Department for
Communities and
Local Government

Business rates retention

Policy statement

November 2012
Department for Communities and Local Government

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BUSINESS RATES RETENTION: POLICY STATEMENT

OVERVIEW

1. Business rates retention is at the heart of the Government's reform agenda and will help achieve two of its key priorities: economic growth and localism.

2. England currently has one of the most centralised local government funding systems in the world. Business rates are collected by local government, pooled centrally by the Government and redistributed to local authorities through formula grant.

3. The rates retention scheme will provide a strong incentive for local authorities to promote growth, while ensuring all local authorities have adequate resources to provide services to local people. It will give councils every possible reason to use the influence they have over planning, investment in skills and infrastructure and their relationship with local businesses to create the right conditions for local economic growth. Economic analysis highlights that the incentive for growth introduced through these reforms could add approximately an additional £10 billion to the national economy over the next seven years[1].

4. The government published its firm proposals for business rates retention in December 2011 following wide consultation, alongside the introduction of the Local Government Finance Bill, which became an Act in November 2012 and gives effect to the reforms. In July 2012 the government published a technical consultation paper[2] setting out its detailed implementation proposals, designed in close consultation with the local government sector and expert practitioners.

5. This policy statement provides early confirmation of the Government's policy decisions in key areas following the summer consultation, ahead of the provisional Local Government Finance Settlement which will constitute the Government's formal response to consultation[3]. This will support local authorities in their preparations for smooth implementation of the business rates retention scheme from April 2013, by providing early confirmation of the Government's approach to the following key issues.

   - **Strengthening the incentive,** where the Government has changed the approach to the levy to increase the rewards for growth. The maximum levy will now be 50p in the pound. This translates into very real benefits for authorities: after the central

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[1] http://www.communities.gov.uk/documents/localgovernment/pdf/2146726.pdf
[2] http://www.communities.gov.uk/publications/localgovernment/businessratestechnical
[3] A summary of responses to the technical consultation will also be published alongside this.

share and levy payments, at least 25p in each extra pound of business rates generated locally will be retained locally, shared between billing authorities and any major precepting authorities.

- **Limiting risk,** where the Government has fixed the safety net at 7.5%, the most generous level within the range consulted upon, which will effectively guarantee authorities 92.5% of their original baseline funding under the scheme. This guarantee will be maintained in real terms, since baseline funding levels will be uprated by the Retail Price Index (RPI) for the purpose of calculating eligibility for the safety net[4]. Meanwhile, the Government can reiterate the 50:50 central-local share split.

- **Establishing start-up funding assessments and baseline funding levels**, where the Government is confirming the approach set out in the technical consultation, with changes to respond to consultees' views in three key areas. The Government will:
  - limit the funding held back for New Homes Bonus payments to the £500 million and £800 million required in 2013-14 and 2014-15 respectively, rather than the full £2 billion required in the steady state;
  - apply floor damping at authority level rather than service tier level in 2013-14; and
  - roll 50% of the London transport funding allocation net of the one off top up payment in relation to rail fares into the rates retention scheme by 2014-15, together with 50% of London's Bus Service Operators Grant every year across the entire reset period.

- **Volatility and appeals,** where the Government is confirming its proposals to supplement the support provided to authorities experiencing business rates volatility through the general safety net with a downward adjustment to the estimated business rates aggregate to ensure it provides a realistic assessment of authorities' 2013-14 business rates. In addition, the Government will make a further downward adjustment to the estimated business rates aggregate to provide for the impact of future appeals losses, in response to consultees' concerns about this issue.

- **Proportionate shares,** where the Government is moving from a calculation based on five years' worth of historical data (2007/08 – 2011/12), to a calculation based on two years' worth of data (2010/11 – 2011/12). This approach balances the need to smooth the effects of volatility with the benefits of using the most recent data available.

[4] Technically, the uprate is by the change to the small business rates multiplier.

- **Pooling,** where the Government has extended the original deadline for expressions of interest, and made a number of amendments to the Local Government Finance Bill during Lords Report stage to simplify the arrangements for designating a pool and the operation of a pool once established.
- **Major precepting authorities,** where the Government can confirm its proposals for sharing business rates between billing authorities and any major precepting authorities in their area, with 20%[5] flowing to county councils, 2% to single-purpose fire and rescue authorities and 40% to the Greater London Authority.
- **Mandatory and discretionary reliefs,** where the Government can confirm that any changes in the cost of existing mandatory and discretionary reliefs between resets will be shared 50:50 between central and local government, in line with the general principle of the rates retention scheme that both risks and rewards should be shared. For the avoidance of doubt, there is no change to the mandatory rate reliefs which eligible ratepayers (e.g. charities) actually receive.

6. Taken together, the Government considers that these policy decisions will result in a system that provides a strong growth incentive for authorities, while being underpinned by robust safety net protections.

7. The rest of this statement sets out the detail behind the above points. In addition, two annexes are included: an updated step-by-step guide to the scheme's workings; and a glossary of technical terms.

8. Any enquiries about the content of this statement should be sent to: brrtechnicalconsultation@communities.gsi.gov.uk

ESTABLISHING THE START UP FUNDING ASSESSMENT AND BASELINE FUNDING LEVELS

9. The starting point for the calculation of the start-up funding assessment is formula funding. This is largely based on the 2012-13 formula grant methodology. The only proposed differences are those announced in the December 2011 Government Response to the Business Rates Retention Consultation, i.e. changes to the Concessionary Travel Relative Needs Formula, the cost of rural services, and to the relative needs, relative resource and central allocation amounts. Funding for the central education services that are currently funded through the Local Authority Central Spend Equivalent Grant for academies will then be transferred out, and

[5] 18% where the County Council is not the Fire and Rescue Authority

funding for the special grants that are being rolled-in from 2013-14 will be added in, to form the start-up funding assessment.

10. The start-up funding assessment is funded through a mix of Revenue Support Grant and the local share (50% of the estimated business rates aggregate – see annex A for more details).

11. The technical consultation set out the methodology for establishing baseline funding levels and Revenue Support Grant allocations for each local authority. The Government can now confirm these proposals will be implemented as set out in the consultation paper with exceptions in the following areas: New Homes Bonus, floor damping in 2013-14 and Greater London Authority Transport Grant. The revised methodology for these three areas is set out below. Provisional numbers for individual authorities and the level of damping will be set out in the provisional Local Government Finance Settlement.

New Homes Bonus

12. An addendum to the technical consultation put forward an alternative option to removing the full £2 billion steady state cost in each of the seven years of the reset period, as proposed by the Settlement Working Group (made up of representatives from the sector). Their proposal was: "to remove only sufficient money in each year to fund the cost of the New Homes Bonus within that year"[6], and the Department for Communities and Local Government published an illustration of how the start-up funding assessment would be calculated under this proposal[7].

13. Respondents to the consultation were largely supportive of this option. The Government will therefore hold back £500 million and £800 million for the New Homes Bonus in 2013-14 and 2014-15 respectively. This, together with the £250 million in each year from the Communities and Local Government Departmental Expenditure Limit, will fund the New Homes Bonus in these years. Any surplus will be returned to local authorities pro-rata to the start-up funding assessment prior to the start of the financial year. Authorities will be notified of their provisional allocation as part of the provisional Local Government Finance Settlement.

Floor Damping

14. Responses to the consultation showed that most authorities did not support the move to tier-level damping in 2013-14. The Government has therefore decided that formula funding before floor damping will be calculated at service-tier level. The service tier allocations will

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[6] http://www.communities.gov.uk/documents/localgovernment/pdf/2203293.pdf
[7] http://www.local.communities.gov.uk/finance/brr/sumcon/index.htm

then be summed to an authority level and floor damping will be applied at this level. In order to calculate the 2014-15 Revenue Support Grant, the floor damping for those authorities that provide more than one tier of service will be split between service tiers pro-rata to their formula funding before floor damping.

Greater London Authority Transport Grant

15. The consultation paper proposed rolling half of the Greater London Authority Transport Grant into the baseline funding level in 2013-14 and 2014-15. This would have meant a different transfer amount for each year. Since the baseline funding level cannot differ across years, it would have been necessary to adjust the Revenue Support Grant allocations for other parts of the Greater London Authority budget to pay for this reduction.

16. The Government will therefore roll in 50% of the 2014-15 London transport funding allocation net of the one off top up payment in relation to rail fares, with the rest of the grant remaining on Department for Transport Departmental Expenditure Limit. In addition, the Department for Transport will roll in 50% of London's Bus Operators Support Grant across the entire reset period, which represents around half of the 2013-14 London allocation. The Bus Operators Support Grant consultation (which closed on 12 November) was on the basis of a transfer occurring in October 2013, i.e. halfway through the financial year.

SETTING UP THE BUSINESS RATES RETENTION SCHEME

Volatility and Appeals

17. Volatility of business rates income, including as a result of appeals, has been the subject of extensive discussions and consultations with local government throughout the development of the rates retention scheme. In particular, discussions have focused on whether it is possible to isolate and categorise specific types of alterations to the rating list so that the cost of these could be met by central or local government. However, neither central nor local government has found a solution which would adequately address this issue in a way which apportions risk and reward appropriately.

18. The technical consultation proposed two general measures to address the issue:

    (i) A calibration adjustment to the estimated business rates aggregate, as has been applied in previous years, to allow for historic differences between local authority forecast estimates and final outturn figures (where the latter have tended to be lower than the former). As the adjustment will be made to the aggregate, the same percentage reduction will apply to all authorities. In the 2012/13 forecast of business rates (set by the Office for Budget Responsibility), the adjustment was 5%.

(ii) A general safety net to protect those authorities which faced significant shocks in rates income, whatever the reason for the reduction.

19. The Government is of the view that these proposals remain the most appropriate practicable measures to address volatility.

20. However, in addition to the above, the Government has decided to make a further downwards adjustment to the estimated business rates aggregate to reflect the aggregate cost to local authorities of losses incurred as a result of successful appeals against the rating list which are still outstanding. This will allow local authorities to make the provisions for outstanding appeals they need to make in their accounts, without that squeezing their budgets in the early years.

Proportionate Shares

21. ‘Proportionate shares’ are the mechanism for apportioning the local share between authorities. They are based on the percentage of the national business rates yield that an authority has historically collected.

22. The technical consultation proposed that proportionate shares should be calculated as the average percentage of the national business rates yield collected by individual authorities over five years (2007-08 to 2011-12). This proposal was formulated in consultation with sector input (through the Local Government Finance Working Group and its sub-groups) and would have the advantage of reflecting volatility over a full revaluation cycle.

23. However, while many consultation responses supported this approach, others opposed it, as 2013-14 outcomes are likely to be closer to those of recent years than to a five-year average. The Local Government Association in particular has strongly supported looking afresh at the methodology, on the basis that a five-year average would potentially increase the risk of some authorities’ 2013-14 business rates being lower than assumed in their baselines.

24. In response to these concerns, the Government has decided to base proportionate shares on a two- rather than a five-year average. An average of 2010-11 and 2011-12 figures will be used (2012-13 figures will not be available in time). This approach

balances the need to smooth the effects of volatility with the benefits of using the most recent data available.

25. As a result of this change, the methodology used to calculate proportionate shares – as set out in the July technical consultation – will also change slightly. In particular, it will no longer be necessary to use a revaluation factor, and the deferred amounts from the increase in the multiplier in 2009-10 being repaid in 2010-11 and 2011-12 will be adjusted for.

26. Government has today published the proportionate shares which it will use as the basis for calculation of business rate baselines. These can be found at the following link:

    http://www.local.communities.gov.uk/finance/1314/settle.htm

Pooling

27. As part of the rates retention scheme, local authorities will be able to pool their business rates for the purpose of making certain calculations, giving them scope potentially to generate additional growth through collaborative effort, and to smooth the impact of volatility in rates income across a wider economic area.

28. In May 2012, a pooling prospectus was published[8] that set out the opportunities that pooling presents and the process for formally designating pools. The prospectus invited local authorities to come forward with expressions of interest. The Government has worked with local authorities to develop the detailed proposals. Final proposals were submitted by the deadline of 9 November 2012.

29. In light of the changes outlined in this policy statement, the Government recognises that authorities might wish to reassess their positions with regard to pooling before designations are made. Local authorities who have submitted final proposals will need to confirm the pool make up by midday on 5 December.

30. For a pool to come into effect, the Secretary of State must make a pooling designation. This will be done in advance of the publication of the draft Local Government Finance Report. Once designated, a pool will be treated as a single body for the purpose of calculating its tariff or top-up and any levy or safety net payments. If local authorities wish to withdraw from a designated pool they must notify the Department for Communities and Local Government of their intention within 28 days of the provisional Local Government Finance Report being published. Pools will continue from year to year until a designation is revoked.

[8] http://www.communities.gov.uk/publications/localgovernment/businessratespooling (The Pooling Prospectus was updated in July 2012).

31. In the New Year the Department for Communities and Local Government will undertake a lessons learned exercise, with a view to establishing a smoother implementation process for future years.

THE OPERATION OF THE RATES RETENTION SCHEME

Risk and Reward

32. The risks and rewards realised by local authorities under the rates retention scheme depend, in large measure, on the way that individual elements of the scheme interact with one other. The elements that critically affect risk and reward are the:

    i. size of the local share;

    ii. shares due to billing and major precepting authorities;

    iii. levy; and

    iv. safety net.

33. Many responses to the summer consultation raised concerns about the balance of risk and reward within the rates retention scheme. In particular, they were concerned about:

    i. The size of the reward that is available to authorities, particularly authorities with large tariffs (i.e. those with a high business rates baseline relative to their baseline funding level).

    ii. The potential downside risk to authority budgets of having to bear losses of 7.5% to 10% of business rates before the safety net provides protection.

34. In light of these concerns, the Government has considered whether any changes to the risk-reward balance are necessary. The results of these considerations are set out below.

Size of the local share

35. In relation to the central-local share, the Government can reiterate the 50:50 split as set out in the May 2012 Statement of Intent[9]. This split ensures that the scheme operates within spending control totals, which is critical to getting the fiscal deficit under control and making the scheme fiscally sustainable in future. By sharing

[9] http://www.communities.gov.uk/documents/localgovernment/pdf/2146264.pdf (revised in June 2012).

business rates in this way, the reward from positive growth, but also the risk from negative growth, will be borne by both central and local government. As set out in legislation, the central share of business rates will be used by central government in its entirety to fund the local government sector.

Shares due to billing and major precepting authorities

36. In two-tier areas, the Government will retain an 80:20 split of the local share (to lower and upper tiers respectively), as previously proposed (where county councils do not have fire and rescue service responsibilities, they will receive 18% of the local share, with the remaining 2% going to single purpose fire and rescue authorities). In London, the local share will be divided 60:40 (to London Boroughs/ City of London and the Greater London Authority respectively), again as previously proposed.

37. Any changes to the local share split would have only a marginal impact on reward under the scheme, principally because it is the levy that constrains the level of financial rewards from growth that authorities can keep.

Levy

38. The technical consultation proposed that the levy would be applied proportionally on a 1:1 basis. This would mean that the levy rate would be individually tailored such that, for each tariff authority, a 1% increase in business rates income would produce a corresponding 1% increase in its revenue from the rate retention scheme.

39. In response to the concerns about the balance between risk and reward in the scheme, the Government is increasing the rewards for growth by keeping a proportionate levy, but placing a limit on the maximum levy rate that will be imposed, at 50p in the pound. This translates into very real benefits for authorities: after the central share and levy payments, at least 25p in each extra pound of business rates generated locally will be retained locally, shared between billing authorities and any major precepting authorities in accordance with the above shares.

40. Authorities that become hosts to substantial new infrastructure, such as nuclear power stations, will see additional benefit through significantly increased business rates income.

41. An illustration of how the new levy structure will work is set out in the updated step-by-step guide at the end of this paper.

42. Any surplus levy will be returned to the sector. This will be subject to affirmative regulations and the Government will consult on drafts setting out the basis of distribution.

Safety net

43. The technical consultation proposed that a safety net would apply to any authority experiencing a decrease in their business rates revenue, such that no authority could see its income from the business rates retention scheme fall beyond a set percentage of its baseline funding level.

44. The consultation set out proposals for the safety net threshold to be between 10% and 7.5%. In other words the safety net guarantees authorities between 90% and 92.5% of their original baseline funding level under the scheme.

45. In response to the many comments received about the safety net, the Government will set the safety net threshold at 7.5%, the most generous level within the range consulted upon. This protection will be maintained in real terms, since baseline funding levels will be uprated annually by RPI for the purposes of calculating eligibility for the safety net[10].

46. Some authorities were concerned that a 7.5% safety net would not provide sufficient protection from loss of income. The Government remains of the view that moving to a scheme that provides a strong incentive for growth means councils should see the effects of both positive and negative movement in their local business rates yield. Furthermore, due to the other protections built into the scheme design and recognising that no authority is dependent on the business rates retention scheme for more than a third of their overall revenue resources, a 7.5% safety net is appropriate [11].

47. The technical consultation proposed holding back a maximum of £250 million for safety net support, in the event of insufficient funds being available from the levy in any year. Following consultation with the sector, work is continuing to determine what level of funding would be appropriate, and 2013-14 and 2014-15 figures will be announced by the time of the provisional Local Government Financial Settlement. Before the start of the financial year, the Government will be able, on the basis of estimates, to announce how much of the funding held back for safety net support is not required and can be returned to local government early in the financial year.

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[10] Technically, the uprate is by the change to the small business rates multiplier.
[11] Revenue resources defined here as income from council tax, revenue support grant, retained business rates and sales, fees and charges.

48. Taken together, the Government considers that these changes provide an appropriate balance of risk and reward, which will provide a strong growth incentive for many authorities, underpinned by robust safety net protections.

Mandatory and discretionary reliefs

49. Under the rates retention scheme, the existing costs of mandatory and discretionary reliefs will be accounted for within local authorities' business rates baselines. However, any changes in these costs between resets will be shared 50:50 between central and local government, in accordance with central-local shares. (Any new national policy changes to reliefs will be picked up through the New Burdens procedures).

50. Many respondents expressed concern at the idea of local government sharing half of any increase in the cost of mandatory reliefs. However, the Government believes that such a split is in line with the general principles of the rates retention scheme, i.e. that both risks and rewards are shared between central and local government.

51. For the avoidance of doubt, there is no change to the mandatory rate reliefs which eligible ratepayers (e.g. charities) actually receive.

Certification

52. Under the existing system the Audit Commission arranges for independent certification of National Non-Domestic Rates 3 Forms[12] However, we intend to introduce the Local Audit Bill as soon as Parliamentary time allows, which will abolish the residual Audit Commission by April 2015.

53. For the rates retention scheme, the revised forms will still need to be certified. The Government expects that the certification will be provided through alternate tripartite arrangements. Under this approach, the Secretary of State, through regulations and directions, will define the assurance requirements and set out the procedures. At the end of financial year the local authority will make arrangements for the assurance to be provided and ensure the requirements are met, most likely by the auditor who audits the local authority's accounts.

[12] The form submitted each June by billing authorities to their major precepting authority and central government to provide outturn data on their business rate income for that year.

NEXT STEPS

54. The Autumn Statement will be made on 5 December. This has implications for the timetable for the provisional Local Government Finance Settlement which the Government anticipates will be published in late December.

55. The Local Government Finance Act 2012 includes measures to introduce the business rates retention scheme. The Act secured Royal Assent on 31 October 2012. Draft regulations that implement the scheme were published on 25 October 2012 for consultation[13], with a view to making the necessary secondary legislation early in the New Year and bringing in the scheme from April 2013.

[13] http://www.communities.gov.uk/publications/localgovernment/businessratesdraftregs

ANNEX A:
EXEMPLIFICATION OF BUSINESS RATES RETENTION SCHEME UPDATED STEP-BY-STEP GUIDE

A step-by-step guide was issued alongside the technical consultation in July[14] to explain how the business rates retention scheme will be set up, and how it will operate. This annex updates that guidance to take account of where scheme parameters have been either revised or confirmed since July.

The numbers used in this document are for illustrative purposes only. Please note that they have been rounded; central government will use the precise numbers in undertaking the actual calculations.

Aggregate figures: control total, Start-up Funding Assessment, Estimated Business Rates Aggregate, central and local share, Revenue Support Grant

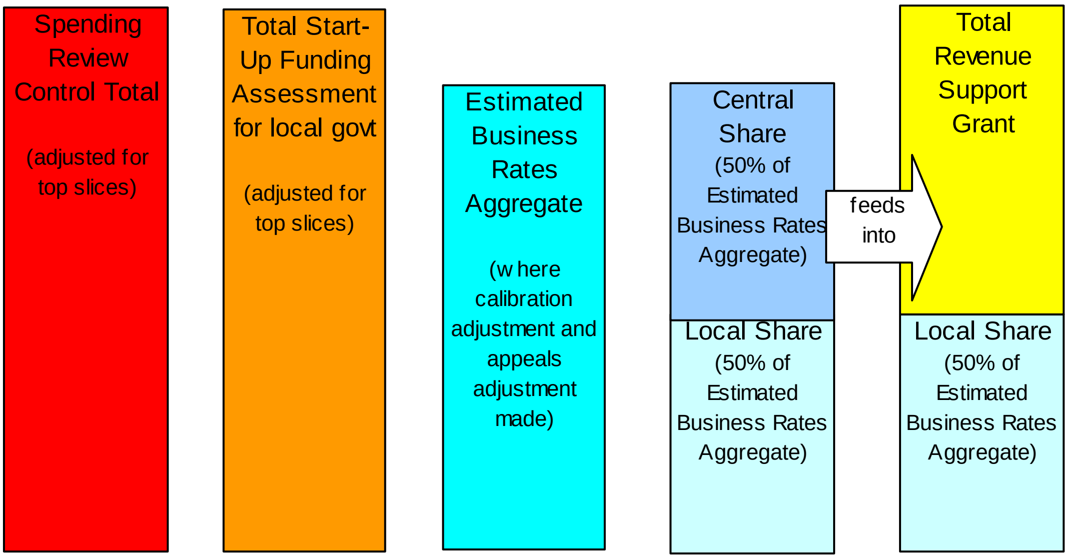
1. The total start-up funding assessment for local government is equal to the spending review control total for local government. Both of these are adjusted to take account of any top slices, including £500 million (in 2013-14) for the New Homes Bonus.

2. The adjusted aggregate start-up funding assessment is then composed of the local share of business rates plus Revenue Support Grant.

3. The local share is 50% of the estimated business rates aggregate (where the aggregate is calculated as per the July technical consultation[15], to take account of reliefs, losses in collection, etc., and two downwards adjustments – a calibration adjustment and an adjustment to reflect the cost of appeals – are also made). The remainder of the estimated business rates aggregate is the central share, which will be paid by billing authorities to central government. This will be used in its entirety to fund local government through Revenue Support Grant or other specific grants.

4. The total quantity of Revenue Support Grant in 2013/14 is the difference between the local share and the spending control totals (as adjusted for top slices) for local government. Revenue Support Grant will be funded from the central share and, if necessary, wider tax receipts.

[14] http://www.communities.gov.uk/publications/localgovernment/businessratesstepguide
[15] http://www.communities.gov.uk/publications/localgovernment/businessratestechnical



NB: in 2013/14

Spending control total: £26bn
Total start-up funding assessment: £26bn
Estimated business rates aggregate: £23bn
Central share: £11.5bn
Local share: £11.5bn
Total Revenue Support Grant: £14.5bn (spending control total minus local share)
NB: figures are for illustrative purposes only. Actual figures will be published with the provisional Local Government Settlement.

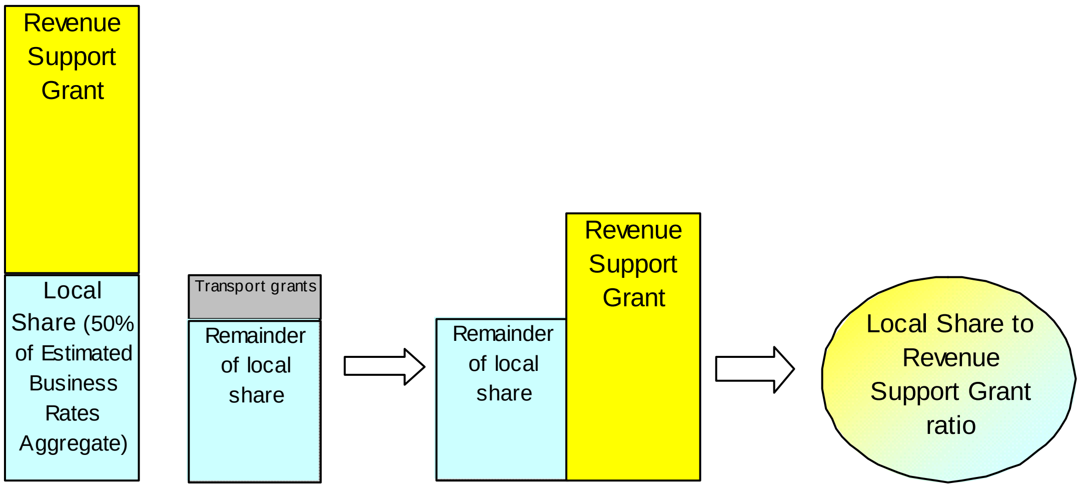
Getting from the aggregate figures to individual authority Start-Up Funding Assessment, baseline funding and Revenue Support Grant numbers

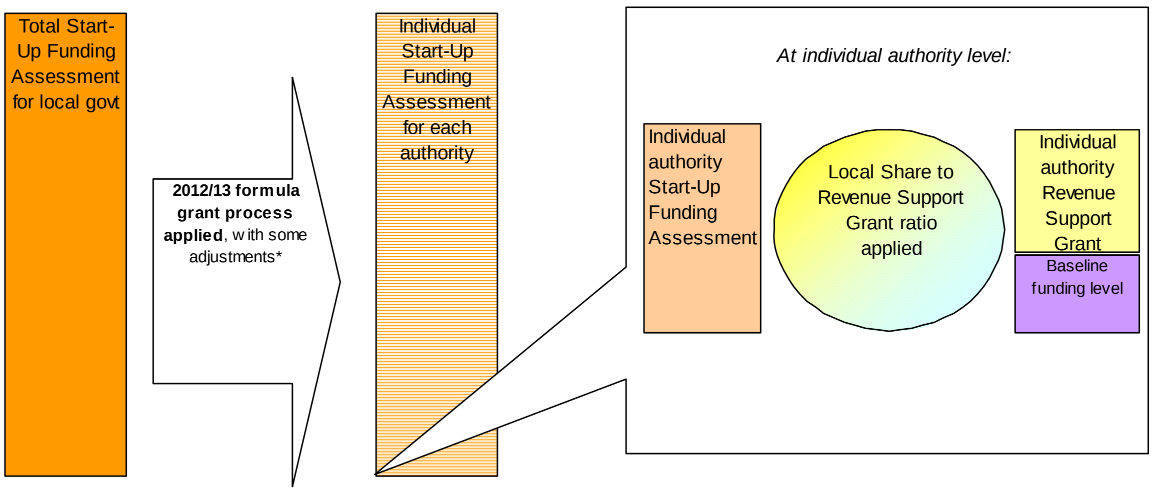
Calculating individual authority start-up funding assessments

5. The 2012/13 formula grant methodology is applied to the total start-up funding assessment, and some adjustments are made to arrive at start-up funding assessments for each authority. (Adjustments include: changes to the Concessionary Travel Relative Needs Formula; the transfer of funding for central education services that are currently funded through the Local Authority Central Spend Equivalent Grant; and the adding in of funding for special grants that are being rolled in from 2013-14).

Calculating the level of baseline funding and Revenue Support Grant for individual authorities

6. The Revenue Support Grant received by each authority, and baseline funding level for each authority, are then determined by applying the national Revenue Support Grant-local share split (where the Greater London Authority's Transport Grant and the London Bus Operators Grant has been deducted from the local share) to each authority's start-up funding assessment.





* These include: changes to the Concessionary Travel Relative Needs Formula, the transferral of funding for central education services, & the adding in of funding for special grants that are being rolled in from 2013-14

Revenue Support Grant: £14.5bn
Local share: £11.5bn
Greater London Authority transport grant: £0.77bn
London Bus Service Operators Grant: £0.045bn
Remainder of local share: £10.685bn (local share minus transport grants)
Local share to Revenue Support Grant ratio: 10.685: 14.5

Start-up funding assessment for authority A: £100m
Revenue Support Grant for authority A: £57.6m
Baseline funding level for authority A: £42.4m

Getting from the aggregate figures to individual authority business rates baselines

Using proportionate shares to calculate billing authority business rates baselines

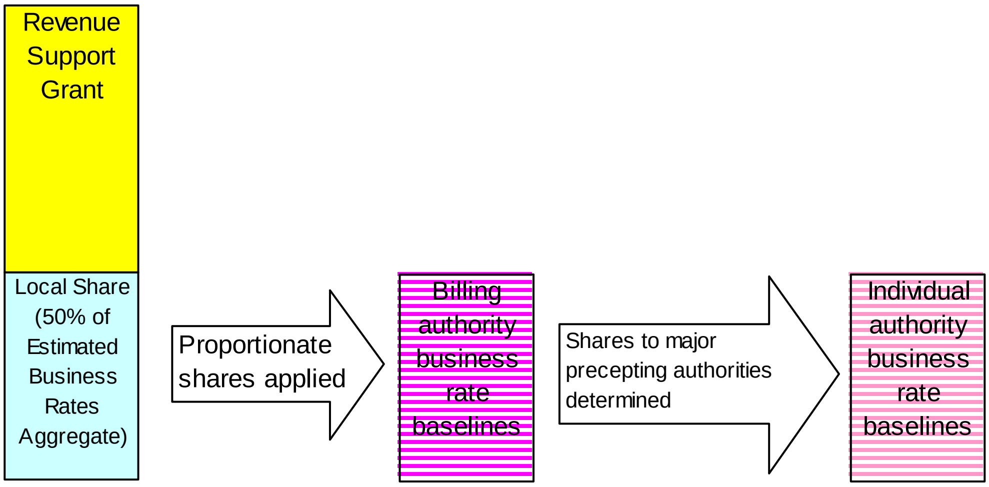
7. A business rates baseline is calculated for each billing authority by applying the authority's proportionate share to the local share of the estimated business rates aggregate. An authority's proportionate share is based on its historic individual business rates collection as a percentage of total historic business rates collected; an average of 2010-11 and 2011-12 adjusted figures will be used.

Local share: £11.5bn *Proportionate share percentage for billing authority A: 1%* *Billing authority business rates baseline for authority A: £11.5bn x 0.01= £115m*

Using tier splits to calculate individual authority business rates baselines

8. Each billing authority business rate baseline is then split between the billing authority and its major precepting authorities (on the basis of major precepting authority shares) to determine individual authority business rate baselines. Tier splits are set as follows:

    a. 80% for district councils;
    b. 20% for county councils which have responsibility for fire and rescue services;
    c. 18% for county councils which do not have fire and rescue service responsibilities;
    d. 2% for single purpose fire and rescue authorities;
    e. 100% for unitary authorities which have responsibility for fire and rescue services;
    f. 98% for unitary authorities which do not have fire and rescue service responsibilities;
    g. 60% for London Boroughs; and
    h. 40% for the Greater London Authority.



Billing authority business rates baseline for authority A: £115m
Individual authority business rates baseline for authority A @ 80%= £92m
Proportion of billing authority business rates baseline which is passed to major precepting authority B @ 20%= £23m

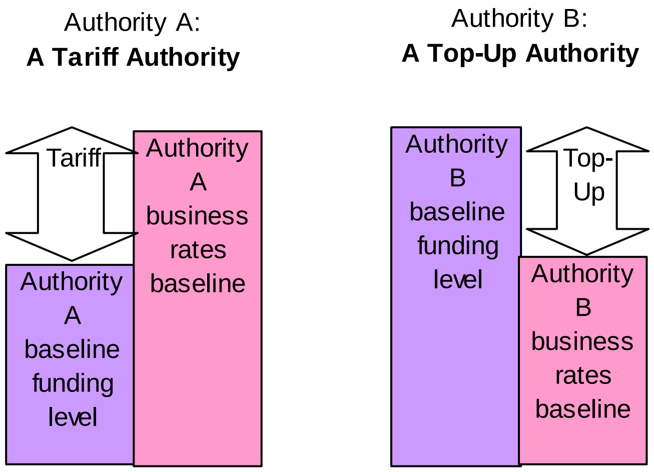
A major precepting authority's individual authority business rate baseline will be formed from adding together the amounts they receive from the billing authorities in their area.

Proportion from billing authority A: £23m
Proportion from billing authority C: £5m
Proportion from billing authority D: £7m

Individual authority business rate baseline for major precepting authority B= £35m

Tariffs and top-ups

9. In each authority, the baseline funding level and individual authority business rates baseline are then compared to determine whether the authority in question will pay a tariff or receive a top-up. A local authority must pay a tariff if its individual authority business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rate baseline. Tariffs and top-ups will be fixed until the business rates retention system is reset but will be uprated by RPI each year.



Baseline funding level for authority A: £42.4m
Individual authority business rate baseline for authority A: £92m

Authority A is a tariff authority as its individual authority business rate baseline is greater than its baseline funding level.
Tariff: £92m- £42.4m= £49.6m

Levy rates

10. A levy rate (which in some cases will be zero) is calculated for each authority. The levy is a 1:1 proportionate levy with a 50p limit. It is calculated as follows:

$$1 - \left(\frac{\text{baseline funding level}}{\text{individual authority business rates baseline}} \right)$$

Where this number is limited to 50p in the pound, and a negative number equates to no levy.

Individual authority business rate baseline for authority A = £92m
Baseline funding level for authority A= £42.4m
Levy rate for authority A: 1- (£42.4m/ £92m) = 0.54 (i.e. levy of 50p in the £)

Individual authority business rate baseline for authority B = £35m
Baseline funding level for authority B= £100m
Levy rate for authority B: 1- (£100m/ £35m) = -1.86 (i.e. zero levy)

Individual authority business rate baseline for authority C = £20m
Baseline funding level for authority C= £15m
Levy rate for authority C: 1- (£15m/ £20m) = 0.25 (i.e. levy of 25p in the £)

Operating the system

Calculating levy payments

11. At the end of a financial year, DCLG will calculate whether a levy payment is due from an authority. It will do this by comparing an authority's retained rates income under the business rates retention scheme with its baseline funding level. For the purpose of these calculations, from 2014-15 onwards the baseline funding levels will be indexed to RPI (i.e. only growth above RPI is levied)[16].

Non-domestic rating income of authority A in 2013-14= £250m
Less:
Central share (@ 50%): £125m
Payments to major precepting authority B (@ 20% of local share[17]): £25m

= £100m

[16] Technically, the uprate is by the change to the small business rates multiplier.
[17] The regulations express authority shares as a percentage of total income, rather than the local share.

Less:

Tariff (see calculation at para 9) =£49.6m

= Retained rates income = £50.4m

Baseline funding level (see calculation at para 6) = £42.4m
Growth above baseline funding level= £8m
Levy rate of 0.50 (see calculation at para 10) = Levy due of £4m

Growth retained= £4m

12. For major precepting authorities, retained rates income is defined as the cumulative total of business rates payments from their billing authorities.

Calculating safety net entitlements

13. At the end of a financial year, DCLG will calculate whether a safety net payment should be paid. It will do this by comparing an authority's retained rates income under the business rates retention scheme with its baseline funding level. For the purpose of these calculations, from 2014-15 onwards the baseline funding levels will be indexed to RPI.

14. The safety net is to be fixed at a 7.5% threshold. As such, safety net payments will ensure that a local authority's rating income does not drop below more than 92.5% of its baseline funding level uprated by RPI[18].

Non-domestic rating income collected by authority A in 2013-14= £200m
Less:

Central share (@ 50%): £100m
Payments to major precepting authority B (@ 20% of local share[19]): £20m

= £80m
Less:

Tariff (see calculation at para 9)= £49.6m

=Retained rates income = £30.4m
Baseline funding level (see calculation at step 6) = £42.4m
No growth above baseline, so no levy paid.

Safety net level (@ 7.5% threshold, i.e. 92.5% of baseline)= £39.22m
= Safety net payment of £39.22m- £30.4m= £8.82m

[18] Technically, the uprate is by the change to the small business rates multiplier.
[19] The regulations express authority shares as a percentage of total business rate income, rather than the percentage of the local share.

ANNEX B:
GLOSSARY OF TECHNICAL TERMS

Baseline funding level
The amount of a local authority's *start up funding assessment* which is provided through the *local share* of the estimated business rates aggregate at the outset of the scheme. It will form the baseline against which *tariffs* and *top-ups* will be calculated.

Billing authority
A local authority which bills and collects business rates, for example a district council or unitary council.

Billing authority business rates baseline
Determined by dividing the *local share* of the estimated business rates aggregate (England) between billing authorities on the basis of their *proportionate shares*, before the payment of any *major precepting authority share*.

Central share
The percentage share of locally collected business rates that will be paid to central government by billing authorities. This will be set at 50%. The *central share* will be re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous 'set-aside' policy.

Damping
Damping is used to describe the way limits are applied to the effect on grant funding of changes to the distribution formulae or data used year-on-year.

Estimated Business Rates Aggregate
The total business rates forecast to be collected by all billing authorities in England. This will include an adjustment for appeals losses.

Floor damping
A method by which stability in funding is protected through limiting the effect of wide variations in grant increase. A floor guarantees a lower limit to a year–on–year change in grant. The grant changes of authorities who receive more than the floor are scaled back by a fixed proportion to help pay for the floor.

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline* between billing and major precepting authorities on the basis of *major precepting authority shares*.

Levy
Mechanism to limit disproportionate benefit. The levy is applied proportionally on a 1:1 basis (i.e. a 1% increase in business rates income produces a corresponding 1% in increase in revenue from the rates retention scheme) but with a limit on the maximum levy rate that will be imposed, at 50p in the pound. Levy payments will be used to fund the safety net.

Local government spending control total
The total amount of expenditure in DCLG's Local Government Departmental Expenditure Limit allocated to the local government sector by HM Treasury for each year of a Spending Review.

Local share
The percentage share of locally collected business rates that will be retained by local government. This will be set at 50%. At the outset, the *local share* of the estimated business rates aggregate will be divided between billing authorities on the basis of their *proportionate shares*.

Major precepting authority
A local authority that does not collect business rates but is part of the business rates retention scheme. They are county councils in two tier areas, single purpose fire and rescue authorities and the Greater London Authority.

Major precepting authority shares
Used to establish the proportion of the *local share* that is paid by a billing authority to its major precepting authorities. Also applied to *billing authority business rates baselines* to establish *individual authority business rates baselines* for both billing and major precepting authorities.

Multiplier
The business rates multiplier when multiplied by the rateable value of a property determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally. The small business multiplier is uprated annually by the retail price index (RPI) (although exceptionally a lesser increase may be imposed) and the other multiplier adjusted accordingly. There will be no change to the way in which multipliers are set as a result of the introduction of the business rates retention scheme.

New Burdens
The Government uses the New Burdens Assessment to keep pressure on council tax bills to a minimum. It requires all government departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities, as well as how much these policies and initiatives will cost and where the money will come from to pay for them.

National Non-Domestic Rates 1 Form (NNDR1)
The form submitted each January by a billing authority to its major precepting authority and central government to provide an estimate of its business rate income for the upcoming financial year.

National Non- Domestic Rates 3 Form (NNDR3)
The form submitted by billing authorities to its major precepting authority and central government to provide outturn data on its business rate income for that year.

Retained rates income
An individual authority's business rates income minus/plus the *tariff* or *top-up*.

Proportionate Share
This is the percentage of the national business rates yield which a local authority has collected - on the basis of the average rates collected by authorities over the two years to 2011-12. This percentage will be applied to the *local share* of the estimated business rates aggregate to determine the *billing authority business rates baseline*.

Rate reliefs
The rating system currently provides mandatory relief to charities and other categories of ratepayer (e.g. certain rural ratepayers) and permits authorities to grant discretionary relief to other rate payers. There will be no changes to the terms of existing mandatory and discretionary reliefs for businesses as a result of the introduction of the business rates retention scheme.

Relative Needs Formulae
These are the first stage in the calculation the Government used to distribute formula grant. The 2012-13 relative needs formula(e) for each service block are set out in Section 4 of the Local Government Finance Report (England) 2012/13.

Reset
New *baseline funding levels*, new *individual authority business rates baselines* (and therefore new *tariffs* or *top-ups*) are set for each authority to take account of changes in relative need and resource.

Reset period
The years between *resets* in which local authorities are able to retain (after taking into account the *levy* and payments owing to relevant shares) the growth in business rates income. It is the Government's intention that the initial *reset period* will last between 2013 and 2020.

Revaluation
Business properties are normally re-valued every five years to reflect relative changes in rental valuations. Government has announced its intention to postpone the 2015 revaluation to 2017 with revaluations thereafter taking place every five years.

Revenue Support Grant
All authorities will receive *Revenue Support Grant* from central government in addition to its *baseline funding level*. An authority's *Revenue Support Grant* amount plus its *baseline funding level* will together comprise its *start up funding assessment*.

Safety net
Mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5% below their *baseline funding level* (with

baseline funding levels being uprated by RPI for the purposes of assessing eligibility for support).

Safety net payment
A payment made by central government to local authorities who are eligible for safety net support. These are payable after the end of the financial year (but see *safety net payments on account*).

Safety net payment on account
A safety net payment made to a local authority on the basis of forecast non domestic rating income. This means it will be made in year – in advance of the calculation of actual *safety net payments* - which will be calculated on the basis of audited accounts data following the end of that financial year. Any difference between the two amounts will be reconciled.

Schedule of payments
The timings of payments across the financial year, for example in respect of the *central share*, *major precepting shares* etc.

Service tiers
There are four service tiers corresponding to the services supplied by the four types of authorities. These are upper-tier services – those services, other than fire, supplied by county councils in two-tier areas; police services; fire and rescue services; and lower-tier services – those services supplied by district councils in two-tier areas. Some authorities may provide more than one tier of service.

Start-up funding assessment
Referred to as start-up funding allocation in the technical consultation paper. A local authority's share of the *local government spending control total* which will comprise its *Revenue Support Grant* for the year in question and its *baseline funding level*.

Tariffs and top-ups
Calculated by comparing an *individual authority business rates baseline* against its *baseline funding level*. *Tariffs* and *top-ups* will be self-funding, fixed at the start of the scheme and index linked to RPI in future years.

Tariff authority
An authority with a higher *individual authority business rates baseline* than its *baseline funding level*, and which therefore pays a *tariff*.

Tariff payment
The payment made from tariff authorities to central government over the course of the financial year.

Top-up authority
An authority with a lower *individual authority business rates baseline* than its *baseline funding level*, and which therefore receives a *top-up*.

Top-up payment
The payment made from central government to top-up authorities over the course of the financial year.

Transitional arrangements
A relief scheme helping ratepayers who faced large increases in business rates bills at the revaluation. The relief is funded by holding back rates reductions from those ratepayers who benefited from revaluation.

Transitional protection payment
An adjustment to ensure that authorities do not experience gains or losses in rates income as a consequence of the transitional arrangements.