Local Government Resource Review: Proposals for Business Rates Retention

Technical paper 5: Tariff, top up and levy options

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Department for Communities and Local Government

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Chapter 1

Introduction

1.1 On 18 July, the Department for Communities and Local Government (DCLG), published a consultation paper, *Local Government Resource Review: Proposals for Business Rates Retention*.

1.2 This set out proposals for a rates retention scheme to replace the current local government finance system, under which business rates are distributed as part of formula grant.

1.3 The consultation paper outlined the principal features of the proposed rates retention scheme. It undertook to provide further detail in a series of technical papers, to be published in August.

1.4 Taken together, the consultation paper and technical papers raise a number of questions about the proposed rates retention scheme, on which the Government is seeking views. The **consultation will close on Monday 24 October 2011**. Details of how to respond can be found on page 7 of the main consultation paper[1].

1.5 This is one of eight technical papers. The full list is:

Paper 1:	Establishing the Baseline
Paper 2:	Measuring Business Rates
Paper 3:	Non-billing Authorities
Paper 4:	Business Rates Administration
Paper 5:	**Tariff, Top Up and Levy Options**
Paper 6:	Volatility
Paper 7:	Revaluation and Transition
Paper 8:	Renewable Energy

1.6 All technical terms in the papers appear in italics and are explained in the Glossary of technical terms, which is attached to each technical paper as an annex.

1.7 An outline of the eight papers can be found in *Business Rates Retention – Technical Papers: An Overview*.

[1] www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

Chapter 2

About this paper

2.1 As set out in the main consultation paper, *Local Government Resource Review: Proposals for Business Rates Retention*, the Government intends to establish a fair starting point, so that no authority loses out as a result of its business rates base at the outset of the scheme. It proposes to achieve this through a system of *tariffs* and *top ups* to rebalance resources in the first year of the scheme.

2.2 *Tariffs* and *top ups* would be self-funding and would be fixed in future years, so that local authorities will benefit from achieving business rates growth. Since the benefit an authority sees from growing its business rates would be affected by the degree of gearing (i.e. the relationship between an *individual authority's business rate baseline* and its *baseline funding*), the Government proposed in the main consultation paper that there should be a *levy* to recover a share of disproportionate benefit. It further proposed that the proceeds of the levy would be used, in the first instance, to fund a *safety net* to support authorities that experience significant, negative volatility in their business rates income.

2.3 This paper discusses and seeks views on the detailed options for setting *tariffs* and *top ups*, and for the operation of the *levy* and the safety net, which are briefly summarised below.

Tariffs and top ups

2.4 *Technical paper 1: Establishing the baseline*, *Technical paper 2: Measuring business rates and Technical paper 3: Non-billing authorities* discuss how individual authorities' *baseline funding* levels and *individual authority business rate baselines* would be established. Those authorities with *individual authority business rate baselines* in excess of their *baseline funding* level would pay a *tariff* to central government, and those whose *individual authority business rate baselines* was below their *baseline funding* level would receive a *top up* from central government. Chapter 3 discusses the *gearing effect* that this produces.

2.5 The main consultation paper seeks views on whether *tariffs* and *top ups* should be increased each year to take account of the annual Retail Prices Index (RPI) increase in the nationally set business rates multiplier. Chapter 3 provides a detailed discussion of the implications that decisions about whether to uprate *tariffs* and *top ups* by RPI or not could have for different authorities, including those that choose to come together to form a pool, depending on their gearing.

A levy recovering a share of disproportionate benefit

2.6 The main consultation paper also explains that, to manage the possibility that some authorities with very high business rates baselines could benefit disproportionately from growth in business rates as a result of their gearing, the Government proposes to collect a *levy* to recover a share of any disproportionate benefit. The *levy* would only ever recover a share of disproportionate benefit and would not operate as a cap. The more any authority grows its business rates, the better off it will be.

2.7 The main consultation paper seeks views on a range of options for the operation of the *levy*, and chapter 4 discusses these in more detail.

A safety net

2.8 The Government recognises that natural volatility in the rating system (see *Technical Paper 6: Volatility*) could have potentially significant consequences for the budgets of local authorities. For this reason, the main consultation paper proposed that some of the income collected through the *levy* could be used to provide authorities with a *safety net*. Chapter 5 of this paper considers how a *safety net* might work and explores how decisions about the *levy* and the *safety* net are closely intertwined.

Interactions between tariff, top up and levy options

2.9 Chapter 6 discusses the interactions between the different *tariff*, *top up* and *levy* options, and shows how different combinations would produce different results for authorities depending on their gearing.

The interactive calculator

2.10 We are publishing an *interactive calculator* alongside the technical papers as an aid to consultees so that they can explore the interactions between *tariff*, *top up* and *levy* options, including varying some scheme elements, whilst holding others constant. This calculator does <u>not</u> enable local authorities to predict the outcome of the rates retention scheme on their finances. It does, however, allow users to explore the impact that different combinations of the various options for *tariffs*, *top ups* and the *levy* would then have upon retained income within the proposed scheme. Chapter 6 of this paper provides guidance on using the *interactive calculator*.

Chapter 3

Tariffs and top ups

3.1 The main consultation paper explained that, to achieve a fair starting point, a *baseline funding level* would be established for each authority, based on 2012-13 formula grant. Authorities whose *individual authority business rates baseline* is higher than their *baseline funding*, would pay the difference to central government in the form of a *tariff*. Authorities whose individual authority local business rates baseline is lower than their *baseline funding* would receive the balance from central government as a *top up* grant. Further details about setting *baseline funding levels* and determining an authority's *individual authority business rates baseline* can be found in *Technical Paper 1: Establishing the Baseline; Technical Paper 2: Measuring Business Rates*; and *Technical Paper 3: Non-Billing Authorities*.

3.2 As the main consultation paper explained, there are choices about how *tariffs* and *top ups* are rolled forward for future years, which will have a bearing on the overall balance between maximising the growth incentive and ensuring adequate protections for authorities. The main consultation paper explained that the choice is between:

- indexing *tariffs* and *top ups* to movements in the Retail Prices Index (RPI); and
- fixing the tariffs and top ups as a cash amount that does not change in future years

3.3 Various considerations will inform this choice. The bills of individual authorities increase each year by RPI (because of the indexing of the national non-domestic rating multiplier). Therefore, an authority that saw no physical growth or decline in its *individual authority business rates base* could expect to see its *individual authority business rates* increase by RPI each year, subject only to the natural volatility of the rating system (see *Technical Paper 6: Volatility*).

3.4 However, this would mean different things for different authorities. For *top up* authorities who rely on the top up for part of their income, an RPI increase in their *individual authority business rates* (but not in their top up grant) would not be sufficient to ensure that they see an RPI increase in their *pre-levy income*. This might argue in favour of indexing their *top ups* by RPI (and by implication, also indexing the *tariffs*, which under the business rates retention scheme will pay for those *top ups*).

3.5 For *tariff* authorities, however, indexing their *tariffs* to RPI will, potentially, create risks if their *individual authority business rates* do not grow by RPI; and, as *Technical Paper 6: Volatility*, explains, natural volatility in the business rates system means that year-on-year income from business rates is likely to fluctuate.

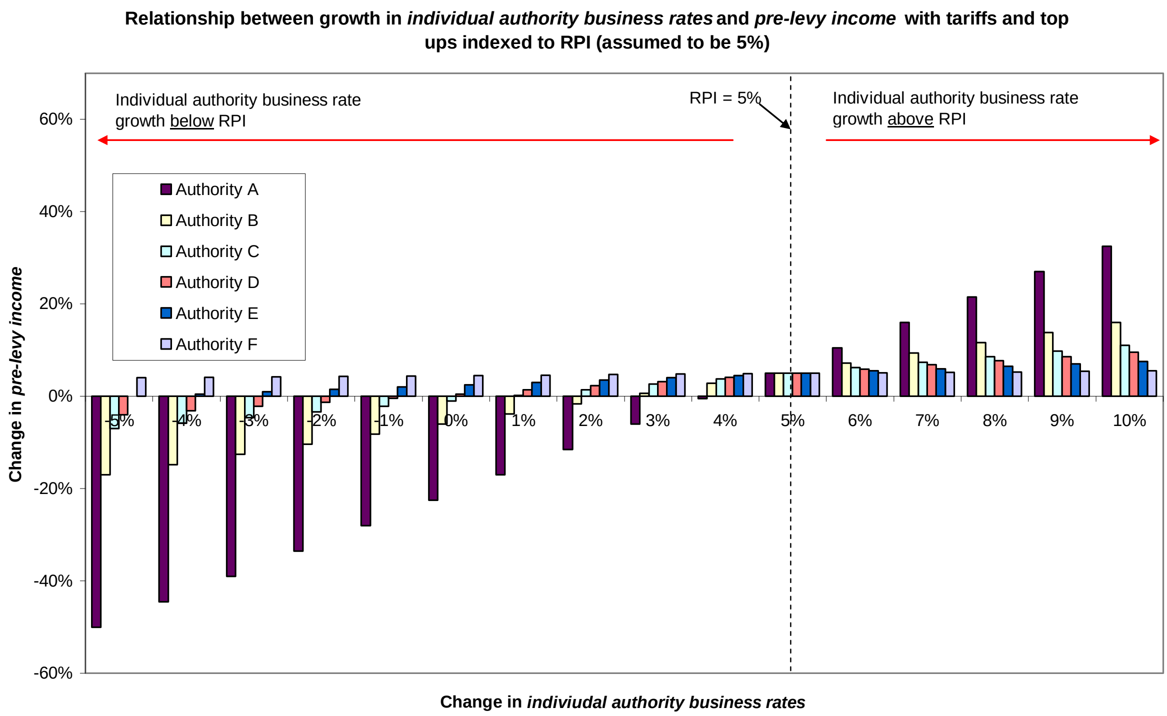
3.6 These effects can be seen by looking at the situation of six hypothetical authorities with widely differing *tariffs* and *top ups* (Table 1):

Table 1: Establishing a fair starting point

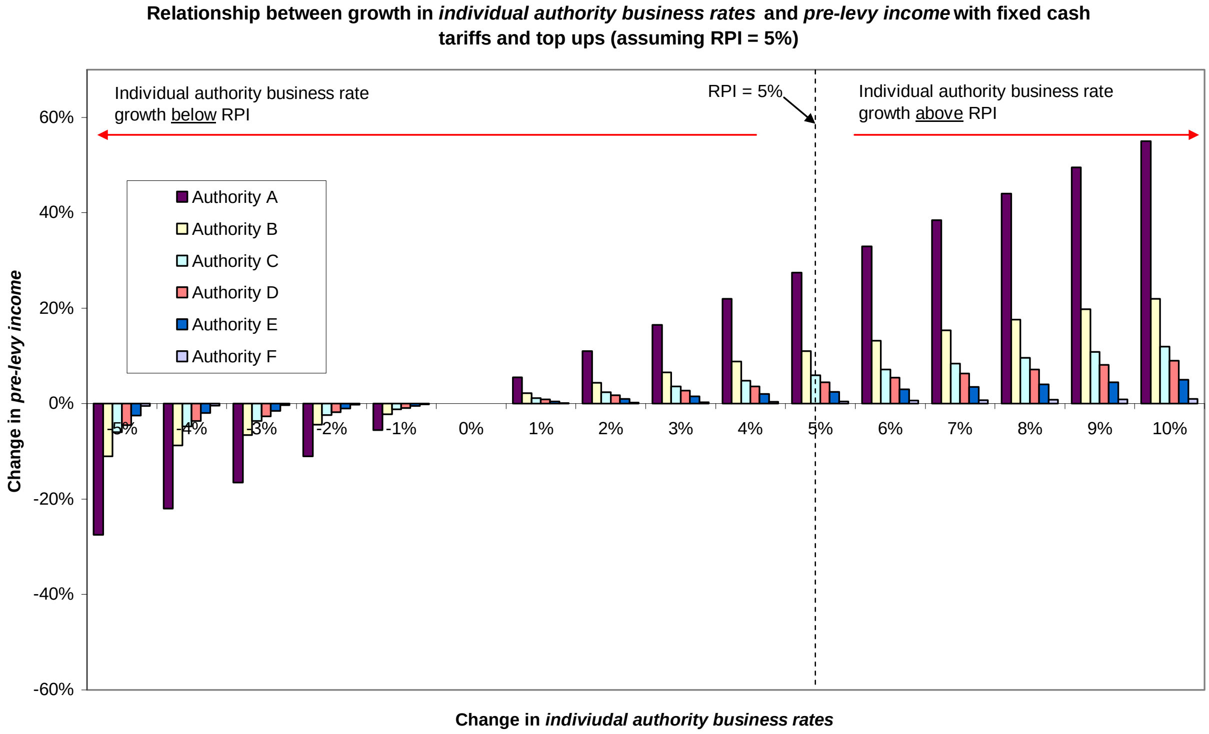
Authority	Tariff/Top up Description	Baseline Funding (£m)	Individual Authority Business Rates Baseline (£m)	Year 1 (Tariff)/Top Up (£m)
Authority A	High Tariff	100	550	(450)
Authority B	Mid-Tariff	100	220	(120)
Authority C	Low Tariff	100	120	(20)
Authority D	Low Top Up	100	90	10
Authority E	Mid Top Up	100	50	50
Authority F	High Top Up	100	10	90

3.7 The charts below illustrate how the six authorities' *pre-levy income* changes in response to movements in their *individual authority business rates* under the index linked and fixed cash tariff and top up options. (The charts show change in the second year of a scheme based on RPI of 5 per cent).

Index-linking tariffs and top ups to RPI



Fixed cash tariffs and top ups



3.8 It can be seen that, if *tariffs* and *top ups* are index linked, tariff authorities will see significant decline in their *pre-levy income* if their *individual authority business rates* decline. High and mid tariff authorities, will also experience decline in their *pre-levy income* if their *individual authority business rates* increase, but by less than RPI.

3.9 The risk is reduced if *tariffs* and *top ups* are fixed in cash terms. But this would mean that the growth in *pre-levy income* seen by top up authorities, and particularly high top up authorities, is limited - even where they achieve strong growth in their *individual authority business rates* thus significantly limiting the growth incentive for these authorities.

Tariffs and top ups under pooling arrangements

3.10 The main consultation paper, proposed that local authorities could come together voluntarily to form pools; and that where this happened, the pool would be treated as a single body for the purposes of tariffs, top ups and levies. It further suggested that pools would have considerable discretion about the arrangements, within the pool, for determining pool members' contributions to tariffs and any levies and about how top up and any safety net payments should be distributed.

This chapter considers the consequences for pools of the *tariff* and *top up* arrangements described above.

3.11 As outlined in the main consultation paper, the Government proposes that a single *tariff*, or *top up*, would be set for a pool; and that this would be calculated as the sum of its individual member's *tariffs* and *top ups*. Therefore, if the six authorities, shown in table 1, were to come together to form a pool, the pool's *tariff* would be:

Table 2: Establishing a fair starting point for pools

		Baseline Funding (£m)	Individual Authority Business Rate Baseline (£m)	Year 1 (Tariff)/Top Up (£m)
Authority A		100	550	(450)
Authority B		100	220	(120)
Authority C		100	120	(20)
Authority D		100	90	10
Authority E		100	50	50
Authority F		100	10	90
	The Pool	**600**	**1040**	**(440)**

3.12 In this example, the pool would be a highly-geared tariff authority and, hence, would see the same pattern of risks and benefits from having its *tariffs* index-linked, or not, as any of the highly geared authorities described from paragraph 3.4 onwards.

3.13 Aggregating the *tariffs* and *top ups* of pool members in order to derive the pool's contribution to (*tariff*), or receipt from (*top up*), the rate retention scheme, would mean that, overall, the cost to the scheme did not change and that *tariffs* and *top ups* would continue to be self funding at the national level.

Conclusions

3.14 Indexing *tariffs* and *top ups* to RPI, or not, has very different implications for authorities, depending on:

- whether they are tariff or top up authorities; and
- on the size of their *tariff* or *top up* compared to their individual authority business rates baseline

3.15 In taking its decisions, Government will need to balance the different risks to tariff and top up authorities with the scale of natural volatility in the business rates system and the need to provide sufficient growth incentive to authorities.

3.16 Government's decision will not be taken in isolation from the other features of the scheme and particularly with decisions about the design of the *levy* and the use of levy income, and the way in which levy income may be used to provide a *safety net* for authorities. These issues are discussed in the following chapters.

TP5 Q1: Should tariffs and top ups be index-linked, or should they be fixed in cash terms?

TP5 Q2: Do you agree that a pool’s tariff, or top up, should be the aggregate of the tariffs and top ups of its members?

Chapter 4

The levy

4.1 Chapter 3 demonstrated that, due to the gearing effect produced by differences in the relationship between *an individual authority's business rates baseline* and its *baseline funding* levels, some authorities will experience increases in their *pre-levy income* (which takes account of *top ups* and *tariffs*) that are out of proportion to the growth in their *individual authority business rates*.

4.2 The main consultation paper proposed that central government should recover a share of any disproportionate benefit through a *levy*. The proceeds of the *levy* would be redistributed to local government, principally through a *safety net* to protect authorities that see significant negative volatility in their individual authority business rates. Chapter 5 of this paper discusses the options for using the proceeds of the *levy*.

Applying the levy

4.3 The purpose of the *levy* is to generate funding for areas in need of support by limiting disproportionate gains in authorities' *retained income*. To do this, the Government would need to measure changes in *pre-levy income*. This would be done by collecting annual information on changes in an authority's *individual authority business rates* (see *Technical Paper 4: Business Rates Administration*) and adding/subtracting from these, the *top up* or *tariff* received or paid for that year. Any sums received by the authority through the *safety net* (see chapter 5 of this paper), or through the new Revenue Support Grant (see *Technical Paper 1: Setting the Baseline*) would not count for the purposes of assessing whether and how much was to be paid by an authority in *levy*.

4.4 Having measured the change in an authority's *pre-levy income*, the Government would have two choices. Either, it could levy;

- year-on-year change in income, or
- change over the authority's starting baseline

4.5 The amount of growth subject to a levy would also be dependent on the decision of whether or not to index link tariffs and top ups. If *tariffs* and *top ups* are indexed linked, the *levy* would only apply to growth above RPI, if *tariffs* and *top ups* are fixed in cash terms, then all growth would be levied.

4.6 Given the known degree of volatility in the business rates system, the government is not minded to adopt a year on year *levy*, because this would tend to increase the volatility in authorities' *retained business rates*.

4.7 Instead, the Government is minded to apply the levy to any change in an authority's *pre-levy income* as measured against its *baseline funding*. In order to reflect the impact of inflation, the Government proposes that the *baseline funding position for* each authority should be indexed linked or fixed in cash terms to mirror the decision made on the indexing of *tariffs* and *top ups*. The interactive calculator reflects this position.

Option one: Flat rate levy

4.8 The simplest way to levy growth in an authority's *pre-levy income* would be to apply a flat rate levy such that an authority contributed x pence of every pound of growth to the levy pot.

4.9 A flat rate levy would limit the extent of disproportionate growth in *retained income*, however, because of its equal application to all authorities, it could not fully address all the consequences of gearing discussed in chapter 3. Under a flat rate levy, more highly geared tariff authorities would still see a greater proportional increase in their *retained income* as a result of growth in *individual authority business rates*.

Option two: Banded levy

4.10 An alternative to a flat rate levy would be to introduce a levy scheme under which authorities would be grouped together in a number of bands. Different levy rates would be applied to each band. This would allow the *levy* to be applied in a way that recognised, to some extent, the differential impact of gearing on authorities' *retained income*.

4.11 Within a banded scheme, there are choices to be made about:

- the band parameters
- the number of bands
- the levy rate

Band parameters

4.12 There would be any number of different ways of setting the band parameters. However, given that the primary objective of a banded scheme is to reduce the variations caused by *gearing*, if the Government decided to adopt a banded levy, it would be minded to set the parameters according to gearing ratios (i.e. the relationship between *an individual authority's business rates baseline* and its *baseline funding levels*).

The number of bands

4.13 The greater the number of bands, the easier it would be to fine-tune levy rates to produce broadly similar results for every authority within that band.

4.14 However, given the wide disparity of gearing ratios across local authorities, an extremely large number of bands would be required to avoid the risk that, within some bands, there could be a wide range of outcomes for similar levels of growth in *individual authority business rates*. Moreover, under any banded scheme there will be authorities at the margins of the band, who would have been better off if the band parameters had been drawn slightly differently and had allowed them to fall into a lower band.

The levy rate

4.15 Setting the band levy rates (or indeed the level of a flat rate levy) will be subject to balancing competing needs. The government wants to incentivise growth by allowing authorities to keep a fair proportion of any increase in their business rates. But it will also need to ensure that there is a large enough levy pot for redistribution, i.e. that there is sufficient levy income to provide financial assistance to authorities that experience falls in their *retained income* as a consequence of volatility (see *Technical Paper 6: Volatility*), or for other reasons. These issues are discussed more fully in section 5 of this paper.

Example

4.16 As an example, Table 3 illustrates one variation of a banded levy. All of the authorities from chapter 3 have been placed into one of three bands according to the relationship between their *baseline funding* and their *individual authority business rates baseline* (i.e. their gearing).

Table 3

Levy Band	Band Parameters	Authorities in Band	Illustrative Levy Rate (pence in the pound)
High Levy Band	An authority's *individual authority business rates baseline* is greater than 5 times its *baseline funding* levels	Authority A	80
Medium Levy Band	An authority's *individual authority business rates baseline* is greater than 2, but equal or less than 5, times its *baseline funding* levels	Authority B	40
Low Levy Band	An authority's *individual authority business rates baseline* is equal to, or less than 2 times its *baseline funding* levels	Authority C	20
No levy band	An authority's *individual authority business rates* is equal to, or less than its *baseline funding* level	Authority D Authority E Authority F	0

Option three: Proportional levy

4.17 An alternative to a banded levy would be to set levy rates to achieve, for all authorities as far as possible, an equivalence between the growth in their *individual authority business rates* and their *retained income*. Such an approach would tackle the both the extent and variation of disproportionate growth in authorities.

4.18 Under such a system, an authority's levy rate would be individually tailored so that, growth in *individual authority business rates* would result in at most a proportionate level of growth in *retained income*.

Proportional levy: 1:1 relationship between growth and retained income

4.19 For example, the levy could be set on a 1:1 basis such that a 1 per cent increase in *individual authority business rates* could not result in more than a 1 per cent increase in *retained income*. Similarly a 3 per cent increase in *individual authority business rates* could not result in more than a 3 per cent increase in *retained income.*

4.20 Under this approach top up authorities would not face a *levy* because any percentage growth in *individual authority business rates* would result in a lower percentage increase in *retained income*. I.e. 1 per cent growth in their *individual authority business rates*, would always produce a lower than 1 per cent increase in their *retained income*.

4.21 Taking the six authorities in from chapter 3 as an example, the following levy rates would be set for each authority (Table 4):

Table 4

	Baseline funding (£m)	Individual authority business rates baseline (£m)	Year 1 (Tariff)/Top Up (£m)	Levy Rate (pence in the pound)
Authority A	100	550	(450)	82
Authority B	100	220	(120)	55
Authority C	100	120	(20)	17
Authority D	100	90	10	No levy
Authority E	100	50	50	No levy
Authority F	100	10	90	No levy

4.22 For the three tariff authorities (authorities A to C), the levy rate, would mean that for every 1 per cent increase in their *individual authority business rates*, they would see a corresponding 1 per cent increase in their *retained income*. Similarly, if authorities A to C achieved 2 per cent growth their *individual authority business rates*, they would see a 2 per cent increase in their *retained income.* The top up authorities are not levied and hence retain all growth.

4.23 The proportionate levy manages disproportionate growth such that no authority will receive more than a proportionate increase in *rates retained* following growth in *individual authority business rates*. However, this means that the additional income an authority keeps for every £1 of growth in its *individual authority business rates*, will vary considerably according to how highly geared an authority is.

Varying the levy ratio

4.24 The example above is based on a 1:1 ratio between growth in *individual authority business rates* and growth in *retained income.* However, it would also be possible to vary the ratio to allow authorities to see higher, or lower, increases in *retained income* for each percentage point increase in their *individual authority business rates*.

4.25 The arguments for and against setting different ratios are in part the same as those about where to set the levy rate under a flat rate levy or a banded scheme – i.e. the trade off between allowing authorities to retain more of any increase in their *individual authority business rates* and the need to generate sufficient levy income to provide financial assistance to authorities that need it.

4.26 Setting a higher ratio (i.e. a 1 per cent increase in *individual authority business rates* can result in up to a 2 per cent increase in *retained income*) would allow more growth to remain with highly geared tariff authorities, but would increasingly result in fewer tariff authorities facing a *levy*.

4.27 Table 5 presents the levy rates under a ratio of 1:2 (i.e. a 1 per cent increase in *individual authority business rates* can result in up to a 2 per cent increase in *retained income*).

Table 5

	Levy Rate (pence in the pound)
Authority A	64
Authority B	9
Authority C	0
Authority D	0
Authority E	0
Authority F	0

4.28 Authorities A and B now face a lower levy and authority C joins the top up authorities with a zero levy rate.

4.29 Conversely, the ratio could be reduced to 1:0.5 so that a 1 per cent increase in *individual authority business rates* produced at most a 0.5 per cent increase in *retained income.* The levy rates under this approach are displayed in table 6.

Table 6

	Levy Rate (pence in the pound)
Authority A	91
Authority B	77
Authority C	58
Authority D	44
Authority E	0
Authority F	0

4.30 The levy rate increase for tariff authorities A to C, and a *levy* is also applied for top up authority D.

4.31 As with the decision about the levy rate under a flat rate and banded levy, the decision where to set the levy ratio is a question of balancing the need for authorities to keep a fair proportion of any growth in their individual authority business rates, with the need to generate sufficient levy income.

The levy under pooling arrangements

4.32 As explained in the main consultation paper and again, at paragraph 3.11 of this paper, where local authorities come together to form pools, the pool would be treated as a single body for the purposes of the levy.

4.33 Whether, collectively, local authorities in a pool would be better or worse off by being treated as a single body, than they would have been if levied individually on the growth in their *pre-levy income*, depends on:

- the mix of tariff and top up authorities in the pool
- the rates of growth in individual authority business rates of each of the individual members of the pool
- the levy scheme that is adopted

4.34 Under the flat rate levy option, the members of the pool would be no worse off than they would have been, collectively, if treated as individuals; and under some scenarios, would actually be better off.

4.35 Under the banded levy and proportional levy options, the position is more complicated. Under a number of possible scenarios, it is impossible to be definitive. Whether pooled authorities would be better, or worse off, than they would have been, collectively, if levied individually, will depend on the mix of authorities in the pool and the rates of growth in each individual authority.

4.36 In designing levy arrangements, the Government is clear that it does not want pooled authorities, to be worse off than they would have been, collectively, if treated as individuals. At the very least, therefore, if a banded levy is adopted, the Government would undertake to calculate, annually, for each pool of authorities, their *levy* as a pool and their *levy* if treated individually. The actual levy charged to the pool, would be no higher than the aggregate of the levies that would have been charged to each of the pool members individually.

4.37 However, as the main consultation paper makes clear, in view of the clear potential benefits of pools and the Government's desire to encourage pooling arrangements, the Government will consider whether the *levy* arrangements should be positively adjusted to favour pools. This might be done by adjusting levy rates. Under a flat rate levy, this might involve setting a lower levy rate for pools of authorities. Under a banded scheme, a pool of authorities might be placed in a lower band than would otherwise have been the case; and under a proportional scheme, the *levy* might be lower for pools of authorities than for individuals.

4.38 Adjusting the levy in this way would, of course, have implications for the total amount of levy income raised.

Conclusions

4.39 Through the use of a levy on disproportionate gain, the Government can generate funding for areas in need of support by limiting the amount of growth in *individual authority business rates* that an authority can retain. The Government proposes to apply the *levy* to growth in *pre-levy income*, compared to an authority's *baseline funding* position.

4.40 There a variety of different levy options – flat rate, banded, or proportional. These will have different effects on the income retained by authorities. Under each of the options, there are a range of choices about detailed design and about the levy rates that should be set.

4.41 Those choices will, amongst other things, affect the amount of income that authorities would retain and the amount of income that would be recovered by Government primarily for use in managing volatility. The choices about the *levy*, therefore, will affect how strongly local authorities are incentivised to promote local growth.

4.42 In determining the nature of the *levy* and, in the level at which the *levy* is set (the flat rate, the bands or the ratio in the proportional levy) there is a balance to be struck between creating a strong incentive to promote economic growth, i.e. allowing authorities to secure a reasonable benefit from the growth in their *individual authority business rates* and the need to ensure the collection of adequate levy income through which to address the adverse effects of volatility and gearing.

4.43 The impact of a *levy* on authorities that chose to pool would depend critically on the characteristics of individual pool members, as well as the design of the *levy*. But to incentivise authorities to pool, the Government will consider adjusting the levy arrangements to produce a positive outcome for pools.

4.44 Any levy option, whilst managing the possibility that some authorities would see disproportionate benefits, would not alter the risks that highly geared tariff authorities face as a result of low growth, or decline, in their *individual authority business rates.* Nor would it compensate top up authorities for the potentially modest increases in retained rates income that they might see from growth under some scenarios. These risks can only be dealt with through the way that levy income is distributed (see chapter 5).

TP5 Q3: Do you agree that the levy should apply to change in *pre-levy income* measured against the authority's *baseline funding level*?

TP5 Q4: The main consultation document seeks views on which option for calculating the levy you prefer (flat rate, banded or proportional) and why. What are your views about the levy rate that should be applied if a flat rate levy is adopted?

TP5 Q5: If a banded levy is adopted, should the bands be set on the basis of an authority's gearing, or on some other basis; how many bands should there be and what levy rates that should be applied to each band?

TP5 Q6: Under a proportional scheme, what is your view of the levy ratio that should be applied?

TP5 Q7: Do you agree that pools of authority should be set a lower levy rate, or more favourable levy ratio than would have been the case if worked out on the aggregate of the pool members levy?

Chapter 5

Use of levy income

5.1 The consultation paper set out different options for using the proceeds of the levy pot. It proposed that a proportion of the levy pot should be used to provide a *safety net*. The *safety net* could offer protection for authorities against the inherent volatility of the business rates system (see *Technical Paper 6: Volatility*), or changes in local economic circumstances.

5.2 In working out whether an authority was entitled to protection from a safety net, the Government proposes to use *post-levy income* as the basis of any decision.

5.3 The consultation paper outlined two different forms of protection for local authorities:

- an annual safety net – if, in any year, an authority saw its *post-levy income* in any year decline by more than a set percentage when compared to their previous year's *retained income*

- a baseline safety net – if, in any year, an authority saw their *post-levy income* in any year decline by more than a set percentage below its *baseline funding level*

5.4 This chapter looks at how the annual and baseline safety might operate and the issues raised.

5.5 The consultation paper also suggested that the levy income, not used to finance the safety nets, could be used in a variety of other ways and invited responses on a number of possible options. These options were outlined in the main consultation paper and this technical paper does not consider them further.

Annual safety net

5.6 *Technical Paper 6: Volatility* sets out the factors that can affect the rates collected by billing authorities from year-to-year. Whilst the annual variation in the rates collected by billing authorities can be potentially significant, as explained in earlier chapters of this paper, such variations will have very different impact on an authority's *retained income*, depending on gearing, the system of *tariffs* and *top ups* and the *levy*.

5.7 The Government does not think that it is unreasonable to expect, in the main, authorities to manage the impact of volatility as part of their normal budgetary and financial management processes. However, it acknowledges that there may be circumstances in which the scale of change in *individual authority business rates* leads to potentially significant decline in *retained income*; and that these could be difficult for authorities to manage in the very short term.

5.8 Therefore, the Government proposes to use the annual safety net to provide a degree of assistance, in any year, where an authority experiences a decline of more than x per cent in their *post-levy income* from one year to another. Any assistance would be temporary, covering only the year in which the decline was experienced, thereby giving authorities time to adjust their budgets.

Baseline safety net

5.9 An unforeseen change in local economic circumstances, for example, the closure or relocation of a major local business could have a significant long-term effect on an authority's capacity to meet local service needs. Therefore, the Government proposes to use the baseline safety net to provide a degree of assistance, in any year, where an authority experiences a decline in their *post-levy income* that would take them significantly below their *baseline funding level*. Such support would be available every year in which the authority's *post-levy income* was more than the set percentage below its *baseline funding* level. For example, if the safety net were 10 per cent, then this would mean that no authority's funding from the rates retention scheme could ever be lower than 90 per cent of their *baseline funding* level.

5.10 The Government could choose to index the *baseline funding* levels to RPI, to reflect the impact of inflation, and to ensure that authorities receive real-term protection under this form of the *safety net*. In the *Interactive Calculator* (see chapter 7) consultees can choose whether to index the *baseline funding* level when exploring the *safety net*.

Setting safety net percentages

5.11 Decisions about setting the *safety net* percentages cannot be taken in isolation from those about the *levy*. By setting low numbers for the annual and baseline set percentages, authorities would be provided with greater protection against decline in *retained income*. But, since the *safety net* will be paid for out of the levy pot, it means that the Government will also need to collect more in levy income and, hence, more of an authority's growth will need to be recovered by Government through higher levy rates. Decisions about setting the safety net percentages will also need to be taken in the light of:

- the decision about whether, or not, to index *tariff* and *top ups* since, as chapter 3 demonstrates, *gearing* will have a potentially significant effect on the likely demand for support through the *safety net*; and
- further assessment of the impact of volatility

The nature of the guarantee

5.12 Wherever the safety net percentages are set (and whatever this implies for levy rates and setting *tariffs* and *top ups*), there can never be a guarantee that in any year, the proportion of levy income set aside for the safety net would be sufficient to meet the demands placed on it by authorities seeking to draw on the *safety net*.

5.13 There are potentially two ways of dealing with this. Firstly, where the levy income, in any year, is insufficient to meet the demands made on it by the safety net, the level of support available to authorities in that year could be scaled-back. Essentially, this would mean that the levy percentages only represented a maximum level of support that could be available, but that the actual level of support would depend on how much levy income had been collected and how many authorities were seeking support through the *safety net* in that year.

5.14 The alternative, subject to further consideration of how this might be funded in-year, would be to guarantee that an authority that sought support under the *safety net* would receive everything to which it was entitled given the safety net percentages. But that if the proportion of levy income set aside to pay for the *safety net* in that year was insufficient, it would either reduce the levy sums that were to be used for other purposes in that year, or require underwriting in that year (presumably from some other local government funds) and/or become a "first charge" on the following year's levy income, which would be expected to make good any deficit. The risk with such a system is that, it creates a potentially unlimited liability, which might imply that levy percentages would be less stable than they might otherwise have been. If, for example, the *safety net* guarantees created the prospect of an unsustainable deficit on the fund, the only option would be to increase levy rates to put the levy fund back on a sound footing.

Timing of payments

5.15 A similar consideration applies to the timing of payments. The easiest way to operate the *safety net* is "in arrears" when outturn data is available on which to determine whether the *safety net* had been triggered and the sums due under it. However, it might be argued that, since the *safety net*, in part at least, seeks to help authorities manage in-year cash-flow problems caused by volatility, a system that provides authorities with assistance after the end of the financial year, is not altogether helpful.

5.16 The alternative therefore would be to provide authorities with assistance, in-year, on the basis of estimates of *retained income* Following the year end, there would need to be a reconciliation of the estimates with the outturn figures and an appropriate cash adjustments (see *Technical Paper 4: Business Rates Administration* for further details).

The safety net and pooling arrangements

5.17 For the purposes of any *safety net* calculation, a pool of authorities would be treated as a single body. As explained in paragraph 3.12 above and illustrated in table 5, a pool would have a single *individual authority business rates baseline*, a single *tariff*, or *top up* and, therefore, a single measure of its *retained income,* which would be used to calculate its entitlement to any safety net payments, as described above.

Conclusions

5.18 Through the use of an annual and baseline safety net, the Government could provide authorities with a degree of financial assistance in the event of significant decline in their *retained income* due to the volatility of the business rates system, or significant change in local economic circumstances.

5.19 To fund the *safety net*, the Government would use a proportion of the income it derives from the levy pot. The degree of protection offered will depend on the proportion of the levy pot that will be used to fund the safety net along with decisions around levy rates and setting *tariffs* and *top ups*.

5.20 Therefore, decisions about the *safety net*, the *levy* and the setting of *tariffs* and *top ups* are inextricably linked. The Government will need to strike a balance between the need to allow authorities to retain a reasonable proportion of any growth in their *individual authority business rates* and the need to provide adequate protection to authorities against the risks of year-on-year volatility and changes in local economic circumstances.

5.21 The Government recognises that the individual elements of the scheme and, particularly the decision about whether, or not, to index *tariffs* and *top ups*, will affect heavily the nature and scale of the risk that different authorities bear. In turn this will affect the demand for one or, other, of the *safety net* elements. In taking decisions about levies and safety nets therefore, the Government will take account of the outcome of this consultation and will want to talk further to local government about the ability of local authorities to manage such risks.

TP5 Q8: Do you agree that safety net payments should be triggered by changes in an authority's *retained income*?

TP5 Q9: The main consultation document seeks views on whether there should be a *safety net* for annual changes in post-levy income. If so, what percentage change in annual income do you think that authorities could reasonably be expected to manage before the safety net kicked-in?

TP5 Q10: The main consultation document also seeks views on whether there should be a *safety net* against absolute falls in income below an authority's *baseline funding levels*.
If so, at what percentage below baseline should the safety net kick-in?

TP5 Q11: Do you think that for the purposes of the baseline safety net, the baseline should be annually uprated by RPI, or not?

TP5 Q12: Do you think that the safety nets should provide an absolute guarantee of support, or should financial assistance be scaled back if there is insufficient funding in the levy pot?

TP5 Q13: Should safety net support be paid in year, or after a year-end?

TP5 Q14: Do you agree that pools should be treated as single bodies?

Chapter 6

Interactions between tariff, top up and levy options

6.1 As discussed in chapter 3, *tariffs* and *top ups* ensure a re-balancing of resources, so that at the outset of the business rates retention scheme, no authority is worse off as a result of its business rates base at the outset of the scheme.

6.2 However, the relationship between an authority's *individual authority business rates base*, its *baseline funding* and its *tariffs* and *top ups* creates a *gearing effect*, that means that the impact of growth, or decline in *individual authority business rates* has very different effects on authorities' *pre-levy income*.

6.3 As a result of this *gearing effect*, increasing *tariffs* and *top ups* by RPI each year would mean that top up authorities see more proportionate benefit from business rates growth, but would fully expose tariff authorities to the significant natural volatility in the business rates system. Alternatively, keeping *tariffs* and *top ups* fixed in cash terms would mean that top up authorities could only achieve very limited growth in their *pre-levy income,* regardless of how successful they were in growing their business rates, whilst tariff authorities would see their *pre-levy income* grow simply as a result of central government increasing the tax rate by RPI each year, even if they did not achieve any business rates growth.

6.4 The way in which *tariffs* and *top ups* are set therefore has implications both for the operation of the *levy*, and for the likely call upon the *safety net*.

6.5 The charts below illustrate the different effects that each of the three options discussed in chapter four for the operation of the levy would have upon different types of authorities, depending on whether their *tariffs* and *top ups* are index linked to RPI or not.

6.6 They show that, if *tariffs* and *top ups* are index linked to RPI, then the levy options which are more proportionate to individual authorities circumstances would deliver more proportionate benefits from business rates growth.

6.7 The charts also show that, under all three levy options, if *tariffs* and *top ups* are index linked to RPI, a highly geared tariff authority whose *individual authority business rates* grew by less than RPI would see its income fall increasingly steeply the further their *individual authority business rates* declined. If *tariffs* and *top ups* are fixed cash amounts, a highly geared tariff authority's *retained income* would increase steeply as its *individual authority business rates* grew.

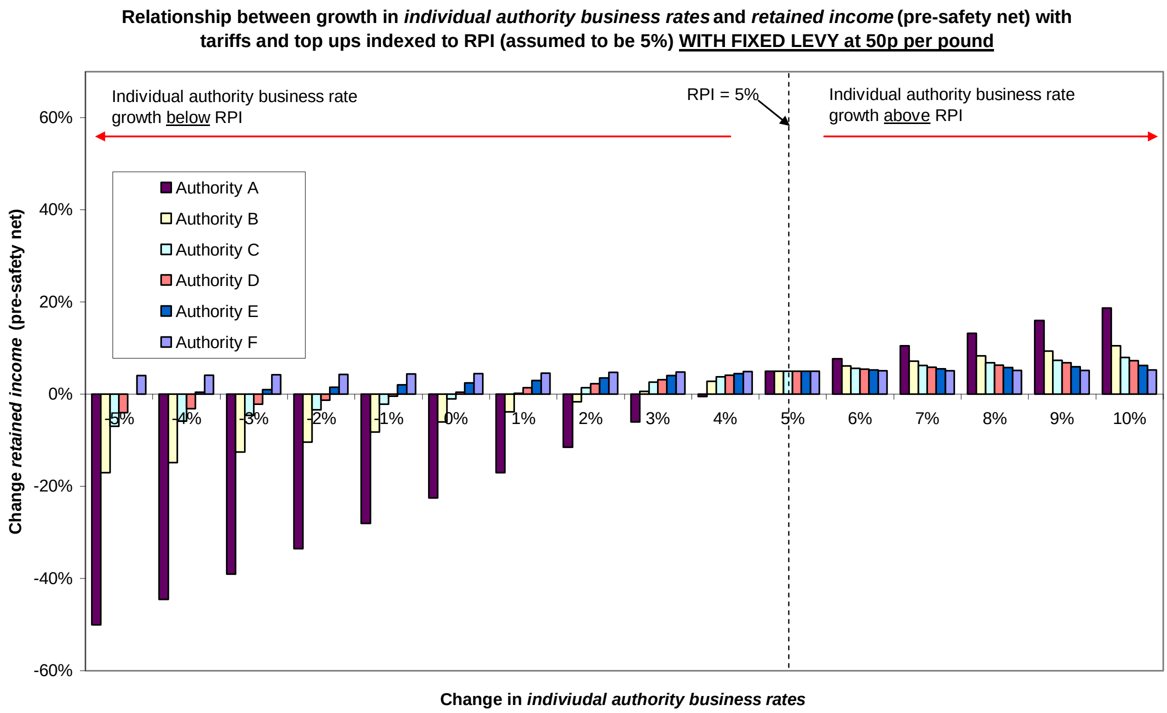
6.8 As will be evident from the discussion above, the likely call upon the *safety net* would be different depending on which combination of *tariff*, *top up* and *levy* options is chosen. If *tariffs* and *top ups* are index linked to RPI, there is likely to be a very significant call upon the *safety net* in any year where a number of highly geared tariff authorities see their business rates fall in real terms. As a result the levy rate would likely have to be set at a higher level.

6.9 Since highly geared tariff authorities would ordinarily be the main source of levy income, in such circumstances the in-year levy income may not be sufficient to fund the *safety net* protection in full. There is therefore an argument for holding back a certain amount of levy income in each year to ensure there is sufficient funding to afford highly geared tariff authorities full *safety net* protection in such a scenario. Alternatively, it could be argued that *tariff*, *top up* and *levy* options should be designed to allow tariff authorities to benefit more disproportionately from growth so that they can “self-insure” against significant drops in income.

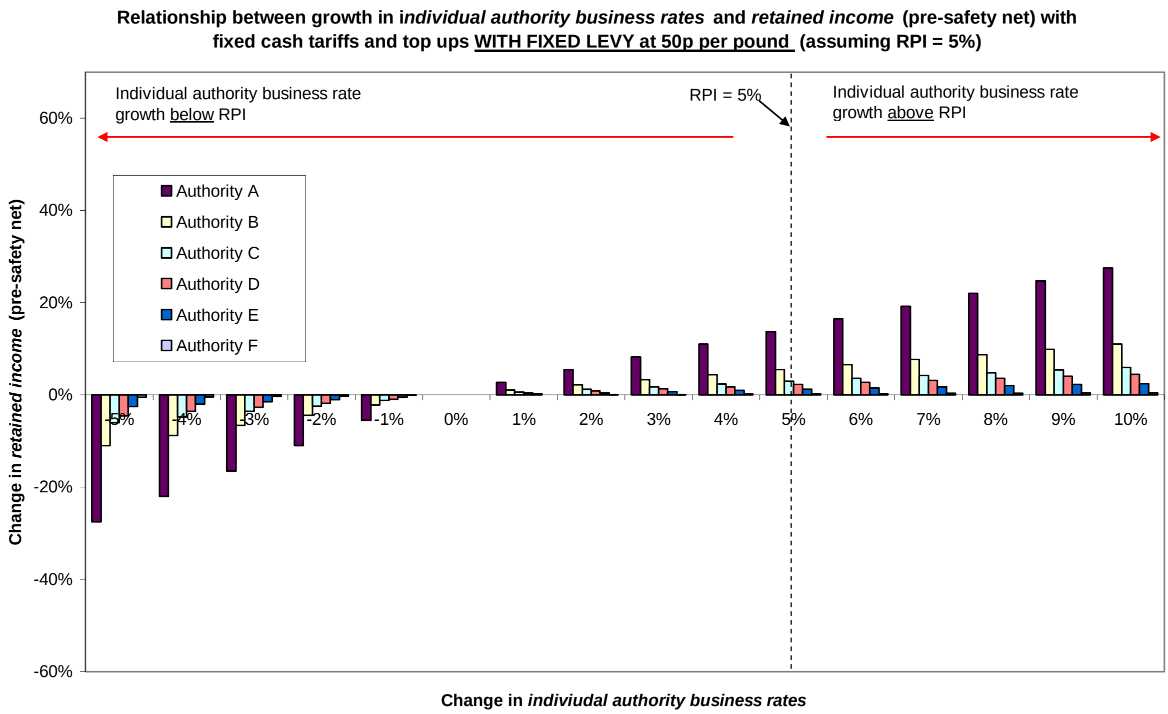
6.10 The Government, therefore, will want to discuss these issues further with the local government sector before reaching decisions about which *tariff*, *top up*, *levy* and *safety net* options to adopt.

Option one: flat rate levy

Index-linking tariffs and top ups to RPI



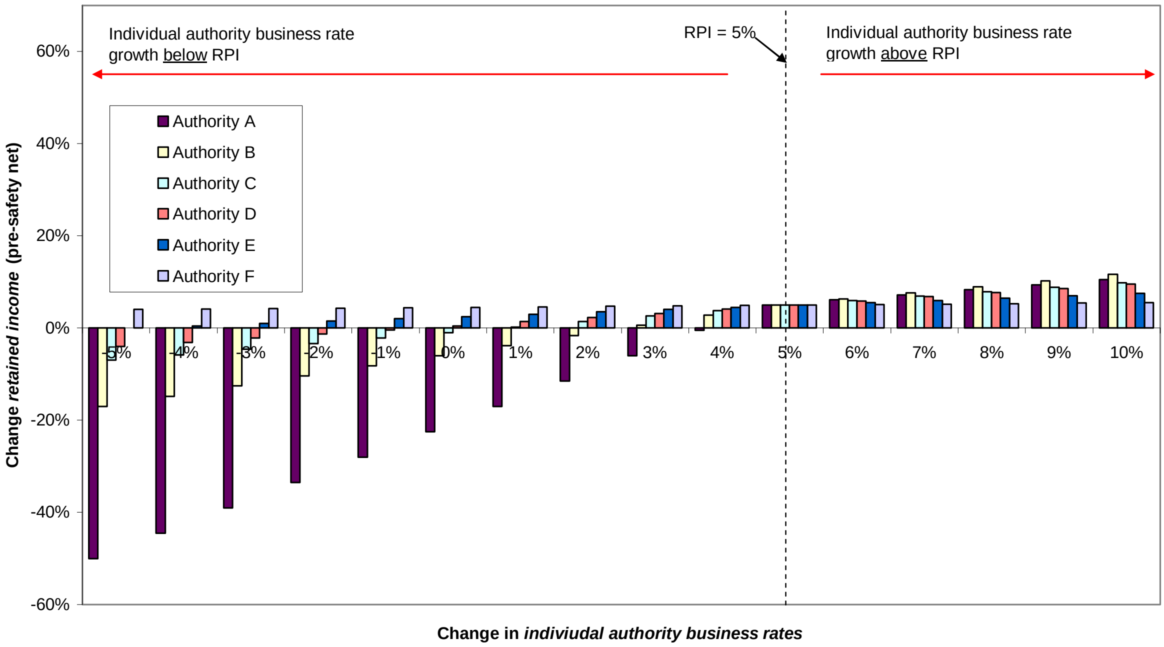
Fixed cash tariffs and top ups



Option two: banded levy

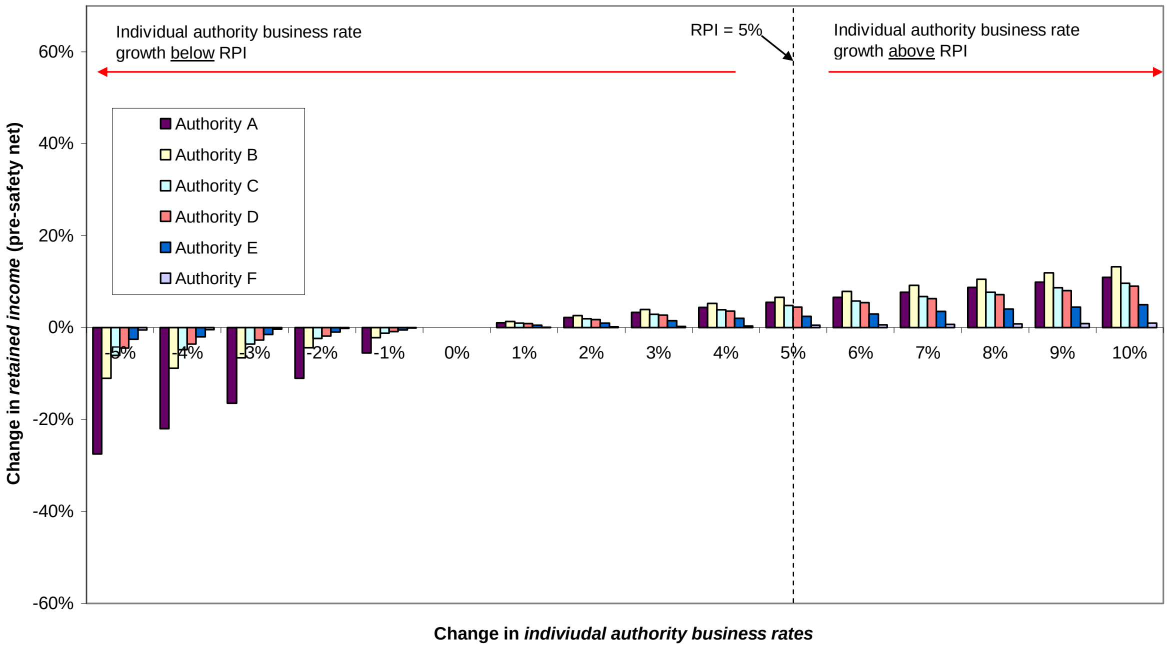
Index-linking tariffs and top ups to RPI

Relationship between growth in *individual authority business rates* and *retained income* (pre-safety net) with tariffs and top ups indexed to RPI (assumed to be 5%) WITH BANDED LEVY



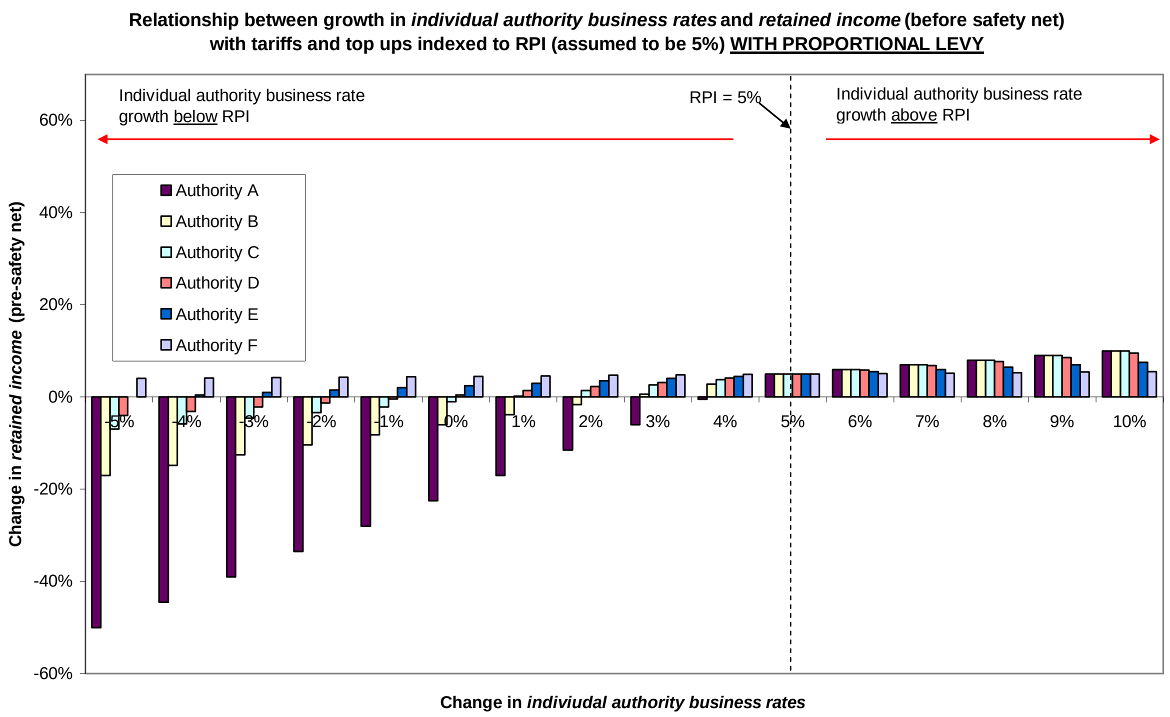
Fixed cash tariffs and top ups

Relationship between growth in *individual authority business rates* and *retained income* (pre-safety net) with fixed cash tariffs and top ups WITH BANDED LEVY (assuming RPI = 5%)

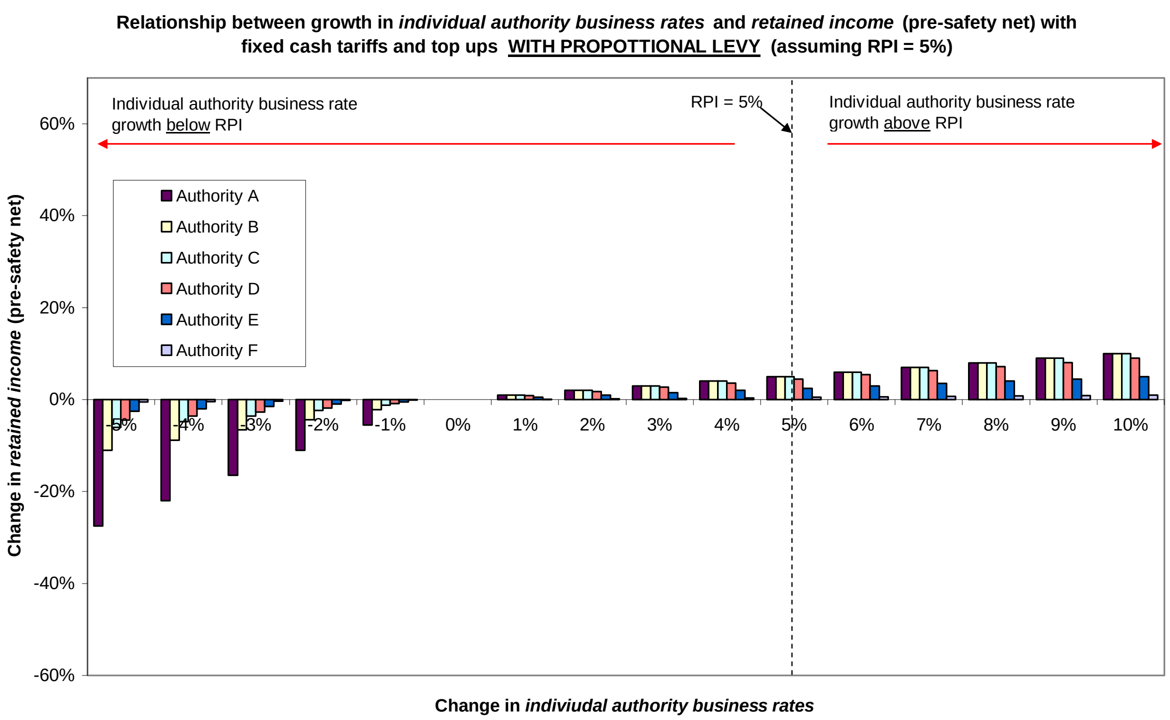


Option three: proportional levy

Index-linking tariffs and top ups to RPI



Fixed cash tariffs and top ups



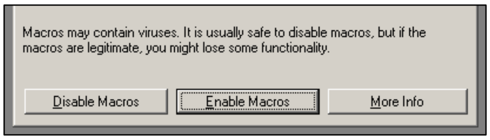
Chapter 7

Interactive calculator guidance notes

7.1 To enable consultees to make informed responses to the consultation exercise, the Government has published the *Interactive Calculator.* The *Interactive Calculator* enables users to explore the principal features of the proposed rates retention scheme by entering their own inputs and varying components. The aim of the calculator is not to enable individual authorities to forecast their position under a rates retention scheme, but rather is a tool to explore the impact of different options presented in the main consultation paper and the series of eight technical papers. The calculator also includes the functionality to save up to three sets of outputs to allow users to make comparisons.

7.2 A guide to using the calculator is provided below. Please refer to the glossary for an explanation of any technical terms. If you need any additional information please email ResourceReview@communities.gsi.gov.uk

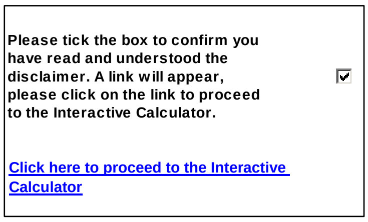
7.3 Please note that the calculator will only work as intended if, when opening the calculator, macros are enabled.



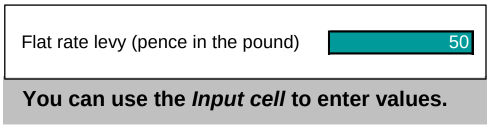
7.4 Please follow the step-by-step instructions below if Excel does not prompt you to enable macros:

i. Go to the *Tools* menu in Excel
ii. Select the sub-menu *Macro*
iii. Click on *Macro security*
iv. In the box that appears, set the security level to *Medium*

7.5 After opening, you will see a front sheet with brief information on the *Interactive Calculator*. Please tick the box to confirm you have read and understood the disclaimer. A link will appear, please click on the link to proceed to the *Interactive Calculator.*

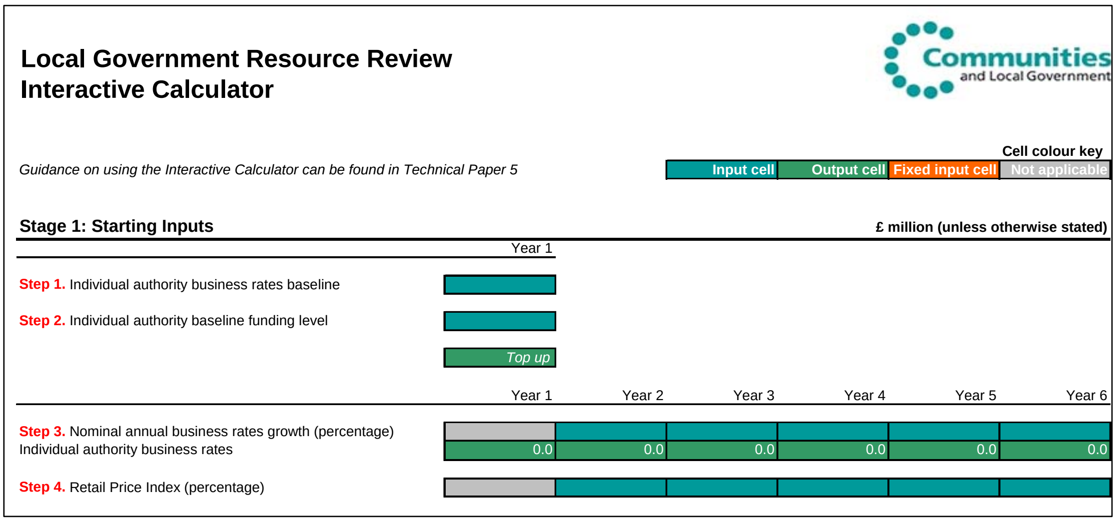


Stage 1: Starting Inputs



7.6 At the *Starting Inputs* stage (shown in figure 1), you must enter inputs at four steps: *individual authority business rates baseline*, the *individual authority baseline funding* level, *nominal annual business rates growth* and the rate of inflation (*Retail Price Index*). Please enter all values in £ million unless otherwise stated.

Figure 1: Starting Inputs



Step 1. Individual authority business rates baseline

7.7 At step 1, you must enter a figure representing the individual authority business rate baseline. This will be compared to the individual authority baseline funding level (entered at step 2) in order to calculate your tariff or top up.

7.8 Although you may enter any value at this step, you should be familiar with the proposed method for establishing the individual authority business rate baseline. This is described in the following technical papers:

- i. *Technical Paper 1: Establishing the Baseline*
- ii. *Technical Paper 2: Measuring Business Rates*
- iii. *Technical Paper 3: Non-billing authorities*

Step 2. Individual authority baseline funding level

7.9 At step 2, you must enter a figure representing the individual authority baseline funding level which is then compared to the individual authority business rate baseline entered in step 1 in order to calculate your tariff or top up.

7.10 Once again, you may enter any value, but you should be familiar with how the baseline funding level will be determined within the rates retention scheme. Further detail can be found in *Technical Paper 1: Establishing the Baseline.*

7.11 Based on the inputs to step 1 and step 2, the calculator will display either a tariff or a top up. An authority will pay a tariff if the individual authority business rate baseline entered in step 1 is more than their baseline funding (step 2). If an authority's local business rates baseline is equal to or less than their baseline funding level they will receive a top up.

	Year 1	Year 1
Step 1. Individual authority business rates baseline	25	20
Step 2. Individual authority baseline funding level	50	10
	Top up	*Tariff*

A top up or tariff authority.

Step 3. Nominal annual business rates growth

7.12 At step 3, you must enter a nominal annual business rate growth (percentage) figure for each year between year 2 and year 6. Different growth rates can be entered for different years. The calculator then displays the individual authority business rates in the output row.

	Year 1	Year 2	Year 3
Step 3. Nominal annual business rates growth (percentage)		2.0%	3.0%
Individual authority business rates	20.0	20.4	21.0

Different growth rates can be entered for different years. The resulting amount of individual authority business rates is presented in the output row.

Step 4. Rate of inflation (Retail Price Index)

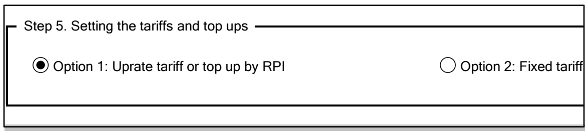
7.13 Step 4 requires you to enter an assumption regarding the level of inflation for each year between year 2 and year 6. This assumption is necessary in light of chapter 3 and chapter 4 in this paper which set out how the Retail Price Index (RPI) could be used to index tariffs and top ups and for deciding the individual authority business rates growth applicable for the levy.

7.14 You are free to enter your own inflation assumptions, however for further guidance on this input, you may wish to refer to the latest forecast of RPI from the Office for Budget Responsibility (OBR)[2]

[2] Office for Budget Responsibility, March 2011, *Economic and Fiscal Outlook,* available at: http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf, p. 95

Stage 2: Component toggles

7.15 The consultation paper outlined the seven components of the rate retention scheme. In stage 2, you can explore some of these components in further detail.



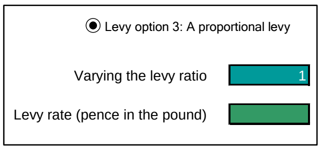
Example of a component toggle.

Step 5. Setting the tariffs and top ups

7.16 Chapter 3 of this paper outlined two options on setting tariffs and top ups; either uprate tariffs and top ups by RPI (option 1) or fix them in cash terms (option 2). You can select either option by clicking on the one you wish to apply. The output row will show the resulting tariff or top up. The next output row *pre-levy income* takes the individual authority business rates from step 3 and subtracts/adds the tariff/top up.

Step 6. The levy

7.17 Chapter 4 of this paper outlined three options for the levy; *flat rate levy* (levy option 1), *a banded levy* (levy option 2) and *a proportional levy* (levy option 3).



Example of a levy option and pop up information.

7.18 You must first choose between the three levy options. Following the selection of a levy option pop up input cells/information will be displayed:

i. <u>Levy option 1:</u> after selecting levy option 1 you are required to enter the levy rate in terms of the pence in every pound of growth that is payable through the levy. For this option, please enter a value between 0 and 100 pence i.e. if you wish to explore the impact of a 40 pence in the pound levy, you should enter *40* into the input cell. A default flat levy rate (50 pence in the pound) has been entered but you may enter any value (between 0 and 100 pence).

ii. <u>Levy option 2:</u> after selecting levy option 2 information will be displayed on the levy band an authority is in and the subsequent levy rate. An authority will be placed in a levy band based on their inputs to step 1 and step 2 (individual authority business rates baseline [divided by] baseline funding). The band parameters and levy rates used in the calculator are shown in table 1.

Please note that for option 2 the band parameters and levy rates are fixed inputs and cannot be changed. However, you should note that the number of levy bands, the band parameters and levy rates are a demonstration only and do not necessarily reflect Government's final position.

Table 1: Band parameters and levy rates for levy option 2

Levy band	Band parameters	Levy rate (pence in the pound)
High levy band	An authority's individual authority business rates baseline is more than 5 times its baseline funding level	80
Medium levy band	An authority's individual authority business rates baseline is more than 2 and equal to or less than 5 times its baseline funding level	40
Low levy band	An authority's individual authority business rates baseline is more than 1 and equal to or less than 2 times its baseline funding level	20
No levy band	An authority's individual authority business rates baseline is equal to or less than its baseline funding level.	0

iii. <u>Levy option 3:</u> after selecting option 3, you are required to enter a value into the *varying the levy ratio* input cell. Entering a value of *1* will mean that a 1 per cent increase in individual authority business rates will result in up to a 1 per cent increase in retained income. A value of *2* will mean that a 1 per cent increase in individual authority business rates will result in up to a 2 per cent increase in retained income (therefore a lower levy). A value of *0.5* will mean that a 1 per cent increase in individual authority business rates will result in up to a 0.5 per cent increase in retained income (therefore a higher levy). A default levy ratio (*1)* has been entered but you may enter any value.

All levy options are set in year 1 and cannot be adjusted afterwards. Levy option 2 and levy option 3 are based on the values entered for individual authority business rates baseline and the baseline funding in step 1 and step 2 respectively.

7.19 Figure C shows the output rows where the levy is calculated. The levy rate is applied to the *growth in pre-levy income* <u>*against year 1*</u>. If, when setting the tariff or top up, option 1 is selected the levy rate will be applied to *growth in pre-levy rates income above RPI*; if option 2 is selected the levy rate will be applied to all growth.

Figure C: Calculating the levy

	Year 1	Year 2	Year 3
Growth in pre-levy income against year 1		0.1	0.7
… of which growth above RPI (and applicable for the levy)		0.0	0.5
Levy on growth above RPI		0.0	0.4
Post levy income	10.0	10.1	10.3

Step 7. The safety net

7.20 Following the selection of the levy option, you are required to enter assumptions on the size of the *safety net* (see figure D). The calculator includes two forms of the *safety net*; an *annual safety set* and a *baseline safety net*. In addition you can choose whether to index the *baseline funding* level. Choosing option 1 (indexing the baseline funding) will result in you only being able to enter a value for the baseline safety net.

7.21 <u>Annual safety net:</u> this is a percentage and relates to the threshold at which support via the safety net will be activated. For example entering a value of *-20* in this cell will mean that if an authority's post levy income in the current year declines by more than 20 per cent when compared to their retained income in the previous year they will be provided with funding through the safety net to bring them back up to a 20 per cent decline on the previous year. A default annual safety net has been entered (-10 per cent) but you may enter any value.

7.22 <u>Baseline safety net:</u> this works in the same way as the annual safety net, but relates to a decline in post levy income in the current year when compared to an authority's baseline funding. You can choose whether to uprate this baseline by RPI or fix it in cash terms. A default annual safety net has been entered (-10 per cent) but you may enter any value.

Figure D: Safety net

Step 7. The safety net

○ Baseline safety net option 1: Uprate individual authority baseline funding level by RPI

○ Baseline safety net option 2: Fixed individual authority baseline funding level (in cash terms)

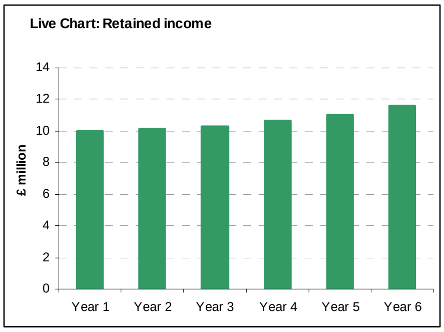
Baseline safety net (percentage) -10%

7.23 The levy amount will be calculated for a single authority but the aggregate size of the levy pot is not included. Therefore, the safety net component in the calculator (a potential use of the levy pot) should only be used for illustrative purposes and should not be seen as a declaration of the final safety net levels. The level at which the safety nets are activated will depend on decisions on the design of the levy, setting of the levy rate and setting the tariffs and top ups.

Output for Live Chart and Scenario 1, 2 and 3

7.24 After entering the necessary values and selected the required components the *retained income* will be delivered as an output. Retained income equals:

Individual authority business rates [plus]
Tariff / top up [minus]
Levy [plus]
Safety net payment [equals]
Retained income



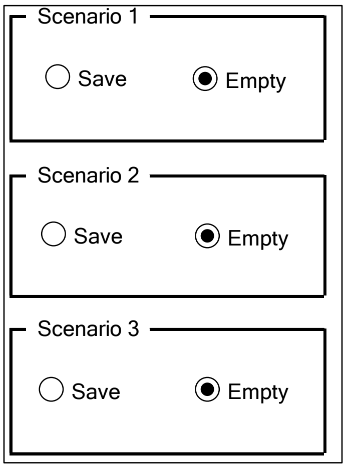
The Live chart will jump to your position in the worksheet when you click a cell.

7.25 The *Live chart* shows retained income and can be used to instantly view the effects of changing values and selecting different component options.

Stage 3: Save Scenarios

7.26 In the *Save scenarios* part of the Interactive Calculator, you can click a scenario *Save* button and the output on retained income will be saved as a scenario and exported to the *Scenario 1, 2 and 3* section. Up to three scenarios can be saved and compared. Clicking the *Empty* button will clear the saved scenario.

7.27 Clicking the Scenario 1 *Save* button will save an output on retained income as Scenario 1 in the *Scenario 1, 2 and 3* section. If you to want to save a different scenario please use the Scenario 2 or Scenario 3 *Save* buttons. <u>Clicking again on the Scenario 1 *Save* button will overwrite the previously saved scenario.</u>



You can save up to three scenarios

7.28 The Scenario 1, 2 and 3 section can save up to three scenarios and allows you to make comparisons of different inputs and components. After clicking a scenario *Save* button the output will be exported to the scenario section where you can immediately add a description. In the adjacent column you have the option of including the saved scenario in a chart. You can also change the name of the scenario in the *Scenario name* column (see figure E). Please click the *Return to the Interactive Calculator* link to return to the Interactive Calculator. To go back to the Scenario 1, 2 and 3 section please click the *Go to Scenario 1, 2 and 3* link.

Figure E: Scenario 1, 2 and 3 section

Scenario name	Scenario description	Include in chart?	Year 1	Year 2
Scenario 1		☑	10.0	10.5
Scenario 2		☐		

Additional useful information

7.29 You are free to enter your own values into the Interactive Calculator. For further guidance you may wish to refer to the following items:

i. HM Treasury, *Spending Review 2010*, available at: http://www.hm-treasury.gov.uk/spend_sr2010_documents.htm

ii. DCLG, *Local Government Finance Settlement 2011/12 and Provisional Settlement 2012/13*, available at: http://www.local.communities.gov.uk/finance/1112/grant.htm

iii. DCLG, *National Non-Domestic Rates*, available at: http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/nondomesticrates/, (local authority level data will be released on August 25 2011)

iv. Office for Budget Responsibility, *Economic and Fiscal Outlook,* available at: http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf

Annex A

Business Rates Retention: Glossary of technical terms

Adjustments
After deducting the *set aside* from the *forecast national business rates* further adjustments will be made to fund the New Homes Bonus, police authorities and potentially single purpose fire and rescue authorities.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 4

Allowable deductions
A deduction made to a billing authority's business rates income, when calculating its *proportionate share*. Examples of where allowable deductions will be made are for rate reliefs and cost of collections.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Banded levy
Authorities assigned to their different levy bands with different pence in the pound levy rates based on the ratio of their *individual authority business rates baseline* and their *baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Baseline funding level (or **individual authority baseline funding level**)
A fair starting point based on formula grant distribution, within the overall expenditure controls set out in Spending Review 2010.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5

Billing authority business rates baseline (pre-tier split)
Derived by dividing the *national business rates baseline* between *billing authorities* on the basis of their *proportionate shares*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Flat rate levy
The same pence in the pound levy rate for all authorities.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Forecast national business rates
Forecast of national business rates for England in 2013/14 and 2014/15. Based on the 2012/13 national non-domestic multiplier, uprated for *Retail Prices Index* and the latest published information from the national non-domestic rates returns.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 3

Gearing effect
The relationship between *individual authority business rates baseline* and the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline (pre-tier split)* between billing and non-billing authorities on the basis of *tier splits*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Individual authority business rates
The amount of business rates income which each authority receives before payment of *tariffs and top ups*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Interactive Calculator
Enables users to explore the principal features of the proposed rate retention scheme by entering their own inputs and varying components.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 7

Levy
To manage the possibility that some local authorities could see disproportionate financial gains, the *levy* will recoup a share of this disproportionate benefit. Applied to the change in *pre-levy income* (either all growth or growth above *Retail Prices Index*), as measured against the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

National business rates baseline
The *forecast national business rates* less *set aside* and *adjustments*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5 and
Technical Paper 2: Measuring Business Rates, Chapter 5

Post-levy income
Individual authority business rates minus/plus the *tariff* or *top up*, minus any *levy*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Pre-levy income
Individual authority business rates minus/plus the *tariff or top up*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Proportional levy
Individual pence in the pound levy rate for each authority so that percentage growth in *retained income* is proportional to growth in *individual authority business rates*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Proportionate shares
Used to apportion the *set aside*, *adjustments* and *national business rates baseline* between billing authorities. Equals a billing authority's business rates income (after *allowable deductions*) as a proportion of total business rates yield (after *allowable deductions* and exclusive of the impact of transitional relief).

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Retail Prices Index
A measure of inflation in the UK.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Retained income
Individual authority business rates minus/plus *tariff* or *top up*, minus any *levy*, plus any *safety net* payment

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Revaluation adjustment
An adjustment to tariffs and top ups to ensure that authorities do not experience gains or losses as a consequence of a revaluation.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 3

Safety net
The safety net offers: i) annual protection against a decline in *retained income* and ii) protection against a decline in *retained income* relative to the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 5

Set aside
The share of the *forecast national business rates* that will be set aside to meet the overall expenditure controls set out in Spending Review 2010. The set aside will be apportioned between billing authorities and non-billing authorities on the basis of their *proportionate shares*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 3

Tier splits or **tier split shares**
Applied to *billing authority business rates baseline (pre-tier split)* to establish the *individual authority business rates baseline.*

Reference: *Technical Paper 3: Non-Billing Authorities*, Chapter 3

Tariffs and top ups
Assigned to a local authority to achieve a fair starting point. An authority will pay a *tariff* if their *individual authority business rate baseline* is more than their *baseline funding level*. An authority will receive a *top up* if their *individual authority business rate baseline* is less than their *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Transitional adjustment
An adjustment to ensure that authorities do not experience gains or losses as a consequence of granting transitional relief.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 4

Volatility
The degree to which individual authority business rates in a particular area may change.

Reference: *Technical Paper 6: Volatility*, Chapter 3

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