



Department for  
Communities and  
Local Government

# Localising support for council tax

Update on funding arrangements

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## Introduction

- 1 The localisation of council tax support, announced in the 2010 Spending Review, is being taken forward through the Local Government Finance Act 2012. From April 2013, these reforms will give councils stronger incentives to support local firms, cut fraud, promote local enterprise and get people back into work. Localisation is accompanied by a switch from Annually Managed Expenditure (AME) to Departmental Expenditure Limit (DEL) funding, and a 10% reduction against forecast expenditure for 2013-14 which will provide a vital contribution to the task of tackling the deficit.
- 2 In preparation for the introduction of localised council tax support in April 2013, the Government has consulted on an aspect of the funding arrangements to support authorities to offer council tax support. *Localising Support for Council Tax – Funding Arrangements consultation* (the ‘funding consultation’) was published in May and closed in July 2012.<sup>1</sup> The consultation sets out the way that local billing authorities and major precepting authorities will receive funding towards the costs of council tax support; the way in which the allocations for authorities will be calculated; and indicative allocations to help authorities plan. The consultation sought views on a proposed approach of setting an upper and lower level of budget pressure – a floor and ceiling – to ensure that all authorities have a fair starting point.
- 3 The funding consultation also set out proposals on the treatment of funding for local precepting authorities. Subsequently, Government has published the consultation *Localising Support for Council Tax: Council tax base and funding for local precepting authorities*<sup>2</sup> on the calculation of the council tax base to include local reductions and funding for local precepting authorities. The Department has considered responses to both consultations on this issue and is publishing a response on the issue of local precepting authorities alongside this document.
- 4 This document summarises the views received in response to the funding consultation on setting a budget pressure floor and ceiling and confirms the Government’s approach. Further analysis of the responses received will be included within the package of information provided alongside the provisional Local Government Finance Settlement in December.

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<sup>1</sup>[Localising support for Council Tax: funding arrangements - Consultations - Inside Government - GOV.UK](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8360/2161406.pdf) and illustrative flowchart  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/8360/2161406.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8360/2161406.pdf)

<sup>2</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/2206075.pdf>

- 5 It also provides an update on wider aspects of the funding arrangements for local council tax support schemes for billing and major precepting authorities, including information on:
- The allocations in respect of the support provided.
  - The approach to the costs of administering council tax support and the approach to the new and additional costs of establishing and running a local council tax support scheme.
  - The recently announced transitional grant scheme.
  - Subsidy of past entitlement to council tax benefit.
- 6 Government will publish final details of funding to be allocated to each billing and major precepting authority as part of local authority baseline allocations in the provisional Local Government Finance settlement in December.

## **Funding for billing authorities and major precepting authorities**

- 7 The funding consultation set out how Government will distribute funding for local authorities to assist with the costs of providing council tax support from April 2013. The Department for Communities and Local Government will make funding based on 90% of what subsidised council tax benefit expenditure would have been in 2013-14 available to billing and major precepting authorities. This funding will help to offset the reduction in the council tax base as a result of the creation of new council tax reductions to be set out in local schemes.
- 8 As set out in the funding consultation, the allocations for individual billing and major precepting authorities will be calculated as follows:
- The total amount for distribution in England will be based on forecasted subsidised council tax benefit expenditure for 2013-14.
  - Funding will be distributed between billing authority areas according to shares of annual subsidised council tax benefit expenditure;
  - Funding will then be distributed between billing and major precepting authorities within a billing authority area, according to shares of council tax in each authority.
- 9 The funding consultation included provisional allocations for individual authorities. These allocations were based on the above methodology but used what was the most recently published data available at the time of publication. To calculate the final allocations the Department will use:

- The Office for Budgetary Responsibility forecast of 2013-14 subsidised council tax benefit expenditure for England, revised for the Autumn Statement.
- 2011-12 subsidised council tax benefit expenditure by billing authority (to distribute funding between billing authority areas).
- 2012-13 Band D council tax amounts.
- 2011-12 revenue expenditure.

## Addressing budget pressures

- 10 The Government recognises that in areas where expenditure on council tax benefit currently forms a relatively high proportion of overall revenue expenditure, the reduction in funding for council tax support in the first year may lead to a relatively larger revenue budget pressure compared to the majority of authorities, which could be more challenging to manage in the short term. Chapter 3 of the funding consultation proposed minor adjustments to the way funding would be distributed to ensure that, in the first year of the scheme, no local authority faces a revenue budget pressure greater than a specified percentage as a result of the reduction in funding.
- 11 The following question was asked:
- “Do you agree that floors and ceilings should be created to ensure that no local authority faces a greater than specified revenue budget pressure?”*
- 12 Of the respondents who responded to the question, 74% (67) agreed with the proposed approach.<sup>3</sup>
- 13 Given that the responses received have indicated clear support for mitigating budget pressure, and the proposed damping mechanism, **Government intends to pursue the approach of setting a floor and ceiling as set out in the funding consultation document in order to limit the maximum budget pressure which a local authority would face.**
- 14 For illustrative purposes, the consultation document set out the impact on funding allocations of a budget pressure ceiling of 0.86% and a floor of 0.18%. Budget pressures were calculated based on data on subsidised council tax benefit expenditure for 2010-11, revenue

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<sup>3</sup> 41% of respondents answered the question on damping. A significant number of responses to the consultation were from parish or town councils, the majority of which did not answer this question which relates to funding for principal authorities. The Government is setting out its approach to local precepting authorities in the document *Council tax base and funding for local precepting authorities: A summary of consultation responses*.

expenditure data for 2010-11 and council tax levels in England for 2012-13.

- 15 For the final distribution, subsidised council tax benefit expenditure data from 2011-12, revenue expenditure data from 2011-12 and council tax levels in England for 2012-13 will be used to calculate budget pressures. The final figures for the floor and ceiling will be set once this data is available in order to deliver the intended outcome of supporting outlying authorities. **This may lead to changes in the number of authorities whose allocation is affected by either a floor or ceiling.**
- 16 Final allocations, including the final figure for the floor and ceiling, and the local authorities whose final allocation will be adjusted in the light of this, will be included in the provisional Local Government Finance Settlement in December.

## Methodology for calculation of funding allocations

- 17 As explained in the funding consultation, the total amount for distribution in England will be based on a forecast of the England share of total subsidised council tax benefit expenditure for Great Britain for 2013-14. This section provides further detail on how the forecast is calculated.
- 18 In *Localising support for council tax in England: Government's response to the outcome of consultation*<sup>4</sup>, published December 2011, the Department for Communities and Local Government made clear that funding would be derived from the Office for Budget Responsibility forecast for spending on council tax benefit. The 10% reduction in funding will be calculated against forecasted expenditure in 2013-14. Estimates of the funding reduction which look at, for example, spending in 2012-13, are not consistent with this approach.
- 19 This will enable the Department to distribute 90% of what central government would have spent on council tax benefit in 2013-14 had the current system continued. Government believes this provides a sensible starting point for authorities. The forecast does not seek to estimate the final total expenditure on council tax support in 2013-14, which will of course depend on the choices local authorities take about the design of their local schemes.

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<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/8467/2053712.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8467/2053712.pdf)

### *Forecast methodology*

- 20 The forecast used as a basis for the allocations is the Department for Work and Pensions forecast for council tax benefit expenditure. The forecast methodology and proposed changes to the forecasts are discussed and agreed with the independent Office for Budgetary Responsibility.
- 21 The forecast is built on a number of assumptions which inform estimates of the future number of households who will receive the benefit, and on average how much benefit each household will receive:
- Estimates of caseloads are directly linked to projections of future recipients of other welfare benefits, since a large proportion of council tax benefit claimants are also in receipt of another benefit. A separate part of the forecast involves estimating volumes of individuals who will receive council tax benefit while in work.
  - Estimates of amounts received are informed by assumptions on future growth in council tax. Forecasts also take into account how a household's income may change relative to increases in council tax, since this affects the amount of benefit those on the council tax benefit taper will receive.
- 22 Finally, the forecast adjusts for any policies which will impact on expenditure, such as applying the 10% reduction in expenditure announced at the Spending Review.

### *Revisions to the forecast*

- 23 Forecasts of council tax benefit expenditure are revised biannually to inform the Budget and Autumn Statements. A number of respondents to the funding consultation sought further information about why the forecast produced at Budget 2012, which was the basis for the illustrative funding allocations, indicates a decline in expenditure in 2013/14 and/or why it is lower than previous forecasts. The reasons for this lower forecast include:
- The council tax freeze in 2012/13.
  - Changes to non-dependent deduction rates.
  - Long-term trends in declining pensioner caseloads.
  - A reduction in the working age caseload as the country begins to recover from the recession.
- 24 National expenditure trends will not be experienced identically in every authority. As an illustration, comparing subsidised expenditure in 2010/11 and 2011/12 shows that around 80% of local authorities

experienced a variation of between -2% and +2%. Over 40% of local authorities saw a fall in expenditure.<sup>5</sup>

- 25 The final amount of funding to be transferred to local government will be based on the forecast to be published as part of the Autumn Statement. The Autumn Forecast figure, which will be the basis of the final transfer, will reflect both more recent outturn statistics on caseloads and amounts and more recent Office for Budget Responsibility forecast assumptions, including those relating to unemployment.
- 26 Further detail about the forecast can be found in the recent Department for Work and Pensions publication *Council Tax Benefit: Forecasts and Assumptions*.<sup>6</sup>

## Distribution of funding

- 27 As set out in the funding consultation, funding for local council tax support schemes for local authorities, excluding local policing bodies,<sup>7</sup> will be provided through the business rates retention system.
- 28 Agreed funding allocations for local authorities will be included as a visible line within both their baseline funding levels and Revenue Support Grant for the first year (2013/14). Thereafter funding for local council tax support will not be separately identified but will remain part of the funding available to local authorities through the retained business rates retention system. Providing funding through the business rates retention system will strengthen the incentive for authorities to grow their local economy. Moving funding into the business rates retention system produces a greater overall amount in the local share and the opportunity for this to increase in line with business rates growth.
- 29 Further detail on the transition from the formula grant system and the initial implementation of the business rates retention scheme has been provided in the consultation *Business Rates Retention: Technical Consultation*<sup>8</sup> which sought views on the detail of how funding for

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<sup>5</sup> DCLG analysis of Council Tax Benefit DWP-subsidised expenditure by local authority  
[http://statistics.dwp.gov.uk/asd/asd4/h\\_tables\\_budget\\_2012\\_300812.xls](http://statistics.dwp.gov.uk/asd/asd4/h_tables_budget_2012_300812.xls)

<sup>6</sup> [http://statistics.dwp.gov.uk/asd/asd4/ctb\\_forecasts\\_budget12.pdf](http://statistics.dwp.gov.uk/asd/asd4/ctb_forecasts_budget12.pdf)

<sup>7</sup> Section 1 of the Police Reform and Social Responsibility Act 2011 (c. 13) replaces police authorities in England and Wales, other than in London, with police and crime commissioners. Section 3 of the same Act replaces the Metropolitan Police Authority with the Mayor's Office for Policing and Crime. It is intended that section 1 will come into force in November 2012 and section 3 came into effect in January 2012. Police and crime commissioners, the Mayor's Office for Policing and Crime and the Common Council of the City of London (which retains its role as police authority for the City of London) are referred to collectively in the Act as "local policing bodies".

<sup>8</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/21825021.pdf>



council tax support will be included in the system. Responses will inform the provisional Local Government Finance Settlement and a summary of responses will be published alongside the provisional settlement in December.

- 30 As explained in the funding consultation, local policing bodies will be funded from outside the business rates retention system. Funding for local policing bodies in relation to council tax support will therefore be provided as a separate grant by the Department for Communities and Local Government in 2013-14. The Government will consider the arrangements for how this grant will be paid to local policing bodies beyond this Spending Review period and proposals will be set out in due course.
- 31 It is expected that funding for policing bodies in 2014-15 will remain at the same proportion of total council tax support funding as in 2013-14, which would be consistent with the treatment of other local authorities.

## **Administrative and new burdens funding**

- 32 The Government will continue to provide administration subsidy funding to support the delivery of local council tax support schemes, as well as meeting the net additional costs associated with the move from council tax benefit to local council tax support.
- 33 The Department for Communities and Local Government has worked with the Department for Work and Pensions to establish an agreed approach to administration funding. In order to keep disruption to local authority finances at an absolute minimum the Department for Work and Pensions and Department for Communities and Local Government have agreed to maintain Housing Benefit administrative funding in 2013-14 at comparative levels to the main Housing Benefit/Council Tax Benefit funding in 2012-13. Detail on the calculation and distribution of this administrative funding, including individual allocations, are now available in a Department for Work and Pensions circular.<sup>9</sup> We continue to work with the Department for Work and Pensions on the details of administrative funding for 2014/15. Funding beyond this will be considered as part of the Spending Review and in the context of the introduction of Universal Credit.
- 34 Government also recognises the importance of providing funding and support to meet the net additional, unavoidable costs to a local authority of designing and administering a local council tax support scheme, in line with the New Burdens Doctrine.<sup>10</sup>

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<sup>9</sup> <http://www.dwp.gov.uk/docs/s5-2012.pdf>

<sup>10</sup> <http://www.communities.gov.uk/publications/localgovernment/newburdens2011>

- 35 In the 2012 Budget Statement the Government announced the release of initial funding totalling £30 million to assist local authorities in preparing for the changes. This was paid to local authorities in April 2012.
- 36 Over the summer, the Department for Communities and Local Government has been assessing the additional and unavoidable costs to local authorities of introducing localised Council Tax support schemes. The assessment has been developed using data gathered from a cross section sample of local authorities and considers areas such as designing schemes, communicating the change to residents, consultation costs and Information Technology changes. The new burdens assessment does not take into account costs that result from the approach to scheme design that local authorities choose to pursue in their local area because such costs would be incurred as a result of policy choices made by a local authority.
- 37 New burdens funding allocations for 2013/14 based on this assessment will be set out within the Local Government Finance Settlement in December. Details of new burdens funding for following years is under discussion.

## **Transitional grant scheme**

- 38 On 16 October 2012 the Department announced an additional £100 million of transitional funding to provide local authorities with headroom to explore options for securing savings that avoid the need for large cuts in awards.<sup>11</sup> Details of the scheme, including a document of frequently asked questions and the allocations which local authorities are able to claim, are now available on the Department for Communities and Local Government website.<sup>12</sup>

## **Past entitlement to council tax benefit from April 2013**

- 39 The Department for Communities and Local Government and the Department for Work and Pensions have been working to agree an approach to the treatment of subsidy for past entitlement to council tax benefit from April 2013.
- 40 Council tax benefit will be abolished next year. However, for a transitional period from April 2013, it will still be necessary to deal with

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<sup>11</sup> <https://www.gov.uk/government/speeches/localising-council-tax-support>

<sup>12</sup> <https://www.gov.uk/government/publications/localising-support-for-council-tax-transitional-grant-scheme>

entitlement relating to the previous financial year. We anticipate that the areas where past entitlement may need to be considered by authorities after abolition of council tax benefit are:

- Claims in the system;
- Changes of circumstance (resulting in underpayments or overpayments of past council tax benefit); and
- Backdated claims.

- 41 Following consultation with the Local Authority Associations, the Department for Work and Pensions and the Department for Communities and Local Government have agreed that, in order to facilitate a smooth transition, local authorities will not be required to complete subsidy returns for council tax benefit expenditure in 2013-14. This will mean that authorities would not receive subsidy where they have paid out for prior entitlement, **but also**, that they would not have subsidy reduced where they have identified overpayments (thereby allowing them to keep the total of subsidy paid in the previous financial year and any overpayment recovered from claimants).
- 42 Full details of the approach will be published in a series of Department for Work and Pensions circulars which will be available at <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/user-communications/hbctb-circulars/>.

## Next Steps

43. The final local authority and precepting authorities figures for the Principal funding, damping, where relevant, and new burdens funding will be included in the Local Government provisional finance settlement. This is expected to be published in mid December, following the Autumn Statement on 5 December.