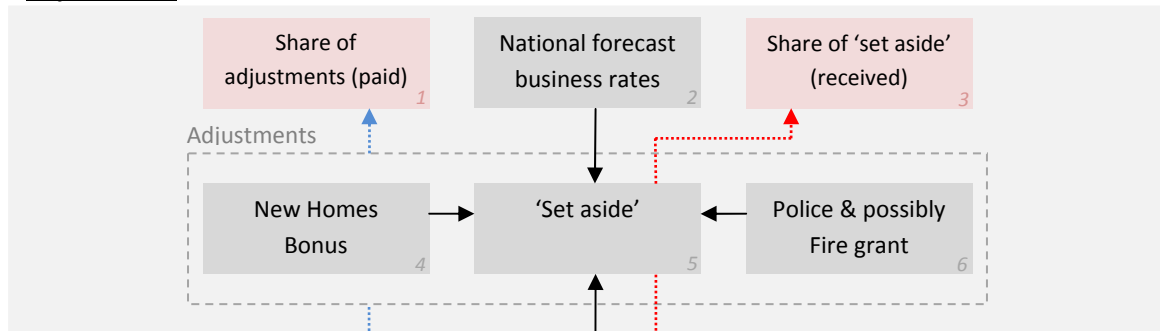
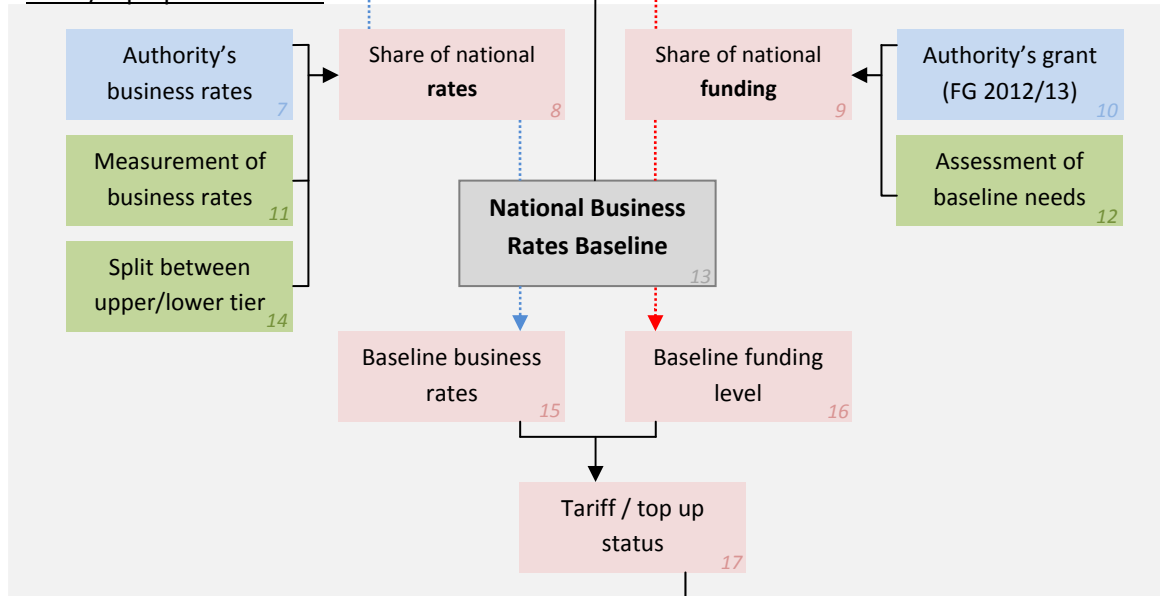


Flowchart: Business Rates Retention System

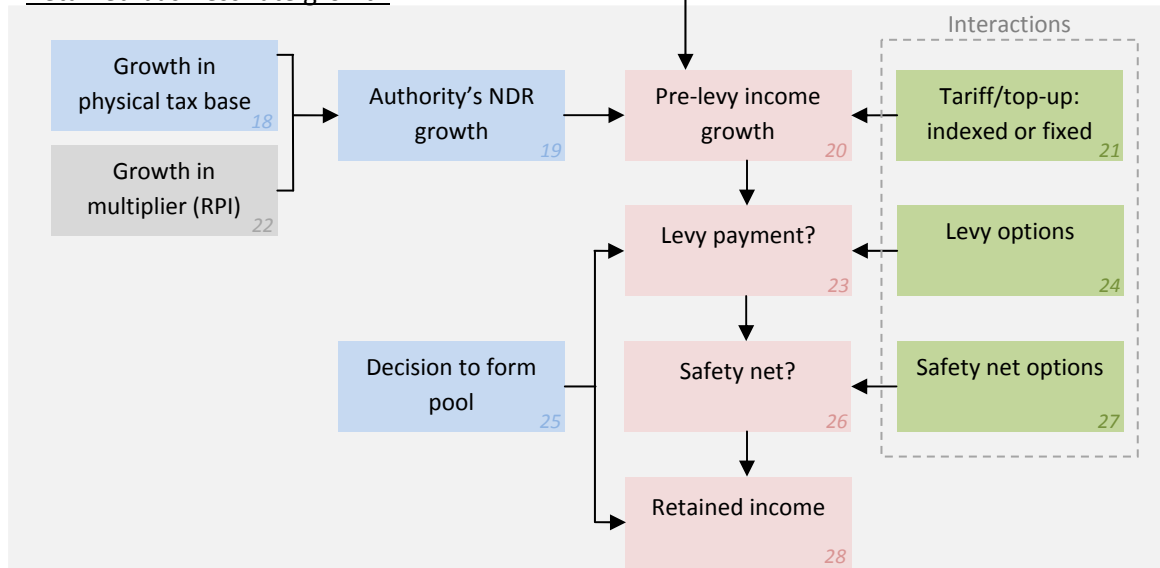
Adjustments



Tariff/top up assessment



Retained business rate growth



NOTES

Tariff / Top up

- Tariff or top-ups (box 17) are based on the difference between an authority's business rate baseline (15) and its baseline funding level (16).
- An authority's business rate baseline (15) is based on its share of the 'National Business Rates Baseline' (13). This share (8) is based on its existing level of business rates (7), which could be measured in a number of ways (11). For shires and districts, the rates also need to be apportioned between the upper and lower tiers (14).
- Similarly, an authority's baseline funding level (16) is taken as its share of the National Business Rate Baseline (13) according to its share of national funding (9). This share is based on its 2012/13 Formula Grant (10) and may be subject to further adjustments (12).

Retained Business Rate Growth

- From 2014/15 each authority will keep a share of its business rate growth (19). It will continue to pay (or receive) the tariff (or top up) that was established in 2013/14 (17), which could be increased in line with RPI (21). This gives its 'pre-levy income growth' (20).
- The authority may be required to pay a percentage of this income growth into a levy pot (23). There a number of options for how this levy could be set (24), and CLG may offer more favourable levy arrangements to authorities choosing to form pools (25).
- If an authority sees its pre-levy income *fall* then it may be eligible for a safety net payment (26). Safety net protection is subject to a number of options (27) and will depend, among other things, on the size of the levy pot.
- Finally, an authority's retained income (28) could subject to further redistribution, depending on whether or not it is subject to pooling arrangements (25).

National Adjustments

- The 2010 Spending Review sets out control totals for local government until 2014-15, which will include:
 - the 'National Business Rates Baseline' (13), to be distributed to councils;
 - an amount to fund Police authorities and, potentially, Fire authorities (6); and
 - the peak cost of the New Homes Bonus (4).
- Business rates across England (2) are forecast to exceed this spending envelope (4+6+13) from 2013/14 onwards. The Government is therefore proposing to 'set aside' the difference (5).
- Each authority is expected to contribute a share of its business rates (1) to these adjustments (4+5+ 6), based on its share of national business rates (8), described above.
- Initially the amount set aside (5) will be larger than that required to constrain business rates to the control total. Government is therefore planning to distribute some of this 'set aside' back to councils, based on their share of funding requirements (9).