

1). Description of policy, including any assumptions necessary to allow the commitments to be costed:

What would be the cost of central Government providing every council with top-up funding to pay for council tax increases, provided they are kept below 2.5%? It should be assumed that this would start in 2010-11 and run until 2011-12. Additionally, it should be assumed that all councils increase their council tax by exactly 2.5%.

2). Information required on distributional effects of the policy:

3). Cost/Revenue to the Exchequer over five years:

Spending impacts

*All figures rounded to nearest £10m

Assumptions

Applies to all council tax raised in England by authorities, including fire, police and local authorities.

The tax base on which council tax is levied grows each year with new houses being built/subdivided for council tax purposes. The rates of growth in council tax base are assumed to be 0.8% in 2010-11 and 2011-12 (historic rates).

DEL costs to the Exchequer of the cash grant to the sector (see Table 1 below) are calculated per annum, and represent a 2.5% increase in Band D bills, based on the predicted tax base in each year. In this case the additional DEL funding is to “reward” local authorities for keeping council tax equal to, or below 2.5% in Years 1 and 2.

	DEL	
	Year 1 (2010-11)	Year 2 (2011-12)
Current	£650m*	£1,320m*
Capital	0	0
Total	£650m*	£1,320m*

This policy also has implications for total tax receipts, as **less** council tax would be collected compared to current projections, estimated to amount to £1,160m in Year 1, and £1,210m in Year 2.

Reduced locally generated tax is assumed to lead to an equivalent reduction in local **self financed** expenditure. Therefore AME spend in Year 1 is expected to be -£1,160m, and in year 2 -£1,210m. Reductions in scorecard tax receipts **wholly offset** reduced AME spending in public finance terms of national accounts.

The net cost of this policy is therefore the DEL cost highlighted above only.

Tax receipt (scorecard) impacts in 2011-12 (year 2) are compared to current forecasts, and have not been adjusted in light of adopting this policy in year 1.

Current council tax projections:

There are based on the arithmetic average of council tax increases in the past three years (3.7% for 2010-11 onwards) plus predicted base growth (0.8%).

Insofar as future council tax increases (as the rates have been frozen) are lower than increase (presumed to be 3.7%) this results in lower than projected tax revenues, fully offset by lower locally determined spending (see detail above).

All figures are shown net of council tax benefit (DWP AME). If council tax increases are lower than forecast this will result in less council tax benefit being paid out.

In year 3 onwards the DEL consequences are dependant on how the policy would be implemented. The two options are:

1. The DEL support in Year 2 (£1,320m) is continued in years 3, 4, 5 and beyond, in recognition that without this continued financial support, the LA council tax base would lose the baseline increases of Years 1 and 2.
2. DEL support is not continued after year 2. This would mean that LAs would have to increase council tax at higher levels in year 3 onwards if they wished to maintain spending at current baseline levels. If they did not do so, this would result in a lower council tax income in Years 3 and beyond compared to what their income would have been. LAs' ability to increase council tax could be constrained by council tax capping policy, which cannot currently be predicted.

4). Distributional effects (if none requested, any significant):

5). Comparison with current system (if applicable):

6). Other comments (including other Departments consulted):

CLG have supplied the raw information for this request.