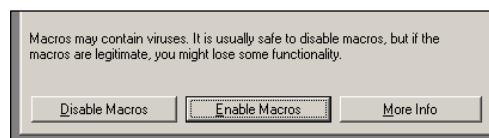


Interactive Calculator Guidance Notes

- 1.1 The *Interactive Calculator* enables users to explore the principal features of the proposed rates retention scheme by entering their own inputs and varying components. The aim of the calculator is not to enable individual authorities to forecast their position under a rates retention scheme, but rather is a tool to explore the relationship between the scheme's key parameters. The calculator also includes the functionality to save up to three sets of outputs to allow users to make comparisons. It has been updated in May 2012 to allow users to create a pool of local authorities and to compare different pooling scenarios.

- 1.2 A guide to using the calculator is provided below. If you need any additional information please email ResourceReview@communities.gsi.gov.uk

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



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

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

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

Please tick the box to confirm you have read and understood the disclaimer. A link will appear, please click on the link to proceed to the Interactive Calculator.

☒

[Click here to proceed to the Interactive Calculator](#)

Stage 1: Starting Inputs

- 1.6 At the *Starting Inputs* stage you must choose whether you wish to enter a pool with other local authorities. If so, check the number of boxes equal to the number of authorities that will be in your pool and then select 'Pooling' (see figure 1). Please note that the output charts assume that your particular local authority is 'Local Authority A'.

Stage 1: Starting Inputs
To use the pooling functionality: check the tick boxes below (the same number as local authorities in the pool) and then click 'Pooling'. If you do not wish to create a pooling scenario, please click 'No pooling'. Your authority of interest should be entered as Local Authority A.

Year 1

☒ Pooling
☐ No pooling
☐ Reset

Local Authority Name	Step 1. Individual authority business rates baseline	Step 2. Individual authority baseline funding level
Local Authority A	<input checked="" type="checkbox"/>	
Local Authority B	<input checked="" type="checkbox"/>	
Local Authority C	<input checked="" type="checkbox"/>	
Local Authority D	<input checked="" type="checkbox"/>	
Local Authority E	<input type="checkbox"/>	
Local Authority F	<input type="checkbox"/>	

Figure 1: Pooling

If you do not wish to pool with other local authorities, then DO NOT check any of the tick boxes but DO select 'No Pooling' (see figure 2).

Stage 1: Starting Inputs
To use the pooling functionality: check the tick boxes below (the same number as local authorities in the pool) and then click 'Pooling'. If you do not wish to create a pooling scenario, please click 'No pooling'. Your authority of interest should be entered as Local Authority A.

Year 1

☐ Pooling
☒ No pooling
☐ Reset

Local Authority Name	Step 1. Individual authority business rates baseline	Step 2. Individual authority baseline funding level
Local Authority A	<input type="checkbox"/>	
Local Authority B	<input type="checkbox"/>	
Local Authority C	<input type="checkbox"/>	
Local Authority D	<input type="checkbox"/>	
Local Authority E	<input type="checkbox"/>	
Local Authority F	<input type="checkbox"/>	
Local Authority G	<input type="checkbox"/>	

Figure 2: No pooling

- 1.7 If at any stage you wish to change the number of authorities in the pool, please click 'Reset'.
- 1.8 You must also enter inputs at four steps: *individual authority business rates baseline*, the *individual authority baseline funding level*, *nominal annual business rates growth* and the rate of inflation (*Retail Price Index*). Please enter all values in £ million apart from the *business rates growth* and the *Retail Price Index*, which should both be entered as percentages. At a later stage you will also be required to enter a baseline safety net percentage (please see Step 7).

Step 1. Individual authority business rates baseline

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

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

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

Step 2. Individual authority baseline funding level

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

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

1.13 Based on the inputs to step 1 and step 2, the calculator will display either a tariff or a top up. An authority will pay a tariff if the individual authority's business rate baseline entered in step 1 is more than their baseline funding (step 2). If an authority's local business rates baseline is equal to or less than their baseline funding level they will receive a top up. To establish whether the pool will pay a tariff or if it will receive a top up, the business rates baselines and the baseline funding levels of the authorities in the pool are summed. They are then compared in the same way as for the individual authorities. (Figure 3)

Stage 1: Starting Inputs

To use the pooling functionality: check the tick boxes below (the same number as local authorities in the pool) and then click 'Pooling'.
If you do not wish to create a pooling scenario, please click 'No pooling'.

☒ Pooling
☐ No pooling
☐ Reset

Local Authority Name	Year 1		
	Step 1. Individual authority business rates baseline	Step 2. Individual authority baseline funding level	
Local Authority A	50	25	Tariff
Local Authority B	10	20	Top-up
Local Authority C	10	5	Tariff
Local Authority D	25	20	Tariff
Pool	95	70	Tariff

Figure 3: Top up and Tariff authorities

Step 3. Nominal annual business rates growth

1.14 At step 3, you must enter a nominal annual business rate growth (percentage) figure for each year between year 2 and year 8. This figure should take into account both inflation AND the real growth rate. Different growth rates can be entered for different years. The calculator then displays the individual authority business rates in the

output row. The business rates for the pool are calculated by summing the individual business rates for the authorities in the pool. The business rates growth for the pool is also calculated; based on the pooled business rates figures and displayed below the growth percentages for the individual authorities. (Figure 4)

Step 3. Nominal annual business rates growth (percentage)				
	Year 1	Year 2	Year 3	Year 4
<u>Nominal Annual business rates growth (Percentage)</u>				
Local Authority A		1.0%	1.0%	1.0%
Local Authority B		0.1%	0.2%	0.3%
Local Authority C		0.0%	-1.0%	-2.0%
Local Authority D		1.0%	2.0%	3.0%
Pooled business rates growth		0.8%	1.0%	1.2%
	Year 1	Year 2	Year 3	Year 4
<u>Individual authority business rates</u>				
Local Authority A	50.0	50.5	51.0	51.5
Local Authority B	10.0	10.0	10.0	10.1
Local Authority C	10.0	10.0	9.9	9.7
Local Authority D	25.0	25.3	25.8	26.5
Pooled business rates	95.0	95.8	96.7	97.8

Figure 4: Business rates calculation for individual authorities and the pool

Step 4. Rate of inflation (Retail Price Index)

- 1.15 Step 4 requires you to enter an assumption regarding the level of inflation for each year between year 2 and year 8. This assumption is necessary as the Retail Price Index (RPI) will be used to uprate the tariffs and top ups and decide the individual authority business rates growth applicable for the levy.
- 1.16 You are free to enter your own inflation assumptions, however for further guidance on this input, you may wish to refer to the latest forecast of RPI from the Office for Budget Responsibility (OBR)¹.

Stage 2: Component Toggles

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

Step 5. Update tariff or top up by RPI

- 1.18 Chapter 3 of *Technical Paper 5 - Tariff, Top Up and Levy Options* outlined two options on setting tariffs and top ups. It has now been decided that tariffs and top ups will be uprated by RPI each year. The first output row will show the resulting tariff or top up. The next output row, *Pre-levy income*, takes the individual authority business rates

¹ Office for Budget Responsibility, March 2011, *Economic and Fiscal Outlook*, available at: http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf, p. 95

from step 3 and subtracts/adds the tariff/top up. The pre-levy income for the pool of authorities is calculated by using the business rates for the pool calculated at step 3 and subtracting/adding the tariff/top up for the pool as a whole.

Step 6. A proportional levy

- 1.19 Chapter 4 of *Technical Paper 5 - Tariff, Top Up and Levy Options* outlined three options for the levy. It has now been decided that a proportional levy will be used.
- 1.20 The calculated levy for each individual authority is based on the inputs at step 1 and step 2 for that authority. If the authority is a top up authority then no levy will be applied. To calculate the *levy rate* for tariff authorities, the authority's baseline funding level is divided by its business rates baseline. The *levy rate* is 1 minus this figure. For example, if a local authority's baseline funding level is a quarter of its business rates baseline; its levy rate will be 1 minus 0.25 so the *levy rate (pence in the pound)* will be 75 pence in the pound.
- 1.21 The levy rate is set in year 1 and cannot be adjusted for subsequent years.
- 1.22 Figure 5 shows the output rows where the *post levy income* is calculated. The levy rate is applied to the *growth above RPI in pre-levy income against year 1*.

Step 6 A proportional levy		Year 1	Year 2	Year 3	Year 4
Local Authority A	Levy rate (pence in the pound)	50			
	Growth in pre-levy income against year 1		-0.3	-0.5	-0.8
	Growth above RPI (and applicable for the levy)		0.0	0.0	0.0
	Levy on growth above RPI		0.0	0.0	0.0
	Post levy income	25.0	24.8	24.5	24.2
Local Authority B	Levy rate (pence in the pound)	0			
	Growth in pre-levy income against year 1		0.3	0.6	1.0
	Growth above RPI		0.0	0.0	0.0
	Levy on growth above RPI		0.0	0.0	0.0
	Post levy income	20.0	20.3	20.6	21.0
Local Authority C	Levy rate (pence in the pound)	50			
	Growth in pre-levy income against year 1		-0.2	-0.4	-0.8
	Growth above RPI		0.0	0.0	0.0
	Levy on growth above RPI		0.0	0.0	0.0
	Post levy income	5.0	4.9	4.6	4.2
Local Authority D	Levy rate (pence in the pound)	20			
	Growth in pre-levy income against year 1		0.1	0.5	1.1
	Growth above RPI		0.0	0.0	0.0
	Levy on growth above RPI		0.0	0.0	0.0
	Post levy income	20.0	20.1	20.5	21.1

Figure 5: Calculating the post levy income

- 1.23 The post levy income for the pool is similarly calculated, using the levy rate for the pool, which is based on the pool's baseline funding level and business rates baseline calculated at step 1 and 2. The calculator also shows the total summed figures for *growth* and *post levy income* of the individual authorities in the pool. This allows a comparison between the pool and the total of the same authorities had they not pooled together. (Figure 6.)

Levy rate (pence in the pound)		26		
Pool	Growth in pre-levy income against year 1		0.0	0.2
	Growth above RPI		0.0	0.0
	Levy on growth above RPI		0.0	0.0
	Post levy income		70.0	70.2
Levy rate (pence in the pound)				
Total (If the authorities were not in the pool)	Growth in pre-levy income against year 1		0.0	0.2
	Growth above RPI		0.0	0.0
	Levy on growth above RPI		0.0	0.0
	Post levy income		70.0	70.2

Figure 6: Calculating the post levy income for the Pool and if the authorities in the pool had not pooled

Step 7. Safety Net Payment

- 1.24 You are required to enter a *baseline safety net percentage* (see figure 7). The percentage relates to the threshold at which support via the safety net will be activated. For example, entering a value of -10% will mean that if an authority's post levy income in the current year declines by more than 10 per cent when compared to their uprated baseline funding, they will receive a safety net payment to bring them back up to 90 per cent of their uprated baseline funding. The safety net percentage will be between -7.5 per cent and -10 per cent.

Step 7. Safety net payment	
Baseline safety net (percentage)	-10.0%

Figure 7: Entering a baseline safety net

- 1.25 The safety net payment for each year from year 2 to year 8 is calculated for each of the authorities in the pool individually, as described above. The payment is also calculated for the pool as a whole, using the pooled baseline funding level calculated at step 2. As in step 6, an additional category for the scenario where the authorities in the pool had not pooled together is included. This calculated payment for each year is the sum of the individual authorities' payments.

Output for Live Chart and Scenario 1, 2 and 3

- 1.26 After entering the necessary values the *retained income* will be delivered as an output. Retained income equals:

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

- 1.27 The *Live chart* (see Figure 8) shows retained income for Local Authority A and can be used to instantly view the effects of changing values. The live chart will jump to your position in the worksheet when you click a cell.

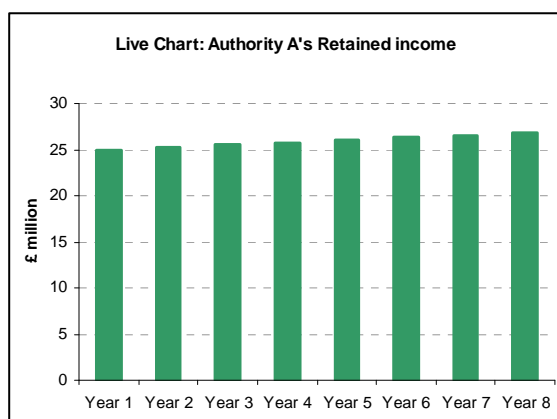


Figure 8: Live Chart (local authority A's retained income)

Stage 3: Save Scenarios

- 1.28 In the *Save scenarios* part of the Interactive Calculator (see Figure 9), you can save the retained income output of up to three scenarios. The three scenarios can then be easily compared using the charts generated.

Stage 3: Save Scenarios

Please use the adjacent buttons to save this output on retained income as a scenario. The output will be exported to the Scenario 1, 2 and 3 sections (links below). Up to three scenarios can be saved at one time. When you save a scenario please remember to add a description i.e. *rates growth of 1%; pool of 3*

[Go to Scenario 1, 2 and 3 \(Individual\)](#)
[Go to Scenario 1, 2 and 3 \(Pool\)](#)
[Return to the introduction page](#)

Notes:

Scenario 1

Scenario 2

Scenario 3

Figure 9: Save Scenarios section

- 1.29 Clicking the Scenario 1 Save button will save the current scenario's retained income as Scenario 1. If you to want to save a different scenario please use the Scenario 2 or Scenario 3 Save buttons. Clicking again on the Scenario 1 Save button will overwrite the previously saved scenario. Clicking the *Empty* button will clear the saved scenario.
- 1.30 If you have set up a pooling scenario, clicking the Save button will take you to a chart comparing the pooled retained income in years 1 to 8 with the total retained income that the authorities would have received were they not in the pool. If you have chosen to not set up a pool you will be taken to a chart showing the retained income for Local Authority A only.
- 1.31 Immediately after clicking the Save button you will be able to add a description if the scenario. In the adjacent column you will have the option of including the saved scenario in the chart.

- 1.32 If you wish to return to the main calculations page, please click *Return to the Interactive Calculator*. If you are in the pooling scenario section and wish to see the chart for Local Authority A only, please click *Return to the Output for Local Authority A*. (See figure 10.)

Return to the Interactive Calculator Return to the Output for Local Authority A		
Outputs for Scenario 1, 2 and 3		
Scenario name	Scenario description	Include in chart?
Scenario 1		<input checked="" type="checkbox"/>
Scenario 2		<input type="checkbox"/>
Scenario 3		<input type="checkbox"/>

Figure 10: Option when in the Output section of a pooling scenario

Additional useful information

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

- i.* HM Treasury, *Spending Review 2010*, available at:
http://www.hm-treasury.gov.uk/spend_sr2010_documents.htm
- ii.* DCLG, *Local Government Finance Settlement 2011/12 and Provisional Settlement 2012/13*, available at:
<http://www.local.communities.gov.uk/finance/1112/grant.htm>
- iii.* DCLG, *National Non-Domestic Rates*, available at:
<http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/nondomesticrates/>, (local authority level data will be released on August 25 2011)
- iv.* Office for Budget Responsibility, *Economic and Fiscal Outlook*, available at:
http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf