



Department for
Communities and
Local Government

Payments in connection with local retention of Non-Domestic Rates and Revenue Support Grant for 2013-14: and related matters

Consultation

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PAYMENTS IN CONNECTION WITH LOCAL RETENTION OF NON-DOMESTIC RATES AND REVENUE SUPPORT GRANT FOR 2013-14: AND RELATED MATTERS

CONSULTATION PAPER ISSUED BY THE SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT

PURPOSES OF THIS CONSULTATION: REQUIREMENTS OF THE LOCAL GOVERNMENT FINANCE ACT 1988

1. Section 78 of the Local Government Finance Act 1988 ('the 1988 Act') requires that where Revenue Support Grant is to be paid for a year the Secretary of State **consult** such representatives of local government as appear to him to be appropriate before making a determination, under that section, of:
 - the amount of Revenue Support Grant for the year;
 - whether he proposes to pay Revenue Support Grant to receiving authorities, and if so the amount of Revenue Support Grant he proposes to pay to receiving authorities; and
 - whether he proposes to pay Revenue Support Grant to specified bodies, and if so the amount of Revenue Support Grant he proposes to pay to any specified body.
2. Under section 78A of the 1988 Act such a determination is to be specified in the local government finance report for the year, which is laid before the House of Commons in accordance with paragraph 5 of Schedule 7B to the 1988 Act (as inserted by Schedule 1 of the Local Government Finance Act 2012).
3. This Report also sets out the Secretary of State's determination for the financial year 2013-2014, made under paragraph 4 of Schedule 7B to the 1988 Act, of the percentage that is to be the central share and the percentage that is to be the local share of non-domestic rating income of each billing authority.
4. This Report also sets out the basis on which the Secretary of State proposes to calculate which authorities are to receive payments (referred to in this Report as "top-up" payments) and which authorities are to make payments (referred to in this Report as "tariff" payments) and the amount of such payments, under Part 5 of Schedule 7B to the 1988 Act.
5. The Secretary of State, before making the report, is required to **notify** to such representatives of local government as appear to him to be appropriate the general nature of the basis of distribution of Revenue

Support Grant (section 78A(3) of the 1988 Act) and the general nature of the basis of calculation of tariffs and top-ups.

6. This paper is issued in accordance with the consultation requirements referred to above and provides further explanatory information which may be helpful in considering the effects of the Secretary of State's proposals. A list of accompanying documents is given at the end of this consultation paper, as is a glossary of the key terms used.

2013-14

DISTRIBUTION OF GRANT: CHANGES PROPOSED FOR 2013-14

7. The Secretary of State proposes a number of changes to the distribution of grant from 2013-14; these are listed below. For convenience, these refer to options from the July 2012 consultation paper "Technical Consultation on Business Rates Retention" and the decisions in the Business Rates Retention Policy Statement of 21 November 2012 both published by the Department for Communities and Local Government.
8. The Technical Consultation set out that the Start-Up Funding Assessment, (that is, 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) would be established by:
 - o applying the 2012-13 formula grant process to the 2013-14 spending control totals using numbers after damping.
 - o applying the 2012-13 methodology for distributing the special and specific grants that were rolled into formula grant using tailored distributions in the 2011-12 Local Government Finance Settlement
 - o applying the methodologies proposed in the consultation document Business rates retention: technical details for distributing each of the grants rolled into the business rates retention scheme from April 2013. The Statement of Intent on the business rates retention scheme "The central and local shares of business rates" published on 17 May 2012, set out which grants would be included within the Start-Up Funding Assessment.
9. A draft Local Government Finance Report for 2013-14 giving effect to these proposals is enclosed with this paper. Also enclosed is a Formula Funding document setting out the basis for the distribution of the Formula Funding part of the Start-Up Funding Assessment.

2014-15

10. The Secretary of State is also making available a draft Local Government Finance Report for 2014-15 in order to provide as much information as possible on local government funding. The Secretary of State is publishing proposals for two years in order to provide greater

stability and predictability in local government funding to support the introduction of local business rate retention. There will be a period of formal consultation and separate Parliamentary debate to approve the 2014-15 settlement in due course. The draft 2014-15 Report is available at:

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

Local Government Finance Report

Central and Local Shares

11. For each billing authority in England the percentage of non-domestic rating income that is to be the billing authority's central share for 2013-14 will be 50%. The percentage that will be the billing authority's local share for 2013-2014 will be 50%.
12. The Government announced in the Statement of Intent published on 17 May 2012 its intention to fix the central and local shares at 50% until the first reset of the business rates retention system in 2020, providing the size and long term certainty of reward to incentivise local growth.

Calculation of the Start-Up Funding Assessment

13. The Start-Up Funding Assessment comprises Revenue Support Grant and the Baseline Funding Level. The total Baseline Funding Level for all authorities is the 2013-14 Estimated Business Rates Aggregate¹ multiplied by the local share. The Secretary of State has proposed that the calculation of the Start Up Funding Assessment for receiving authorities (excluding Police and Crime Commissioners and the Mayors Office for Policing and Crime) will be based on:
 - the 2012-13 Formula Grant process with updated datasets and with adjustments to the Concessionary Travel Relative Needs Formula; to the top ups within formulae relating to the cost of rural services; and to the level of the Relative Resource Amount and the Central Allocation.
 - the 2012-13 methodology for distributing the special and specific grants that were rolled into formula grant using tailored distributions in the 2011-12 Local Government Finance Settlement, to give authorities more control over how they are used.
 - the methodologies proposed in the consultation document *Business rates retention: technical details* for distributing each of the grants that are being rolled into the business rates retention scheme from April 2013, in order to further simplify and decentralise funding to local government and maximise the growth incentive provided through the business rates retention scheme.

Calculation of Baseline Funding

¹ Details of the calculation of the Estimated Business Rate Aggregate can be found at: <http://www.local.communities.gov.uk/finance/brr/sumcon/s3chapter2.pdf>

14. The Secretary of State proposes to determine the total Baseline Funding Level for receiving authorities (excluding police and crime commissioners) for the year 2013-2014 to be £10,898,554,444 This figure is calculated on the basis proposed in the July 2012 consultation *Business rates retention: technical details* and represents the local share of the Estimated Business Rates Aggregate for 2013-14.
15. The Secretary of State proposes to determine the provisional Baseline Funding Level for receiving authorities (excluding police and crime commissioners) for the year 2014-15 to be £11,232,824,552 This figure is calculated on the basis proposed in the July 2012 consultation *Business rates retention: technical details* and represents the local share of the current provisional Estimated Business Rates Aggregate for 2013-14.

Total of Revenue Support Grant

16. The Secretary of State proposes to determine the amount of Revenue Support Grant for 2013-14 to be £15,202,897,023 This figure is calculated on the basis proposed in the July 2012 consultation *Business rates retention: technical details* and represents the difference between the local share of the Estimated Business Rates Aggregate for 2013-14 and the local government spending control for 2013-14. Of the total amount of Revenue Support Grant, the Secretary of State proposes to pay to receiving authorities £15,175,397,023
17. The Secretary of State further proposes to determine the amount of Revenue Support Grant for 2014-15 to be £12,650,045,789 This figure is calculated on the basis proposed in the July 2012 consultation *Business rates retention: technical details* and represents the difference between the 2013-14 local share of the current provisional Estimated Business Rates Aggregate updated by the Independent Office for Budget Responsibility's 2013 quarter 3 estimate of Retail Prices Index and the local government spending control for 2014-15. Of the total amount of Revenue Support Grant, the Secretary of State proposes to pay to receiving authorities £12,624,065,789

Distribution of Revenue Support Grant

18. This section specifies the basis on which the Secretary of State proposes to distribute Revenue Support Grant to authorities for 2013-2014 and 2014-15.

Proportionate Shares

19. In order to calculate tariff and top-ups for 2013-2014, it will be necessary to establish an individual authority Business Rates Baseline for each receiving authority. This will be done by:

- apportioning the local share of the Estimated Business Rates Aggregate between billing authorities on the basis of proportionate shares to establish billing authority business rate baselines. Proportionate shares are calculated on the basis which the Government set out in the 21 November Business Rates Retention Policy Statement, and represent a two-year average of the percentage share of the overall business rates yield collected by the authority.
- further apportioning billing authority business rate baselines between billing authorities and any major precepting authorities on the basis of the relevant shares set out in the 21 November Policy Statement to establish individual authority business rate baselines.

Tariff and Top-Up Amounts

20. Individual authority Business Rates Baselines will be compared to their individual Baseline Funding Levels to determine tariff and top up amounts for all relevant authorities. Tariffs and top-ups achieve a one-off rebalancing of resources at the outset of the scheme, and it is the Government's intention that they will be uprated by RPI² in 2014-15 and all future years until the first reset of the business rates retention scheme in 2020.
21. The basis on which authorities will receive payments (top ups) or make payments (tariffs) is set out in the Report.

Pooling

22. Those authorities that have chosen to enter into pooling arrangements and have been designated as pools are set out in the Report for information. Pools are treated as relevant authorities for the purposes of tariff and top-up calculations.

Transfers

23. The Report sets out the Secretary of State's proposals for the transfer out of the central education services included in the Local Authority Spend Equivalent Grant (LACSEG) paid to academies from April 2013. It also provides details on his proposals for the transfer of a number of currently separate grants into the Start Up Funding Assessment.

Formula Funding

Calculation of Relative Needs Formulae

24. This section describes the calculation of the Relative Needs Formulae element or elements for each one of the seven major service blocks that comprise the Formula Funding part of the Start Up Funding Assessment.

Distribution of Formula Funding

² Tariffs and top-ups will be uprated by the change in the small business multiplier. In previous years this has followed the change in the RPI.

25. This section specifies the basis on which Formula Funding for 2013-14 will be distributed.

Floor Damping

26. The Secretary of State proposes that calculation of floors in the Formula Funding element will operate in the following general way:

- Floors will apply to the annual change over the actual grant received in 2012-13, adjusted as necessary for transfers of responsibility and funding so as to give a like for like comparison;
- Floors will operate for three separate groups of authorities: authorities with education and social services responsibilities; fire and rescue authorities; and shire districts. There will be no cross-subsidisation of the floors between the groups of authorities; and
- The cost of the floor will be met by scaling back the change above the floor of each authority that is above the floor.

Banded floors

27. Local authorities vary considerably in the proportion of their budget requirement that is financed by the Start Up Funding Assessment or council tax. A given percentage reduction in the Start Up Funding Assessment will therefore produce a bigger reduction in budget requirement (for the same council tax requirement) in authorities that are most dependent on the Start Up Funding Assessment. For social services authorities and shire district councils, the Secretary of State proposes to set four floors. Authorities within these groups would be divided into four bands according to the extent to which they rely on government grant to finance their budget requirement in 2013-14. The highest floor – representing the smallest reduction – would apply to the most dependent band of authorities and the lowest floor to the least dependent.

28. For **2013-14**, the proposed floor levels would be:

	Social services authorities	Shire district councils	Fire and rescue authorities
Four banded floors at:			
Band 1 - most dependent	-2.7%	-5.4%	-8.7%
Band 2	-4.7%	-7.4%	-9.2%
Band 3	-6.7%	-9.4%	-11.7%
Band 4 - least dependent	-8.7%	-11.4%	

Isles of Scilly

29. It is proposed to continue to pay the Council for the Isles of Scilly an amount of Revenue Support Grant specified in the Report referred to at paragraph 11, above, rather than calculated by formula.

Exemplifications of the Proposals

30. Tables listed at the end of this paper exemplify the effects of the proposals for 2013-14 set out in this paper. The Start Up Funding Assessment shown for each receiving authority is generally based on information available to the Secretary of State on 1 October (with a few exceptions) and on the methodology set out in the draft Report and Formula Funding document. Some of the information used for the purposes of this paper is necessarily provisional.

31. Data changes between the issue of this consultation paper and calculation of the final settlement may lead to small changes in the grant floors or in the factor by which grant changes above the floors are scaled back.

The Secretary of State therefore puts forward these figures in order to provide an illustration of the effects of his proposals as best they can be estimated at present, not to demonstrate their final outcome.

32. Finally, the Secretary of State also proposes to pay an Efficiency Support Grant under s31 of the Local Government Act 2003 to certain authorities whose spending power would otherwise fall by more than a given percentage between 2012-13 and 2013-14 and who fulfil certain criteria. Details of this proposed grant are in the document referred to at the end of this paper.

**Local Government Finance – Settlement Distribution and Policy Division
Department for Communities and Local Government**

19 December 2012

LIST OF PAPERS ACCOMPANYING THE CONSULTATION PAPER

2013-14

- Draft Local Government Finance Report 2013-14
- Formula Funding
- Key Statistics Tables
 - Key Table 1: Calculation of Quantum for the Start-Up Funding Allocation
 - Key Table 2: Specific and Special Grant Quantums
 - Key Table 3: Transfers Affecting the Start-Up Funding Assessment in 2013-14
- Spending Power
- Headline Amounts
- Headline amounts – pooled authorities
- Breakdown of Start-Up Funding Assessments
- Efficiency Support Grant

Full supporting information is provided on the Department for Communities and Local Government's website at <http://www.local.communities.gov.uk/finance/1314/settle.htm>

Annex A: Glossary of technical terms

Aggregate start-up funding assessment

This is the total amount of funding that has been allocated to the local government sector in 2013-14. It is the adjusted local government spending control total for 2013-14.

Amending Report

The means of making changes in the distribution of a settlement after the settlement has been approved.

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 between billing authorities on the basis of their *proportionate shares*.

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*.

Damping

Damping is used to describe the way limits are applied changes in grant funding from year to year, due to revised distribution formulae or new data.

Efficiency Support Grant

A grant awarded to local authorities who, in 2013-14 and 2014-15, would otherwise see a reduction of more than 8.8% of their revenue spending power.

Estimated Business Rates Aggregate

The total business rates forecast to be collected by all billing authorities in England. This will include two adjustments, one to address volatility in outturn compared to forecast and the other to cover future appeals losses.

Floor damping

A method by which stability in funding is maintained through limiting the effect of reductions in grant. A floor guarantees a lower limit to year-on-year reductions in grant for each authority. The grant changes of authorities whose grants are above the floor are scaled back by a fixed proportion to help pay for the floor.

Formula funding

This refers to the element of the aggregate start-up funding assessment that used to be funded through formula grant and which is distributed according to a mathematical formula to individual local authorities.

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*.

Individual authority 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*.

Levy

A mechanism to limit disproportionate benefit from increase in business rates. The levy is applied proportionally on a 1:1 basis. Thus a 1% increase in business rates income produces a corresponding 1% increase in revenue from the rates retention scheme. There is a limit on the maximum levy rate of 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. For 2013-14, this is equal to the start-up funding assessment.

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*.

Lower Tier Authorities

Local authorities that carry out the functions that, in shire areas with two tiers of local government, are carried out by shire districts. They are the same local authorities as billing authorities.

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 updated 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 by 31 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.

Proportionate Share

This is the percentage of the national business rates yield which a billing authority has collected - on the basis of the average rates collected by authorities over the two years 2010-11 and 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 uses to distribute formula funding.

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 run from 2013 to 2020, and thereafter for ten 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*.

Ring-fenced grant

A grant paid to local authorities which has conditions attached to it, which restrict the purposes for which it may be spent.

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*. The baseline funding levels are updated each year by the September RPI for the purposes of assessing eligibility for the safety net.

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 and corrected.

Safety net threshold

This is 92.5% of a local authority's baseline funding level.

Service tiers

There are three service tiers corresponding to the services supplied by the three types of authorities. These are upper-tier services – those services, other than fire, supplied by county councils in two-tier areas; 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.

Spending Power

The definition of revenue spending power is spending power from council tax, Government revenue grants and National Health Service Funding for social care. The calculation of each local authority's spending power is used to calculate eligibility for Efficiency Support Grant.

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 the 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 protection payment

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