

I am writing in response to your email of 17 January 2012 requesting information on how councils are recompensed for the loss of income.

Your request was received by the Department for Communities and Local Government on 17 January 2012.

Your request has been considered under the Freedom of Information Act 2000.

The reason why properties occupied entirely by students are exempt is because students, unlike other groups of people on low incomes, are not normally entitled to income related benefits, such as housing and council tax benefit. If the Government were to make landlords of such properties liable for council tax, they could simply pass the costs on to the students through raising the rent. This has been the case since council tax was introduced and the Government has no plans to change the way properties occupied by students are treated for council tax purposes.

However, the Government does recognise the need to compensate local authorities for the loss of council tax income, which would otherwise have to be borne by other local residents. This is done through formula grant.

Formula grant is an unhypothecated block grant. This means that authorities are free to spend it on any service. It is largely distributed based on the socio-economic and demographic characteristics of authorities, together with the number of band-D equivalent properties within their area. We then ensure that no authority receives less than a minimum percentage change in formula grant (the 'floor') year-on-year on a like-for-like basis. In order to pay for this we scale back the amount of formula grant above the floor for other authorities.

Formula grant is calculated for multi-year periods. The current multi-year period covers 2011-12 and 2012-13. The taxbase data used in the calculations is based on projections of historical taxbase data provided to us by each local authority. Formula grant is paid in instalments to local authorities throughout the year.

Each property can be related back to a band-D equivalent since the relationship between the amount of council tax paid by properties in the various valuation bands is set by statute. In calculating the number of band-D equivalent properties we take into account the number of properties to which exemptions and discounts apply, including the number of student exemptions. Since the number of band-D equivalent properties feeds into the negative Relative Resource Block, this means that the lower the number of band-D equivalent properties in an area the smaller this negative block is. The same calculation is applied to all authorities providing the same services regardless of the number of houses that exemptions apply to.

The table below shows how we would calculate the band-D equivalent properties as at October 2011 in the Durham Authority area.

<b>Band</b>	<b>Number of student exemptions</b>	<b>Ratio to Band D</b>	<b>Band-D Equivalents</b>
A	386	6/9	257
B	322	7/9	250
C	475	8/9	422
D	523	9/9	523
E	146	11/9	178
F	47	13/9	68
G	35	15/9	58
H	35	18/9	70
<b>Total</b>	<b>1,969</b>		<b>1,758</b>

It is not possible to provide the actual amount of grant provided for compensating authorities for their student exemptions due to both the method of calculation and because formula grant is unhypothecated.