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Dear Chief Executive/Chief Fire Officer,

COUNCIL TAX FREEZE

The Chancellor of the Exchequer announced last month that the Government intends to make funding available to help councils freeze their council tax in 2012-13. I am writing to you today to give details of the terms under which the scheme will operate. The key principles will be as follows:

1. As for 2011-12, this scheme will be voluntary, will be administered by DCLG and will apply separately to each billing and major precepting authority in England rather than to each council tax bill issued. Once again local precepting authorities, such as town and parish councils, will not be included in the scheme.
2. Funding will be supplied by DCLG to participating authorities before 31 March 2012 or very soon thereafter through an accrual of 2011-12 funds. Unlike for 2011-12, the council tax freeze grant for 2012-13 will involve a single one-off payment and this will not be built into the baseline (i.e. no further grant payments will be made over the Spending Review period).
3. We will make special provision for the Greater London Authority (GLA), the City of London and for authorities which have restructured but not yet equalized their council tax. These special cases are dealt with in paragraphs 6 to 8 respectively. Eligibility criteria for all other authorities, and the basis of grant calculation, are explained in paragraph 4 below.
4. If an authority sets its basic amount of council tax¹ for 2012-13 at a level which is no more than its basic amount of council tax for 2011-12, it will be eligible to receive a grant equivalent to an x% increase in its 2011-12 basic amount of council

¹ Subject to parliamentary approval the Government intends to implement the provisions in the Localism Bill concerning council tax for the 2012-13 financial year. Clauses 62 to 65 of the Bill change the provisions of the Local Government Finance Act 1992 which govern the calculation of council tax in England. Consequently, for the proposed grant scheme in 2012-13, 'basic amount of council tax' will mean the amount set by an authority under section 31B(1) (if the authority is a billing authority) or section 42B(1) (if the authority is a major precepting authority): but ignoring any local precepts issued to or anticipated by a billing authority.

tax *multiplied* by the authority's tax base for 2012-13 (rounded to the nearest pound) where -

- (a) For police authorities, and single purpose fire & rescue authorities, $x\% = 3\%$;
- (b) For the City of London, $x\% = 2.75\%$ (see paragraph 7 below);
- (c) For other principal authorities, $x\% = 2.5\%$.

5. The higher rate of grant being offered to police and fire and rescue authorities reflects the Government's commitment to protecting these frontline emergency services. Subject to paragraph 7 below, it is not being offered to councils which provide fire and rescue services because those services account for a very small proportion of the councils' overall budgets.

6. For the GLA, if the amount calculated by the GLA under section 89(3)² of the GLA Act 1999 for 2012-13 is no more than the same amount calculated by the GLA for 2011-12, the GLA will be eligible to receive a grant calculated in two parts (the aggregate being rounded to the nearest pound):

- (a) a 2.75% increase in the amount calculated by the Authority under section 88(2) of the GLA Act for 2011-12 *multiplied* by the tax base for the whole of the GLA's area for 2012-13;

plus

- (b) a 3.0% increase in the amount calculated under section 89(4) of the GLA Act for 2011-12 *multiplied* by the tax base for the metropolitan police district for 2012-13.

7. The offers based on 2.75% increases, at 4(b) and 6(a) above, reflect that:

- (a) approximately half of the overall expenditure of the City of London is devoted to providing police services; and
- (b) expenditure on the London Fire and Emergency Planning Authority (LFEPA) accounts for more than half the precept the GLA raises under section 88(2).

8. For a local authority which was restructured in 2009 and which calculated its basic amounts of council tax for 2011-12 under Part 4 of the Local Government (Structural Changes) (Finance) Regulations 2008 (SI 2008/3022) ('the 2008 Regulations'), if the average basic amount of council tax for the whole authority for

² Subject to parliamentary approval and the implementation of the Localism Bill, clause 65 of the Bill will amend sections 88 and 89 of the GLA Act 1999 for 2012-13.

2012-13 is no more than the same amount calculated for 2011-12³, the authority will be eligible to receive a grant equivalent to a 2.5% increase in its 2011-12 average basic amount of council tax for the whole authority *multiplied* by the authority's tax base for 2012-13 (rounded to the nearest pound).

9. Confirmation that any authority has set its basic amount of council tax for 2012-13 at a level which meets the terms of the scheme will be provided through the usual annual return⁴ made to this Department by 8 March 2012 for major precepting authorities and 18 March for billing authorities.

10. DCLG will pay a single unringfenced grant in support of the scheme to each eligible billing and major precepting authority based on the formulae described in the above paragraphs. Payments to authorities will be made before or very soon after 31 March 2012 on the basis of the grant-making powers provided by section 31 of the Local Government Act 2003.

11. The following points should be noted.

- That the arrangements for funding the 2011-12 council tax freeze⁵ are unaffected by this new offer from Government to help councils freeze their council tax in 2012-13.
- An important difference between the two schemes is that the scheme for 2012-13 will comprise a one-off payment of grant, and is payable for one year only. The scheme for 2011-12 is this year being paid out as ten monthly payments. The intention remains that authorities will receive grant in relation to the 2011-12 freeze in each of the remaining years of the Spending Review.
- For the avoidance of doubt, the "basic amount of council tax" to which I refer in this letter is the amount that will be apparent to taxpayers resulting from the normal requisite calculations of council tax. Once again it will therefore reflect as expenditure those amounts which authorities have to pay to other bodies in the form of levies – a factor which caused some debate during the introduction of the freeze for 2011-12.

³ Subject to parliamentary approval and the implementation of the Localism Bill, for the proposed grant scheme in 2012-13 'average basic amount of council tax for the whole authority' will mean the amount calculated under section 31B(1) of the Local Government Finance Act 1992, or the amount calculated under that section as modified by the 2008 Regulations (as the case may be): but in either case ignoring any local precepts issued to or anticipated by the authority. As the 2008 Regulations require that some equalization occurs each year until a single level of council tax is achieved across the whole of an authority's area, this could result in an increase in the council tax payable in some parts of the authority's area. The 2008 Regulations will require consequential amendment as a result of the implementation of the Localism Bill.

⁴ This is the current BR form which we expect to update and rename to reflect changes being introduced by the Localism Bill. See also paragraph 13 below.

⁵ The intention remains that authorities will receive grant in relation to the 2011-12 freeze in each of the remaining years of the Spending Review.

12. We have estimated the awards each authority would receive if they chose to freeze their council tax for 2012-13 based on a three year geometric mean of their tax base. These estimates will be published today on DCLG's website to assist authorities with their budget planning. Actual grants payments will, however, be based on the tax base figures included in the return mentioned in paragraph 9.

13. DCLG have started to engage with stakeholders about any changes needed to the Budget Requirement forms to reflect changes to be introduced by the Localism Bill. We will write again to chief finance officers in order to clarify how the data on which grant calculations are to be based is related to the data items set out in the revised form.

14. This new scheme offering a freeze in council tax for 2012-13 will not affect the Transition Fund. The Government has made it clear that to provide certainty in advance for local authorities, as part of the two year settlement, the Transition grant will not take account of any further changes.

15. If you require any further information regarding the contents of this letter please do not hesitate to e-mail:

counciltax.consultations@communities.gsi.gov.uk

or contact David Kelly at this address, or on telephone 0303 444 2099.

I am copying this letter to chief finance officers, the Welsh Government, the Chair of the Local Government Association, the Chair of the Association of Police Authorities, the President of the Chief Fire Officers' Association, the Chief Executive of the Chartered Institute of Public Finance and Accountancy and other representatives bodies such as those that cover parish councils.

Yours sincerely,



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