Communities and Local Government

Local Government Finance Bill: Business rates retention scheme

Impact assessment

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December 2011

ISBN: 978-1-4098- 3286- 7

Title: Bussiness rates retention scheme **IA No:** **Lead department or agency:** Department for Communities and Local Government **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 26/09/2011 **Stage:** Development/Options **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries**: Elizabeth Osgood 0303 44 43527

Summary: Intervention and Options

RPC: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£m	£m	£m	NO	In/Out/zero net cost

What is the problem under consideration? Why is government intervention necessary?

England's local government finance system is one of the most centralised in the world with local authorities, on average, raising only 47 per cent of their revenue spending locally (excluding dedicated schools grant and other specific and special grants). Under the current system business rates, which are levied on all non-domestic properties in England, are collected by billing authorities and then pooled at the national level. They are re-distributed by central government to all local authorities as part of their formula grant settlement. This dependence on a central distribution of funds means that local authorities do not face a financial incentive to promote business growth in their area. Local retention of business rates, including growth in business rates, will provide authorities in England with a strong incentive to promote business development, as increases in local authority budgets will be more directly linked to changes in local business rates.

What are the policy objectives and the intended effects?

Enabling local authorities to retain a significant proportion of the business rates generated in their area will provide a strong financial incentive for them to promote local economic growth. Councils can have a big influence on growth through planning, investment in local infrastructure, managing the local environment and developing a positive relationship with the private sector. Business rates retention will not only help to incentivise local authorities to take action to promote growth, but will also decrease local authorities' current dependence on central government funding which has a number of adverse consequences.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1. Do nothing (maintain current formula grant system)
2. Introduce a business rates retention scheme from 2013/14.

In order to introduce the changes necessary for a business rates retention scheme, rating legislation, as well as changes to the legislation governing the distribution of formula grant will need to be amended or repealed. Changes will be needed to the Local Government Finance Act 1988 (as amended).

Options for how this scheme is designed and implemented are set out in a consultation paper supported by a series of eight technical papers. We have published an interactive calculator which enables users to explore the potential impact of different combinations of options for the business rates retention scheme by entering their own inputs and varying components.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro Yes/No**	**< 20** Yes/No	**Small Yes/No**	**Medium Yes/No**	**Large Yes/No**
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			**Traded:** N/A	**Non-traded:** **N/A**	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: Bob Neill MP Date: 14/10/11

Summary: Analysis & Evidence — Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate				

Description and scale of key monetised costs by 'main affected groups'

We do not anticipate any additional costs for business. The Government has made clear that there will be no change in the way business rates bills are calculated, or in the current system of business rates relief.

In accordance with the policy on new burdens, we will assess and fund the net additional costs to local government as a whole with implementing these changes.

Other key monetised costs by 'main affected groups'

The Government's proposals for business rates retention are out to consultation include a rebalancing of resources through a system of 'tariffs' and 'top ups', so that no council is worse off as a result of its business rates base at the outset of the scheme. Thereafter, changes in funding will depend on local business rates growth.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate				

Description and scale of key monetised benefits by 'main affected groups'

Analysis will be published in the new year which will estimate the aggregate economic impact of the introduction of the business rates retention scheme.

Other key non-monetised benefits by 'main affected groups'

- Local authorities – will have the power to influence their financial position within a scheme incorporating business rates retention. Local government will benefit from growth in business rates income. In the first two years, the Government has committed to manage the scheme within the expenditure control totals published for local government in the Spending Review, in line with its deficit reduction commitments. Local government will keep any business rates growth above forecast levels.
- Society – may benefit from additional economic growth due to increased economic activity as a result of the business rates incentive.
- Business – may benefit from local authorities being more willing to encourage business development.

Key assumptions/sensitivities/risks — **Discount rate (%)**

The Government's proposals for a business rates retention scheme have been consulted upon and the responses are currently being considered. The options set out in the consultation could be combined in many different permutations, and we therefore do not wish to prejudge this outcome by setting out any fully working schemes

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	**Benefits:**	**Net:**	Yes/No	IN/OUT/Zero net cost

Evidence Base (for summary sheets)

Introduction

Economic Growth

1. The Spending Review[1] last year set the path for public spending over the next four years in line with the Government's deficit reduction plan. The Budget 2011[2] described how the Government intends to create the right conditions that will help the private sector grow and remove unnecessary barriers that can stifle economic growth. The 'Plan for Growth'[3], published by HM Treasury and the Department for Business, Innovation and Skills alongside the Budget this year, outlined the results of the Government's Growth Review and is an urgent call for action to help Britain regain its lost ground in the world economy.

Local Government Resource Review

2. The Coalition's Programme for Government[4] expressed the need for a review of local government finance. It also promised to allow communities that host renewable energy projects to keep the additional business rates they generate. The Local Growth White Paper, published in October 2010, highlighted the Local Government Resource Review and its specific commitment to introduce a business rates retention scheme.

Localisation

3. The Spending Review was also underpinned by a radical programme of public service reform, to change the way services are delivered by redistributing power away from central government. The localisation of business rates is built on the Coalition principles of increasing freedom and sharing responsibility by localising power and funding, including by removing ring-fencing around resources; as well as initiatives such as the New Homes Bonus, which will support local government encourage the development of new homes.

Problem under consideration

4. Currently business rates are collected at the local level, but receipts are pooled nationally and redistributed via formula grant. This means that local authorities do not face a financial incentive to promote business growth in their area as they will not receive business rates receipts from additional development. Rather, authorities actually face a fiscal disincentive given that if they allow development they must provide services to commercial property. This combined with the fact that communities tend to oppose development due to misaligned costs and benefits (localised costs versus wider more thinly spread benefits) has meant that local authorities are generally reluctant to allow commercial development and promote economic growth.
5. Such resistance imposes costs on the economy. Professor Michael Ball, in a research paper for the National Housing and Planning Advice Unit[5], estimated the transaction costs alone of delays in the planning application (residential and non-residential combined) process at £3bn per year.

Rationale for intervention

6. The Government is committed to change the way in which local government is currently funded through formula grant. There are two reasons for this.
7. Firstly, because the Government believes that the formula grant system leaves authorities unhealthily dependent on central government for a substantial part of their funding; and wholly dependent on central Government's calculations of the funding that individual authorities need to deliver services.
8. Secondly, because local authorities pay all of their business rates income to central government for redistribution, they have no financial incentive to be responsive to the needs of the business

[1] http://www.hm-treasury.gov.uk/spend_index.htm
[2] http://www.hm-treasury.gov.uk/2011budget.htm
[3] http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf
[4] http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf
[5] http://www.communities.gov.uk/documents/507390/pdf/1436960.pdf

community. Under our proposed model of business rates retention authorities will retain some, or all, of the rates that they collect, therefore will face a direct incentive to increase their local business rates income. This will encourage authorities to take greater account of the needs of local business in discharging their functions by allowing development and promoting economic growth in their area. Similarly communities will be more willing to accept development due to a better alignment of costs and benefits.

9. The Lyons Inquiry into Local Government Finance, in March 2007, concluded that previous tax incentive schemes such as the Local Authority Business Growth Incentives (LABGI) scheme, launched by the previous government in 2005, faired because they did not allow for local decision making within the process.

   The criteria used to allocate resources through LABGI are complex. While such objectives may be valid, complexity and changes to criteria have reduced the ability of local authorities to predict their likely gains from the scheme, constraining the degree to which they are able to make decisions that rely on future financial benefits being realised and making it difficult to demonstrate the benefits to their citizens.[6]

10. Analysis from the London School of Economics and the Centre for Cities has provided an indication that a model of business rate retention will be more successful. In their assessment of the nationalisation of business rates in 1990 Cheshire and Hilber (2008)[7] found that the level of ‘planning restrictiveness’ increased following the changes, leading to less development and subsequently higher costs for business through restricted supply. Similarly, the Centre for Cities[8], have found that, after controlling for economic conditions, the annual growth rate of commercial floor space reduced following nationalisation. This analysis indicates that business rates retention will help to address the problems with the current system and produce additional development.

Policy objective

11. To introduce a business rates retention scheme in a way which delivers the key principles for reform set out in the October 2010 Local Growth white paper and, again, on publication of the Local Government Resource Review’s Terms of Reference:

    - to build into the local government finance system **an incentive for local authorities** to promote local growth over the long term;
    - **to reduce local authorities’ dependency** upon central government, by producing as many self sufficient authorities as possible;
    - to maintain a degree of redistribution of resources to ensure that authorities with high need and low taxbases are still **able to meet the needs** of their areas; and
    - **protection for businesses** and specifically, no increases in locally-imposed taxation without the agreement of local businesses.

Description of options considered (including do nothing);

12. The options being considered are:

    1) Do Nothing: Business rates will continue to be collected by billing authorities, pooled centrally and redistributed by central government through formula grant;

    2) Introduce a business rates retention scheme: This will involve a major change to the current Local Government Finance system replacing formula grant with a scheme which incorporates business rates retention.

Monetised and non-monetised costs and benefits of each option (including administrative burden);

1) Do Nothing

6 http://www.webarchive.org.uk/wayback/archive/20070428120000/http:/www.lyonsinquiry.org.uk/docs/final-complete.pdf
7 http://eprints.lse.ac.uk/4372/1/Office_space_supply_restrictions_(LSERO_version).pdf
8 http://www.centreforcities.org/assets/files/2011%20Research/11-07-11_Room_for_improvement.pdf

13. Local authorities in England would continue to receive a share of the business rates distributed by central government each year on a basis of need and available resource. The parameters for the distribution of non-domestic rates would continue to be set nationally. No costs and benefits have been assessed for this option since it involves no change to current activity.

2) Introduce a business rates retention scheme

14. The consultation setting out the Government's proposals for a business rates retention scheme closed on 24 October, and we are now considering the responses. The proposals, as set out in the consultation document and the accompanying eight technical papers[9], set out a range of options for how the scheme will be delivered. These options could be combined in many different permutations.

15. Therefore the following outlines the proposed rates retention model along with the options currently out to consultation but, at this stage, does not set out detailed costs and benefits for the many different combinations of options possible. Instead, the Government has published an interactive calculator enabling local authorities to explore the potential impact of different combinations of scheme design options, based on their own assumptions about local circumstances and local business rates growth in future years. The calculator can be accessed on the departmental website: http://www.communities.gov.uk/publications/localgovernment/resourcereviewcalculator

16. A business rates retention scheme will be a significant move away from the current centralised system, and will provide councils with a strong incentive for behavioural change to promote business growth in their area.

The proposed model

Please refer to the glossary for an explanation of any technical terms (italicised text) in this section. Furthermore readers may wish to refer to the technical papers[10] for further detail.

<u>Establishing the baseline</u>

17. The Government is fully committed to its deficit reduction programme, and has made clear that the business rates retention scheme will operate within the local government spending control limits set out in the Spending Review.

18. Forecast national business rates in excess of those spending control limits will be set aside to fund other grants to local government. The forecast national business rates will also be adjusted to remove sufficient funding for the New Homes Bonus, any functions transferred from local authorities and to provide fixed funding allocations to police authorities and potentially also single purpose fire and rescue authorities.

19. The amount of forecast national business rates remaining after the set aside and adjustments have been deducted will be the national business rates baseline for the purposes of the scheme, and will be divided between authorities to establish individual authorities' business rates baselines.

20. The Government is also clear that no authority will lose out as a result of its business rates base at the outset of the scheme. Individual authorities' baseline funding levels will be based on 2012-13 formula grant, taking account of the 2014-15 spending control totals, to maintain local budget stability and avoid introducing turbulence at the starting point for the new scheme. The Government is consulting on two options, which are discussed in more detail in *Technical Paper 1: Establishing the Baseline.*

Baseline funding level options:

- take individual authorities' actual 2012-13 formula grant allocations and adjust them in proportion to the new control totals with no further changes. This would freeze the current distribution.
- applying the process used to determine 2012-13 formula grant allocations to the local government control totals and at the same time make very limited, technical updates to the formulae.

<u>Tariffs and top ups</u>

[9] http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/

[10] http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/

21. If all councils were permitted to retain all the business rates collected in their area some authorities would be disproportionately advantaged and others significantly disadvantaged. Therefore, at the outset of the scheme, the Government proposes to rebalance balance resources across local authorities through a system of tariff payments and top up grants. This will ensure that no authority loses out as a result of its business rates base at the outset of the scheme.

22. Authorities with baseline business rates in excess of their baseline funding would pay a *tariff* to central government, whilst those with less business rates than their baseline funding would receive a *top up* grant from central government. *Tariffs* and *top ups* would be self funding at the national level.

23. In future years these tariffs and top ups will remain fixed, therefore ensuring a strong incentive effect to promote growth. The consultation seeks views on the following options for rolling forward tariffs and tops in future years:

    - *Tariff* and *top up* options:
        i. Uprate *tariffs* and *top ups* by RPI
        ii. Fix *tariffs* and *top ups* in cash terms

24. The diagrams at Annex A demonstrate both how the national and individual baseline positions will be established.

<u>The levy</u>

25. The scheme will enable all local authorities to benefit from the growth in their business rates. However, some highly geared tariff authorities with very large business rates bases relative to their baseline funding may stand to benefit disproportionately from growth. Where this happens, we are proposing to take back a share of disproportionate benefit via a 'levy' which can then be used to assist authorities in need of further support. The consultation set out three options for a levy on growth.

    - Levy options:
        i. A *flat rate levy* – the same pence in the pound levy rate for all authorities.
        ii. A *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.
        iii. A *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*.

26. None of these levy options place a cap on the amount of business rates growth an authority can benefit from under the new scheme – the more any authority grows its business rates base, the better off it will become.

<u>The safety net</u>

27. The Government proposes to use the proceeds of the levy to provide a '*safety net*' to those authorities who experience significant drops in business rates, for example caused by the closure or relocation of a major business.

    - *Safety net* options:
        i. Annual – this will provide protection to prevent year on year decline in income beyond a pre-set threshold.
        ii. Baseline – this will provide protection to prevent decline in income beyond a pre-set threshold measured against the authority's baseline funding level. The consultation requested views on whether this safety net should be against a cash baseline or an inflation adjusted baseline.

28. Given that the *safety net* will be financed through the funds collected by the levy, there is a key trade off in terms of creating a strong growth incentive (and hence a lower levy) and ensuring adequate resources to help authorities in need of further support (hence requiring a higher levy).

<u>Resetting the system</u>

29. The Government's proposals include the option of resetting the system if, over time, it was felt that resources were becoming too divergent from core service pressures within individual local authority

areas, for example, because of population movements, or the characteristics of the area changing. This would involve resetting tariffs and top ups to realign resources with need, potentially on the basis of a completely new assessment of funding levels should it be required.

- Reset options:
    i. Fixed reset periods – this would involve pre-determining the length of reset periods which would occur after a fixed period of time.
    ii. Discretionary resets – central government would retain the discretion to carry out a reset at any time that it felt that need and resource of local authorities had fallen out of line.
    iii. Full – this would involve a reassessment of all business rates within the scheme and would involve resetting tariffs, top ups and levies on the basis of all available funds.
    iv. Partial – this would involve only a partial reassessment of business rates within the scheme to reset tariffs, top ups and levies. For example the reset could be carried out on the inflation adjusted level of baseline funding within the scheme at the outset. This would mean that any growth in business rates above inflation would remain with the authority in which it was delivered.

30. **The following sections set out the potential impacts associated with a business rates retention scheme:**

<u>On businesses</u>

31. The method for valuation and collection of non-domestic rates will remain the same. There is no intention to change this system. However as the scheme beds in, business may see a positive change in the way local authorities encourage and develop growth in their area.

<u>On local authorities</u>

32. Once baselines are set, future changes in local authorities' budgets will be linked to business rates growth. Resources will not be aligned with a new assessment of need until any reset of baselines, tariffs and top ups. This will provide a strong incentive for business rates growth, and move away from a culture of dependency upon central government grant. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.
33. To protect authorities that see significant negative volatility in business rates or are less able to respond to the growth incentive, the Government proposes that a levy recovering a share of disproportionate benefit should fund a safety net to prevent authorities falling a certain percentage below their baseline.

<u>On society</u>

34. Society will benefit from increased economic activity if the business rates retention scheme incentivises additional business growth as intended. The strength of the growth incentive will depend on decisions on detailed scheme design options which are currently out to consultation. Analysis will be published in the new year which will estimate the aggregate economic impact of the introduction of the business rates retention scheme.

<u>On developers</u>

35. Developers will find that authorities are more willing to accept new sustainable development due to the financial incentive to allow new business growth in their local areas. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects. Government is moving to a more locally-led planning system, replacing the counter-productive top-down targets and ensuring that local communities share the benefits of development.

Rationale and evidence that justify the level of analysis used in the Impact Assessment (proportionality approach);

36. On 18 July a consultation document was published which set out proposals for the design of a rate retention scheme. This consultation is supported by 8 technical documents and an interactive

calculator which set out a range of options for how the scheme will be delivered. These options could be combined in many different permutations and the Government has not specified particular options in terms of outlining any one fully constructed scheme model. The Government has published an interactive calculator enabling local authorities to explore the potential impact of different combinations of scheme design options, based on their own assumptions about local circumstances and local business rates growth in future years, upon them.

37. Further analysis of the economic impact of the introduction of the business rates retention scheme will be published in the New Year once there is more clarity on the parameters that will feature in the new system. This will, in effect, attempt to estimate the behavioural response of local authorities in reaction to the new incentive inherent within the rates retention scheme.

Risks and assumptions;

38. The recent Select Committee hearing on the Local Government Resource Review raised a number of concerns and risks which are worth touching upon here:

- *The metrics used to decide the assumptions about growth used to set the base line will disadvantage some authorities* - The Government is committed to the spending control totals set out in the Spending Review 2010. To avoid putting its deficit reduction plans at risk, the Government will set aside forecast national business rates that exceed the spending control totals to fund other grants to local government. *Technical Paper 2: Measuring Business Rates* sets out and seeks views on proposals for establishing the forecast national business rates. .
- *With the introduction of both the business rates changes and the changes to council tax support isn't there a large risk when a big local business closes?* We are building a number of safeguards into the system to help local authorities manage volatility in their business rates. We are giving them the ability to form 'pools' and smooth some of the impact of volatility across a broader area. We are also providing a safety net which will be used to support those local authorities who experience a significant drop in business rates income.

Direct costs and benefits to business calculations (following One In, One Out methodology);

39. There will be no direct impact on business as a result of the scheme. The methods of valuation and collection of business rates are not changing.

Summary and preferred option with description of implementation plan.

40. The preferred option is to implement a business rates retention scheme to give local areas greater control over their local finances. Details of the design of the scheme will be set out in the Government's response to the current consultation, which seeks views on different options. Analysis will be published in the new year which will estimate the aggregate economic impact of the introduction of the business rates retention scheme.

41. Government intends to bring forward legislation in this session with a view to introducing business rates retention in April 2013.

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 44

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 45

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* payments.
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 46

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

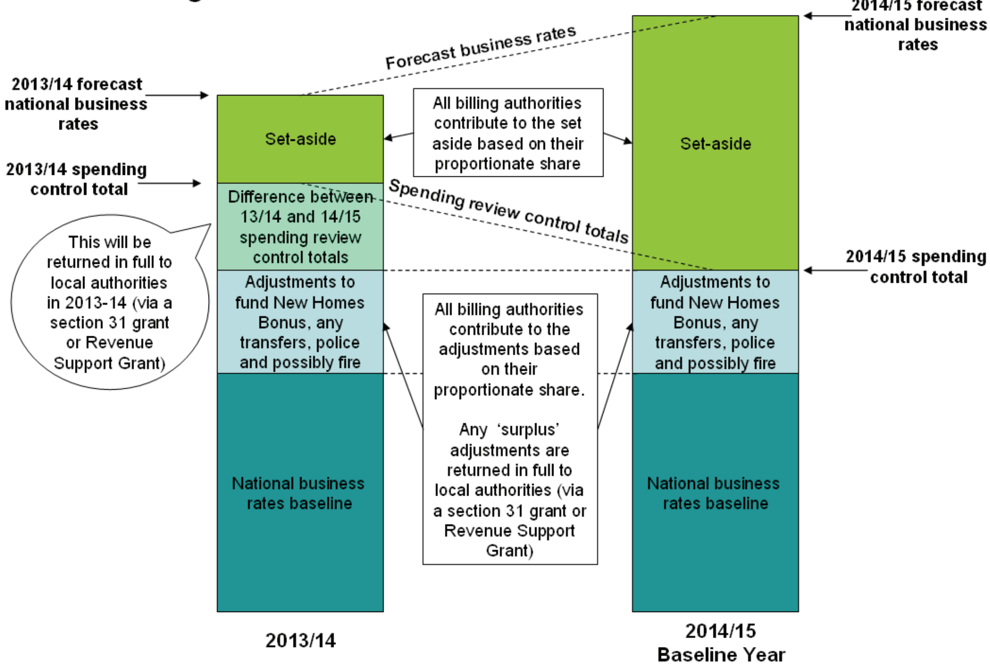
Tariffs and top ups Assigned to a local authority to achieve a fair starting point. An authority will pay a *tariff* if their *individual authority business rate baseline* is more than their *baseline funding level*. An authority will receive a *top up* if their *individual authority business rate baseline*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

Annex A

Establishing the national business rates baseline



Establishing individual authority business rate baselines