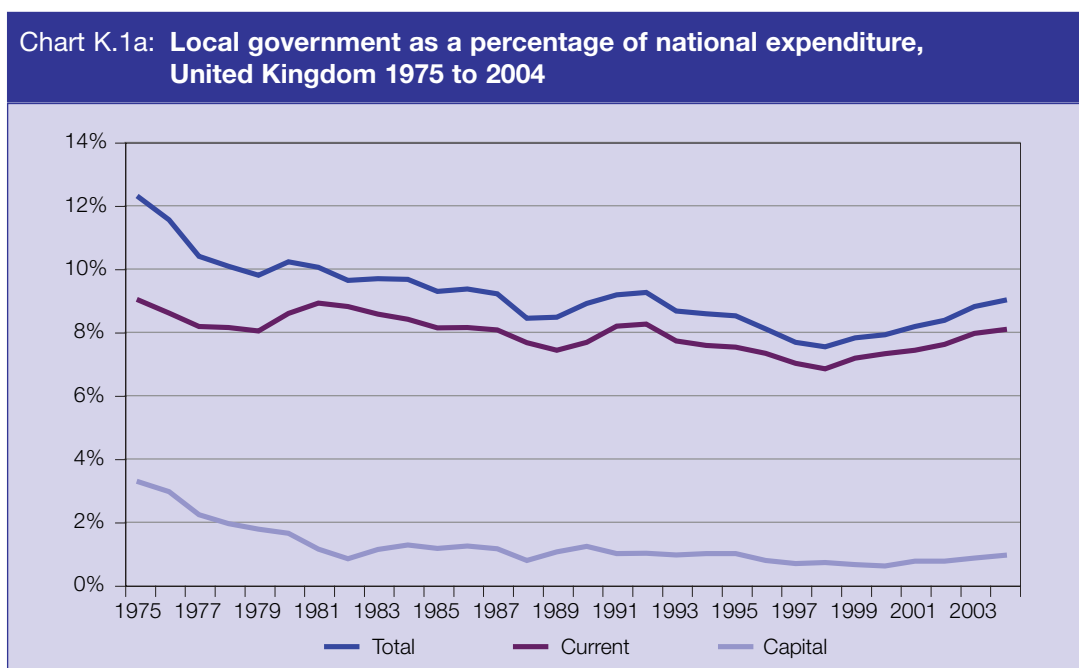


KEY FACTS AND TRENDS

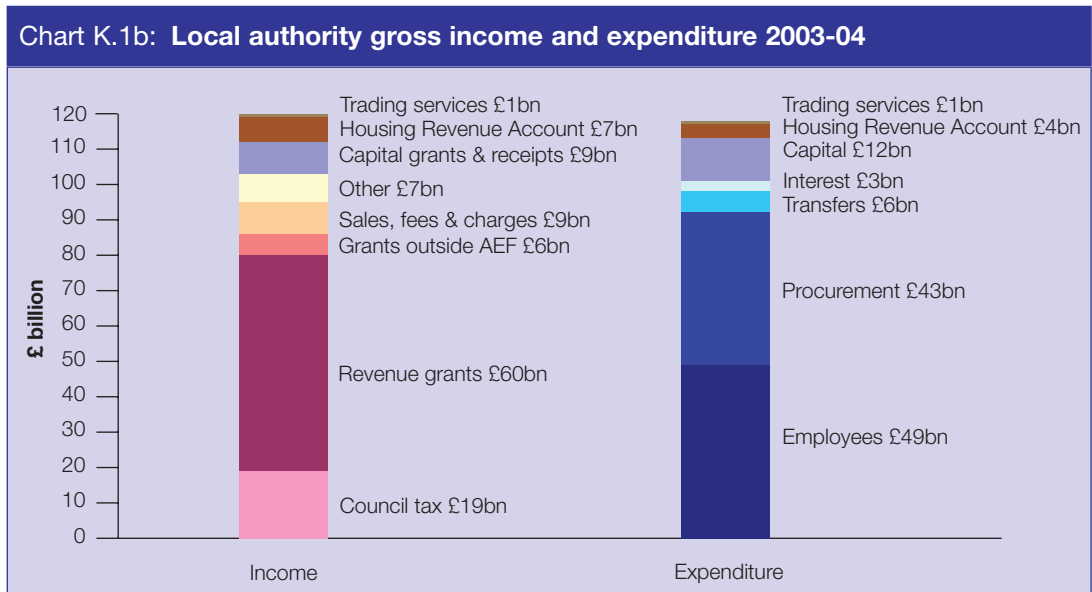
Local government finance in England

K.1 Overview

K.1.1 Local government expenditure in the United Kingdom represents about 25% of all government expenditure, and about 9% of national expenditure. This percentage has steadily decreased since the mid-1970s, mainly due to a substantial reduction in capital expenditure during the early part of the period. There has been a slight upturn since 1998. (See **section 1.5**)

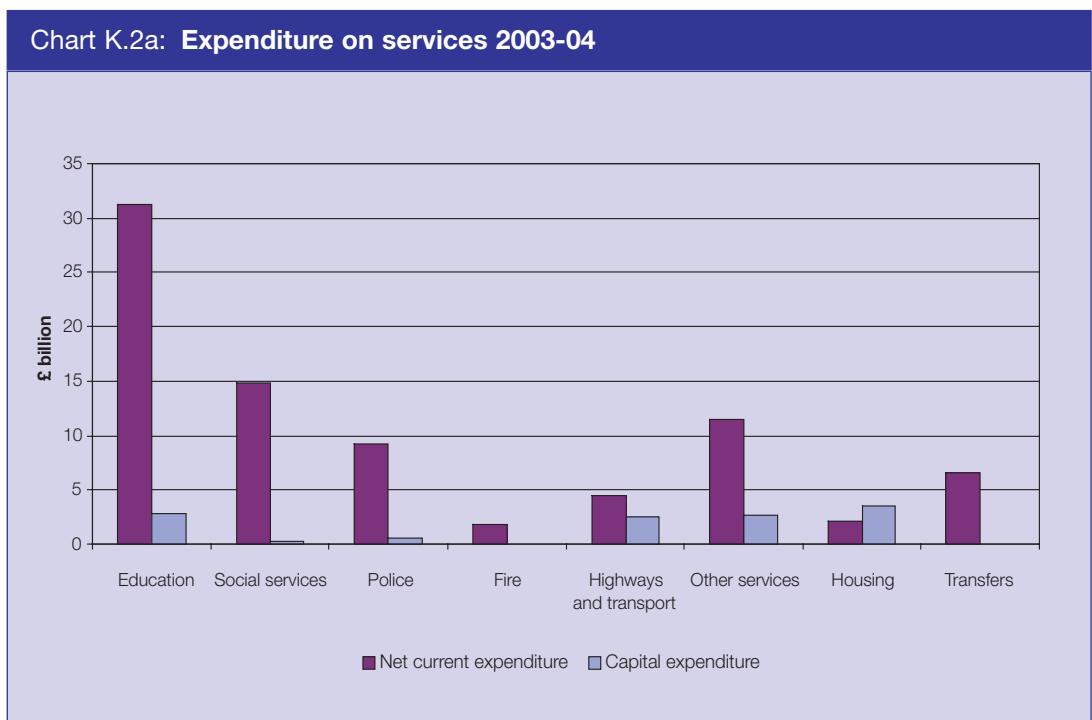


K.1.2 In England, local authorities' total expenditure was £118 billion in 2003-04. After deducting non-grant income, the overall cost to the central and local taxpayer of local authority services works out at around £95 billion, or £1,900 per head. (See **section 1.6**)

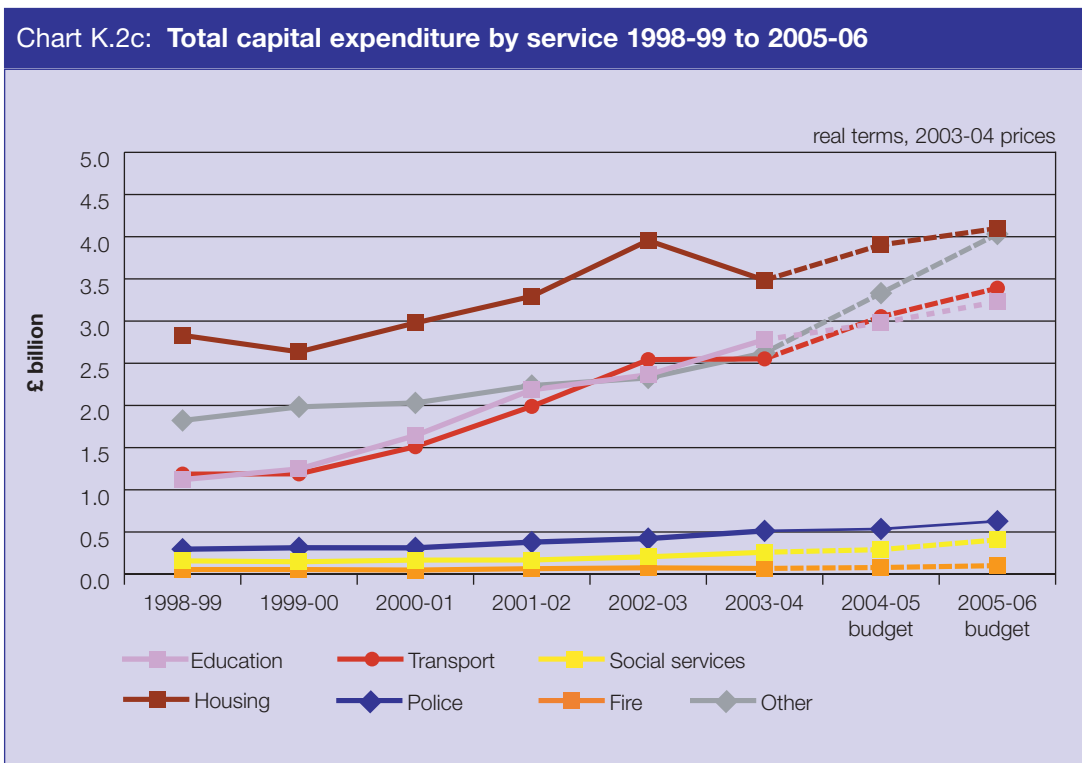
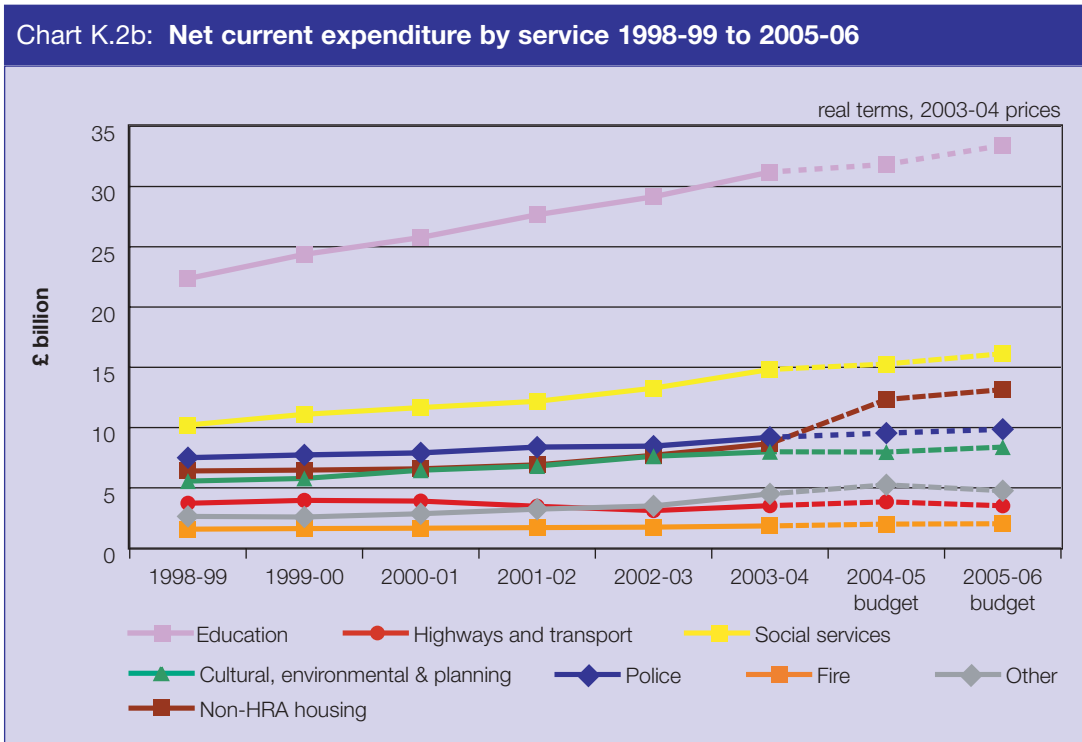


K.2 The pattern of spending

K.2.1 In 2003-04, net current expenditure (See **section 3.2**) on general services was £81.7 billion. Total capital expenditure was £12.3 billion. (See **section 4.1**)



K.2.2 Comparisons of service expenditure over time are difficult because of changes in local government responsibilities. After adjusting for the expenditure of former grant maintained schools, net current expenditure on education increased by about 40% in real terms between 1998-99 and 2003-04. Capital expenditure on education more than doubled in real terms during this period. Non-education expenditure has shown steady but generally smaller increases; the increase in net current expenditure on social services partly reflects additional responsibilities for care in the community transferred to local government during the late 1990s. (See **section 3.5** and **section 4.1**)



K.3 Balance of funding

K.3.1 About 62% of local authorities' gross income in 2003-04 came from central government, and the remaining 38% from local sources, including council tax, charges, rents and capital receipts. (See **section 2.1**) Using a narrower definition, 75% of revenue expenditure was funded from government grant in 2003-04, and 25% from local taxes. The locally-funded percentage has increased steadily since the introduction of the council tax in 1993-94, as council tax yield has increased more quickly than government grants and business rates. Before the nationalisation of business rates in 1990-91 nearly 60% of resources to fund revenue expenditure were raised locally. (See **section 3.5**)

Chart K.3a: Sources of revenue funding 1981-82 to 2005-06

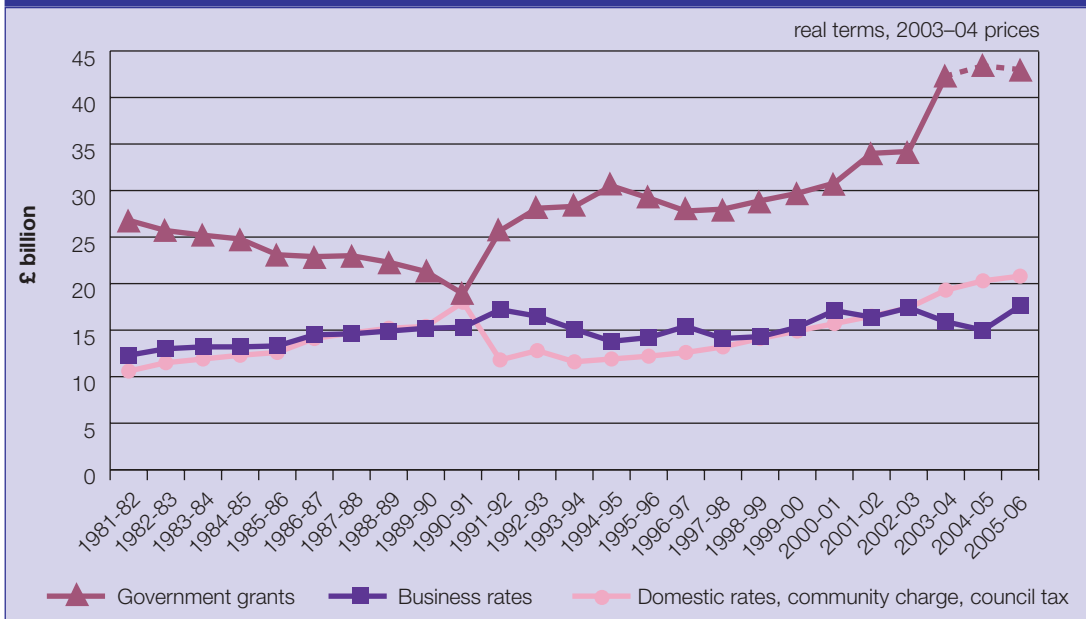
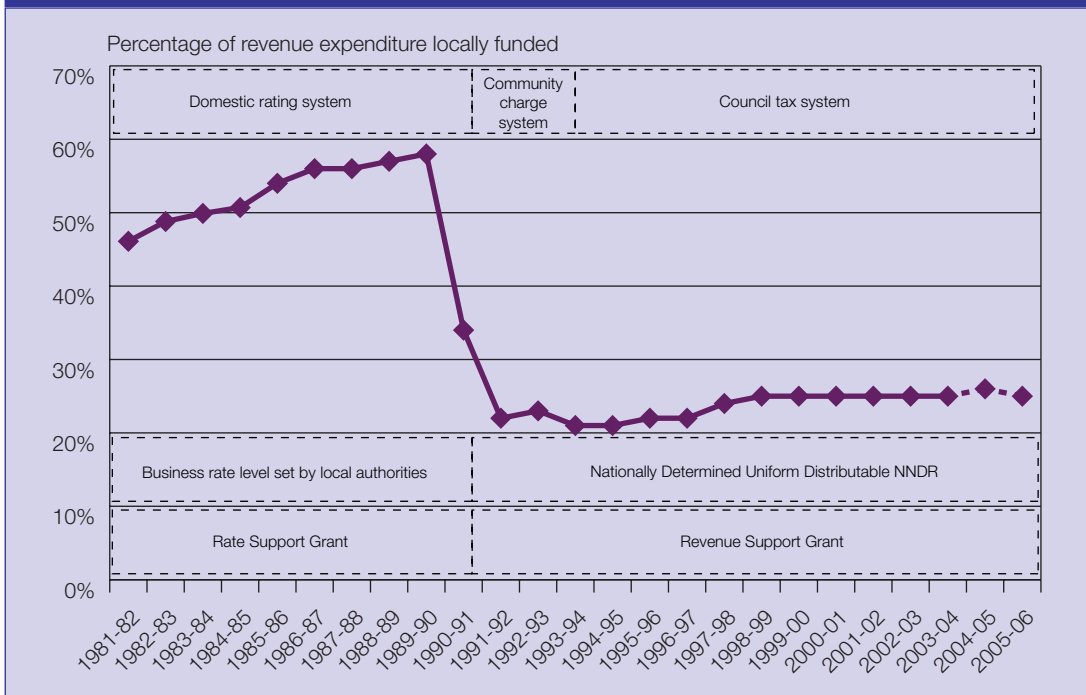


Chart K.3b: Balance of funding 1981-82 to 2005-06



K.4 Council tax

K.4.1 Council tax raised £18.9 billion in 2003-04, £2.4 billion of which was funded by means-tested council tax benefit. Council tax revenue is forecast to rise to £21.3 billion in 2005-06. Since the introduction of council tax in 1993-94, council tax bills have increased by 114%, more than three times the rate of inflation, and almost double the increase in average earnings. (See **section 2.2**)

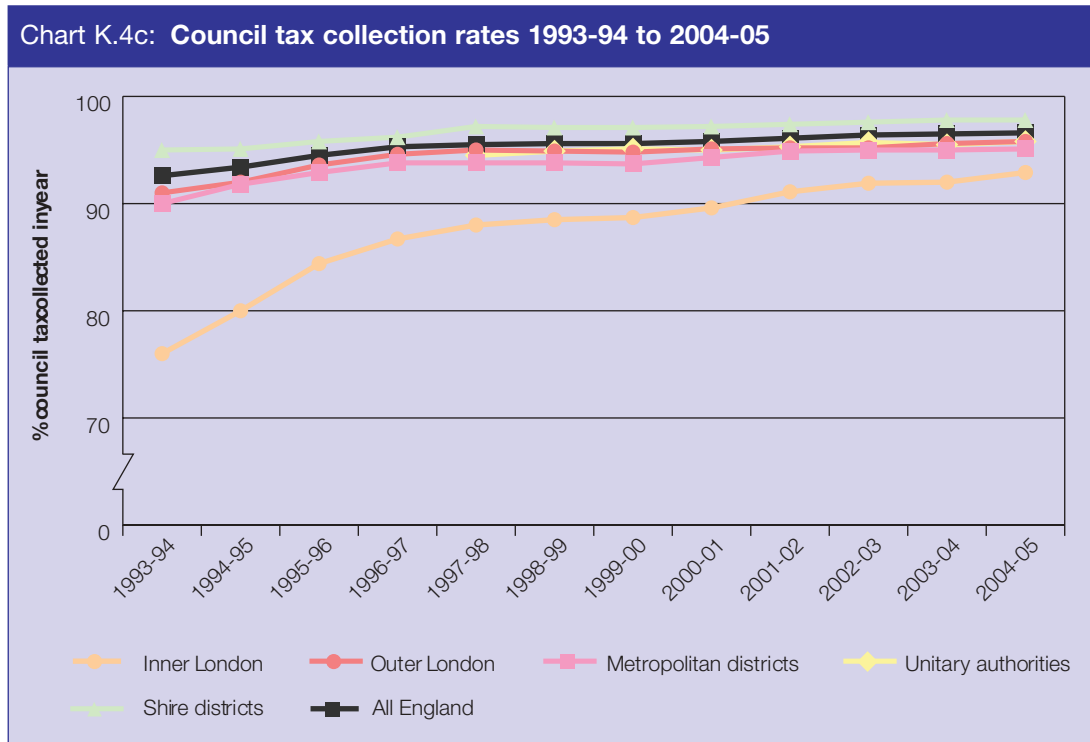
Table K.4a: Annual increases in average Band D council tax

1995-96	5.0%
1996-97	6.1%
1997-98	6.5%
1998-99	8.6%
1999-00	6.8%
2000-01	6.1%
2001-02	6.4%
2002-03	8.3%
2003-04	12.9%
2004-05	5.9%
2005-06	4.1%

Chart K.4b: Increases in council tax, retail prices and average earnings since 1994-95

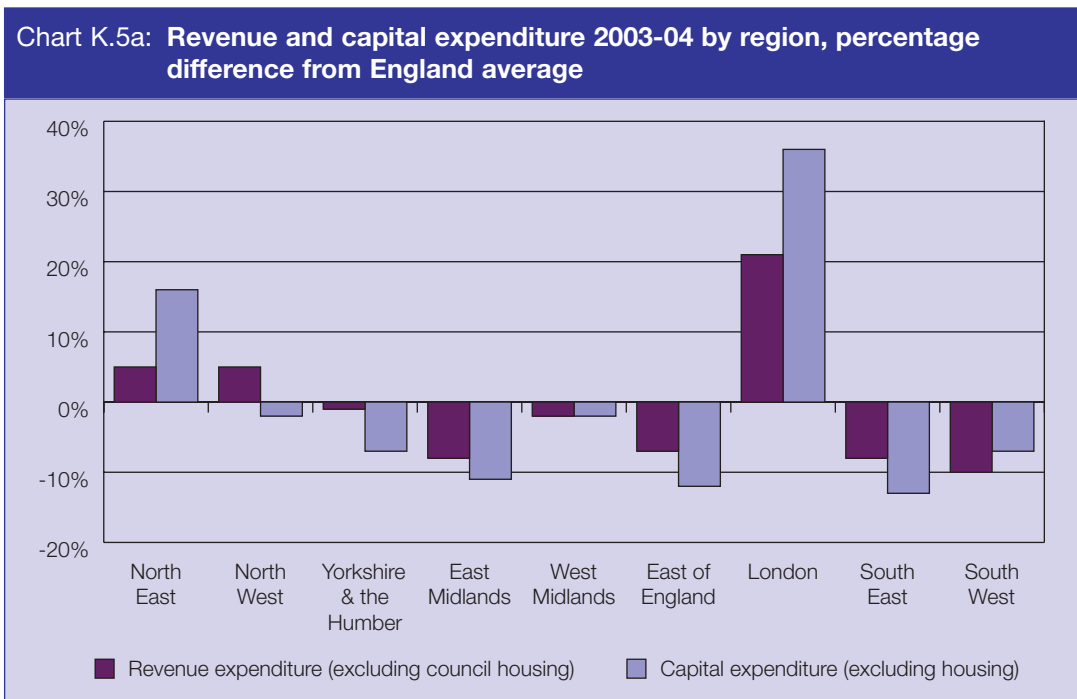


K.4.2 Since 1993-94, the percentage of council tax collected in year in England has improved steadily until, in 2004-05, authorities collected 96.6% of council tax collectable in year. The biggest improvement has been made in the collection rate of Inner London boroughs which collected 92.9% of council tax in 2004-05 as opposed to 76.0% in 1993-94. (See **section 2.2**).

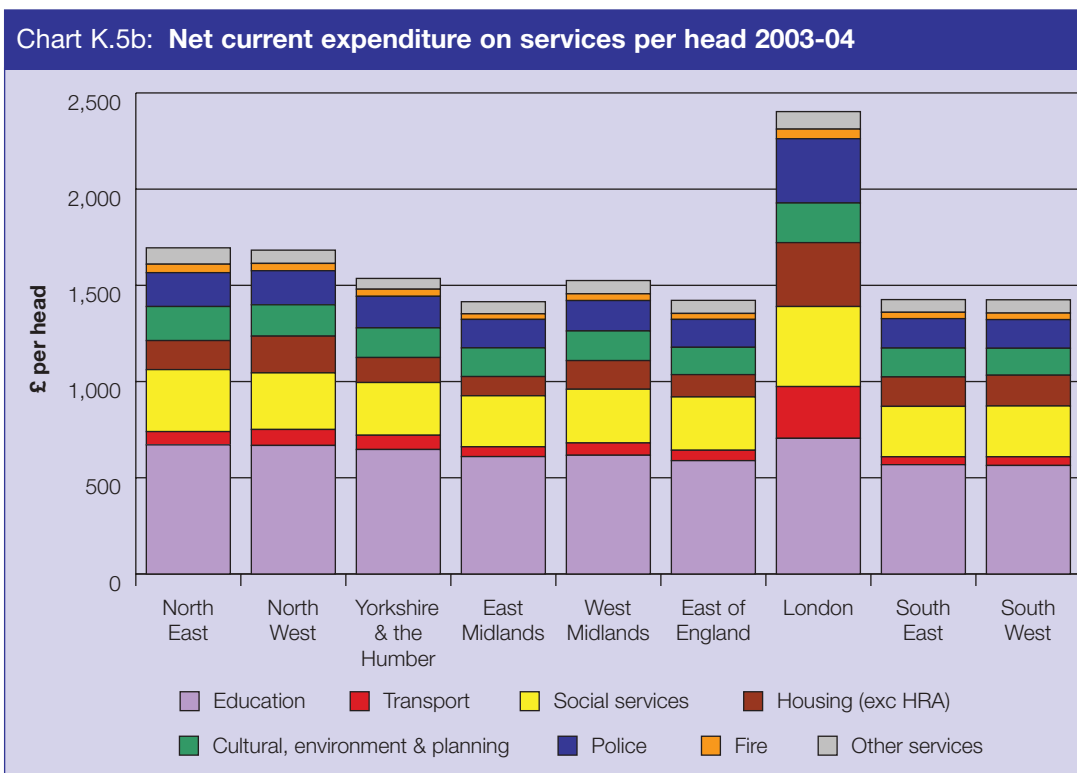


K.5 Regional variations

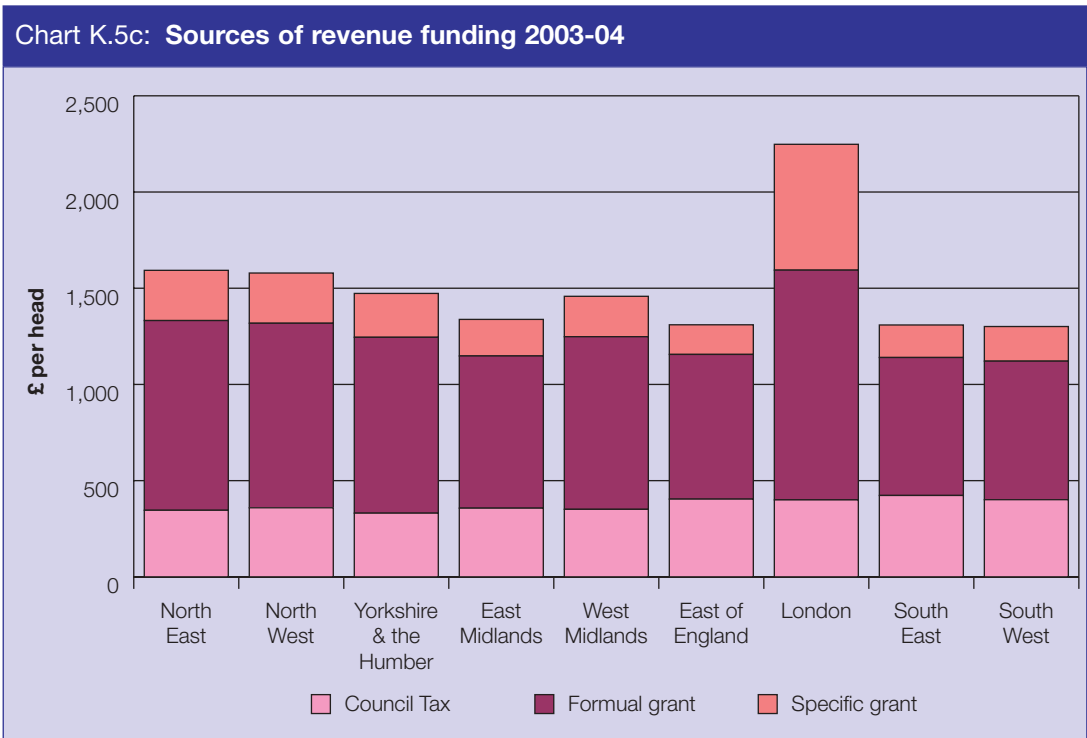
K.5.1 There is a rough gradient in spending per head from the north to the south, with both revenue expenditure and capital expenditure higher in the northern regions, and lower in the south. The exception to this pattern is London, which has the highest expenditure per head – 21% above the average for revenue and 36% for capital. The pattern of revenue and capital expenditure is similar, though in recent years capital expenditure in the North East has been particularly high. (See **section 3.4** and **section 4.1**)



K.5.2 Much of the variation in revenue expenditure is due to difference in levels of spending on social services, transport, police and other services; London’s spend was 40% above the England average for social services, 198% above average for transport, 81% above average for police and 55% above average for other services.



K.5.3 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 and specific grants. 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**)



K.5.4 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, 86% of all properties are in Bands A to C, whereas in London the figure is only 44%. However the variation in council tax yield is less than this disparity in bands would suggest, as regions with low value properties tend to have a higher average Band D council tax. (See **section 2.2**)

