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To Leaders of Local Authorities  
(including police and fire authorities)

Copied to: Chief Executives and  
Chief Fire Officer

Dear Colleague,

### **COUNCIL TAX INCREASES IN 2011-12 - CAPPING PRINCIPLES**

Council tax bills have more than doubled since 1997 and the Government believes that it is about time that the hard pressed council tax payer was given some relief. We have already announced that we are setting aside £650 million so that every local, police and fire & rescue authority can freeze council tax in 2011-12 without hitting local services.

The Government anticipates that authorities will choose to take up the freeze in 2011-12. Nevertheless, should any authority choose not to participate in the freeze scheme and then go on to set an excessive increase, the Government reserves the right to take capping action.

The Secretary of State yesterday made a statement to the House of Commons announcing the capping principles that will apply in 2011-12. These are that an authority's budget requirement in 2011-12 will be excessive **if**:

**- its 2011-12 budget requirement is greater than 92.5% of its 2010-11 budget requirement, or Alternative Notional Amount where applicable; and**

**- its Band D council tax in 2011-12 is increased by more than 3.5% compared with 2010-11.**

Different principles will apply to the Greater London Authority, Central Bedfordshire Council and Shropshire Council. This is because those authorities calculate their council tax in different ways from other authorities. However, I can confirm that the policy aim of the capping principles for 2011-12 is the same for all authorities<sup>1</sup>. The attached Written Ministerial Statement sets out full details of the principles.

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<sup>1</sup> We will write separately to the GLA, Central Bedfordshire Council and Shropshire Council to explain how the capping principles will operate in relation to those authorities.

On 9 February, "The Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2011/12" was approved by the House of Commons. The Report includes alternative notional amounts for 2010-11 for all authorities other than fire and rescue authorities. Where applicable these alternative notional amounts will be used when comparing an authority's budget requirement in 2010-11 with its budget requirement in 2011-12. The report can be found at:

<http://www.local.communities.gov.uk/finance/1112/anarpt.pdf>

The Localism Bill includes provisions to abolish capping and instead introduce referendums to allow local people to approve or veto excessive council tax increases. It is expected that these provisions will come into force from 2012-13 onwards.

Decisions on council tax increases in 2011-12 remain a matter for each individual authority. Nevertheless, I trust that this letter makes clear the context within which these decisions should be taken.

#### Council tax freeze

**With regard to the council tax freeze, I remind authorities - for the avoidance of doubt - that they must freeze or reduce their Band D council tax (net of any local precepts) in 2011-12 in order to receive additional government grant *equivalent to a 2.5% council tax increase*. If an authority increases its basic rate of council tax by any amount, it will not be eligible for the freeze grant. An information sheet, which addresses a number of issues raised by authorities' is attached at **Annex A**.**

A handwritten signature in blue ink, appearing to read 'Bob Neill', is centered on the page.

**BOB NEILL MP**

## **Annex A**

### **COUNCIL TAX FREEZE: CLARIFICATION OF ISSUES RAISED BY AUTHORITIES**

#### **Eligibility for the scheme**

The broad intention is that an eligible authority that freezes or reduces its Band D council tax in 2011-12 will receive an additional grant equivalent to them having set a 2.5% increase from their 2010-11 level. Specifically, the scheme refers to Band D council tax as an authority's basic amount of council tax.

#### **Special expenses**

All special items (other than parish precepts) are included in an authority's basic amount of council tax. Therefore, the average of all an authority's special items (including its special expenses) over the whole of its area is the amount that will be used to judge eligibility for the grant.

#### **Parishes**

The scheme will not apply to local precepting authorities. There are some 10,000 town and parish councils in England and the Government does not consider it practical or efficient to introduce a system for allocating Central Government grants to the parish sector. The Government also has no power either to pay grant directly to local precepting authorities or to another authority to pass on to them.

#### **Payment of grants over the Spending Review period**

Any grant paid to an authority for freezing or reducing its council tax in 2011-12 will be matched exactly in each subsequent year of the Spending Review to compensate for the income foregone for a freeze. Authorities will not have to continue to freeze or reduce their council tax from 2012-13 to continue to receive this grant.

#### **How to accounting for the freeze grant**

Although eligible authorities will wish to take into account the additional income from the grant when setting their budgets, it should be treated as a specific grant within Aggregate External Finance, and thus does not need to be shown in the authority's Budget Requirement (BR) form.

## DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT

### *Council Tax*

#### **The Secretary of State for Communities and Local Government (Mr. Eric Pickles):**

On 13 December, I indicated that when the House debated the final local government finance report I would set out council tax capping principles that will apply to local authorities' budgets for 2011-12. I am therefore now informing the House that I will consider an authority to have set an excessive increase if:

- (a) the amount calculated by the authority as its budget requirement for 2011-12 is more than 92.5% of-
  - (i) the authority's alternative notional amount; or
  - (ii) where no such amount has been specified for the authority, the authority's budget requirement for 2010-11<sup>1</sup>; and
- (b) the amount calculated by the authority as its band D council tax for 2011-12 is more than 3.5% greater than the same amount calculated for 2010-11 (except see below).

Different principles will apply to the Greater London Authority (GLA), and to the Councils of Central Bedfordshire and Shropshire. The reasons for this are-

- in the case of the GLA, because the authority calculates its council tax in a different way from other authorities<sup>2</sup>, and
- in the case of Central Bedfordshire and Shropshire, because the authorities set their basic amounts of council tax for 2010-11 under part 4 of the Local Government (Structural Changes) (Finance) Regulations 2008<sup>3</sup> and may do so again for 2011-12.

My officials will write to these three authorities separately with further technical details about how the principles applicable to them will operate. However, I can confirm that the policy aim of the capping principles for 2011-12 is the same for all authorities and that the principles for the GLA, Central Bedfordshire and Shropshire are designed to ensure that appropriate comparisons can be made between the Band D council tax set by those authorities in 2010-11 and 2011-12.

I am this year announcing these principles before the dates by which authorities have to set their budgets. This contrasts with the approach of the previous Government, which always required authorities to wait and see whether the council tax they had set would be considered excessive by reference to principles not decided until after the deadlines for setting their budgets had passed.

Moving forward, the Government intends to end the capping regime and replace it with a more democratic and localist measure to allow local residents to veto excessive council tax rises via a local referendum.

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<sup>1</sup> Alternative notional amounts apply to all classes of authority except for fire and rescue authorities.

<sup>2</sup> Unlike other authorities, the GLA calculates two basic amounts of council tax; one under section 88(2) of the Greater London Authority Act 1999 and one under section 89(3) of that Act.

<sup>3</sup> SI 2008/3022. Central Bedfordshire and Shropshire were established on 1 April 2009. In order to equalise council tax more fairly in their areas, part 4 of SI 2008/3022 enables the authorities to calculate different basic amounts of council tax for their predecessor areas for up to five financial years. By contrast all other authorities (except the GLA) must calculate only one basic amount of council tax.