

Statistical Release

31 August 2006

LOCAL AUTHORITY REVENUE EXPENDITURE AND FINANCING

ENGLAND

2005-06 PROVISIONAL OUTTURN

- **Net current expenditure by local authorities in England was estimated to be £97.1 billion in 2005-06 compared with £91.9 billion in 2004-05, an increase of 6%.**
- **The largest share of net current expenditure in 2005-06 was on education services with 37% of the total. Social services represented 18%, housing benefit represented 12% with police services contributing a further 11%.**
- **55% of revenue expenditure was funded through formula grant, 24% through council tax and 17% from specific grants. These percentages are broadly unchanged from 2004-05.**

This release provides provisional outturn estimates of local authority revenue expenditure and financing in the financial year April 2005 to March 2006.

This information is derived from Revenue Summary (RS) Outturn Returns submitted by local authorities in England. The estimates in this release are calculated from 471 valid returns grossed up to allow for 5 invalid returns at the time of processing and 1 authority who failed to submit their returns in time for use in this release.

The release has been compiled by the Local Government Finance Statistics division of Department for Communities and Local Government (DCLG).

Important note

Local authorities are instructed to account for service expenditure on what is called a Financial Reporting Standard 17 (FRS17) basis, following an initiative by the Chartered Institute of Public Finance and Accounting (CIPFA) enshrined in the Best Value Accounting Code of Practice (BVACOP). Data shown in this release are mostly presented on an FRS17 basis.

The main implication is that the costs of entitlements to retirement benefits (pensions) in FRS17 are accounted for in the year in which employment gives rise to the entitlement, rather than the year in which cash payments of contributions or pensions take place. On an FRS17 basis revenue expenditure is now financed by appropriations from pension reserves, in addition to appropriations from other reserves, Revenue Support Grant, National Non-Domestic Rates, Police Grant and Council Tax.

Figures of levels of pension reserves have not been included in this Release as they are still undergoing further quality assurance.

New Local Government Pension Scheme (LGPS) regulations made early in 2006 allowed beneficiaries to take more of their benefits as lump sum and less as continuing pension. Some (but not all) LGPS fund actuaries then made a new assessment of future pension liabilities on the basis of new assumptions about beneficiaries taking more benefits as lump sums. This changes the FRS17 pension liabilities of local authorities. Guidance to local authorities on how to account for these changes was set out in CIPFA's *Local Authority Accounting Panel (LAAP) bulletin 65*, published in June 2006. This was after the Revenue Outturn (RO) forms were circulated and only a short time before the form deadline.

Investigations have shown that there is a lack of consistency in how local authorities have reported the changes in FRS17 pension liabilities on their RO forms. Many have included an entry in RO6 row 481 *non-distributed costs: retirement benefits*, consistent with LAAP bulletin 65. Most have shown this as a negative employee expense but some are showing the change as income. The counterpart of these transactions is in appropriations to/from the pension reserve. For those local authorities not including an entry in RO6 row 481 we are not able to tell whether this is because actuaries have not yet made a new assessment of future pension liabilities, or because they have accounted for the change in another way.

This means that the breakdown of total service expenditure and central services expenditure shown in table 4 includes substantial amounts of non-distributed costs relating to changes in FRS17 pension costs, and that these non-distributed costs may not have been reported in a consistent way by all local authorities. The figures shown in table 4 for total service expenditure and central services expenditure should therefore be used with caution.

In order to make like-for-like comparisons with previous years, local authorities were requested to provide summary service expenditure on both an FRS17 and a pre-FRS17 basis on the RS form. This is shown at the end of table 3. The non-FRS17 basis estimates of expenditure are not affected by the changes in the assessment of pension liabilities described above.

Net current expenditure by service

Net current expenditure in 2005-06 is summarised in **Table 1** and **Chart A**. **Table 1** also shows net current expenditure in 2004-05. Service expenditure is based on information from the Revenue Outturn Summary (RS) forms, which can be found in **Table 3**. The service breakdowns have been derived from this detailed information, according to the schema shown in **Table 5**, at the end of this Release.

- Net current expenditure by local authorities in England was estimated to be £97.1 billion in 2005-06 compared with £91.9 billion in 2004-05, an increase of 6%.
- The largest share of net current expenditure in 2005-06 was on education services with 37% of the total. Social services represented 18%, housing benefit represented 12% with police services contributing a further 11%.

Table 1: Net current expenditure by service 2004-05 and 2005-06 ^{(a) (b)}

	£ million		
	Net current expenditure 2004-05	Net current expenditure 2005-06	Change (%)
Education ^(c)	33,291	35,984	8%
Highways and transport	4,674	4,849	4%
Social Services	16,309	17,355	6%
Housing (excluding Housing Revenue Account)	2,214	2,249	2%
Cultural, environmental and planning	8,520	9,179	8%
<i>of which:</i>			
<i>Cultural</i>	2,835	2,959	4%
<i>Environmental</i>	3,864	4,241	10%
<i>Planning and development</i>	1,821	1,978	9%
Police	10,205	10,960	7%
Fire	1,925	2,053	7%
Courts ^(d)	460	58	-87%
Central services	2,954	2,361	-20%
Other	274	211	-23%
Mandatory rent allowances	6,916	7,594	10%
Mandatory rent rebates to non-HRA tenants	573	760	33%
Mandatory rent rebates to HRA tenants	3,586	3,453	-4%
Total net current expenditure	91,902	97,066	6%

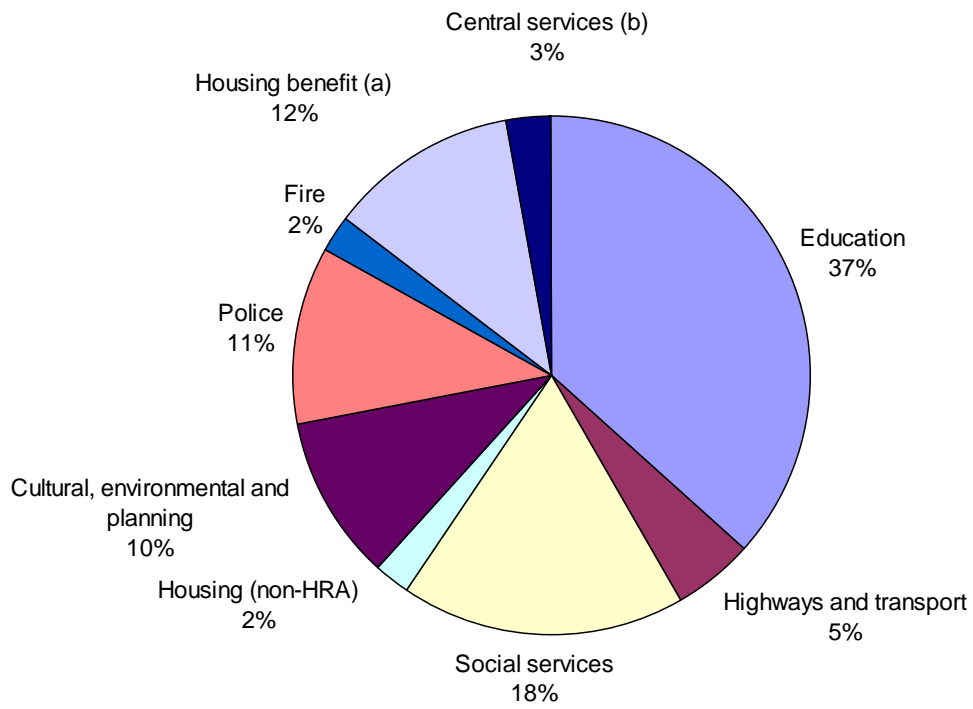
(a) Produced on a Financial Reporting Standard 17 (FRS17) basis

(b) See Table 5 for breakdown of individual service lines for 2005-06

(c) Includes mandatory student awards

(d) Excludes magistrates' courts in 2005-06, which are now the responsibility of Her Majesty's Courts Service (HMCS).

Chart A: Net current expenditure by service 2005-06



(a) Housing benefit includes mandatory rent allowances and rent rebates

(b) Central services includes courts and other services

Revenue expenditure and financing

Table 2 shows the link between the definitions of net current and revenue expenditure and shows how revenue expenditure was financed in 2005-06 compared to 2004-05. A more detailed breakdown of this information can be found in **Table 3**.

- Revenue expenditure was £88.9 billion in 2005-06, compared with £83.8 billion in 2004-05, an increase of 6%.
- Capital financing costs in 2005-06 amounted to £2.44 billion, compared to £2.36 billion in 2004-05. In 2005-06 £1.1 billion of capital expenditure was charged to the revenue account, up from £1.0 billion in 2004-05.
- Interest receipts in 2005-06 totalled £1.2 billion, up from £1.1 billion in 2004-05.
- Other non-current expenditure in 2005-06 includes the payment of council tax benefit of £3.1 billion, but this is netted off by income from specific grants outside Aggregate External Finance (AEF).
- Specific grants outside AEF increased from £17.3 billion in 2004-05 to £18.4 billion in 2005-06, an increase of 7%. Specific grants inside AEF increased from £14.1 billion to £14.7 billion, up 5% over the same period.
- In 2005-06, 55% of revenue expenditure was funded through formula grant (Revenue Support Grant, Redistributed business rates and Police Grant), 24% through council tax, and 17% from specific grants. These percentages are broadly unchanged from 2004-05.

Table 2: Revenue expenditure and financing 2004-05 and 2005-06 ^(a)

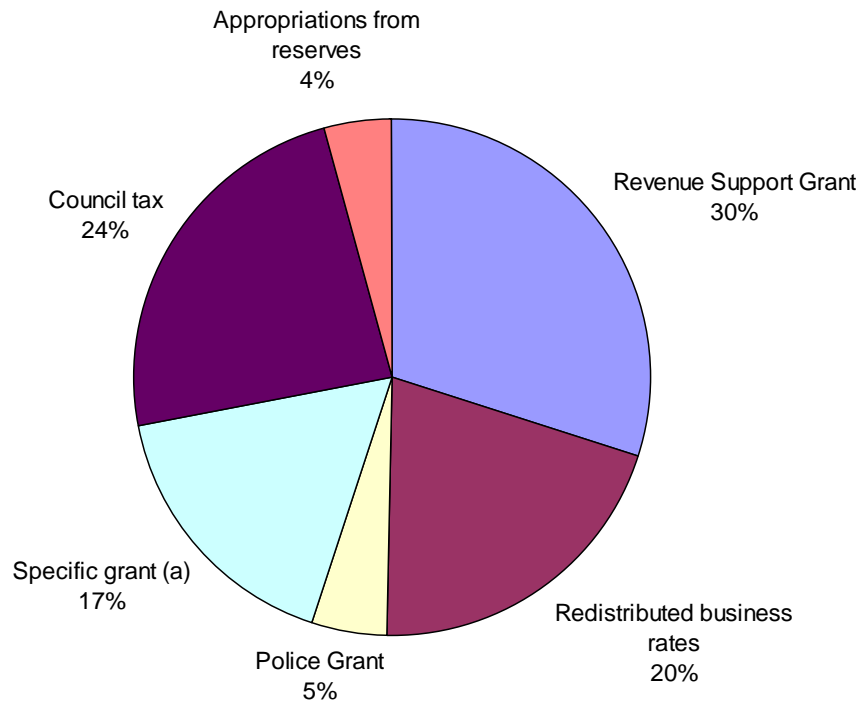
	£ million		
	2004-05	2005-06	Change (%)
Net current expenditure	91,902	97,066	6%
<u>plus non-current expenditure</u>			
Capital financing	2,362	2,440	3%
Capital Expenditure charged to Revenue Account	957	1,110	16%
Council tax benefit	2,938	3,074	5%
Discretionary Non-Domestic Rate relief	25	25	2%
Bad debt provision	71	62	-12%
Flood defence payments to the Environment Agency	30	26	-14%
Pension Interest costs	3,947	4,784	21%
<i>less interest receipts</i>	1,125	1,217	8%
<i>less specific grants outside AEF</i>	17,311	18,441	7%
Revenue expenditure	83,795	88,929	6%
<u>financed by:</u>			
Specific grants inside AEF	14,090	14,745	5%
Transfers and adjustments ^(b)	-2	-23	-984%
Appropriations to / from revenue reserves	-1,347	-831	38%
Appropriations to / from pension reserves	4,492	4,562	2%
Formula grant	46,136	49,020	6%
<i>of which:</i>			
<i>Revenue Support Grant</i>	26,964	26,663	-1%
<i>Redistributed business rates</i>	15,004	18,004	20%
<i>Police Grant</i>	4,168	4,353	4%
General Greater London Authority (GLA) Grant	36	37	3%
Other items	90	104	16%
Council tax	20,299	21,315	5%

(a) Produced on a FRS17 basis

(b) Inter-authority transfers in respect of reorganisation and Adjustments to Formula Grant re 2003-04 Amending Report

Chart B below illustrates how revenue expenditure was financed in 2005-06.

Chart B: Financing of revenue expenditure in 2005-06



(a) Specific grant includes GLA grant and other items

Revenue Outturn Summary (RS) information

Table 3 presents estimates for the Revenue Outturn Summary (RS) information for England. The RS forms the basis of Table 1 and Table 2 in this release.

Table 3: Revenue Outturn Summary (RS) 2005-06			
			£ million
	Net current expenditure	Capital Charges	Net Total Cost (excl. spec grants)
190 Education services	35,983	3,491	39,474
290 Highways, roads and transport services	4,849	1,841	6,690
390 Social services	17,355	315	17,671
490 Housing services (GFRA only)	2,293	457	2,750
509 Cultural and related services	2,959	805	3,764
590 Environmental services	4,241	229	4,470
599 Planning and development services	1,978	378	2,356
601 Police services	10,960	534	11,494
602 Fire services	2,053	143	2,196
603 Court services	58	8	66
690 Central services	2,078	468	2,546
698 Other services	193	76	269
699 Total service expenditure (total of lines 190 to 698)	85,001	8,745	93,746
701 Education: student support - mandatory awards	1		
711 Housing benefits: rent allowances - mandatory payments	7,594		
712 Housing benefits: non-HRA rent rebates - mandatory payments	760		
713 Housing benefits: rent rebates to HRA tenants - mandatory payments	3,453		
714 Housing benefits: subsidy limitation transfers from HRA	-41		
715 Housing benefits: transfers to/from HRA under transitional measures	-16		
718 Contribution to the HRA re items shared by the whole community	14		
721 Parish precepts	260		
722 Passenger Transport Authority levy	0		
724 Waste Disposal Authority levy	0		
726 Transfer of reserves to / received by Combined Fire Authority	0		
727 London Pensions Fund Authority levy	23		
728 Other levies	31		
731 External Trading Accounts net surplus(-)/ deficit(+)	-88		
732 Internal Trading Accounts net surplus(-)/ deficit(+)	83		
748 Adjustments to net current expenditure	-9		
749 Net current expenditure (total of lines 699 to 748)	97,066		
754 Local tax collection: Council tax benefit paid to the Collection Fund	3,074		
757 Local tax collection: Non-domestic rate relief - discretionary payments	25		
759 Levy: Environment Agency flood defence	26		
761 Capital charges accounted for in External Trading Accounts	-219		
762 Capital charges accounted for in Internal Trading Accounts	-92		
765 Capital expenditure charged to the GF Revenue Account (CERA)	1,110		
771 Provision for bad debts	62		
773 Provision for repayment of principal	1,046		
776 Leasing payments	31		
781 Interest: external payments	2,585		
783 Interest: HRA item 8 payments and receipts	-912		
785 Sub-total (total of lines 749 to 783)	103,803		
786 Interest and investment income (-): external receipts and dividends	-1,217		
787 Pensions interest cost and expected return on pensions assets	4,784		
791 Specific and special revenue grants outside AEF	-18,441		
795 Revenue expenditure (total of lines 785 to 791)	88,929		

continued

Table 3: Revenue Outturn Summary (RS) 2005-06 (continued)

	£ million	
	Net current expenditure	
797 Specific and special revenue grants inside AEF	-14,745	
799 Net revenue expenditure (total of lines 795 to 797)	74,185	
801 Inter-authority transfers in respect of reorganisation	9	
802 Adjustments to Formula Grant re 2003-04 Amending Report	15	
811 Appropriations to(+)/ from(-) schools' reserves	43	
815 Appropriations to(+)/ from(-) other earmarked financial reserves	625	
816 Appropriations to(+)/ from(-) unallocated financial reserves	163	
817 Appropriations to(+)/ from(-) pensions reserve	-4,562	
830 The budget requirement (total of lines 799 to 817)	70,477	
851 Revenue Support Grant	-26,663	
856 Police grant	-4,353	
858 General GLA grant	-37	
870 Redistributed non-domestic rates	-18,004	
880 Other items	-104	
890 Council tax requirement (total of lines 830 to 880)	21,315	
	£ million	£ million
Financial reserves levels at start and end of 2005-06	At 1 April 2005	At 31 March 2006
911 Schools reserves level	1,495	1,538
915 Other earmarked financial reserves level	6,618	7,243
916 Unallocated financial reserves level	4,289	4,451
920 Prior Year Adjustments	-64	
	£ million	
Capital charges		
931 Depreciation	3,377	
932 Notional interest	4,098	
933 Loss on impairment of assets	133	
934 Amortisation of deferred charges	1,137	
939 Total capital charges (total of lines 931 to 934)	8,745	
	£ million	£ million
Net current expenditure without taking FRS17 into account	Net current expenditure	Net current expenditure without FRS17
961 Education services	35,983	36,054
962 Highways, roads and transport services	4,849	4,830
963 Social services	17,355	17,331
964 Housing services (GFRA only)	2,293	2,267
965 Cultural and related services	2,959	2,943
966 Environmental services	4,241	4,219
967 Planning and development services	1,978	1,959
971 Police services	10,960	10,420
972 Fire services	2,053	2,071
973 Court services	58	57
975 Central services	2,078	2,903
978 Other services	193	207
981 External Trading Accounts net surplus(-)/ deficit(+)	-88	-90
982 Internal Trading Accounts net surplus(-)/ deficit(+)	83	46
986 Pensions interest cost and expected return on pensions assets	4,784	0
987 Appropriations to(+)/ from(-) pensions reserve	-4,562	0
989 Total (total of lines 961 to 987)	85,219	85,219

Revenue Outturn Services Expenditure Summary (RSX) information

Table 4 presents estimates for the Revenue Outturn Services Expenditure Summary (RSX) information for England. This table should be read in conjunction with the important note on page 2 of this Statistical Release.

Table 4: Revenue Outturn Service Expenditure Summary (RSX) 2005-06									
									£ million
	Employees	Running Expenses	Total Expenditure	Sales, Fees & Charges	Other Income	Total Income	Net Current Expenditure	Capital Charges	Net Total Cost (excl. spec grants)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			= (1) + (2)			= (4) + (5)	= (3) - (6)		= (7) + (8)
190 Education services	27,198	13,419	40,617	2,031	2,603	4,634	35,983	3,491	39,474
290 Highways, roads and transport services	985	6,218	7,203	1,795	558	2,353	4,849	1,841	6,690
390 Social services	6,373	15,238	21,611	2,125	2,131	4,256	17,355	315	17,671
490 Housing services (GFRA only)	657	2,654	3,311	587	432	1,019	2,293	457	2,750
509 Cultural and related services	1,645	2,568	4,213	822	432	1,254	2,959	805	3,764
590 Environmental services	1,327	4,317	5,645	818	585	1,403	4,241	229	4,470
599 Planning and development services	1,099	1,971	3,071	673	419	1,093	1,978	378	2,356
601 Police services	9,580	2,139	11,719	403	356	759	10,960	534	11,494
602 Fire services	1,771	420	2,191	44	94	138	2,053	143	2,196
603 Court services	21	66	86	9	20	28	58	8	66
690 Central services	4,577	6,140	10,717	1,213	7,426	8,639	2,078	468	2,546
698 Other services	217	496	713	155	365	520	193	76	269
699 Total service expenditure (total of lines 190 to 698)	55,451	55,647	111,098	10,676	15,420	26,096	85,001	8,745	93,746

Table 5: Derivation of service lines used in Table 1

	RS Form Reference	Levies/transfers
Education	RS line 190 RS line 701	Mandatory student awards
Highways and transport	RS line 290 RS line 722	Passenger transport levy
Social services	RS line 390	
Housing (non-HRA)	RS line 490 RS lines 714 to 718	Subsidy limitation transfers from HRA Transfers to/from HRA under transitional measures Contribution to HRA re items shared by whole community
Cultural	RS line 509	
Environment	RS line 590 RS line 724	Waste disposal authority levy
Planning	RO5 line 599	
Police	RS line 601	
Fire	RS line 602 RS line 726	Transfer of reserves to/received by Combined Fire Authority
Courts	RS line 603	
Central services	RS line 690 RS line 721 RS line 727	Parish precepts London pensions fund authority levy
Other	RS line 698 RS line 728 RS line 731 RS line 732 RS line 748	Other levies External Trading Accounts net surplus/deficit Internal Trading Accounts net surplus/deficit Adjustments

Background Notes

1. National Statistics are produced to high professional standards set out in the National Statistics Code of Practice. They undergo regular quality assurance reviews to ensure that they meet customer demands.
2. The information in this Statistical Release is derived from DCLG Revenue Outturn Summary (RS) returns submitted by local authorities in England. The estimates in this release are calculated from 471 valid returns grossed up to allow for 5 invalid returns at the time of processing and 1 authority who failed to submit their returns in time for use in this release.
3. The 1 authority who failed to submit their returns in time is:
 - Norwich City Council
4. The figures in this release have not been adjusted to take into account changes of responsibility between 2004-05 and 2005-06.
5. The notes, which accompany each form sent to local authorities, can be found on the DCLG website at:

www.local.communities.gov.uk/finance/stats/lgffforms/revenue.htm
6. Enquiries about this Statistical Release should be addressed to Mansukh Makwana at LGF1.REVENUE@communities.gsi.gov.uk (Tel. 020 7944 4151).
7. Final Revenue Outturn figures will be published in a further Statistical Release later this year.
8. Timings of future Releases are regularly placed on the DCLG website, www.communities.gov.uk and on the National Statistics website, www.statistics.gov.uk/press_release/currentreleases.asp.
9. For a fuller picture of recent trends in local government finance, readers are directed to "Local Government Financial Statistics England" No. 16 2005 which is available in hard copy from Wetherby Publications Centre at communities@twoten.com (Tel. 0870 1226 236) or electronically in PDF format via the Department for Communities and Local Government's web site:

www.local.communities.gov.uk/finance/stats/lgfs/2005/index.htm

Terminology used in this release

Current expenditure is the cost of running local authority services within the financial year. This includes the costs of staffing, heating, lighting and cleaning, together with expenditure on goods and services consumed within the year. This expenditure is offset by income from sales, fees and charges and other (non-grant) income, which gives **net current expenditure**. Net current expenditure also includes payments made by local authorities on behalf of central government, under statutory schemes such as mandatory student awards and the payment of rent allowances and rebates. Such payments are fully funded by central government through specific grants outside **Aggregate External Finance (AEF)**.

Revenue expenditure is equal to net current expenditure, plus capital financing costs and a few minor adjustments, but excludes expenditure financed by grants outside **Aggregate External Finance (AEF)**. Revenue expenditure is financed by grants inside AEF, council tax and authorities' reserves.

Aggregate External Finance (AEF) is the total amount of grant provided to finance all local government expenditure, excluding that subject to separate arrangements under statutory schemes, such as mandatory student awards, rent allowances and rebates and council tax benefit, which are funded by specific grants outside aggregate external finance