Department for Communities and Local Government

# A guide to the local government finance settlement in England

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# A guide to the local government finance settlement in England

## Introduction

1. Local government finance in England is complicated and can be difficult to understand. This guide aims to explain in simple terms how central government provides funding for England's local authorities.

2. A glossary of terms used in this guide can be found at the end of the document.

## Funding local government

3. Local government spending accounts for around a quarter of all public spending in England. Local authorities are funded through a combination of business rates, central government grants and council tax. They also generate income through rents, fees and charges, sales, investments and contributions.

4. The three main areas of local authority spending in England are:

   – spending on capital projects such as roads or school buildings;
   – revenue spending on council housing; and
   – revenue expenditure, mainly on pay and other costs of running services other than council housing.

5. Government supports local council's general revenue expenditure through the Business Rates Retention scheme and Revenue Support Grant. Together, these total just under £24 billion in 2014-15. There are also various specific grants.

<u>Business rate retention scheme</u>

6. The business rate retention scheme was introduced in April 2013 and has reformed the way in which local government is funded. It provides a direct link between business rates growth and the amount of money local authorities have available to spend on local people and services. Under the business rates retention scheme, authorities keep up to half of the local business rates revenue as well as growth on the revenue that is generated in their area.

7. Each year's local government finance settlement builds upon the business rate retention starting position that was established at the 2013-14 local government finance settlement. Further information about the set up of the scheme can be found at Annex A to this guide. This includes information about the following:

   – Individual authority start-up funding assessment
   – Baseline funding level
   – Individual authority business rates baseline
   – Tariffs and top-ups
   – The levy rate
   – The safety net threshold

Revenue Support Grant

8. Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement.

Specific Grants

9. Specific grants are grants (sometimes called targeted grants) distributed outside the settlement. The basis of the distribution varies from grant to grant.

10. For non-ring fenced grants there are no restrictions on what councils can spend the money on. For example, general funding for police authorities is paid through Police Grant, administered by the Home Office.

11. A very small number of specific grants are ring-fenced – the expenditure is controlled to 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 for Education.

Council Tax

12. Once local authorities know the level of Revenue Support Grant funding they will receive, as set out in the local government finance settlement, they are able to finalise their budgets for the coming year. Authorities will decide:
    - how much they expect to spend in the coming year;
    - what income, other than that from Government, they expect to raise in the following year, and;
    - how they can use their financial reserves to fund spending or keep down council tax.

13. The amount of revenue a local authority needs to raise through council tax (its council tax requirement) is calculated by deducting from its planned spending any funding from reserves, income it expects to raise, and funding it will receive from the Government.

14. Each local authority then sets its basic amount of council tax (band D) at the level necessary to raise this amount, taking into account its likely collection rate.

15. Ministers intend that Council Tax freeze funding for 2014-15 and 2015-16 should be built into the baseline for subsequent years. This provides the maximum possible certainty for councils that the extra funding for freezing council tax will remain available. The 2011-12 and 2013-14 freeze grants are already in the local government settlement total for future years.

*Council tax referendums*

16. The Localism Act 2011 abolished Council Tax capping in England and instead introduced a power for local electorates to approve or veto excessive council tax rises. From 2012-13 onwards, an authority setting a council tax increase which exceeds principles endorsed by the House of Commons alongside the local government finance settlement (i.e.; which is “excessive”) will be required to hold a council tax referendum. The result of a council tax referendum is binding.

## Local government finance settlement

17. The annual local government finance settlement is concerned with the distribution of revenue raised from business rates and other funding streams through Revenue Support Grant and Business Rates Retention. The settlement provides local authorities with information on how much Revenue Support Grant they have been allocated for the next financial year. It may also provide illustrative information on allocations for the year or years following the next financial year.

18. Although not part of the settlement process, the allocations of specific grants are also normally published alongside the settlement.

Deciding the overall amount of funding

19. In its Spending Reviews, the Government decides how much it can afford to spend and reviews its expenditure priorities. In October 2010, the Government announced the results of the Spending Review[1] that set the framework for Government support to local government from 2011-12 to 2014-15. In June 2013, the Government announced the results of the Spending Round[2] that set the framework for Government support to local government for 2015-16. Future Spending Reviews will determine how much funding is available in future years.

20. Changes may occur between the plans laid out in the Spending Review and the funding available for distribution in any one year. These changes generally occur at either the Budget or the Autumn Statement when the Chancellor of the Exchequer reports to Parliament on the state of the national finances.

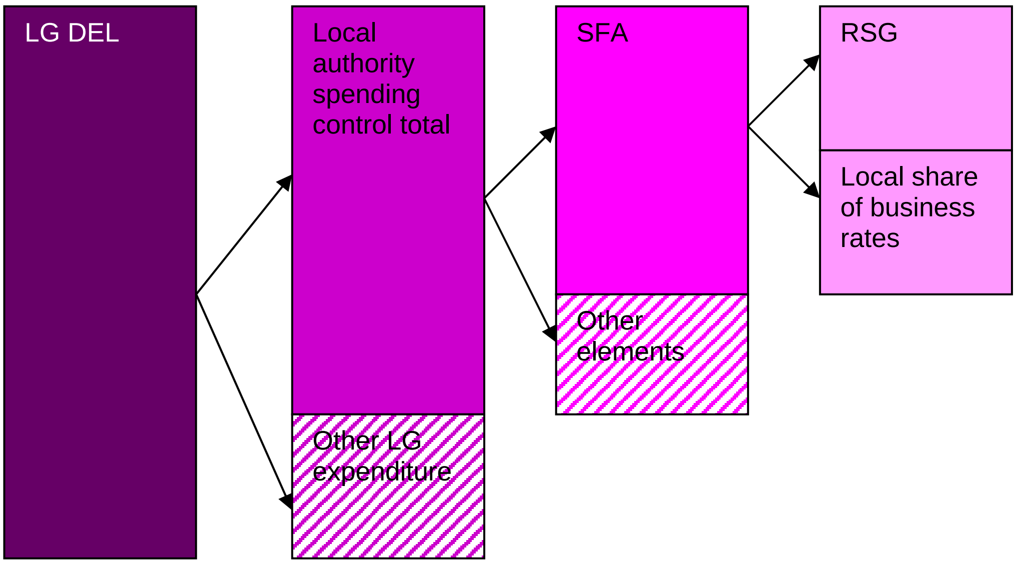
Spending Power

21. Spending power or revenue spending power is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated council tax and business rate income, Revenue Support Grant and New Homes Bonus plus a number of government grants excluding those for education and policing.

Determining the total amount of Revenue Support Grant

22. The amount of Revenue Support Grant provided to local government is just one part of the overall amount of funding determined during a Spending Review. However, for local authorities, since the introduction of the Business Rate Retention Scheme, Revenue Support Grant is the primary source of funding from central government in relation to non-schools revenue expenditure. The chart below sets out the relationship between Revenue Support Grant, the Settlement Funding Assessment, the local authority spending control total, and the Local Government Departmental Expenditure Limit (LG DEL).[3] These are further explained below, including the implications where percentage changes are made to LG DEL.

[1] http://cdn.hm-treasury.gov.uk/sr2010_pressnotices.pdf
[2] https://www.gov.uk/government/news/spending-round-2013-next-stage-in-governments-plan-to-move-from-rescue-to-recovery
[3] The chart is intended to set out the relationships between the elements. It is not intended to indicate the relative amount of funding for each element.




Local Government Departmental Expenditure Limit (LG DEL)

23. LG DEL is the government budget agreed by Parliament that is allocated to and spent by the local government sector as a whole. The amount and how it is split is set at Spending Reviews. LG DEL includes funding for local authorities (the local authority spending control total) and certain other local government organisations such as the Valuation Office Agency.

24. Any changes to LG DEL may be spread equally between the local authority spending control total and the other organisations or changes may be applied in different ways. If they are applied differently, the percentage change to the overall amount of LG DEL will be different to the percentage change to the local authority spending control total.

Local authority spending control total

25. The local authority spending control total consists of the Settlement Funding Assessment as well as other elements (currently including funding for the cap on care expenses following the Dilnot report, the Independent Living Fund for the care of disabled people, and funding to local authorities in transforming local services and supporting and troubled families).

26. Any changes to the local authority spending control total may be spread equally between the Settlement Funding Assessment and the other elements or changes may be applied in different ways. If they are applied differently, the percentage change to the spending control total will be different to the percentage change to the Settlement Funding Assessment.

Settlement Funding Assessment

27. The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant. The first Settlement Funding Assessment in 2013-14, which formed the starting point for setting Revenue Support Grant until 2020, was called the Start-Up Funding Assessment (see below).

28. As the local share of business rates has been fixed until 2020 to provide a strong incentive for local authorities to promote growth, any changes to the Settlement Funding Assessment can only be applied to the element of funding that is provided through Revenue Support Grant.

*The effect of RPI on Settlement Funding Assessment*

29. The local share of business rates was set at the outset of the scheme in 2013 as 50% of Estimated Business Rates Aggregate and is fixed until 2020. For the purposes of the Settlement Funding Assessment this figure is uprated year on year in line with the change in the small business multiplier (generally the September RPI). The overall Settlement Funding Assessment is set at the time of Spending Reviews. Because the actual September RPI is not known at that stage, the RPI forecast by the Office of Budgetary Responsibility at the time of the Spending Review for the third quarter (the period covering September) is used.

30. Subsequently, as the actual September RPI is known and the small business multiplier is set, any difference will be reflected in the local share of the Settlement Funding Assessment. If the actual small business rates multiplier is higher than the RPI forecast at the time of the Spending Review, the overall Settlement Funding Assessment will be higher than previously forecast. Conversely it will be lower if the Small Business multiplier is lower than forecast.

31. Changes to the local share as a result of the updating of the small business multiplier do not affect the overall amount of Revenue Support Grant which is fixed at Spending Reviews.

*Holdbacks*

32. The Government may decide to hold back funding that would otherwise be paid as Revenue Support Grant at the start of the year in order to fund its priorities for local government, for example:
    - the New Homes Bonus, which provides an incentive for authorities to promote new housing development, or
    - the safety net, which ensures that no authority's income from business rates falls below 7.5% of their individual baseline funding level, if it appears that the levy on high earning authorities may be insufficient to fund the safety net.

    These resources will only be used as needed and any funding not used will be returned to authorities.

<u>Control totals</u>

33. These are the national totals for each of the individual elements within the local authority spending control total. They are determined as part of the Spending Review. It is also the name given to the size of each of the different elements within the Settlement Funding Assessment.

<u>Determining individual local authority Revenue Support Grant amounts</u>

34. The starting point for the calculation of the Start-Up Funding Assessment in 2013-14 was formula funding, which was largely based on the 2012-13 formula grant methodology. Formula funding allocates funding in relation to estimates of local resources such as council tax and of the demand for each local service, through formulae based on population and other local data.

35. Three changes to the 2012-13 methodology were made:
   - a new formula was introduced for concessionary travel;
   - the Relative Resource Amount was restored to the level of the 2010-11 Settlement; and
   - the allowance for the costs of providing services in rural areas was increased.

36. To prevent authorities from experiencing significant year on year reductions in funding in 2013-14, the year on year change for each of four groups of authorities was limited ("banded floor damping") using funding from authorities in the same group with a smaller year-on-year change. The groups were:
   - upper-tier authorities;
   - single-service police authorities (including the police part of City of London and the Greater London Authority)[4];
   - single-service fire authorities (including the fire and rescue part of the Greater London Authority); and
   - Shire districts (i.e. lower-tier authorities).[5]

37. Within the Start-Up Funding Assessment for 2013-14 the protection for the upper-tier authorities and shire districts facing the greatest reductions was increased and banded floor damping for fire authorities, which were split into three groups, was introduced.

38. Funding for nine specific grants[6] included ("rolled-in") from 2013-14 was added to form the Start-Up Funding Assessment. This was split between Revenue Support Grant and the Baseline Funding Level (the local share). Further detail on this and how the amounts were determined at a local authority level can be found in Annex A.

39. From 2014-15 the allocation of Revenue Support Grant to local authorities will be calculated by increasing, decreasing, or maintaining ("scaling") the 2013-14 allocations in line with the level of that year's Revenue Support Grant. Revenue Support Grant will be equal to the local government spending control total less the holdback and the uprated baseline funding level in 2013-14[7]. In order to provide continued visibility of all of the grants rolled into the calculation of the start-up funding allocation in 2013-14, each of these grants, with the exception of Council Tax Support grant, will be scaled separately according to its own profile before being scaled as set at spending reviews.

<u>The local government finance settlement timetable</u>

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[4] Funding for policing bodies is not included in the Settlement from 2013-14 onwards, as it is now paid by the Home Office through the Police Grant.

[5] The methodology for floor damping was set out in the 2013-14 settlement – see http://www.local.communities.gov.uk/finance/1314/fdamps.pdf

[6] The nine specific grants rolled-in from 2013-14 were:
- 2011-12 Council Tax Freeze Grant, excluding the amount that will be paid to Local Policing bodies;
- Council Tax Support Grant, excluding the amount that will be paid to Local Policing bodies;
- Early Intervention Grant, excluding funding for free education for two-year olds;
- Greater London Authority General Grant;
- A proportion of Greater London Authority Transport Grant;
- Bus Services Operators Grant in London;
- Homelessness Prevention Grant;
- A proportion of Lead Local Flood Authorities Grant; and
- Learning Disability and Health Reform Grant.

[7] Uprated in line with the small business multiplier.

40. A public consultation is normally carried out during the summer if there are changes to the published indicative settlement for the following year or following a new Spending Review. The outcome of the consultation exercise informs decisions by Ministers at the Department for Communities and Local Government which feed into the proposals in the provisional settlement.

41. The provisional settlement is announced as early as possible to give local authorities sufficient time to set their budgets for the start of the following financial year. However it must also take account of changes, in particular any relevant announcements in the Chancellor's Autumn Statement. A Department for Communities and Local Government Minister usually announces a provisional settlement to Parliament and to local authorities in December each year.

42. A further period of consultation follows during which local authorities can put their views on the proposals to Government and point out any errors that may have been made. Once all the points from local authorities have been considered, and any amendments have been incorporated, the final settlement is usually debated and approved by the House of Commons in late January or early February. This allows enough time for authorities to finalise their budgets for the next financial year.

Local Government Finance Report

43. The Local Government Finance Report is the formal document setting out key aspects of the settlement. It includes the national total for Revenue Support Grant and the basis of the distribution to local authorities, the tariff & top up amounts, the percentage that is to be the local share, plus any payment into the levy account..

44. The Secretary of State consults on a draft of the Report (undertaken as part of the provisional settlement consultation), and it must be approved by the House of Commons before it can take effect. Annex B provides further detail on the contents of the Local Government Finance Report.

Amending Reports

45. The Government can amend a Local Government Finance Settlement, if changes need to be made to the settlement after it has been approved. The Amending Report can change the distribution between authorities but the overall amount available must remain the same. An Amending Report must be issued for consultation and approved by Parliament by the end of the following financial year to that to which the Report relates. The changes in distribution are put into effect in the financial year following that in which the Report is made.

## Annex A – Business Rates Retention Scheme

1. In April 2013, the Government introduced the business rates retention scheme and reformed the way in which local government is funded. The local government sector (local authorities and fire and rescue authorities) now benefit directly from supporting local business growth as they are able to keep half of any increases in business rates revenue to invest in local services.

2. The 2013-14 local government finance settlement was the first under the new arrangements. It provided each local authority with its starting position under the business rates retention scheme. This included the following calculations at local authority levels, which are 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[8]
   - A levy rate
   - A safety net threshold

3. This annex briefly sets out how those calculations were made. More detail on the basis of the calculations and the methodology can be found in the 'Practitioner's Guide: Business Rates Retention and the 2013-14 Local Government Finance Settlement in England' that was published at the time of the 2013-14 settlement[9].

<u>Calculations made at aggregate level</u>

*Calculating the aggregate start-up funding assessment*

4. Before calculating how much funding each local authority would receive in 2013-14, the Government fixed the local government spending control totals. These were determined during the 2010 spending review as amended in the 2011 and 2012 Autumn Statements.

5. A number of adjustments were then made to determine the adjusted local government spending control total and therefore the aggregate start-up funding assessment for 2013-14[10]. These adjustments were to reflect various holdbacks and grants either being transferred into the local government spending control total rather than being administered as separate, unringfenced grant or transferred out.

*Calculating the Estimated Business Rates Aggregate*

6. The Local Government Finance Report for 2013-14 set out the total amount of business rates that the Government expected billing authorities in England to collect in 2013-14. This is known as the Estimated Business Rates Aggregate and was set at £21.8bn.

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[8] Tariffs and top-ups will be uprated annually by the change in the small business multiplier. In previous years, this has been set equal to September's RPI.
[9] http://www.local.communities.gov.uk/finance/1314/practitionersguides.pdf
[10] Details of all transfers can be found here: http://www.local.communities.gov.uk/finance/1314/KT3_1314.xls

7. The data and methodology used to calculate the Estimated Business Rates Aggregate in 2013-14, including some adjustments that were made, were published alongside the Local Government Finance Report for 2013-14[11].

*Determining the central and local shares*

8. Under the rates retention scheme local government as a whole keeps 50 per cent of locally collected business rates and the other 50 per cent is paid to central government[12]. These shares are called the local share and the central share. The local share constitutes the funding within the business rates retention scheme.

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

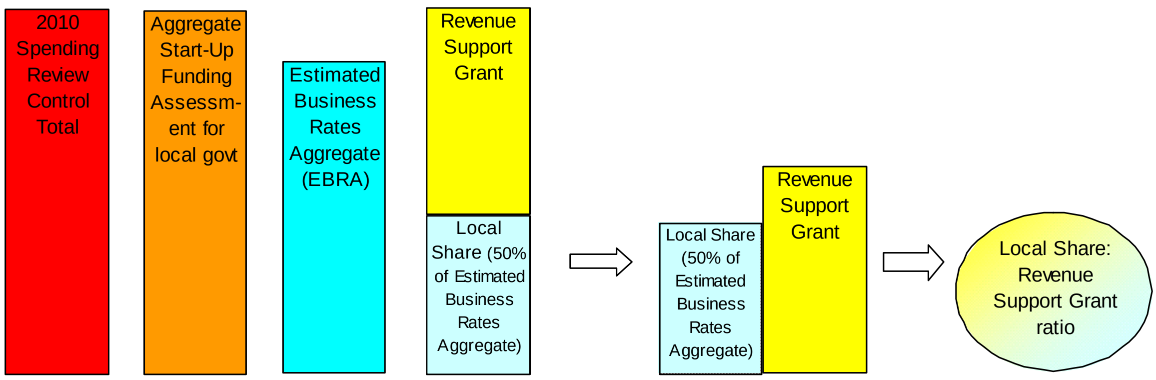
10. The remainder of the Estimated Business Rates Aggregate is the central share, which also amounted to £10.9bn in 2013-14. This was paid by billing authorities to central government but is returned to the sector in its entirety to fund local government.

*Calculating the overall amount of Revenue Support Grant in 2013-14*

11. In 2013-14 the total amount of Revenue Support Grant was the difference between the local share of the Estimated Business Rates Aggregate for 2013-14 and the aggregate start-up funding assessment. In 2013-14 the Revenue Support Grant amount was £15.2bn and was funded from the central share and wider tax receipts.

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

*Figure 1: Summary of calculations made at an aggregate level*




[11] http://www.local.communities.gov.uk/finance/1314/CalculateEBRA1314.pdf
[12] https://www.gov.uk/government/publications/business-rates-retention-scheme-central-and-local-shares-of-business-rates-statement

Calculations made at local authority level

13. After calculating the start-up funding assessment at an aggregate level for 2013-14, the Government then allocated this to individual local authorities. This made up each local authority's individual start-up funding assessment and comprised Revenue Support Grant and the baseline funding level.

*Calculating individual authority start-up funding assessments*

14. The aggregate start-up funding assessment for 2013-14 was allocated to local authorities in two parts:

- Formula funding
- Grants transferred in from April 2013

15. The Local Government Finance Report 2013-14 set out the formula funding amounts for each local authority as well as the methodology for allocating the grants.

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

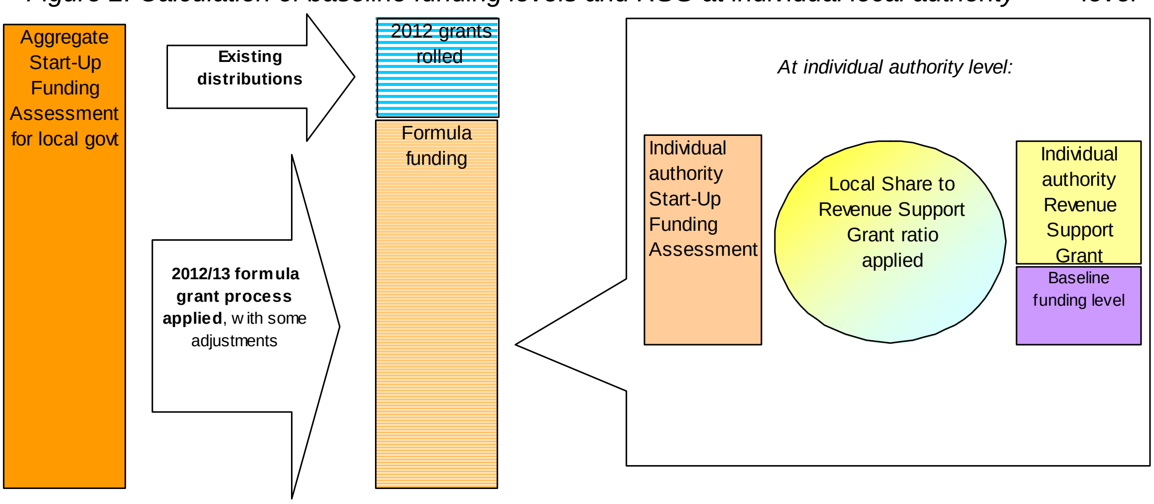
16. Each local authority's individual authority start-up funding assessment for 2013-14 was then split into two parts:

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

17. These two amounts were determined by applying the Local Share: Revenue Support Grant ratio (as described above in paragraph 12) to each local authority's individual start-up funding assessment.

18. The local share amount constituted each local authority's baseline funding level under the business rates retention scheme. Baseline funding levels have been fixed, subject to being uprated by the small business rates multiplier, until the next reset[13].

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




[13] Baseline funding levels will be uprated annually by the change in the small business multiplier. In previous years, this has followed changes in RPI.

## Calculating business rates baselines

*Calculating billing authority business rate baselines*

19. Billing authority business rates baselines were calculated by distributing the local share of the Estimated Business Rates Aggregate between all billing authorities on the basis of proportionate shares. Proportionate shares were based on a billing authority's historic business rate collection as a percentage of the total historic business rate yield.

20. The methodology for calculating the proportionate shares and for calculating billing authority business rates baselines was set out in the Local Government Finance Report 2013-14.

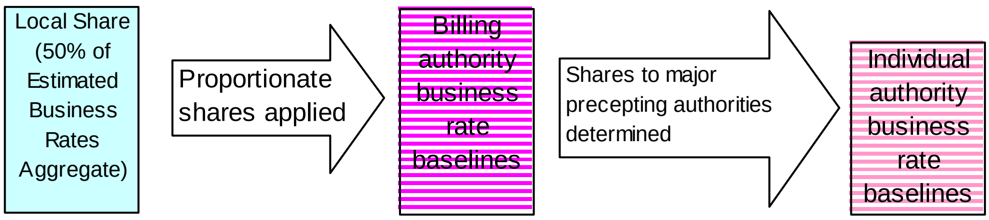
*Calculating individual authority business rate baselines*

21. Where necessary, billing authority business rate baselines were 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.

22. The major precepting shares are as set out below:

- 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

*Figure 3: Calculating individual authority business rate baselines*

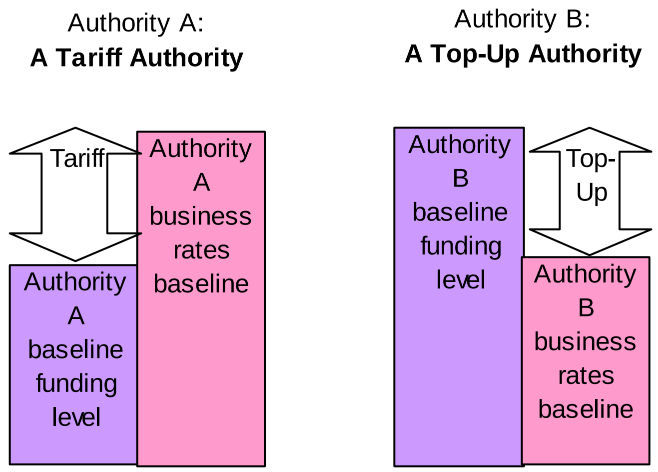



*Calculating tariffs and top-ups*

23. Some local authorities collect a lot more business rates than others. So in order to even up the odds and to encourage enterprise in local authorities whatever their starting position the rates retention scheme includes a system of top ups and tariffs.

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

*Figure 4: Tariff and top-up calculations*




25. The Local Government Finance Report 2013-14 set out the methodology for calculating tariff and top-up amounts.

26. Tariffs 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 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 change in the small business multiplier.

27. 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 set the major precepting shares so that all two-tier county councils and all single purpose fire and rescue authorities are top-up authorities.

*Determining levy rates*

28. Some local authorities have lots of business property and would potentially be able to make large gains for relatively small investment in further growth. Conversely other local authorities have a low level of business rates revenue and potentially would see only relatively small returns for bold and imaginative investment decisions. In order to create a fairer system, where a local authority's increase in revenue from business rates outstrips the increase in its funding level, it pays a levy on that disproportionate benefit. This is used to fund a safety net which provides support to authorities whose business rates receipts fall by more than 7.5 per cent below their baseline funding level.

29. Each local authority has an individual levy rate that applies where a local authority would otherwise gain a disproportionate level of benefit from business rates growth. The levy rate was calculated using the following formula[14]:

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

30. If the calculation generates a number greater than 0.50, then the levy rate was capped at 0.50. If the levy rate as calculated resulted in a negative number, then that local authority is not subject to a 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) is required to make a levy payment.

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

*Calculating safety net thresholds*

32. The safety net provides 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 has been fixed at a threshold of 7.5 per cent. This ensures that no local authority's income within the business rates retention scheme will drop below 92.5 per cent of its baseline funding level in any year.

33. The Government has calculated a safety net threshold for each local authority, which is 92.5 per cent of its baseline funding level using the following formula:

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

34. The local authority safety net thresholds will be uprated annually by the change in the small business multiplier. 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.

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[14] The calculations will be on the basis of the baseline funding level and business rate baselines set out in the regulations.

## Annex B - The Local Government Finance Report

Section 1 - Introduction sets out the statutory requirements for the Local Government Finance Report.

Section 2 – Central and Local Shares sets out for each billing authority in England the percentage of non-domestic rating income that is to be the billing authority's central share and the percentage that will be the billing authority's local share

Section 3 – Revenue Support Grant sets out the national total of Revenue Support Grant, comprising the amount to be paid to receiving authorities and the amount to be paid to specified bodies.

Section 4 – Distribution of Baseline Funding Level sets out the uprating of the Baseline Funding Level for the previous year for each local authority by the small business rates multiplier to give the Baseline Funding Level.

Section 5 – Distribution of Revenue Support Grant sets out the basis for the distribution of Revenue Support Grant to local authorities

Section 6 – Tariff and Top-up amounts sets out the uprating of the tariff and top-up amounts for each local authority for the previous year by the small business rates multiplier to give the tariff and top up amounts for each local authority.

Section 7 – Pooling sets out the designated pools of local authorities for business rates purposes, and the lead authority for each pool.

Section 8 – Credit to the Levy Account sets out the credit to the Levy Account for the year to finance the safety net if required.

Section 9 – Conclusion sets out the legislation under which the Local Government Finance Report is made.

## Glossary

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

*Autumn Statement*
The Autumn Statement provides an update on the government’s plans for the economy based on the latest forecasts from the Office for Budget Responsibility. It used to be known as the Pre-Budget Report.

*Baseline funding level*
The amount of an individual local authority’s Start-Up Funding Assessment for 2013-14 provided through the local share of the Estimated Business Rates Aggregate, uprated in line with the small business rates multiplier (usually set at the September RPI).

*Billing authorities*
These are the 326 authorities that collect Council Tax and Business Rates – district councils, London boroughs, and unitary authorities. Before 1 April 2009 there were 354.

*Budget*
The Government's annual financial statement and review of levels of taxation. It also includes the Government's future financial strategy and economic forecast.

*Business rates*
These rates, called National Non-Domestic Rates, are the means by which local businesses contribute to the cost of providing local authority services.

*Business rates baseline*
Determined for individual authorities at the outset of the business rates retention scheme by dividing the local share of the Estimated Business Rates Aggregate (England) between billing authorities on the basis of their proportionate shares, before the payment of any major precepting authority share.

*Business Rate Retention Scheme*
The name given to the current system of funding local authorities through the Local Government Finance Settlement, set out in the Local Government Finance Act 2013. The local government sector retains 50% of the business rates they collect. In addition they also receive Revenue Support Grant to help support their services.

*Central share*
The percentage share of locally collected business rates that is paid to central government by billing authorities. This is set at 50%. The *central share* is re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous ’set-aside’ policy.

*Control Totals*
These are the national totals for each of the individual elements within the local authority spending control total. They are determined as part of the Spending Review. It is also the name given to the size of each of the different elements within the Settlement Funding Assessment.

*Council Tax*
A local tax on domestic property, set by local authorities, calculated by deducting any funding from reserves, income it expects to raise and general funding it will receive from the Government, in order to meet its planned spending.

*Council Tax base*
This is the number of Band D equivalent dwellings in a local authority area. To calculate the tax base for an area, the number of dwellings in each council tax band is reduced to take account of discounts and exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. An adjustment is then made for the collection rate.

*Council Tax bands*
There are eight Council Tax bands. How much Council Tax each household pays depends on the value of the homes. The bands are set out below.

*Council Tax bands*

| Value of home estimated at 1 April 1991 | | Proportion of the tax due April 1991 for a band D property |
|---|---|---:|
| Band A | Under £40,000 | 66.7% |
| Band B | £40,001 - £52,000 | 77.8% |
| Band C | £52,001 - £68,000 | 88.9% |
| Band D | £68,001 - £88,000 | 100.0% |
| Band E | £88,001 - £120,000 | 122.2% |
| Band F | £120,001 - £160,000 | 144.4% |
| Band G | £160,001 - £320,000 | 166.7% |
| Band H | Over £320,001 | 200.0% |

*Estimated Business Rates Aggregate*
The total business rates forecast at the outset of the business rate retention scheme to be collected by all billing authorities in England in 2013-14. The Estimated Business Rates Aggregate is uprated year on year in line with the change in the small business multiplier (usually the September RPI).

*Floor damping*
A method by which stability in funding is protected through limiting the effect of wide variations in grant. A floor guarantees a lower limit to a year– on–year change in grant. The grant amounts changes of authorities who receive changes above the floor are scaled back by a fixed proportion to help pay for the floor.

*Levy*
Mechanism to limit disproportionate benefit from business rates. The *levy* is applied proportionally on a 1:1 basis (i.e. a 1% increase in business rates income results in an authority getting a 1% increase in revenue from the rates retention scheme) but with a limit on the maximum *levy* rate that is imposed, at 50p in the pound. *Levy* payments are used to fund the safety net.

*Local Government Finance Settlement*

The Local Government Finance Settlement is the annual determination of funding distribution as made by the Government and debated by Parliament.

*Local government spending control total*
The total amount of expenditure for Revenue Support Grant in the Department for Communities and Local Government's Local Government Departmental Expenditure Limit (LG DEL) plus the local share of the Estimated Business Rates Aggregate that is allocated to the local government sector by Government for each year of a Spending Review.

*Local share*
The percentage share of locally collected business rates that is retained by local government. This is set at 50%.

*Lower Tier Authorities*
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 councils as billing authorities.

*Multiplier*
The business rates multiplier which 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, to fund rate relief for small businesses.

*Non-Domestic Rates*
See business rates.

*Precept*
This is the amount of council tax income all billing and precepting authorities need to provide their services. The amounts for all authorities providing services in an area appear on one council tax bill, which is administered by the billing authority.

*Precepting authority*
An authority or body that does not collect Council Tax or business rates but is part of the business rates retention scheme. This is an authority which sets a precept to be collected by billing authorities. County councils, police authorities, the Greater London Authority, single purpose fire and rescue authorities and parish councils are all precepting authorities.

*Proportionate Share*
This is the percentage of the national business rates yield which a local authority has collected - on the basis of the average rates collected by authorities over the two years to 2011-12. This percentage was applied to the local share of the 2013-14 Estimated Business Rates Aggregate to determine the billing authority business rates baseline.

*Receiving authorities*
These are the 421 authorities that are eligible to receive Revenue Support Grant.

*Reserves*

This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

*Revenue Expenditure*
Expenditure financed by Aggregate External Finance grants, council tax and use of reserves.

*Revenue Spending Power*
The calculation of each authority's spending power is used to calculate eligibility for Efficiency Support Grant. The definition, broadly speaking, is spending power from council tax, Government revenue grants and National Health Service funding for social care.

*Revenue Support Grant (RSG)*
A Government grant which can be used to finance revenue expenditure on any service.

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

*Safety net*
Mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5% below their baseline funding level (with baseline funding levels being uprated by the small business rates multiplier for the purposes of assessing eligibility for support).

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

*Settlement Funding Assessment*
Previously referred to as Start-Up Funding Assessment. It comprises at a national level the total *Revenue Support Grant* and the *local share* of *Estimated Business Rates Aggregate* for the year in question. On an individual local authority level it comprises each authority's *Revenue Support Grant* for the year in question and its *baseline funding level* uprated year on year in line with RPI.

*Specific Grants*
Grants paid under various specific powers, but excluding Revenue Support Grant or area based grant. Some specific grants are ring-fenced.

*Specified Body*
This is the term used for a body or bodies (such as the Local Government Improvement and Development Agency) that are directly funded from Revenue Support Grant, and that provide services centrally for local government as a whole.

*Tariffs and top-ups*
Calculated by comparing at the outset of the business rate retention scheme an individual authority's *business rates baseline* against its *baseline funding level*. *Tariffs* and *top-ups* are self-funding, fixed at the start of the scheme and index linked to RPI in future years.

*Tariff authority*
An authority with, at the outset of the scheme, a higher individual authority *business rates baseline* than its *baseline funding level*, and which therefore pays a *tariff*.

*Top-up authority*
An authority with, at the outset of the scheme, a lower individual authority *business rates baseline* than its *baseline funding level*, and which therefore receives a *top-up*.