Department for
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A Practitioners Guide: Business Rates Retention and the Settlement

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A Practitioner's Guide: Business Rates Retention and the 2013-14 Local Government Finance Settlement in England

Introduction

Overview

This guide provides an overview of the calculations set out in the Local Government Finance Report 2013-14 and the draft Local Government Finance Report 2014-15. It sets out how the business rates retention scheme has been set up and how it will operate. This guide is aimed at local authority practitioners and is intended to be read alongside both Local Government Finance Reports and supporting documents. A glossary explaining the terminology used in the Reports and in this document can be found at annex A.

From April 2013, the Government is changing the way in which local government is funded through the introduction of the business rates retention scheme. The local government sector (local authorities and fire and rescue authorities) will now be able to benefit directly from supporting local business growth as they will be able to keep half of any increases in business rates revenue to invest in local services. Further information on the Government's rationale for introducing these reforms can be found in the Plain English Guide[1].

This year's local government finance settlement is the first under the new arrangements. It will provide each local authority with its starting position under the business rates retention scheme. This includes the following calculations, which will be fixed until the first reset that the Government intends will take place in 2020:

- Individual authority start-up funding assessment
- Baseline funding level
- Individual authority business rates baseline
- Tariffs and top-ups[2]

Regulations to be made early in 2013 will set out for each local authority[3]:
- A levy rate
- A safety net threshold

[1] Links to LGF to be added
[2] Tariffs and top-ups will be uprated annually by the change in the small business multiplier. In previous years, this has followed changes in RPI.
[3] Individual levy rates and safety net thresholds will be set out in Regulations due to be laid in the New Year. For ease of reference DCLG has published the intended levy rates and safety net thresholds alongside the provisional settlement

The local government finance settlement also provides local authorities with information on how much Revenue Support Grant they have been allocated in 2013-14 as well as provisional allocations for 2014-15. Although not part of the settlement process, the allocations of specific grants have also been published alongside the settlement.

Progress to date

Over the past 18 months, the Government has worked extensively with the local government sector in order to design the new business rates retention scheme and produce the local government finance settlement for 2013-14[4]. The Government published its formal proposals for business rates retention in December 2011 following wide consultation[5]. This was undertaken alongside the introduction of the Local Government Finance Bill, which became an Act in October 2012 and with the secondary legislation[6] gives effect to the reforms.

The Government published a further consultation in July 2012 that set out the technical details of the scheme[7]. Having considered responses, the Government provided early confirmation of key policy decisions in the policy statement[8] published in November 2012. This was undertaken ahead of the 2013-14 local government finance settlement, which constitutes the Government's formal response to the technical consultation.

Links to the publications set out above are available on the Local Government Finance website[9].

On 19 December, alongside the provisional settlement, the Government has published the summary of the responses to the July 2012 consultation: "Business Rates Retention: technical details"[10].

Next steps

The provisional local government finance settlement for 2013-14 was announced on 19 December 2012. Consultation on the settlement takes place over four weeks, closing on 15 January 2013. The consultation published

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[4] In January 2012, DCLG set up a series of working groups to contribute to the policy and technical debate, and act as a critical friend to central government in designing the detail underpinning the scheme. Details of these groups can be found here: http://www.local.odpm.gov.uk/finance/lgrr/lgfwg.htm
[5] https://www.gov.uk/government/consultations/business-rates-retention
[6] DCLG recently consulted on draft regulations, which can be found here: https://www.gov.uk/government/consultations/business-rates-retention-draft-regulations
[7] https://www.gov.uk/government/consultations/business-rates-retention-technical-details
[8] https://www.gov.uk/government/publications/business-rates-retention-policy-statement
[9] http://www.local.odpm.gov.uk/finance/1314/history.htm
[10] Links to LGF to be added

alongside the Local Government Finance Report 2013-14 can be found here[11].

Once all the points from local authorities have been considered, and any amendments have been incorporated, the final local government finance settlement 2013-14 is considered by the House of Commons in February. This allows enough time for local authorities to finalise their budgets for the next financial year.

Calculations made at an aggregate level

Calculating the aggregate start-up funding assessment

Before calculating how much funding each local authority will receive, the Government has first determined how much overall funding will be allocated to the local government sector.

The local government spending control total

The Government determines how much it can afford to spend and reviews its expenditure priorities through the spending review. The amount of money allocated and distributed to local government through this process is known as the local government spending control total. The last spending review took place in 2010 and covers the four years until 2014-15.

The local government spending control totals are used to establish the start-up funding assessment for local authorities. The Government has based the calculation of the aggregate start-up funding assessment on the control totals for local government set out in the 2010 Spending Review as amended in the 2011 and 2012 Autumn Statements.

Adjustments to the local government spending control total

A number of adjustments have been made to determine the adjusted local government spending control total and therefore the aggregate start-up funding assessment for 2013-14.

1) Funding held back

First, the local government sector needs grant funding from within the local government spending control totals. To calculate the adjusted local government spending control total, funding has been taken out for the following:

- *New Development Deals*: The Government will make available £120m of funding over six years (£20m in both 2013-14 and 2014-

[11] Links to LGF to be added

15) to provide investment in growth through financing additional infrastructure.
- *Fire Grants:* Fire revenue grants will remain as a specific grant, totalling £48.8m and £50.3m in 2013-14 and 2014-15 respectively.
- *Neighbourhood Planning:* Funding for new burdens arising from the duty to support neighbourhood planning will be funded as an unringfenced grant, totalling £15m in 2013-14 and £20m in 2014-15.
- *Capitalisation*: This will be funded at £100m in both 2013-14 and 2014-15. Any funding that is not needed will be redistributed to local authorities in proportion to their individual authority start-up funding assessment.
- *Safety net*: Details of the purpose of the safety net and how it will be calculated is summarised later in this guide. In the early years of the business rates retention scheme, additional support for safety net funding will be provided by holding back £25m in both 2013-14 and 2014-15. In the same way as for the capitalisation resource, any funding that is not needed will be redistributed to local authorities in proportion to their start-up funding assessment.
- *New Homes Bonus*: £500m in 2013-14 and £800m in 2014-15 will be held back to fund the New Homes Bonus[12]. Again any funding that is not needed for this will be redistributed back to local authorities in proportion to their individual authority start-up funding assessment.

2) Grants transferred in

Adjustments have been made to reflect grants being transferred into the local government spending control total. In May 2012, the Government announced that a number of local government grants would be transferred into the main local government funding stream from 2013-14 rather than being administered as separate, unringfenced grants[13]. As set out in chapter 5 of the Local Government Finance Report 2013-14[14], the following grants are being transferred in:

- 2011-12 Council Tax Freeze Grant[15] (£593m)
- Council Tax Support Grant [16](£3,295m)
- Early Intervention Grant, excluding funding for free education for two year olds[17] (£1,079m)

[12] Provisional allocations of 2013-14 New Homes Bonus funding were announced by DCLG on 10 December 2012 and can be found at: https://www.gov.uk/government/policies/increasing-the-number-of-available-homes/supporting-pages/new-homes-bonus.
[13] https://www.gov.uk/government/publications/business-rates-retention-scheme-central-and-local-shares-of-business-rates-statement
[14] Amounts are listed by grant and by local authority in the headline amount tables which can be found here: Links to LGF to be added
[15] This excludes the amount that will be paid directly to Local Policing Bodies
[16] This excludes the amount that will be paid directly to Local Policing Bodies

- Greater London Authority General Grant (£46m)
- A proportion of Greater London Authority Transport Grant (£770m)
- Homelessness Prevention Grant (£80m)
- A proportion of Lead Local Flood Authorities Grant (£21m)
- Learning Disability and Health Reform Grant[18] (£1,413m)
- Bus Service Operators' Grant for London (£45m)

3) Grants transferred out

Adjustments have also been made to reflect grants being transferred out of the local government spending control total for 2013-14. This includes the removal of the Central Education Services within Local Authority Central Spend Equivalent Grant (LACSEG), which will now be administered and distributed as a separate unringfenced grant to local authorities and to academies[19]. This amounts to £1.039bn in 2013-14 and £1.029bn in 2014-15.

After making the adjustments outlined above, the Government has calculated the adjusted local government spending control total, which is referred to as the aggregate start-up funding assessment. This is £26.1bn in 2013-14 and £23.9bn in 2014-15.

Calculating the Estimated Business Rates Aggregate

Chapter 2 of the Local Government Finance Report 2013-14 sets out the amount of business rates that the Government expects billing authorities in England to collect in 2013-14. This is known as the Estimated Business Rates Aggregate (EBRA) and has been set at £21.8bn.

The Estimated Business Rates Aggregate includes two downward adjustments to help local authorities manage volatility owing to losses on appeals. The first adjustment of 5.43 per cent is made to reflect historic differences between forecast and outturn information which includes the result of appeals losses in respect of previous years. The second adjustment of 2.65 per cent, as described in the November Policy Statement[20] takes into account future losses in business rates income due to successful appeals.

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[17] This was announced by the Chancellor is his 2010 Spending Review and 2011 Autumn Statement. £150m will also be excluded in 2013-14 and 2014-15 and retained centrally for future use in funding early intervention and children's services

[18] This covers the four blocks for: Learning Disability Commissioning Transfer, Blue Badge Assessments, Deprivation of Liberty Safeguards and Local Healthwatch.

[19] In summer 2012, the Department for Education consulted upon the distribution of LACSEG funding from 2013-14 and the consultation paper can be found here: https://www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-00090-2012 The response to this consultation was announced alongside the provisional local government settlement for 2013-14.

[20] https://www.gov.uk/government/publications/business-rates-retention-policy-statement

The data and methodology used to calculate the Estimated Business Rates Aggregate in 2013-14, including the adjustments made, is being published alongside the Local Government Finance Report for 2013-14[21].

Determining the central and local shares

In May 2012, the Government announced that local government would be able to keep 50 per cent of locally collected business rates, and so 50 per cent of any growth, with the other 50 per cent being paid to central government[22]. These shares are called the local share and the central share. The local share constitutes the funding within the business rates retention scheme.

In order to calculate the amount of funding within the local share (the local share amount), the Government has multipled the Estimated Business Rates Aggregate by the local share percentage. In 2013-14, the local share amounts to £10.9bn.

The remainder of the Estimated Business Rates Aggregate is the central share, which amounts to £10.9bn in 2013-14. This will be paid by billing authorities[23] to central government and will be returned to the sector in its entirety to fund local government in 2013-14 and 2014-15 through Revenue Support Grant.

Calculating the overall amount of Revenue Support Grant

Chapter 4 of the Local Government Finance Report 2013-14 states that the total amount of Revenue Support Grant (RSG) in 2013-14 is £15.2bn. This figure is the difference between the local share of the Estimated Business Rates Aggregate for 2013-14 and the aggregate start-up funding assessment. Revenue Support Grant is an unringfenced grant and will be funded from the central share and, in 2013-14 and 2014-15, wider tax receipts.

The ratio of funding provided through the local share and through Revenue Support Grant is also calculated. In 2013-14, the ratio of Local Share: Revenue Support Grant is 10.1:15.2.

As stated in Chapter 3 of the draft Local Government Finance Report 2014-15, the Government is proposing that the amount of Revenue Support Grant in 2014-15 will be £12.7bn. This is determined by calculating the difference

[21] Links to LGF to be added
[22] https://www.gov.uk/government/publications/business-rates-retention-scheme-central-and-local-shares-of-business-rates-statement
[23] Central share payments will be made before business rate income is distributed according to the major precepting shares. Therefore, billing authorities will pay central share payments owed by major precepting authorities.

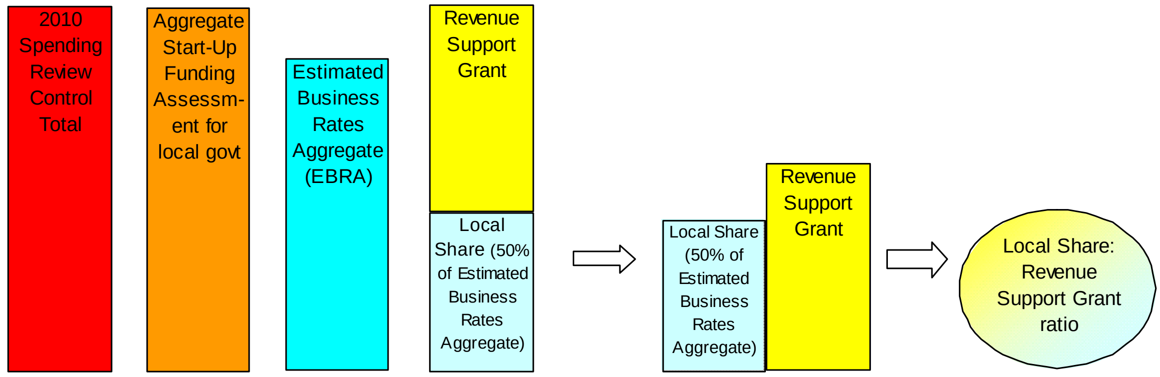
between the sum of individual authority 2013-14 baseline funding levels uprated by RPI[24] and the 2014-15 local government spending control total.

Overall, in 2013-14 the headlines aggregate figures are:

- Aggregate start-up funding assessment (the local government control total for 2013-14) is £26.1bn
- Total Revenue Support Grant is £15.2bn
- The local share of Estimated Business Rates Aggregate is £10.9bn

In 2014-15, the Government is proposing that the amount of Revenue Support Grant should be £12.7bn.

Figure 1: Summary of calculations made at an aggregate level



Calculations made at local authority level

After calculating the start-up funding assessment at an aggregate level, the Government has then allocated this to individual local authorities. This makes up each local authority's individual start-up funding assessment and comprises Revenue Support Grant and the baseline funding level.

Calculating individual authority start-up funding assessments

The aggregate start-up funding assessment is allocated to local authorities in two parts:

- Formula funding
- Grants transferred in from April 2013, as announced in the Statement of Intent in May 2012[25]

[24] This will be uprated by the small business rate multiplier. In the provisional Local Government Finance Report 2014-15, DCLG has estimated this in line with the Office for Budget Responsibility's forecast for the change in RPI between September 2012 and September 2013, which can be found here: http://budgetresponsibility.independent.gov.uk/wordpress/docs/December-2012-EFO-economy-supplementary-tables2343.xls#'1.5'!Print_Area

Formula funding

Annex C of the Local Government Finance Report 2013-14 sets out formula funding amounts for each local authority. This has been allocated to local authorities by mathematical formulae, with the changes between years limited by floor damping. After wide consultation with the local government sector, the Government has decided to base the calculation of formula funding on the 2012-13 formula grant methodology in order to provide stability.

Data used in calculating formula funding

The Government has updated all existing datasets where that is possible so that formula funding is calculated using the most up-to-date, most reliable and nationally consistent data available. These data sets include 2011-based population projections and council tax base projections.

On 21 November, the Government published a consultation on the data used to calculate the individual authority start-up funding assessment as part of the provisional local government finance settlement. This consultation closes on 15 January 2013[26].

Technical changes to calculating formula funding

The Government decided that, after listening to the local government sector and in the interests of stability, it would make only limited changes to the formulae used to calculate the individual authority start-up funding assessment. The technical changes are:

- changing the Relative Needs Formula for concessionary travel by moving to using modelled boardings data
- increasing the weight of sparsity in the Relative Needs Formula to support rural authorities and changing the definition of the sparsity indicator to give more weight to super sparse areas
- restoring the level of the Relative Resource Amount in 2013-14 to its 2010-11 level (-32.4 per cent), making a compensating adjustment to the level of the Central Allocation (49.4 per cent).

Further information on how formula funding is calculated, including floor damping, can be found at annex B.

Distributing grants transferred into the aggregate start-up funding assessment in 2013-14

In May 2012 the Government announced that a number of previously unringfenced specific grants would be transferred into the aggregate start-up

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[25] https://www.gov.uk/government/publications/business-rates-retention-scheme-central-and-local-shares-of-business-rates-statement
[26] http://www.local.odpm.gov.uk/finance/1314/settle.htm#datacon

funding assessment[27]. The grants that are transferring into the aggregate start-up funding assessment have been distributed after floor damping and according to the previously announced arrangements, mostly according to their own spending control total profiles. The distribution of these grants at local authority level is set out in annexes D to L of the Local Government Finance Report 2013-14.

Calculating baseline funding levels and Revenue Support Grant for individual local authorities

Each local authority's individual authority start-up funding assessment has been split into two parts:

- Funding provided through Revenue Support Grant
- Funding provided through the business rates retention scheme (baseline funding level)

These two amounts are determined by applying the Local Share: Revenue Support Grant ratio (as described above) to each local authority's individual start-up funding assessment.

Revenue Support Grant will be administered as an unringfenced grant. The supporting tables to the Local Government Finance Report 2013-14 set out the amount of Revenue Support Grant to be received by each individual local authority in 2013-14[28] and the provisional allocations for 2014-15[29].

The local share amount constitutes each local authority's baseline funding level under the business rates retention scheme. Along with the individual authority business rates baseline, the baseline funding level has been used to calculate top-ups or tariffs as described in below. The methodology for calculating baseline funding levels is set out in chapter 6 of the Local Government Finance Report 2013-14 and allocations are set out in the supporting tables[30].

Baseline funding levels will be fixed, subject to being uprated by RPI, until the next reset[31]. This is set out in chapter 4 of the draft Local Government Finance Report 2014-15.

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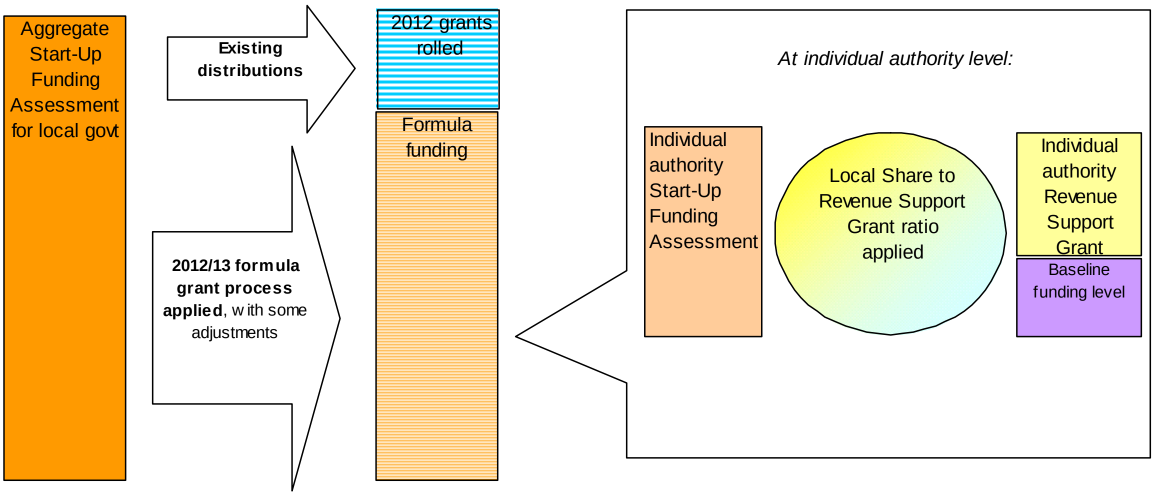
[27] https://www.gov.uk/government/publications/business-rates-retention-scheme-central-and-local-shares-of-business-rates-statement
[28] Links to LGF to be added
[29] Links to LGF to be added
[30] Links to LGF to be added
[31] Baseline funding levels will be uprated annually by the change in the small business multiplier. In previous years, this has followed changes in RPI.

Figure 2: Calculation of baseline funding levels and RSG at individual local authority level



Calculating business rates baselines

Calculating billing authority business rate baselines

Billing authority business rates baselines have been calculated by distributing the local share of the Estimated Business Rates Aggregate between all billing authorities on the basis of proportionate shares. Proportionate shares are based on a billing authority's historic business rate collection as a percentage of the total historic business rate yield. These have been calculated using the average of business rates collected for 2010-11 and 2011-12, with a number of adjustments[32]. The use of the most recent years balances the need to smooth the effects of volatility with the benefits of using the most recent data available.

The methodology for calculating proportionate shares is set out in chapter 8 of the Local Government Finance Report 2013-14, and the methodology for calculating billing authority business rates baselines is set out in chapter 9. Proportionate shares for each billing authority and the calculation of billing authority billing rates baselines are published in the supporting documents to the Local Government Finance Report 2013-14[33].

Calculating individual authority business rate baselines

Where necessary, billing authority business rate baselines have been split between the billing authority and its major precepting authorities. These splits, known as major precepting authority shares, determine the individual authority business rate baselines. For local authorities without any major precepting authorities, their individual authority business rate baseline is equal to their billing authority business rate baseline.

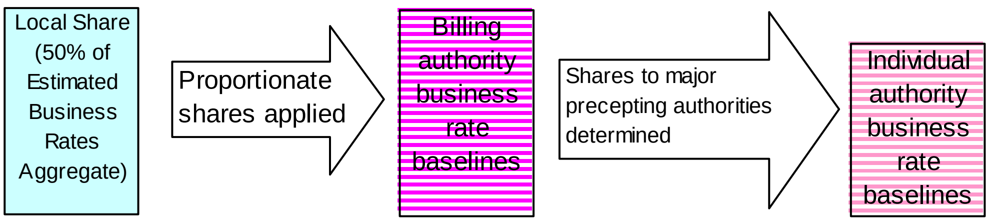
[32] These adjustments are set out in Section 3, Chapter 2 of the July 2012 technical consultation, which can be found here: https://www.gov.uk/government/consultations/business-rates-retention-technical-details
[33] Links to LGF to be added

In the November 2012 Policy Statement, the Government confirmed its intention to set the major precepting shares as set out below. These will be confirmed through regulations[34].

- 80% for two-tier district councils
- 20% for two-tier county councils that have responsibility for fire and rescue services
- 18% for two-tier county councils that do not have fire and rescue service responsibilities
- 2% for single purpose fire and rescue authorities
- 100% for unitary authorities that have responsibility for fire and rescue services
- 98% for unitary authorities that do not have fire and rescue service responsibilities
- 60% for London Boroughs
- 40% for the Greater London Authority

The methodology for calculating individual local authority business rate baselines can be found in chapter 9 of the Local Government Finance Report 2013-14. Individual authority business rate baselines are set out in the supporting documents accompanying the Local Government Finance Report 2013-14[35].

Figure 3: Calculating individual authority business rate baselines



Calculating tariffs and top-ups

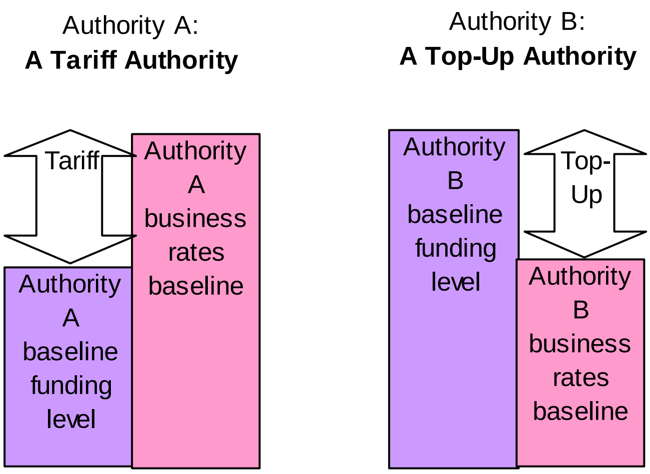
Whether a local authority is a tariff or a top-up authority is determined by comparing each individual local authority's baseline funding level and individual authority business rate baseline. A local authority must pay a tariff if its individual authority business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rate baseline.

Tariff and top-ups enable a one-off distribution of resources at the outset of the scheme. They ensure that, if business rates income is at the individual authority business rate baseline level, then that authority will receive its

[34] https://www.gov.uk/government/consultations/business-rates-retention-draft-regulations
[35] Links to LGF to be added

baseline funding level in 2013-14 and later years. Tariff and top-ups will be fixed until the system is reset but, like business rates, will be uprated each year by the increase in RPI in September[36].

Figure 4: Tariff and top-up calculations



The Local Government Finance Report 2013-14 determines in chapter 10 the methodology for calculating tariff and top-ups. The supporting documents to the Local Government Finance Report 2013-14 set out whether a local authority is required to pay a tariff to, or will receive a top-up from, central government, and the value of these payments[37].

In order to provide two-tier counties (i.e. those with lower tier councils) and fire authorities with significant protection from business rates volatility, the Government has set the major precepting shares discussed earlier so that all two-tier county councils and all single purpose fire and rescue authorities are top-up authorities.

Determining levy rates

The basis on which levy payments will be calculated and made will be set out early in 2013 in regulations[38]. As part of these calculations the Government will be required to calculate for each local authority an individual levy rate to apply where a local authority gains a disproportionate level of benefit from business rates growth.

In November 2012, the Government confirmed its intention to introduce a 1:1 proportionate levy, with an upper limit of 50p in the pound[39]. This means that, compared to the original consultation proposals, local authorities will get to

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[36] Tariffs and top-ups will be uprated by the change in the small business multiplier. In previous years, this has followed changes in RPI.
[37] Links to LGF to be added
[38] https://www.gov.uk/government/consultations/business-rates-retention-draft-regulations
[39] https://www.gov.uk/government/publications/business-rates-retention-policy-statement

keep a greater proportion of local business rate growth, therefore providing a strong incentive for investment in local growth.

The levy rate will be calculated using the following formula[40]:

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

If the calculation generates a number greater than 0.50, then the levy rate will be capped at 0.50. If the levy rate as calculated results in a negative number, then that local authority will not be subject to the levy and therefore not required to make payments. This means that no authority receiving a top-up payment (which includes county councils in two tier areas and single purpose fire and rescue authorities) will be required to make a levy payment.

The levy rate will be used as part of the calculation of the levy payment for those local authorities that are required to pay a levy.

The supporting documents to the Local Government Finance Report 2013-14 set out levy rates for each local authority[41].

Calculating safety net thresholds

The regulations will also set out the basis on which safety net payments will be made to authorities[42]. The safety net will provide local authorities with protection against significant decreases in their business rate income. Income from the levy will be used in full to fund the safety net, which will be fixed at a threshold of 7.5 per cent. This will ensure that no local authority's income within the business rates retention scheme will drop below 92.5 per cent of its baseline funding level.

The Government will be required to calculate a safety net threshold for each local authority, which is 92.5 per cent of its baseline funding level and is therefore calculated as:

$$\text{Safety net threshold} = \frac{\text{baseline funding level}}{100} \times 92.5$$

[40] The calculations will be on the basis of the baseline funding level and business rate baselines set out in the regulations.
[41] Individual levy rates and safety net thresholds will be set out in Regulations due to be laid in the New Year. For ease of reference DCLG has published the intended levy rates and safety net thresholds alongside the provisional settlement, which can be found here: Links to LGF to be added
[42] https://www.gov.uk/government/consultations/business-rates-retention-draft-regulations

Details of safety net thresholds can be found in the supporting documents of the Local Government Finance Report 2013-14[43].

The regulations will provide for local authority safety net thresholds to be uprated annually by the increase in the September RPI[44].

The safety net threshold will be used to calculate eligibility for a safety net payment. Safety net payments will be made if a local authority's retained rates income for a year is less than the safety net threshold. The amount of the safety net payment will be the difference between the retained rates income and the safety net threshold for that year.

Pooling

As part of the business rates retention scheme, local authorities may be designated as pools and therefore treated as a single authority for the purpose of certain calculations under the new scheme. This will give them scope to potentially generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. Final bids for pools were confirmed to the Department for Communities and Local Government by 5 December 2012 and the Secretary of State designated 20 pools on 14 December 2012.

In the draft 2013-14 Local Government Finance Report, pools are treated as a single body for the purpose of calculating tariffs and top-ups. Chapter 11 of the Local Government Finance Report 2013-14 details the local authorities within each designated pool. Tariff and top-up calculations for each pool can be found in the supporting documents to the Local Government Finance Report 2013-14[45]. By virtue of regulations, pools are also to be treated as a single authority for the purpose of levy and safety net payments- levy rates and safety net thresholds for the pools can be found in the supporting documents of the Report[46].

Local authorities may consider if, having seen both their individual calculations and the calculations for the pool, they wish to remain designated as part of the pool. If local authorities wish to withdraw from a designated pool they must notify the Department for Communities and Local Government that they want the designation to be revoked within 28 days of the provisional Local Government Finance Report being published (i.e. by 15 January 2013). If any member of the pool requests the revocation of the pool, then the pool will cease to exist. Provided that no authority within the pool requests the Secretary of State to make a revocation during that period, the pool will come in to effect on 1st April 2013.

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[43] Individual levy rates and safety net thresholds will be set out in Regulations due to be laid in the New Year. For ease of reference DCLG has published the intended levy rates and safety net thresholds alongside the provisional settlement, which can be found here: Links to LGF to be added

[44] The safety net threshold will be uprated by the change in the small business multiplier. In previous years, this has followed changes in RPI.

[45] Links to LGF to be added

[46] Links to LGF to be added

The designation of a pool will have effect for each subsequent financial year until the Secretary of State revokes the designation, either of his own volition or in response to a request to do so. On an annual basis, DCLG will invite new bids for pools as well as confirm membership of existing pools.

Other

Allocating Efficiency Support Grant

The Government has decided to pay a revenue grant known as Efficiency Support Grant to those local authorities in 2013-14 and 2014-15 who would otherwise see a reduction in their spending power of more than 8.8 per cent in either year. This ensures that no authority experiences a revenue spending power reduction of more than 8.8 per cent in either 2013-14.

A document setting out the definition of spending power and how it has been used to calculated eligibility for Efficiency Support Grant can be found in the supporting documents of the Local Government Finance Report 2013-14[47]. Local authorities are invited, as part of the consultation on the local government finance settlement for 2013-14, to check the data on which the grant is calculated and consider, in light of the definition of spending power, whether all relevant data has been used.

In order to incentivise service transformation and efficiency, the Government has decided to make funding available in the second year dependent on performance in the first year. Further detail on the process for allocating Efficiency Support Grant in 2014-15 will be announced next year.

The total amount of funding available in Efficiency Support Grant is £8.7m in both 2013-14 and 2014-15. There are seven local authorities eligible for Efficiency Support Grant[48].

Allocating specific grants

Specific grants are sometimes called targeted grants. They are distributed outside of the annual local government finance settlement, because the general formulae are not appropriate.

Most specific grants are non-ringfenced. So there are no restrictions on what local authorities can spend the money on.

A few specific grants are however ringfenced and the expenditure must fund a particular service that is a national priority. For example, funding for schools is paid through the Dedicated Schools Grant, administered by the Department

[47] Links to LGF to be added

[48] Details of those local authorities eligible for Efficiency Support Grant and the allocations can be found here: Links to LGF to be added

of Education. From 2013-14 there is a new ringfenced public health grant administered by the Department of Health.

A list of specific grants can be found in annex C.

Determining funding levels for the police

The police are not funded through the business rates retention scheme but will continue to be funded through a central government grant. This will be based on the four block model used to calculate the funding formula element of a local authority's individual start-up funding assessment. The basis for distributing this grant and the allocation for individual police authorities is determined by the Home Secretary.

Next steps- operating the scheme

The calculations determined in the local government finance settlement for 2013-14 are the basis for the business rates retention scheme for future years. Regulations on how the scheme operates are due to be laid in Parliament early in 2013[49].

National Non-Domestic Ratings (NNDR1) forms

Billing authorities need to estimate their non-domestic rating income for 2013-14 in line with the requirements of the draft business rate retention regulations. National Non Domestic Ratings forms (NNDR1s) have been issued to local authorities to help do this. Billing authorities must provide provisional figures by 7 January 2013 and final figures (certified by the Section 151 Officer) by 31 January 2013 both to the Secretary of State for the Department for Communities and Local Government and their major precepting authorities.

As part of this process, local authorities must calculate how much of their business rates income they are to retain and how much they are to pay in central share to central government. They must also calculate how much of their business rates income will be paid to their major precepting authorities.

Safety Net Payments on Account

From the figures provided by billing authorities in their National Non Domestic Ratings forms (NNDR1s), the Department for Communities and Local Government will calculate what every authority - both billing authorities and major precepting authorities - is entitled to as a safety net payment on account. DCLG will notify local authorities of these estimated amounts by the end of February. Local authorities will then need to confirm whether they would like these sums to be paid as safety net payments on account (i.e.

[49] Draft regulations can be found here: https://www.gov.uk/government/consultations/business-rates-retention-technical-details

during the course of the year). The Department for Communities and Local Government will pay the safety net payments on account during the year to all local authorities who have asked for them.

All safety net payments will need to be recognised in an authority's Comprehensive Income and Expenditure Statement on an annual basis.

Schedule of payments

Following the receipt of National Non Domestic Ratings forms (NNDR1s) and confirmation from local authorities that they want to receive safety net payments on account, the Department for Communities and Local Government will prepare a schedule of payments. This will then be sent to local authorities, detailing the amount that will be paid and when payments will take place. The schedule of payments under the business rates retention scheme will cover:

- Central share payments
- Tariff and top-up payments
- Transitional protection payments
- Safety net payments on account

Billing authorities and major precepting authorities will also need to agree a schedule of payments for the share of business rates income that is to be paid to major precepting authorities.

Whilst it is not part of the business rates retention scheme, a schedule of payment will also be drawn up for Revenue Support Grant payments.

For local authorities forming a pool, each local authority member will receive, or make, its own payments for Revenue Support Grant, transitional protection payments and the central share. However, there will only be one payment of tariff, top-up, safety net payments on account and safety net payment for the whole pool. This will be paid to, or collected from, the lead authority on behalf of the whole pool. The schedules of payments will reflect this.

Levy

Unlike safety net payments on account, levy payments will not have to be paid to the Government until after the end of 2013-14, when the sums due will be worked out on the basis of outturn figures (National Non Domestic Ratings forms- NNDR3s) available in Autumn 2014. However, local authorities will need to recognise these payments in their Comprehensive Income and Expenditure Statement on an annual basis – and so must be reflected in budgets.

Annexes

A. Glossary

B. Calculating formula funding

C. Non-ringfenced and ringfenced specific grants from central to local government in 2013-14

D. FAQs

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 per cent. 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 per cent 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 per cent increase in business rates income produces a corresponding 1 per cent 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 per cent. 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 uprated annually by the retail price index (RPI) (although exceptionally a lesser increase may be imposed) and the other multiplier adjusted accordingly. There will be no change to the way in which multipliers are set as a result of the introduction of the business rates retention scheme.

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

National Non-Domestic Rates 1 Form (NNDR1)
The form submitted 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 per cent below their *baseline funding level.* The baseline funding levels are uprated 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 per cent 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.

Annex B: Formula funding

The four block model

The four block model refers to the formulae used to distribute the formula funding element of the aggregate start-up funding assessment between local authorities, therefore calculating individual authority start-up funding assessments. The four block model consists of:

- Relative Needs Amount
- Relative Resource Amount
- Central Allocation
- Floor damping

Relative Needs Amount

In 2013-14 the Government has decided that, to continue to support the most dependent authorities with high relative needs, 83 per cent of the formula funding element of the aggregate start-up funding assessment will be distributed through this block.

The Relative Needs Amount is allocated according to the relative needs formula. This formula reflects factors that affect the costs of service delivery, such as levels of deprivation and labour costs in different areas, and includes information on the population, social structure and other characteristics of each local authority. This ensures that more needy areas will receive more funding.

Separate formulae cover the seven major services that local authorities provide (referred to as service blocks). This is because there are differing factors affecting the cost of delivering different types of services. For example, the factors which appear to explain variations in the cost of providing social services for the elderly are very different from those which appear to explain variations in the cost of maintaining roads. These formulae apply to all the local authorities responsible for providing a particular service. The seven funding blocks for services areas are shown in the following table:

Service Block	*Sub-block (where relevant)*
Children's Services	
Composed of:	*Youth and Community*
	Local Education Authority Central Functions
	Children's Social Care
Adults' Personal Social Services	
Composed of:	*Social Services for Older People*
	Social Services for Younger Adults
Police	
Fire	
Highway Maintenance	
Environmental, Protective and Cultural Services (EPCS)	
Composed of:	*Services provided predominantly by non-metropolitan district councils in non-metropolitan areas (District level Environmental Protection and Cultural Services)*
	Services provided predominantly by county councils in non-metropolitan areas (County level Environmental Protection and Cultural Services)
	Fixed Costs
	Concessionary travel
	Flood Defence
	Continuing Environment Agency Levies
	Coast Protection
Capital Financing	

Relative Needs Formulae are designed to reflect the relative needs of individual authorities in providing services - they are not intended to measure the actual amount needed by any authority to provide local services, but simply to recognise the various factors which affect local authorities' costs locally. They do not relate to the actual monetary amount of grant that a council needs for providing services for its residents. The formula for each specific service area is built on a basic amount per client, plus additional top ups to reflect local circumstances. The top ups take account of a number of local factors which affect service costs, but the biggest factors are deprivation and area costs.

Because the Relative Needs Formulae are only intended to reflect the relative differences in the cost of providing services in different areas, they are expressed as a proportion or ratio.

Once we have calculated the Relative Needs Formulae for the service blocks for all authorities, the next step is to use this to generate cash amounts that are correlated to the measure of relative need. To do this fairly, the Department for Communities and Local Government has to group the individual service formulae into six groups so that councils are only being compared to authorities providing the same range of services.
For example, an 'upper tier RNF' is determined from the Relative Needs Formulae for Children's Services, Adults' Personal Social Services, Highways Maintenance, County level Environmental Protection and Cultural Services,

Concessionary Travel and Continuing Environment Agency Levies, as these are all provided by the same group of authorities (county councils, metropolitan district councils, unitary authorities, London boroughs and the City of London).

The table below shows which services are included in the six Relative Needs Formula service groups.

Service Block	***Service Group***					
	Upper Tier Services	***Lower Tier Services***	***Police Services***	***Fire Services***	***Mixed Tier Services***	***Capital***
Children's Services	✓					
Adults' Personal Social Services	✓					
Police	✓		✓			
Fire	✓			✓		
Highway Maintenance	✓					
Environmental, Protective and Cultural Services						
County level EPCS	✓					
Concessionary Travel	✓					
Continuing EA levies	✓					
District Level EPCS		✓				
Fixed Costs					✓	
Flood Defence		✓				
Coast Protection					✓	
Capital Financing						✓

The Relative Needs Formulae are added together to give a total Relative Needs Formula for each service group. The total Relative Needs Formula for each service group is then divided by the total population for the council as measured by the population projections for the year in question. The minimum Relative Needs Formula per head across all councils providing the group of services is then subtracted from the Relative Needs Formula per head for each council. The sum of the Relative Needs Formula above the minimum for each council is then calculated and this is then multiplied by the projected population. The control total for the Relative Needs Block is then distributed in proportion to this.

Relative Resource Amount

In 2013-14 the Government has decided that -32.4 per cent of the formula funding element of the aggregate start-up funding assessment will be distributed through this block. The Government has also restored the Relative Resource Amount to its 2010-11 level, to help councils with a low council tax base, compensating for this by adjusting the Central allocation.

The Relative Resource Amount is a negative figure intended to take account of the fact that councils that can raise more income locally require less support from Government to provide services. The negative Relative Resource Amount is balanced against the positive Relative Needs Amount calculated for each authority.

This block recognises the differences in the amount of local income which individual councils have the potential to raise. This is done by looking at authorities' council taxbase data (a measure of the number of properties equivalent to Band D for council tax in an area). The greater an authority's taxbase, the more income it can raise from a standard increase in band D council tax.

In no area of the country is just one authority responsible for all the services provided. We therefore have to split the taxbase between the four service tiers to ensure we are not double-counting.

During Spending Reviews the control totals for the various Relative Needs Formulae are set based on the estimated pressures and savings for each of the services as estimated by the government department with policy responsibility for the service.

We therefore set the taxbase shares so that the change in grant year-on-year for each of the three floor damping groups is broadly proportional to the change in Relative Needs Formulae for each of the floor damping groups. This means that if, for example during the Spending Review, social services has been identified as the service with the largest pressures, those authorities with responsibility for social services will receive the smallest cuts in their funding.

Negative Relative Resource Amounts are then generated using the amounts above the minimum council tax base per head. Again, to do this fairly, the Relative Resource Amount is applied to the three separate groups of authorities depending on the services they provide. The three groups of authorities provide: upper tier services, lower tier services and fire services.

Central allocation

In 2013-14 the Government has decided that 49.6 per cent of the formula funding element of the aggregate start-up funding assessment will be distributed through this block.

Once we have taken account of the Relative Needs and Relative Resource Amount of local authorities, there is still an amount of money left in the overall grant pot for distribution to local authorities.

The Government shares this out on a per head basis and is known as the central allocation. The per head amounts are based on the appropriate minimums for each authority already calculated for the needs and resources blocks. The per head amount therefore depends on the services that the authority provides.

Floor damping

Following the calculations in the three blocks described above, each authority will have a grant amount allocated to it as its formula funding. However, the Government then ensures that a lower limit is set to any individual local authority's change in funding allocation year-on-year. This guarantee is known as the floor and is designed to provide stability in the financing of local services.

As all the formula funding to be paid to local authorities must come from within the finite overall pot of funding agreed in the Spending Review, the cost of providing the guaranteed floor must also be met from this pot. The floor damping system is self-financing. The amount required to move authorities from below the floors to the minimum level is paid for by scaling back the amount of funding change above the floor for other authorities.

All floor calculations are adjusted to make sure they are on a like-for-like basis, i.e. after adjusting for changes in funding and responsibility. For instance, in 2012-13 the removal of funding for the central education functions in the Local Authority Central Spend Equivalent Grant paid to academies out of formula funding meant that authorities responsible for education services needed less formula funding than before.

So when floors are calculated, the baseline year (2012-13 for the 2013-14 settlement) is adjusted to include any transfers into or out of formula funding. That is why the quoted change in funding may not be the same as the change in the cash an authority receives.

Separate floor levels are set for three groups of authorities:

1. authorities with education and social services responsibilities
2. shire districts
3. single service fire authorities.

Ministers at the Department for Communities and Local Government set the floor levels for each group of authorities. These groups are treated separately because each group receives a different overall change in grant, and the Government believes it would be wrong for groups of authorities with radically different responsibilities to cross-subsidise each other.

Banded floors

In time for the 2011-12 local government finance settlement, the Government has introduced four damping bands for social services authorities and shire district councils, replacing the previous single floor level. Local authorities have been grouped together in four bands, reflecting their relative reliance on central government grant. These banded floors were introduced so that the authorities that are most dependent on formula grant have smaller reductions in formula grant than those less dependent. Police and fire authorities have retained a single floor level for these years.

For 2013-14 the Government has decided to increase the differential between the four damping bands so that the gap between bands has stretched from 1 per cent to 2 per cent. The Government has also decided to introduce floor damping for single purpose fire and rescue authorities for the first time. They have been grouped into three bands with a 1.5 per cent differential between the bands. The impact of this will be to provide greater protection to authorities with the highest dependency on government grant.

Type of Authority	**2013-14 Floor**
Education/social services authorities	**Band 1= -2.7%** **Band 2= -4.7%** **Band 3= -6.7%** **Band 4= -8.7%**
Shire districts	**Band 1= -5.4%** **Band 2= -7.4%** **Band 3= -9.4%** **Band 4= -11.4%**
Fire and rescue authorities	**Band 1= -8.7%** **Band 2= -10.2%** **Band 3= -11.7%**

Annex C: Non ringfenced and ringfenced grants from central to local government in 2013-14

Department	Grant	Amount 2013-14 (£m)	Ring-fenced
Department for Education	Dedicated Schools Grant	37,959.5	√
	Pupil Premium Grant	1,875.0	√
	KS2 Monitoring and Moderation	2.7	X
	Phonics Screening Check	0.1	X
	Youth Contract: Support for 16-17 year olds who are not in Education, Employment or Training: Core Cities	2.5	X
	Extended Rights to Free Travel	tba	X
Department for Health	Public Health Grant	tba	√
	Local Reform and Community Voices	42.1	X
Department for Communities and Local Government	New Homes Bonus	661.4	X
	New Homes Bonus Adjustment	88.6	X
	Council Tax Freeze Grant 2013-14	265.1	X
	Weekly Collection Support Scheme	112.2	X
	Fire Revenue Grant	38.6	X
	Council Tax Support New Burdens funding	34.8	X
	Neighbourhood Planning Front Runners	15.0	X
	Coastal Communities Fund	21.7	X
	Digital Partners Programme	0.5	X
	Efficiency Support Grant	8.7	X
	Community Right to Challenge	3.0	X
	Community Right to Bid	2.6	X
	Housing Management Grant	7.8	X

	Troubled Families (Attachment Fee)	tba	X
	Troubled Families (Co-ordinators)	tba	X
	Local Enterprise Partnerships Core Funding	9.8	X
	Alcohol Fund for Problem Drinking	0.5	X
Department for Work and Pensions	Housing Benefit Subsidy Admin Grant	402.3	X
	Housing Benefit Reform Transitional Funding	15.0	X
	Social Fund admin funding	30.5	X
	Right to Control Pathfinders	tba	√
Department for Transport	Local Sustainable Transport Fund	83.5	X
	NEXUS (Tyne and Wear Metro)	22.7	X
Department for Environment , Food and Rural Affairs	Lead local Flood Authorities (non-local share element)	15.0	X
	Commons Pioneer Authorities	0.0	X
	Household Reward & Recognition Fund for Recycling and Reuse	0.5	X
	iESE Waste Efficiency	0.8	X
	Isles of Scilly Waste	4.0	X
	Inshore Fisheries Conservation Authorities	3.0	X
Department for Business, Innovation and Skills	Regional Growth Fund	9.0	X
DCLG, DH, DCMS, HO, DfT, DEFRA, DfE	PFI	855.0 (DfE and DCLG only)	X

Annex D: Frequently Asked Questions

1. ***How is Government proposing to implement the 2 per cent cut for 2014-15 to local government as set out in the 2012 Autumn Statement?***

   The 2014-15 Spending Control Total used in the settlement already takes account of the 2 per cent cut. Revenue Support Grant will be calculated as set out below.

2. ***How is the Government proposing to calculate Revenue Support Grant in 2014-15?***

   2014-15 Revenue Support Grant will be calculated as the difference between the 2014-15 spending control total and the local share element of the 2013-14 estimated business rates aggregate, where the latter is uprated by the Office for Budget Responsibility's 2013 quarter 3 estimate of RPI.

3. ***How are appeals being treated in the new business rates retention scheme?***

   The estimated business rates aggregate includes two downward adjustments to help local authorities manage volatility owing to losses on appeals. The first adjustment, of 5.43 per cent, is made to reflect historic differences between forecast and outturn information, which includes the result of appeals losses in respect of previous years. The second adjustment, of 2.65 per cent, takes into account future losses in business rates income due to successful appeals.

4. ***The Government announced in the 2012 Autumn Statement an extension of small business rate relief and the introduction of empty property relief for new builds. How is this being paid for?***

   The costs to local authorities of both of these measures will be met by the Exchequer, under the New Burdens principle.

5. ***Why is Local Authority Central Spend Equivalent Grant (LACSEG) being taken out and how is it being distributed in future?***

   Local Authority Central Spend Equivalent Grant is being taken out of the settlement to provide funding directly from the Department for Education for education functions provided by Academies. It will be administered and distributed as a separate ring-fenced grant, as set out today by the Department for Education.

6. ***Why is the New Homes Bonus being funded from the local government finance settlement?***

When the Government first set out its proposals for the business rates retention scheme, it made clear that funding for the New Homes Bonus would be funded from an annual grant of £250m between 2011-12 and 2014-15, with the rest of the funding coming from Formula Grant. Having consulted fully on this issue in July's technical consultation, the Government responded to views raised by the sector that the proposed New Homes Bonus topslice was too large. It has therefore implemented a proposal put forward by the sector, and is holding back £500m and £800m for the New Homes Bonus in 2013-14 and 2014-15 respectively. Any funding not needed for NHB payments will be returned to the sector

7. ***Who needs to sign off the NNDR1 forms and when do they need to be returned by?***

   The National Non-Domestic Rates 1 forms need to be signed off by an authority's Section 151 Officer, and returned by 31 January.

   There is no requirement for the figures to be approved by full council. The requirement, to be set out in regulations, is for the council to provide DCLG with the information specified therein. Because these requirements are not included in the function and responsibilities regulations as having to be discharged by the full council, they can, in our view, be discharged to the cabinet or to an officer of the council.

8. ***Why have two year averages been used for proportionate shares?***

   Having considered responses to July's technical consultation very carefully, the Government agreed with the common message that greater weight should be placed on more recent years' data to more closely reflect existing economic circumstances.

9. ***How will the funding baseline / service needs be calculated at a future reset?***

   In order to provide sufficient certainty and stability to incentivise growth, the Government does not envisage resetting the business rates system before 2020. How a reset will be undertaken will be determined nearer the time.

10. ***Why are you using the interim 2011 population projections (as published by ONS in September) in the settlement?***

    The Government is using the most up to date and nationally consistent data available at the time the settlement was calculated. The responses to July's technical consultation revealed that an overwhelming majority agreed with the Government's proposal to continue to use projections as the main measure of resident population in the settlement.