

# CHAPTER 2

## How is the money found?

2.0.1 This chapter describes the main sources of income for local government in England. It is divided into the following sections:

- **Summary of sources of local government income**      **section 2.1**
- **Council tax**      **section 2.2**
- **Business rates**      **section 2.3**
- **Revenue grants**      **section 2.4**
- **Sales, fees and charges**      **section 2.5**

2.0.2 Further information can be found in **Annex B – Council tax exemptions**.

## 2.1 Summary of sources of local government income

2.1.1 The main sources of income for local government in England are:

- Council tax;
- Redistributed business rates;
- Other government grants;
- Borrowing and investments;
- Interest receipts;
- Capital receipts;
- Sales, fees and charges; and
- Council rents.

- Total local government income increased steadily from £81.4 billion in 1998-99 to £119.6 billion in 2003-04.
- The amount of income received in 2003-04 in the form of government grants was 62%.

Table 2.1a: Summary of local authority income 1998-99 to 2003-04

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million
<b>Grant income:</b>							
Revenue Support Grant	19,480	19,875	19,437	21,093	19,889	24,215	
Redistributed business rates	12,524	13,612	15,400	15,137	16,626	15,604	
Police Grant	3,375	3,505	3,627	3,798	3,808	4,079	
Specific and special grants inside Aggregate External Finance (AEF)	2,335	2,921	4,671	6,552	8,901	13,447	
Other grants inside AEF <sup>(a)</sup>	120	126	81	33	35	43	
Grants outside AEF <sup>(b)</sup>	7,029	6,247	6,038	6,506	8,917	9,441	
Housing subsidy	3,298	3,041	2,769	4,053	3,860	3,730	
Grants towards capital expenditure	2,088	2,147	2,451	3,188	3,683	3,527	
<b>Total grant income</b>	<b>50,249</b>	<b>51,474</b>	<b>54,474</b>	<b>60,361</b>	<b>65,719</b>	<b>74,086</b>	
<b>Locally-funded income:</b>							
Council tax <sup>(c)</sup>	12,436	13,368	14,292	15,296	16,648	18,946	
External interest receipts	990	791	895	917	851	765	
Capital receipts	2,662	3,651	3,512	3,579	5,040	5,322	
Sales, fees and charges	7,020	7,303	8,143	9,023	9,685	10,191	
Council rents (net of rebates)	2,891	2,886	2,958	2,925	2,765	2,717	
<b>Total locally-funded income</b>	<b>25,999</b>	<b>27,999</b>	<b>29,800</b>	<b>31,740</b>	<b>34,989</b>	<b>37,941</b>	
Other income and adjustments	5,161	5,541	5,113	5,775	6,617	7,557	
<b>Total income</b>	<b>81,409</b>	<b>85,014</b>	<b>89,387</b>	<b>97,876</b>	<b>107,325</b>	<b>119,584</b>	
Grants as a percentage of total income	62%	61%	61%	62%	61%	62%	

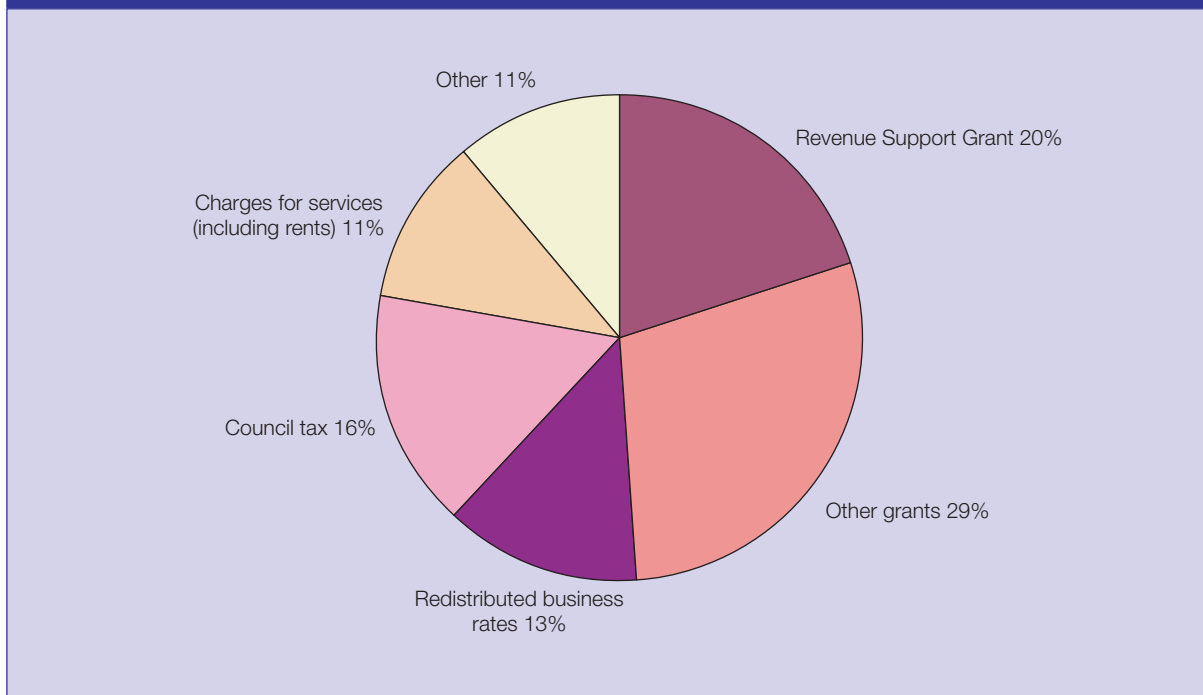
Source: Table 1.6b

(a) Includes Standard Spending Assessment Reduction Grant, Central Support Protection Grant, City of London offset, Transitional Reduction Scheme Grant and General GLA Grant.

(b) Excludes Council Tax Benefit Grant.

(c) Includes council taxes financed from Council Tax Benefit Grant but excludes council taxes financed from local authority contributions to council tax benefit.

Chart 2.1b: Local authority income by source 2003-04



2.1.2 The remainder of this chapter provides more information on council tax, business rates, grants and sales, fees and charges. Further information on other sources of income can be found in the following chapters:

- **Council rents and other Housing Revenue Account income – Chapter 3**
- **Capital grants and capital receipts – Chapter 4**
- **Borrowing and investments – Chapter 5**

2.1.3 In addition, local authority pension funds had a total income of approximately £7.6 billion in 2003-04. However, this falls outside the usual definition of local authority income. Further information is provided in **Chapter 6**.

## 2.2 Council tax

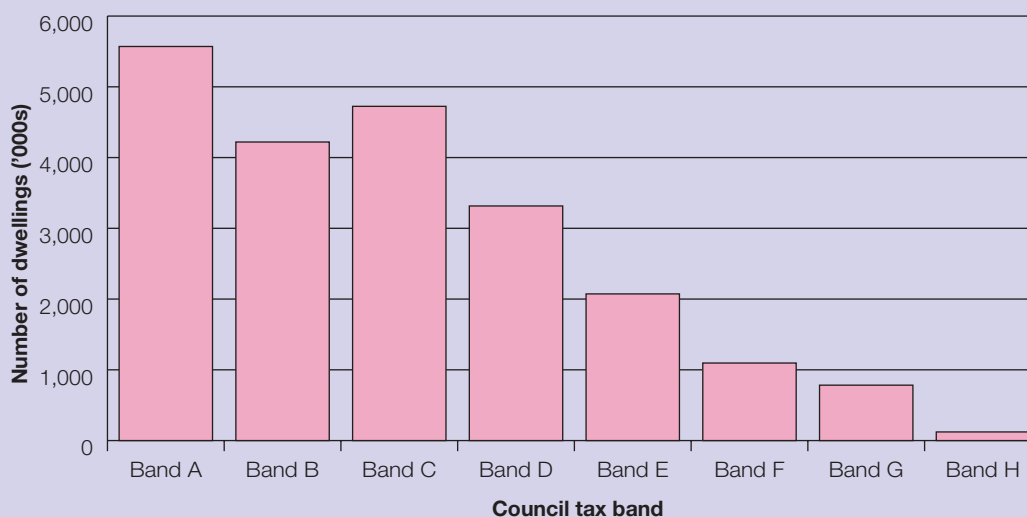
- 2.2.1 Council tax was introduced on 1 April 1993. It replaced the **community charge** (poll tax) system which, in turn, replaced domestic rates on 1 April 1990.
- 2.2.2 Council tax is the main source of locally-raised income for local authorities. It is, therefore, the main source of funding used for meeting the shortfall between an amount a local authority wishes to spend, and the amount it receives from other sources, such as government grants.
- 2.2.3 The impact on council taxes of increasing budgets varies widely between local authorities. This effect, known as **gearing**, can be thought of as a balance of funding between budget met through council taxes and budget met through other sources.
- 2.2.4 Gearing works such that an authority meeting a large proportion of budget through council tax will require a smaller increase in council tax for a given increase in budget. For example, an authority that meets 25% of its budget through council tax has a gearing ratio of 4.0. Therefore, a 1% increase in budget would lead to a 4% increase in council tax. In contrast, an authority that meets 75% of its budget through council tax has a gearing of  $1\frac{1}{3}$ . For this authority, a 1% increase in budget would only lead to a  $1\frac{1}{3}\%$  increase in council tax.
- 2.2.5 **Table 2.2a** gives national totals for the council tax requirement budgeted for each year since 1998-99. It shows how the amounts were derived when setting budgets, and how they changed during the course of each year, for example by council tax becoming due from new properties that had not been included in the budget calculations. The table also includes figures for **Council Tax Benefit**, which is a means-assessed social security benefit.

Table 2.2a: Council tax budgets and outturn

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 <sup>(a)</sup>	2005-06 <sup>(a)</sup>	£ million
<b>As budgeted:</b>									
Council tax requirement	12,332	13,278	14,200	15,245	16,648	18,946	20,299	21,320	
Council Tax Benefit	2,047	2,066	2,111	2,122	2,177	2,418	2,747	2,966	
Transitional reduction scheme (b)	11	0	-	-	-	-	-	-	
<b>Net council tax income</b>	<b>10,274</b>	<b>11,212</b>	<b>12,089</b>	<b>13,123</b>	<b>14,471</b>	<b>16,528</b>	<b>17,552</b>	<b>18,354</b>	
<b>Outturn figures:</b>									
Gross council tax due	12,573	13,511	14,457	15,502	16,906	19,201	20,483	-	
Council Tax Benefit	1,966	2,018	2,047	2,143	2,282	2,627	2,891	-	
Transitional reduction scheme	11	0	-	-	-	-	-	-	
Net collectable debit	10,596	11,493	12,410	13,359	14,624	16,574	17,592	-	
Gross council tax due as a % of budgeted gross income	102.0	101.8	101.8	101.7	101.6	101.4	100.9	-	
Net collectable debit as a % of budgeted net income	103.1	102.5	102.7	101.8	101.1	100.3	100.2	-	
Source: BR1, BR2, BR3, RA and QRC4 returns									
(a) Amounts shown are after capping									
(b) Payments under the Council Tax Transitional Reduction Scheme totalled £457,619 in 1999-00. This scheme has now ended.									

2.2.6 The amount of council tax payable on a property depends in part on the valuation band to which it is allocated. There are currently eight bands in England ranging from Band A for dwellings valued at less than £40,000 on 1 April 1991 to Band H for dwellings valued at more than £320,000 on that date.

Chart 2.2b: Distribution of dwellings by council tax band as at 31 March 2005



Source: Valuation Office Agency

- Nationally, 25% of properties are in Band A, and only 9% are in the top three bands.
- The pattern varies widely across regions; the percentage of properties in Band A ranges from 58% in the North East to 3% in London.

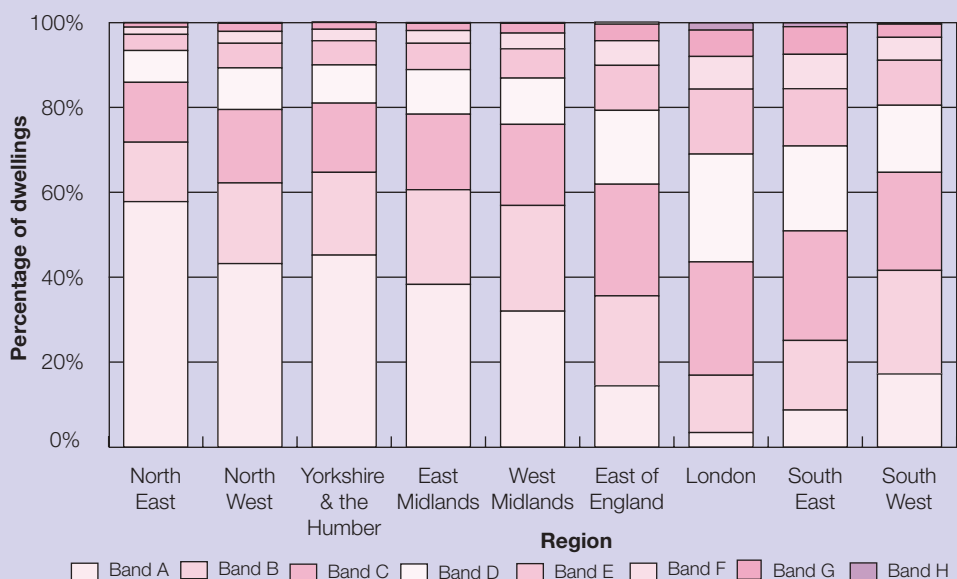
**Table 2.2c: Number of dwellings on valuation list as at 31 March 2005 (by region)**

Valuation band ranges	Number of dwellings (thousand)								
	Band A Under £40,000	Band B £40,001 to £52,000	Band C £52,001 to £68,000	Band D £68,001 to £88,000	Band E £88,001 to £120,000	Band F £120,001 to £160,000	Band G £160,001 to £320,000	Band H Over £320,000	Total
Ratio to Band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
North East	663	161	162	86	44	19	11	1	1,147
North West	1,314	579	526	300	176	86	59	6	3,045
Yorkshire & the Humber	1,005	433	361	200	126	60	35	3	2,224
East Midlands	715	415	332	196	116	56	33	3	1,866
West Midlands	730	569	436	248	157	85	52	5	2,282
East of England	344	507	630	417	254	138	94	11	2,395
London	108	432	853	812	490	245	199	55	3,194
South East	304	575	903	701	471	284	229	31	3,498
South West	387	549	521	356	240	122	71	7	2,253
<b>Total England</b>	<b>5,570</b>	<b>4,220</b>	<b>4,724</b>	<b>3,316</b>	<b>2,073</b>	<b>1,096</b>	<b>783</b>	<b>122</b>	<b>21,904</b>
% in band	25.4	19.3	21.6	15.1	9.5	5.0	3.6	0.6	100.0

Source: Valuation Office Agency

2.2.7 Within an authority, the council tax for each valuation band is a fixed ratio to that for Band D. For example, a Band A dwelling will pay 6/9 the Band D amount, and a Band H dwelling will pay twice the Band D amount. The ratios for all bands to Band D are shown in **Table 2.2c**.

**Chart 2.2d: Distribution of dwellings by council tax band and region as at 31 March 2005**



Source: Valuation Office Agency

- 2.2.8 Band D is used as the basis for calculating the tax base (the number of Band D equivalent properties) and for year-on-year comparisons of tax levels set. However, as only a minority of properties in each local authority are in Band D, the average Band D council tax does not enable direct comparison to be made of the average amounts of council tax payable by people in different areas.
- 2.2.9 In contrast, average council tax per dwelling reflects the wide variation between authorities in the distribution of properties across bands. It is therefore a helpful measure to use when comparing the amounts payable in different areas. Variations between figures on this basis are due to a combination of local authority tax-setting decisions and the distribution of properties across bands within each authority's area.
- 2.2.10 The Government has the power to cap the budgets and hence council taxes of authorities whose budgets it regards as excessive. In addition the Government can also set notional budgets for authorities, that are lower than the authorities' actual budgets, and which will form the basis for making comparisons with budgets in the following year or years for capping purposes.

- In 2003-04, the last year in which capping powers were not exercised, the average council tax increase in England was 12.9%.
- In 2004-05, the budgets of six authorities were capped in-year and notional budgets were set for eight authorities.
- The average council tax increase in England in 2004-05 was 5.9%.
- In 2005-06, the budgets of eight authorities were capped in-year and a notional budget was set for one authority.
- The average council tax increase in England in 2005-06 was 4.1%.
- The Government judged authorities' 2005-06 budget requirements to be excessive, if they increased their budget requirement between 2004-05 and 2005-06 by more than 6% and council tax by more than 5.5%.

- 2.2.11 **Table 2.2e** shows trends in average council taxes since 1993-94, expressed in two ways: the average Band D figure (including amounts funded by Council Tax Benefit); and the average council tax per dwelling. The table also gives figures for increases in the **Retail Price Index (RPI)** and average UK earnings.
- 2.2.12 The average council tax per dwelling is lower than the average Band D council tax. This is partly because most dwellings are in bands lower than Band D; and partly because properties that are subject to a discount (for example for a single person, or because it is a second home) are counted as a whole property in the calculation of average council tax per dwelling, but as only part of a property in the calculation of the average Band D council tax.

- Band D council taxes, including amounts funded by benefit, increased by about 114% in cash terms or 57% in real terms between 1993-94 and 2005-06.

Table 2.2e: Average council taxes and increase in Retail Prices Index 1993-94 to 2005-06

	Council tax <sup>(a)</sup>			Average per dwelling £	Retail Prices Index %	Average UK earnings <sup>(c)</sup> %
	Band D, 2 adults for area					
	£	% increase	% increase real terms <sup>(b)</sup>			
1993-94 <sup>(d)</sup>	568	-	-	456	-	-
1994-95 <sup>(d)</sup>	580	2.1	-0.4	473	2.6	3.0
1995-96 <sup>(d)</sup>	609	5.0	1.6	498	3.3	4.0
1996-97 <sup>(d)</sup>	646	6.1	3.6	525	2.4	3.4
1997-98 <sup>(d)</sup>	688	6.5	4.0	564	2.4	3.8
1998-99 <sup>(d)</sup>	747	8.6	4.4	614	4.0	5.8
1999-00	798	6.8	5.1	656	1.6	4.1
2000-01	847	6.1	3.0	697	3.0	4.5
2001-02	901	6.4	4.5	741	1.8	5.3
2002-03	976	8.2	6.7	804	1.5	3.9
2003-04	1,102	12.9	9.5	908	3.1	2.5
2004-05 <sup>(d)</sup>	1,167	5.9	3.3	967	2.5	4.6
2005-06 <sup>(d)</sup>	1,214	4.1	0.8	1,009	3.2	4.2
<b>% change 1993-94 to 2005-06</b>		<b>113.8</b>	<b>56.8</b>	<b>121.3</b>	<b>36.3</b>	<b>61.7</b>

Source: BR1, BR2, BR3 and CTB1 returns

(a) Amounts shown are headline taxes, before transitional reliefs and benefits.

(b) Adjusted using the All Items Retail Prices Index (RPI) as at April each year.

(c) Change in the Average Earnings Index for the whole economy at April each year.

(d) Amounts shown are after capping.

- The difference between Band D council tax and the average council tax per dwelling is greater in the northern regions of the country. This is mainly due to lower average property prices in the North.
- The average Band D council tax in rural areas has been higher than in urban areas since 2001-02, whilst the opposite was true before then.

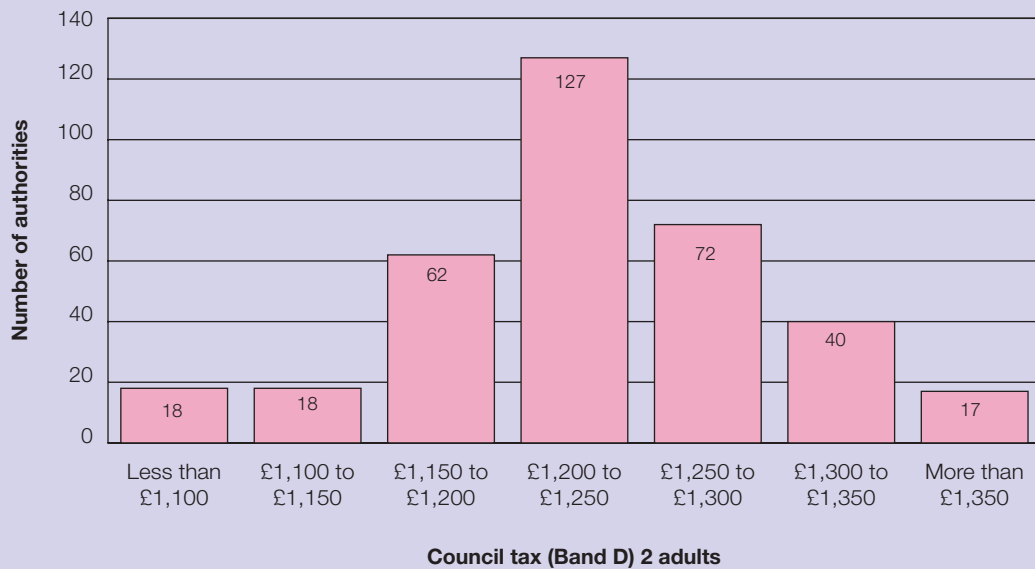
Table 2.2f: Average council taxes by region and class 1998-99 to 2005-06

	Band D council tax <sup>(a)</sup> , 2 adults for area								£
									Average per dwelling
	1998-99 <sup>(b)</sup>	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 <sup>(b)</sup>	2005-06 <sup>(b)</sup>	2005-06 <sup>(b)</sup>
North East	841	895	940	987	1,068	1,161	1,229	1,280	891
North West	856	901	943	991	1,044	1,135	1,187	1,235	918
Yorkshire & the Humber	768	810	852	906	971	1,071	1,132	1,182	876
East Midlands	776	834	887	939	1,030	1,125	1,198	1,242	952
West Midlands	757	812	861	922	994	1,093	1,151	1,197	939
East of England	709	768	822	878	969	1,115	1,186	1,232	1,078
London	687	731	778	841	895	1,058	1,119	1,162	1,078
South East	710	764	813	866	949	1,098	1,169	1,218	1,147
South West	731	782	836	886	978	1,113	1,186	1,236	1,054
<b>Total England</b>	<b>747</b>	<b>798</b>	<b>847</b>	<b>901</b>	<b>976</b>	<b>1,102</b>	<b>1,167</b>	<b>1,214</b>	<b>1,009</b>
<i>of which:</i>									
<i>Inner London</i>	658	679	708	757	797	942	987	1,020	924
<i>Outer London</i>	703	760	818	889	952	1,125	1,197	1,247	1,174
<i>Metropolitan areas</i>	833	878	919	968	1,017	1,098	1,143	1,190	849
<i>Shire unitary authorities</i>	736	779	825	879	958	1,066	1,145	1,197	937
<i>Shire district areas</i>	738	796	848	903	992	1,129	1,198	1,245	1,087
<i>Rural areas <sup>(c)</sup></i>	738	794	846	902	989	1,121	1,191	1,239	1,086
<i>Urban areas <sup>(c)</sup></i>	753	801	847	901	967	1,090	1,151	1,198	964
	Band D council tax <sup>(a)</sup> , 2 adults for area								% increase
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 <sup>(b)</sup>	2005-06 <sup>(b)</sup>		
North East	6.3	5.1	5.0	8.3	8.7	5.9	4.1		
North West	5.3	4.7	5.1	5.3	8.7	4.6	4.1		
Yorkshire & the Humber	5.4	5.2	6.4	7.1	10.3	5.7	4.4		
East Midlands	7.4	6.4	5.9	9.7	9.2	6.5	3.7		
West Midlands	7.3	6.1	7.1	7.8	10.1	5.3	4.0		
East of England	8.4	7.0	6.8	10.4	15.1	6.3	3.9		
London	6.4	6.5	8.1	6.4	18.2	5.8	3.8		
South East	7.7	6.4	6.5	9.6	15.7	6.4	4.2		
South West	7.0	6.9	5.9	10.4	13.8	6.5	4.3		
<b>Total England</b>	<b>6.7</b>	<b>6.1</b>	<b>6.4</b>	<b>8.2</b>	<b>12.9</b>	<b>5.9</b>	<b>4.1</b>		
<i>of which:</i>									
<i>Inner London</i>	3.3	4.2	6.9	5.4	18.1	4.8	3.3		
<i>Outer London</i>	8.1	7.7	8.6	7.1	18.2	6.4	4.1		
<i>Metropolitan areas</i>	5.3	4.7	5.3	5.1	8.0	4.1	4.1		
<i>Shire unitary authorities</i>	5.9	5.9	6.5	9.0	11.3	7.4	4.6		
<i>Shire district areas</i>	7.9	6.5	6.5	9.9	13.8	6.1	3.9		
<i>Rural areas <sup>(c)</sup></i>	7.6	6.6	6.5	9.7	13.3	6.3	4.0		
<i>Urban areas <sup>(c)</sup></i>	6.3	5.7	6.4	7.3	12.7	5.6	4.1		
Source: BR1, BR2 and BR3 returns.									
(a) Amounts shown are headline taxes, before transitional relief and benefits.									
(b) Amounts shown are after capping.									
(c) Based on an aggregate of the 3 Rural and 3 Urban categories within the Rural Definition and Local Authority Classification published by Defra 2005 (see <a href="http://www.statistics.defra.gov.uk/esg/rural_resd/rural_definition.asp">www.statistics.defra.gov.uk/esg/rural_resd/rural_definition.asp</a> for more detail).									

2.2.13 Whilst high Band D council tax is concentrated in the North and the Midlands (see **Map 2.2g**), high average council tax per dwelling (that is the average council tax paid by a household) is concentrated in the South East of England (see **Map 2.2h**).

- For 74% of the 354 billing authorities, the Band D area council tax for 2005-06 is between £1,150 and £1,300.

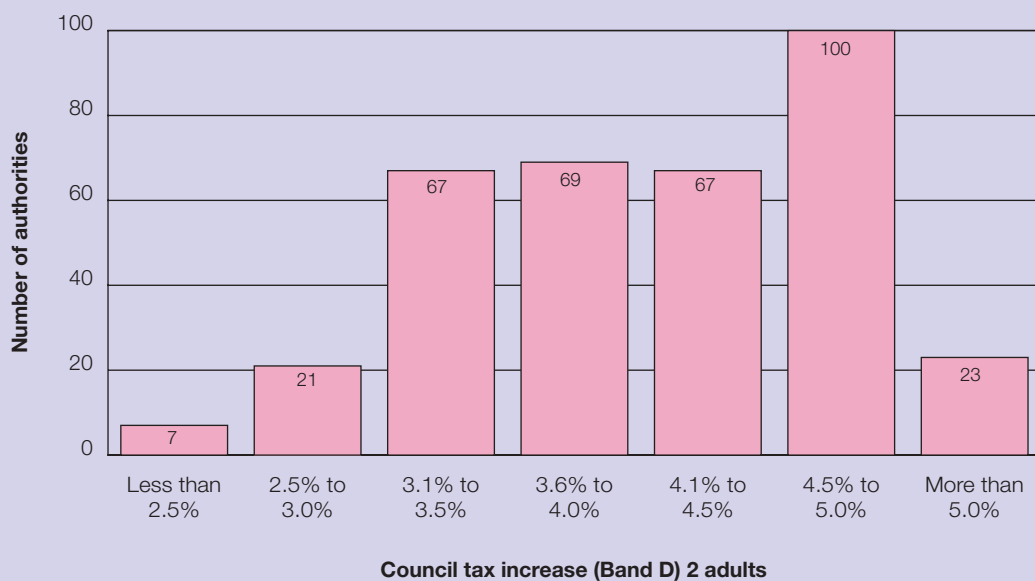
**Chart 2.2i: Distribution of authorities by area council tax, Band D, 2 adults, 2005-06**



Source: BR1 returns

- For 86% of the 354 billing authorities, the percentage increase in Band D area council taxes between 2004-05 and 2005-06 was between 3.1% and 5% and for 8% of the 354 billing authorities, the percentage increase was less than 3%.

**Chart 2.2j: Distribution of authorities by area council tax increase, Band D, 2 adults, 2005-06**



Source: BR1 returns

- 2.2.14 Not every property on the valuation list is liable to pay a full council tax, which is partly based on the property and partly based on the occupants of the property. Some properties are exempt, for example due to being empty for less than six months, or subject to a discount. The full council tax bill assumes that there are two adults living in a dwelling. If only one adult lives in a dwelling (as their main home), the council tax bill is reduced by a quarter (25%).
- 2.2.15 Before 1 April 2004, the council tax bill for a dwelling which was no-one's main home was reduced by a half (50%) in all local authority areas. However, since 1 April 2004, the Local Government Act 2003 has given councils in England the choice to apply council tax discounts of between 10% and 50% for second homes, to reduce or end discounts for long term empty property, and to grant discretionary discounts and exemptions.
- For 2005-06, 209 out of the 354 billing authorities reduced the discount for second homes in their area;
  - 158 billing authorities removed or reduced the discount for long-term empty homes in their area;
  - 26 billing authorities reported they had used the power to grant discretionary discounts or exemptions between 1 April and 1 November 2004.
- 2.2.16 Certain people are not counted when looking at the number of adults resident in a dwelling, such as students and severely mentally impaired people. More detailed information on council tax exemptions is set out in **Table B1** and **Table B2** of **Annex B**. Council tax exemptions are taken into account by billing authorities when they calculate their taxbase (the number of Band D equivalent properties in their area).

- Of the 21.1 million chargeable dwellings in England as at 11 October 2004, 0.5 million (2%) were entitled to a 50% discount and 7.5 million (35%) were entitled to a 25% discount.

Table 2.2k: Number of chargeable dwellings<sup>(a)</sup>

	2001	2002	2003	2004
				'000s
Total number of dwellings on valuation lists	21,369	21,512	21,662	21,825
Number of dwellings exempt from council tax	647	653	667	692
Number of demolished dwellings	5	4	4	5
Number of chargeable dwellings for council tax purposes <sup>(b)</sup>	20,717	20,855	20,991	21,129
<i>Of which:</i>				
<i>a) Number entitled to a 50% discount</i>				
- <i>second homes</i> <sup>(c)</sup>	165	177	213	229
- <i>long-term empty homes</i> <sup>(d)</sup>	384	376	366	210
- <i>all residents disregarded</i>	38	33	29	38
- <b>Total</b>	<b>587</b>	<b>586</b>	<b>608</b>	<b>477</b>
<i>b) Number entitled to a 25% discount</i>				
- <i>single adults</i>	6,889	7,037	7,181	7,298
- <i>all but one resident disregarded</i>	227	217	195	187
- <b>Total</b>	<b>7,116</b>	<b>7,254</b>	<b>7,376</b>	<b>7,485</b>
<i>c) Long-term empty homes entitled to a discount of above zero and below 50%</i>				
- <b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>31</b>
<i>d) Not entitled to a discount</i>				
- <i>long-term empty homes</i> <sup>(d)</sup>	0	0	0	77
- <i>others</i>	13,014	13,015	13,007	13,058
- <b>Total</b>	<b>13,014</b>	<b>13,015</b>	<b>13,007</b>	<b>13,135</b>
Source: CTB1 and CTB1(S) returns				
(a) As at 1 November 2001, 16 October 2002, 16 October 2003 and 11 October 2004				
(b) Total dwellings on valuation list less those exempt from council tax and demolished dwellings				
(c) Some second homes subsequently subject to a discount of between 10% and 50%				
(d) Some long term empty homes subsequently subject to no discount, or one below 50%				

- Average in year council tax collection rates have been slowly increasing, and reached 96.6% nationally in 2004-05.
- The average in year council tax collection rate in Inner London Boroughs has risen by 16.9 percentage points in the period 1993-94 to 2004-05.

Table 2.2i: Collection rates<sup>(a)</sup>: Council tax 1993-94 to 2004-05

	Collection rate <sup>(a)</sup>							%
	All England authorities	Inner London boroughs <sup>(b)</sup>	Outer London boroughs	London boroughs	Metropolitan districts	Unitary authorities	Shire districts	
1993-94	92.6	76.0	90.0	86.0	91.0	90.0	95.0	
1994-95	93.4	80.0	91.8	88.0	92.0	90.0	95.1	
1995-96	94.5	84.4	92.9	90.1	93.6	90.0	95.8	
1996-97	95.3	86.7	93.8	86.7	94.6	90.0	96.2	
1997-98	95.5	88.0	93.8	91.8	95.0	94.5	97.2	
1998-99	95.6	88.5	93.8	92.0	94.9	94.9	97.1	
1999-00	95.6	88.7	93.7	92.1	94.8	95.1	97.1	
2000-01	95.8	89.6	94.3	92.8	95.1	95.0	97.2	
2001-02	96.1	91.1	94.9	93.7	95.2	95.3	97.4	
2002-03	96.4	91.9	95.0	94.1	95.2	95.7	97.6	
2003-04	96.5	92.0	95.0	94.1	95.6	95.5	97.8	
2004-05	96.6	92.9	95.1	94.3	95.8	95.8	97.8	

Source: QRC4 returns.

- (a) Receipts of annual council taxes collected by end of financial year as a percentage of net collectable debit. The net collectable debit is the council tax for the relevant year that authorities would collect if everyone liable paid, i.e. net of discounts, exemptions, disabled relief, transitional relief and council tax benefits.
- (b) Includes City of London.

2.2.17 The collection of council taxes continues once the financial year to which they relate has ended. This means that the final collection rate achieved is somewhere between the figures shown and 100%.

- It is estimated that £12 million of community charges and £1.7 billion of council taxes were outstanding as at 1 April 2004.

Table 2.2m: Outstanding arrears of community charge and council tax

	£ million			
	Community charge		Council tax	
	Estimated arrears at start of the year	Arrears collected	Estimated arrears at start of the year	Arrears collected
1998-99	500	38	1,100	302
1999-00	300	21	1,200	307
2000-01	277	13	1,255	343
2001-02	185	7	1,435	364
2002-03	140	4	1,486	401
2003-04	17	2	1,568	389
2004-05	12	1	1,658	426

Source: QRC4 returns, and CIPFA (for figures prior to 2003-04).

## 2.3 Business rates

2.3.1 Since 1 April 1990 most non-domestic properties in England have been liable to nationally-set business rates, which are also known as **national non-domestic rates (NNDR)** (or sometimes the unified business rate). Before 1990, business rates were set locally. Since then, they have been set nationally, and paid into a central pool. They are then distributed among local authorities on a per head basis, with the payments being regarded as a type of government grant. Further details of this are given in **section 2.4**.

2.3.2 Liable properties include public buildings, pipelines and advertising hoardings, as well as businesses. However, some non-domestic properties, such as agricultural land and associated buildings, and churches, are exempt. Each property liable to business rates is known as a hereditament, and is recorded on a rating list that is compiled and maintained by the Valuation Office Agency of HM Revenue and Customs.

**Table 2.3a: Number of non-domestic hereditaments on local rating lists at 1 April 2005**

Rateable value	Number of hereditaments (thousand)						Total
	Under £1,000	£1,000 to £4,999	£5,000 to £14,999	£15,000 to £24,999	£25,000 to £49,999	Over £50,000	
North East	6	30	21	6	5	6	74
North West	17	90	69	21	17	19	233
Yorkshire & the Humber	12	66	52	15	12	13	170
East Midlands	8	48	42	13	11	11	132
West Midlands	13	64	54	17	14	15	178
East of England	15	50	57	18	15	16	171
London	13	62	97	34	33	41	278
South East	13	65	83	27	24	27	240
South West	14	69	55	16	13	12	179
<b>Total England</b>	<b>110</b>	<b>545</b>	<b>530</b>	<b>166</b>	<b>144</b>	<b>161</b>	<b>1,656</b>
<b>% of Total</b>	<b>7</b>	<b>33</b>	<b>32</b>	<b>10</b>	<b>9</b>	<b>10</b>	<b>100</b>

Source: Valuation Office Agency.

2.3.3 Each property has a rateable value that is based, broadly, on the annual rent that the property could have been let for on the open market at a particular date (currently 1 April 2003, using a list compiled for 1 April 2005).

2.3.4 In broad terms, the rates bill for a property is the product of its rateable value and the relevant national non-domestic rating multiplier. For 2005/06, this is 41.5p in the pound for ratepayers eligible for small business rate relief, and 42.2p in the pound for other properties. Further adjustments may be made for other reliefs.

Table 2.3b: Rateable values on local rating lists at 1 April 2005

	£ million						Number of hereditaments (thousand)
	<b>Shops</b>	<b>Offices</b>	<b>Warehouses</b>	<b>Factories</b>	<b>Others</b>	<b>Total</b>	
North East	467	219	178	295	521	<b>1,681</b>	74
North West	1,293	809	881	757	1,693	<b>5,433</b>	233
Yorkshire & the Humber	910	513	593	648	1,187	<b>3,850</b>	170
East Midlands	648	308	629	617	953	<b>3,156</b>	132
West Midlands	910	614	822	764	1,219	<b>4,329</b>	178
East of England	1,005	770	840	650	1,368	<b>4,634</b>	171
London	2,445	5,404	1,139	505	2,958	<b>12,451</b>	278
South East	1,658	1,676	1,131	804	2,243	<b>7,511</b>	240
South West	895	536	519	443	1,236	<b>3,629</b>	179
<b>Total England</b>	<b>10,231</b>	<b>10,849</b>	<b>6,733</b>	<b>5,484</b>	<b>13,378</b>	<b>46,675</b>	<b>1,656</b>
<b>% of Total</b>	<b>22</b>	<b>23</b>	<b>14</b>	<b>12</b>	<b>29</b>	<b>100</b>	

Source: Valuation Office Agency.

2.3.5 Rate reliefs can be granted in certain circumstances by local authorities. Mandatory reliefs are automatic entitlements in any local authority area, and discretionary reliefs are granted at a local authority's discretion, and paid for by them. An example of these two types of relief is properties held by charities, which are automatically entitled to mandatory relief of 80% and where local authorities have the discretion to top the amount up to 100%.

2.3.6 In addition, at a revaluation, transitional arrangements are introduced which cap significant increases in bills. The 2005 transitional scheme phases in increases for a maximum of four years. The scheme has to be revenue neutral and so the cost of the relief is made good by phasing in the decreases in the rate bills of those who benefit from revaluation.

Table 2.3c: Mandatory and discretionary rate reliefs

	2002-03	2003-04	2004-05 <sup>(a)</sup>	£ million 2005-06 <sup>(a)</sup>
<b>Mandatory Reliefs</b>				
Small business <sup>(b)</sup>				33.3
Charity	601.5	612.1	634.9	678.4
Rural village shop	5.6	5.9	6.1	6.1
<i>of which:</i>				
General stores	0.7	0.8		
Post offices	1.0	1.0		
Public houses	2.0	2.1		
Petrol filling stations	0.7	0.7		
Food shops	0.7	0.7		
Mixture of the above	0.5	0.6		
Former agricultural premises	0.3	0.3	0.6	1.0
Partly occupied	41.3	35.8	39.7	36.8
Empty premises	1,100.6	1,098.5	1,160.5	1,253.3
Community amateur sports clubs			4.6	5.6
<b>Total</b>	<b>1,749.3</b>	<b>1,752.6</b>	<b>1,846.4</b>	<b>1,981.2</b>
<b>Discretionary Reliefs</b>				
Charity	6.2	6.9	7.0	7.7
Non-profit making bodies	26.1	28.7	27.5	27.2
Rural village shop	1.9	2.0	2.1	2.1
<i>of which:</i>				
General stores	0.4	0.4		
Post offices	0.5	0.5		
Public houses	0.5	0.5		
Petrol filling stations	0.1	0.2		
Food shops	0.2	0.2		
Mixture of the above	0.3	0.3		
Other small rural business	1.0	1.1	1.2	1.2
Former agricultural premises	0.0	0.1	0.1	0.1
Community amateur sports clubs			0.3	0.3
<b>Total</b>	<b>35.2</b>	<b>38.7</b>	<b>38.1</b>	<b>38.6</b>
Source: NNDR1 returns – figures for 2002-03 and 2003-04 are outturn; those for 2004-05 and 2005-06 are provisional.				
(a) Figures on the breakdown of reliefs for rural village shops are no longer collected.				
(b) Figure shown is the net cost of the relief after contributions generated to finance the small business relief.				

- The gross business rate yield from local lists has increased by 49% from £12.0 billion in 1990-91 to £17.9 billion in 2005-06. This is partially due to almost all crown properties moving to the local list. In addition, from 2000-01 certain hereditaments transferred from the central to the local list.
- Contributions to the pool from local lists has increased by 82% over the same period due to the effects of transition, and changes to the policy on mandatory and discretionary reliefs.

Table 2.3d: Business rate yields since 1990-91

	Multiplier (pence)	Local list					Central list receipts	£ million	
		Number of hereditaments <sup>(a)</sup> ('000s)	Rateable value <sup>(a)</sup>	Gross rate yield <sup>(b)</sup>	Net rate yield <sup>(b)</sup>	Contribution to the pool		CILOR <sup>(b)</sup>	
1990-91	34.8	...	29,292	10,397	9,253	8,964	1,016	610	
1991-92	38.6	1,616	30,990	12,027	10,601	10,355	1,100	463	
1992-93	40.2	1,629	31,142	12,270	10,374	9,821	1,098	462	
1993-94	41.6	1,630	30,323	12,423	10,251	9,088	1,095	445	
1994-95	42.3	1,623	29,678	12,254	10,255	8,646	1,114	548	
1995-96	43.2	1,622	29,672	12,781	10,524	9,294	1,192	481	
1996-97	44.9	1,623	29,873	13,370	11,252	10,659	1,221	487	
1997-98	45.8	1,617	29,707	13,493	11,617	11,129	1,207	469	
1998-99	47.4	1,617	29,337	13,846	11,919	11,183	1,273	440	
1999-00	48.9	1,625	37,770	14,308	12,383	11,669	1,319	332	
2000-01	41.6	1,632	39,068	16,186	13,698	12,876	868	9	
2001-02	43.0	1,638	39,607	16,952	14,778	14,253	1,048	12	
2002-03	43.7	1,642	39,586	17,196	15,220	14,485	1,044	8	
2003-04	44.4	1,645	39,466	17,463	15,464	14,400	1,029	11	
2004-05	45.6	1,651	46,280	17,880	15,853	15,655	1,037	10	
2005-06	41.5 <sup>(c)</sup>	-	-	19,206	16,505	16,308	1,102	11	

Source: NNDR1 and NNDR3 returns

(a) As at 31 December. These figures are as reported on the NNDR1 form for the following financial year.

(b) Contributions in lieu of rates for crown properties.

(c) This figure applies to ratepayers eligible for small business rate relief. 42.2p in the pound applies to other properties.

- Whilst 31% of the population live in London and the South East, these regions account for 43% of the net business rate yield.

Table 2.3e: Business rate yields by region 2005-06

Region	Net rate yield £ million	Proportion of net rate yield %	Proportion of total population %
North East	614	3.7	5.1
North West	1,885	11.4	13.6
Yorkshire & the Humber	1,412	8.6	10.1
East Midlands	1,118	6.8	8.5
West Midlands	1,533	9.3	10.7
East of England	1,635	9.9	10.9
London	4,364	26.4	14.8
South East	2,662	16.1	16.2
South West	1,282	7.8	10.0
<b>Total England</b>	<b>16,505</b>	<b>100.0</b>	<b>100.0</b>

Source: NNDR1 returns

- The average in-year business rate collection rate has been gradually increasing, reaching 98.3% nationally in 2003-04, a figure maintained in 2004-05.

Table 2.3f: Collection rates<sup>(a)</sup>: business rates 1998-99 to 2004-05

	All English authorities	Inner London boroughs <sup>(b)</sup>	Outer London boroughs	London boroughs	Metropolitan districts	Unitary authorities	Shire districts	%
1998-99	96.7	95.6	93.8	94.9	97.1	96.8	97.7	
1999-00	97.2	97.0	95.1	96.2	97.0	97.1	97.9	
2000-01	97.4	96.8	96.7	96.8	97.3	97.3	97.9	
2001-02	97.9	97.9	97.1	97.6	97.4	97.9	98.2	
2002-03	98.2	98.0	98.1	98.0	97.8	98.1	98.5	
2003-04	98.3	98.5	98.2	98.4	97.8	97.8	98.6	
2004-05	98.3	98.3	98.3	98.3	97.9	98.1	98.7	

Source: QRC4 returns

(a) Calculated as receipts of annual business rates collected by end of financial year as a percentage of net collectable debit. The net collectable debit is the business rate for the relevant year that authorities would collect if everyone liable paid ie, net of relief or voids.

(b) Includes the City of London.

2.3.7 As with council taxes, the collection of business rates continues once the financial year to which they relate has ended; this means that the final collection rate achieved is somewhere between the figures shown and 100%.

- It is estimated that £713 million of business rate arrears were outstanding as at 31 March 2005.

Table 2.3g: Business rate arrears 1998-99 to 2004-05

	£ million					
	Arrears at start of the year	Debit raised	Amount received (for arrears) <sup>(a)</sup>	Amount received (for current year)	Estimated write-offs	Arrears at end of year
1998-99	840	11,837	-88	11,450	490	825
1999-00	825	12,301	-102	11,951	419	858
2000-01	858	13,607	-236	13,255	582	864
2001-02	864	14,737	-44	14,421	433	791
2002-03	791	15,172	-210	14,891	576	706
2003-04	706	15,368	-527	15,102	818	680
2004-05	680	17,592	367	16,764	428	713

Source: NNDR3 and QRC4 returns.

(a) A negative figure means that the increase in amounts due for previous years exceeded the arrears collected.

- 2.3.8 Having been collected, the income from business rates is paid into a central pool and is then redistributed to local authorities on the basis of population. Each year, the Government estimates how much will be redistributed from the pool in the forthcoming year, based on the amount likely to be paid into it and the difference in previous years between the amounts payable to the pool and the amounts paid from it. This is known as the **Distributable Amount**. The calculation of the Distributable Amount for 2005-06 is shown in **Table 2.3h**.
- 2.3.9 Business rates come mainly from two sources: properties on local rating lists (which from 2000-01 have included Crown properties, such as central government properties and Ministry of Defence establishments) and properties on the central list (such as national utilities and pipelines etc). The income from properties on local rating lists is collected by billing authorities and paid by them into the pool.
- 2.3.10 Ratepayers can find further information on non-domestic rates on the VOA managed website [www.mybusinessrates.gov.uk](http://www.mybusinessrates.gov.uk)
- 2.3.11 Further information on rateable values and business rates is given in the HM Revenue and Customs's *Non-domestic rating in England and Wales*, which can be seen at [www.hmrc.gov.uk/stats/non\\_domestic/menu.htm](http://www.hmrc.gov.uk/stats/non_domestic/menu.htm). Further information on rateable values can also be seen in *Commercial and Industrial Floorspace Statistics* in the *Planning statistics* section of the *Planning section* of the ODPM website.

- The amount being redistributed to local authorities in 2005-06 is £18.0 billion.

Table 2.3h: Calculation of the Distributable Amount for 2005-06<sup>(a)</sup>

	2002-03	2003-04	2004-05	£ million
	Outturn <sup>(b)</sup>	Outturn <sup>(b)</sup>	Provisional outturn	2005-06 Estimated in-year contribution
1. Income from Local lists				
Multiplier (pence)	43.7	44.4	45.6	41.5
Gross Rate Yield	17,195	17,322	17,880	19,468
(i) Reliefs				
(a) Net Transitional Relief	-182	-119	-98	0
(b) Empty or partly occupied properties	-1,144	-1,228	-1,244	-1,355
(c) Charitable	-602	-616	-636	-692
(d) Rural shops & post offices	-6	-6	-6	-7
(e) Community amateur sports clubs	-	-	-4	-5
(f) Discretionary	-42	-39	-38	-41
Net Yield after reliefs	15,220	15,315	15,853	17,368
(ii) Collection costs/reductions to contributions				
(a) Costs of collection	-84	-84	-84	-84
(b) Losses on collection	-106	-88	-114	-124
(c) City of London offset	-7	-7	0	0
Total contribution in respect of year	15,024	15,136	15,655	17,160
(iii) Repayments/interest payments				
(a) Interest on repayments	-59	-78	-40	-31
(b) Repayments	-479	-774	-448	-345
<b>Net Local Yield</b>	<b>14,485</b>	<b>14,284</b>	<b>15,167</b>	<b>16,784</b>
2. Income from Central list				
<b>Net Central List Yield</b>	<b>1,044</b>	<b>1,029</b>	<b>1,037</b>	<b>1,114</b>
3. Income from former crown list				
<b>Net Crown Yield</b>	<b>8</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total NNDR Yield</b>	<b>15,537</b>	<b>15,323</b>	<b>16,214</b>	<b>17,908</b>
4. Exchequer contributions				
Total Exchequer contributions	41	111	59	0
<b>Total NNDR pool payments<sup>(c)</sup></b>	<b>15,578</b>	<b>15,434</b>	<b>16,273</b>	<b>17,908</b>
5. Adjustments				
Surplus brought forward	133	-915	-1,081	193
Combined total	15,711	14,519	15,193	18,100
<b>Distributable Amount</b>	<b>16,626</b>	<b>15,600</b>	<b>15,000</b>	<b>18,000<sup>(d)</sup></b>
Surplus carried forward	-915	-1,081	193	

Source: NNDR1, 2 and 3 returns and HM Revenue and Customs

(a) Figures shown are those used in the calculation of the Distributable Amount for 2005-06 in the autumn of 2004. Some of them have changed since then.

(b) Includes provisional figures for a few local authorities.

(c) Calculated by adding income from local lists, income from central list, income from crown and Exchequer contributions.

(d) The calculation involves estimating several figures that are inherently difficult to forecast accurately. The resulting figure of £18.100 billion has therefore been rounded to £18 billion to avoid spurious accuracy.

## 2.4 Revenue grants

- 2.4.1 The main non-housing revenue grants are referred to collectively as **Aggregate External Finance (AEF)**. AEF includes **Revenue Support Grant (RSG)**, **redistributed business rates** and certain specific grants. From 2003-04, redistributed business rates, RSG and Police Grant (where appropriate) were distributed together as **Formula Grant**. Specific grants are distributed by individual government departments.
- 2.4.2 AEF does not include housing subsidy, which is administered and recorded separately, as part of the **Housing Revenue Account (HRA)**. See **Chapter 3** for further details of housing subsidy.

- In 2003-04 AEF was £57.4 billion, up from £49.3 billion in 2002-03. The figures are not, however, directly comparable between years, due to changes in the responsibility for various functions.
- Between 2002-03 and 2003-04, specific and special grants increased by £4.5 billion to £13.4 billion. This was partly due to the introduction of Supporting People grant in 2003-04, which accounted for £1.6 billion of this increase. In addition, Greater London Authority (GLA) Transport grant increased by £1.7 billion from 2002-03 to 2003-04.

Table 2.4a: **Aggregate external finance provided to local authorities, 1998-99 to 2003-04**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million
Revenue Support Grant	19,480	19,875	19,437	21,093	19,889	24,215	
Redistributed business rates <sup>(a)</sup>	12,524	13,612	15,400	15,137	16,626	15,600	
Police grant	3,375	3,505	3,627	3,798	3,808	4,079	
Specific & special grants	2,334	2,921	4,671	6,552	8,901	13,447	
SSA Reduction grant	102	68	18	2	0	0	
Central support protection grant	0	51	34	1	0	0	
City of London offset	7	7	7	7	7	7	
Transitional grant	11	0	0	0	0	0	
General GLA grant	0	0	22	23	28	36	
<b>TOTAL GRANTS TO LAs</b>	<b>37,833</b>	<b>40,039</b>	<b>43,217</b>	<b>46,613</b>	<b>49,259</b>	<b>57,384</b>	

Source: Revenue Summary (RS) returns  
(a) In addition, for 2003-04, the City of London has received and retained approximately £4 million from the use of its own multiplier.

- The average grant per head towards revenue expenditure in 2003-04 was £1,151.
- At a regional level, figures varied from £885 in the South East to £1,244 in the North East and £1,844 in London.

Table 2.4b: Grants towards revenue expenditure by region, 2003-04

	£ million									
	North East	North West	Yorkshire & the Humber	East Midlands	West Midlands	East of England	London	South East	South West	Total England
Revenue Support Grant	1,480	3,819	2,611	1,758	2,696	2,050	5,349	2,740	1,711	24,215
Redistributed business rates	798	2,135	1,576	1,324	1,671	1,711	2,284	2,540	1,565	15,604
Police grant	218	560	378	269	393	333	1,115	501	312	4,079
Specific & special grants	662	1,775	1,142	806	1,119	842	4,831	1,368	902	13,447
City of London offset	0	0	0	0	0	0	7	0	0	7
General GLA Grant	0	0	0	0	0	0	36	0	0	36
<b>Total</b>	<b>3,158</b>	<b>8,289</b>	<b>5,707</b>	<b>4,158</b>	<b>5,879</b>	<b>4,936</b>	<b>13,621</b>	<b>7,149</b>	<b>4,491</b>	<b>57,388</b>
<b>Amounts per head</b>										<b>£</b>
Revenue Support Grant	583	561	521	413	507	375	724	339	342	486
Redistributed business rates	314	314	315	311	314	313	309	314	313	313
Police grant	86	82	75	63	74	61	151	62	62	82
Specific & special grants	261	261	228	190	210	154	654	169	180	270
City of London offset	0	0	0	0	0	0	1	0	0	0
General GLA Grant	0	0	0	0	0	0	5	0	0	1
<b>Total</b>	<b>1,244</b>	<b>1,218</b>	<b>1,139</b>	<b>978</b>	<b>1,105</b>	<b>904</b>	<b>1,844</b>	<b>885</b>	<b>898</b>	<b>1,151</b>
Source: Revenue Summary (RS) returns and ONS mid-year population estimates										

2.4.3 Formula Grant (RSG, redistributed business rates and Police Grant) is the largest revenue grant paid to local government. It is not provided for a specific purpose and so can be spent on any service. From 1990-91 to 2002-03, it was allocated to local authorities through the **Standard Spending Assessments (SSA)** system. Following an extensive review of the Formula Grant Distribution System, from 2003-04 Formula Grant is being allocated to authorities using the new **Formula Spending Shares (FSS)** system. The current system is built on a basic 'per client' amount for each service area with top ups for deprivation, area costs etc. Formula Grant also takes into account each authority's expected ability to collect local income from council tax.

**Table 2.4c: Distribution of specific grants across services, 1998-99 to 2003-04**

	£ million					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 <sup>(a)</sup>
Education	538	917	2,117	3,297	3,919	-
Social Services	660	912	1,141	1,537	2,478	-
Police	95	3	37	138	343	-
Highways	-	-	100	304	213	-
EPCS	1,027	1,055	1,220	1,185	1,815	-
Capital financing	14	46	55	90	133	-
<b>Total</b>	<b>2,334</b>	<b>2,921</b>	<b>4,671</b>	<b>6,552</b>	<b>8,901</b>	<b>13,447</b>

Source: Revenue Grant (RG) returns

(a) Most specific grants, such as Education Standards Fund or School Standards grants, are allocated to particular service areas. However, specific formula grants such as Neighbourhood Renewal Fund Grant and Supporting People grants can fund a variety of services. The increasing proportion of such grants means that, from 2003-04, it is no longer possible to give accurate figures for specific grants by service block.

2.4.4 Further information on specific grants in 2003-04 (outturn figures) and 2005-06 (budget figures) are given in **Table C2b** and **Table C4b** of **Annex C**.

## 2.5 Sales, fees and charges

2.5.1 Sales, fees and charges are the amounts received by local government as a result of providing a service. They vary widely between services in both the amount of money involved, and their nature, for example library fines and planning application fees.

- Sales, fees and charges totalled £9.5 billion in 2003-04, up from £8.9 billion in 2002-03.
- One of the biggest increases between 2002-03 and 2003-04 was for public transport. This was partly due to the introduction of congestion charging in central London.

**Table 2.5a: Sales, fees and charges by service area, 1998-99 to 2003-04<sup>(a)</sup>**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million
Education	1,216	1,167	1,411	1,718	1,915	1,911	
Highways and transport	726	838	928	1,040	1,216	1,566	
<i>of which:</i>							
<i>Highways</i>	67	112	131	160	173	145	
<i>Public transport</i>	659	726	797	880	1,043	1,421	
Social Services	1,851	2,041	2,208	2,303	2,384	2,169	
Housing (excluding HRA)	159	179	206	285	330	413	
Cultural, environmental and planning	1,217	1,330	1,443	1,629	1,811	2,046	
<i>of which:</i>							
<i>Cultural</i>	330	384	479	551	616	779	
<i>Environmental</i>	466	502	534	595	649	654	
<i>Planning and development</i>	421	444	430	483	546	614	
Police	142	152	217	238	192	315	
Fire	20	22	21	27	26	29	
Courts	6	6	10	7	11	17	
Central services	511	463	711	777	791	820	
Other <sup>(b)</sup>	306	256	176	139	185	168	
<b>Total</b>	<b>6,154</b>	<b>6,454</b>	<b>7,331</b>	<b>8,163</b>	<b>8,861</b>	<b>9,454</b>	

Source: Revenue Summary (RS) returns

(a) Sales, fees and charges for General Fund only.

(b) Includes probation services up to 2000-01, after which it ceased to be a local authority responsibility.